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# Performance Audits

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## 2 Community Services: Rent Supplement Housing

### Summary

The Department of Community Services' policies for rent supplement arrangements are outdated with some policies dating back to 1994. We identified areas where policies should be strengthened, as well as instances in which existing policies were not followed. For example, we found instances of noncompliance with applicant placement policies at Annapolis Valley Housing Authority. The lack of up-to-date policy guidance may lead to inconsistent approaches between Housing Authorities which could result in applicants and tenants being treated differently across the Province. We also identified instances at Annapolis Valley Housing Authority and Metropolitan Regional Housing Authority in which waitlist information could be negatively impacted by failure to follow processes.

The Department's process to award subsidies for developing new affordable rental housing units is not adequate. In recent years, the Department has received a number of unsolicited proposals to develop new affordable rental housing. DCS does not have documented evaluation criteria for these proposals. Additionally, there is no evidence the Department followed a consistent process to assess the various proposals. Without formal processes, developers may not be treated consistently when proposals are reviewed.

The Department's policies for housing authority inspection of rental supplement units for safety issues have not been updated in over 15 years. Although policy requires unit inspections prior to a tenant moving in, we found two instances at Annapolis in which inspections were not completed and one instance in which identified safety issues were not followed up to ensure appropriate resolution.

We also found the Department of Community Services is not measuring and reporting on the effectiveness of its rent supplement programs. The Department has one performance measure in its business plan related to rent supplements; however no targets have been established for either 2009-10 or 2010-11 for this measure. Additionally, DCS does not have performance measures or targets for the housing authorities despite a recommendation by this Office in our June 2007 Report.

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## 2 Community Services: Rent Supplement Housing

### Background

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- 2.1 In Nova Scotia, several groups are involved in providing affordable housing. Public housing in Nova Scotia is owned by the province through the Nova Scotia Housing Development Corporation. It has no direct employees; the Department of Community Services (DCS) staff carry out management and administration functions. The Corporation enters into housing-related agreements with the Canada Mortgage and Housing Corporation on behalf of the province. The province also has agreements with private landlords for affordable rental units and with co-operatives and non-profits for affordable housing.
- 2.2 Housing authorities are responsible for operating and managing approximately 12,000 public housing units across the province, and for monitoring approximately 800 rent supplement arrangements with third-party landlords.
- 2.3 Nova Scotia Housing Development Corporation and Canada Mortgage and Housing Corporation signed an Affordable Housing Agreement in 2002. The agreement defines affordable housing as modest housing, priced at or below average market rents for the area.
- 2.4 Under the Affordable Housing Agreement, Federal funding (through Canada Mortgage and Housing Corporation) is provided for capital subsidies to developers to a maximum of \$75,000 per unit or half of the capital cost per unit. The subsidy is designed to decrease the initial capital costs associated with building new affordable rental housing units or converting existing buildings into affordable rental housing. Funding is provided to developers through a secured mortgage which is forgiven over the term of the agreement. Units are required to remain affordable for at least 10 years.
- 2.5 The Province and its Affordable Housing projects partners (municipalities, developers, etc) are required to provide matching funds over the life of the agreement. Developers are asked to provide land, cash, or in-kind contributions. To fulfill its contribution requirements, the province may enter into rent supplement agreements for completed units. Rent supplements are arrangements between the tenant, landlord, and the Department of Community Services. The rent supplement is designed to cover the difference between the market rent of the unit and the tenant's

rent payment which is calculated based on the tenant's income. There is no requirement for all units created through capital subsidies for new rental housing to have a rent supplement associated with the unit.

- 2.6 DCS also has older rent supplements which fall under the 1997 Social Housing Agreement. Although the sources of funding are different, the administration, monitoring, and functioning of the rent supplements is the same.
- 2.7 Nova Scotia has seven housing authorities established under the Housing Act. The authorities report to the Executive Director of Housing Authorities and Property Operations at the Department of Community Services. The Department is responsible for providing policy direction, including policy manuals. The authorities manage the day-to-day operations of public housing, tenant applications, and placement. Applicants may be placed in either public housing or rental supplements, depending on location, availability, and the applicant's circumstances. Most tenants are added to the housing authorities' chronological waitlists; however applicants may be given priority access in emergency situations.
- 2.8 Private landlords are responsible for the maintenance of rent supplement units. Should a landlord or tenant not comply with the terms of the rent supplement agreement, the housing authority can cease to pay the supplement or cancel the arrangement.

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## Audit Objectives and Scope

- 2.9 In the summer of 2010, we completed a performance audit of rental housing operations and monitoring. We examined rent supplements under both the Social Housing Agreement and Affordable Housing Agreement to determine whether the province has adequate processes to ensure affordable housing is available and provided. We also examined subsidies to developers for creating new rent supplement units under the Affordable Housing Agreement.
- 2.10 The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.
- 2.11 The objectives of the audit were to assess:
  - the Department's process for assessing applicants to the rent supplement program;

- whether the final placement of applicants from the waitlist to rent supplement units was consistent with Department policies;
- whether the entity has adequate processes in place to measure and report on the effectiveness of the rent supplement program which it administers;
- whether the Department is actively monitoring rent supplement units to ensure they are safe to meet the needs of the clients living there; and
- whether there is an adequate process to award subsidies for rental housing units and to assess compliance with that process.

2.12 Audit criteria were developed for this audit. These criteria were discussed with, and accepted as appropriate by, senior staff at the Department of Community Services, Metropolitan Regional Housing Authority (Metro), and the Annapolis Valley Housing Authority (Annapolis).

2.13 Our audit approach included an examination of the process to award subsidies for rental housing units under the Affordable Housing Program, a review of tenant placement in rent supplement units, compliance with policies, and interviews with management and staff at the Department of Community Services, Metropolitan Regional Housing Authority, and Annapolis Valley Housing Authority. Our audit did not include co-operative housing, not-for-profit housing, or public housing owned by the province.

2.14 Housing authority waitlists were at a point in time only. As a result there were no historic records available for us to test. Metro management wanted to explore having their IT staff recreate the waitlist. However we would have no way to know that this list represented the complete waitlist as of a specific past date, so we did not pursue this further.

2.15 We wish to acknowledge the work of the staff of the Department of Community Services Housing Services division, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority in helping us to complete this audit.

## Applicant Assessment and Placement

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### Conclusions and summary of observations

Policies and procedures to assess and place tenants in rental housing units have not been updated since 2001. We identified areas in which existing policies should be strengthened and instances of noncompliance with policies, some of which could

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negatively impact the quality of waitlist information. This could increase the apparent demand for housing. The lack of current policy guidance increases the risk of tenants being treated differently across regions of the Province.

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2.16 *Background – The Applicant/Tenant/Property Management – Policy Manual* (Manual) is supposed to document assessment and placement policies and procedures for housing authorities. The Manual was last updated in 2001.

2.17 *Application testing* – We tested 30 approved housing applicant files (Metro – 15, Annapolis – 15). While the Authorities generally complied with assessment policies, we found these policies should be clarified and strengthened. For example, the Manual requires staff to verbally support rejection recommendations to the Board. However, there is no requirement to document the reason for rejection in the application file.

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2.18 In June 2007, our Office reported the results of our audit of Regional Housing Authorities (Chapter 6); we recommended (6.2) that “...*policy and procedure manuals, including financial and system training manuals, be reviewed and updated in a timely manner.*” This recommendation is still in progress. The Department has draft versions of several updated financial manuals and timelines to review other policies but after three years, DCS has still not fully addressed this issue. Accordingly, we have repeated our recommendation below.

#### Recommendation 2.1

The Department of Community Services should update policy and procedure manuals and establish a process to ensure manuals are reviewed and updated regularly in the future.

2.19 Although the Manual is not current, we found that Metro has detailed documentation of assessment and placement procedures for its region. These procedures reflect current practices at Metro and provide guidance for situations not covered by the Manual. Additionally, Metro uses an initial assessment form to track the status of outstanding applicant information. Annapolis does not have current documented procedures and does not have as robust a means for tracking outstanding information. Current documented procedures and checklists help to ensure that required information is obtained from applicants and that policies are appropriately applied. The Department of Community Services and the housing authorities should consider sharing such best practices between housing authorities. The lack of current policies and documented processes leads to the risk that clients will not be assessed and placed consistently throughout the Province.

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- 2.20 Prospective tenants apply for housing through housing authorities. There is one application process for housing, regardless of the type of unit that a tenant is eventually placed in. Depending on the waitlist, availability of units and the applicants' choice of location, they may be assigned to public housing or a rent supplement unit.
- 2.21 *Waitlist* – Once applicants are approved, they are placed on the housing authority waitlists. Waitlists are chronological by building. When there is a vacancy, a tenant on the waitlist is contacted. The unit may be public housing or a rent supplement unit depending on the location selected and unit availability. Tenants who have a priority need such as family violence issues, inadequate housing, or medical conditions are given priority placement on the waitlist.
- 2.22 Waitlists are a key indicator of whether the Department of Community Services is able to provide housing to approved applicants in a timely manner. Program policy requires an applicant's effective waitlist date to be the date the application was received. During our testing of approved applicant files (Metro – 15, Annapolis – 15), we identified concerns with waitlist information.
- Three instances (Metro – 1, Annapolis – 2) in which the application was not date-stamped. Since this date is used when adding clients to the waitlist, we could not determine whether the applicants were appropriately added to the waitlist.
  - One instance in which Annapolis could not locate the prospective tenant's application. We were unable to complete any testing on this file. For example, we could not determine whether the client was appropriately added to the waitlist.
  - Two instances at Metro in which the Board did not approve an applicant who was added to the waitlist.
- 2.23 We also wanted to test whether applicants were appropriately selected from the waitlist and provided with housing. Management at both housing authorities told us that the waitlist is as of the current date only. There were no records that would allow us to determine whether applicants were selected from the waitlist in compliance with placement policies.
- 2.24 *Placed applicant file testing* – We examined the files of 30 tenants (Metro – 15, Annapolis – 15) in rent supplement units and assessed compliance with placement policies and procedures. Placement criteria include determining the number of bedrooms required and verifying household income.
- 2.25 All 15 files examined at Metro complied with the policies and procedures we selected for testing.

- 2.26 Six of the 15 files examined at Annapolis did not comply with all policies and procedures tested. We identified six instances in which the rental subsidy calculation was not reviewed by a property manager as required. This could lead to the Authority paying the wrong supplement amount on behalf of the tenant. During our testing, we also noted one instance in which documentation to support the client's income had not been filed approximately ten months after the tenant provided the information.
- 2.27 *Monitoring of placed applicants* – Housing authorities are responsible for monitoring the tenant's income source and calculating the tenant's rent payment and the related rent supplement at least once a year. Both the tenant and landlord are to be notified of the tenant's rent as well as the supplement amount to be paid by the housing authority.
- 2.28 Housing authorities require tenants to sign letters indicating they understand the terms and conditions of the rent supplement program. The authorities are also responsible for informing the tenant and landlord of the rent to be paid by the tenant and the supplement amount to be paid by the authority.
- 2.29 We examined 30 rent supplement tenant files (Metro – 15, Annapolis – 15). We did not note any instances of noncompliance with the placement policies we tested at Metro. We found the following instances of noncompliance at Annapolis.
- One instance in which no rent information was sent to the landlord.
  - One instance in which there was no signed letter of understanding on file indicating the tenant understood the terms and conditions of rent supplement program.
- 2.30 The lack of rent information being sent to the landlord by the housing authority could increase the risk that a tenant may overpay their rent to the landlord. The lack of letters of understanding signed by the tenant means that the tenant may not understand the terms of the rent supplement program.

### Recommendation 2.2

Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant placement policies are followed.

- 2.31 *Rejected applicants* – Housing applications may be rejected for several reasons including exceeding income limits, past arrears, criminal convictions, or otherwise posing a safety risk. Rejected applicants are to be notified in writing of the reason the application was rejected. They have 30 days to file an appeal.

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2.32 We selected ten rejected application files (Metro – 5, Annapolis – 5) and assessed compliance with policies and procedures. All five Metro files we tested demonstrated that policies were followed. Three of five Annapolis files complied with policies. Of the remaining two Annapolis files, we found the following.

- One application was not date stamped. If an applicant successfully appealed his or her rejection, the application date stamp would be used as the effective date of the application for placement on the waitlist.
- One instance in which a rejection letter was not sent to the applicant. Informing applicants of their rejection in a timely manner is important in order to allow rejected applicants to file an appeal if desired.

#### Recommendation 2.3

Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant rejections comply with program policies.

## Approval and Monitoring of Subsidies to Developers

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### Conclusions and summary of observations

The process to award subsidies to developers of new affordable rental units is not adequate. The Department originally issued three formal request for proposals and had a template with detailed eligibility requirements against which proposals could be evaluated. Subsequent to the formal request for proposals, the Department continued to receive unsolicited proposals. DCS did not develop evaluation criteria or formally document the process to evaluate these unsolicited proposals. Without a formal evaluation process, prospective developers may not be treated the same and this could result in one proposal being approved while a similar proposal is rejected. We also found the Department is not monitoring units which do not have rent supplements to ensure rents remain affordable.

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2.33 *Subsidies to developers* – DCS had three formal request for proposals (RFPs) starting in 2002 under the Affordable Housing Agreement for developers seeking subsidies. Subsequent to the formal RFPs, DCS continued to receive unsolicited proposals from developers for additional projects. DCS management informed us that proponents with unsolicited proposals were directed to the RFP template for guidance on the proposal format and requirements. However the Department did not develop evaluation criteria or formally document the process to evaluate these unsolicited proposals.

2.34 *Approved subsidy testing* – We tested eight unsolicited proposals which were approved for development subsidies. We used the assessment criteria and requirements identified in the RFP template as well as Canada Mortgage and Housing Corporation requirements under the Affordable Housing Agreement. We found one of the eight files tested did not meet the RFP requirements. The submission was not complete because it did not include development plans, such as a construction contract or schedule. As a result, we were unable to test compliance with standards for modest housing or capital cost per unit.

#### Recommendation 2.4

The Department of Community Services should establish a formally documented process to assess rental housing development proposals, including unsolicited proposals.

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2.35 Once units are constructed, those which do not have rent supplements are not monitored to ensure rents remain affordable as required under the subsidy agreements with developers. Although the subsidy agreements with developers give the Department the authority to examine books and records related to the program, DCS has not exercised these rights since the program started in 2002. Without ongoing monitoring, there is a risk these housing units may no longer have affordable rents.

#### Recommendation 2.5

The Department of Community Services should establish and document regular monitoring of units created using subsidies to developers to ensure these units remain affordable for the required ten years.

## Rental Unit Inspection

### Conclusions and summary of observations

Policies regarding the inspection of rental units have not been updated in over 15 years, and do not reflect the addition of the affordable housing rent supplement program. There are areas related to safety which could be strengthened. Although policy requires unit inspections prior to a tenant moving in, we found two instances at Annapolis in which inspections were not completed before the tenant moved in, and one instance in which identified safety issues were not followed up to ensure deficiencies were appropriately resolved.

2.36 *Policies for unit inspections* – The policies for inspection of rental units have not been updated since 1994 and predate the Affordable Housing Program.

- 2.37 The existing policies require housing authorities to conduct move-in inspections once an applicant has been selected for a rent supplement unit. In practice, Metro and Annapolis only conduct move-in inspections of existing units. The Authorities are not involved in the inspection of newly-constructed units. In these instances, the Department of Community Services relies on the municipal occupancy permit process to ensure there are no safety issues.
- 2.38 For existing units, we wanted to see that inspection policies had been followed. For newly-constructed units, we wanted to verify that DCS had obtained the municipal occupancy permit as evidence there were no safety issues with the unit.
- 2.39 For the 12 newly-constructed units (Metro – 3, Annapolis – 9), DCS was only able to provide an occupancy permit for one building. DCS management informed us it is often difficult to match occupancy permits with specific construction locations. Since DCS is relying on these permits, it is important that the Department ensure each building has a valid occupancy permit.

#### Recommendation 2.6

The Department of Community Services should obtain municipal occupancy permits prior to tenants moving into newly-constructed units.

- 2.40 We tested 12 existing unit inspections at Metro and did not identify any concerns.
- 2.41 Of the six existing unit inspections we examined at Annapolis, we found the following deficiencies.
- In two instances, no initial inspection was performed prior to the tenant moving into the unit.
  - One instance in which identified safety deficiencies were not followed up to ensure the concerns were addressed.
- 2.42 Failure to complete inspections and follow up to ensure safety issues are addressed prior to a client moving in leads to the risk that safety issues will not be addressed and could pose a danger to the tenant.
- 2.43 Management at both housing authorities informed us that it is the tenant's responsibility to bring safety issues to the landlord's attention. Management also stated that tenants could bring safety issues to an Authority's attention if necessary.

**Recommendation 2.7**

The Department of Community Services should update policies for inspection of rental units, including documenting how deficiencies are to be followed up.

2.44 Annual inspections are also required by existing policies but neither Metro nor Annapolis complete annual inspections.

**Recommendation 2.8**

The Department of Community Services, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority should assess the risks associated with rent supplement housing and determine if annual inspections are required. Policies should be updated to reflect the results of the risk assessment.

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## Measuring and Reporting on Program Effectiveness

### Conclusions and summary of observations

The Department of Community Services is not measuring and reporting the effectiveness of its rent supplement program. The performance measure established related to rent supplements considers the funding committed, however no targets have been established. Performance measures and targets have not been developed for the housing authorities, despite a recommendation by our Office in June 2007 to establish performance measures.

- 2.45 *Performance reporting DCS* – There is regular quarterly reporting to Treasury Board of funds committed and units created under the various housing programs. Management informed us that ad-hoc reports are also prepared in response to requests from MLAs. The Department of Community Services establishes performance indicators through its annual business plan and accountability reports.
- 2.46 The Department’s 2009-10 business plan established three performance measures for housing. These measures are to be used to “*track the department’s performance in the provision of a range of safe, appropriate affordable and sustainable housing options for Nova Scotians in need.*” One of the performance measures relates to rent supplement units which were the focus of this audit. “*Affordable Housing Agreement funds committed to creating or renovating housing units.*”
- 2.47 We found that no target has been established for this performance measure for either 2009-10 or 2010-11. To effectively monitor the performance of

its operations, the Department needs to establish targets. The established performance measure is not linked to demand to ensure that new units are addressing existing and future housing demands.

2.48 *Performance reporting: housing authorities* – Housing authorities report monthly to the Executive Director of Housing Authorities and Property Operations on the general operations of housing programs. These reports include information such as the number of vacancies, as well as identifying issues with filling units or other areas of concern regarding housing authority operations. There were no performance measures and targets established for the housing authorities in the DCS 2009-10 business plan; however the 2009-10 plan stated indicators will be developed for 2010-11.

2.49 In June 2007, our Office completed an audit of Regional Housing Authorities (Chapter 6), in which we recommended (6.1) “*performance outcomes, measures, and targets be developed for the Housing Authorities and that performance against these targets be assessed on a regular and timely basis.*” In our June 2010 report, DCS indicated that this recommendation was a work in progress. The progress to date on this recommendation is not sufficient given the importance of performance measures to ensure programs are operating effectively and to ensure programs are meeting established objectives. As such we have repeated our recommendation below.

#### Recommendation 2.9

The Department of Community Services should establish performance measures and targets for the Housing Authorities, and performance against these targets be assessed on a regular and timely basis.

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## Response: Department of Community Services

The Department of Community Services (DCS) has prepared this coordinated response to Office of the Auditor General's audit of the Rent Supplement Program on behalf of the Department, the Annapolis Valley Housing Authority and the Metropolitan Regional Housing Authority. The Department would like to thank the Office of the Auditor General for the opportunity to respond to their audit report. The Department's Social Housing Agreement Programs and Affordable Housing Programs are annually audited by the firm PriceWaterhouseCooper, on behalf of CMHC, and have been found to be in compliance with policy. We are pleased that the recommendations of this audit are consistent with the work that we have been undertaking since 2007 to strengthen policies, standards, processes, and procedures.

As per the following, the Department has responded to each of the audit's recommendations on an individual basis. In many cases, the Department has work ongoing and has partially completed many of the recommended actions.

### ***Recommendation 2.1***

***The Department of Community Services should update policy and procedure manuals and establish a process to ensure manuals are reviewed and updated regularly in the future.***

Management Response:

- An extensive review of the policy and procedures manuals has been completed and they will be moving forward through the Department's approval process in the coming months.
- The Department will implement a process to ensure that the Policy and Procedures manuals are regularly reviewed and updated as required.
- Housing Authority policies will be consistently delivered and procedures consistently applied across all five housing authorities.

### ***Recommendation 2.2***

***Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant placement policies are followed.***

Management Response:

- The three western area housing authorities are being merged effective December 1, 2010. Once completed, the Housing Authority management team will work with DCS Head Office to implement newly updated policies and controls including file reviews.

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***Recommendation 2.3***

***Annapolis Valley Housing Authority management should implement controls, such as periodic file reviews, to ensure applicant rejections comply with program policies.***

Management Response:

- The Housing Authority management team will work with DCS Head Office to implement the newly updated policies and controls including file reviews.

***Recommendation 2.4***

***The Department of Community Services should establish a formally documented process to assess rental housing development proposals, including unsolicited proposals.***

Management Response:

- The Department of Community Services uses the Request for Proposals (RFP) process to outline the Department's requirements. All proposals submitted contain the information requested in the three RFPs and are assessed on that basis.

***Recommendation 2.5***

***The Department of Community Services should establish and document regular monitoring of units created using subsidies to developers to ensure these units remain affordable for the required ten years.***

Management Response:

- The Department of Community Services enters into contribution agreements for the construction of new affordable housing rental units. These agreements are one time contributions which are forgiven over a period of 10 to 15 years. There is no ongoing subsidy.
- Of the 39 projects, the Housing Authorities are involved in 32 through the placement of clients. The Department agrees to check the remaining units for compliance to the contribution agreements.

***Recommendation 2.6***

***The Department of Community Services should obtain municipal occupancy permits prior to tenants moving into newly-constructed units.***

Management Response:

- The Department will obtain copies of occupancy permits for all files. It is important to note that the issuance of building permits and occupancy permits is the domain of municipalities.

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***Recommendation 2.7***

***The Department of Community Services should update policies for inspection of rental units, including documenting how deficiencies are to be followed up.***

Management Response:

- An extensive review of the policy and procedures manuals including inspections policies has been completed. These policies will be moving forward through the Department's approval process in the coming months.

***Recommendation 2.8***

***The Department of Community Services, Metropolitan Regional Housing Authority and Annapolis Valley Housing Authority should assess the risks associated with rent supplement housing and determine if annual inspections are required. Policies should be updated to reflect the results of the risk assessment.***

Management Response:

- Rent supplements are one option delivered and utilized by Housing Authorities to assist low income clients. Rent supplement units are inspected prior to occupancy by DCS clients and the Department retains the right to inspect these units at any time.
- The Department will assess the risks associated with annual inspection of rent supplement units and update policies with the results of this assessment.

***Recommendation 2.9***

***The Department of Community Services should establish performance measures and targets for the Housing Authorities, and performance against these targets be assessed on a regular and timely basis.***

Management Response:

- Performance outcomes, measures and targets are already in place for the Housing Authorities and will be further expanded. While the Department monitors these activities, DCS will formally document these.
- Housing Authorities have budget targets and five year asset and maintenance targets for capital replacement. Additional targets are already in place concerning performance and reporting. The Department has immediately taken steps to address this issue.

RESPONSE:  
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