Public Works and Government Services Canada
Travaux publics et Services gouvernementaux Canada

Audit and Ethics Branch
Direction générale de la vérification et de l'éthique

Canada

# 2002-724

# Final Report

# Audit of Risk Management - Real Property Functions

# 2004-01-21

# Table of Contents

**Executive Summary** . . . . . 1
**1 Introduction** . . . . . 7
**1.1 Authority for the Project** . . . . . 7
**1.2 Objective** . . . . . 7
**1.3 Scope** . . . . . 7
**1.4 Background** . . . . . 8
**2 Issues Examined** . . . . . 9
**2.1 Progress implementing Branch IRMFs** . . . . . 9
**2.2 Risk Management Strategies and Practices** . . . . . 9
**2.3 Information for Decision Making** . . . . . 9
**3 Findings, Conclusions and Recommendations** . . . . . 10
**3.1 Progress Implementing Branch IRMFs** . . . . . 10
**3.2 Risk Management Strategies and Practices** . . . . . 11
3.2.1 Strategic Risks . . . . . 12
3.2.1.1 Successful Change Management Associated with Organizational Transformation . . . . . 12
3.2.1.2 Building Internal Capacity . . . . . 13
3.2.1.3 Consolidated Information on Environmental Risks . . . . . 13
3.2.1.4 Compliance with Government Security Policy for the Physical Security of Assets . . . . . 14
3.2.2 Operational Risks . . . . . 14
3.2.2.1 Developing Accommodation Planning Frameworks . . . . . 16
3.2.2.2 Building Alliances with Treasury Board Secretariat (TBS) . . . . . 16
3.2.2.3 Achieving Single Window Integrated Service Delivery . . . . . 17
3.2.3 Project Risks . . . . . 17
3.2.3.1 Major Capital Projects . . . . . 18
**3.3 Information for Decision Making** . . . . . 19
**Appendix A - Main Audit Criteria** . . . . . 20
**Appendix B - Approach and Methodology** . . . . . 22

# Executive Summary

## Authority for the Project

The Audit and Review Committee (ARC) approved this audit on March 4, 2002 as part of the 2002/2003 Audit and Ethics Branch plan.

## Objective

To assess the adequacy of the Risk Management infrastructure and practices for the Management Control Framework (MCF) for real property functions that enable the identification, assessment, management, and mitigation of risks, and the achievement of objectives and intended results.

## Scope

The audit scope focused on risk management controls at the senior management level (i.e., Director General, Director, etc.) within the Real Property Program Branch (RPPB) and Operations Branch.

The audit reviewed Branch Integrated Risk Management Frameworks (IRMFs) in correlation with those developed by Public Works and Government Services Canada (PWGSC) and the Treasury Board Secretariat (TBS).

Key strategic, operational, and project risks were identified and reviewed. Risk management strategies, systems, processes, practices, and tools were reviewed, with consideration given to both intuitive and systematic risk approaches used by senior managers. The audit covered the following risk management activities, processes, and controls: identification; assessment; monitoring and response (i.e., tolerance or mitigation); communication and awareness; and continuous learning/improvement components. Information available to identify, manage, tolerate, mitigate, and report risks was also examined.

The coverage period for the audit was from fiscal year 2001-02 to October 2003.

The Preliminary Survey Phase was conducted in all Real Property Services Branch (RPSB) Sectors in the National Capital Area (NCA).

With the November 2002 announcement of the PWGSC reorganization, specific real property functions were aligned within the Operations Branch. The audit scope for the Detailed Examination Phase was modified to review real property functions in the NCA within the Operations Branch and RPPB.

## Background

The 1997 Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada identified the key element of enabling a mature risk management environment to be created and sustained within the public sector. Treasury Board Secretariat (TBS) issued the "Integrated Risk Management Framework" (April 2001) to assist departments in developing principles, objectives, strategies, policies, processes and tools tailored to their needs. The framework supported the commitment set out in *Results for Canadians - A Management Framework for the Government of Canada (March 2000)* by strengthening risk management practices within the Public Service.

In support of the "PWGSC Integrated Risk Management Framework" (January 2001), RPSB developed the "Integrated Risk Management Framework" (IRMF) (March 13, 2001) to address their risk management context. This framework described the risk context, organizational setting, guidelines, processes and tools for capacity enhancement. The RPSB IRMF objectives were to:

- encourage the cultural shift to a risk management environment;
- address operational needs; and
- support a department-wide approach to risk management.

The Deputy Minister (DM), PWGSC issued Departmental Policy 082 - "Integrated Risk Management Policy" (2002-06-27) to support improved organizational-wide risk management practices.

On November 6, 2003 the DM announced a realignment in PWGSC's organizational structure to provide the foundation to transform into a better performing department in delivering programs and services more effectively. Among the changes, the former Real Property Program Branch is now the Real Property Branch, and the former Operations Branch became the Service Integration Branch. The DM also has created a Corporate Services, Human Resources and Communications Branch which has specific accountabilities to develop risk management and performance measurement frameworks.

The issues, findings, conclusions, and recommendations in this audit report remain relevant to these aforementioned organizations.

## Summary of Findings

### Progress in Implementing Branch IRMFs for Real Property Functions

In 2002 RPPB undertook scans of strategic KRAs, the initial step to implementing an IRMF for real property functions. However, a comprehensive plan to implement all remaining IRMF elements throughout the RPP and Operations Branches has not been developed.

In March 2001 RPSB developed an IRMF which linked to the PWGSC IRMF and was consistent with TBS guidance. RPSB completed scans of strategic key risk areas (KRAs) in January 2002 and December 2002. The initial scan resulted in the development of a three year plan to address strategic KRA priorities.

The November 2002 PWGSC reorganization announcement separated Program (RPPB) and delivery (creation of the Operations Branch) accountabilities for real property functions and brought a pause in work to address the three year priorities.

Some clarification of risk management roles, responsibilities, and accountabilities has been underway within RPPB and Ops Branch. The Branches participated, at the PWGSC corporate level, in initial efforts to define risk profiles for strategic KRAs. Work, within the Branches, to develop real property risk profiles, the next significant IRMF step, has not started.

## Risk Management Strategies and Practices

Senior management use various means to manage risks. In many instances, risks that could have required elevation to senior management were reduced due to experienced resources, below the Director level, applying key activity and process control frameworks.

The findings for the management of strategic, operational and project risks are as follows:

### Strategic Risks[1]

Senior management has both identified, and is sensitive to, many of their strategic key risk areas (KRAs). The PWGSC transition and government wide reviews have contributed to identifying a number of emerging strategic risks. Delays in addressing several strategic KRAs have been experienced.

Four strategic KRAs require substantive actions to be addressed. Aside from the strategic KRA "Successful Change Management associated with Organizational Transformation", the other three strategic KRAs have been known by senior management for several years. The strategic KRAs requiring substantive actions, are as follows:

- **Successful Change Management associated with Organizational Transformation**
  Since the initial reorganization announcement in November 2002, both RPPB and Ops Branch have made steady progress towards achieving a successful transition. This particular Branch transformation had been forecasted for completion by 2005.

  With the November 6, 2003 announcement of the realignment to the PWGSC organization, several challenges remain to achieve successful change.

[1] Strategic, Operational and Project Risks are defined in the PWGSC Integrated Risk Management Framework (January 2001) p.C1 to C3

- **Building Internal Capacity**
  At the 1999 RPSB Management Council meeting, senior management acknowledged the need to rebuild internal capacity. However, in both the RPPB and Ops Branch assessing resource needs, capacity, and developing comprehensive plans remain outstanding.

- **Consolidated Information on Environmental Risks**
  Senior management does not have consolidated information on environmental risks for properties, including status of resolution and level of compliance with legislation.

- **Compliance with Government Security Policy for the Physical Security of Assets** [*]

**Operational Risks**

Within the RPPB and Ops Branch, at Sector and CST levels, a common and consistent means to identify and assess operational KRAs for real property functions is not in place. The audit identified three operational KRAs as being critical to the achievement of Branch objectives and PWGSC success. Each operational KRA listed below is strategic in nature due to its potential impact on Branch and PWGSC reputation. The operational KRAs are as follows:

- **Developing the Accommodation Planning Framework**
  For several years the former RPSB had difficulties in developing quality accommodation planning and delivery frameworks. The Standing Committee on Public Accounts (SCOPA) in June 2003 requested PWGSC identify the means to improve the quality of clients' office accommodation planning information and develop an action plan by March 31, 2004. Improving the quality of this information presents a major challenge due to the limited influence of the Branches over this area.

- **Building Alliances with TBS**
  Real Property Policy Sector, RPPB, identified a unique opportunity to influence TBS government-wide policy direction. However, issues must be resolved associated with defining the management approach, developing a communications strategy, and ensuring Operations Branch delivery methods and processes have been adequately aligned to achieve expectations.

- **Achieving Single Window Integrated Service Delivery**
  Despite steady progress since the start of the PWGSC reorganization in Nov. 2002, several challenges remain to be addressed within the CSTs: integration of multidisciplinary resources; identifying outcomes, results, and performance information; enhancing partnerships; and becoming a "world leader".

**Project Risks**

Major capital project frameworks, practices, and delivery processes, to identify and manage risks, are well defined and applied systematically .

### Information for Decision Making

To enable the effective management of risks, key real property business systems have not been designed to provide senior management with adequate financial and non-financial information to assess key strategic and operational results and service delivery outcomes, including Sector, CST, and Directorate performance. Despite several efforts over the past three years to analyze and resolve this issue, a viable solution has not been forthcoming. Senior management are facing the risk of potential loss of reputation.

## Conclusions

As a key component to implementing Modern Comptrollership, both PWGSC and the former RPSB responded proactively by providing an overall approach to strategic risk management through separate documents that were entitled "Integrated Risk Management Framework". Although RPS undertook two environmental scans of strategic KRAs in 2002, significant work remains to implement all IRMF elements for real property functions in both the RPPB and Ops Branch. To ensure an adequate risk management infrastructure and practices that enable the identification, assessment, management, and mitigation of risks, as well as the achievement of objectives and intended results, the following improvements are needed:

- Implement an IRMF for real property functions;
- Adopt a common and effective approach to managing both known and emerging operational, and project KRAs;
- Identify specific actions addressing the strategic and operational KRAs identified in this audit report; and
- Ensure sufficient and appropriate financial and non-financial information are available to address the management, business, and risk information needs of senior management.

Further details are provided in the "Conclusion" statements of Section's 3.1, 3.2, and 3.3 of the detailed report.

## Recommendations

It is recommended that the ADM, Real Property Branch and ADM, Service Integration Branch collaborate to:

1. *Develop a common strategy and comprehensive plan to implement an IRMF for real property functions throughout the organizations;*

2. *Develop and communicate common frameworks and processes for the identification, assessment, and response to both known and emerging operational, and project KRAs;*

3. *Identify and/or modify, as required, the specific frameworks, plans, and processes that would enable the effective management of the strategic and operational KRAs identified in this audit report, as follows:*

   - *Successful Change Management associated with Organizational Transformation;*
   - *Building Internal Capacity;*
   - *Consolidated Information on Environmental Risks;*
   - *Compliance with Government Security Policy for the Physical Security of Assets;*
   - *Developing the Accommodation Planning Framework;*
   - *Building Alliances with TBS; and*
   - *Achieving Single Window Integrated Service Delivery.*

4. *Develop and implement a comprehensive plan to address the management, business, and risk information needs of senior management for effective decision making.*

# 1 Introduction

## 1.1 Authority for the Project

The Audit and Review Committee (ARC) approved this audit on March 4, 2002 as part of the 2002/2003 Audit and Ethics Branch plan.

## 1.2 Objective

To assess the adequacy of the Risk Management infrastructure and practices for the Management Control Framework (MCF) for real property functions that enable the identification, assessment, management, and mitigation of risks, and the achievement of objectives and intended results.

## 1.3 Scope

The audit scope focused on risk management controls at the senior management level (i.e., Director General, Director, etc.) within the Real Property Program Branch (RPPB) and Operations Branch.

The audit reviewed Branch Integrated Risk Management Frameworks (IRMFs) in correlation with the frameworks developed by Public Works and Government Services Canada (PWGSC) and the Treasury Board Secretariat (TBS).

Key strategic, operational, and project risks were identified and reviewed. Risk management strategies, systems, processes, practices, and tools were reviewed with consideration given to both intuitive and systematic risk approaches used by senior managers. The audit covered the following risk management activities, processes, and controls: identification; assessment; monitoring and response (i.e., tolerance or mitigation); communication and awareness; and continuous learning/improvement components. Information available to identify, manage, tolerate, mitigate, and report risks were also examined.

The coverage period for the audit was from fiscal year 2001-02 to October 2003.

The Preliminary Survey Phase was conducted in all Real Property Services Branch (RPSB) Sectors in the National Capital Area (NCA).

With the November 2002 announcement of the PWGSC reorganization, specific real property functions were aligned within the Operations Branch. The audit scope in the Detailed Examination Phase was modified to review real property functions in the NCA within the Operations Branch and RPPB.

## 1.4 Background

The 1997 Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada identified the key element of enabling a mature risk management environment to be created and sustained within the public sector. Treasury Board Secretariat (TBS) issued the "Integrated Risk Management Framework" (April 2001) to assist departments in developing principles, objectives, strategies, policies, processes and tools tailored to their needs. This framework supported the commitment set out in *Results for Canadians - A Management Framework for the Government of Canada (March 2000)* by strengthening risk management practices within the Public Service.

In support of the "PWGSC Integrated Risk Management Framework" (January 2001), RPSB developed the "Integrated Risk Management Framework" (March 13, 2001) to address their risk management context. This framework described the risk context, organizational setting, and guidelines, processes and tools for capacity enhancement. The RPS IRMF objectives were to:

- encourage a cultural shift to a risk management environment;
- address operational needs; and
- support a department-wide approach to risk management.

The Deputy Minister, PWGSC issued Departmental Policy 082 - "Integrated Risk Management Policy" (2002-06-27) to support improved organizational-wide risk management practices.

On November 6, 2003 the DM announced a realignment in PWGSC's organizational structure to provide the foundation to transform into a better performing department in delivering programs and services more effectively. Among the changes, the former Real Property Program Branch is now the Real Property Branch, and the former Operations Branch became the Service Integration Branch. In addition the DM created a Corporate Services, Human Resources and Communications Branch which has accountabilities to develop risk management and performance measurement frameworks.

The issues, findings, conclusions, and recommendations in this audit report remain relevant to these aforementioned organizations.

# 2 Issues Examined

The Preliminary Phase consisted of a review of the following areas:

- The progress achieved in implementing an IRMF for real property functions;
- The practices, techniques, methods, processes, tools and information used by real property senior managers to manage strategic, operational, and project risks.

Three issues of significance were retained for further examination at the conclusion of the Preliminary Phase. The main audit criteria in Appendix A were used to structure the audit programs for each issue of significance. Appendix B outlines the approach and methodology used to review each issue and report on the audit objective.

During the audit, ninety-four senior managers at the Director General and the Director level were interviewed (individually or in focus groups). The interviews were conducted in RPPB, Operations Branch, and included some key stakeholders from other PWGSC Branches.

The issues of significance are as follows:

## 2.1 Progress implementing Branch IRMFs

Are Branch IRMF components adequately aligned and comprehensive, as per TBS IRMF guidance?

## 2.2 Risk Management Strategies and Practices

Has senior management identified and implemented appropriate risk management strategies, practices and controls at the strategic, operations, and project levels to effectively manage threats / vulnerabilities, associated risks, and achieve desired outcomes and results?

## 2.3 Information for Decision Making

Does senior management have timely, reliable, relevant, and complete information (both financial and non-financial), for effective risk management decision making?

# 3 Findings, Conclusions and Recommendations

This Section presents key findings, conclusions, and recommendations for each significant issue in Section 2.

## 3.1 Progress Implementing Branch IRMFs

TBS defines Integrated Risk Management (April 2001) as "a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective. It is about making strategic decisions that contribute to the achievement of an organization's overall corporate objectives".

In 2002 RPPB undertook two scans of strategic KRAs, the initial step to implementing an IRMF for real property functions. However, a comprehensive plan to implement all remaining IRMF elements throughout the RPP and Operations Branches has not been developed.

In March 2001 RPSB developed an "RPS Integrated Risk Management Framework (IRMF)" which provided direction on the development and implementation of key IRMF components. The document links to:

- the PWGSC IRMF, which is consistent with both Departmental Policy 082, Integrated Risk Management (IRM) Policy (2002-06-27), and
- TBS guidance provided in the "Integrated Risk Management Framework (2001-04-01).

In January 2002, the former RPSB set priorities covering a three year horizon, to address, what senior management considered, as the most significant strategic key risk areas (KRAs) in the initial environmental scan.

The November 2002 PWGSC reorganization announcement separated Program (RPPB) and delivery (creation of the Operations Branch) accountabilities for real property functions and brought a pause in work to address the three year priorities.

The reorganization and government-wide reviews have been important contributors to identifying a number of emerging strategic KRAs.

Since the November 2002 reorganization announcement there have been efforts to clarify the risk management roles, responsibilities, and accountabilities within the RPP and Ops Branches. The RPPB Risk Management Working Group (RMWG) included some senior manager representation from RPPB, Ops Branch Solutions Sector, and specific Corporate Policy and Infrastructure Branch stakeholders. The RMWG mandate expanded to consider strategic, operational, and project risks.

RPPB and Ops Branch participated in initial activities to define risk profiles for PWGSC strategic KRAs. However, the Branches have not started work to develop real property specific risk profiles, the next significant IRMF component.

## Conclusion

As a key component of Modern Comptrollership, substantial work remains to fully implement an IRMF for real property functions throughout the RPPB and Operations Branch, that would enable a common and consistent approach to managing and reporting risks. Developing risk profiles is a key step towards implementing Branch IRMFs. For each risk profile, agreement is necessary on the appropriate response to strategic (i.e., Branch-wide) and operational (i.e., Sector/CST-specific) KRAs.

## Recommendation

It is recommended that the ADM, Real Property Branch and ADM, Service Integration Branch collaborate to:

1. *Develop a common strategy and comprehensive plan to implement an IRMF for real property functions throughout the organizations.*

### 3.2 Risk Management Strategies and Practices

In both Branches, senior management at the Sector, Client Service Team (CST) and Directorate levels are sensitive to the need to effectively manage their risks. To compensate for business systems data that has not been aligned for senior management's risk and performance results information needs, and in the absence of a fully implemented IRMF, senior management are using a variety of means to obtain appropriate and reliable risk and performance management information for their real property decisions, as follows:

- Management and business knowledge and experience;
- Branch governance committees;
- Various real property planning and delivery frameworks;
- Assessment of their unit's capacity and capability;
- One-on-one communications;
- Meetings;
- Intuitiveness;
- "Black books"; and
- Ad-hoc reports.

Sections 3.2.1-3.2.3 outline the methods senior management uses to manage their strategic, operational and project risks.

### 3.2.1 Strategic Risks

The PWGSC IRMF defines strategic risk as "the risk focusing on issues of significant sensitivity, issues that are not easy to address because they cannot be directly controlled, and significant horizontal operation and project risks".

Strategic KRAs tend to be complex in nature, requiring horizontal commitment by senior management on appropriate actions needed.

***Identification***
Senior management has both identified and is sensitive of many of their strategic risks (i.e., Department and Branch - wide). The PWGSC organizational transition, commencing in November 2002, and government wide reviews have been important contributors to identifying a number of emerging strategic risks.

***Assessment and Response***
In both RPPB and Ops Branch, delays have been experienced in efforts to address several strategic KRAs. Issues and priorities associated with the recent PWGSC reorganization and Departmental-wide strategic KRAs, have, in some instances, taken priority over Branch strategic risks.

***Controls and Reporting***
For those strategic risks associated with the reorganization, individual Branch frameworks and plans permit senior management to monitor and report progress, and have enabled initial successes in the PWGSC transition.(see 3.2.1.1)

**Strategic KRAs Requiring Action**

The audit identified four significant strategic KRAs requiring substantive actions for their mitigation (See Sections 3.2.1.1-3.2.1.4), namely:

- Successful Change Management associated with Organizational Transformation;
- Building Internal Capacity;
- Consolidated Information on Environmental Risks; and
- Compliance with Government Security Policy for the Physical Security of Assets.

Aside from the strategic KRA "Successful Change Management associated with Organizational Transformation", the other three strategic KRAs have been known by senior management for several years.

#### 3.2.1.1 Successful Change Management Associated with Organizational Transformation

Prior to the announcement on November 6, 2003 of PWGSC organization alignment changes, Branch transformation had been forecasted to be completed by

2005. Several challenges remain to achieve successful reorganization change, including the four strategic and three operational real property KRAs identified in this audit.

Since the initial reorganization announcement in November 2002, both Branches have had initial successes towards achieving a successful transition, which include the following:

- The governance framework and associated roles, responsibilities and accountabilities have been defined and communicated;
- Initial transition strategies have been developed and plans are being steadily implemented, regularly monitored and reported;
- Organizational units have been identified and initial resources assigned; and
- Transition working groups are in place and functioning effectively.

#### 3.2.1.2 Building Internal Capacity

Since 1999, senior management has acknowledged the need to rebuild internal capacity as a high priority. However, significant efforts remain to assess resource needs, internal capacity, and to develop comprehensive plans.

Since the 1999 Real Property Services Management Council, several strategic initiatives have emerged to address the major issues of building internal capacity, competency, and knowledge management. This strategic issue was also identified in January 2002 in the RPS Environmental Scan which led to the development of the "RPP Learning Strategy" (Dec. 6, 2002).

Since the initial reorganization announcement in November 2002, resources, below the Director level, had been allocated to various units pending further assessment of capacity.

Broadening the successful Brookfield Lepage Johnson Controls, Alternative Forms of Delivery, initiative is being considered to permit specific internal resources to be assigned to other key operations areas.

In both the RPPB and Ops Branch assessing resource needs, capacity, and developing comprehensive plans remain outstanding.

#### 3.2.1.3 Consolidated Information on Environmental Risks

Senior management does not have consolidated information on environmental risks for properties, including the status of resolution and overall level of compliance with legislation for the following Sustainable Development (SD) areas reviewed during the audit:

- PCBs and other hazardous waste;
- Asbestos;
- Contaminated Sites; and
- Underground Storage Tanks.

The Environmental Management System (EMS) facilitates the recording of detailed information on each inventory component, including condition assessment and status of resolution. For each SD area reviewed, information was being captured in the EMS for many NCA properties.

However, existing data input procedures do not address the documentation standards and controls needed to ensure data integrity, including minimum hard copy information required to support critical data entry elements. In addition, the EMS was not designed to provide consolidated information on key environmental risk areas for senior management.

The Real Property Solutions Sector, Operations Branch, do not have consolidated information on the environmental risks for all CST properties, including the status of action plans to address specific environmental risks.

As per TBS requirements, an annual report is prepared on the activity status of known contaminated sites for regional properties.

The Professional and Technical Services Directorate, RPPB has been considering revising the EMS to move towards becoming ISO 14001 compliant.

#### 3.2.1.4 Compliance with Government Security Policy for the Physical Security of Assets

[*]

### 3.2.2 Operational Risks

The PWGSC IRMF defines operational risk as "the risk focusing on issues that can be addressed because they can generally be controlled. These risks arise in relation to areas such as operational processes, human resources, integrity liability, information processing and technology, and financial issues".

Within the RPPB and Ops Branch, aAt Sector and CST levels, a common approach is not in place for identifying operational KRAs.

***Identification***
In RPPB and Ops Branch a common and consistent process is not in place to identify and assess operational KRAs at Sector and CST levels.

***Assessment***
Controls over the provision of key operational activities at Sector and CST levels are generally determined following an assessment by senior management of major operational risk areas. However, for each key operational activity, operational risk analysis and assessment is usually not linked to expected outcomes and results.

***Response***
Overall, senior management's operational risk response to potential threats is inconsistent and predicated upon their past experience, intuitiveness, assessment of planning and delivery capacity, and level of risk tolerance. Without a systematic and consistent method to identify the appropriate risk response for each key operational activity, senior management is at risk of not achieving expected outcomes and results.

***Controls***
Senior management in RPPB and Ops Branch rely on various governance committees, planning and service delivery frameworks and processes, as well as informal means, to control key operational activities.

Senior management has not defined the expected outcomes and results associated with each key operational activity. Business systems have not been designed to provide information to assess the adequacy of controls, and the achievement of expected outcomes and results.

Below the Director level, experienced resources have been applying key activity and process frameworks that have been designed with sufficient controls that have been enabling the effective management of operational and project risks.

***Reporting***
In RPPB and Ops Branch, at Sector and CST levels, operational risk reporting practices are not systematic and consistent. Senior management does not always have the necessary resources, tools, systems, and information to track and report operational KRAs proactively and consistently.

***Continuous Improvement***
RPPB and Ops Branch, are generally not sharing and formalizing operational risk management best practices across Sectors and CSTs.

A common forum to share some specific operational risk management best practices is in place through the Investment Advisory Board (IAB), Operations Branch. As a new initiative, the Real Property Risk Management Working Group is a recent forum to share best practices.

**Operational KRAs Requiring Action**

This section identifies three specific operational KRAs that are important to achieving Branch objectives, and a major factor in PWGSC's success. Each KRA is also strategic in nature due to its potential impact on Branch and PWGSC reputation. .

#### 3.2.2.1 Developing Accommodation Planning Frameworks

To date RPPB and Ops Branch senior management have not adequately identified the means to improve the quality of clients' office accommodation planning information. Over several years, the former RPSB experienced difficulties in consistently developing and implementing quality accommodation planning and delivery frameworks. PWGSC has limited influence over improving the overall quality of accommodation planning information from clients.

The Dec. 2002 OAG Report identified important issues relative to cost effective accommodation planning and delivery frameworks and compliance with TBS policy. In June 2003, the Standing Committee on Public Accounts (SCOPA) recommended improvements, including amending legislation to charge clients for office accommodation. PWGSC must develop an action plan by March 31, 2004.

A review of the methodology and analysis tools in this area is currently underway. An action plan was developed to address the findings in the 2002 OAG report. An action plan addressing the SCOPA concerns has not been completed.

[*]

#### 3.2.2.2 Building Alliances with Treasury Board Secretariat (TBS)

RPPB's Real Property Policy Sector has identified a unique opportunity to enhance their relationship and influence relative to TBS direction and government - wide policy development and is trying to make every effort to work proactively in participating with TBS in policy review. There are significant challenges associated with achieving this alliance with TBS including building the internal resource policy capacity and developing specific strategies, plans, and identifying success outcomes.

RPPB has identified in the Departmental Performance Report (period ending March 31, 2003) some specific areas of opportunity for taking an active role in supporting government policy and program priorities, as follows:

- Good Neighbour Policy;
- Government On-line;
- Homelessness;
- Sustainable Development;
- Modern Comptrollership;
- Greening Government Operations; and

- National Historic Places Initiative.

An RPPB communications strategy and management approach remains to be finalized to ensure Operations Branch delivery processes are adequately aligned with RPP direction for achieving this alliance with TBS.

#### 3.2.2.3 Achieving Single Window Integrated Service Delivery

The CSTs are facing a number of significant challenges to achieve single window integrated service delivery. These key challenges include the following:

- Integrating resource staff from real property, information technology and acquisitions disciplines;
- Identifying and implementing a revised management control framework;
- Identifying key outcomes, results, and performance information necessary to demonstrate successful single window integrated service delivery;
- Building and enhancing strategic and operational alliances with federal government clients; and
- Becoming a world leader in single window integrated service delivery.

Key Ops Branch initiatives achieved to date include the following:

- Development of a draft Business Plan;
- Development of a draft Business Management Model which describes the framework for relationships, operations, and decisions;
- Draft Business Management Model Fundamental Principles setting out the key horizontal operational principles and practices for employees;
- Various transition committees/groups addressing key components of single window integrated service delivery.

Although senior management fully understands and appreciates the complexity and scope of achieving single window integrated service delivery, and though steady progress has been made to date, considerable effort remains to adequately address this KRA.

### 3.2.3 Project Risks

The PWGSC IRMF defines Project Risk as "risk focusing on technical, development/implementation and management aspects that can lead to cost, quality, schedule and safety impacts arising from a long list of sources including unclear roles, contractor competency, micro-management, environment-related events, etc.". Our review was limited to risk management control frameworks for major capital projects.

#### 3.2.3.1 Major Capital Projects

Capital project delivery frameworks, processes, practices and mechanisms to identify and manage risks are well defined and applied systematically. The control framework for major capital projects includes consideration of the risk management activities of identification, analysis, assessment, and response. Senior management's level of oversight control for projects is focused upon effective issue management. Templates for risk management and mitigation plans are being used in the delivery of real property projects. As a best practices, risk plans are reviewed as part of an overall review process for significant projects at several stages in the context of successful implementation.

## Conclusions

Senior management is not effectively addressing all real property strategic and operational KRAs, which, in addition to emerging risks, must be resolved to achieve success.

The RPPB and Ops Branch have a major requirement to rebuild internal capacity that would greatly contribute to ensuring both effective service delivery and risk management. It is critical that senior management agree on a common organization-wide approach to resolve this issue.

## Recommendations

It is recommended that the ADM, Real Property Branch and ADM, Service Integration Branch collaborate to:

2. *Develop and communicate common frameworks and processes for the identification, assessment, and response to both known and emerging, operational, and project KRAs;*

3. *Identify and/or modify, as required, the specific frameworks, plans, and processes that would enable the effective management of the strategic and operational KRAs identified in this audit report, as follows:*

   - *Successful Change Management associated with Successful Transformation;*
   - *Building Internal Capacity;*
   - *Consolidated Information on Environmental Risks;*
   - *Compliance with Government Security Policy for the Physical Security of Assets;*
   - *Developing the Accommodation Planning Framework;*
   - *Building an Alliance with TBS; and*
   - *Achieving Single Window Integrated Service Delivery.*

### 3.3 Information for Decision Making

Business systems information is not designed to enable senior management to assess key strategic and operational results and outcomes thereby enabling the effective management of risks. In the past three years there has been extensive analysis undertaken by the former RPSB of the adequacy of key business systems, and their associated risks, including soliciting proposals from the private sector to address their business information needs. To date RPPB senior management has not found a viable solution to this significant issue.

The primary oversight controls used by senior management for strategic and operational activities are dependent upon financial information derived from "black books" and non financial information obtained from other methods such as meetings and ad-hoc reports.

Senior management are at risk of potential loss of reputation as they do not have adequate financial and non-financial information to assess key outcomes and results, including Sector, CST, and Directorate-specific issues and performance.

## Conclusion

Until such time as key business systems can be designed to meet the needs of real property senior management, interim information gathering and reporting requirements must be clearly defined and agreed upon. Having quality interim information is essential, particularly for the effective management of KRAs and the achievement of Sector and CST-specific operational results.

## Recommendation

It is recommended that the ADM, Real Property Branch and ADM, Service Integration Branch collaborate to:

4. *Develop and implement a comprehensive plan to address the management, business, and risk information needs of senior management for effective decision making.*

# Appendix A - Main Audit Criteria

Risk Management
"The systems, processes, and practices used to enable the organization to identify, assess and mitigate its significant risks to support achievement of organizational objectives and intended results."

RM - Risk Management Framework
RM.1.1 PWGSC and Branches Integrated Risk Management Framework should be linked to, and supportive of, the guidance provided by the Treasury Board of Canada Secretariat Integrated Risk Management Framework (April 2, 2001).

RE - Risk Management Environment
RE.1.1 An appropriate risk management framework should exist that provides leadership throughout the organization;
RE.1.2 A risk profile should guide the implementation of the organization's risk management;
RE.1.3 Risk Management should be integrated within entity-wide management practices to ensure continual awareness, communication, analysis and reporting at all planning and decision making levels;
RE.1.4 Communication with stakeholders of risk management initiatives should be open, transparent and effective;
RE.1.5 Continuous learning should be promoted in all areas of risk management.

RP - Risk Management Practices and Controls
RP.1.1 The risk identification process should be comprehensive;
RP.1.2 The risk assessment process should be effective;
RP.1.3 The risk response should cost-effectively address identified risks;
RP.1.4 Risk mitigation and control systems should be designed and implemented to ensure completeness, accuracy, authorization, efficiency, economy and effectiveness;
RP.1.5 The risk mitigation and control system should be monitored and adjusted as needed.

**Performance Management Capacity**
"The mechanisms in place to generate and use information to support sound decision-making to enable efficient and effective program delivery and success."

PE - Environment
PE.1.1 Expectations for performance management should be understood and integrated by managers at all levels;
PE.1.2 The practice of performance management should be integrated with other organizational priorities and should reflect government direction.

PR - Resources
PR.1.1 Sufficient and appropriate resources should be dedicated to support performance management and performance measurement systems.

PL - Leadership

PL.1.1 Performance management should be a top priority of senior management;

PL.1.2 Performance management should be integrated with existing decision - making and performance reporting structures;

PL.1.3 Management should be meaningfully involved in developing, monitoring and using performance measures.

PD - Decision - Making and Reporting

PD.1.1 Performance information should be reported and used for decision-making.

PI - Integrity of Information

PI.1.1 Performance measurement systems should generate valid, accurate, reliable, clear and relevant information for decision-making and reporting.

## Appendix B - Approach and Methodology

This appendix outlines the work undertaken, via the main audit criteria (Appendix A) and detailed audit programs, to address each audit issue of significance.

### Progress implementing Branch IRMFs

Are Branch IRMF components adequately aligned and comprehensive, as per TBS IRMF guidance?

The RPS IRMF was reviewed to ensure that its structure and components were adequate, including its association and relevance with the PWGSC and TBS IRMF guidance. Progress towards implementing the IRMF was reviewed. The status of initiatives planned, or already underway, to implement the IRMF elements throughout the Branches was also reviewed.

### Risk Management Strategies and Practices

Has senior management identified and implemented appropriate risk management strategies, practices and controls at the strategic, operations, and project levels to effectively manage threats / vulnerabilities, associated risks, and achieve desired outcomes and results?

Senior management strategies and practices were reviewed for the identification, assessment, response, mitigation and control of strategic, operational, and project risks.

*Strategic Risks*

The comprehensiveness of the approach used to identify strategic KRAs was assessed. Documentation associated with Branch horizontal scans of strategic issues and action plans was reviewed and assessed for its adequacy. Validation of strategic KRAs was undertaken at the Director General level and omissions were identified.

*Operational Risks*

The methods used to identify and assess operational KRAs at the Sector and CST levels were reviewed and assessed. A "Risk Assessment Matrix" tool was used which consisted of the following steps:

- Identification of all key operational activities for each Sector and CST;
- For each key operational activity, a total risk ranking score was derived. The "Probability of Occurrence ", "Potential Impact" and "Risk Before Controls " were individually rated in terms of high (5 points), medium (3 points), or low (1 point) risk, with the three individual scores being aggregated to a total significant risk ranking score;
- Each key operational activity and risk score was reviewed and validated with either the RPPB or Operations Branch DG and Directors, from their respective Sector or CST;

- For each key operational activity with a total risk ranking score of nine points or more, the adequacy of the senior management control framework was assessed with ; and
- Initiatives planned, or already underway, to improve the control framework governing each key operational activity was reviewed.

*Project Risks*

Our review was limited to risk management control frameworks for major capital projects. Capital project delivery frameworks, processes, practices and mechanisms to identify and manage risks were assessed for their adequacy.

## Information for Decision Making

Does senior management have timely, reliable, relevant, and complete information (both financial and non-financial), for effective risk management decision making?
The real property business systems were initially identified and extensive documentation was reviewed, including a national real property business systems assessment, in terms of adequacy, data integrity, risk assessments, and usefulness of the information available for management decisions.

From the initial twenty-four real property business systems, the audit focused on those considered, by senior management, to be critical. The key information available to senior management from these systems was reviewed as per the criteria outlined in Appendix A - Performance Management Capacity.

The adequacy of initiatives planned, or already underway, to improve senior management information was reviewed and assessed.

## Validation of audit findings

To validate the audit results, the Summary of Findings was used to debrief and solicit feedback from senior management. The audit team held meetings and discussions with focus groups of senior managers, and considered written comments on the Summary of Findings contents.