MEDIA RELEASE: Friday, August 19, 2011, 4:30 p.m.

REGIONAL MUNICIPALITY OF WATERLOO
AUDIT COMMITTEE
AGENDA

Thursday, August 25, 2011
4:00 p.m. - Dinner to be provided
Room 218
150 Frederick Street, Kitchener, Ontario

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1. DECLARATIONS OF PECUNIARY INTEREST UNDER THE MUNICIPAL CONFLICT OF INTEREST ACT

2. DELEGATIONS

3. PRESENTATION

a) Presentation by Deloitte and Touche - Outline of 2010 audit results and management letter 1

b) Presentation by Larry Ryan - Region of Waterloo Financial Report 2010
Report attached separately for Committee members

4. MOTION TO GO INTO CLOSED SESSION

That a closed meeting of Audit Committee be held on August 25, 2011 during open session of Audit Committee in Room 218 at 150 Frederick Street in accordance with Section 239 of the Municipal Act, 2001, for the purposes of considering the following subject matters:

a) the security of the property of the municipality
b) personal matters about an identifiable individual, including municipal employees

5. MOTION TO RECONVENE INTO OPEN SESSION

6. REPORTS – Chief Administrative Officer

a) CA-11-005, Facilities – Maintenance and Operations – Program Review 2010-2011 3

7. INFORMATION/CORRESPONDENCE

8. OTHER BUSINESS

a) Council Enquiries and Requests for Information Tracking Sheet 20

9. NEXT MEETING – to be announced

10. ADJOURN

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May 31, 2011

Via courier

Larry Ryan
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150 Frederick St
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Tom Galloway
Audit Committee Chair
Regional Municipality of Waterloo
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Dear Mr. Ryan and Mr. Galloway:

During the course of our audit of the Regional Municipality of Waterloo financial statements for the year ended December 31, 2010, we have identified matters that may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and is not designed to identify matters that may be of interest to management. Accordingly, an audit would not usually identify all such matters. Our recommendations cover such areas as information systems, internal controls and operations. The following points resulted from our audit of the 2010 financial statements.

This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We would like to thank you and your staff for their assistance during our audit. If you have any questions, please contact us.

Yours very truly,

EmcDade

Evan McDade, CA, Licensed Public Accountant
Associate Partner, Assurance & Advisory
Deloitte & Touche LLP

1. Impairment policy for tangible capital assets

Observations
The Region of Waterloo has a published set of Accounting Guidelines on their intranet that address the impairment of Tangible Capital Assets (TCA's) but these guidelines are not included in the formal TCA policy. Also, it was noted that an impairment review for TCA's was not completed in 2010.

Implication
This could lead to an overstatement of assets as a result of having obsolete or damaged tangible capital assets recorded on the statement of financial position at their cost less accumulated amortization when they should be written down to net recoverable amount.

Recommendation
The TCA policy should specifically address asset impairment (even if it is addressed in a set of accounting guidelines) and an annual review should be completed by finance to ensure the appropriate valuation of the carrying value of the assets.

Management response
Subsequent to December 31, 2010, the Region's Finance Department has drafted a Tangible Capital Asset impairment procedure which will be implemented during 2011.

2. Social services bank reconciliation

Observations
During our testing over the Region's cash balances it was noted that the social services bank reconciliation was not complete until mid-April 2011.

Implication
The delay in the preparation of this bank reconciliation could lead to the Region being unaware of any large or long standing reconciled items and could lead to a misstatement in the Region's cash balances.

Recommendation
Policies should be put in place by the Region that establish clear and timely deadlines for the preparation of this reconciliation.

Management response
Subsequent to December 31, 2010, the financial reporting for social services became the responsibility of the Region's Corporate Finance Department. This will alleviate the time required to complete this bank reconciliation.

Report: CA-11-005

REGION OF WATERLOO

OFFICE OF THE CHIEF ADMINISTRATOR
Internal Audit
CORPORATE RESOURCES
Facilities Management and Fleet Services

TO: Chair Tom Galloway and Members of the Audit Committee

DATE: August 25, 2011 **FILE CODE:** A10-20, A35-01

SUBJECT: **FACILITIES – MAINTENANCE AND OPERATIONS - PROGRAM REVIEW 2010-2011**

RECOMMENDATION:

THAT the Audit Committee endorse in principle the findings of the Facilities – Maintenance and Operations – Program Review 2010-2011 (Report CA-11-005) recognizing that implementation will be subject to annual budget approval.

SUMMARY:

In 2010, the Internal Auditor together with Facilities Management and Fleet Services initiated a program review of the Facilities Maintenance and Operations (FMO) section and the delivery of its programs within the Region. A review of this nature was timely given the increasing portfolio of buildings owned by the Region of Waterloo which is expected to continue to increase over the coming years. The growth in population will require additional infrastructure and facilities which will create additional expenditures to maintain and operate the buildings. The program review provided the opportunity to optimize the manner in which the FMO Program is delivered and to maximize the achievement of divisional objectives for Facilities Management and Fleet Services.

Industry data suggests that the Region of Waterloo places in the middle of the fourteen upper tier and single tier municipalities in the OMBI (Ontario Municipal Benchmarking Initiative) reporting for various facilities related performance measures. However, the results of the review indicated that there are many opportunities to increase the efficiency and effectiveness of the FMO Program. There are a number of recommendations contained in the report that, when implemented, will help the FMO Program meet its objectives and also optimize the efficiency and effectiveness of the operations. In particular, the FMO Program could be improved by: clarifying the mandate of FMO and developing a more consistent approach to the operation and maintenance of regional facilities; enhancing FMO; focus on responsive, high quality service delivery; establishing a comprehensive asset management approach for the Region's facilities; improving the tools and technology available to FMO staff; and developing a more consistent approach to engaging contractors for work on Regional facilities.

REPORT:

<u>Background and Overview of Operations:</u>

The Facilities Management and Fleet Services Division (herein referred to as "Facilities") is one of several divisions within the Corporate Resources Department. The Division is comprised of five sections, of which the Facilities Maintenance and Operations Section (herein referred to as “FMO”) is one. Within the Facilities Management & Fleet Services Division there are the following sections:

- Facilities Engineering
- Facilities Asset Planning
- Business Services (of Facilities)
- Fleet Services
- Facilities Maintenance & Operations (FMO)

For specified buildings and structures, Facilities Maintenance and Operations, as the section’s title suggests, provides both maintenance and operational services. This includes the operation of and repairs to building systems and structures, occupant support, monthly/annual servicing and maintenance of equipment, cabinetry and millwork, and 24/7 emergency service response.

FMO has been impacted by the increasing portfolio of buildings owned by the Region of Waterloo which is expected to continue to increase over the coming years. The Region of Waterloo is expected to experience significant population growth over the next ten to fifteen years. The growth in population will require additional infrastructure and facilities. The Region already has 780 facilities according to the PSAB (Public Sector Accounting Board) inventory with a replacement value of $763.5 million in 2007 dollars excluding water and waste water facilities. The building inventory is also aging and requiring increasing levels of attention. It is critical, with the increased demand on the system to maintain, and in some cases, operate the expanding portfolio of buildings, that FMO be structured to deliver services now and in the future in the most effective and cost efficient manner possible.

The Review focused on delivery of all aspects of the FMO Program. The review assessed the effectiveness of the practices, processes and procedures used to support and deliver facilities maintenance and operations to enhance and achieve Regional objectives. The review evaluated staffing, planning, and the administration of all maintenance and operations services to assess their alignment with the Region’s objectives as defined in the Corporate Strategic Plan, and to ensure that the section is effectively carrying out the FMO mandate. Unique to this program review, a Service Satisfaction Survey Pilot was run parallel to the program review with a focus on ensuring, within program constraints, that services meet the needs of users.

Purpose of the Program Review:

Program reviews are intended to provide an objective assessment of the extent to which a program is achieving its intended results, the proficiency with which resources are administered, and the manner in which associated risks have been managed. In this case, risk means the activities and events that could potentially prevent programs from achieving defined goals. Program reviews support the strategic objective of ensuring that all Regional programs and services are responsive, efficient, effective, and accountable to the public. In 2009, Internal Audit together with Facilities Management determined that a program review would be helpful in determining what improvements, if any, could be made to processes supporting the achievement of the FMO Program objectives.

Running parallel to the FMO Program Review was the Service Satisfaction Survey Pilot. It was decided that a pilot should be the first step in the Region’s program to determine the current level of service satisfaction, and assist in identify actions to improve satisfaction. The pilot was more broadly intended to assess the feasibility of this survey approach to improving internal services. Outcomes from this initiative will be reported separately and aligned with the Program Review implementation plan.

The Facilities Division and the delivery of FMO Program were selected for a program review for the following reasons:

- The Region is continuing to experience a high level of growth, including expansion in the portfolio of buildings managed by FMO;
- It is expected that current and anticipated growth in the portfolio of buildings, will come with significant increase in expenditures;
- Response to concerns raised by divisional management specifically with regard to the lack of clarity of the mandate of the Section.

The scope of the review and the work plan were developed to provide a framework to:

- Assess whether administrative policies and procedures contribute to achieving FMO's goals and objectives, i.e., is the program effective and "doing what it is supposed to do"?
- Assess whether the resources used to achieve the FMO objectives are appropriate to the services being provided, i.e., is the program operating efficiently and achieving good value for the resources invested;
- Assess whether policies and procedures are in place to assist in complying with applicable legislation and regulations and to ensure continued compliance;
- Assess the risks and interdependencies associated with the delivery of the FMO Program and evaluate the effectiveness of the Division's risk management.

Findings and Discussion of the Report:

Overall, most of the feedback from the fifteen program areas interviewed was generally positive in terms of quality of service. Many spoke highly of the staff and their work performed. Quite a few felt that the response times were good, and that the level of expertise and professionalism of operations and tradespersons were good.

Major findings from the interviews, external scans, workshops and project reviews identified the following:

- The demand for facilities maintenance and operations services are increasing as the Region invests in more facilities.
- The FMO Section mandate and program objectives are unclear.
- The lack of clarity around the mandate and roles and responsibilities has resulted in a lack of clarity regarding staff accountability
- There is no single business unit responsible for preventative and on demand maintenance for all regional buildings.
- Many facilities do not have established preventative maintenance schedules leading to unplanned, and potentially, higher cost to replace infrastructure
- Confusion as to the number and type of financial arrangements that are in place, or how they came about, and how they contribute to effective decision making.
- Multiple building operations models exist for managing the maintenance of buildings depending on the building and program area associated with building.
- There is no comprehensive Asset Management Plan comprising long range projection of facilities program costs (rehabilitation, replacement, maintenance and operations).
- The available technology (Archibus system) is not fully implemented and does not provide the necessary information to effectively manage the FMO Program.
- There is no comprehensive asset inventory/register for all regional buildings, thus making it difficult to effectively manage Regional assets
- There are no clearly defined levels of service and performance targets making it difficult to measure and manage performance and efficiency

- There is some inefficient utilization of resources, such as using a skilled tradesperson to perform relatively unskilled work
- There is a lack of effective communication with clients, within FMO Section and within the Facilities Division as a whole.
- The Facilities Division manages approximately 700 service contracts in the absence of a contract administration system
- Findings from the review of OMBI (Ontario Municipal Benchmarking Initiative) data suggested that the Region of Waterloo placed in the middle of the fourteen upper tier and single tier municipalities in the OMBI reporting for all facilities related performance measures.
- An environmental scan was conducted with three other jurisdictions. The findings from the environmental scan were as follows:
  - The mandate of the Facilities Divisions differs as to what services they provide
  - The degree of contracting in/out of services differs between organizations
  - Other organizations face similar challenges with regard to the budgeting and costing of work orders as the Region of Waterloo
  - Organizations are heavily focused on leveraging the use of available technology to improve the efficiency and effectiveness of their operations

Recommendations:

The recommendations parallel the findings and will affect most sections of the Facilities Division as well as other program areas. Many of the opportunities for improvement focus on specific changes to mandate, planning, communications, technology and processes and procedures related to the FMO Program. The entire set of solutions has the potential to change many aspects of the way in which the FMO Program is delivered.

The Program Review consultant developed fifteen recommendations for improving the efficiency and effectiveness of delivering the Region's FMO Program:

1. Progressively expand the current FMO building operations model (in place at 150 Frederick Street, 99 Regina Street) to include all regional buildings from the perspective of the building envelope and critical operating systems not directly related to program processes.
2. Establish a Business Transformation Office (BTO) to support the Division in implementing a wide variety of changes. The focus on change management will include service improvement, asset management including the creation of asset registers, putting in place service level agreements and re-implementation of Archibus.
3. Establish a culture of responsive and quality service delivery.
4. Develop a communications strategy and implement a coordinating mechanism supported by policies and procedures to formalize communications within the FM Division to ensure that an appropriate level of input and communications occurs between sections
5. Incorporate the Capital Maintenance Program into the overall maintenance strategy.
6. Establish a performance and accounting mechanism to support regular meetings with management from all regional programs to review and recommend policies, procedures and priorities to include both facility design and construction, and operations and maintenance.
7. Consider the inclusion of a clause in the standard staff report template that requires Facilities to signoff prior to facilities related projects being presented to Committee or Council.
8. Establish an asset management program to support the program in achieving higher levels of efficiency and effectiveness, managing risk, and meeting service level expectations at the lowest possible cost.

9. Re-implement Archibus system, drawing on the Facilities vision and on industry best practices to ensure that all work is tracked, that levels of service are integrated, and that fiscal reporting is supported.
10. Progressively review and enhance asset registers, initially for buildings now directly managed by Facilities, and progressively for facilities to be folded into the building operations model of the Division, beginning with those for which preventative maintenance schedules already exist.
11. Promote the need for a contract administration system to replace the thousands of spreadsheets currently used to manage projects and service contracts.
12. Develop business rules on contracting out to support supervisors and managers in making decisions as to when third party contractors should be utilized to support buildings operations and maintenance.
13. Acquire a contract administration system to be used by all departments in the Region.
14. Establish the practice as to how the work of third party contracts will be captured in Archibus and asset registers.
15. Develop a contracting out and in policy, procedures template for service level agreements.

The benefits to implementing the recommended changes will materialize in different ways:

- Extend the life of Region's facilities assets and thus reduce the total cost of ownership.
- Industry experience indicates that in the medium to longer term, there will be reduced capital expenditures.
- More defensible allocation of funds by tying maintenance history into the rehabilitation and replacement programs.
- Reduced risk to the Region due to lower instances of premature asset failure.
- Improvements in efficiency and effectiveness which can be confirmed and implemented once the cost of providing the current services (work order tracking) is known.
- Shorter response times and higher levels of customer service through the implementation of more advanced technology such as mobile computing which would allow staff to receive requests for service in the field, respond more quickly and reduce travel time.
- Greater confidence in the FMO Program delivery as the work program is made more transparent, more defined, tracked and reported on.
- Improved asset sustainability through complete and accurate maintenance history.

Successful implementation of the recommendations to improve the delivery of the FMO Program rests on the alignment of business processes into a seamless service delivery approach. The framework for this alignment is linked to Recommendation 1**,** which speaks to expanding the current mandate and building operations model of FMO. The suggested changes will affect all the functions and most of the staff involved in the delivery of the FMO Program. The following discussion and action items have been grouped to reflect the timing and ability to implement the proposed solutions.

Discussion of Recommendations and Proposed Actions

a) Recommendation 1
Expand the Building Operations Model of the Facilities Maintenance and Operations Program

One of the key findings of the Program Review was that the current mandate of FMO Section is unclear. There is a lack of clarity of who FMO's clients are, what services are provided to each client or what funding arrangements exist for each client. It was also found that no single division is accountable for the facilities maintenance and operations of all regional buildings.

There are also many different cost recovery arrangements, where budgets are held either by Facilities or by the program and some programs have no budget for facilities maintenance.

It is being recommended by the Consultant that the mandate of FMO Section be expanded to all regional facilities with regard to the provision of preventative maintenance programs for all non processing components. The building operations model that is being recommended for the expanded mandate would have the FMO Section responsible for:

- Preventative maintenance program of all regional buildings with the exception of critical processing equipment related to the program.
- Service level agreements should be used to document the terms and conditions of facilities services provided to other programs where the entire facility or building is not directly managed by the Facilities Division.

Defined budgets for facilities maintenance currently held by the client program area would be assumed by Facilities for the purpose of controlling the funding associated with the required services. Budgets held by the client for on demand maintenance would need to be estimated, and would also be transferred to Facilities.

The expansion of the mandate is focused on moving more of the Region's facilities into a planned maintenance program. Today, planning for maintenance or replacement of components in such facilities as daycare centers, libraries and bus terminals, for example, is not done routinely.

While Internal Audit agrees with the recommendation of the Consultant to expand the current mandate of FMO, more analysis needs to be completed on which Wastewater and Water Services facilities may need to be excluded from the new mandate. The building systems for these program areas are sometimes interconnected with the critical processing components. In these cases it may not be more effective or efficient to have the preventative maintenance (PM) programs within FMO. As well, the Wastewater Services facilities are currently being managed by a third party contract for both the building envelope and critical processing components, so it may be more efficient and effective to leave this arrangement in place.

Action:

The Commissioner, Corporate Resources (CR) and the Director, Facilities Management & Fleet Services (FM&FS) will work collaboratively with client program areas to define and adopt a new business model for Facilities reflective of the consultant's recommendations. This will include the identification of critical processing equipment to be excluded from the preventive maintenance program as well as the development of service level agreements to document and define, where not already clear, the extent of demand maintenance responsibilities. Through a collaboratively developed process, defined budgets for facilities maintenance currently held by the client program area will be progressively assumed by Facilities to ensure a seamless transition to the new business model.

The Director, FM & FS (and designates) will align the current Facilities business systems to support the new business model including updated policies & procedures, redefined roles & responsibilities, communication protocols, performance indicators & accountability, refocused organizational structure, and optimized technological solutions (Archibus & contract management).

b) Recommendation 2
Establish a Business Transformation Office to Support the Division

One of the findings of the program was that the FMO Program, according to the Consultant, had very little organizational capacity to improve itself, other than through the management team. This, combined with the growth in the number of facilities being added to the Region's portfolio, along with the wide range of changes needed has necessitated the need for a minor organizational structural change. Recommendation 2 proposes that Facilities establish a Business Transformation Office to support the Facilities Division including the following:

- Implementing the recommendations that come out of the Program Review as well as the Service Satisfaction Survey.
- Establishment of an Asset Management Program including the creation of asset registers, putting in place service level agreements.
- Re-implementation of the Archibus system.

Also, the Consultant found the Business Transformation Office will be critical to establishing confidence in the FMO Program as a service provider and demonstrate to other departments that they have the organization efficiency and teamwork to deliver on the expanded mandate.

While Internal Audit agrees with the Consultant’s finding that the program area has very little organizational capacity, there may be opportunities to leverage existing roles and responsibilities within FMO, in order to build the organizational capacity, which could support the recommendations from the Service Satisfaction Survey Pilot, establishment of an Asset Management Program and Re-Implementation of Archibus. A full capacity review is necessary before deciding to add more staff and cost to the program.

Action:

Facilities agrees with Internal Audit’s assessment and does not support the need for additional staff without a new business model and a more comprehensive assessment of existing capacity. The Director, FM&FS will meet the intent of this recommendation by reallocating existing management resources to establish a Business Transformation Team (BTT) responsible for implementation of the Consultant’s recommendations. This team will also include support from IT, Finance and HR as well as other internal Facilities resources as required for the successful implementation of the recommendations.

c) Recommendation 3
Establish a Culture of Responsive and Quality Service Delivery

Recommendation 3 proposes that FMO establish a culture of responsible and quality service delivery. The Service Satisfaction Survey highlighted the need for higher levels of service for on demand requests. In order to improve service delivery it is being recommended:

- Facilities vision and mandate has clear service oriented objectives by which staff can be held accountable.
- Levels of service define how, when and at what level different requests will be addressed.

One of the other key findings related to service delivery was the use of skilled tradesperson to respond to ad hoc requests that do not required specialized skills, such as addressing lighting issues. It is recommended that the Region re-establish the position of general labourer to support ad hoc customer demands and to relieve skilled tradesperson from theses tasks, which will allow for more effective and efficient use of FMO’s resource time. Given the efficiencies and savings, Internal Audit supports this recommendation.

Action:

The Director FM & FS and the BTT (Rec. 2) will work collaboratively with client program areas to establish a framework of service improvement and accountability supported by service level agreements, communication protocols, service oriented objectives and clearly defined roles & responsibilities.

Although the general labourer position would be a valuable asset within the current Facilities organizational structure, it would be premature to establish this position prior to aligning the business systems (Rec. 1) and identifying operational efficiencies through a more comprehensive assessment of existing staffing resources. It is expected that the intent of this recommendation can be met by reallocating existing Facilities resources.

d) Recommendation 4 & 6
Develop a Communications Strategy and Performance and Accounting Mechanism

One of the findings of the program review was that there was lack of communication with clients and within Facilities itself. Recommendation 4 proposes the development of a communications strategy for the Facilities Division as well as implements a coordinating mechanism supported by policies and procedures to formalize communications within the Facilities Division to ensure that an appropriate level of input and communications occurs between sections. The communication strategy will also need to support the change management program the Division is about to undertake. The change management program will affect sections in the Facilities Division, and will need to be documented and communicated if staff is to buy into the approach.

In order to improve communication between FMO and it's clients, recommendation 6 proposes to establish a performance and accounting mechanism to support regular meetings with management from all regional programs to review and recommend policies, procedures and priorities to include both facility design and construction, and operations and maintenance.

Action:

Definition of roles and responsibilities within Facilities will be a critical component of the re-aligned business systems (Rec. 1). Embedded in that process will be an internal communications strategy including an accountability mechanism.

As part of the framework for service improvement and accountability (Rec. 3), service level agreements will be developed with all program areas. A client accountability and reporting structure will be established including regular meetings and other communication tools.

Effective communication and change management will be critical to the successful implementation of the Consultant's recommendations. Working with HR, one of the first tasks of the BTT (Rec. 2) will be to develop a comprehensive communication and change management plan for both Facilities and the client program areas.

e) Recommendation 5
Incorporate the Capital Maintenance Program into the Overall Maintenance Management Strategy

One of the findings of the Program Review was that the Capital Maintenance Program (which is delivered by the Facilities Engineering Section) operates largely in isolation from the FMO Section. Capital maintenance is comprised of a wide range of services such as painting, window replacement, and similar activities largely related to the building envelope. It is unclear as to how this type of maintenance fits into the FMO Program. The separation of this program from other FMO activities frequently causes conflict and has historically been difficult to coordinate. Recommendation 5 proposes to incorporate the Capital Maintenance Program into the overall maintenance management strategy. To achieve this, the Capital Maintenance Program should be incorporated into the work management system as a part of the Archibus re-implementation.

Action:

As part of the re-alignment of business systems (Rec. 1), definition of roles and responsibilities within Facilities will be a critical component of the implementation. Specifically, the relationships and interfaces between Capital Maintenance Program and the core FMO function will be evaluated and defined to ensure alignment and integration.

In order to ensure that there is a single source of information for all work performed in a building this, the Capital Maintenance Program will be incorporated into the work management system as part of the Archibus re-implementation (Rec. 9)

f) Recommendation 7
Facilities to Signoff Prior to Facilities Related Projects Being Presented to Committee or Council

Recommendation 7 proposes the inclusion of a clause in the standard staff report template that requires Facilities to signoff prior to facilities related projects being presented to Committee or Council. The intent of having a section in the committee report template is so that Facilities is aware of facilities related projects that may have implications to the FMO program.

Action:

This recommendation focuses on the need to ensure that Facilities expertise and perspective are incorporated into building-related decision making. Various approaches including the one proposed in this recommendation may be used to achieve this goal. The Commissioner, CR and the Director FM&FS will work with CLT to develop and implement an appropriate protocol to meet the intent of this recommendation.

g) Recommendation 8
Establish an Asset Management Program

One of the findings of the Program Review was that there is no defined Asset Management Program in place. Recommendation 8 proposes the introduction of a formal Asset Management Program and would consist of the following key components:

- Development of asset registers for all regional facilities.
- Development of levels of service.
- Facilities Master Plan to compliment the Asset Management Program and to reflect future requirements (next 30 years).
- Asset Management Plan comprising long range projection of facilities program costs (rehabilitation, replacement, maintenance and operations).

The Asset Management Program will support the program in achieving higher levels of efficiency and effectiveness, manage risk, and meet service level expectations at the lowest possible cost.

Action:

The Director FM & FS and the BTT (Rec 2.) will implement a comprehensive life-cycle asset management program for the Region's facilities assets including long range facility planning, a complete asset inventory and comprehensive work history supported by appropriate policies, procedures, processes and systems.

Asset Management is a more structured approach to maintenance and renewal planning and execution. To be truly successful it needs to become an intrinsic way of doing business. Through the re-alignment of business systems (Rec. 1), Facilities will also embed an asset management approach into the day-to-day business of the entire Division.

h) Recommendations 9 & 10
Re-implement the Archibus System and Review and Enhance Asset Registers

Archibus is a work management system designed specifically for facilities. It was implemented by the Region at the time that regional headquarters was commissioned. The system was never fully implemented and much of the functionality has never been put into service. Recommendation 9 proposes that the Archibus system be re-implemented, drawing on the Facilities vision and on industry best practices to ensure that all work is tracked, that levels of service are integrated, and that fiscal reporting is supported. It is also strongly recommended that an investigation of mobile computing within the Archibus solution be explored to identify savings in resource time currently applied to data entry and data manipulation.

In parallel, Recommendation 10 proposes that Facilities Maintenance and Operations progressively review and enhance asset registers documented within Archibus, initially for buildings now directly managed by Facilities, and progressively for facilities to be folded into the building operations model of the Division, beginning with those for which preventative maintenance schedules already exist.

Action:

Archibus is a powerful facilities management tool that will be a key component of the successful re-alignment of the Facilities business systems (Rec. 1) as well as the implementation of an asset management program (Rec. 9&10) and service improvement & accountability framework (Rec. 3). As part of the overall implementation, the Archibus system will be re-implemented to provide the data and tools to ensure accountability, efficiency and effectiveness in all areas of the Facilities operation. It is expected that a mobile computing solution will be a critical component of this implementation.

i) Recommendation 11 & 13
Promote the Need for a Corporate Contract Administration System

The Facilities Division alone manages (using mostly Excel) almost 800 service contracts without an automated contract administration system. Recommendation 11, promotes the need for a corporate contract administration system to replace the hundreds of spreadsheets used to manage projects and service contracts. Recommendation 13 proposes that should a contract administration system be acquired it be utilized by other departments in the Region.

Action:

Service contracts are managed by the Business Services Section rather than FMO, but have a direct impact on the day-to-day FMO operations. The benefits of migration to an automated contract administration system will be evaluated as part of re-alignment of Facilities business systems (Rec. 1). Following the outcome of that evaluation, the Commissioner, CR and the Director, FM & FS will work with other affected program areas as well as ITS and Finance to determine the most appropriate approach to a Corporate Contract Administration System.

j) Recommendations 12, 14 & 15
Develop Policies and Procedures on Contracting Out and In

Currently, all programs in the Region appear empowered to contract out work to third party suppliers within the context of the Region's purchasing by-law and collective agreements. Recommendation 12 proposes that business rules be developed on contracting out to support supervisors and managers in making decisions as to when third party contractors should be utilized to support building operations and maintenance. In parallel, Recommendation 15, proposes that a contracting out and in policy and procedures template for service legal agreements be developed.

In the absence of business rules, it is unclear whether the Region is getting value for money. However, FMO is losing maintenance history for all work done by third party contractors, whether it is done under the direction of FMO, Facilities Engineering or another regional program. In order to not lose this maintenance history, Recommendation 14, proposes that a process be develop for capturing work in Archibus and asset registers performed by third party contractors.

Action:

Establishing business rules for contracting in and out will be a key component of the re-aligned business systems (Rec. 1). Service level agreements, policies, procedures and rules for contracting in and out will be developed as part of the new structure. As part of the Archibus re-implementation (Rec. 9), all work in a building, including that of contractors, will be captured in the maintenance management system.

Implementation Considerations

The implementation of these recommendations will involve a considerable effort on the part of staff. Significant changes to work processes and associated interdependencies, the organization of the work, and the associated technology are discussed in this report. In addition, a review of the organizational structures required to support the delivery of the FMO Program is contemplated in the recommendations. The time commitment required to effectively implement these recommendations will be considerable. The implementation will require interaction and support from several other departments and many of the sections within Facilities.

Implementation Benefits

The Program Review recommendations are broadly focused on balancing customer service, asset sustainability and cost effectiveness while enhancing the supporting data and systems. If comprehensively implemented, these will:

- Minimize the current risk of premature asset failure by ensuring that all Regional facilities have a defined preventive maintenance program.
- Maximize the useful life of the Region's buildings through a broader asset management program.
- Increase operational efficiency and reduce the costs to operate and maintain the Region's buildings through optimized and automated programs, systems and processes.

- Improve accountability through performance indicators, regular reporting and fiscal transparency.

- Improve service satisfaction in client program areas through a refined service focus and service level agreements.

As described in the Financial Implications section of this report, the efficiency improvements will result in cost savings in both day to day operations and life cycle costs of building improvements.

Implementation Focus

Based on the scope of work and the interrelationships between the themes and more specific recommendations, the program of work can be packaged into five main focus areas linked to the key recommendations as outlined below. A high level implementation plan is attached in Appendix 2.

Facilities Business Model: (Rec. 1) The Facilities business model will be redefined to provide the role clarity and budget alignment necessary to ensure accountability for asset condition through a defined preventive maintenance program. This will be managed by Facilities for all regional buildings with the exception of critical processing equipment. Through a collaboratively developed process, defined budgets for facilities maintenance currently held by the client program area will be progressively assumed by Facilities for the purpose of controlling the funding associated with the required services.

Business Transformation Team: (Rec. 2) A business transformation team (BTT), established through the reallocation of Divisional management resources and collaboration with IT, Finance and HR, will create the supporting structures and processes necessary to a successful implementation. These will include implementation planning, project controls, change management and communication.

Business Systems: (Rec. 1,4,5,9 to 15) The current Facilities business systems will be re-aligned to support the new business model including updated policies & procedures, redefined roles & responsibilities, communication protocols, performance indicators & accountability, refocused organizational structure, and optimized technological solutions. Re-implementation of the Archibus maintenance management system will provide the data and tools necessary to validate accountability, efficiency & effectiveness measures. The re-aligned business systems will ensure efficient & effective delivery of the services defined in the Facilities business model.

Service Improvement & Accountability Framework: (Rec. 3,6 &7) The collaboratively defined framework for service improvement and accountability will create the groundwork necessary for a shift to a more service focussed culture and improved service satisfaction supported by service level agreements, communication protocols, service oriented objectives and clearly defined roles & responsibilities.

Asset Management Program: (Rec. 8,10) The comprehensive life cycle asset management program will maximize the useful life of the Region’s building assets through long range facility planning, a complete asset inventory, timely maintenance and alignment to program requirements.

The required changes to business processes, systems and methods of operating are complex, substantial and interdependent. While significant external resources may be required in later phases of the implementation, much of the preliminary work to be done in the first year can be done by reprioritizing and reallocating existing internal Facilities staff resources. Specifically, the Business

Transformation Team responsible for the implementation will include all of the managers within the Facilities & Fleet division as well as staff resources from IT, Finance and HR. This team will be led by the Director, FM & Fleet and Manager, Fleet Services though a secondment.

Facilities does not support the need for additional staff in the absence of a refined business model and more comprehensive assessment of existing resources. The intent of the two recommendations that call for additional staff (Rec. 3 General Labourer & Rec.2 Business Transformation Office) will be met by reallocating existing resources rather than hiring new staff.

The Service Satisfaction Survey Pilot completed in parallel with this review by Erin Research surveyed user satisfaction in 6 major facilities. The results of that survey have identified a number of drivers of service satisfaction leading to tangible and immediate actions to improve customer service and satisfaction particularly in the areas of indoor climate control as well as timeliness and follow-through communication on service requests. These actions will be implemented in conjunction with the recommendations of this report as part of the creation of a service improvement and accountability framework.

Many of the findings and recommendations have an impact beyond the scope of the FMO Section and will require a division-wide implementation. Specifically, the recommendations relating to business transformation, service, communications, capital maintenance, Archibus, asset management and contracting in and out all have a direct impact on other sections within the division. Similarly, the recommendations relating to the expanded building operations model, service and communication will have a significant impact on the nature of interactions between the entire division and all other program areas within the Region. The implementation plan will be developed to ensure a collaborative approach with appropriate input and involvement from all stakeholders.

<u>Reporting</u>

Staff will report back to Council on the various stages of implementing the recommendations from this Program Review through the development of an annual reporting process. Staff will track the various implementation actions and report on the actual costs and benefits. The first report should be anticipated by the end of 2011.

CORPORATE STRATEGIC PLAN:

The completion of the study is in keeping with Focus Area 6.3:
Ensure all Regional programs and services are responsive, efficient, effective, and accountable to the public.

FINANCIAL IMPLICATIONS:

Similar to other large scale Program Reviews (such as Housing and ITS), both contracted and redirected resources will be required for a comprehensive and well integrated implementation. It is estimated that as much as $150,000 may be required in 2012 to cover the cost of an ITS Project Manager and an Organizational Effectiveness staff resource from Human Resources as well as some limited external consulting to assist in setting the appropriate groundwork for change of this magnitude. This amount will be funded through the existing Facilities capital budgets for technology improvement and development of an asset management program.

The consultant's cost estimate of up to $975,000 for full implementation of the recommendations was based on fast tracked external development of the key components of the implementation (business model, asset management program, Archibus re-implementation etc.). Staff feel that a portion of this work can be most appropriately completed in-house, or through the redirection of currently approved budget funds. As a result, it is expected that should future capital requests be required, they will be lower than the amount identified by the consultant. If capital requests are required, they will not be submitted prior to the 2013 budget process.

It is anticipated that the efficiency improvements outlined in this report will result in cost savings in both day-to-day operations and life cycle costs of building ownership. The defined preventive maintenance program for all Regional facilities will reduce labour and material costs associated with reactive maintenance in the event of unexpected equipment failure and minimize client operating costs due to associated program delivery downtime. The re-aligned Facilities business systems will reduce administrative costs by eliminating duplication of work, automating manual processes and ensuring the best use of available resources. In the medium to longer term, industry experience also shows that a life cycle asset management program can reduce capital expenditures by effectively using maintenance history to determine the need for capital replacement. It is not possible to determine the precise amount and extent of the savings at this time. More in depth analysis will be completed prior to the 2013 budget process to determine where specifically the savings would be reflected and when they could be captured. Where appropriate, these savings will be used to reduce future budget requests.

OTHER DEPARTMENT CONSULTATIONS/CONCURRENCE:

In addition to the staff from Facilities Management & Fleet Services Division who participated in this program review staff from Corporate Resources, Planning, Housing, and Community Services, Legal Services, Finance, and Human Resources were directly involved in this review through interviews or workshops.

ATTACHMENTS

Appendix 1: Scope of the Review

Appendix 2: Planned Implementation Activities

PREPARED BY*:* *David A. Young*, Internal Auditor
Ellen McGaghey, Director, Facilities Management & Fleet Services
Rick Ellig, Manager, Fleet Services

APPROVED BY: *Michael L. Murray*, Chief Administrative Officer
Gary Sosnoski, Commissioner, Corporate Resources

Appendix 1

Scope of the Program Review:

The 14 step scope of the Facilities Maintenance and Operations Program Review is as follows. These scope parameters were developed to define the methods and steps to reach the defined Program Review objectives and also to delineate scope items not to be included in the review.

Program Review Scope:

1. Identify and describe the Program's mandate.
2. Determine the extent to which Program's mandate and objectives are clear, integrated and well-understood.
3. Test against the perceptions of clients and staff once the mandate and objectives have been codified.
4. Define organizational structure and interdepartmental and interdivisional dependencies and interactions. Identify opportunities to maximize efficiency in interactions.
5. Identify the risks associated with delivery of the Program.
6. Document and review current Program policies and procedures.
7. Review administration, processes and analysis for work allocation.
8. Perform an environmental scan to identify best practices.
9. Develop and document possible opportunities for improvement.
10. Review and evaluate the Program's Performance Measurement System used to monitor delivery of the Program. Assist in the development of effective key performance indicators.
11. Select 3 buildings as a representative sample of how the Program is managed and test suggestions for improvements using the buildings selected.
12. Analyze and assess effective monitoring and control for the 3 selected buildings.
13. Provide recommendations to optimize the efficiency, effectiveness, and management of risk associated with program delivery.
14. Beyond identifying interdependencies and their effect on Facilities, Maintenance and Operations, this review will not include a review of other Facilities Management programs, Voice Radio, Fleet Services or Sunnyside Home.

Appendix 2: Planned Implementation Activities

Areas of Focus & High Level Actions

Based on the scope of work and the interrelationships between the themes and more specific recommendations, the program of work can be packaged into five main focus areas linked to the key recommendations as outlined below. A number of actions have been identified in each focus areas. These actions will form the basis of a more detailed, collaboratively developed implementation plan to be carried out over the next two to three years. Much of the work of 2011 and 2012 will be focused on collaboratively refining the proposed business model and improving the efficiency and effectiveness of current operations in support of the new model.

Facilities Business Model: (Rec. 1) *Initiate 4th Quarter 2011*
Define and adopt, through consultation with client program areas, a comprehensive facilities business model:

- Refine the expanded FMO mandate
- Define roles, responsibilities & accountabilities between Facilities and client program areas
- Align budget structures to support the Facilities business model

Business Transformation Team: (Rec. 2) *Initiate 4th Quarter 2011*
Establish a Business Transformation Team using existing divisional management resources responsible for the successful implementation of the consultant's recommendations to:

- Manage the implementation with appropriate project controls
- Develop a detailed implementation plan
- Implement a change management plan
- Implement a communication & collaboration plan

Business Systems: (Rec. 1,4,5,9 to 15) *Initiate 1st Quarter 2012*
Align the Division's business systems to support the new Facilities business model including:

- Re-implement the Archibus maintenance management system
- Expand the use of Archibus to all areas of Facilities
- Evaluate mobile computing options & efficiencies
- Redefine Facilities roles & responsibilities
- Develop internal communication protocols
- Introduce performance indicators & accountability
- Refocus the organizational structure
- Optimize technological solutions

Service Improvement & Accountability Framework: (Rec. 3,6 &7) *Initiate 3rd Quarter 2012*
Establish a framework for a service improvement and accountability including:

- Develop service level agreements with client program areas
- Foster service oriented objectives & accountability through a single service focus

Asset Management Program: (Rec. 8,10) *Initiate 4th Quarter 2012*
Implement a comprehensive life-cycle asset management program for the Region's facilities assets including:

- Develop and adopt a plan for long range facility needs
- Complete and manage the asset inventory
- Capture a comprehensive work history
- Develop supporting policies, procedures , processes & systems

COUNCIL ENQUIRIES AND REQUESTS FOR INFORMATION				
AUDIT COMMITTEE				
Meeting date	**Requestor**	**Request**	**Assigned Department**	**Anticipated Response Date**
23-Oct-08	Committee	Overview of internal controls to detect fraud and error	Joint: Internal Audit & Finance	Fall2011/Winter 2012