

Consolidated Clause in Audit Committee Report 4, which was considered by City Council on December 14 and 16, 2005.

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**Maintenance and Administrative Controls Review –  
Facilities and Real Estate**

*City Council on December 14 and 16, 2005, adopted this Clause without amendment.*

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*City Council on December 5, 6 and 7, 2005, postponed consideration of this Clause to its special meeting on December 14, 2005.*

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**The Audit Committee recommends that City Council:**

- (1) adopt the staff recommendations in the Recommendations Section of the report (September 16, 2005) from the Auditor General subject to amending Recommendation (2) by requesting the City Manager to also provide an interim response to the February 22, 2006 Audit Committee meeting, so as to read:**
  - “(2) the Deputy City Manager be requested to report to the Audit Committee by July 2006 on the progress of the implementation of the recommendations in the Auditor General's report entitled “Maintenance and Administrative Controls Review – Facilities and Real Estate”, and provide an interim response to the February 22, 2006 Audit Committee meeting; and”;** and
- (2) receive the report (October 18, 2005) from the Chief Corporate Officer.**

**The Audit Committee submits the report (September 16, 2005) from the Auditor General:**

Purpose:

This report presents the results of a review of Maintenance and Administrative Controls - Facilities and Real Estate conducted as part of the Auditor General's 2005 Annual Work Plan.

### Financial Implications and Impact Statement:

The implementation of certain recommendations in this report will improve management controls over building maintenance operations and result in efficiencies and potential cost savings. However, addressing certain recommendations, particularly with respect to centralization of building maintenance and cleaning operations, would require additional ongoing resources for the Facilities and Real Estate Division. Some of these costs may be accommodated through re-allocation of existing resources designated to building maintenance functions in other City divisions. Future costs and cost savings are not determinable at this time, but will be determined when staff identify the specific action required to implement recommendations contained in this report.

### Recommendations:

It is recommended that:

- (1) the following recommendations in the attached Auditor General's report entitled "Maintenance and Administrative Controls Review – Facilities and Real Estate " be adopted:

- “1. The City Manager review the current Corporate governance structure of Facilities and Real Estate and building maintenance service arrangements and determine the extent of resources allocated to building maintenance functions in all City divisions, with a view to:
  - (a) evaluating the feasibility of centralizing ownership, control and accountability of City buildings and integrating all building maintenance operations and related funding within the Facilities and Real Estate Division; and
  - (b) reporting to the Policy and Finance Committee by July 2006. Such report to include the following:
    - (i) proposed organizational structure to integrate all building maintenance services;
    - (ii) costs and benefits of such change;
    - (iii) roles and responsibilities of the Facilities and Real Estate Division and all City-user divisions;
    - (iv) impact on the operating and capital budgets of the Facilities and Real Estate Division and all other City divisions;
    - (v) recommended action, including specific timelines for implementation; and
    - (vi) direct consultation with City divisions.

2. The Deputy City Manager and Chief Financial Officer ensure priorities are established on a City-wide basis for the capital repair of City-owned buildings. All divisional capital repair budgets should be evaluated and priorities established irrespective of budget responsibilities.
3. The City Manager establish a Corporate-wide policy providing that the Facilities and Real Estate Division maintain facilities maintenance standards relating to City-owned buildings, excluding certain speciality facilities, and authorize the Facilities and Real Estate Division to maintain a Corporate governance role in monitoring compliance with legislative requirements.
4. The Deputy City Manager and Chief Financial Officer give priority to the completion of an implementation plan for facilities maintenance standards including:
  - (a) a process to monitor compliance with legislative requirements;
  - (b) funding, staffing and operational requirements of the Facilities and Real Estate Division and all other City divisions;
  - (c) the development of specific facilities maintenance standards, if necessary, for speciality facilities such as water treatment plants and arenas; and
  - (d) timelines for implementation.
5. The City Manager review the practice of establishing multiple building maintenance contracts for the same service and, wherever cost and/or service advantages are identified, the Executive Director of the Facilities and Real Estate Division to establish a standard specification and City-wide contract.
6. The City Manager ensure that all City divisions participate in the Electrical Safety Authority and the Technical Standards and Safety Authority contracts to ensure compliance with legislation and reduce cost and administration time.
7. The Deputy City Manager and Chief Financial Officer ensure the inventory of City-owned buildings and service provider information is complete and accurate and all City-owned buildings are assigned a building landlord.
8. The Deputy City Manager and Chief Financial Officer ensure that:
  - (a) the responsibility for making economically sound repair decisions be clearly articulated and communicated to appropriate City maintenance staff; and
  - (b) repair decisions consider acquisition cost and history of repairs.
9. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that:

- (a) each City building has a separate cost centre in the SAP Financial Information System and building revenue and expenditures are charged to individual building cost centres;
  - (b) building maintenance and cleaning expenditures are classified on the same basis in the SAP Financial Information System; and
  - (c) total maintenance and cleaning costs are determined for individual City buildings, City divisions and the City as a whole.
10. The Deputy City Manager and Chief Financial Officer require that the Facilities and Real Estate Division provide other City divisions with written itemized cost estimates for maintenance over certain dollar amounts to assist City divisions in making repair decisions and monitoring program costs.
11. The Deputy City Manager and Chief Financial Officer ensure that the facility operations staff in the Facilities and Real Estate Division and other City divisions who manage City buildings:
  - (a) monitor maintenance expenditure budget variances and review the appropriateness and reasonableness of work order costs; and
  - (b) ensure supervisory staff investigate significant variances and take appropriate corrective action.
12. The Deputy City Manager and Chief Financial Officer take appropriate steps to:
  - (a) develop and implement results based performance indicators measuring the productivity of building maintenance and cleaning services;
  - (b) use performance indicators to compare internally between building locations and previous performance or externally with other leading local government and private sector organizations;
  - (c) incorporate performance measures into service level agreements with City-user divisions; and
  - (d) implement a process to track service delivery against agreed upon benchmarks.
13. The Deputy City Manager and Chief Financial Officer take appropriate steps to:
  - (a) determine the complete state of good repair backlog for all City-owned buildings;
  - (b) develop City-wide funding priorities for the state of good repair backlog; and

- (c) ensure that approved capital projects are completed on a timely basis.
14. The Deputy City Manager and Chief Financial Officer ensure that a database of the physical condition of all City-owned buildings is developed and forms the basis for a long-term capital plan. In addition, building condition assessments should be completed for all City-owned buildings using criteria based on industry standards and best practices developed by the Facilities and Real Estate Division.
15. The Deputy City Manager and Chief Financial Officer review:
- (a) the feasibility of implementing a numeric ranking system to establish priorities on a City-wide basis for funding capital repairs to City-owned buildings; and
- (b) the results of an evaluation of industry best practices and current prioritization processes followed by the Facilities and Real Estate and the Parks, Forestry and Recreation Divisions.
16. The Deputy City Manager and Chief Financial Officer take appropriate steps to establish a maintenance plan for each City building that:
- (a) includes both capital and operating repairs for current and future years;
- (b) addresses building deficiencies identified in building condition assessments; and
- (c) effectively coordinates maintenance and repair activities between the Design, Construction and Asset Preservation and Facilities Operations Units of the Facilities and Real Estate Division.
17. The Deputy City Manager and Chief Financial Officer ensure that all necessary building information is incorporated into the SAP Plant Maintenance and Asset Management Modules to assist in maintenance planning and repair decisions and provide a record of regulatory inspections.
18. The Deputy City Manager and Chief Financial Officer develop written policies and procedures for building maintenance and cleaning operations.
19. The Deputy City Manager and Chief Financial Officer conduct a review to determine the most cost-effective mix and number of in-house, trade and contracted staff required to deliver building maintenance services at minimum cost to the City.
20. The Deputy City Manager and Chief Financial Officer finalize all service level agreements relating to building maintenance and cleaning services by June 30, 2006 ensuring that service level agreements:
- (a) clarify the interdepartmental charge back process; and

- (b) address specific client service requirements, wherever feasible.
21. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that interdepartmental charges in the Facilities and Real Estate Division:
- (a) provide detailed supporting documentation and timely and accurate billing;
  - (b) include the requirement that City divisions, as well as the Facilities and Real Estate Division staff, review the accuracy and reasonableness of maintenance and cleaning costs;
  - (c) ensure that interdepartmental charge write-offs are properly authorized in writing by appropriate City Officials and/or Council in accordance with the City policy.
22. The Deputy City Manager and Chief Financial Officer expedite the preparation of the required report relating to interdepartmental charges.
23. The Deputy City Manager and Chief Financial Officer take steps to ensure staff responsible for authorizing or processing invoice payments are aware of their responsibilities including:
- (a) review of invoices and supporting documentation; and
  - (b) the need to review contract terms and evaluate the appropriateness of charges, as well as validating the accuracy of goods and services received.
- In this regard, a Financial Policy and Procedures Manual should be developed for use by supervisory staff approving and processing invoice payments.
24. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure payments are in compliance with Corporate purchasing policies. In particular:
- (a) discontinue the practice of using Departmental Purchase Orders where the use of a blanket purchase order would be more appropriate;
  - (b) ensure that Departmental Purchase Orders are prepared prior to ordering goods and services;
  - (c) discontinue the practice of splitting Departmental Purchase Orders to keep the purchase amount below the maximum level of \$7,500 or below the \$3,000 limit for three quotes;

- (d) prohibit the use of Contract Release Orders where goods and services ordered are not included in contract specifications;
  - (e) ensure three quotes are obtained for purchases over \$3,000; and
  - (f) monitor contract overspending and ensure necessary approvals and contract amendments are obtained in accordance with the City's Financial Control By-law.
25. The City Manager take necessary steps to develop a City-wide formal process to evaluate contractor performance by June 30, 2006, which includes:
- (a) clear criteria to measure performance;
  - (b) standard form(s), procedures and guidelines;
  - (c) requirements for at least an annual performance evaluation for each City contract in excess of a predetermined dollar value; and
  - (d) appropriate training in contract performance evaluation be provided to all City staff managing contracts.
26. The City Manager establish formal procedures to monitor the performance of maintenance contractors to ensure work is delivered as required under contract. At a minimum, regular inspections of work should be performed, documented and performance problems followed up promptly with contractors.
27. The City Manager ensure that City contracts contain:
- (a) a detailed description of goods and services to be delivered, pricing and payment procedures;
  - (b) key performance criteria such as response time, quality and reliability measures; and
  - (c) provisions related to evaluating contractor performance, including procedures for resolving issues related to unsatisfactory performance.
28. The Deputy City Manager and Chief Financial Officer ensure the SAP Plant Maintenance Module be used to schedule and track preventive maintenance services.
29. The Deputy City Manager and Chief Financial Officer take appropriate steps to improve the use of the work order system by:
- (a) ensuring only one work order is created for each work request;

- (b) including in each work order a brief description of the type of work performed by internal and contracted services staff; and
      - (c) identifying standard management reports that should be generated from the SAP Plant Maintenance System, including the purpose and frequency of such reports and the staff responsible for their review and appropriate follow-up action.
  30. The Deputy City Manager and Chief Financial Officer take steps to implement the interface of the SAP Plant Maintenance Module with the SAP Financial Information and Human Resources/Payroll System to eliminate duplicate input processing and to ensure the accuracy and completeness of maintenance expenditure and payroll information in the work order system.
  31. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure an up-to-date detailed inventory listing of tools and equipment over a specified amount is maintained at each City-operated district, providing that:
    - (a) such listing include purchase price and details of purchase (i.e., date, supplier, invoice number); and
    - (b) a surprise physical inventory count of shop tools and equipment be conducted periodically, discrepancies investigated and adjustments made to records only after review and approval by an authorized official.
  32. City Council direct that this report be forwarded to those City organizations separately managing building maintenance and cleaning operations, in order to ensure that issues raised are addressed where appropriate. These organizations be required to report back to the Audit Committee by July 2006 in connection with the results of their review.”
- (2) the Deputy City Manager be requested to report to the Audit Committee by July 2006 on the implementation of the recommendations in the Auditor General's report entitled “Maintenance and Administrative Controls Review – Facilities and Real Estate”; and
  - (3) this report be forwarded to the Administration Committee for information.

Background:

This review covers the following areas:

- facilities maintenance and cleaning standards;
- state of good repair in City-owned buildings;
- interdepartmental charges relating to repairs and maintenance;
- contract management and payment processes; and
- preventive maintenance.

This audit was conducted in accordance with generally accepted government auditing standards.



Comments:

The attached Auditor General's report entitled "Maintenance and Administrative Controls Review – Facilities and Real Estate" contains 32 recommendations. Management's response to each of the recommendations contained in this report is provided in a separate report from the Chief Corporate Officer, which is submitted concurrently with this report.

Conclusions:

The objective of this audit was to assess whether maintenance and cleaning costs for City-owned buildings are being managed economically, efficiently and in compliance with appropriate policies and legislative requirements. Our audit identified a number of areas requiring improvement in the City's building maintenance operations, some of which are currently being addressed by management.

A key issue identified in this report was the need to evaluate centralizing ownership, control and accountability of City buildings and integrating all building maintenance operations and related funding within the Facilities and Real Estate Division. Other issues pertain to improving controls and better managing and controlling maintenance and cleaning costs.

Addressing the recommendations in this report would provide for more efficient use of City resources and enhance the effectiveness of building maintenance operations.

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**Appendix 1 - Maintenance and Administrative Controls Review –  
Facilities and Real Estate, September 2005**

Executive Summary

The Auditor General's 2005 Annual Work Plan included a review of building maintenance operations and administrative controls in the Facilities and Real Estate Division.

This report also responds to the Audit Committee's request in April 2005 requesting "the Auditor General to consider including in the Terms of Reference for the Maintenance and Administrative Controls Review –Facilities and Real Estate the following:

- (1) a review of performance indicators determining whether they exist in the department; are they measured on a continuous basis; and what is the reporting for performance indicators up through the management ranks; and

- (2) the scope of work involved in applying an environmental filter to the areas identified in the Terms of Reference in order to provide an overall environmental report on these areas.”

This report sets forth issues and recommendations at two levels. The first level provides a commentary on the City’s current Corporate governance model and service arrangements and related effects on building maintenance efficiency and effectiveness. The remainder of the report identifies specific issues and recommendations for further improving the City’s building maintenance operations.

### Summary of Audit Results

The issues raised in this report are summarized below:

#### A. Building Ownership, Control and Accountability

- Ownership, control and accountability of building operations are not centralized. Facilities and Real Estate and 12 City divisions share landlord responsibility for City-owned buildings. No City division has assumed an overall governance role to ensure legislated standards are met and policies and procedures are followed consistently in maintaining City buildings. Service and budgetary arrangements are largely based on pre-amalgamation practices which vary among City divisions. The decentralized control model as well as service arrangements are not cost-effective or efficient and contribute to operational difficulties. The current Corporate governance model should be re-evaluated and service and budgetary practices strengthened to provide a more structured and systematic approach to building maintenance and cleaning services.
- Issues adversely affected by the decentralized control model and service arrangements include:
  - capital repair funding decisions;
  - compliance with facilities maintenance standards;
  - expenditures of contracted building maintenance service;
  - accuracy, reliability and completeness of building inventory information;
  - accountability for building maintenance and cleaning services; and
  - cost-effectiveness of facility repair decisions.

#### B. Maintenance and Cleaning Costs

- The SAP Financial Information System is not used effectively to capture building maintenance costs. Consequently, total maintenance and cleaning costs cannot be accurately determined for individual buildings, City divisions or the City as a whole.

- Operating units need to effectively monitor maintenance and cleaning costs by investigating budget variances and reviewing the appropriateness and reasonableness of work order costs.
- Results based performance indicators are needed to measure productivity of building maintenance and cleaning services internally between building locations and to benchmark against other local government and private sector organizations.

#### C. State of Good Repair

- According to management, a backlog of at least \$500 million exists in the state of good repair of City buildings. Future funding of the backlog should be based on priorities established on a City-wide basis. Currently, with limited funds available, City divisions will first ensure adequate funding of core program areas and defer non-core facility maintenance projects to future years.
- A database on the physical condition of all buildings is needed to set priorities for capital repairs.
- A numeric ranking system would provide a more objective and efficient approach to prioritizing capital repairs on a City-wide basis.

#### D. Maintenance Operations

- Building deficiencies are not always being addressed on a timely basis which could result in more costly repairs in the future, service interruption and potential liability to the City.
- Each building requires a maintenance plan to ensure priority repairs are undertaken and to coordinate repair activities.
- Relevant building and equipment information is not available for each building to assist staff with maintenance planning and repair decisions, as well as monitoring repair costs.
- Written policies and procedures would provide guidance to staff and facilitate consistency in building maintenance and cleaning operations.
- The cost-effectiveness and appropriateness of the present mix of maintenance staff (in-house, trade and contracted services) requires review.

#### E. Service Level Agreements and Interdepartmental Charges

- Service level agreements with all City divisions should be finalized to clarify service requirements and the interdepartmental charge back process.

- Interdepartmental charge back process is inefficient, prone to error and not timely.
- Interdepartmental charges are being written off without approval in writing.

F. Contract Management and Payment Process

- Invoice payments require more scrutiny to ensure the City is paying only for contracted services at agreed upon prices.
- A number of purchasing practices are occurring contrary to City policies including:
  - use of Departmental Purchase Orders for repetitive purchases;
  - splitting of Departmental Purchase Orders to avoid obtaining quotes; and
  - contracts used for purchases where the scope of work was not part of the original approved contract.
- A City-wide formal process to evaluate contractor performance is needed to document performance and determine eligibility for participating in future contract bidding.
- Monitoring of maintenance contracts should be scheduled and documented to ensure timely correction of performance problems.
- Contracts also require clear performance criteria to help identify and correct unacceptable performance.

G. Work Order System and Preventive Maintenance

- The work order system is not being used to schedule and track preventive maintenance or monitor costs.
- An interface with the SAP Financial Information and Human Resources/Payroll System is needed to reduce risk of error and duplication of effort.

H. Equipment and Shop Tools Inventory

- Controls over equipment and shop tools inventory can be strengthened by implementing a uniform tracking system, conducting periodic physical inventory counts and by maintaining a complete up-to-date inventory of equipment and shop tools.

## I. Relevance to Other Organizations

- Recommendations in this report may have relevance to those City organizations that manage their own buildings. These organizations include the Toronto Transit Commission, Toronto Parking Authority, Toronto Zoo, Hummingbird Centre for the Performing Arts and Exhibition Place. This report should be forwarded to them for review and consideration.

### Background

The Facilities and Real Estate Division is currently managed by an Executive Director, reporting to the Chief Corporate Officer. The Facilities and Real Estate Division provides real estate, facility maintenance, cleaning, security, construction project management, space planning and accommodation, leasing management and other services. The Facilities and Real Estate Division is also involved in implementing environmental initiatives such as energy retrofits of City buildings.

The Facilities and Real Estate Division provides services to other City divisions and certain Agencies, Boards and Commissions (Toronto Police Service, Toronto Library Board and Toronto Public Health) and recovers costs relating to construction project management and building operations, including maintenance, cleaning and security.

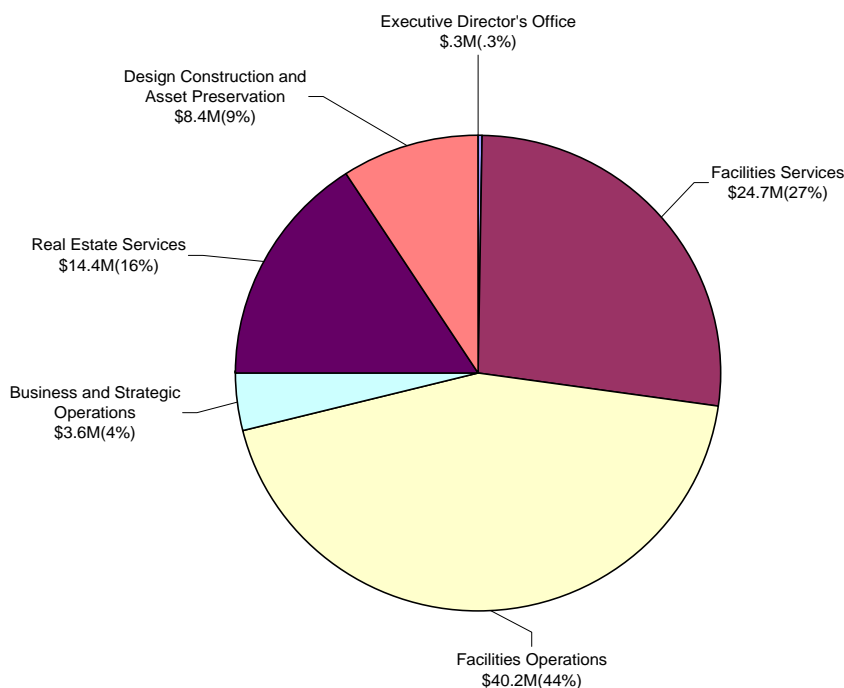
The Facilities and Real Estate Division is responsible for maintaining Corporate City buildings with common purpose office space (City Hall, Metro Hall and Civic Centres) and certain specialty buildings. The 12 other City divisions (former City departments of Works and Emergency Services, Economic Development, Culture and Tourism and Community and Neighbourhood Services) manage buildings and facilities dedicated to program delivery. For the purposes of this report, we considered Toronto Public Health a City Division. The 12 City Divisions with landlord responsibilities are:

- Children's Services;
- Homes for the Aged;
- Toronto Public Health;
- Shelter, Support and Housing Administration;
- Social Services;
- Culture;
- Parks, Forestry and Recreation;
- Emergency Medical Services;
- Fire Services;
- Solid Waste Management Services;
- Transportation Services; and
- Toronto Water.

In total, there are 1,485 City-owned buildings managed by City divisions (excluding Agencies, Boards and Commissions). Of this total, the Facilities and Real Estate Division is directly responsible for maintaining only 236 buildings which represents 16 per cent of the total building portfolio. However, according to management, the Facilities and Real Estate Division provides building maintenance services for 62 per cent of City-owned buildings, including services

provided to other City divisions based on service level agreements and informal arrangements. City divisions such as Homes for the Aged and Shelter, Support and Housing Administration maintain the balance of City-owned buildings.

The Facilities and Real Estate Division's 2004 approved gross operating budget was \$86.9 million compared to actual expenditures of \$91.6 million. Also, in 2004 \$31.5 million (compared to budget of \$24.1 million) of these expenditures was recovered from other City divisions, Toronto Police Service and Toronto Library Board. A breakdown of the Facilities and Real Estate Division gross expenditures of \$91.6 million by function is illustrated in the graph below.



### Audit Objectives, Scope And Methodology

The overall audit objectives were to assess whether maintenance and cleaning costs for City-owned buildings are being managed economically, efficiently and in compliance with appropriate rules, laws, policies and other legislative requirements. The audit was also designed to identify opportunities to improve controls, efficiencies and cost savings relating to building and maintenance operations and addressed the following areas:

- facilities maintenance and cleaning standards;
- state of good repair in City-owned buildings;
- interdepartmental charges relating to repairs and maintenance;
- contract management and payment processes;
- preventive maintenance; and
- other related issues.

Environmental risks were considered as part of the planning process. However, it was beyond the scope of this review to conduct an in-depth review of environmental issues such as the effectiveness of the City's energy retrofit program and other energy conservation initiatives or assess compliance with environmental regulatory requirements related to City facilities. Such a review would be by necessity, extensive and require significant audit resources. A review in this particular area is not a priority at this time.

Our audit methodology included the following:

- developed, administered and analyzed survey questionnaires completed by 12 City divisions with landlord responsibility for City-owned buildings;
- interviews with staff of the Facilities and Real Estate Division and other City divisions;
- review of relevant documents, management reports and records;
- review of Council and Standing Committee minutes;
- review of audit reports, building maintenance practices and standards in place at selected governments throughout North America and Australia, including:
  - Australian National Audit Office;
  - Edmonton, Alberta;
  - Minnesota Office of the Legislative Auditor,
  - Ottawa, Ontario;
  - San Jose, California;
  - Seattle, Washington;
  - Vancouver, British Columbia;
- visits to six City-owned buildings managed by the Facilities and Real Estate Division; and
- analysis and investigation of allegations made to the Fraud and Waste Hotline Program pertaining to building maintenance related issues.

We conducted our audit in accordance with generally accepted government auditing standards and limited our work to those areas specified above.

Our audit covered the period from January 1, 2004 to March 31, 2005, and focused on operating, maintenance and cleaning expenditures for buildings managed by the Facilities and Real Estate Division. However, all City-owned buildings operated by City divisions (excluding the City's Agencies, Boards and Commissions) were also included in the audit scope.

#### Audit Results

Audit results including audit issues, conclusions and recommendations are based on audit work and a review of building maintenance practices of other local government organizations in North America.

## A. Building Ownership, Control And Accountability

### A.1. City Facilities Require Centralized Ownership, Control and Accountability

The City's current Corporate governance model provides for decentralized control of City building operations with the Facilities and Real Estate Division and 12 City divisions sharing landlord responsibility for City-owned buildings. The Facilities and Real Estate Division is the Corporate lead but does not have an overall governance role in ensuring that legislative standards are complied with in other City divisions and that consistent policies, procedures and standards are followed for building maintenance and cleaning operations.

The division of responsibilities for service delivery is largely based on pre-amalgamation practices. The Facilities and Real Estate Division provides building maintenance and cleaning services to City-owned buildings managed by City divisions. Other City divisions provide the balance of building maintenance services through the use of City staff and by contracting out services.

Not only does the responsibility for delivering maintenance and cleaning services vary among City divisions but it is also inconsistent within City divisions. For example, Parks, Forestry and Recreation provides maintenance services directly in one district whereas Facilities and Real Estate provides maintenance services in three districts. Budgetary arrangements also vary and contribute to problems in coordinating repair activities. For example, Parks, Forestry and Recreation is responsible for the entire divisional capital budget and the operating budget in three districts, while the Facilities and Real Estate Division retains the operating budget in one district of Parks, Forestry and Recreation.

The Facilities and Division Real Estate have the property management skills but do not have the ultimate responsibility for managing most City buildings. Although City divisions are responsible for 1,249 City-owned buildings (out of a total of 1,485), they often do not have the expertise to appropriately administer and manage these buildings. Certain City divisions, such as Homes for the Aged and Toronto Water, operate specialized facilities with specific legislative requirements and have the in-house expertise to provide the necessary building and maintenance services.

In response to a survey conducted as part of our audit, several City divisions recommended that the Facilities and Real Estate Division assume responsibility for their buildings. For example, one City division stated that they lacked the staff and resources to maintain buildings and would rather “focus on the primary role of delivering services to clients”. Also, if the Facilities and Real Estate Division had responsibility for their buildings, “building maintenance would be more efficient and involve fewer resources in total”. A different viewpoint was expressed by another City division who wanted to “regain and retain control over all building maintenance and preventative maintenance requirements”. However, we believe that a centralized governance model would provide a more consistent, reliable and cost-effective framework for delivering building maintenance services.

Survey responses, audit work and interviews with building operators indicated that certain City divisions with landlord responsibility lack the necessary information to manage buildings. For example, they were unaware of contracts in place and reason for repair decisions.



With current building landlord and service arrangements, it is not clear who is ultimately responsible and accountable for managing City buildings. As a result, no City division has assumed complete responsibility to ensure buildings are managed efficiently and effectively and that legislative and City standards are met.

The consequences of the current decentralized model and service arrangements are:

- Lack of City-wide priority setting for building repairs;
- No assurance of compliance with facility maintenance standards;
- Lack of timely repairs to buildings and facilities;
- Multiple contracts for the same service;
- Lack of effective monitoring and control of building maintenance and cleaning costs;
- Lack of coordinated planning for building maintenance;
- Lack of accountability; and
- Increased risk and liability.

In our survey of four local governments in North America, two cities underwent an organizational review and decided to centralize responsibility for City buildings. The reasons cited were improved efficiency, accountability and decision-making and to ensure that City buildings received appropriate attention. A key determining factor was that program areas lacked the expertise to manage buildings.

Specific examples of inefficiencies arising from the current decentralized corporate governance structure and current service arrangements for building maintenance operations are discussed throughout the remainder of our report.

Recommendation:

1. The City Manager review the current Corporate governance structure of the Facilities and Real Estate Division and building maintenance service arrangements and determine the extent of resources allocated to building maintenance functions in all City divisions, with a view to:
  - (a) evaluating the feasibility of centralizing ownership, control and accountability of City buildings and integrating all building maintenance operations and related funding within the Facilities and Real Estate Division; and
  - (b) reporting to the Policy and Finance Committee by July 2006. Such report to include the following:
    - (i) proposed organizational structure to integrate all building maintenance services;
    - (ii) costs and benefits of such change;
    - (iii) roles and responsibilities of the Facilities and Real Estate Division and all City-user divisions;
    - (iv) impact on the operating and capital budgets of the Facilities and Real Estate Division and all other City divisions;

- (v) recommended action, including specific timelines for implementation; and
- (vi) direct consultation with City divisions.

#### A.2. City-wide Priority Setting for Capital Repairs is Required

Priorities are not established on a City-wide basis for the capital repair of City-owned buildings. The Facilities and Real Estate Division and the 12 City divisions with landlord responsibilities submit their own capital budgets for City buildings for which they are responsible. Given that the primary goal of these City divisions is the delivery of City services, the management of City-owned buildings is of secondary importance. Consequently, major repairs with the greatest risk and impact may not be completed on a timely basis. For example, the 2005 Capital budgets of Social Services and Children's Services address only emergency repairs for City-owned buildings. Lack of sufficient funding for City-owned buildings may result in unnecessary building deterioration, increased liability due to unsafe conditions as well as high future repair and maintenance costs.

#### Recommendation:

2. The Deputy City Manager and Chief Financial Officer ensure priorities are established on a City-wide basis for the capital repair of City-owned buildings. All divisional capital repair budgets should be evaluated and priorities established irrespective of budget responsibilities.

#### A.3. Compliance with Facilities Maintenance Standards Needs Monitoring

The Facilities and Real Estate Division has developed facilities maintenance standards to address regulatory and environmental inspections and preventive maintenance for City-owned buildings. In November 2004, City Council approved maintenance standards for use in all City facilities and recommended that an implementation plan be developed in consultation with employee groups and submitted to the Administration Committee "on the proposed implementation plan, how the proposed practices will differ from the current practices, and the cost of implementing the current practices". As of July 2005, an implementation plan has not been developed. We were advised that an interdepartmental workgroup comprised of staff from City divisions will meet sometime in the fall to develop a terms of reference.

Compliance with maintenance standards is currently the responsibility of all City divisions that have landlord responsibility. However, those City divisions who contract with the Facilities and Real Estate Division to provide building maintenance services rely on Facilities staff to ensure compliance with legislative requirements.

The Facilities and Real Estate Division has recently developed a checklist of legislated building requirements in order to monitor compliance with facilities maintenance standards. The checklist is only being used in corporate buildings where the Facilities and Real Estate Division has landlord responsibility. However, without a corporate lead and City-wide monitoring process, there is no assurance that maintenance standards are followed or that regulatory requirements are met in all City buildings.

The current facilities maintenance standards do not address the specific legislative requirements of speciality facilities such as water treatment plants.

Recommendations:

3. The City Manager establish a Corporate-wide policy providing that the Facilities and Real Estate Division maintain facilities maintenance standards relating to City-owned buildings, excluding certain speciality facilities, and authorize the Facilities and Real Estate Division to maintain a Corporate governance role in monitoring compliance with legislative requirements.
4. The Deputy City Manager and Chief Financial Officer give priority to the completion of an implementation plan for facilities maintenance standards including:
  - (a) a process to monitor compliance with legislative requirements;
  - (b) funding, staffing and operational requirements of the Facilities and Real Estate Division and all other City divisions;
  - (c) the development of specific facilities maintenance standards, if necessary, for speciality facilities such as water treatment plants and arenas; and
  - (d) timelines for implementation.

#### A.4. City-wide Contracts Should Be Established

The Facilities and Real Estate Division and each of the 12 City divisions with building landlord responsibility may issue contracts for maintenance and cleaning services. Consequently, many different contracts with different vendors exist for the same or similar types of service in the City. For example, using the SAP Financial Information System, we noted that the City has over 30 vendor contracts to service fire alarm systems and over 70 vendors with “electrical” in their company name. Although we did not determine how many vendors actually are in use, it is evident that there are many vendors for the same or similar services in the City. Survey responses also indicated that there are multiple contracts for the same service in City divisions. Multiple tendering for the same service incurs additional administrative costs and may also result in differences in cost and specifications for the same service, as well as undermining the City’s opportunity to take advantage of lower costs from high volume contracts.

The Facilities and Real Estate Division is in the process of creating multi-year blanket contracts through the City’s competitive tendering process for certain frequently used maintenance services such as doors, plumbing and roof repairs. Specifications, providing a detailed description of goods and services to be delivered, have been developed for each blanket contract. However, these contracts are being developed exclusively for the Facilities and Real Estate Division and not other divisions with similar responsibilities.

Based on competitive bids, the Facilities and Real Estate Division has consolidated a number of contracts for all 267 City elevators utilizing a standard specification and common expiry date. According to the Division, an estimated \$289,000 in annual cost savings was achieved by these new contracts and further indirect cost savings will be realized through reductions in contract administration.

The Facilities and Real Estate Division has also established a “Continuous Safety Services Agreement” with the Electrical Safety Authority to ensure the City is in compliance with the Ontario Electrical Safety Code. The Electrical Safety Authority is mandated to conduct electrical inspections for all electrical maintenance work for the operation of buildings and plants in Ontario. We were advised by the Facilities and Real Estate Division that the contract with the Electrical Safety Authority will cost three per cent less than arranging electrical inspections on an “as needed” basis, an estimated savings of \$58,000 over a three-year agreement period.

Although all City divisions were given the option to be included with the current Electrical Safety Authority contract upon renewal on June 1, 2005, several City divisions (Emergency Medical Services, Parks, Forestry and Recreation, North District, Children’s Services, Shelter, Housing and Support, Culture) have not agreed to participate. The Facilities and Real Estate Division is not advised as to whether these City divisions have separate contracts, or whether they arrange inspections on an as needed basis. Consequently, there is no assurance that all City-owned buildings are in compliance with the Ontario Electrical Safety Code.

As part of the Division’s 2005 work plan, Facilities and Real Estate will be arranging a City-wide contract with the Technical Standards and Safety Authority for required inspections of elevators, boilers and fuel systems. It is expected that this contract will ensure compliance with safety legislation and reduce costs and administration time.

Recommendations:

5. The City Manager review the practice of establishing multiple building maintenance contracts for the same service and, wherever cost and/or service advantages are identified, the Executive Director of the Facilities and Real Estate Division to establish a standard specification and City-wide contract.
6. The City Manager ensure that all City divisions participate in the Electrical Safety Authority and the Technical Standards and Safety Authority contracts to ensure compliance with legislation and reduce cost and administration time.

A.5. Complete Inventory of City-owned Buildings Does Not Exist

An inventory of all City-owned buildings was developed based on the Property Information Management System database maintained by the Real Estate Unit of Facilities and Real Estate. In total, as of August 2005 there are 1,485 City-owned buildings, excluding buildings managed by City Agencies, Boards and Commissions, with an estimated replacement value of \$4.7 billion. The inventory of City buildings, summarized by building landlord, is included in the Summary of City Buildings by Building Landlord (Exhibit 1).

As part of our survey of City divisions, we requested City divisions to confirm whether the inventory of buildings was complete and accurate for their division and indicate, if any errors or omissions existed in the building inventory and service provider information. Of the 10 City divisions responding to our survey, only two City divisions fully agreed with the building inventory and service provider information. Four City divisions reported buildings missing from the inventory listing. For three buildings, the assigned City program landlord stated that they were not aware of their responsibility for managing the buildings as indicated in the inventory. These discrepancies were referred to the Facilities and Real Estate Division staff for follow-up with City divisions. We were advised that subsequent to the audit process, revisions were made to the building inventory.

According to management, the building inventory was previously shared with the former departments of Community and Neighbourhood Services, Works and Emergency Services and Economic Development, Culture and Tourism for their review and verification. However, based on our survey results, the building inventory is still not complete and issues relating to missing and unassigned buildings should be resolved.

Recommendation:

7. The Deputy City Manager and Chief Financial Officer ensure the inventory of City-owned buildings and service provider information is complete and accurate and all City-owned buildings are assigned a building landlord.

#### A.6. Repair Decisions Should Be Cost-effective

The Facilities and Real Estate Division maintenance staff respond to repair requests from City user divisions. However, neither Facilities and Real Estate nor City division staff regularly evaluate the cost-effectiveness of such repairs. In certain instances, Facilities staff are not aware of the purchase prices of the items needing repair. Implementation of the centralized governance model discussed previously, would delegate responsibility to the Facilities and Real Estate maintenance staff for making economically sound repair decisions.

Recommendation:

8. The Deputy City Manager and Chief Financial Officer ensure that:
  - (a) the responsibility for making economically sound repair decisions be clearly articulated and communicated to appropriate City maintenance staff; and
  - (b) repair decisions consider acquisition cost and history of repairs.

#### B. MAINTENANCE AND CLEANING COSTS

##### B.1. Maintenance and Cleaning Costs Should Be Determined

The total cost of providing building maintenance and cleaning services is not available. We requested actual 2004 cost information from the Facilities and Real Estate Division and the 12 City divisions with landlord responsibility. Exhibit 2 summarizes the 2004 building maintenance

and cleaning costs provided by the Facilities and Real Estate Division and 11 of the 12 divisions. According to management, \$76 million was spent in 2004 for building maintenance and cleaning costs. Exhibit 2 (attached) also illustrates significant variability in the cost per square foot among City divisions, which ranged from \$0.64 to \$10.32 per square foot. We have not verified the accuracy of reported costs.

In reviewing maintenance and cleaning costs for six City-owned buildings managed by the Facilities and Real Estate Division, we noted that Facilities and Real Estate does not include all maintenance and cleaning costs for each building in one cost centre in the SAP Financial Information System. For example, labour costs and recovery of interdepartmental charges relating to maintenance services are not charged to individual building cost centres. Also, the Facilities and Real Estate Division allocates maintenance costs exceeding City division budgets to “aggregate” cost centres. Similarly, some City divisions reported that they do not have separate cost centres for each building or report building maintenance and cleaning costs separately from other expenditures.

Maintenance costs are not classified on a consistent basis in the SAP Financial Information System. For example, some City divisions reported other costs such as security and utilities with building maintenance costs. Maintenance costs for City buildings where City divisions did not acknowledge responsibility were also not included.

Without accurate cost information in the SAP Financial Information System, it is not possible to determine total maintenance and cleaning costs for individual buildings, City divisions or the City as a whole. Reliable financial information is required to develop realistic budget estimates and effectively monitor maintenance and cleaning service costs.

Recommendation:

9. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that:
  - (a) each City building has a separate cost centre in the SAP Financial Information System and building revenue and expenditures are charged to individual building cost centres;
  - (b) building maintenance and cleaning expenditures are classified on the same basis in the SAP Financial Information System; and
  - (c) total maintenance and cleaning costs are determined for individual City buildings, City divisions and the City as a whole.

#### B.2. Monitoring of Costs by District Supervisory Staff Should Be Improved

Our audit identified a lack of cost monitoring by District Supervisory staff. Although the current work order system is capable of providing a breakdown of labour, material and contract costs for a work order, District supervisory staff do not regularly review this information to ensure costs charged to work orders are appropriate and necessary.

The following example illustrates the lack of cost monitoring by both a City division and Facilities Operations district staff. A City division verbally requested Facilities Operations district staff to undertake a renovation not included in the Service Level Agreement. An estimated cost of \$40,000 was provided to Division staff verbally without cost itemization. The final cost for the renovation was approximately \$100,000, or more than double the original estimate. Because the work was done in different phases and recorded in different work orders, Division staff was not aware of the over-expenditure until our audit. This particular project should also have been co-ordinated through Design, Construction and Asset Preservation Unit of the Facilities and Real Estate Division as costs exceeded \$50,000. For capital repairs greater than \$50,000, the Design, Construction and Asset Preservation Unit of Facilities and Real Estate provides estimates for capital construction projects and monitors budget variances.

Although staff indicated that the above was an isolated incident, the example underscores the weaknesses in cost monitoring and control. Costs associated with each work order, whether a part of an existing Service Level Agreement or a specially requested project, should be regularly reviewed and monitored by supervisory staff to ensure costs are relevant and appropriate.

Monitoring of budget variances occurs at the divisional and district levels in the Facilities and Real Estate Division. However, we noted that operating units are not effectively monitoring budget variances. For example, in one district, materials and supplies was \$584,000 or 89 per cent over budget. Staff could not provide an adequate explanation for variances observed. In one district, the manager did not express concern about high maintenance expenditures because the variance in net expenditures (total expenditures less interdepartmental charge recovery) was .9 per cent. The low budget variance was largely because increases in expenditures were “absorbed” by City divisions through interdepartmental cost recovery. Also, in 2004, revenues from interdepartmental charges were over budget by 40 per cent in this district. The lack of cost monitoring raises the risk that wasteful and inefficient practices would not be readily identified.

Recommendations:

10. The Deputy City Manager and Chief Financial Officer require that the Facilities and Real Estate Division provide other City divisions with written itemized cost estimates for maintenance over certain dollar amounts to assist City divisions in making repair decisions and monitoring program costs.
11. The Deputy City Manager and Chief Financial Officer ensure that facility operations staff in the Facilities and Real Estate Division and other City divisions who manage City buildings:
  - (a) monitor maintenance expenditure budget variances and review the appropriateness and reasonableness of work order costs; and
  - (b) ensure supervisory staff investigate significant variances and take appropriate corrective action.

### B.3. Performance Measures Should Be Enhanced

Performance measurement serves as a management tool in enhancing decision-making and improving productivity. Service level agreements with other City divisions indicate that “both parties are responsible for monitoring services” and for “establishing a set of performance measures and tracking service delivery against those agreed upon benchmarks”. Several City divisions, in their responses to our survey, reported that formal performance measures to monitor maintenance and cleaning services do not exist.

Although the 2005 operating budget for the Facilities and Real Estate Division includes performance indicators for each business unit, most of them are output measures, e.g., number of buildings serviced and number of work orders completed. The only service quality measure reported is the number of cleaning audits completed. There are no efficiency or effectiveness measures relating to the cost or quality of services provided. For example, to assess efficiency in delivering building maintenance, the cost per square foot can be compared with industry standards. In addition, client satisfaction surveys can be used to track service effectiveness and set targets for improvement.

Recommendation:

12. The Deputy City Manager and Chief Financial Officer take appropriate steps to:
  - (a) develop and implement results based performance indicators measuring the productivity of building maintenance and cleaning services;
  - (b) use performance indicators to compare internally between building locations and previous performance or externally with other leading local government and private sector organizations;
  - (c) incorporate performance measures into service level agreements with City- user divisions; and
  - (d) implement a process to track service delivery against agreed upon benchmarks.

### C. State Of Good Repair

#### C.1. Significant Backlog in the State of Good Repair Needs to Be Addressed

The primary mission of the City’s capital improvement program is to maintain assets in good repair, minimize health and safety risks and ensure compliance with legislated requirements. However, City funding constraints have resulted in a significant backlog in the state of good repair. According to the 2005 Facilities and Real Estate capital program, a state of good repair backlog of approximately \$125 million exists relating to the City’s corporate buildings. This backlog is expected to be eliminated by 2012. In addition, the Culture Division and Parks, Forestry and Recreation Division reported in their 2005 capital plan an estimated state of repair backlog of \$30 million and \$190 million respectively. The Parks, Forestry and Recreation capital budget further indicated that “they expect a further increase of \$200 million”, once detailed building audits are completed. Despite a large backlog, Parks, Forestry and Recreation



advised that they did not spend 38 per cent (or \$29 million) of the 2004 approved capital projects due to delays in starting projects, whereas the Facilities and Real Estate Division advised that 14 per cent (\$7.6 million) of the 2004 capital budget went unspent.

Recommendation:

13. The Deputy City Manager and Chief Financial Officer take appropriate steps to:
  - (a) determine the complete state of good repair backlog for all City-owned buildings;
  - (b) develop City-wide funding priorities for the state of good repair backlog; and
  - (c) ensure that approved capital projects are completed on a timely basis.

C.2. Database on Physical Condition of All Buildings Should Be Developed and Maintained

A building condition assessment is a technical evaluation of all building components (i.e. mechanical, structural, electrical) and forms the basis of the long-term plan for each building. The Facilities and Real Estate Division has completed building condition assessments for the majority of their own buildings and other City buildings under their management. Most City divisions, in responding to our survey, confirmed that condition assessments have been completed or are underway. There are City divisions, however, who have not completed or plan to complete building condition assessments.

A complete database on the physical condition of City buildings is, however, not available. According to management, other City divisions including Parks, Forestry and Recreation and Shelter, Support and Housing Administration engaged a consultant to conduct building reviews. Building information compiled by the consultant has not been shared with the Facilities and Real Estate Division. Complete information on the physical condition of all City-owned buildings is required to establish priorities on a City-wide basis for capital repairs.

The Facilities and Real Estate Division has developed criteria for building condition assessments based on industry standards and best practices. We did not assess whether consultants hired by other City divisions use the similar standards as Facilities and Real Estate.

Recommendation:

14. The Deputy City Manager and Chief Financial Officer ensure that a database of the physical condition of all City-owned buildings is developed and forms the basis for a long-term capital plan. In addition, building condition assessments should be completed for all City-owned buildings using criteria based on industry standards and best practices developed by the Facilities and Real Estate Division.

C.3. Building Ranking System Should Be Enhanced

The Facilities and Real Estate capital budget submission provides a summary report on each project, which includes scope of work, timelines, cost estimates and actual spending for completed projects. Following a detailed review process, projects for Facilities and Real Estate

buildings are ranked according to priorities established in City budget guidelines such as state of good repair, health and safety, and legislated obligations. However, this ranking process is not documented and does not clearly illustrate how funding priorities are determined for individual buildings. Parks, Forestry and Recreation, on the other hand, use an in-house numeric ranking system to prioritize capital projects. For example, high-risk repairs such as a roof replacement that impact building structure are assigned greater numeric value than plumbing fixture repairs. Given the large number of buildings, using numeric values, as well as detailed project descriptions, would provide a more objective and efficient approach in determining the relative importance of building repairs for capital funding.

Recommendation:

15. The Deputy City Manager and Chief Financial Officer review:

- (a) the feasibility of implementing a numeric ranking system to establish priorities on a City-wide basis for funding capital repairs to City-owned buildings; and
- (b) the results of an evaluation of industry best practices and current prioritization processes followed by the Facilities and Real Estate and the Parks, Forestry and Recreation Divisions.

D. Maintenance Operations

D.1. Building Deficiencies Should Be Addressed

Building condition assessments provide detailed information relating to operating and capital repairs required in individual buildings. We noted some operating repairs in building condition assessments were not being carried out. Although building operators in Facilities and Real Estate managing buildings are provided with building condition assessments, certain building operators were not aware of the recommended repairs included in assessment reports and did not budget for these repairs. In one building, this resulted in a potential safety hazard and lack of compliance with fire safety regulations, which was subsequently addressed by management.

In addition, the City's insurance provider conducts engineering reviews of high value buildings and provides a risk report with recommendations for preventing high risk hazards. In one building examined, recommendations were not implemented on a timely basis. Building deficiencies not addressed on a timely basis result in more costly future repairs, disruption of service and in some cases liability to the City if not corrected.

Communication between the Design, Construction and Asset Preservation Unit of the Facilities and Real Estate Division responsible for capital repairs greater than \$50,000 and Facilities Operations who perform operational repairs also requires improvement. We noted in two instances, operational and capital repairs were planned for the same time in the same section of a building, which was not operationally feasible.

Recommendation:

16. The Deputy City Manager and Chief Financial Officer take appropriate steps to establish a maintenance plan for each City building that:
  - (a) includes both capital and operating repairs for current and future years;
  - (b) addresses building deficiencies identified in building condition assessments; and
  - (c) effectively coordinates maintenance and repair activities between the Design, Construction and Asset Preservation and Facilities Operations Units of the Facilities and Real Estate Division.

D.2. Complete Building Information Should Be Available

A complete building profile relating to each building is currently not available in an electronic database to assist the Facilities and Real Estate Division staff in maintenance planning and repair decisions. Management has developed a building database called the “building matrix” which provides an inventory of City-owned buildings, but did not include other relevant building information. Additional relevant building information should include an inventory of building equipment such as boilers and chillers requiring regular servicing, history of regulatory inspections and warranties. In addition, this building information is also needed to track repair costs relating to City buildings and equipment. According to management, the Facilities and Real Estate Division is currently implementing the SAP Plant Maintenance and Asset Management Modules as part of its Business Improvement Project which could incorporate this building information.

Recommendation:

17. The Deputy City Manager and Chief Financial Officer ensure that all necessary building information is incorporated into the SAP Plant Maintenance and Asset Management Modules to assist in maintenance planning and repair decisions and provide a record of regulatory inspections.

D.3. Building Maintenance Policies and Procedures Should Be Established

The Facilities and Real Estate Division does not currently have formal written policies and procedures related to delivery of building maintenance and cleaning services. We were advised that building operators use maintenance manuals from manufacturers to properly service equipment. Approved policies and procedures provide guidance for staff in carrying out operational responsibilities, facilitate training of new staff and ensure service consistency. The absence of formal procedures increases the risk that activities are not undertaken in a systematic, consistent and cost-effective manner, leading to inefficient practices.

Recommendation:

18. The Deputy City Manager and Chief Financial Officer develop written policies and procedures for building maintenance and cleaning operations.

#### D.4. Mix of In-house, Trade and Contracted Services Requires Review

Each district office in Facilities Operations retains certain in-house staff, such as licensed electricians and plumbers, to provide daily repair and maintenance services. A significant portion of maintenance work, however, is provided by outside contractors either because in-house staff do not include licensed trade persons capable of performing the specialized tasks or because work requests exceed in-house resource capacity. For example, in the five districts of Facilities Operations of the Facilities and Real Estate Division, 2004 contract costs relating to building maintenance services ranged from 20 to 54 per cent of total operating costs, excluding trade persons.

We noted that certain frequently required repair and maintenance services are predominantly provided by external contractors. For instance, in 2004, one district paid nearly \$130,000 to a door company for repair services, and approximately \$240,000 for annual maintenance and repair services for heating and cooling systems. A significant portion of these costs was labour costs. The cost-effectiveness of retaining specialized trade persons performing these services, as an alternative to contracting out, requires evaluation by management.

The current staff mix in each district is largely attributable to the policies and organizational structure of former municipalities. To date, a detailed review of building maintenance services has not been conducted to determine whether the present mix and number of in-house, trade and contract staff is appropriate and cost-effective in meeting daily repair and building maintenance demands.

#### Recommendation:

19. The Deputy City Manager and Chief Financial Officer conduct a review to determine the most cost-effective mix and number of in-house, trade and contracted staff required to deliver building maintenance services at minimum cost to the City.

#### E. SERVICE LEVEL AGREEMENTS AND INTERDEPARTMENTAL CHARGES

##### E.1. Service Level Agreements Should Be Finalized

The Facilities and Real Estate Division provides a varying degree of building maintenance and/or cleaning services to all City divisions, as well as the Toronto Police Service and the Toronto Public Library Board. Starting in 2003, the Facilities and Real Estate Division, as service provider, initiated a process to establish service level agreements with each of their clients. As of September 2005, only two service level agreements, with the Toronto Police Service and Toronto Fire Services, have been finalized. Service level agreements follow a standard template prescribing roles and responsibilities, service and budgetary requirements and interdepartmental charges. Service level agreements are an effective tool in identifying service level accountability and determining client service requirements.

Recommendation:

20. The Deputy City Manager and Chief Financial Officer finalize all service level agreements relating to building maintenance and cleaning services by June 30, 2006 ensuring that service level agreements:
  - (a) clarify the interdepartmental charge back process; and
  - (b) address specific client service requirements, wherever feasible.

E.2. Interdepartmental Charges Require Review

Corporate policy requires that the Facilities and Real Estate Division recover actual costs of providing maintenance and cleaning services. Through interviews and survey responses, City divisions have expressed concerns regarding the interdepartmental charge back process and the high cost of maintenance and cleaning services provided by the Facilities and Real Estate Division. Our audit also identified a number of issues associated with interdepartmental charges.

The Facilities and Real Estate Division invoices each client division total operational and custodial costs on a quarterly basis. Unless specifically requested by City divisions, the Facilities and Real Estate Division does not always provide detailed information concerning the nature of the work performed or documentation supporting interdepartmental charges. If City divisions do not request detail related to charges, they are unable to assess the accuracy and reasonableness of charges.

In reviewing a sample of interdepartmental charges, we noted a number of calculation errors. The process of calculating interdepartmental charges is complex and prone to error. The process is also administratively time-consuming involving district and Business Support Unit staff within the Facilities and Real Estate Division. In addition, because of the complex cost calculation, client detection of error is difficult.

The timeliness of the quarterly billing process is also a concern to City divisions in monitoring program budgets and in allowing sufficient time for review and validation.

In our survey of local governments in North America, two cities with centralized budgetary responsibility invoice other divisions monthly only on work not included in the service level agreement. In another city, a flat monthly rent for building maintenance is charged to city divisions.

We also noted that management in the Facilities and Real Estate Division has occasionally written off certain interdepartmental charges without appropriate supervisory approval. In one instance, no approval in writing was available to support a \$100,000 interdepartmental write off.

The interdepartmental charge back policy is currently under review. City Council, in February 2005, directed that “the Commissioner of Corporate Services, in consultation with the Chief Financial Officer and Treasurer report to the Administration Committee, identifying the costs and the Interdepartmental Charge Back Policy, including consideration of the costs and potential savings associated in eliminating the charge-back system.” The revised policy should also address the write-off of interdepartmental charges. As of September 2005, this report was outstanding.

Recommendations:

21. The Deputy City Manager and Chief Financial Officer take necessary steps to ensure that interdepartmental charges in the Facilities and Real Estate Division:
  - (a) provide detailed supporting documentation and timely and accurate billing;
  - (b) include the requirement that City divisions, as well as the Facilities and Real Estate Division staff, review the accuracy and reasonableness of maintenance and cleaning costs;
  - (c) ensure that interdepartmental charge write-offs are properly authorized in writing by appropriate City Officials and/or Council in accordance with the City policy.
22. The Deputy City Manager and Chief Financial Officer expedite the preparation of the required report relating to interdepartmental charges.

F. Contract Management And Payment Processes

F.1. Payment Review Process Should Be Improved

The payment review process in the Facilities Operations Unit requires improvement to ensure the City pays only agreed upon prices for goods and services actually received. Many invoices did not contain basic payment information such as the labour and material rate, or hours and dates when services were rendered. Consequently, it was not possible for staff to determine whether amounts billed were appropriate or in compliance with contract terms.

Supervisory staff responsible for approving invoices for payment did not always ensure that charges are consistent with contract terms. As well, staff did not appear to be aware of the requirement to match invoice prices to the contract, or the necessity to obtain and review a packing slip or service report prior to authorizing payment.

This lack of scrutiny is evident in a number of invoices where the type of contracted service or the quantity ordered should have been questioned by supervisors prior to approving payment. For example, invoices from a vendor indicated specific costs for transporting large volumes of oily waste vacuumed from the catch basins of a community centre, an office building and numerous fire halls on a regular basis. We were unable to determine the reasonableness of charges because of a lack of detail and accurate information on invoices.

In addition, a Financial Procedures Manual is not currently available to provide supervisory staff with clear guidelines on procedures required when approving invoices for payment.

Recommendation:

23. The Deputy City Manager and Chief Financial Officer take steps to ensure staff responsible for authorizing or processing invoice payments are aware of their responsibilities including:

- (a) review of invoices and supporting documentation; and
- (b) the need to review contract terms and evaluate the appropriateness of charges, as well as validating the accuracy of goods and services received.

In this regard, a Financial Policy and Procedures Manual should be developed for use by supervisory staff approving and processing invoice payments.

#### F.2. Compliance with Purchasing Policies Requires Strengthening

In January 2005, the City Manager communicated to management the requirement to comply with Corporate purchasing policies relating to Departmental Purchase Orders. City policy stipulates that Departmental Purchase Orders be used for one-time purchases less than \$7,500. Repetitive purchases from the same supplier or purchases exceeding \$7,500 require that City contracts or purchase orders be issued through the City Purchasing and Materials Management Division after a formal competitive process.

We identified a number of regularly required or anticipated goods and services purchased from the same vendor using Departmental Purchase Orders. For example, Departmental Purchase Orders were used for recurring items such as:

- door repairs (approximately \$120,000 to one vendor in 2004);
- ventilation system repair and maintenance (approximately \$50,000 to one vendor in 2004);
- monthly rental of ice resurfacing vehicles for arenas (approximately \$170,000 to one vendor in 2004); and
- monthly boiler maintenance (approximately \$25,000 to one vendor in 2004).

When goods and services are acquired using a blanket contract with pre-negotiated rates, the City realizes significant cost savings. For instance, in two recently established contracts by the Facilities and Real Estate Division, the 2005 contracted prices are significantly lower than prices paid in 2004 using Departmental Purchase Orders for the same services. The reduction ranged from 25 per cent in one contract to 40 per cent in another when compared to non-contracted prices in 2004.

In total, the Facilities and Real Estate Division issued over 9,300 Departmental Purchase Orders in 2004 for purchases totalling \$9.1 million. Also, in the first six months of 2005, over 5,800 Departmental Purchase Orders were issued totalling approximately \$5.5 million. According to management, Departmental Purchase Orders are used in emergency situations because the Facilities and Real Estate Division staff are not always aware of the existence of a contract.

City policy also requires that Departmental Purchase Orders be prepared prior to ordering goods or services. We noted the majority of Departmental Purchase Orders were prepared after the goods or services were received and invoiced.

For purchases between \$3,000 and \$7,500, three quotes are required with supporting evidence before issuing a Departmental Purchase Order. In a number of instances, Departmental Purchase Orders have been split to keep the payment below the maximum limit for Departmental Purchase Orders (i.e. \$7,500) or below the limit for three quotes (i.e. \$3,000). In one example, staff requested the supplier to cancel the original invoice of \$3,343 in order to charge the purchase to two different invoices each under \$3,000. In another instance, staff split the purchase of nearly \$12,000 in building materials from the same vendor into six separate Departmental Purchase Orders each under the \$3,000 limit for obtaining three quotes. Since the total cost of the six Departmental Purchase Orders exceeded \$7,500, a contract should have been issued. As well, the payment should have been approved by a manager instead of a supervisor as the total purchase cost exceeded \$10,000, (the limit for supervisor signing authority). Furthermore, without undertaking any competitive process, staff did not ensure materials were acquired at the best price.

City policy also requires that Contract Release Orders be used for purchases included in contract specifications. (Contract Release Orders track contract usage and help ensure contract values are not exceeded without proper authority). In a number of instances, although the scope of work was not part of the contract, the invoice was treated as a Contract Release Order, which reduced the contract limit. For example, a boiler repair (\$3,145) was charged to a contract relating to preventive maintenance of heating and air conditioning rooftop units. As a result, quotes were not obtained and there was no assurance that the City received the best price.

In reviewing contracts used by the Facilities and Real Estate Division, we noted that a blanket contract for plumbing services was over-expended by \$200,000 or 67 per cent of the approved value of \$300,000. This contract, established by the former Economic Development, Culture and Tourism Department in 2003, expired in July 2005. According to the City's Financial Control By-law, expenditures in excess of \$500,000 or 10 per cent of the original amount require Bid Committee, Standing Committee or Council approval. Staff of Economic Development, Culture and Tourism was aware of the over-expenditure but did not seek appropriate approval to amend the contract value. We informed City Purchasing regarding the matter and have been advised that steps would be taken to amend the contract.

According to Finance Department Procedures regarding Blanket Contracts, both the departmental contact (staff person who initiated the contract) and the City Purchasing buyer are responsible for reviewing monthly departmental contract reports to identify usage variances. The Procedure also specifies that "if a usage increase is required, the departmental contact(s) obtains necessary approvals and issues a contract amendment(s) prior to the contract reaching the total contract value". Management should investigate why the Procedure was not followed in the administration of the above contract and identify other over-spent contracts (if any) and their compliance with the City's Financial Control By-law and Finance Department Procedure.

Recommendation:

24. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure payments are in compliance with Corporate purchasing policies. In particular:
  - (a) discontinue the practice of using Departmental Purchase Orders where the use of a blanket purchase order would be more appropriate;



- (b) ensure that Departmental Purchase Orders are prepared prior to ordering goods and services;
- (c) discontinue the practice of splitting Departmental Purchase Orders to keep the purchase amount below the maximum level of \$7,500 or below the \$3,000 limit for three quotes;
- (d) prohibit the use of Contract Release Orders where goods and services ordered are not included in contract specifications;
- (e) ensure three quotes are obtained for purchases over \$3,000; and
- (f) monitor contract overspending and ensure necessary approvals and contract amendments are obtained in accordance with the City's Financial Control By-law.

### F.3. Formal Process to Evaluate Contractor Performance Should Be Established

The Facilities and Real Estate Division is currently implementing long-term multi-year blanket contracts spanning up to five years. A recently issued contract included a "Contractor Rating Form" in the quotation request, which was added in the event of poor contractor performance. We were advised that although the Facilities and Real Estate Division has not implemented a formal process to evaluate contractor performance, major infractions by a contractor are documented. We also noted that in certain instances action has been taken regarding poor performance.

Purchasing and Materials Management Division has advised us that a City-wide formal process to evaluate contractor performance is not currently available for use by operating divisions. During 2005, Technical Services Division is piloting and testing a "Contractor Performance Evaluation Template" for maintenance and construction projects and a "Consultant Evaluation Template" intended for use City-wide. A policy to implement the "Contractor Performance Evaluation Template" has yet to be developed.

A formal annual contractor performance evaluation would assess and record contractor performance and determine eligibility for participation in future contract bidding in the City.

#### Recommendation:

25. The City Manager take necessary steps to develop a City-wide formal process to evaluate contractor performance by June 30, 2006, which includes:
- (a) clear criteria to measure performance;
  - (b) standard form(s), procedures and guidelines;
  - (c) requirements for at least an annual performance evaluation for each City contract in excess of a predetermined dollar value; and

- (d) appropriate training in contract performance evaluation be provided to all City staff managing contracts.

#### F.4. Contract Monitoring Should Be Improved

Formal contract monitoring is not carried out in a consistent manner in all operating units in the Facilities and Real Estate Division.

Facilities Services Unit, responsible for custodial cleaning, have implemented quarterly inspections of cleaning provided by both in-house and contracted staff. This process has also recently been enhanced with cleaning inspections now being carried out objectively by third-party custodial supervisors.

Facilities Operations, the operational unit responsible for providing building maintenance services, relies on informal processes to monitor contractor performance. We were advised that contracts are generally monitored through “spot checks” and that no formal schedule or process exists to monitor individual contracts. Documentary evidence of monitoring was not available for review.

A formal monitoring process for each contract would enable City staff to identify and correct performance problems with contractors on a timely basis.

Recommendation:

- 26. The City Manager establish formal procedures to monitor the performance of maintenance contractors to ensure work is delivered as required under contract. At a minimum, regular inspections of work should be performed, documented and performance problems followed up promptly with contractors.

#### F.5. Performance Criteria in Contracts Should Be Enhanced

Recently issued blanket contracts include a detailed description of services and pricing, invoicing requirements and performance criteria such as response time. We noted that certain contracts starting in 2003 and 2004 and expiring within the next year did not include unit prices or specific criteria to measure performance. Without clear performance criteria, it is difficult to identify and correct unacceptable performance. An example is an elevator contract that does not address performance criteria relating to “out of service” frequency.

Recommendation:

- 27. The City Manager ensure that City contracts contain:
  - (a) a detailed description of goods and services to be delivered, pricing and payment procedures;
  - (b) key performance criteria such as response time, quality and reliability measures; and

- (c) provisions related to evaluating contractor performance, including procedures for resolving issues related to unsatisfactory performance.

## G. Work Order System And Preventive Maintenance

Although we recognize that the current work order system is being replaced with the SAP Plant Maintenance Module, we have identified deficiencies in the current system as well as issues relating to how management uses the current work order system. These issues are relevant to any work order system and should be addressed in the implementation of the new SAP module.

### G.1. Systematic Scheduling and Tracking of Preventive Maintenance is Needed

Regular preventive maintenance helps extend useful life and detect deficiencies before major problems occur. Failure to provide regular preventive maintenance to buildings results in more costly repairs in the long-term.

The current work order system is used to process work orders and to accumulate costs for billing purposes but does not facilitate scheduling or tracking preventive maintenance. Although work orders are generated for preventive maintenance for each building, these work orders do not specify type or frequency of services. As a result, staff must manually plan, initiate and track specific maintenance services needed in a building. Also, in certain instances, more than one work order is being used for the same type of preventive maintenance in the same building.

The majority of staff resources in Facilities Operations are used to respond to emergency repair requests and therefore the provision of preventive maintenance is not considered a priority. In one district, the average completion rate for preventive maintenance conducted by internal staff was less than 50 per cent. The overall completion rate for preventive maintenance by external contractors is not known.

The lack of systematic planning and tracking of preventive maintenance services also does not facilitate effective use of City resources. Regular maintenance services are required for heating and cooling systems such as air conditioners and boilers. We noted in 2004 that one building was serviced twice in a short time by two different companies while the heating system in another building did not receive any preventive maintenance service during the year.

In our survey of four local governments in North America, three out of four cities use SAP to schedule and track preventive maintenance.

#### Recommendation:

- 28. The Deputy City Manager and Chief Financial Officer ensure the SAP Plant Maintenance Module be used to schedule and track preventive maintenance services.

### G.2. Work Order System Should Be Properly Utilized

A work order system is a key management tool in tracking and monitoring the costs and completion of each work order request. However, district maintenance staff do not appropriately use the current work order system. For example, we noted that staff sometimes created a work

order only upon receipt of an overdue invoice. We also identified instances where more than one work order was created for the same work request. Also, although the work order system records internal labour costs indicating staff names, dates work was performed and the total number of work hours, the work order does not include a description of the nature of the work performed. As a result, it is difficult to determine whether the internal labour hours are justified.

Although the current work order system has limited reporting capability, work order summary reports (outlining various costs incurred relating to a work order) are available but are not regularly reviewed by supervisory staff to ensure labour hours and purchases are appropriate and necessary.

Recommendation:

29. The Deputy City Manager and Chief Financial Officer take appropriate steps to improve the use of the work order system by:
- (a) ensuring only one work order is created for each work request;
  - (b) including in each work order a brief description of the type of work performed by internal and contracted services staff; and
  - (c) identifying standard management reports that should be generated from the SAP Plant Maintenance System, including the purpose and frequency of such reports and the staff responsible for their review and appropriate follow-up action.

G.3. Interface with SAP System is Needed

The current work order system, used for accumulating internal and external work order costs and for billing City user divisions, has no interface with the SAP Financial Information and Human Resources/Payroll System. Consequently, payroll and other cost information must be separately input into both systems, a duplication of effort. Also, this manual data entry creates the opportunity for human error which would be avoided if information was electronically transferred from one system to the other. We were also advised that the new SAP Plant Maintenance Module, currently being implemented, does not include an interface with the SAP Financial Information and Human Resources/Payroll System at the present time.

In our survey of four local governments in North America, three out of four cities that use the SAP preventive maintenance module also have a payroll interface.

Recommendation:

30. The Deputy City Manager and Chief Financial Officer take steps to implement the interface of the SAP Plant Maintenance Module with the SAP Financial Information and Human Resources/Payroll System to eliminate duplicate input processing and to ensure the accuracy and completeness of maintenance expenditure and payroll information in the work order system.

## H. Equipment And Shop Tools Inventory

### H.1. Control of Equipment and Shop Tools Inventory Requires Strengthening

Each City-operated district carries a variety of tools and equipment used to maintain and repair City buildings. Some of these items have significant value and adequate controls are required to ensure equipment is safely stored and adequately maintained and accounted for. In two districts, tools are physically controlled in a central locked tool “crib”. However, some tools are assigned to staff and remain in staff vehicles.

The Facilities and Real Estate Division currently does not have a uniform tool tracking system at the district level. Each district’s management staff develops its own tool tracking system and determines information to be collected. In two districts, although management periodically updates an inventory list recording new purchases and the staff responsible for the tools, other basic information, such as the purchase date and/or value, are not recorded. As a result, the exact value of the district’s tool inventory is not known. Over \$100,000 was spent on tool purchases and repairs in 2004 from one district. In one district, staff reported that an inspection of ladders and power tools is conducted annually to comply with safety regulations. Management advised that a physical count of other tools in the inventory has never been conducted.

Maintaining a complete up-to-date detailed listing of tools and equipment and conducting periodic physical inventory counts helps ensure that City assets are safeguarded, as well as provides documentation to support potential insurance claims in case of loss.

#### Recommendation:

31. The Deputy City Manager and Chief Financial Officer take appropriate steps to ensure an up-to-date detailed inventory listing of tools and equipment over a specified amount is maintained at each City-operated district, providing that:
  - (a) such listing include purchase price and details of purchase (i.e., date, supplier, invoice number); and
  - (b) a surprise physical inventory count of shop tools and equipment be conducted periodically, discrepancies investigated and adjustments made to records only after review and approval by an authorized official.

## I. Relevance To Other Organizations

The recommendations contained in this report may have applicability to City of Toronto Agencies, Boards and Commissions managing building maintenance and cleaning services (excluding the Toronto Police Service and Toronto Library Board) and as such, this report should be forwarded to them for their review, consideration and reporting back to the Audit Committee.

Recommendation:

32. City Council direct that this report be forwarded to those City organizations separately managing building maintenance and cleaning operations, in order to ensure that issues raised are addressed where appropriate. These organizations be required to report back to the Audit Committee by July 2006 in connection with the results of their review.

J. Conclusion

The objective of this audit was to assess whether maintenance and cleaning costs for City-owned buildings are being managed economically, efficiently and in compliance with appropriate policies and legislative requirements. Our audit identified a number of areas requiring improvement in the City's building maintenance operations, some of which are currently being addressed by management.

A key issue identified in this report was the need to evaluate centralizing ownership, control and accountability of City buildings and integrating all building maintenance operations and related funding within the Facilities and Real Estate Division. Other issues pertain to improving controls and better managing and controlling maintenance and cleaning costs.

Addressing the recommendations in this report will provide for more efficient use of City resources and enhance the effectiveness of building maintenance operations.

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**The Audit Committee also submits the report (October 18, 2005) from the Chief Corporate Officer:**

Purpose:

To provide a management response to the Auditor General's Maintenance and Administrative Controls Review of Facilities and Real Estate.

Financial Implications and Impact Statement:

There are no financial implications contained in this staff report.

Recommendation:

It is recommended that this report be received for information.

Background:

The 2005 workplan for the Auditor General included a review of Maintenance and Administrative Controls in place for Facilities and Real Estate. The review involved face to face and on-site discussions with F&RE staff and a survey of the Division programs that manage City facilities. This work resulted in the Auditor General report "Maintenance and Administrative Controls Review of Facilities and Real Estate" being submitted to the November 2, 2005 Audit Committee.

### Comments:

Staff are providing comments in two parts. The first set of comments are general and will deal with various areas of work that are underway which are related to the Auditor General's review. The second part will address each of the Auditor General's recommendations in Appendix 1 (attached).

#### General Comments

A transition strategy was developed prior to amalgamation that recommended centralized management of facilities for the seven municipalities. However, this strategy did not occur in January 1998, and as a result the former Departments took ownership and management responsibility for the facilities occupied by their programs. In 2001 the F&RE Division underwent a major re-organization with a new Executive Director and three new Directors on their senior management team.

The new team initiated a concerted effort to deal with the post amalgamation issues that had resulted from the de-centralized management of City facilities. As a result a number of significant F&RE achievements that improve the management of City Facilities were realized as follows:

- Development of the Building Matrix;
- Development of Service Level Agreements (SLA's);
  - Police – signed in 2003,
  - Fire – signed in 2004, and
  - 15 SLA's – sent to clients in August 2005
- Capital Program Revisions;
- Facilities Maintenance Standards - approved by Council in December 2004;
- Development of City Wide blanket contracts, specifications for elevators etc.;
- New SAP maintenance work order system (to be completed in 2006), and;
- Custodial Services Improvements.

The F&RE Division has made significant progress in all key areas of facilities and property management. Work is underway on many items as more fully described below.

#### Buildings Inventory Matrix

In 2002 F&RE staff decided that a complete inventory of all the City's buildings was needed for the Departments. The Buildings Inventory Matrix project was initiated to establish a reliable inventory of the City's buildings, identify the landlord program for each building and document

the responsibilities for the different building services related to each facility. F&RE took the lead and prepared a draft document for comment by the former Departments of WES, EDCT and CNS, which also had administrative responsibilities for the Library and Public Health Boards. The matrix document contains the location, name, area and landlord Division for all City facilities. In addition, the service provider for all facilities management functions are shown.

For the purpose of this project, a “building” was defined as any structure with a foundation and a roof and having an area of at least 250 square feet. The scope of the inventory at this time is limited to the buildings owned directly by the City. Buildings owned by various Agencies, Boards and Commissions are planned to be incorporated in the next phase of this project.

Initially, the database was put together based on the scattered pre-amalgamation information. Through an iterative process, F&RE and the program Divisions have reviewed the information over the last three years and we now have a database that is complete and undergoing final validation. In mid 2005 the document was modified to reflect the City’s new organizational structure. The revised building matrix was sent to all City Divisions on September 12, 2005 for their final comments. All City programs were formally requested to validate by October 15, 2005 the list of buildings under their jurisdiction and the associated responsibilities. The matrix will soon be in a maintenance mode and will be updated from time to time whenever an existing anomaly is identified or new information becomes available.

The following is a summary of the City’s buildings including City divisions, Police, Public Health and Libraries. For more information on each of the Division’s facilities see appendix 4.

# of Buildings	Area (Square Feet)	Replacement Value
1,569	27.0 M	\$5.4B

Details of the City’s buildings inventory may be accessed on the intranet at:  
[http://wi.toronto.ca/intra/facilities/building\\_matrix.nsf/MatrixDocs?OpenView](http://wi.toronto.ca/intra/facilities/building_matrix.nsf/MatrixDocs?OpenView)

Future plans for the Buildings Matrix Database include capturing of the following additional information in relation to each building:

- functions and services provided;
- photographs;
- goods and materials stored at site;
- details of utility accounts and annual consumption;
- cost centres to which various building expenditures are charged; and,
- actual expenditures for each building related activity to enable benchmarking.

The Auditor General’s recommendations to have a complete and accurate list of City owned buildings will be satisfied when the above activities are completed.

#### Service Level Agreements (SLA)

Once the building matrix was underway, a need was identified by F&RE in 2001 to develop Service Level Agreements (SLAs) with all its clients. F&RE is a highly service oriented Division that provides a wide variety of real estate and buildings related services to the various



City divisions. The vision for F&RE in part, states that it wishes to be the “service provider of choice” for all the City’s facilities and property management requirements. In order to achieve this vision, Service Level Agreements (SLA’s) were required between F&RE and its clients.

Since Toronto Police Services is the largest client for F&RE this was the first SLA prepared and it was signed in 2003. Following that, the SLA format was reviewed for its form and content for its suitability to be extended to other City programs. A draft SLA was prepared for each F&RE client in consultation with the different F&RE sections and the client services managers. A typical SLA outlines the general terms and conditions under which the services are offered and, for each of the five F&RE sections, details key services provided, applicable service standards, the method of costing for services provided and the charges recoverable from the client as interdepartmental recoveries.

The next SLA was signed by Toronto Fire Services in 2004. In early 2005 the SLA for Social Services was completed and sent to the client for signature. As of August 2005 draft SLA’s had also been prepared and sent to the remaining 14 clients for F&RE. The completed SLAs were sent out to each of the following divisions:

- Group A: Children’s Services, Homes for the Aged, Shelter and Support Housing, Emergency Medical Services, Public Health, and Parks, Forestry and Recreation;
- Group B: Solid Waste Management, Transportation Services and Courts Services; and,
- Other: City Clerk’s, TTC, Toronto Public Library and St. Lawrence Centre for the Arts.

These SLAs are currently under review by the respective Divisions. In some cases, discussions have been held with the divisional management; in other cases, minor update suggestions by the clients are in the process of being incorporated. All SLAs are expected to be signed off by June 2006 as recommended by the Auditor General.

### Capital Program Revisions

The Auditor General’s review identified numerous capital governance and implementation issues related to the management of facilities across the City. F&RE is in general agreement with the Auditor General that a centralized governance model for the management of City facilities should be considered. F&RE is currently responsible for implementing the F&RE capital State of Good Repair program for all facilities under its jurisdiction. In addition, F&RE manages the capital programs for Union Station, Energy Retrofits and Nathan Phillips Square redesign. As well, F&RE staff provides assistance to other Divisions in the City with the planning and implementation of their capital projects on a request basis.

A City-wide approach to capital planning for City facilities may improve efficiency and cost effectiveness in the areas of capital budget priority setting and backlog management. With a centralized facilities management approach, a consolidated database of Building Condition Assessments (BCA’s) will be required to assist in priority setting in the capital budget requests.

F&RE has developed very good expertise by carrying out Building Condition Assessments on the majority of corporate buildings managed by F&RE including Police Services. The replacement of these facilities is valued at \$2.08 billion. The capital plan is based on the assessments of the actual condition of the facilities. By the end of 2005, 82% of the corporate facilities will be audited. The remaining 18% of the corporate facilities will be completed in 2006. The F&RE best practices for BCA's could be expanded City wide.

The F&RE capital completion rates for 2003, 2004 and projected for 2005 are 62%, 87% and 95% respectively. This increase in completion rate can be partially attributable to the pilot 80/20 project that allowed F&RE to commit 100% of all new projects in 2005 but with a cash flow plan of only 80% of the total cash flow for the projects. F&RE has demonstrated its ability to manage capital projects and could accept additional responsibilities.

Currently, the F&RE portfolio of facilities is estimated to have \$98.8 million in essential backlog. With the completion of the corporate audits in 2006, the essential backlog could increase to \$103 million. Within 5 years, at the current funding level, F&RE will reduce this backlog by approximately \$71.6 million. The essential backlog balance is expected to be eliminated by 2016, subject to the F&RE approved funding levels and the results of future Building Condition Assessments.

In accordance with the Finance Capital Budget Guidelines, projects in the F&RE capital budget submission are prioritized as follows:

1. Health and Safety;
2. Legislated;
3. State of Good Repair;
4. Service Improvement and Enhancement; and
5. Growth Related.

In summary the approach used by F&RE to prioritize, assess and implement capital projects could be expanded City wide for a number of programs as recommended by the Auditor General. Specialized facilities, such as those with Toronto Water, should be managed by the program Division.

#### Maintenance Standards

In 2002 and 2003, the F&RE Division took the lead to prepare Facility Maintenance Standards which identify the tasks and frequency of maintenance to be performed on the City's buildings. The purpose of the document is to:

- ensure all regulatory requirements are met (checklists have been developed to assure completeness);
- establish a standard of diligence for discretionary maintenance;

- maximize the life cycle of buildings and components; and
- provide a resource to others responsible for facility maintenance.

The Facilities Maintenance Standards document includes sections describing:

- protocols for Building Condition Assessments;
- regulatory requirements of facility maintenance;
- scheduled facility maintenance work recommended by F&RE;
- procedures for requesting demand maintenance work from F&RE;
- environmental standards and policies; and
- occupational Health and Safety considerations.

Staff from the former Departments of CNS, WES and EDCT were consulted and concurred with the content of the standards document. F&RE also consulted their clients during the development of the document. As well, steps were taken to include all relevant City Policies.

The City's Facility Maintenance Standards were approved by Council in December 2004. In 2005, a team with representatives from F&RE and Divisions with responsibility for facilities was formed to prepare an implementation plan which is currently underway. The scope of work for this team will be expanded to include any additional recommendations made by the Auditor General.

#### Financial Management

In 2001, the F&RE budget was set up and managed at a Divisional level which proved to be very ineffective. Currently, each business unit within F&RE has its own budget, which is monitored by an analyst to ensure accuracy. Any questions or concerns are raised directly with the Manager and Director responsible for the business unit. As part of the new budgeting process, cost centres were assigned to buildings and projects in order to get accurate commitments and expenses.

Variance reports, for both capital and operating budgets, are produced each month and discussed with the Managers and at the weekly Directors' meeting. Any anomalies and questions are brought forward here and discussed and suggested changes or solutions are brought forward. Currently, staff investigate, in conjunction with the appropriate Manager or Director, any significant variances and make any adjustments necessary. This process has been very successful in ensuring that goals are met. This system increases awareness and ensures that the capital projects get finished in a timely manner. Overall, it is felt that financial management within F&RE is very good and based on sound accounting principles, as well as City policy. The Division consistently has a small annual operating surplus and has achieved increasingly higher completion rates for capital projects.

However, there is always room for improvement, as the Auditor General has pointed out and F&RE will endeavour to ensure that the recommendations are carried out. We will be moving ahead in the following areas to ensure better financial management principles are put in place within F&RE:

- Staff are moving towards implementing a wider range of cost centres now for even small facilities. While it will take some time to get all the cost-centres in place and to be able to inter-relate all the costs related to that building in one place, it will be done.
- Financial staff will ensure through its budgeting systems that we will be able to monitor the variances and costs in an efficient and easy way to understand.
- F&RE staff are currently working towards the goals/recommendation of having more detailed and more frequent invoices for our clients. Many invoices are currently being done this way already and this type of invoice is now being written into the various SLAs. Proper sign-offs on invoices are also being implemented at this time. Staff will put in place the necessary guidelines/policies and checks to ensure that this happens.
- Staff have already started to make the changes requested as related to DPOs and blanket contracts. The City needs to take advantage of lower costs that may occur as a result of high volume discounts for custodial and maintenance contracts. This will take some time to fully implement and to get all units working on this effectively, but we believe that 2006 will be ever better than 2005. We are already seeing a large improvement in this area.

### Software Applications

One of F&RE's most significant and challenging goals has been to move forward in the area of software applications and to take advantage of the various programs that the City has in place within SAP. As a result, the Business Improvement Program (BIP) has been undertaken to activate new modules within the current SAP system. This has been done with the assistance of Corporate IT and the SAP Competency Centre. Our goal is to have a transparent process in place for our clients in terms of work orders and related costs, plant maintenance, chargebacks and any other cost that may be charged to the City and our clients.

In 2001, the need for new software for facilities management was identified because the existing SPAN/FM work order system had become obsolete and other systems were inefficient. An analysis of available software was conducted and it was concluded that the City's SAP Plant Maintenance (PM) and Project System (PS) modules would be the best software to use. New, state of the art, robust software is required to manage the 40,000+ work orders implemented annually in City's facilities and to manage numerous capital projects.

In the fall of 2004, a contract was awarded to SAP Canada to activate the PM and PS modules. Work is underway and the PM module should "go live" in early 2006. The software will be used to implement demand maintenance work orders and recover chargebacks where applicable on a more timely basis.

Establishing costs for all building maintenance and tracking costs for each building will require that labour costs are captured through the new SAP work order system, which will be also adopted by Facility Services and Security. These activities will aggregate work requiring work orders, but a full costing of all labour charges at a given building will require changes to the payroll accounts. Currently all labour is charged to administration accounts and to assess labour charges against buildings, either the payroll is done against specific building accounts or the labour is charged to standing work orders with the required burden of data input. Discussions have commenced with Payroll staff to connect the HR payroll module to the PM module.

A leasing component will also be in place in the first phase of BIP, which will also allow for better monitoring of the City's leased properties to ensure proper charges are levied and collected. It will also allow for an up-to-date listing of properties to be available at all times. It is anticipated that the implementation of this module will increase the revenues to the City, as well as ensuring that accurate records on the properties are maintained in a timely fashion.

The next phase of implementation will be the generation of scheduled Preventative Maintenance work orders. The system will also have a full set of reports which will assist in satisfying many of the Auditor General's recommendations. The reports will also ensure the work listed in Facilities Maintenance Standards are completed.

The Project Systems (PS) module, which will allow for better project management has been deferred until after the SAP upgrade takes place in 2007. This delay has happened as a result of the way in which the SAP system has been implemented within the City. The upgrade will correct many of the implementation changes that took place and will allow the PS module to function effectively.

Finally, F&RE staff are also investigating the suitability of various software that may be able to assist the Division in capital budget planning. With a centralized facilities management approach, a consolidated database of Building Condition Assessments will be required to assist in priority setting in the capital budget requests. The software must be capable of performing simulation analysis in order to prioritize and project funding requirements and reduce backlog. The additional capital software will help with our building condition assessment process and future funding scenarios. The hope is to find some software that will allow staff to analyze the City's needs in terms of "state of good repair" for its buildings, to prioritize these needs and to project costs and schedules for the necessary work into the future. The functionality for this software is not available in SAP and therefore alternatives are being explored.

F&RE is committed to moving ahead with automation of operating and capital processes in order to ensure the best values for the City and our clients. This enhanced use of modern software is in line with the Auditor General's recommendations.

#### Custodial Services Improvements

Over the past two years, F&RE has endeavoured, successfully, to get its custodial operations under better control and management. To this end we have been successful to a degree, but more can be done as noted by the Auditor General.

Through the SLA process, we have been able to put into place standards for cleaning, which include number of times an area is cleaned and what is expected in terms of cleanliness. This has resulted in an overall satisfaction rate for our custodial services of approximately 80% from our clients.

For custodial services, a detailed description of goods and services to be delivered, pricing and payment procedures and key performance criteria such as response time, quality and reliability measures are and will be continued to ensure that these criteria are looked at and measured. We have already begun to look at these types of issues and believe that headway has already been made. We will continue to be vigilant and we will also continue to work with PMMD on this issue.

Over the last year or so, F&RE staff have reviewed our contracts with suppliers and have made changes that have resulted in considerable savings for both the City and our clients. This will continue as we work together with PMMD and others across the City to merge many of the contracts for similar services together.

As noted above under the Financial Management section, we have also reviewed our procedures for issuing DPOs, especially in the Custodial area where we have in the past issued many DPOs. Facilities Services has already started to make the changes noted in the Auditor General's report. We will continue to monitor this issue to ensure the Auditor-Generals' recommendations are put into place.

F&RE is committed to ensuring the best service for our clients at the best possible rate and have made significant strides in this direction. With the recommendations from the Auditor General, we will continue to move forward in this vein.

#### Contract Management Changes

Over the past few years F&RE staff has expended significant effort to create a set of long term, City wide facilities specifications and contracts for maintenance and security work to be performed by contract. Approximately 75% of contracts have been awarded. The remaining 25% of contracts are in the tender process and a few smaller specifications are being finalized. The focus has been to prepare fixed price unit based contracts for the City's advantage and to minimize work paid by "time and material" which is more expensive. These specifications and contracts could be expanded to include all City facilities.

Staff are already moving ahead in the areas of custodial blanket contracts, DPOs, implementing a cost savings strategy and using unit pricing as appropriate. Most of these issues and related strategies have been discussed above in the Custodial Services Section or the Financial Management Section of this report. If all the City's requirements were grouped together volume discounts will likely reduce the costs to the City and significant savings can be achieved.

The Business Support Unit of Facilities Services is also looking at ways to ensure that PMMD's rules related to purchasing are followed and when there are problems, that they are followed up with the appropriate staff. All procedures related to purchasing, DPOs, budgeting, use of city resources etc are being looked at in view of the Auditor General's report and staff will continue to be diligent on all issues.

F&RE has been working on City-wide contracts since 2002 to consolidate and standardize services across the four districts. Contracts for the supply of services are issued to provide specialized services for which the City does not have labour classifications, to provide comprehensive maintenance services which insure the City against equipment failure, to provide supplemental trades services when seasonal workloads are high, and to provide specialized maintenance where parts, equipment, or materials would be expensive to supply. Facility Operations began working with PMMD to develop specifications and to tender contracts on a City-wide basis specifically to reduce and eliminate the use of DPO's for repetitive purchases. To date, fourteen of these contracts have been issued and others are with staff of PMMD in the RFQ process or being evaluated for award. This work will be complete in 2005 and it is expected that use of DPO's for operational purchases will be reduced to a practical minimum in 2006.

City-wide contracts are capturing high volume discounts and F&RE is establishing communication tools and adjusting procedures to achieve standards in processing across districts. Large City-wide contracts require greater distribution of contract documents than small local ones. City-wide contracts are also intended to reduce the number of authorized vendors to a minimum and achieve savings.

These contracts do not have to be used for the exclusive use of F&RE. F&RE could expand these contracts to other City facilities and be accountable for expenditures and contract administration. Vendors will be required to submit detailed invoicing and internal procedures written for staff processing invoices including, verification of invoice details by field staff, cross referencing with tender documents, and the use of appropriate signing authorities.

In the summer of 2005 Facility Operations began developing a training program for staff down to the clerical level in the use of these contracts. Training areas include using blanket contracts, processing invoices in unit price contracts, information sources in contract management, and financial policies and procedures.

#### Conclusions:

Over the past few years F&RE has made significant progress on many aspects of facilities management. The completion of the Auditor General's recommendations will improve service delivery, accountability, control and fiscal responsibility even more. In addition, some significant cost savings will likely be achieved.

#### Contact:

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(Copies of the following attachments to the report (September 16, 2005) from the Auditor General, were forwarded to all Members of the Audit Committee with the agenda for its meeting on November 2, 2005 and a copy is on file in the City Clerk's Office:

- Exhibit 1 and 2 of Appendix 1 - Maintenance and Administrative Controls Review – Facilities and Real Estate, September 2005;
- Appendix 2 – Request for Facility Services Form;
- Appendix 3 – List of Blanket Contracts; and
- Appendix 4 – Summary of City Buildings by Service Group.)

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A paper copy of the PowerPoint presentation given by Alan Ash, Director, Auditor General's Office, and Carolyn Baird, Senior Audit Manager, Auditor General's Officer, is on file in the City Clerk's Office.