GOVERNMENT AUDIT SERVICES

REVIEW OF THE PROPERTY MANAGEMENT AGENCY

GOVERNMENT OF YUKON
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EXECUTIVE SUMMARY

In April 2001, the Audit Committee of the Government of the Yukon directed the examination of certain aspects of the activities of the Property Management Agency (the *Agency*). The examination was to focus on the Committee's concerns surrounding the operation and maintenance of government buildings.

The Agency was created in 1996 as a special operating agency (SOA) and branch of the Department of Highways and Public Works, formally the Department of Government Services. Funded as a revolving fund, it was given a mandate to help government departments and publicly funded agencies meet their objectives by procuring and managing facilities that would provide affordable, comfortable, and appropriate accommodation for their program activities.

The objective of this review was to assess Agency practices and procedures over the development and management of government owned and leased facilities. In so doing, we interviewed managers and directors, examined various Agency agreements and documents, and evaluated how service fees are set and charged to departments and agencies.

The review found that while the Agency was initially mandated to focus on customer service, bottom-line results and the achievement of public policy objectives, overtime it did not adequately establish an appropriate structure or financial framework to make it work effectively as a special operating agency. We found that government buildings were not being systematically maintained in an effective way to minimize costs and to maximize the economic benefit to the government. As well, the Agency did not take a long-term strategic approach in identifying the accommodation needs of departments and agencies or in identifying the orderly replacement of buildings that are reaching the end of their economic lives.

At present service and accommodation fees charged to customer departments are applied fairly and consistently. However, the process for entering into and negotiating facilities management agreements with departments is not seriously followed. Nor do these agreements provide much flexibility or choice for the customer departments to choose the kind of accommodation services required at the most affordable costs.

In the short term, implementation of the recommendations raised in this report should strengthen the Agency's management practices and operational activities. However, if the Agency is to succeed in fulfilling its charter objectives for the longer term, we recommend that a strategic review of the Agency’s operations be undertaken to evaluate the effectiveness of its current structure and design.

INTRODUCTION

BACKGROUND

The Property Management Agency was created on April 26, 1996 with an amendment to Section 44 of the Financial Administration Act (FAA). It was established as a special operating agency attached to the Department of Highways and Public Works. The Agency Charter identifies the mission and mandate, management and financial frameworks, and accountability framework.

According to the Charter, the mission of the Agency is:

> *"To help government departments and publicly funded agencies meet their objectives by procuring and managing facilities that will provide affordable, comfortable and appropriate accommodations for their program activities".*

An Assistant Deputy Minister leads the Agency and reports to the Deputy Minister of the Department of Highways and Public Works. To accomplish its mission, the Agency operates three main programs:

1. *Development* - These services are provided to help customers' plan and acquire affordable and appropriate facilities for their program activities. Services include facilities planning and evaluation, functional programming, design and construction management.

2. *Facilities Management* - Comprehensive operational and maintenance support for government facilities are provided under this program.

3. *Realty Management* - This service allocates office and commercial space to departments from the inventory of owned and leased commercial space.

Policies established by the Management Board require all departments to use the Agency's services when capital development, facilities management and realty services are required. The Agency classifies the building space available for government activities into three categories:

1. *Special Purpose facilities*: these are constructed or purchased by the user department to meet their program needs, such as: schools, grader stations, health facilities and other institutions. The department owns these buildings.

2. *Commercial buildings:* These are constructed or purchased by Highways and Public Works in order to provide office or warehouse space to government departments. These buildings are owned by Highways and Public Works.

3. *Leased space*: These are purchased by the Agency for use by government departments.

The Agency operates and maintains over 350 government buildings in the Yukon. These buildings contain approximately 3.2 million square feet of floor space. Of this space, the Agency leases almost 300,000 square feet in 50 private sector buildings for customer departments.

The amendment to Section 44 of the FAA created the Agency as a revolving fund. This status allows the Agency to re-spend its revenues on an on-going basis for approved purposes and within agreed limits. Unlike a typical government department, there is no need to seek vote authority to spend funds on an annual basis. It is the responsibility of the Agency's customers to obtain funding for the services that they need from the Agency.

The Agency provides services on a fee for services basis. These fees are negotiated with the client departments in advance and are based on the anticipated full costs of delivering the agreed upon services. Once the fees are established they remain fixed based on the volume of services to be delivered.

The Charter is silent on the matter of charging fees to obtain a profit for the services that are provided. However, the Agency fees have been based on the recovery of direct costs (*materials and labour*) and overhead; no profit margin has been built in.

The Agency has three main sources of revenue, which are presented in Table 1, Revenue Sources, below. The Agency receives almost one-half of its revenue from annual service agreements with its customers. Most of this direct-revenue comes from facilities management agreements. These are signed with each customer to provide operation and maintenance services to those that occupy Special Purpose buildings. Other agreements provide a small amount of lease revenue.

Slightly more than one-half of its revenue comes from a direct vote from the annual budget process in the Yukon Legislature. These funds are voted: to cover the costs of operating and maintaining commercial space; and to pay for leased space. This revenue also funds the capital program.

The third source of Agency revenue comes from project specific agreements with departments. These focus mainly on capital maintenance, renovations and new building construction.

Table 1: Revenue Sources

	2000-01 O&M		2000-01 Capital		1999-00 O&M		1999-00 Capital	
Direct vote to								
Leases	$5,849		$ -		$5,090		$ -	
Commercial space	5,725		-		6,031		-	
Capital program			2,957				5,549	
	11,574	51%	2,957	16%	11,121	52%	5,549	29%
Service agreements with								
Facility management agreements	9,912		-		9,285		-	
Lease agreements	941		-		754		-	
	10,853	48%	0	0%	10,039	47%	0	0%
Project recoveries from								
Building maintenance & construction	-		15,327		140		13,421	
Development services	121		-		95		-	
O&M not covered by FMA	107		-				-	
	228	1%	15,327	84%	235	1%	13,421	71%
Total	$22,655		$18,284		$21,395		$18,970	

REVIEWS OBJECTIVES

The objectives developed for this assignment were determined in consultation with the Department of Highways and Public Works and approved by the Audit Committee of the Government of the Yukon. The objectives were to assess Agency practices and procedures over the development and management of government owned and leased facilities. Specifically, we were asked to address the following questions:

- Are government buildings being serviced to maintain value of the asset so as to provide the maximum economic benefit to the government?
- Does the long-term planning process allow for the identification of, and, the orderly replacement of buildings that are reaching the end of their economic lives?
- What is the relationship between the fees charged to customer departments and the full costs that are incurred by the Agency to deliver services?
- What is the assessment of internal control associated with acquisition of resources and the accounting thereof in the facilities management area?

SCOPE AND APPROACH

The scope of this examination focussed on facilities development and facilities management activities of the Agency. This review did not directly examine leasing activities of the Agency. The administration process in this area was not considered within the scope of the review.

The review examined Agency activities for the last complete fiscal year from April 1, 2000 to March 31, 2001. Please note that the names of the departments referred to in this report are those that existed prior to renewal.

The review was conducted by interviewing managers and directors within the Agency, examining key systems and reviewing appropriate Agency agreements and records.

FINDINGS AND ANALYSIS

ASSET MANAGEMENT

The Agency does not collect sufficient information on the condition of buildings to adequately identify total capital and repair needs.

The Agency had begun a database containing Building Condition reports for each building. These reports are prepared from inspections undertaken by the specialists in the Technical Support Branch of the Agency. Each Building Condition Report contains a description of the state of the various building systems: plumbing, electrical, mechanical, etc. There is an assessment of the quality of the system condition; a recommendation for the work that is necessary to improve the conditions; and, a rating of the priority.

So far, inspections have resulted in a condition report on the Commercial buildings owned by Highways and Public Works. At this time, the database has not been expanded to include Special Purpose buildings owned by the departments. Therefore, the condition of approximately two-thirds of the government's buildings are not properly documented or reported on.

Conducting regular building inspections is necessary to compile the information needed to plan and implement an effective maintenance program. In the absence of such a program, it is difficult to develop reasonable repair and maintenance budgets and make appropriate decisions on the division of resources between capital projects and maintenance operations.

LONG-TERM ASSET PLANNING

A building's economic life is an estimate of the number of years that a building can provide efficient use to the owner. Generally, this is considered to be 40 years. While a structure may stand for longer than this time, it is likely that there will be an increase in capital costs. Regardless of how well buildings are maintained on a daily basis, major systems replacements or overhauls will generally be required to preserve or extend their asset value and to keep them operational.

The lack of an adequate maintenance plan will result in a loss of asset value, poor quality of working space, potential health & safety problems, higher likelihood of higher repair costs in the future, and increasing reliance on more costly lease accommodation. Before this starts to occur, a cost-benefit exercise would be useful to determine whether it could be more economic to replace the old building with a new one.

The Agency does not use a life-cycle analysis to determine when a building may reach the end of its economic life. Many of the government's building are over 30 years old. The following are some of the more significant buildings and their ages:

- Whitehorse Elementary School (50),
- Selkirk Elementary School (43),
- C&TS Mechanical Workshop (42),
- Takhini Elementary School (41),
- F.H. Collins High School (39),
- Johnson Elementary School (39),
- Watson Lake High School (37),
- St. Elias School (35),
- Jack Hulland School (33),
- Macaulay Lodge (32)

At this time, some of these buildings may have reached or will soon reach the end of their economic lives. It may become more costly for the government to preserve or extend the lives of these buildings. Without a cost-benefit analysis, a decision regarding the continued use of these buildings will be based on incomplete information.

PREVENTIVE MAINTENANCE

The benefits of practicing planned, systematic preventive maintenance are: increased service life of a building; early identification and correction of deficiencies; and, lower operating costs over the life cycle of the building.

Most often, maintenance undertaken by the Agency is reactive rather than planned or proactive. Planned Maintenance Plans are prepared for buildings. These plans are intended to be periodic (monthly, quarterly as the case may be) visual inspections of the building's systems. However, these inspections have not been conducted regularly. The facilities managers have assigned this task when the workload of the trades-staff permits.

INFORMATION SUPPORT

A work request form must be completed before any maintenance work is performed on any building. The customer or sometimes a trades-person usually initiates these forms. All work requests are logged in the work-request system by the Action Desk and are then forwarded to the appropriate facilities manager. The manager assigns the request to a trades-person that does the work. Once the work is completed, the request form is signed and passed to the manager by the trades-person.

The work request system serves mainly as a tracking system to inform management on the status of a work request, whether it is open or closed. There is no report to advise management about the labour hours and cost or cost of materials of a work request. The labour hours and labour cost information can be made available upon request to the Finance Branch. Information about the cost of materials is also available from this Branch, but only after researching the accounts payable files. The process for retrieving this information is cumbersome and tedious.

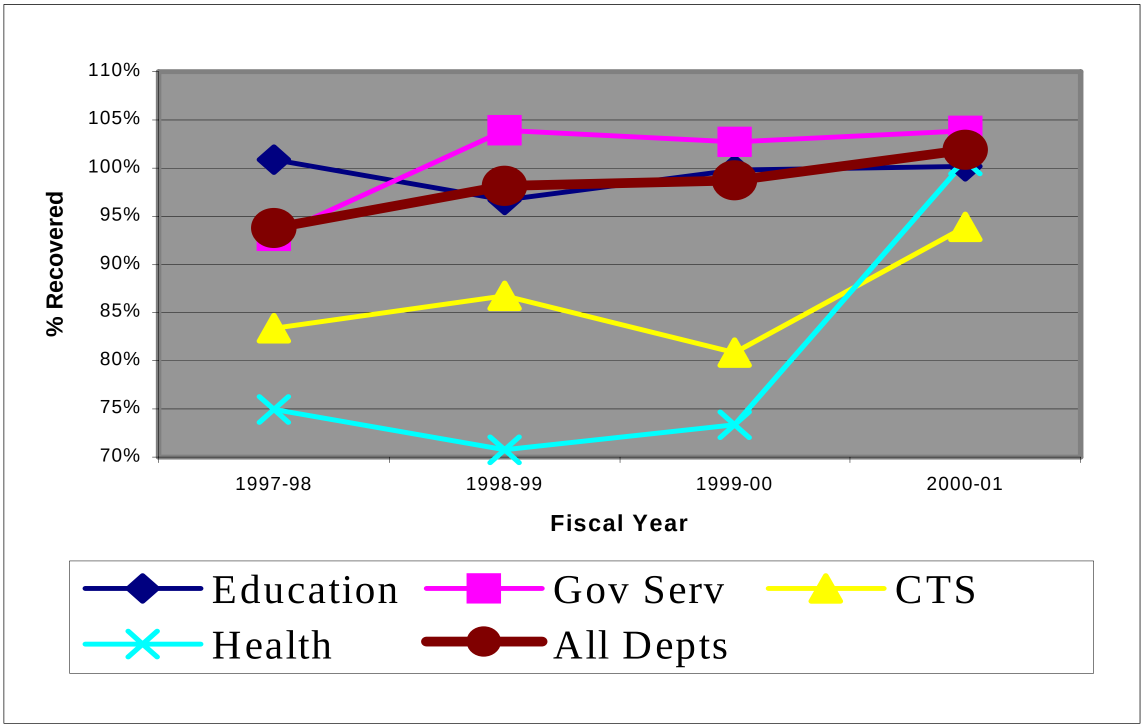
In the year 2000-01, the Agency processed approximately 13,000 work requests. Managers do not have the time to research the costs for each work request. Therefore facilities managers are not always aware of the costs incurred to process a work request. If managers cannot monitor the costs of a work request then it is difficult to control overall costs, because the work request is the source for most of the facilities management expenditures.

RECOVERY OF AGENCY COSTS

The cost of a Facility Management Agreement to a customer is determined in advance of the year. The fees are intended to recover the expected costs that will be incurred by the Agency to provide the services. However, it is likely, that at the end of the year, the actual costs incurred will not match the fees collected from the customer. Therefore a variance arises. An examination of these variances could reveal how well the Facilities Management Branch performed in estimating and controlling future maintenance costs.

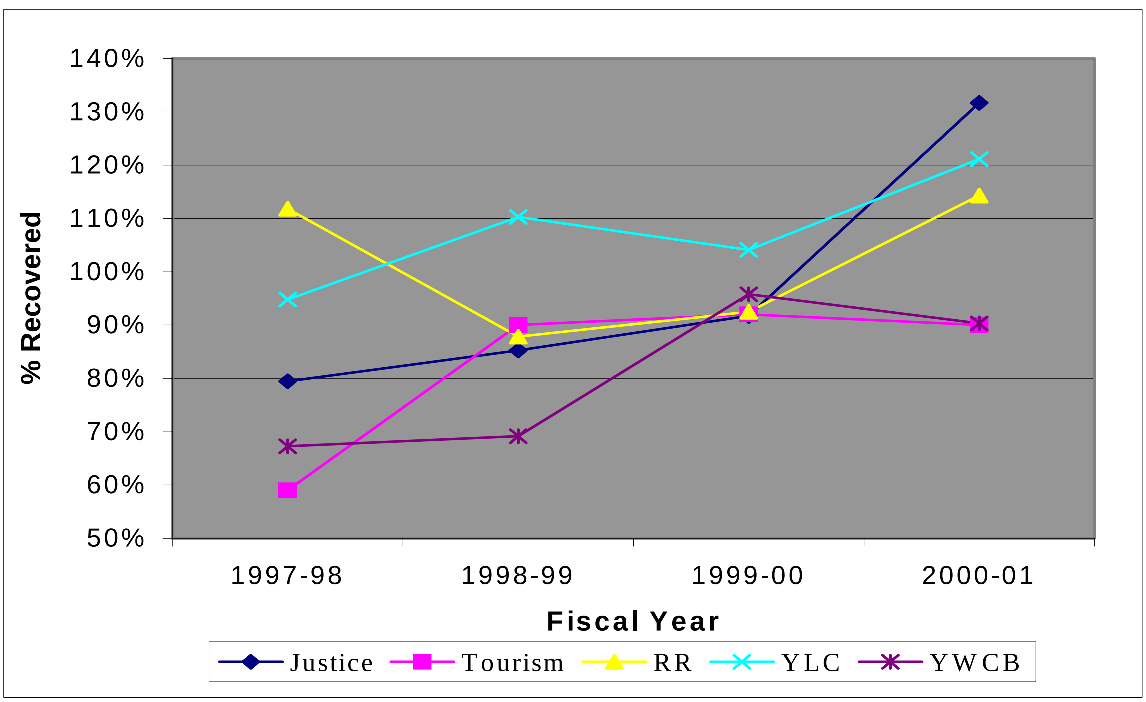
Table 2, Recovery of Facility Management Costs from Larger Departments and Table 3, Recovery of Facility Management Costs from Smaller Departments, that follow illustrate the relationship between facilities management fees collected from customers and the cost to the Agency of providing those services to the customer. These graphs show that in 1997-98, the Agency was not recovering enough fees from most customers to cover their costs of providing facilities management services. Overall the Agency was only recovering about 94% of its costs. However, by 2000-01 the recovery of costs had improved to just over 100%. In other words, in 2000-01 the Agency had collected slightly more fees than it had expended in providing services to customers.

Table 2: Recovery of Facility Management Costs from Larger Departments



Source: Property Management Agency Data Warehouse

Table 3: Recovery of Facility Management Costs from Smaller Departments



This information is presented in the above graphs to segregate the large customers from the small ones. Large customers are those departments that occupy space greater than 100,000 square feet. Both graphs show that the revenues received from some departments offset the losses from not collecting enough revenues to cover the costs of operating and maintaining the facilities in the other departments. Over the last four years, the Agency has collected a surplus from the direct vote of funds from Highways and Public Works. Inadequate revenues have been collected from Health and Social Services, Community & Transportation Services, Workers Compensation Board, Tourism and to some degree Renewable Resources and Justice. Basically the vote of funds to cover the costs of operating and maintaining commercial and leased space has subsidized the Special Purpose buildings.

FMA PROCESS

In examining the Facilities Management Agreement (FMA) files for 2000-01, we found that customers did not sign thirteen of twenty-two agreements. Of the nine that were signed, two were signed only during the last month of the fiscal year. The value of services for which the Agency did not have agreements was $9.7 million. This represents 95% of the total value of this type of service provided to customers.

The Agency provided services to these departments despite the lack of agreements. It could do so because there is a clause in each FMA that deems the agreement to be in effect 10 days after having been received by the customer. Since buildings must be maintained and that agreements are deemed to be signed after 10 days, the Agency has not always been successful in following-up or obtaining the proper signatures from the departments. The following factors contributed to this problem:

- Artificial business environment. In its Charter and annual reports, the Agency has emphasized that government departments should be treated as customers. However, true customers would operate in a competitive market where they would have a choice of more than one supplier of goods or services. Since it is government policy that the Agency is the sole provider of building related services, there is no pressure to be as efficient as possible. Any inefficiency can be passed onto the customer through a change in the amount of the next FMA.

- The FMA contains no details regarding how the annual amount to be paid by a customer is calculated. There is no information on the expected frequency of various repairs, expected labour requirements of the various trades or an estimate of the cost of various repairs and maintenance related to the customer’s buildings. The facilities management services to be provided are generally considered to be similar to the previous year. These agreements should contain a detailed description of the type, frequency and cost of service that will be provided each year.

- The FMA is not really an agreement but a document that serves to identify the services that the Agency will provide and the total cost to the department of providing the services. To provide some flexibility, the Agency has allowed customers the option of including or excluding some services in the FMA, such as: utility payments, security services, custodial services and grounds maintenance. However, customers cannot opt out of maintenance related to: the building and structure, heating and ventilation, electrical system, fire prevention, elevator and conveyor systems and playground equipment.

BUILDING NEEDS IDENTIFICATION

The Agency's facilities managers, in consultation with their trade's staff identify the need for capital maintenance and repairs. Projects are itemized, ranked in order of priority and an estimate of the cost for each project in each building is prepared. This information is sent to the department to review and decide which projects should be accepted. It is the department's responsibility to obtain the funds through the budget process to undertake the capital projects it has selected for the buildings that it owns.

In this arrangement, the Agency, which is responsible for the maintenance of buildings, has no control over capital maintenance projects or when they are undertaken. The departments are focussed upon maximizing expenditures on programs that deliver services to the public. Capital maintenance is often delayed until it is required immediately. Given this situation, the responsibility for the preservation and the maximization of the utility of government building assets is not clearly identified.

GOVERNMENT ACCOUNTING POLICIES

Historically, capital purchases have been accounted for as expenditures during the year of acquisition in the public sector. Private sector accounting policies have treated capital purchases as an asset, a portion of which is expensed each year over the life of the asset. The difference between these accounting treatments appears in the effect on the accumulated surplus. In the government, the entire purchase cost is used to calculate the surplus, whereas only the current year's portion of purchase cost is used to calculate the surplus of an entity in the private sector. In government, this practice places proposed capital projects at a disadvantage during the preparation of the annual budget.

Consider the choice between a large project to build or renovate a building, or, incurring yearly lease costs to rent equivalent space in a private building. The capital renovation or construction of a government building will provide future benefits in the form of space for employees for approximately 30-40 years. This kind of project will require a large amount of funds in the first and maybe the second year. Leasing similar space involves less up-front costs and is easier to arrange. However, over the same 30-40 years, the annual lease payments will likely be greater than the capital cost of the government undertaking the project itself.

Yet, given the accounting policy described above, the need to manage the annual surplus results in the deferral of many major capital projects because the requirement for a large start-up cost affects the annual budget so significantly.

CONSTRUCT OR LEASE INVESTMENT DECISIONS

The government has used real property projects in the past to achieve government objectives that are broader than meeting program delivery requirements. More particularly, the government has favoured leasing office space instead of building its own facilities.

Generally, long-term leases will cost the government more than constructing and operating its own facility. Table 4, below compares the square footage of owned versus leased office space in the Whitehorse area. Approximately one-third of the total office space occupied by the Yukon Government is leased. It also shows that Renewable Resources, Community and Transportation Services, Economic Development and Highways and Public Works all occupy significant leased space. Each of these departments has occupied this space for 15 or more years each at its respective location.

The policy of favouring leased office space over owned space is not a stated government policy. It appears that, over the years, this has become *de facto* policy of successive governments to opt for leasing space rather than constructing new space. The reasons for this are likely to support local business and to avoid influencing the local market rent rates.

Decisions to construct or lease space are, of course, matters of government policy. Future decision-makers, however, should be made aware that leasing space over the long-term is costly to government. This factor should be properly considered and analyzed as part of the planning process each time the government needs a large amount of space for more than a temporary basis.

Table 4: A Comparison of Leased & Owned Office Space in Whitehorse

Bldg#	Description	Dept	Owned	Leased
1205	Keith Plumbing Bldg	RR		42,142
1222	Education Bldg	Ed	57,781	
1355	#2 Hospital Road	H&SS	9,601	
1356	#4 Hospital Road	H&SS	9,601	
1344	461 Range Road	CTS	14,144	
1202	Mainsteele	Ec Dev		1,876
1213	Lynn Bldg	CTS/ECO		22,390
1259	Main Administration Bldg	Various	150,237	
1262	Justice Centre	Justice	77,996	
1287	Medical Arts Bldg	Comm'r		7,632
1364	Tourism Business Centre	Tourism	9,849	
1908	Royal Bank Bldg.	H&SS		10,218
1910	Tutshi Bldg.	Justice		6,125
1912	Financial Plaza	H&SS		8,600
1914	M&R Bldg.	Gov Ser		14,628
1917	Whitehorse Performance Centre	Gov Ser		1,400
1918	Shoppers Plaza	Ec Dev		8,342
1932	Prospector Bldg.	Justice		10473
1936	WCB Building	WCB	18,998	
1937	Sport Yukon Bldg.	CTS		1,873
1942	Professional Bldg.			4,489
1948	204 Main Street	ECO		5,135
1949	Parkside Place			3,025
1954	Chocolate Claim Building	Tourism		3,372
1956	Berska Bldg.	H&SS		12,749
1957	Hougen Centre	PSC		3,945
1959	Kluhini Bldg.			13,256
			348,207	181,670
			66%	34%

Source: Property Management Agency Data Warehouse
Measure: Square feet

Departmental Discrepancies

As shown in Table 1, the Agency receives more that 50% of its revenues directly from the Legislature. These funds are used to pay for the following:

- the cost of Leased space in private buildings, such as 10 Burns Rd, the Lynn Building, the Berska Building in Whitehorse, or the Parks Canada Building in Dawson City; and,

- the cost of operating and maintaining government's Commercial buildings, such as the Main Administration Building, the Education Building, the Justice Centre, the Arts Centre and Yukon College in Whitehorse, or the Administration buildings in Dawson City, Haines Junction and Mayo.

The departments and programs that occupy space in leased or commercial buildings do not pay for their accommodation. This causes an inequity amongst the government's programs. The programs that occupy Special Purpose buildings must budget and pay for accommodation costs. Programs and departments that occupy commercial or leased space can operate without accounting for accommodation costs in their budgets.

For example, the Department of Renewable Resources occupies approximately 66,000 square feet of Special Purpose and Leased building space to operate its programs. In 2000-01, the department paid approximately $81,000 to the Agency to operate and maintain this space. Yet the actual cost of operating and maintaining this space was just over $1 million paid by the Agency. The difference came to the Agency from the direct vote for Renewable Resources.

The Department of Justice occupies approximately 150,000 square feet of Special Purpose, Commercial and Leased building space to conduct its programs. In 2000-01, the department paid approximately $18,000 to the Agency to operate and maintain this space. The actual cost to operate and maintain this space was approximately $1 million paid by the Agency. The difference came to the Agency from the direct vote for Justice.

There are many departments or branches of departments that occupy Commercial space in the Main Administration building. These departments do not pay any accommodation costs. Yet the Agency paid $1.6 million to operate and maintain this 150,000 square foot building in 2000-01.

Compare these examples with other departments such as Community & Transportation Services or Education. These departments occupy significant space in Special Purpose buildings. The budgets for the programs in these departments must include the full cost of accommodation.

SOA STRUCTURE

Special operating agencies were created as a response by governments to deal with financial pressures during the 1990's for governments to become smaller, more efficient and more entrepreneurial. The SOA structure was intended to allow an organization more autonomy to focus on serving customers and managing for results, rather than emphasizing compliance to rules and procedures. The following are the characteristics of a typical SOA:

- private sector business principles and practices are applied to operations to improve service and financial performance;
- the organization is a devolved part of a host department;
- there is a clear accountability arrangement throughout the organization; and
- the organization should operate in an environment where there is competition among service suppliers, resulting in cost reductions and improved service.

The Agency's revolving fund status allows it to spend revenues without seeking vote authority from the Legislature on an annual basis.

However, as noted in the previous observation, the Agency must plan and prepare a budget for more than 50% of its revenues that are voted each year by the Legislature. These funds are used to pay for the cost of operating and maintaining Leased & Commercial space occupied by other departments.

As a result of the arrangement described above, the Agency is operating as a hybrid between a true SOA and a program within a government department. Some aspects of its activities, such as office leases have not changed since the Agency was a program with the Department. Here, most of the lease revenues do not come from the tenant departments, but from the direct vote from the Legislature.

Recommendations and Management Responses

To deal with the deficiencies and weaknesses described in the previous section; the following recommendations are offered to improve the program:

Reporting on Building Conditions

<u>Recommendation #1</u>

The condition of all government buildings should be assessed by the Agency on a periodic basis.

This assessment must conclude on the continuing ability of a building to meet the needs of its users and to ensure that health and safety standards are met. Once the condition of a building is known, decisions can be made regarding the scheduling of maintenance; whether to preserve or renew its value or usefulness; or, whether to dispose of the property.

The database containing the Building Condition Reports should be expanded to include all Yukon government buildings. Further, as reports for buildings are completed, there must be periodic updates and revisions to ensure that the information is kept current.

The Building Condition Reports must be used as a source for the capital planning process. Operations and maintenance programs for each building should logically flow from these Reports.

<u>Management Response</u>

Agreed. It is critical that PMA be able to track the conditions existing in buildings and the actions taken on them. Without this, there is little or no accountability for PMA's first goal: maintaining comfort and reliability of client's buildings. PMA has found it difficult to apply enough resources to this task and needs to develop an information system that is simple and not resource-intensive. At the present time, building condition reports are prepared on the request of client departments, usually to provide input to departmental capital budgeting decisions.

Maintenance Responsibility

Recommendation #2

The Agency should develop a proposal that would assign it total responsibility for capital maintenance and renovations.

Building expertise resides with the Agency. Therefore it is most qualified to determine the kind and timing of capital maintenance. To achieve this goal, the Agency should be responsible to plan and budget for capital maintenance for all government buildings and to obtain the funds it needs for its plans from the annual budget process.

Departments should continue to retain the responsibility to sponsor new building construction or capital maintenance that will change the use of a building.

Management Response

PMA agrees with this recommendation and will prepare a proposal outlining possible options for achieving responsibility for capital maintenance and renovations. The Agency believes that a method should be found of accomplishing the intended result without corrupting the principle of keeping all building accommodation costs in the votes of the program departments that use those buildings. That would be consistent with other observations and recommendations in this report.

Our proposal will be developed in consultation with the Department of Finance and other departments. It will then be presented to the Management Board as part of an Agency strategy paper (see Recommendation #7).

Building Maintenance

Recommendation #3

The Agency should ensure that all buildings are subject to an effective preventive maintenance system.

A sound preventative maintenance system should include the following features:

- periodic inspection and assessment of building conditions;
- where appropriate, inspections should be undertaken by the Technical Support Branch;
- work standards for operating and maintaining major buildings systems;
- budgeting and scheduling;

- priorities should be reviewed in an environment of limited resources; and
- report on performance.

Management Response

Agreed, but implementation of such a recommendation will depend on the availability of funding. The work involved in making a transition from the current reactive maintenance mode to more of a planned mode would require a temporary injection of new resources. The government accounting and budgeting practices do not place a high value on preventive maintenance. On the balance, we consider action on the other recommendations to take priority over this one. It should be noted that planned maintenance is now carried out on critical mechanical components of the largest buildings.

Work Requests

Recommendation #4

The information system on work requests should disclose the full cost or estimate of the maintenance work to be done to repair or service a facility.

The Agency's work request information system should provide relevant and useful information for the regional facility managers and its customers. As a minimum, facility managers should provide customers with an estimate of the work to be done including the cost of materials and labour. This estimate should be shown on the Work Request Form and signed as approved by the customer.

After the job has been completed, the Agency's Finance Department should provide facility managers with information on the actual costs of completing the work requests. This would enable these managers to monitor and control the cost of their activities.

In discussions during the review, the Agency's Chief Financial Officer agreed that it was a problem for them to provide relevant and timely information to the facilities managers. Finance agreed to look into this matter and to examine their options in providing facility managers with financial information on work requests.

Management Response

Agreed in general. Incremental improvements have and are being made to the system to address the situations in which the additional information is most useful.

Accounting for Capital Assets

<u>Recommendation #5</u>

The Department of Finance should account for capital assets on the basis of current public sector generally accepted accounting standards.

In 1997, a new chapter on capital assets was added to the Public Sector Accounting and Auditing Handbook. This Handbook comprises the generally accepted accounting standards applicable to all levels of government in Canada. The new chapter describes how governments should account for capital assets. The following are two main accounting policies that will affect Yukon Government buildings:

- Capital assets must be recorded as assets whenever it can be determined that it is probable that future benefits associated with the asset will be obtained; and,
- Capital assets must be amortized over its useful life in a systematic manner not exceeding 40 years. The amortization of the costs of a capital asset must be accounted for as an expense.

This is a change from previous government capital asset accounting policies where a capital asset purchase was recorded as expenditure in the year of acquisition.

The new policy makes the accounting for government capital assets consistent with that in the private sector. The goal of this change is to recognize that a capital asset provides utility (future benefits) to the owner for more than just one year. The amortization of a capital asset over its expected useful life will allocate a portion of the cost of the asset to each year. This recognizes the cost of the asset used in the year and results in a better matching of costs with revenues.

The new accounting policy should reduce the bias against capital maintenance projects because the effect of the cost on the accumulated surplus is spread over a number of years instead of all in one year.

<u>Management Response</u>

The Department of Finance agrees with this recommendation. In response to a previous internal audit report issued by Government Audit Services on fixed assets, the Finance Department indicated that it would begin the transition to achieve full compliance with Section PS 3150 of the CICA Handbook. Plans call for implementation for fiscal year ending March 31, 2003.

Funding of Agency Activities

Recommendation #6

The Agency should develop a proposal that would ensure all departments and agencies pay for the full costs of occupying space as part of the government's annual budget exercise.

Some government programs must budget and pay for accommodation cost, while others do not. The Yukon Government should review this inequity to ensure that all programs are treated the same with respect to the cost of occupying space. There are essentially two approaches to the reform of the funding of Agency's activities:

(a) All departments or programs pay for the space they occupy, regardless of the building type (Special Purpose, commercial or lease). Departments and programs are responsible for determining their operations and maintenance costs in the annual budget process. No funds are voted directly to the Agency to pay for the costs of another department.

(b) The responsibility for planning, maintaining, budgeting and paying for the cost of occupying all government buildings, regardless of type, is assigned to the Agency.

In either approach, the government's programs should be treated the same regardless of the type of building occupied.

Management Response

PMA agrees with this recommendation and will prepare a proposal that offers a range of space budgeting and cost allocation options that will work in the government's best interest.

Our proposal will be developed in consultation with the Department of Finance and other departments. It will then be presented to the Management Board as part of an Agency strategy paper (see Recommendation #7).

Agency Status

Recommendation #7

The Agency should undertake a strategic review of its operations to assess the effectiveness of its current structure and design.

The Agency and its customers are not operating in a free-market environment. There are two possible options to address this situation: make reforms that will enable the Agency to operate more closely as a true SOA; or, allow property management activities to be operated from a program within a government department. Unlike the property management activities of the Government of British Columbia and its building arm, the British Columbia Buildings Corporation, the Yukon market may be too small for the Agency to function as an SOA. Given that the Agency was created as an SOA in 1996, it would now be a timely move for the Agency to evaluate whether its business mandate, program structure and design is working as intended and meeting the needs of the government and client departments.

Management Response

PMA agrees with this recommendation. The idea that Property Management does, or ought to, operate in a free market environment is perhaps based on a faulty understanding of Property Management's role. Similarly, the phrase "true SOA" is used in a manner to suggest that Property Management is not living up to some free-market ideal that it was not ever intended to emulate.

We note that the audit report is generally supportive of the principle that the cost of building accommodation should be recorded in the vote of user program departments. This does not automatically mean that government should forgo the policy leverage that a central agency can provide.

A more appropriate question for a review would be whether or not the government ought to have a central agency to manage property, or have it managed within individual program departments. In that context, the appropriateness of Property Management's mandate, goals, and business models could be evaluated in a useful manner.

In consultation with our client departments, the Agency will prepare a strategy paper that will initiate a discussion about these matters. The strategy paper will be developed for consideration by the Management Board.

Appendix A - Overhead Calculation

There are two types of overhead:

1. Unallocated Maintenance (UM)

This overhead is based upon regional costs and labour, which cannot be directly allocated to a building. These are usually administration costs, for example: regional manager's salary, certain vehicle charges, office space, etc.

UM overhead is allocated to the buildings within each region on the basis of the proportion that the direct maintenance costs of each building are of total direct maintenance costs for the region. In this calculation, higher maintenance activity will attract higher overhead allocation for a building. This is based on the assumption that higher maintenance activity will attract more of management's time, more vehicle time, etc.

2. Facilities Management (FM)

This overhead comprises the corporate costs that are incurred to operate the Agency and that are not directly associated with a building. These costs include the salaries of the Agency head, finance & administrative staff and the non-labour costs associated with administration.

FM is allocated to all buildings based on the percentage that each building's floor space is of the total floor space. Corporate administrative activity is not directly related to building maintenance activity. Therefore, the formula to allocate FM overhead to the buildings could not be based on the cost of maintenance activity. Instead, floor-space was chosen as a fairer method to allocate FM.