

BACKGROUND

- 6.1** In August 2000, the Department of Community Services was assigned responsibility for government housing programs upon the dissolution of the Department of Housing and Municipal Affairs. The Department of Community Services provides a range of housing services through a number of programs. The Department, through the Nova Scotia Housing Development Corporation and the Housing Authorities, also provides and maintains approximately 12,000 public housing units.
- 6.2** The Nova Scotia Housing Development Corporation owns the public housing properties on behalf of the Province. Staff of the Department of Community Services performs the management and administrative functions of the Housing Development Corporation. Seven Housing Authorities (see Exhibit 6.1) are responsible for the administration, operation and maintenance of the public housing properties on behalf of the Corporation. Staff of the Housing Authorities are not employees of the Corporation or the Department. The financial results of the seven Housing Authorities are included in the financial statements of the Housing Development Corporation, which are consolidated into the financial statements of the Province.
- 6.3** Housing Authorities are established under the Housing Act. The Act gives the Minister of Community Services “general management, supervision and authority over” the Housing Authorities. There have been as many as 46 Housing Authorities in the Province. The Authorities were merged in 1991 to form 19, and were further amalgamated in 1997 to the current seven. Each of these seven Housing Authorities was established by an Order in Council and a formal management agreement between the Minister and the Housing Authority’s Board.
- 6.4** The Housing Authorities manage the day-to-day operations of the public housing stock. Their responsibilities include administering tenant applications and placements, collecting rent, resolving tenant issues, and maintaining and repairing of the properties. The Department, through the Housing Development Corporation, provides funding to the Authorities to carry out their responsibilities. Net losses of the Housing Authorities are cost-shared. For the year ended March 31, 2006, the Province was responsible for approximately 88% (\$48.9 million) of the losses, and the respective municipalities for approximately 12% (\$6.7 million) (see Exhibit 6.2).
- 6.5** The two largest Housing Authorities in Nova Scotia are the Metropolitan Regional Housing Authority (MRHA) and the Cape Breton Island Housing Authority (CBIHA). MRHA, with 165 staff, oversees 3,965 public housing units, 520 rent supplement units and approximately 7,300 tenants. MRHA’s budgeted

expenditures for 2006-07 were \$35.7 million (see Exhibit 6.3). CBIHA has 177 staff and manages 3,264 public/non-profit housing units, 71 rent supplement units and approximately 5,400 tenants. CBIHA's budgeted expenditures for 2006-07 were \$30.7 million (see Exhibit 6.4).

RESULTS IN BRIEF

- 6.6** The following are the principal observations from our audit of the Metropolitan Regional Housing Authority and the Cape Breton Island Housing Authority.
- The Housing Authorities receive direction and guidance from the Department of Community Services and function similarly to a division of the Department. Roles and responsibilities are understood at the Housing Authorities and they comply with the reporting requirements established by the Department. Non-financial outcomes, measures and targets should be developed and reported upon by the Authorities to enable a more complete assessment of performance.
 - There are weaknesses in access controls over the Housing Authorities' computer system. Access logs and access rights should be reviewed on a regular basis.
 - System controls over the receipt, recording and depositing of revenues are adequate at MRHA and CBIHA. However, we identified instances of the use of inaccurate information in the calculation of rental charges. Adjustments to rental charges should be fully supported and reviewed for accuracy and appropriateness.
 - We noted control weaknesses and instances of failure of control procedures relating to the processing of expenditures at MRHA and CBIHA. Proper support and authorization should be obtained prior to processing payments, and review procedures should be improved and better documented. In addition, we identified assignment of incompatible responsibilities to staff at CBIHA which should be addressed.
 - MRHA and CBIHA have processes in place for open and fair procurement that provides value for money. The Public Housing Operations Manual should be reviewed and updated to ensure it is consistent with the Government Procurement Policy.

AUDIT SCOPE

- 6.7** In February 2007, we completed a performance audit at the Metropolitan Regional Housing Authority and the Cape Breton Island Housing Authority. 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, and included such tests and procedures we considered necessary in the circumstances.

- 6.8** The objectives for this assignment were to assess:
- the governance function and accountability framework for the Housing Authorities;
 - the adequacy of control over revenues and expenditures at the Authorities; and
 - the adequacy of procurement processes in place to provide for value for money.
- 6.9** Our audit included two of the Province's seven Housing Authorities. Accordingly, while some policies, practices and other matters mentioned in this chapter may be applicable to all of the Housing Authorities, our comments are restricted to the two we audited.
- 6.10** Audit criteria were derived from recognized sources, including the *Canadian Institute of Chartered Accountants (CICA) Standards and Guidance Collection - Guidance on Control*, *CICA Professional Engagement Manual*, *CICA Information Technology Control Guidelines*, as well as the Government Procurement Policy and the Department of Community Services Public Housing Operations Manual. Criteria used in this audit were discussed with senior management of the two Housing Authorities and the Department and were accepted as appropriate.
- 6.11** We visited both Housing Authorities in early 2007 and conducted audit work on-site. We interviewed members of management and staff; examined policies, files and other documentation deemed to be relevant; reviewed systems and processes; and tested certain processes and key controls.

PRINCIPAL FINDINGS

Governance and Accountability

- 6.12** **Conclusions and summary of observations** - Governance relates to how a governing body leads and oversees an organization. Accountability is the requirement to answer for the discharge of responsibilities that have been assigned. We examined the governance function and the accountability framework for both Metropolitan Regional Housing Authority (MRHA) and Cape Breton Island Housing Authority (CBIHA). We concluded the Housing Authorities receive direction and guidance from the Department and function similar to a division of the Department. In addition, we concluded the Housing Authorities are in compliance with the reporting requirements established by the Department.
- 6.13** **Governance and accountability** - Under a traditional governance structure, a governing body or board provides leadership and oversight for an organization. For the Housing Authorities, the Boards are not responsible for providing strategic direction, oversight and control. They are primarily responsible for tenant issues, such as approval of applicants for public housing, tenant transfers, renewal or non-

renewal of leases, and responding to complaints or inquiries from tenants. The management agreements signed between the Minister of Community Services and the Boards indicate that the Minister is responsible for direction and supervision of the property management activities carried out by staff of the Authorities. The Minister assumes this role by having Housing Authority administrators report to management of the Department (See Exhibit 6.5).

- 6.14** Management at the Authorities indicated that they receive direction and guidance on their mission and objectives from the Department through the Department's Business Plan and communication with Department staff. As well, MRHA prepared an internal document that outlined goals and objectives for the organization for 2006-07. We reviewed the Department's 2006-07 Business Plan and noted that it addresses various housing programs, but Housing Authorities are not specifically mentioned within that document. The Nova Scotia Housing Development Corporation's 2006-07 Business Plan refers to the Housing Authorities as direct service providers of tenant and property management. We noted the responsibilities of the Housing Authorities align with the Corporation's mission and strategic goals. We also noted the Housing Authorities were included in a 2004 Departmental strategic planning exercise for government housing programs.
- 6.15** Roles and responsibilities are set out in the management agreements and Housing Authority job descriptions, and are understood at the Authorities. Documented policies and guidelines, as well as regular communication with the Department, provide direction and guidance, especially with regard to budgeting and financial reporting. Annual budgets and capital repair plans are submitted to the Department for approval. MRHA and CBIHA report financial results monthly, as well as statistics on public housing unit vacancies and the number of applicants on waiting lists
- 6.16** The Department and the Corporation have established performance outcomes, as well as measures and targets to determine progress on achievement, which are documented in their respective business plans. Housing Authorities report on their financial performance to the Department, but there are no requirements to establish and report non-financial performance measures, targets and results. The performance measures and targets for the Department and the Corporation are not sufficiently specific to be useful for determining the performance of MRHA and CBIHA. In our view, performance measures and targets that link to those of the Department and Corporation should be established to enable a more complete assessment of the performance of the Housing Authorities in discharging their responsibilities and contributing toward the achievement of the Department's goals.

Recommendation 6.1

We recommend that 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.

Controls over Revenues and Expenditures

- 6.17** **Conclusion and summary of observations** - We assessed whether the two Housing Authorities have adequate control over revenues and expenditures. Our examination of controls included those related to receipt and recording of revenues, collection of receivables, recording and payment of expenditures, as well as general and application controls for financial information systems. We found areas where control is adequate, but also identified control weaknesses and instances where controls did not operate as intended.
- 6.18** **Organizational controls** - Financial results at MRHA and CBIHA are reviewed monthly and compared to budgets. Variances between budgeted and actual results are investigated. We noted that the Housing Authorities carry out regular reconciliations of payables, receivables and bank accounts.
- 6.19** Many of the Housing Authorities' policies and procedures are documented in the Public Housing Operations Manual provided by the Department of Community Services. We observed that a number of chapters or sections in the manual are outdated and do not reflect current practices. For example, the arrears collection procedures need to be updated and the financial management chapter outlines procedures for a manual accounting system, rather than the computerized financial information system used by the Housing Authorities. We noted there are training manuals for the computer system, but they also require updating. Some areas in the training manuals are still incomplete, such as procedures for pre-approved rent payments.
- 6.20** We found that staff members are clear on their roles and responsibilities, as well as the policies and procedures to be followed. Staff members are informed of their job requirements when they are hired and through on-going training. Changes to policies are communicated through e-mail, staff meetings and management direction. We noted that some job descriptions at the Authorities have not been updated for many years.

Recommendation 6.2

We recommend that job descriptions, and policy and procedures manuals, including financial and system training manuals, be reviewed and updated in a timely manner.

- 6.21** **General computer controls** - The Housing Authorities use a web-based property management application called Yardi Voyager (Yardi) for property management and financial operations. Yardi is owned and maintained by a private sector company, and made available for use by various public and private property management operators on a fee-for-service basis. It is available to the Housing Authorities through a service agreement signed in 2002.
- 6.22** Payroll transactions are processed through the Nova Scotia government's corporate financial management system (SAP HR module). The Housing Authorities have

a service agreement with the government for use of this system. The Housing Authorities also have a service agreement with the Department of Community Services for support of their own information technology infrastructures.

- 6.23** We examined controls around the general computer environment at MRHA and CBIHA to determine if the integrity, confidentiality and availability of computer processing, as well as access to the information system functions and data are adequately protected. We noted the following control weaknesses.
- 6.24** Access to Yardi is controlled by a user ID and password. We examined access procedures and made suggestions to management for improvement relating to the setting of passwords and limiting of log-on attempts. We were informed that changing the password security setup would require customization of the Yardi system. This would require the agreement and services of the system owner, possibly at significant cost.
- 6.25** Access to Yardi is through the Internet, with the use of a standard browser. In addition to a user ID and password, a computer and an active internet connection is all that is required to access the system. The Department issued a directive to the Housing Authorities that indicated access to Yardi must be through computers properly configured by the Department's information technology specialists. System access logs which identify the address of computers that have accessed Yardi are available to the IT specialists. We were informed they do not review the access logs to ensure that only authorized and properly-configured computers are accessing Yardi. As a result, if unauthorized access to the system from outside the Authorities occurred, it could go undetected.
- 6.26** There are no documented policies and procedures for setting up users on the Yardi system, although staff is aware of the processes to be followed. The system can provide information on employees which have access to various system functions, but this has not been reviewed since the system was implemented. Access rights should be reviewed periodically to ensure they are appropriately assigned and incompatible responsibilities are separated.

Recommendation 6.3

We recommend that financial system access logs and access rights be reviewed on a regular basis to ensure that only authorized users are accessing the system and that access rights assigned are appropriate for assigned responsibilities and functions.

- 6.27** As noted in paragraph 6.21, a private sector company operates and supports the financial information system used by the Housing Authorities, and the Nova Scotia government provides payroll services to the Authorities. The Housing Authorities should seek assurance regarding the adequacy of controls surrounding these systems since they are beyond the oversight of the Authorities. Assurance on the adequacy of controls can be obtained through an independent audit of the computer operations of these external service providers.

Recommendation 6.4

We recommend that the Housing Authorities and the Department of Community Services consider options available to obtain assurance on the adequacy of controls surrounding the information systems which the Authorities use.

- 6.28** **Control over revenues** - We examined the processes and controls in place at MRHA and CBIHA and tested certain key controls to determine if revenues received were completely and accurately recorded and deposited in a timely manner. At each Housing Authority we also recalculated rental charges for 30 sample items, and examined collection activities for 10 accounts with arrears balances.
- 6.29** Based on our tests, we concluded that system controls over the receipt, recording and depositing of revenues were adequate at both MRHA and CBIHA. However, we identified the use of inaccurate information in the calculation of rental charges. At MRHA, we noted instances where documentation of income was not in the tenant file or was inadequate to support the rent calculation, and we were unable to verify property manager review of rent calculation documents for several sample items. At CBIHA, we found instances where inaccurate amounts were entered in the tenant records or were used in determining income for the rent calculation. We were also unable to verify property manager review of rent calculation documents for certain sample items. Although the noted errors were small, we provided details of our test results to management to indicate where control procedures had not operated as intended.
- 6.30** Tenants may have rent reduced during a lease term as a result of lower household income. At CBIHA, we were informed that rent reductions prepared by income review clerks subsequent to yearly lease renewals are not reviewed by the property managers. The documents are filed in tenant files and available for yearly lease review by property managers. This increases the risk that an inappropriate rent reduction will be processed. At MRHA, rent reductions, as well as lease renewal documents, are reviewed by the property manager.

Recommendation 6.5

We recommend that all changes to rental charges be fully supported and reviewed for accuracy and appropriateness by the property managers. Completion of the review should be documented.

- 6.31** Both Housing Authorities have collection policies and procedures including measures such as phone calls, personal visits, verbal and written agreements for repayment, reminder letters, and orders for termination of tenancy. Property managers are responsible for monitoring tenants' arrears balances, and are responsible for sending reminder letters, making personal visits and following up on tenant commitments for payment. MRHA and CBIHA also have collections

officers on staff to aid in collections activities. All Housing Authorities must abide by the regulations of the Nova Scotia Residential Tenancies Board, including those which dictate the process for addressing nonpayment of rents. We found that CBIHA made adequate collection efforts for the ten accounts we tested that were in arrears at December 31, 2006. We concluded that collection efforts could have been improved for three of the ten accounts in arrears we examined at MRHA.

- 6.32** **Control over expenditures** - We examined the processes and controls in place at MRHA and CBIHA and tested certain key controls to determine if expenditures are properly supported, approved and completely and accurately recorded. We selected 30 non-payroll and 9 payroll items at each of the Housing Authorities for testing. We provided details of our testing results to management.
- 6.33** We found certain controls over expenditures at MRHA were functioning appropriately, but also noted control weaknesses. Certain review procedures are carried out by the accounts payable clerks and the senior accounting clerk before payments are processed. This review is not documented (i.e., no signature or initials), so we were unable to determine if the appropriate reviews had taken place for all 30 of our sample items. We also found instances where control procedures had failed to operate as intended, including approval for payment by a person without the appropriate spending authorization; issue of purchase orders after the goods or services were obtained; no indication that labour rate charges were verified to the contract rate; and a timesheet not approved and signed by the employee's supervisor.
- 6.34** We found certain controls over expenditures at CBIHA were functioning appropriately, but also noted cases where control procedures had failed to operate as intended. For example, we found instances of approval for payment by a person who did not have the appropriate spending authorization; amounts or rates charged on invoices which did not match tender amounts; and no documentation that a review of invoices and supporting documents had taken place.
- 6.35** From our review of work performed in 2005 by the auditors of the Housing Development Corporation's financial statements which included auditing at the Authorities, we noted incompatible duties were identified among the accounts payable positions at CBIHA. Certain accounts payable staff have the ability to record payments in the accounting system, as well as prepare and sign cheques. This creates the potential for inappropriate payments to be processed and not detected. At the time of our audit, this situation remained unchanged.

Recommendation 6.6

We recommend that the Housing Authorities review their internal control procedures to ensure proper support and authorization are obtained prior to making payments and to ensure review procedures are properly carried out and documented. In addition, Cape Breton Island Housing Authority should ensure incompatible responsibilities are not assigned to its accounts payable staff.

Procurement

- 6.36** The Housing Authorities are required to conduct operations in compliance with policies and guidelines in the Public Housing Operations Manual, as stated in the management agreements. Chapter 46 of the manual outlines procurement policies. The chapter also notes that Housing Authorities are subject to the Nova Scotia Government Procurement Policy and the Atlantic Procurement Agreement. We examined the procurement policies and practices at MRHA and CBIHA and concluded that the Authorities have processes in place for open and fair procurement that provide value for money. However, we identified weaknesses that resulted in non-compliance with some policies.
- 6.37** The Public Housing Operations Manual states that, should there be a conflict between the manual and other applicable policy documents, the manual shall prevail. It is not clear that authority to override the Nova Scotia Government Procurement Policy has been granted by government. We reviewed the two policies to determine if there were any areas of conflict and noted the following.
- The Public Housing Operations Manual requires contracts be awarded to the lowest bidder and a contract should only be awarded to other than the lowest bidder in unusual circumstances. The Government Procurement Policy allows bids to be evaluated on other criteria such as quality, delivery, servicing, and capacity to meet requirements, in addition to price. The bid request documents must clearly identify the criteria and assigned weights to be used in bid evaluations.
 - The Public Housing Operations Manual has no provision for procurement in emergency or other situations where following the required procedures is not feasible or practical. The Government Procurement Policy outlines circumstances where alternative procurement methods may be used (e.g., purchasing without a competition) and the required documentation to support those decisions.
- 6.38** We tested 30 procurement transactions at each of the two Housing Authorities to determine if policies and procedures were followed. We found four procurement transactions at MRHA and nine at CBIHA where alternative procurement methods were used (primarily sole-sourcing). Documentation of the reasons for alternative methods was not consistent. While there may be valid reasons for using alternative procurement methods, the Public Housing Operations Manual does not address such situations. Government Procurement Policy requirements were not followed in these instances and we are unclear on whether the Authorities were aware of these requirements. Without clear guidelines to address emergency or other special circumstances, there is a risk that alternative procurement methods will be used inappropriately.

Recommendation 6.7

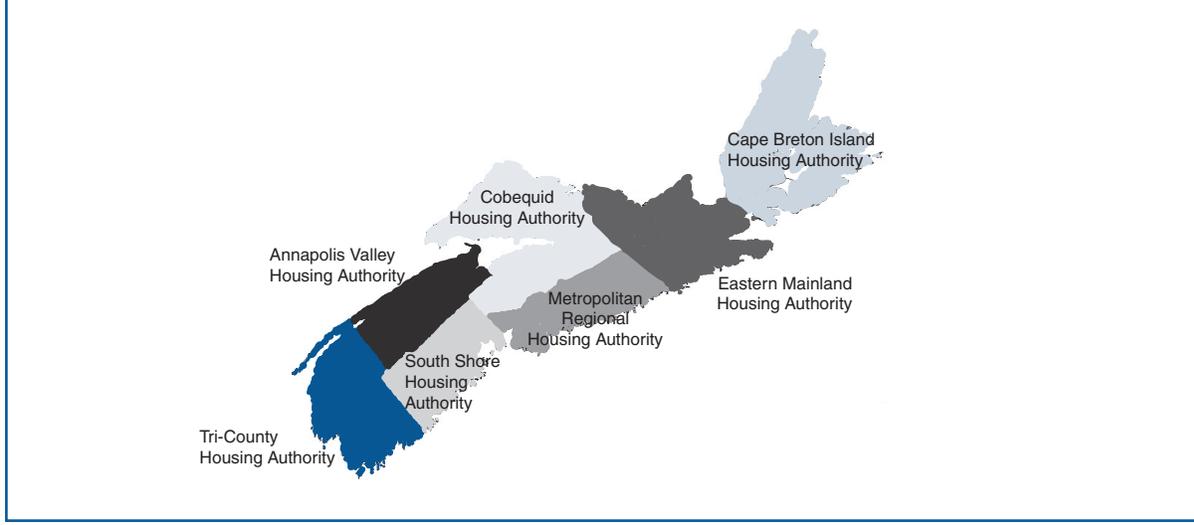
We recommend that the Public Housing Operations Manual be reviewed and updated to ensure it is consistent with the Government Procurement Policy and to provide clear guidance on using alternative procurement methods.

- 6.39** We also noted that MRHA has a conflict of interest policy which provides guidance to staff in relation to procurement. CBIHA does not have a similar policy and we suggested that they prepare one.

CONCLUDING REMARKS

- 6.40** We found that the Metropolitan Regional Housing Authority and the Cape Breton Island Housing Authority receive direction and guidance from the Department of Community Services and the Authorities report to the Department on their operations, as required. We believe non-financial performance information should be developed to enable a more complete assessment of the Authorities' progress in achieving the housing objectives and outcomes of the Department.
- 6.41** While certain controls over revenues, expenditures and the general computer environment are adequate, we identified a number of control weaknesses that increase the risk of financial loss either through error or fraudulent actions. We encourage the Housing Authorities to take more care in performing internal control procedures and address the concerns we identified.
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Housing Authorities



Source: Department of Community Services

Housing Authority - Revenues and Expenditures

For the year ended March 31, 2006 (\$ thousands)								
	Annapolis Valley	Cape Breton Island	Cobequid	Eastern Mainland	Metro Regional	South Shore	Tri-County	Total
Revenue	\$4,038	\$12,552	\$4,282	\$4,462	\$14,740	\$1,621	\$3,328	\$45,023
Expenditures	<u>7,699</u>	<u>30,298</u>	<u>8,958</u>	<u>9,135</u>	<u>33,713</u>	<u>3,247</u>	<u>7,548</u>	<u>100,598</u>
Net operating loss	<u>(\$3,661)</u>	<u>(\$17,746)</u>	<u>(\$4,676)</u>	<u>(\$4,673)</u>	<u>(\$18,973)</u>	<u>(\$1,626)</u>	<u>\$4,220</u>	<u>(\$55,575)</u>
Provincial distribution	(\$3,173)	(\$15,773)	(\$4,071)	(\$4,056)	(\$16,694)	(\$1,433)	\$3,692	(\$48,892)
Municipal distribution	<u>(488)</u>	<u>(1,973)</u>	<u>(605)</u>	<u>(617)</u>	<u>(2,279)</u>	<u>(193)</u>	<u>(528)</u>	<u>(6,683)</u>
Net operating loss	<u>(\$3,661)</u>	<u>(\$17,746)</u>	<u>(\$4,676)</u>	<u>(\$4,673)</u>	<u>(\$18,973)</u>	<u>(\$1,626)</u>	<u>(\$4,220)</u>	<u>(\$55,575)</u>

Source: Department of Community Services

Metropolitan Regional Housing Authority
2005-06 actual financial results and 2006-07 budget

Exhibit 6.3

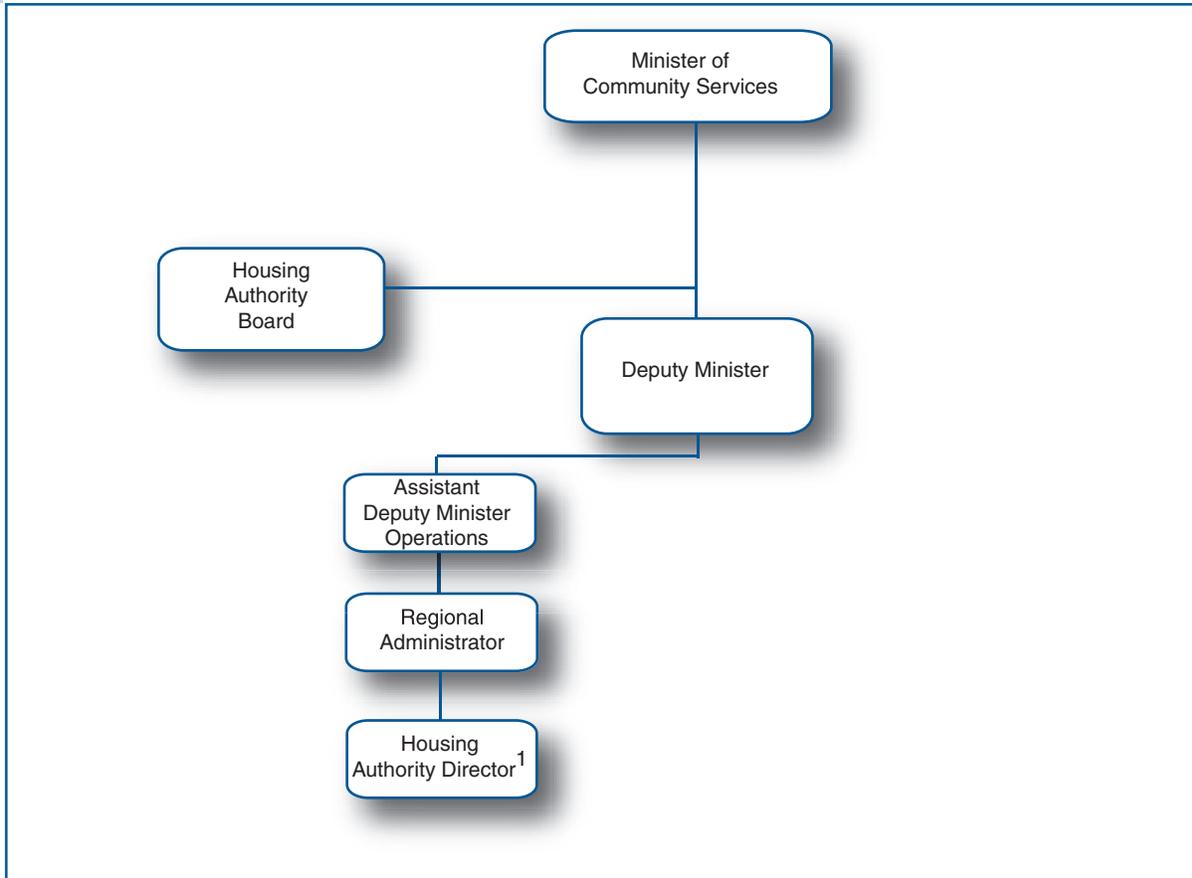
	Actual 2005-06 (\$ thousands)	Budget 2006-07 (\$ thousands)
Revenue	<u>\$14,740</u>	<u>\$14,869</u>
Expenditures		
Utilities/other	8,532	9,632
Maintenance	5,479	5,273
Capital improvements	2,278	2,763
Administration	3,321	3,905
Non-operating	<u>14,103</u>	<u>14,175</u>
	33,713	35,748
Net operating loss	(\$18,973)	(\$20,879)

Cape Breton Island Housing Authority
2005-06 actual financial results and 2006-07 budget

Exhibit 6.4

	Actual 2005-06 (\$ thousands)	Budget 2006-07 (\$ thousands)
Revenue	<u>\$12,552</u>	<u>\$12,575</u>
Expenditures		
Utilities/other	6,518	7,422
Maintenance	6,013	5,417
Capital improvements	2,416	1,939
Administration	2,892	3,105
Non-operating	<u>12,459</u>	<u>12,778</u>
	30,298	30,661
Net operating loss	(\$17,746)	(\$18,086)

Housing Authorities - Reporting Structure



Note 1 - The Department is in the process of creating a new position - Executive Director, Housing Authorities - reporting to the Deputy Minister. Directors of the Housing Authorities will report to this new position.

Source: Department of Community Services

DEPARTMENT OF COMMUNITY SERVICES' RESPONSE

The Department welcomes the many positive comments noted in the Principal Findings Sections in the body of the report. There are always opportunities for improvements identified in these types of engagements which the Department also welcomes as part of its on-going initiative to improve housing services provided to Nova Scotians. One recent significant step in that regard from a governance perspective is the creation of a new position within head office, the Executive Director, Housing Services. The Directors of the Housing Authorities will report to this position. Once hired, this person will have as one objective the assessment of all of the recommendations with a view to implementing all of them as soon as is practicable. It should also be noted that some in whole or in part have already been implemented.