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## Final Report

2013-712

# Audit of Regional Monitoring Controls over PWGSC Tenant Direct Projects

March 19, 2015

Office of Audit and Evaluation





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## **MAIN POINTS**

- i. Public Works and Government Services Canada (PWGSC), as the government's real property centre of expertise, manages one of the largest and most diverse portfolios of real estate in Canada. PWGSC's responsibility to provide services ranging from cleaning and the operation of building systems to maintenance, landscaping and repair projects, is presently discharged through contracts with a private sector Alternative Forms of Delivery (AFD) Service Provider in over 700 PWGSC-maintained facilities.
- ii. The AFD contracts cover three functions: property management services, optional services, and project delivery services. Property Management Services and optional services may only be requested by PWGSC, Real Property Branch (RPB) as custodian of the buildings. However, the Contracts are structured to allow tenants of government buildings the option of dealing directly with the AFD Service Provider for project delivery services under \$40,000 (tenant direct projects) without project oversight from PWGSC's RPB. These projects are requested, approved, and paid for under the delegated authority of each federal tenant, including PWGSC, as a corporate entity like any other department.
- iii. In March 2010, in response to the media scrutiny of certain AFD tenant direct expenditures made by PWGSC Corporate in the National Capital Region (NCR) under the AFD contracts, the Minister of PWGS requested an independent third-party audit to examine expenditures billed to PWGSC Corporate as a tenant, as well as PWGSC, RPB as custodian by the AFD service provider. PricewaterhouseCoopers LLP (PwC) was awarded the contract to perform the independent, multi-phased audit of those expenditures. Separate internal reviews were also conducted by PWGSC's Office of Audit and Evaluation on PWGSC's monitoring controls that exist in Corporate and RPB over AFD related expenditures made as a tenant and custodian. This assurance work resulted in recommendations directed at PWGSC Corporate and RPB. The Department developed Management Action Plans to address the concerns raised in both the third-party audit and the internal review.
- iv. As noted, the previous assurance work and the resulting Management Action Plans focused on tenant direct projects originating in the NCR. The controls in place in PWGSC's regional offices (i.e. Atlantic, Quebec, Ontario, Western and Pacific) have not been the focus of any of the previous AFD related assurance work. As regional offices have the same responsibilities for ensuring the validity and accuracy of AFD tenant direct project transactions, it is important for the Department to have assurance that regional tenant direct projects are subject to appropriate controls.
- v. PWGSC's regional utilization of tenant direct projects is relatively low, in terms of both project volumes and dollar values (94 tenant direct projects valued at approximately \$230K were implemented under regional authority in 2013-2014). In

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response to this reality, the regions have perceived the need for senior management oversight and developed processes as limited. Though the volume of transactions and dollar values for tenant direct projects are relatively low, these expenditures nevertheless present qualitative risks to the Department, as was illustrated by the media attention received in March 2010. Those transactions, which were managed by PWGSC Corporate, numbered only seven, and all represented expenditures of less than \$20,000. As tenant direct projects are also available for use by the regional offices, it is essential that appropriate controls be in place to manage those projects effectively. This is especially important in the context of the next generation of contracts, which carries additional expectations that PWGSC will have improved on past control weaknesses. An enhanced control framework for regional usage of tenant direct projects would contribute to satisfying that expectation.

- vi. We found that tenant direct projects are subject to only limited reporting to established senior management oversight bodies in the regions. As a result, oversight and strategic direction from senior regional management is also limited. Further, as most regions do not make significant use of these projects, detailed, region-specific guidance on roles and responsibilities was found in only two of the five regions (Atlantic and Quebec regions). Levels of understanding of roles and responsibilities also vary significantly from region to region, and some employees with a role in regional tenant direct projects are not aware of all of their responsibilities.
- vii. We also found gaps in the regions' key monitoring and process management controls. As above, the perceived need for detailed, region-specific processes varied from region to region. The Atlantic and Quebec regions had approved process documents for tenant direct projects which provided more region-specific work instructions to tenants including PWGSC. However, the Quebec region's processes had not been well communicated to PWGSC users. In the Pacific region, a process for the management of tenant direct projects was developed, but it had not been formalized or approved. The Ontario and Western regions did not have detailed, region-specific processes related to tenant direct projects. Effective controls allow PWGSC to demonstrate that it is discharging its accountabilities for the sound stewardship of public funds, which is important given the gaps and weaknesses noted by the previous assurance work.
- viii. In addition, our examination of project files found multiple examples where the Service Provider had charged fees and other mark-ups incorrectly in the Atlantic region. Though we did not identify similar errors in other regions' files, we were advised by some regional Corporate Services staff, who are responsible for these projects, that they did not understand how the Service Provider's fees and charges should be properly applied. This lack of understanding weakens the Department's ability to ensure it has been invoiced correctly, and creates risks of incorrect payments being issued to the Service Provider.

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- ix. Improvements in these areas are required to better mitigate the risks to PWGSC in its contracting with the Service Provider. Implementation of strengthened controls will allow the Department to better demonstrate its stewardship of public funds with the next generation of AFD contracts.

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## **Management Response**

Management throughout the Regions have had the opportunity to review the Chief Audit and Evaluation Executive's report, and have agreed with the conclusions and recommendations found therein. Management has also developed a Management Action Plan to address these recommendations.

## **Recommendations and Management Action Plan**

**Recommendation 1 (Moderate Priority):** The Regional Directors General should, in consultation with the AFD Sector of Real Property Branch, incorporate oversight, which is appropriate to regional rates of utilization of tenant direct projects, into its existing oversight frameworks. At minimum, this oversight should include enhanced reporting to senior regional management on the regional utilization of tenant direct projects to allow for strategic direction on their use, as well as the detection of regional data integrity issues and assurance that regional tenant direct authority limits are being respected by all users. Also, detailed roles and responsibilities should be developed and communicated to all stakeholders.

**Management Action Plan 1.1:** Within each region, in consultation with the Real Property Branch, the Regional Directors, Corporate Services Strategic Management and Communications, will implement a semi-annual sampling of a minimum of 25% of AFD/RP1 Project Files to ensure compliance with regulations, billing and approvals.

**Management Action Plan 1.2:** Within each region, the Regional Directors, Corporate Services Strategic Management and Communications will establish semi-annual status meetings with the Regional Manager AFD/RP1 Contract Integrator and Regional Manager Corporate Operations through which roles and responsibilities will be clarified and to:

- Obtain updates and ensure reporting (i.e. rate changes)
- Discuss sampling results
- Ensure authority limits are being respected
- Discuss and resolve issues

**Recommendation 2 (Moderate Priority):** The Regional Directors General should, in consultation with the Corporate Services Sector of Finance and Administration Branch and the AFD Sector of Real Property Branch, implement preventive controls directed at ensuring that tenant direct projects are appropriately authorized and that tenant direct project invoicing by the Service Provider is accurate and includes only allowable fees and charges. As part of this, the Regional Directors General should consider appropriate training for regional users of tenant direct projects, so as to allow for monitoring of project delivery by the Service Provider and to ensure that project invoicing by the Service Provider includes only allowable fees and other charges.



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**Management Action Plan 2.1:** Through inter-regional consultations, Regional Directors of Professional and Technical Services and Corporate Services Strategic Management and Communications will develop processes for the regional use of Tenant Direct projects (or equivalent) under RP-1 which will include steps to ensure that approvals, billing/invoicing, and dispute resolution are consistent across regions and aligned to any previously identified risks areas.

**Management Action Plan 2.2:** Regions will develop and conduct training on the above noted processes as appropriate (based on region-by-region analysis of tenant direct utilization, and potential gaps in any national training to be provided related to RP-1).

**Recommendation 3 (Moderate Priority):** The Regional Director General in the Atlantic Region should review records to assess whether ineligible management fees have been charged on remaining untested tenant direct projects and determine the next steps, including resolution of the amounts overbilled by the Service Provider.

**Management Action Plan 3.1:** In Atlantic Region, the CSSMC and AFD Directorate will review Tenant Direct work orders not part of this audit to ensure appropriate management fees have been charged.

**Management Action Plan 3.2:** Any anomalies identified by the review outlined by 3.1, above, or identified in the Office of Audit and Evaluation Report, will be addressed with the Service Provider for resolution.

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## **INTRODUCTION**

1. This engagement was included in the PWGSC 2014-2018 Risk-Based Audit and Evaluation Plan.
2. In 1997, PWGSC undertook the Alternative Forms of Delivery (AFD) initiative. A key element of the initiative was to contract out the management and operations of PWGSC's portfolio of buildings, including services ranging from cleaning and the operation of building systems to maintenance, landscaping and repair projects in over 700 PWGSC-managed facilities. These services are delivered through the AFD contracts.
3. The contracts in place between 2005 and 2015 were awarded for an initial duration of four years, with three option periods of two years each. All option years in the contract were exercised, which extended the contracts to March 2015. The total contract authority was originally approved at \$5.4 billion, but was increased in March 2009 via a funding request to \$5.91 billion to allow for Economic Action Plan projects (2009-2011).
4. The contracts cover three broad functions:
  1. Property management services;
  2. Optional services, including project delivery services of \$200,000 to \$1 million; and
  3. Project delivery services up to \$200,000, including tenant direct projects (under \$40,000).
5. The first two functions are managed by PWGSC's Real Property Branch. These services relate to the Department's role as federal custodian of buildings, and include costs related to utilities, operating expenses, repair, and recapitalization, and revenue from commercial and retail lettings. The third function, Project Delivery Services, can be managed by either PWGSC's Real Property Branch, or directly by tenants of facilities.
6. Under the contracts, tenants of AFD managed facilities are permitted to contract directly with the AFD Service Provider for project delivery services under \$40,000 (tenant direct projects). These projects are ordered, approved, and paid for under the delegated authorities of each tenant. At PWGSC, regional use of tenant direct projects is divided between two groups of users. The first users are the regional Corporate Services groups, who are responsible for delivering corporate accommodation projects on behalf of PWGSC tenants located in the regions. The second group is regional Real Property Services, which makes use of tenant direct projects to request miscellaneous services from the AFD Service Provider related to its mandate. Most often, this involves regional Real Property Services' staff requesting miscellaneous minor custodial projects under \$40,000 in AFD managed buildings, such as extra

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cleaning related to a major crown project. However, it may also include minor projects in office space which RPS teams occupy as tenants and optional, fee-based project management of tenant direct projects, if requested by the tenant. As PWGSC's regional tenant direct projects follow the same process and are subject to the same controls irrespective of the requestor, the audit examined regional projects originating with both groups.

7. PWGSC's tenant direct projects initiated by PWGSC Corporate (in the National Capital Region) have been subjected to previous assurance work. In early 2010, PWGSC's Office of Audit and Evaluation initiated the *Review of Corporate Services and Strategic Policy Branch Monitoring Controls of the AFD Program*. Further, in March 2010, seven AFD expenditures approved by PWGSC Corporate became the subject of media attention. In response, the Minister of PWGS requested an independent third-party audit be conducted on the transactions in question. This previous assurance work identified weaknesses in monitoring controls over expenditures incurred by the Service Provider in delivering tenant direct projects to PWGSC Corporate. This assurance work resulted in recommendations directed at strengthening control over these transactions, and PWGSC developed Management Action Plans in response.
8. In 2012, the Office of Audit and Evaluation undertook the *Follow-up Review of the Implementation of Alternative Forms of Delivery Management Action Plans by Corporate Services and Strategic Policy Branch*. The objective of the review was to determine whether PWGSC Corporate had implemented the Management Action Plans resulting from the previous assurance work. This report was tabled and accepted by PWGSC's Audit and Evaluation Committee in September 2013. At that meeting, the Committee expressed its interest in determining the effectiveness of contract administration controls over tenant direct projects in PWGSC's regional offices, as the previous assurance work had looked exclusively at projects initiated and managed in the National Capital Region.
9. Table 1 compares the volume of PWGSC's regional tenant direct projects to the volume of all government departments' regional tenant direct projects. In the context of the size and scope of the eight contracts with the AFD Service Provider, PWGSC's regional utilization of tenant direct projects is relatively low, both in terms of project volumes and dollar values. However, as mentioned above, the previous assurance work identified that controls in place for tenant direct projects needed to be strengthened. Further, the media attention of March 2010 focused on seven transactions, each with a value of less than \$20,000 that were issued by PWGSC Corporate. As such, for it to demonstrate due diligence, PWGSC's management of the AFD contracts requires due consideration of the qualitative, as well as the quantitative, risks to the Department.

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**Table 1: 2013-2014 AFD Project Delivery Services (PDS) Breakdown**

Region	PWGSC PDS <\$40K(TD)	All Departments PDS <\$40K(TD)	All Departments' PDS > \$40K	All PDS
Atlantic	\$220,260	\$1,606,185	\$16,099,451	\$17,705,636
Quebec	\$89,381	\$980,264	\$13,842,402	\$14,822,666
Ontario	\$31,823	\$1,440,652	\$14,159,391	\$15,600,043
Western	\$3,186	\$842,636	\$7,400,785	\$8,243,421
Pacific	\$13,106	\$502,860	\$8,260,879	\$8,763,738
Total	\$357,756	\$5,372,597	\$59,762,908	\$65,135,504
NCA	\$320,179	\$3,769,975	\$65,037,776	\$68,807,752
Grand Total	\$677,935	\$9,142,572	\$124,800,684	\$133,943,256

\*Source: Alternate Forms of Delivery Service Management System (AFDMS) Tenant Direct Projects report as at 21/11/2014.

10. As noted above, regional use of tenant direct projects is divided between two groups: (1) regional Corporate Services group; and (2) regional Real Property Services. In addition, various other organizations have roles and responsibilities related to PWGSC's tenant direct projects. The following table (Table 2) identifies the roles and responsibilities of the key stakeholders at the national and regional levels as they relate to PWGSC tenant direct projects.

**Table 2: Roles and Responsibilities of Stakeholders in PWGSC tenant direct projects**

Role	Responsibility
AFD Service Management Directorate (Real Property HQ)	<ul style="list-style-type: none"> <li>Provide functional direction and guidance to the national network of technical authorities responsible for managing and performing oversight on the existing Alternative Forms of Delivery (AFD) Contracts;</li> <li>Overall contract management and oversight at the national level</li> </ul>
Regional AFD Technical Authority	<ul style="list-style-type: none"> <li>Oversight of the regional Alternate Forms of Delivery (AFD) Contract for the management of regional assets;</li> <li>Regional AFD business management</li> </ul>
PWGSC Corporate Services (HQ)	<ul style="list-style-type: none"> <li>Provide day to day accommodation services for PWGSC branches and agencies in the National Capital Area, including project management of projects under \$40,000 (Tenant Direct);</li> <li>Develop national policies and programs relating to accommodation.</li> </ul>
Regional Real Property Services	<ul style="list-style-type: none"> <li>Property and facilities management of regional PWGSC Assets;</li> <li>Project management of tenant requests exceeding the \$40,000 Tenant Direct limit, and of projects which involve base building systems or asset integrity;</li> <li>Optional, fee-based project management of tenant requested projects under \$40,000;</li> <li>Under the supervision of the Regional AFD Technical Authority, AFD contract management and business management; Direct management of various leased facilities, crown-owned facilities (non-AFD), etc.</li> </ul>

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<b>Role</b>	<b>Responsibility</b>
Regional Corporate Services	<ul style="list-style-type: none"> <li>• Provide day to day accommodation services for PWGSC branches and agencies in the regions.</li> </ul>
The AFD Service Provider	<ul style="list-style-type: none"> <li>• Perform tenant service work in conformity with the requirements and specifications as provided by the tenant department in AFD-managed facilities while respecting the terms and conditions of the contracts.</li> <li>• In delivering tenant requested projects:               <ul style="list-style-type: none"> <li>○ provide the tenant department with a detailed quotation in advance of work initiation;</li> <li>○ ensure costs are strictly those resulting from tenant service requests; and</li> <li>○ report to and seek approval of PWGSC in advance of work being undertaken if the work will:                   <ul style="list-style-type: none"> <li>▪ impact the base building components</li> <li>▪ have a negative impact on asset integrity, satisfaction or financial performance</li> <li>▪ contravene policies, standards (e.g. Government of Canada Fit-up Standards) or any provision outlined in the Occupancy Instrument (OI)</li> <li>▪ exceed the service provider's delegated authority granted by PWGSC</li> </ul> </li> </ul> </li> </ul>

## **FOCUS OF THE AUDIT**

11. The objective of the Audit was to determine whether PWGSC's regional operations have sufficient and appropriate monitoring controls in place to ensure the expenses for tenant direct projects requested by PWGSC and submitted by the AFD Service Provider are complete, accurate and valid. The period covered by the Audit was from April 1, 2013 to March 31, 2014. The Audit focused on tenant direct projects initiated and managed by PWGSC's five regional portfolios: Atlantic, Quebec, Ontario, Western and Pacific.
12. To test regional controls, the Audit included an examination of regional tenant direct project files. The audit team drew its sample of projects from Alternate Forms of Delivery Service Management System (AFDMS) Tenant Direct Projects reports as at May 22, 2014. The sample included tenant direct projects requested by both Regional Corporate Services and Regional Real Property staff. The audit team elected to test 100% of projects from Quebec (four projects), Ontario (two projects), Western (two projects) and Pacific (five projects) regions due to the low project volumes in those regions. For the Atlantic region, the audit team selected a judgemental sample of 25 projects (31% of the total population of projects) for testing. In total we examined 38 regional tenant direct projects.
13. The Offices of Primary Interest for the Audit were PWGSC's regional offices, while the Offices of Secondary Interest were the AFD Sector of PWGSC's Real Property

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Branch, and the Corporate Accommodation and Materiel Management sector of the Department's Finance and Administration Branch.

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

## **STATEMENT OF CONFORMANCE**

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

## **OBSERVATIONS**

17. The observations presented in this report should be considered in the context of the low utilization in the regional offices. In addition, due in part to the proportionally higher concentration of PWGSC employees in PWGSC-owned assets in the Atlantic region, as well as a different pattern of utilization for tenant direct projects in that region (discussed below), Atlantic is the largest user of tenant direct projects. As a result, many of the observations herein relate to projects undertaken in the Atlantic region.

## **GOVERNANCE AND OVERSIGHT**

18. Governance is the combination of processes and structures implemented by management to inform, direct, manage, support, and monitor activities towards effective achievement of their objectives. For regional tenant direct projects, this includes the implementation of processes and structures to ensure that regional tenant direct project utilization is linked to departmental and regional priorities, performance targets and operational objectives.

### **Oversight and strategic direction from senior regional management are limited**

19. As project volumes and dollar values for regional tenant direct projects are relatively low, we did not expect that regional management would have established dedicated oversight bodies for tenant direct projects. Instead, we expected that each region



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would have incorporated oversight of tenant direct projects into its existing oversight frameworks. This oversight would include regular reporting to senior management in support of effective governance for regional tenant direct projects, which would allow for the provision of strategic direction on the utilization of these projects by regional senior management.

*Regional Corporate Accommodation Projects*

20. As noted above, PWGSC's regional Corporate Services groups are responsible for delivering corporate accommodation projects on behalf of PWGSC tenants located in the regions. Due to the volume of projects in the Atlantic region, an annual forecast for tenant direct projects is prepared by Corporate Accommodations staff at the beginning of the fiscal year. Further, the A/Regional Director of Corporate Services indicated that she receives weekly updates from the Regional Managers on Corporate Operations, including Corporate Accommodations projects, though the meetings are not documented and the focus is at the project delivery level rather than the strategic level. However, the remaining regions were not able to provide evidence of regular senior management (i.e. Regional Director level or above) oversight or strategic direction for their tenant direct projects. The Pacific region indicated simply that due to the small number of tenant direct projects initiated by Corporate Services, this is not an item that is discussed at management meeting.

*Regional Real Property Projects*

21. Separate from the regional Corporate Services projects described above are tenant direct projects used by regional Real Property Services. Regional real property staff in certain regions use tenant direct projects to engage the Service Provider for miscellaneous requirements related to Real Property's mandate. As these requirements are related to Real Property's mandate, the projects are requested directly by a Real Property Manager or Project Manager without the involvement of the regional Corporate Services group. We found that when regional Real Property staff draw on tenant direct projects, this may occur without the knowledge of the regional Corporate Services group and the regional AFD Technical Authority, who is responsible for managing the regional AFD contract. As such, we concluded that the use of tenant direct projects by regional Real Property Services is also subject to only limited reporting and oversight in the regions.
22. We also noted a governance and oversight weakness related to the use of PWGSC's tenant code in AFDMS. After we selected our sample for the Atlantic Region, we were advised by regional officials that many of the projects identified as PWGSC's in AFDMS are, in fact, Shared Services Canada (SSC) projects. The reason for this is that SSC does not yet have a national space envelope approved by the Treasury Board Secretariat, and as a result, does not have occupancy agreements for many of the spaces that it occupies. One consequence of this is that SSC cannot yet contract for services directly from the Service Provider in many of its facilities. As a result,

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PWGSC has been required to develop ad hoc solutions to provide real property services to SSC. However, the practices to enable this are not consistent across PWGSC regions.

23. PWGSC Atlantic region elected to allow SSC's tenant direct projects to be contracted using PWGSC's tenant code. In the other regions, the decision was made to have SSC's projects coded to vacant space. The practice in Atlantic region increases the risk of compromises to data integrity for the Department, as AFDMS alone cannot be relied upon to accurately report PWGSC's tenant direct project information. In addition, this practice creates additional accountabilities for PWGSC vis-à-vis a body of projects over which it exercises no actual control. In addition, we identified one SSC project, coded as a PWGSC project in the Department's systems, for which the Service Provider allowed project expenditures to exceed the \$40,000 tenant direct project limit. Though the project was, in fact, requested by SSC, its identification as a PWGSC project in AFDMS creates the appearance that PWGSC failed to comply with its own rules for tenant direct projects. Near the end of our examination work, we were advised by RPB's AFD Service Management Coordination in Ottawa that this issue was being addressed at the national level and would be resolved by a future AFDMS release.
24. As there is limited senior management oversight of tenant direct projects in the regions, we concluded that strategic direction from senior regional management is limited, as informed strategic direction cannot occur in the absence of oversight and reporting.

**Clarity over roles and responsibilities for regional tenant direct projects can be improved**

25. Well defined roles and responsibilities are essential for ensuring that employees, across an organization or related to an activity, have a common understanding of objectives, requirements, and task assignments. We expected that roles and responsibilities would have been developed for the regional use of tenant direct projects. Further, we expected that these roles and responsibilities would reflect regional delegated authorities and accountabilities, and would have been effectively communicated to all regional users of these projects.
26. Roles and responsibilities had been developed for tenant direct projects by PWGSC's Real Property Branch at the national level. These were communicated in a guidance document for tenant direct projects that was provided to all government departments in 2011. This guidance explains that tenant departments are accountable for managing all aspects of requests contracted directly with the Service Provider.
27. However, the national level guidance does not provide a description of roles and responsibilities specific to situations where PWGSC is the tenant (either at headquarters or in the regions). As such, we expected that the regions would have



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developed more detailed guidance on roles and responsibilities for regional employees involved in the management of tenant direct projects delivered by the Service Provider.

28. Atlantic and Quebec regions had developed regional level guidance on roles and responsibilities which provided additional detail and context over the higher level national guidance. While the two regions developed this additional guidance, we found that the documents did not define appropriate regional authorisations related to tenant direct projects. Pacific region developed regional guidance material that did include roles and responsibilities for regional PWGSC employees, but the material had not been formally approved. The other regions had not developed region-specific roles and responsibilities for tenant direct projects. In several regions, we found a lack of understanding among Corporate Services staff of the delineation between regional Real Property Services' responsibilities and their own, with the Ontario and Western regions operating with the understanding that regional Real Property Services staff was conducting monitoring of all tenant direct projects, which was not actually the case.
29. The roles and responsibilities in place for regional tenant direct projects are not sufficiently detailed for regional stakeholders to have a common understanding of accountabilities, objectives, requirements, and task assignments. Further, for roles and responsibilities to be considered effective, they must be clearly documented and effectively communicated to all stakeholders.

### **KEY PROCESS MANAGEMENT AND MONITORING CONTROLS**

30. Process management and monitoring controls are actions taken by management to manage risk and increase the likelihood that established objectives and goals will be achieved. Both process management and monitoring activities are important to ensure that tenant direct projects are appropriately controlled.
31. As part of the regions' process management controls, we expected processes (including procedures and tools) to be: documented and approved, and consistently implemented by the regions to allow for consistent and effective management of projects across all regions.
32. Further, we expected monitoring controls would exist and be consistently applied by regions to ensure:
- Approvals and authorizations were appropriate;
  - Project descriptions conformed to established guidelines; and,
  - The Service Provider's billings to the regions were accurate (including the regions' validation of the Service Provider's fees and rates being charged, as well as validation of subcontractor pass through costs billed to the regions by the Service Provider).

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**Processes for regional tenant direct projects are not sufficiently detailed, and training and communication of these processes has been limited**

33. As noted in the previous section regarding roles and responsibilities, only the Atlantic and Quebec regions had approved regional processes for tenant direct projects, though we noted that the processes could be strengthened and that there had been a lack of training and communication of these processes. For example, only the Quebec region's process gave a comprehensive description of when the Service Provider was entitled to charge its fees, which is required in verifying the accuracy of the Service Providers' invoices. Further, neither process documents contained specific references to regional PWGSC roles or the activities to be performed by these staff as part of the process. Although the Pacific region's processes did contain specific descriptions of PWGSC staff activities, the process had not been formally approved. The processes being used in the Ontario and Western regions did not provide detailed work instructions for activities to be performed by PWGSC staff.
34. Regional officials informed us that functional direction for their use of tenant direct projects previously rested with the Corporate Services sector of the Finance and Administration Branch, but that this guidance had been discontinued. We were advised by the Director of Corporate Accommodation that the direction was discontinued based on the understanding that regional staff had indicated that all projects with the Service Provider in the regions were being contracted by Real Property Branch, and that there were essentially no tenant direct projects, though this is not the case.
35. We found that, for the most part, training on tenant direct projects had not been offered to regional Corporate Services and Real Property staff in all regions. The Quebec region advised us that the Technical Authority, responsible for managing the AFD Contract at the regional level, had made presentations on managing tenant direct projects to various PWGSC business lines that use tenant direct projects within the region. However, we were advised by the regional Technical Authority that evidence regarding the number of presentations and their content could not be provided, as the presentations were done informally.
36. The lack of approved processes and training from region to region has contributed to tenant direct projects being used inconsistently across the country. It has also possibly contributed to the projects being used for requirements that are not well aligned to the original intent of tenant direct. For example, in the Western region, two projects were used to provide paper shredding services at one facility, though this is a service that would more typically be provided by way of a standing offer. As a result, the Department has potentially missed out on the benefits of obtaining these services by a standing offer (such as speed of contracting and competitive pricing from vendors). Similarly, Real Property Services Project Managers in some regions have used tenant direct projects for miscellaneous requirements related to major capital projects, rather than including the requirements as part of the major capital project's deliverables. The

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use of tenant direct projects for these requirements could have impacts on the Department's ability to obtain value for money, as it involves work being paid for separately from a major capital project rather than being included as part of an existing project's deliverables. In addition, this practice may affect the Department's ability to fully account for all the costs related to its major capital project work.

37. The absence of approved regional processes for tenant direct projects has resulted in the inconsistent management of projects across the regions. This exposes the Department to compliance, financial and other risks related to the mismanagement of these projects. In addition, insufficient training may have prevented regional employees from having the necessary understanding and tools to successfully carry out their roles in the delivery of tenant direct projects.

**Regional monitoring of compliance with the AFD contract's Statement of Work and appropriate authorizations can be improved**

38. We noted several gaps in regional monitoring controls over tenant direct projects. Specifically, there is no formal process for preventing regional tenant direct projects' non-compliance with the AFD contract's Statement of Work, or for ensuring appropriate authorizations, and opportunities for detecting these errors after the fact are limited. Consequently, we found a number of inappropriate approvals and insufficient project descriptions in our examination of the 29 PWGSC projects in our sample (the non-PWGSC projects identified in our Atlantic region sample were not assessed against this criteria, as we could not determine delegated contracting authorities for employees outside PWGSC).
39. Regarding approvals, we found:
- Three projects (10%) in the Atlantic and Ontario regions, where PWGSC authorization was provided after the commencement of the project work, which is not in accordance with the Department's *Contract Management Guide*.
  - Two projects (7%) in the Atlantic and Western regions that had not been authorized by an individual with delegated signing authority.
40. In the Pacific, Atlantic and Quebec regions, we noted several project descriptions that did not conform to the requirements of the joint PWGSC / AFD Service Provider business procedures for appropriate naming and description of projects. These procedures were developed in response to the previous assurance work, which also identified project descriptions that did not contain the full scope and complexity of the work involved in the project. Insufficiently detailed project descriptions were partly responsible for the additional media attention on these projects, and for the subsequent critique of the Department's administration of the Service Provider's contracts.

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41. Regional monitoring controls are not yet sufficiently developed to prevent and/or detect non-compliance to the AFD contract's Statement of Work or a lack of appropriate authorizations. Improvement in these areas is necessary for the regional offices to be able to demonstrate the design, implementation and functioning of sound monitoring controls over regional tenant direct projects.

**Regional monitoring of the Service Provider's billing accuracy can be improved**

42. The previous assurance work found the Department was lacking monitoring controls to detect errors in invoices submitted by the Service Provider to the Department for payment, and established this as an area of higher risk. As a result, Service Provider invoicing accuracy and detection of errors by the Department was an important focus of the Department's Management Action Plans in response to those engagements. In our examination of regional tenant direct project files, we found gaps in the processes for monitoring the invoices submitted by the Service Provider.

43. In each region, PWGSC's contract Technical Authority performs a monthly review of projects being invoiced by the Service Provider as part of the verification of the invoice submitted for payment by PWGSC. However, this review does not include tenant direct projects, which are invoiced directly to the tenant.

44. Discussions with regional Corporate Services staff and our examination of regional project files suggest that regional users of tenant direct projects do not always understand how to verify the accuracy of the Service Provider's invoices. For example, we found that the Service Provider had charged incorrect labour rates on 11 of the 25 projects sampled (44%) in the Atlantic region. Though total Service Provider labour costs for all projects (less than and greater than \$40,000) are reconciled at year end by the Real Property Branch, verification of accurate invoicing from the Service Provider and payment by the Department is still the best way to ensure that the Department is being billed and making payments appropriately. We did not find these issues in other regions, however, not all regional staff indicated sufficient understanding to be able to ensure that the Service Provider's labour charges are properly applied.

45. Our examination of Atlantic region project files also led to the identification of two Service Provider accounting errors related to tenant direct projects. In each of these cases, the tenant direct project was incorrectly charged by the Service Provider as a building operations and maintenance expense and invoiced to the tenant as a tenant direct project. We were advised by the Service Provider that their year-end reconciliations would have detected the error. However, the Service Provider could not rule out the possibility of an expense being overlooked at year-end, and therefore being paid twice in error (once by the tenant, and once by PWGSC as an incorrect building expense). Though these errors have since been corrected by the Service Provider, they were not detected until we conducted our examination of project files. Though we only found these issues in the Atlantic region, our assessment of the other

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regions' controls did not suggest that the errors would have been detected had they occurred in those regions.

46. We also identified five projects (valued at \$18,428.83) where \$765.73 of ineligible management fees had been charged by the Service Provider. According to joint PWGSC-AFD Service Provider business rules, the project delivery service fee is to be charged on eligible design and constructions costs only. In five out of 25 projects sampled in the Atlantic region (20%), we found that the Service Provider applied project delivery services fees incorrectly. While we did not detect these same errors in our examination of the project files from the other regions, our assessment of the other regions' controls did not suggest the errors would have been detected had they occurred in those regions. Further, we were advised by Corporate Services staff in the Atlantic and Pacific regions that they did not always understand the correct application of the Service Provider's project delivery fees.
47. In addition, our examination of project files revealed that actual costs of tenant direct projects are not always input to the Alternate Forms of Delivery Service Management System (AFDMS). Four of the 25 projects we tested from the Atlantic region had actual project expenditures which were not reflected in AFDMS. To determine the scope of this issue, we extended our analysis to all government department's tenant direct projects in the Atlantic Region, and found that this larger population of projects also had multiple instances where actual project expenditures had not been recorded in AFDMS. Though there were a small number of discrepancies identified in the other regions, the total dollar values were minor in comparison to Atlantic region. This data integrity issue weakens the Department's ability to monitor and accurately report on tenant direct projects. Atlantic regional management was able to provide us with evidence that this was a known data integrity issue, and that they were in the process of addressing the issue with the Service Provider.
48. Finally, we found one of the 25 projects we tested from the Atlantic region in which the amount invoiced from the Service Provider to the tenant was greater than the quote from the subcontractor to the Service Provider. We were advised by the Service Provider that a credit would be issued in the amount overbilled (\$2,145.93).
49. In total, our project file testing identified \$2,911.66 out of \$181,725.22 (i.e. 1.6%) in overbillings for regional tenant direct projects (\$765.73, in ineligible management fees and \$2,145.93 in billing errors). As a result, we concluded that there are monitoring control weaknesses limiting the Department's ability to ensure the accuracy and validity of regional tenant direct financial transactions submitted for payment by the Service Provider. These weaknesses limit the Department's ability to ensure it has been invoiced accurately, and create risks of incorrect payments being issued by PWGSC to the Service Provider.

## **CONCLUSION**

50. As noted throughout this report, regional usage of tenant direct projects is relatively low. Both in terms of project volumes and dollar values, the resulting quantitative risks to PWGSC are low. However, PWGSC's administration of the AFD contracts creates qualitative risks to the Department, as was illustrated by the media attention received in 2010. Thus, an outsourcing initiative of this magnitude requires appropriate controls to manage the Department's inherent risk exposure. Given that tenant direct projects are available for use to the regional offices, it is essential that appropriate controls be in place to manage those projects effectively. This is especially important in the context of the next generation of contracts, which carries additional expectations that PWGSC will have improved on past control weaknesses. An enhanced control framework for regional usage of tenant direct projects would contribute to satisfying that expectation.
51. We found that there is limited governance and oversight for regional tenant direct projects. Further, we found that regular reporting to senior management on tenant direct projects was only occurring in one region. Consequently, we concluded that strategic direction from senior regional management is limited. We also found that roles and responsibilities for these projects have not been fully developed, communicated and understood.
52. Our assessment of key process management and monitoring controls indicated that the national level processes are insufficiently detailed to serve as useful work instructions for regional users of tenant direct projects. Further, we found that only two regions had documented, approved PWGSC-specific processes, but that in one of those regions the processes had not been clearly communicated to all regional stakeholders. We also found that training had not been offered to key stakeholders in the regions.
53. Further, we found gaps in the regional monitoring of the Service Provider's implementation of tenant direct projects, as well as weaknesses in regional monitoring of financial transactions related to tenant direct projects, such that the Department cannot be assured that it is being invoiced or paying the correct amounts.
54. Improvements in these areas will increase PWGSC's ability to demonstrate sound stewardship of public funds, and show that improved controls have been implemented for AFD contract management, regardless of dollar value. As such, it is in PWGSC's interest to ensure that all AFD-related risk areas are being appropriately managed.



## **MANAGEMENT RESPONSE**

Management throughout the Regions have had the opportunity to review the Chief Audit and Evaluation Executive's report, and have agreed with the conclusions and recommendations found therein. Management has also developed a Management Action Plan to address these recommendations.

### **Recommendations and Management Action Plan**

**Recommendation 1 (Moderate Priority):** The Regional Directors General should, in consultation with the AFD Sector of Real Property Branch, incorporate oversight, which is appropriate to regional rates of utilization of tenant direct projects, into its existing oversight frameworks. At minimum, this oversight should include enhanced reporting to senior regional management on the regional utilization of tenant direct projects to allow for strategic direction on their use, as well as the detection of regional data integrity issues and assurance that regional tenant direct authority limits are being respected by all users. Also, detailed roles and responsibilities should be developed and communicated to all stakeholders.

**Management Action Plan 1.1:** Within each region, in consultation with the Real Property Branch, the Regional Directors, Corporate Services Strategic Management and Communications, will implement a semi-annual sampling of a minimum of 25% of AFD/RP1 Project Files to ensure compliance with regulations, billing and approvals.

**Management Action Plan 1.2:** Within each region, the Regional Directors, Corporate Services Strategic Management and Communications will establish semi-annual status meetings with the Regional Manager AFD/RP1 Contract Integrator and Regional Manager Corporate Operations through which roles and responsibilities will be clarified and to:

- Obtain updates and ensure reporting (i.e. rate changes)
- Discuss sampling results
- Ensure authority limits are being respected
- Discuss and resolve issues

**Recommendation 2 (Moderate Priority):** The Regional Directors General should, in consultation with the Corporate Services Sector of Finance and Administration Branch and the AFD Sector of Real Property Branch, implement preventive controls directed at ensuring that tenant direct projects are appropriately authorized and that tenant direct project invoicing by the Service Provider is accurate and includes only allowable fees and charges. As part of this, the Regional Directors General should consider appropriate training for regional users of tenant direct projects, so as to allow for monitoring of project delivery by the Service Provider and to ensure that project invoicing by the Service Provider includes only allowable fees and other charges.

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**Management Action Plan 2.1:** Through inter-regional consultations, Regional Directors of Professional and Technical Services and Corporate Services Strategic Management and Communications will develop processes for the regional use of Tenant Direct projects (or equivalent) under RP-1 which will include steps to ensure that approvals, billing/invoicing, and dispute resolution are consistent across regions and aligned to any previously identified risks areas.

**Management Action Plan 2.2:** Regions will develop and conduct training on the above noted processes as appropriate (based on region-by-region analysis of tenant direct utilization, and potential gaps in any national training to be provided related to RP-1).

**Recommendation 3 (Moderate Priority):** The Regional Director General in the Atlantic Region should review records to assess whether ineligible management fees have been charged on remaining untested tenant direct projects and determine the next steps, including resolution of the amounts overbilled by the Service Provider.

**Management Action Plan 3.1:** In Atlantic Region, the CSSMC and AFD Directorate will review Tenant Direct work orders not part of this audit to ensure appropriate management fees have been charged.

**Management Action Plan 3.2:** Any anomalies identified by the review outlined by 3.1, above, or identified in the Office of Audit and Evaluation Report, will be addressed with the Service Provider for resolution.



## **ABOUT THE AUDIT**

### **Authority**

This engagement was included in the PWGSC 2014-2018 Risk-Based Audit and Evaluation Plan.

### **Objective**

The objective of the Audit was to determine whether PWGSC's regional operations have sufficient and appropriate monitoring controls in place to ensure the expenses for tenant direct projects requested by PWGSC and submitted by the Alternative Forms of Delivery (AFD) Service Provider are complete, accurate and valid.

### **Scope and Approach**

This Audit covered the period from April 1, 2013 to March 31, 2014. The Audit examined the processes and controls in place for the monitoring, validating, accounting and reporting of expenditures by the AFD Service Provider and focused on tenant direct projects under \$40,000 in total value initiated and managed by PWGSC's five regional portfolios: the Atlantic region, the Quebec region, the Ontario region, the Western region and the Pacific region.

To test regional controls, the Audit included an examination of regional tenant direct project files. The audit team elected to test 100% of projects from the Quebec (four projects), Ontario (two projects), Western (two projects) and Pacific (five projects) regions due to the low project volumes in those regions. For the Atlantic region, the audit team selected a judgemental sample of 25 projects (30% of the total number of projects) for testing. In total we examined 38 regional tenant direct projects, which included 29 PWGSC projects, seven projects identified as PWGSC's which originated with other tenant organizations. The projects were identified and selected from reports from the Alternate Forms of Delivery Service Management System (AFDMS), as at May 22, 2014.

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

Interviews were conducted with officials within regional corporate accommodations and real property offices. Relevant processes and documentation were also examined and tested.

Based on analysis of the information and evidence collected, the audit team prepared audit findings and conclusions, which were validated with the appropriate Regional Directors. The Report was then presented to the Regional Directors General for

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acceptance and tabled at the Audit and Evaluation Committee meeting for recommendation for approval by the Deputy Minister.

## **Criteria**

The criteria used to assess the governance and oversight framework and the key monitoring and process management controls were based primarily on the Treasury Board Secretariat's Management Accountability Framework, as well as applicable Departmental policies.

The criteria were as follows:

1. **Governance and oversight:** governance and oversight frameworks have been developed for regional tenant direct projects, in support of an appropriate control environment, including:
  - 1.1. Oversight bodies are established, and are provided with reporting information in order to be able to monitor the administration of regional tenant direct projects and provide strategic direction on their utilization; and
  - 1.2. Roles and responsibilities, including delegated authorities and accountabilities, are established and have been communicated for regional tenant direct projects;
2. **Key Monitoring and Process Management Controls:** key monitoring and process management controls are operating consistently and effectively in the regional administration of tenant direct projects, as evidenced by:
  - 2.1 Procedures and tools are consistently implemented by the regions to allow for consistent and effective process management of regional tenant direct projects;
  - 2.2 Monitoring controls are consistently applied by the regions to ensure appropriate approvals and authorizations of tenant direct projects; and
  - 2.3 Financial monitoring controls are consistently applied by the regions to ensure the billing accuracy of tenant direct projects.

## **Audit Work Completed**

Audit fieldwork for this audit was substantially completed on August 15, 2014.

## **Audit Team**

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

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