

# ***The Corporation of the City of Windsor Windsor Essex Community Housing Corp***

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*Final Internal Audit Report*

**8 May 2015**

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# ***Summary of Internal Audit Results***

## ***Background Information***

Windsor Essex Community Housing Corporation (CHC) is an independent local housing corporation, with a Board of Directors (“BoD”) appointed by the City of Windsor and includes City of Windsor Councillor representation, Essex County representation, members at large from the local community and tenant representatives.

The Board is composed of eleven (11) Directors appointed in accordance with the following:

- (i) Three (3) of the Directors shall be representative of the County of Essex and shall be selected with input from County Council with County Council being encouraged to suggest at least one (1) candidate that is a Tenant.
- (ii) The remaining eleven (8) shall be appointed in accordance with the following:
  - Two (2) shall be members of Council;
  - Two (2) shall be Tenants;
  - One (1) shall be representative of labour;
  - One (1) shall be representative of business; and
  - Two (2) shall be Citizens.

The City has a dual role with respect to the social housing portfolio and the delivery of social housing programs. The City is the legislated designated Service Manager and is required to administer, deliver and in some cases fund housing programs in the Windsor Essex region. In addition, the City is the sole shareholder of the Windsor Essex Community Housing Corporation.

CHC is incorporated under the Business Corporations Act of Ontario.

The City of Windsor, as designated Service Manager, and through the Housing Services Unit is responsible for the administration and funding of Social Housing Programs in the Windsor and Essex County service area as prescribed by the Housing Services Act, 2011 and provincial rules and regulations.

The Service Manager is also responsible for ensuring that access to all social housing units are administered through a Centralized Waiting List system, with participation by all Housing Providers. The Service Manager for Windsor and Essex County delegated the centralized waiting list function to CHC through a service agreement. CHC operates the Central Housing Registry to deliver this function. The City provides a “Service Manager Operating Subsidy” to CHC (about \$13 M in 2014) and a “Capital Subsidy (about \$3M in 2014).

Funding assistance for these units and all social housing units in Windsor/Essex is provided by the City of Windsor through subsidies based on legislative requirements and by operating agreements.

CHC’s funding/budget process is supported through clear roles and responsibilities, as well as effective communication and coordination with the City’s Housing Services department.

In November 2014, the BoD of CHC supported, by way of motion, ‘draft’ core strategic themes and mission, vision and values. A strategic plan is expected to be approved by 2015. CHC also has formalized long-term planning activities as part of its Asset Management plan.



The engagement has been performed in accordance with the scope of work per Appendix A.

## Report Classification

In general, the management control systems considered as part of this review are reliable for the purpose envisaged. Overall, there is a guiding Shareholder Direction and Accountability Rules which provides guidance and direction for all parties (i.e. CHC and the City in its dual role as shareholder and service manager) and their responsibilities to manage and operate housing programs in the City of Windsor.

As a result of a recent Operational Review performed by the City (in its role as Service Manager), management is committed to implementing changes to its operations and have taken steps to develop and communicate a strategic plan in the past few months. There is a general acknowledgement from Senior Management of the work to be done to improve transparency, manage fraud incidents appropriately, develop a policy framework that focuses on governing policies and a sustainable process for reviewing and maintaining operational policies and procedures. There are also some improvements that can be made to strengthen financial controls and reporting processes such as a quarterly reporting cycle and monthly bank reconciliation.

Based on the controls identified and tested as part of the ‘targeted review’ of CHC’s process and controls, we have determined that there is reasonable evidence to indicate that:

	No or limited scope improvement	No Major Concerns Noted	Cause for Concern	Cause for Considerable Concern
Controls over the process are designed in such a manner that there is:				
Sample tests indicated that process controls were operating such that there is:				

Management has provided comprehensive action plans, which we believe will address the deficiencies noted.

## Summary of Positive Themes

In terms of the positive themes, it was noted that CHC has a sound process for handling incoming complaints from tenants as well as inquiries from the media with a designated spokesperson and dedicated Public Affairs Manager that reports to the Director of Corporate Services. Furthermore, there are several sub-committees to the Board of Directors, for instance, the Special Board Executive Committee meets to review strategic plans and provide oversight and advice for CHC management. Additionally, there are formal monthly Senior Management Team meetings with the objective to review and discuss important matters relating to operational or capital planning, financial results and corporate services.

In 2013, the City commissioned an “Operational Review” which enables CHC to look to areas of the operation in need of improvement, identify where CHC performs effectively and allow CHC to implement actionable plans.

During the course of the review, it was determined that appropriate controls are designed and operating to manage the majority of in-scope risks. Examples of these controls include:

- An Annual Report is available to the public by CHC on a voluntary basis and is provided to the Shareholder and Service Manager as required by the Shareholder Declaration and Accountability Rules with the City, respectively;
- Risk Management is considered/aligned with CHC’s Strategic Planning processes;

- An inventory of Governance Policies is maintained;
- A structured open budgeting and planning process, aligned to the City’s processes, is in place to ensure there is transparency and oversight; and
- Regular reporting to City of Windsor and the Service Manager.

Furthermore, a Strategic Plan is being developed and will guide the business activities for CHC over the next several years. Finally, management has taken a position to eliminate cash collected from its District 4 branch office to further reduce the risk exposure and only accept cash for rent payments at the main CHC office.

Additional details about the above mentioned controls and other key controls reviewed are discussed in **Appendix B: Summary of Controls Reviewed**.

### Summary of Findings

Finding #	Topic	Rating <sup>1</sup>			Management Action
		Significant	Moderate	Low	
<b>Cash Management</b>					
1	Cash and Bank Reconciliation Procedures	X			Formalized cash procedures and ensure bank reconciliations are prepared and reviewed on a timely basis – CHC CFO, Q4-2015
<b>Board Reporting</b>					
2	Financial Reporting to the Board and Shareholder		X		Update the Shareholder Declaration – CHC CEO, Q3-2015
3	Independent Review of Board Reports			X	Formalized review process of all BoD reports – CHC CEO, Q3-2015
<b>Policy Management</b>					
4	Policy Review Framework	X			Prepare a detailed plan for a comprehensive policy update for both governance and operational policies – CHC CEO, Q2-2016
5	Fraud Reporting Protocols and Policy	X			Adopt the City’s fraud policy with appropriate amendments and protocols and hold training sessions for employees to raise awareness of the policy – CHC CEO, Q3-2015
<b>Other</b>					
6	Rent Supplement Program – Agreements with Landlords			X	Update Rent Supplement master agreement – CHC COO, Q3-2015
<b>Total</b>		<b>3</b>	<b>1</b>	<b>2</b>	

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## *Summary of Significant Findings*

Internal audit identified three (3) significant opportunities for improvement related to the design of controls, specifically:

- Implementing a monthly bank reconciliation process as part of formal month end close cycle;
- Review fraud incident management protocols and formalize into a fraud policy; and
- Develop a formal policy review committee and policy development framework;

Several of these design deficiencies could lead to financial losses for the CHC if not addressed in the short term. Given the compensating controls in place, such as regular financial reporting to the Board and the City, the opportunity for a potential material financial issue is reduced.

## *Management Comments*

Management agrees with the summary of significant findings and has already taken steps to improve the design of controls noted above and ensure processes are in place to address significant risks. Specifically, steps are being taken to reconcile the bank accounts on a more timely basis and Management is in the process of completing a comprehensive policy review and update.

Various compensating controls exist and have been designed to detect and prevent material losses to the corporation. These include: detailed financial statement reviews and monitoring of bank accounts; regular reporting to the Board of Directors and its committees; regular reporting to the Service Manager and City as Shareholder.

Management appreciates the recommendations and suggestions for improvement.

Name: Jim Steele  
Title: Chief Executive Officer  
Date: 5/05/2015

# Detailed Observations

## Findings & Action Plans

Finding	Rating <sup>1</sup>	Recommendation & Action Plan
<b>1. Cash and Bank Reconciliation Procedures</b>		
<p><b>Observation</b>            During the course of the review, it was noted that cash is currently collected at two locations; 1) main CHC offices and 2) District 4 branch office. However, the practices for securely transporting cash deposits to the bank vary. Management has taken a position to eliminate cash collection and minimize cash handled by staff and managers at the District 4 site, and to only accept cash at the main office.</p> <p>Although daily cash reconciliation procedures are performed to compare bank deposits to transactions recorded in Yardi, a monthly bank reconciliation is not performed.</p> <p>Formalized procedures handling cash are not documented.</p>	<p><b>Overall</b>            Significant</p>	<p><b>Recommendation</b>            CHC Management should ensure consistent cash handling procedures are applied at any location that handles cash.</p> <p>Cash handling procedures should be formally documented and those responsible for handling cash should sign-off acknowledging that they have read and understood the procedures.</p> <p>Bank reconciliations should be prepared monthly and independently reviewed by CFO with evidence of this review retained.</p>
<p><b>Implication</b>            Accruals may not be recorded in appropriate period. Cash handling and reconciliation procedures may not be sufficient to ensure accuracy of BoD reports. Should an issue exist, it could lead to the matter going undetected for an extended period of time.</p>	<p><b>Impact</b>            Medium</p> <p><b>Likelihood</b>            Highly Likely</p>	<p><b>Management Action Plan</b>            Management agrees with the findings and the recommendations are being implemented.</p> <p>Cash handling procedures exist, however are not formalized. It is acknowledged that formalized procedures should be documented and provided to employees.</p> <p>Management acknowledges that monthly bank reconciliations are not consistently performed and reviewed on a timely basis, with the daily cash reconciliation being the compensating control for significant risks. Lags in</p>

<sup>1</sup> See Appendix C for Basis of Finding Rating and Report Classification

Finding	Rating <sup>1</sup>	Recommendation & Action Plan
<p><b>Root Cause</b>            There is no mechanism to remind management to review bank reconciliations in a timely manner. Furthermore, due to resource constraints, bank reconciliations were not prepared or reviewed on a monthly basis.</p>		<p>the monthly process exist due to significant resource constraints in the Finance Department. An initiative is under way to utilize our current software package and vendor support to implement a more automated bank reconciliation process and therefore gain efficiencies to address this recommendation.</p> <p><b>Responsibility</b>            CHC Chief Financial Officer (CFO)</p> <p><b>Due Date</b>            2015 Q4</p>

Finding	Rating	Recommendation & Action Plan
<b>2. Financial Reporting to the Board and Shareholder</b>		
<p><b>Observation</b></p> <p>a. The current Shareholder Direction is not clear in defining the method in which financial statements are required to be submitted to the City.</p> <p>Currently, an "Observer" from the City's Finance Department attends BoD meetings and the Service Manager receives copies of board reports. Board reports are not currently provided to City Council. However, the direction reads as though the financial statements should be sent to the Shareholder (i.e. City Council).</p> <p>The timelines stipulated in the Shareholder Direction for financial reporting is as follows, the second (2nd) month following the end of the quarter or 90 days after year end.</p> <p>It was noted that meeting these timelines are dependent on the timing of board meetings and year-end financial statement audit. It was also noted that these timelines are not always met.</p> <p>It is unclear whether financial statements infer complete financial statements with notes or simply financial reports (i.e. statement of financial position, operations, cash flow, budget vs. actual, etc.). Subsequent to performing the review, we noted that the City (as Service Manager and Shareholder) are working with management to identify elements of the agreement to update and plan to revise the financial reporting deadlines in the Shareholder Direction.</p> <p>b. Based on a review of financial reports submitted to the Board over a 22 month period (Feb 2013 to Nov 2014), it was noted that the period covered by the financial reports varied from meeting to meeting. Out of 10 occurrences (not including meetings relating to annual financial reports): results for a period of 3 to 11 months were presented.</p> <p>Subsequent to performing the review, we noted that management has decided to streamline the reporting processes and align financial reporting to a quarterly cycle.</p>	<p><b>Overall</b> Moderate</p>	<p><b>Recommendation</b></p> <p>Updates to Shareholder Direction should be implemented to add clarification regarding the delivery of financial reports. The term "Financial Statements" should be clearly defined. The timelines for delivery to the City should be reviewed to ensure that they are feasible.</p> <p>CHC management should coordinate the updates to the Shareholder Direction with City Management.</p> <p>Once the Shareholder Direction has been updated, the changes should be communicated to the Board and the Board Orientation Manual should be updated.</p> <p>The role and designation/appointment of the "Observer" should be explicitly defined in the Shareholder Direction if this is the acceptable medium for communication with the Shareholder.</p> <p>Also refer to Consideration for Improvement #3.</p>
	<p><b>Impact</b> Medium</p>	<p><b>Management Action Plan</b></p> <p>Management agrees with the finding and the recommendation to update the Shareholder Declaration to provide more clarity in several areas.</p> <p>The City through its role as CHC's sole shareholder and Service Manager are currently in the process of updating the Shareholder Declaration and CHC management has been involved in and has provided feedback during these consultations.</p>
	<p><b>Likelihood</b> Likely</p>	

Finding	Rating	Recommendation & Action Plan
<p><b>Implication</b> An inconsistent frequency performance measurement process may lead to information that is not comparable and thus decisions that are not appropriate or timely. There is an increased likelihood that corrective action is delayed.</p>		<p><b>Responsibility</b> City of Windsor Housing Services Department City of Windsor Finance Department City of Windsor Solicitor CHC Chief Executive Officer (CEO)</p> <p><b>Due Date</b> 2015 Q3</p>
<p><b>Root Cause</b> There is a significant amount of data to compile in sequence within resource constraints to prepare quarterly financials and to meet the reporting and delivery deadlines.</p> <p>A quarterly cycle for reporting financial results has not been enforced or required.</p>		

Finding	Rating	Recommendation & Action Plan
<b>3. Independent Review of Board Reports</b>		
<p><b>Observation</b> Generally, Senior Management responsible for preparing Board reports will hold informal discussions with the CEO on the content of board reports prior to submission.</p> <p>There does not appear to be a formal control point to ensure information presented ("for information") and recommendations made to the BoD are reviewed/approved prior to release.</p> <p>Although there is no formal sign-off, the senior management team meets monthly and as part of these discussions, presenters have the opportunity to vet content and specific wording of information presented in Board reports with the CEO.</p>	<p><b>Overall</b> Low</p> <p><b>Impact</b> Low</p>	<p><b>Recommendation</b> CEO should consider reviewing board reports in detail and providing comments and signing off formally, any time there is a change to the standard report format or change in the person responsible for preparing the material.</p> <p>Evidence to demonstrate confirmation from CEO that information is accurate and complete prior to board meetings should be retained (i.e. email, signature, etc.).</p> <p><b>Management Action Plan</b> Management agrees with the findings, and processes have been updated to reflect these recommendations.</p>
<p><b>Implication</b> Information presented to the Board may not be presented as intended by the CEO or Board approval/resolution is sought for an item or matter which the Board should not approve (i.e. communication items) as per their mandate.</p>	<p><b>Likelihood</b> Likely</p>	<p>Through both formalized monthly meetings with the Senior Management Team and informal means, the CEO is continuously aware of information and recommendations planned for discussion and presentation at CHC's BoD meetings. Between monthly meetings, the Senior Management Team meets frequently on an ad-hoc basis, to discuss and address organizational-wide issues including those that would require discussion at the BoD level.</p> <p>Beginning with the next Board meeting (scheduled for May 2015), the CEO has implemented a formalized review process of all BoD reports submitted by the Senior Management Team to address this recommendation.</p>
<p><b>Root Cause</b> Given the frequency of BoD meetings, management has acquired experience as to how to present/prepare board reports and thus a formal review/sign-off has not been warranted.</p>		<p><b>Responsibility</b> CHC Chief Executive Officer (CEO)</p> <p><b>Due Date</b> 2015 Q2</p>

Finding	Rating	Recommendation & Action Plan
<b>4. Policy Review Framework</b>		
<p><b>Observation</b></p> <p>During the course of review, there was no evidence of Board approval of the following key policies: Code of Conduct, Conflict of Interest, Privacy or Spending Authorities. Based on a review of the November 2014 Board presentation, it appears as though management is in the process of reviewing and updating policies which was in response to the recommendations from the 2013 Operational Review.</p> <p>There are no documented guidelines on policy development, criteria for which Corporate policies require BoD approval and the minimum review cycles for policies vs. operational procedures.</p> <p>No formal documented mandate/charter is in place for the Executive Committee to outline its composition and responsibilities.</p>	<p><b>Overall</b> Significant</p>	<p><b>Recommendation</b></p> <p>CHC should develop a Governance Framework on Policies which provides guidance to policy owners in developing appropriate policies and establishes an understanding of which policies require BoD approval. These responsibilities may be considered as part of the Executive Committees mandate.</p> <p>CHC should implement a policy review (or policy advisory) committee to oversee the policy development process. Discrepancies between actual procedures in practice and policies should be reviewed and resolved by such committee.</p> <p>Training of policies should be tailored to specific individuals. Certain policies may require sign-off or acknowledgement from staff/employees or tenants.</p> <p>CHC management should ensure that a policy element and enabling process is designed and implemented to ensure that there is a review/maintenance cycle. At a minimum, all policies should be reviewed and modified or re-endorsed every 5 years or based on policy specific triggers. This minimum requirement should be applied to all policies; however some may require more frequent validation. Each policy should indicate the associated review cycle requirements.</p>
<p><b>Implication</b></p> <p>Policies may not be consistent, complete or current. Policies are more likely to contain errors or omissions. The role, impact and importance of policies may not be clearly understood resulting in non-compliance. Unauthorized policy modification may occur. Without proper communication of new policies, employees can be unaware of the update, and thus could fail to abide by them increasing the risk of non-compliance.</p>	<p><b>Impact</b> Medium</p>	<p>The following elements should be considered as part of the Policy development procedures or required policy template:</p> <ul style="list-style-type: none"> <li>a) Policy purpose, owner and enterprise applicability;</li> <li>b) Definition of a policy and what makes a policy enforceable;</li> <li>c) Exception management process;</li> <li>d) Roles and responsibilities in the policy management process;</li> <li>e) Minimum requirements as to awareness and communication plan definition as part of policy update/creation; and</li> <li>f) Criteria for Board approval and exemption (if any) for minor changes.</li> </ul>

Finding	Rating	Recommendation & Action Plan
<p><b>Root Cause</b>  Guidance and oversight of the development of policy components is not defined and centralised across the enterprise to enable a consolidated and comprehensive policy governance approach.</p>	<p><b>Likelihood</b>  Highly Likely</p>	<p><b>Management Action Plan</b>  Management agrees with the findings and the recommendations are being implemented.</p> <p>Management has been working on a comprehensive policy update for both governance and operational policies since the Operational Review was conducted in 2014. CHC has a number of legacy policies in place from the Ontario Housing Corporation that require updating, and Management has provided its BoD with an inventory of these policies. Through its industry relationships, Management has been in consultation with other local housing providers undertaking similar policy work to determine if resources can be leveraged.</p> <p>Due to the significant number of policies requiring review and the unique nature of CHC's operations, Management is in the process of retaining an external consultant to move forward on this project. It is anticipated that a broad governance framework will be developed, with a set of policies relating to governance/accountability/strategic matters (for BoD approval) and another set of policies for operational purposes (for CEO approval).</p> <p>Management will present a more detailed plan to its BoD and the Service Manager as progress on this initiative continues.</p> <p><b>Responsibility</b>  CHC Chief Executive Officer (CEO)</p> <p><b>Due Date</b>  2016 Q2</p>

Finding	Rating	Recommendation & Action Plan
<b>5. Fraud Reporting Protocols and Policy</b>		
<p><b>Observation</b>            There is no Fraud Policy at CHC. Although general protocols for reporting concerns such as fraud or misconduct are known by management, procedures for reporting concerns have not been documented in a Fraud Policy.</p> <p>Based on discussion with CHC Finance Staff, it was noted that no formal training on fraud reporting protocols has been implemented. Mechanisms to create and enhance employee awareness of the policy require improvement.</p>	<p><b>Overall</b>            Significant</p> <hr/> <p><b>Impact</b>            High</p>	<p><b>Recommendation</b>            CHC management should define, approve and implement a Fraud Policy which considers describing the applicable Fraud Protocols. The policy should be communicated to CHC employees and monitored. The Fraud Protocols should be adopted by the CHC board and include procedures and channels for reporting suspected fraud concerns anonymously.</p> <p>Regular awareness of fraud policy requirements should be provided to all personnel.</p> <p>Also refer to recommendations relating to finding #4.</p> <p>The Board of Director's orientation package should be amended to include the Fraud Policy,</p>
<p><b>Implication</b>            There are no independently discernable mechanisms for assessing compliance with the fraud policy and practices.</p>	<p><b>Likelihood</b>            Likely</p>	<p><b>Management Action Plan</b>            Management agrees with the findings and the recommendations will be implemented.</p> <p>Through discussions with Internal Audit, the City and Service Manager, CHC will be adopting the City's fraud policy with appropriate amendments and protocols to reflect the nature of our business. This work will be performed in conjunction with the broader policy review relating to finding #4.</p> <p>Once the policy has been formed, Management will hold training sessions with employees to ensure that all staff are aware of the protocols.</p>
<p><b>Root Cause</b>            Fraud protocols have not been formalized.</p>		<p><b>Responsibility</b>            CHC Chief Executive Officer (CEO)</p> <p><b>Due Date</b>            2015 Q3</p>

Finding	Rating	Recommendation & Action Plan
<b>6. Agreements – Rent Supplement Program</b>		
<p><b>Observation</b> Based on a review of a sample agreement for a Landlord of the Rent Supplement Program, the following was noted:</p> <ul style="list-style-type: none"> <li>• No witness signature was noted on the example reviewed. Per discussions with management, the witness signature is not a requirement; and</li> <li>• There is no clause/term in the agreement which offers CHC the right to audit.</li> </ul>	<p><b>Overall</b> Low</p>	<p><b>Recommendation</b> The Master Agreement should be updated to consider the following at a minimum:</p> <ul style="list-style-type: none"> <li>• A clause/term in the agreement which offers CHC the right to audit the Landlords' records.</li> <li>• The signature section should be updated with only the required signatures</li> </ul> <p>CHC management should coordinate the efforts noted above with the Service Manager prior to implementing.</p>
<p><b>Implication</b> CHC/City may not have a mechanism/provision to legally perform or request an audit of the landlords that currently participate in this program.</p>	<p><b>Impact</b> Low</p>	
<p><b>Root Cause</b> The agreements with Landlords have not been recently updated to reflect the signature requirements, and a review to enhance the master agreement has not been completed.</p>	<p><b>Likelihood</b> Likely</p>	
		<p><b>Management Action Plan</b> Management agrees with the findings, and the recommendations will be implemented.</p> <p>CHC and the City of Windsor Service Manager have been working on an updated rent supplement master agreement that contains a “right to audit clause” and will update the agreement to include the relevant signatories.</p> <p><b>Responsibility</b> CHC Chief Operating Officer (COO)</p> <p><b>Due Date</b> 2015 Q3</p>

## ***Considerations for Improvement***

The following additional observations were noted during the course of the review as consideration for management to improve current processes:

### **1. Key Performance Measures and Documentation relating Rent Supplement**

Currently, there is no reporting to the Board or Service Manager on the status of Annual Review of RGI tenants participating in the Rent Supplement Program.

Upon review of the Monthly Request for Payment from a Landlord participating in the Rent Supplement Program, it appears that there were 10 tenants with payments made to the Landlord in Jan 2015, which exceeds the total number of units stipulated in the agreement. Although there is supporting documentation to corroborate that there had been modifications agreed by both parties for the additional units, this was not always documented in a consistent manner (i.e. email, comments on file etc.).

It is recommended that a process for timely collection of the information required for reporting the status of annual reviews be considered. Further, the information should be summarized and presented to the Board as part of the Quarterly KPI's (currently under development).

CHC may want to consider implementing a standard "change order" or "addendum to agreement" form/template which can be utilized to document changes to the original agreement with a landlord. This will ensure that required information is captured and documented in a consistent manner.

### **2. Checklist for Additional Funding Requests**

There does not appear to be formal documentation of a process or protocol developed by the Service Manager ("SM") for reviewing one-time funding requests by CHC.

Generally, requests for additional subsidies are made informally or during meetings between SM and CHC and approvals are documented in formal correspondence (letters or agreements).

In cases where the funds requested are to come from Social Housing's operating budget, no additional approval is required from Council. Although requests for additional subsidy are not frequent (e.g. one-two in the last 2 years), there should be a documented process/protocol for how requests are to be handled and which documentation is required and shall be retained.

The Service Manager should consider meeting with CHC management to develop steps/protocols for submitting, reviewing, approving, communicating results and monitoring/tracking all requests. It is also recommended that a checklist be developed such that both parties are aware of the requirements. Having a documented checklist will ensure that the process is repeatable, consistent and predictable each time a transaction occurs.

### **3. Quarterly Financial Close Schedule/Checklist**

Month end financial close processes, including a tasks checklist or schedule of key month end activities, dependencies and hand-offs, have not been developed and implemented.

To enable efficient and timely preparation of financial reports, monthly financial close processes should be developed to align to the new quarterly reporting to the City and board meeting schedules. Checklists should be available to staff who are assigned to perform tasks which relate to financial reporting. Checklists should be detailed such that relevant tasks are carried out in a manner which facilitates efficient reporting of financial results as well as key performance indicators. The checklists may also be used to demonstrate completion or sign-off of period-end financial controls, such as the review and approval of bank reconciliations. The checklists may also be retained to demonstrate timely completion of control activities.

# Appendix A: Background & Scope

## Background

### Linkage to the internal audit plan

As part of the Council approved 2014/15 Internal Audit Plan, Internal Audit performed an “Targeted Review” of Specified Objectives which will focus on predetermined key City business objectives where the Agencies, Boards, Commissions (“ABCs”) have a direct impact. In many instances the issues and risks of both the City and the ABCs are similar in their inherent nature.

As part of the internal audit plan development, this business process area has processes and controls associated with mitigating and managing the following corporate risks: Operational oversight, Funding oversight, Program delivery, Governance, Structure/culture, Legislative & regulatory, Public reaction/expectation, Governance, Planning & resource allocation, Reputation, Service Delivery, material resources, Information for decision making, Security and privacy, Inter-departmental co-ordination, Asset protection, Value creation, Structure/culture, Labour relations, Accountability, Scalability, Treasury/liquidity, Fraud & corruption, Loss/theft of assets, Compliance, Program delivery, Benefits realization/sustainability, Compliance, Transition/implementation.

CHC owns and manages residential buildings and have about 4,708 units, over 732 buildings throughout Windsor (4,220 units) and Essex County (480). CHC provides lower rent options to about 12,000 qualified tenants. CHC is the largest social housing provider in Windsor and Essex County, providing 75% of all Rent Geared-To-Income units. CHC’s operations are divided into 6 decentralized districts.

CHC operates three separate housing programs as follows:

- 1) Public housing – over 3,500 units as rent geared to income (“RGI”) housing;
- 2) Senior housing – about 600 affordable rent units for seniors; and
- 3) Family non-profit housing – over 570 private market rent units.

The following table provides some general information about each of the three programs:

<b>Program</b>	<b>Additional Information</b>
<b>Public Housing</b>	<ul style="list-style-type: none"> <li>• The Public Housing Program is a program which offers subsidized rental units at rents that are geared to income (“RGI”);</li> <li>• This program is municipally funded and subject to the Housing Services Act (Ontario);</li> <li>• On an annual basis, the BoD of CHC must provide a one-year operating and capital budget for Public Housing program to the Service Manager for approval;</li> <li>• CHC manages a Rent Supplement (“Rent Supp”) program which involves partnerships with local private landlords to provide rental units to RGI tenants at a subsidized market rent;</li> <li>• Rental rates for the RGI units are based on a legislated formula,</li> </ul>
<b>Senior Housing</b>	<ul style="list-style-type: none"> <li>• CHC offers Market Rent housing units available for seniors across 8 locations in Windsor;</li> <li>• This program funds affordable housing on a break-even basis and receives no municipal funding from the City of Windsor or County of Essex or other government funding.</li> </ul>
<b>Family Not-Profit</b>	<ul style="list-style-type: none"> <li>• CHC must manage a combination of low-market and RGI Units;</li> <li>• CHC offers non-profit housing for families, singles and persons with disabilities for both Market Rent (40%) and RGI (60%);</li> <li>• This program is municipally funded through the Housing Services Act, through a set subsidy formula, indexed annually for inflation;</li> <li>• Rental Rates for market rent units are adjusted when deemed necessary in order to offset operating costs;</li> <li>• Rental rates for the RGI units are based on a legislated formula.</li> </ul>

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## **Scope**

### *Overview of the business/process to be reviewed*

As part of internal audit of the business processes and controls in effect, internal audit will be considering:

1. City Reporting relationship & agreement;
2. Compliance with city reporting relationship and Tone at the top;
3. Policy framework and evidence of compliance;
4. Regular reporting to the City;
5. Integrity of management information;
6. Fraud risk management protocols;
7. Cash management process;
8. Media monitoring and escalation.

Given the City's relationship with Windsor Essex Community Housing Corporation ("CHC") and the significant oversight for funding and operations, it was determined that an internal audit to review these areas was necessary to ensure that the current processes in place are sufficient and appropriately address the risks facing the City of Windsor and to ensure there is a consistent understanding of what is important.

During the course of performing the "Targeted Review", an emphasis was placed on key business processes, controls and systems or major projects and contracts.

**Our scope covered up to the most recent completed year (i.e. January 1, 2014 to December 31, 2014) or the most recent 12 month period.**

### *Specific Scope Limitation*

Consistent with commonly accepted practices, our work was dependent on the following management activities which are excluded from the scope of this review:

1. The effective design, implementation and operation of the Information and Technology (IT) environment and IT general controls.
2. The effective design, implementation and operation of business system and application controls related to the capture, processing, storage, reporting/presentation and exporting of information and data.
3. Controls over the completeness, accuracy, reliability and validity of the evidence, information and data provided by management during the course of this review.

## Appendix B: Summary of Controls Reviewed

### Controls identified and mapped to Control Objectives

The following table summarizes the control objectives which were subject to review and the associated (17) key controls identified to achieve each control objective. This table also provides a reference to the summary of findings and considerations for improvements noted in the body of the report.

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
<b>1. City Reporting relationship &amp; agreement</b>	1.1 Clear accountabilities, expectations and reporting relationships and protocols are established for the City/CHC relationship. Both parties are aware of those agreed to expectations.	1. Shareholder Direction & Accountability Rules	Reviewed and updated periodically, the Shareholder Declarations and Accountability Rules document accountabilities, expectations and relationships between the City and the CHC. Management ensures that there is alignment between the core operations and strategies to the City's goals/objectives. The Shareholder Declaration requires that CHC will act to mitigate financial risks to the Shareholder, while service standards and levels are maintained or enhanced.	

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
<b>2. Compliance with city reporting relationship and tone at the top</b>	2.1 Management has mechanisms in effect to ensure that agreed to reporting relationships and expectations are adhered to, that appropriately scaled governance is in effect and that information is protected from disclosure outside of this relationship.	2. Oversight by CHC BoD	<p>The CHC Board oversees the management of the business affairs of the CHC by meeting 8-10 times per year to review recommendations and approve strategic decisions as described in Board Reports that are prepared by Senior Management. Minutes and attendance records are maintained for board meetings. A representative from the City's Finance Department (known as the "Observer") attends Board Meetings. Board Packages are reviewed by the CEO (or delegate) prior to submission. Some of the responsibilities of the Board include:</p> <ol style="list-style-type: none"> <li>1) Establishing policies that guide the operations of CHC;</li> <li>2) Approve annual capital and operating plan;</li> <li>3) Establish Strategic Plans;</li> <li>4) Communicate Regularly to the shareholder on the performance of CHC.</li> </ol>	<b>Finding #2, 3, 4</b>
		3. Strategic Planning and Executive Committee	On an as needed basis, the Special Board Executive Committee meets to review strategic plans and provide oversight and advice for CHC management.	
<b>3. Policy framework and evidence of compliance</b>	3.1 CHC has key policies related to confidentiality, conflict of interest, employees' responsibilities, privacy, cash handling, reporting, etc. and mechanisms to assess compliance.	4. Policy Library	CHC has a library of current policies by functional area and last reviewed date. The policy library is reviewed periodically to identify gaps or the need for revisions. Where applicable, policies and/or procedures are compared to other housing providers. Certain policies, such as Purchasing and Tendering Policies, are reviewed and approved by the BoD. Policies are communicated to employees by email or posting throughout facilities, and are maintained centrally by Corporate Services.	<b>Finding #4</b>

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
<b>4. Regular reporting to City</b>	4.1 Two way communications between the City and CHC occurs and defined/required information is exchanged in a timely manner.	5. Annual Report	Annually, CHC outlines its objectives, accomplishments and highlights of the year in a formal annual report which is provided to the City within 120 days of year end. The Public Affairs Manager develops the annual report copy with significant contribution and proofing by the Director of Corporate Services and the COO. Content support from several key positions is required annually and used to develop the report.	
		6. CHC Quarterly Meetings with Service Manager	In accordance with the Accountability Rules, CHC maintains frequent communication with the Service Manager. At least 4 times per year, CHC Senior Management meet with the Service Manager to discuss, among other things, major capital projects, significant transactions, status of major initiatives and audits, Shareholder Direction, Budgets, action plans from Operational reviews and the Rent Supplement program.  In addition, as per Accountability Rules (see Control 1.1), CHC shall prepare an agenda for and maintain minutes of each meeting of the Board and shall deliver on a monthly basis a copy of each to the Service Manager. CHC shall also submit to the Service Manager budget updates or amendments.	<b>Consideration for Improvement #2</b>
		7. Operational reviews	The City (as Service Manager) periodically performs reviews, or supervises the review of CHC's operations. The results of these reviews as well as management action plans are presented to the CHC Board of Directors. Work plans to address recommendations are reviewed periodically with the Service Manager.	

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
<b>5. Integrity of management information</b>	5.1 Management has a mechanism for assessing the integrity of information used in decision making based on the sources used.	8. CHC Senior Management Team Meetings	Monthly, the CHC Senior Management Team meet to review and discuss important matters relating to operational or capital planning, financial results and corporate services. Meeting agendas and minutes are maintained in a Senior Team meeting binder. These meetings serve as a forum for addressing concerns, celebrating accomplishments, communicating progress on initiatives, bringing awareness of community events and reviewing programs and training.	
<b>6. Fraud risk management protocols</b>	6.1 CHC has a policy and position on fraud risk management and mechanisms for enabling compliance.	9. Fraud Protocols	<p>Protocols for handling reported concerns, such as fraud are developed to ensure appropriate personnel are involved and aware of concerns. Once a potential concern involving fraud is identified (through internal or external sources) the CEO is notified and the following key steps are taken:</p> <ul style="list-style-type: none"> <li>i. Internal search and review;</li> <li>ii. CEO identifies whether potential controls were ignored, missing or overridden;</li> <li>iii. Notify the chair of the Board. If necessary, seek external advice (forensic specialist or lawyer);</li> <li>iv. Notify service manager;</li> <li>v. Notify Executive Committee;</li> <li>vi. Determine necessary actions; and</li> <li>vii. Report status to BoD.</li> </ul>	<b>Finding #5</b>

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
	6.2 CHC investigates all possible fraud when there is a concern or suspicion for wrongdoing within the entity.	10. Fraud Reporting	As needed, the Chair of CHC's Board of Directors is notified of possible fraud by the CEO. Management has implemented various informal mechanisms for employees or tenants to report concerns or suspicion of wrongdoing.	

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
		11. Other - Rent Supplement Payments to Landlords	<p>As needed, agreements (generally 3 year term) with landlords that provide rental accommodation to qualifying tenants on behalf of CHC are reviewed by the COO and approved by the CEO to ensure terms and conditions are consistent with the master agreement used for the Rent Supplement program.</p> <p>Example of key agreement terms:</p> <ul style="list-style-type: none"> <li>• The Landlord agrees to provide the accommodation and CHC agrees to pay the landlord a rent supplement which is the difference between the market rent and the rent geared to income for each tenant;</li> <li>• The Landlord collects the RGI portion directly from the tenant; and</li> <li>• The landlord must submit requests for rent supplement payments with required reconciliation statements (at least annually) and details of tenant move in/out activity.</li> </ul>	<p><b>Finding #6</b></p> <p><b>Consideration for Improvement #1</b></p>
7. Cash management process	7.1 Management ensures that there are appropriate controls over cash collection, deposits and payments to mitigate losses and optimize cash flow.	12. Daily Cash Reconciliation	On a daily basis, the financial analyst monitors bank accounts and reconciles cash receipts (debit, cash and cheque) per the bank's website to the Yardi system and resolves discrepancies. The reports from the bank are cross referenced with Yardi (name, payment date, bank) to ensure the deposit is entered to the correct tenant account and program (public housing, not-profit etc.).	<b>Finding #1</b>
		13. Cheque Signing Authority	Two signatures are required for cheques as per CHC's By-Law #4 and for purchases above \$100,000 at least one Board member (Chair, Vice Chair or Treasurer) must sign the cheques.	

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
		14. Spending Limits	Only CHC Management and the Board have authority and custody of Accounts Payable Approval stamps. The stamps are numbered in a series which denotes the level of approval assigned to each stamp. The CEO may approve purchases up to \$500,000 and spending over this amount must be approved by the Board.	
		15. Financial reporting to BoD and Shareholder	CHC Management delivers to its Board and Shareholder, audited annual Financial Statements in a timely manner.	<b>Finding #2 Consideration for Improvement #3</b>
	7.2 There are adequate segregation of duties, review and approval, and reconciliations used to mitigate against risk of theft of cash.	16. Segregation of Duties	<p>Segregation of incompatible duties over cash, expenditures and journal entries are as follows:</p> <ul style="list-style-type: none"> <li>a) The individuals with AP Approval Stamps and cheque signing authority do not have ability to create invoice vouchers or process cheques within the Yardi System;</li> <li>b) Deposits (Cash, Debit, and Sundry Revenues) are entered in batches by Financial Analysts or Cashiers and reviewed independently by Finance Manager;</li> <li>c) Individuals with ability to create a journal entry in Yardi cannot approve or post journal entries; and</li> <li>d) Individuals that prepare deposit slips do not have ability to record transactions in Yardi.</li> </ul>	

Review Area	Control Objectives	Control Title	Control Description	Reference to Finding
<b>8. Media monitoring and escalation</b>	8.1 A mechanism for maintaining awareness as to media mechanisms and potential items of disclosure. A mechanism for identifying and informing stakeholders of critical media content impacting brand/reputation exists and is used.	17. Public Affairs	<p>Corporate Services Public Affairs Manager is designated as CHC principal media contact and company representative. Media inquiries must be referred to the Public Affairs Manager in a timely manner.</p> <p>Any events deemed to be emergent in nature, are reported to the Board Executive and the Service Manager at the direction of the CEO or Senior Management Team lead. This task is typically undertaken by the Public Affairs Manager, CEO or COO.</p>	

# Appendix C: Basis of Finding Rating and Report Classification

## Findings Rating Matrix

Audit Findings Rating		Impact		
		Low	Medium	High
Likelihood	Highly Likely	Moderate	Significant	Significant
	Likely	Low	Moderate	Significant
	Unlikely	Low	Low	Moderate

## Likelihood Consideration

Rating	Description
Highly Likely	<ul style="list-style-type: none"> <li>History of regular occurrence of the event.</li> <li>The event is expected to occur in most circumstances.</li> </ul>
Likely	<ul style="list-style-type: none"> <li>History of occasional occurrence of the event.</li> <li>The event could occur at some time.</li> </ul>
Unlikely	<ul style="list-style-type: none"> <li>History of no, or seldom, occurrence of the event.</li> <li>The event may occur only in exceptional circumstances.</li> </ul>

## Impact Consideration

Rating	Basis	Description
HIGH	Dollar Value <sup>2</sup>	Financial impact likely to exceed \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Significant control weaknesses, which would lead to financial or fraud loss.</p> <p><b>An issue that requires a significant amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Failure to meet key strategic objectives/major impact on strategy and objectives;</li> <li>• Loss of ability to sustain ongoing operations: <ul style="list-style-type: none"> <li>- Loss of key competitive advantage / opportunity;</li> <li>- Loss of supply of key process inputs.</li> </ul> </li> <li>• A major reputational sensitivity e.g., Market share, earnings per share, credibility with stakeholders and brand name/reputation building.</li> </ul> <p><b>Legal / Regulatory</b> Large scale action, major breach of legislation with very significant financial or reputational consequences.</p>
MEDIUM	Dollar Value	Financial impact likely to be between \$75,000 to \$250,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential loss resulting from inefficiencies, wastage, and cumbersome workflow procedures.</p> <p><b>An issue that requires some amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• No material or moderate impact on strategy and objectives;</li> <li>• Disruption to normal operation with a limited effect on achievement of corporate strategy and objectives; and</li> <li>• Moderate reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with material financial consequences including fines.</p>
LOW	Dollar Value	Financial impact likely to be less than \$75,000 in terms of direct loss or opportunity cost.
	Judgemental Assessment	<p><b>Internal Control</b> Control weaknesses, which could result in potential insignificant loss resulting from workflow and operational inefficiencies.</p> <p><b>An issue that requires no or minimal amount of senior management/Board effort to manage such as:</b></p> <ul style="list-style-type: none"> <li>• Minimal impact on strategy;</li> <li>• Disruption to normal operations with no effect on achievement of corporate strategy and objectives; and</li> <li>• Minimal reputational sensitivity.</li> </ul> <p><b>Legal / Regulatory</b> Regulatory breach with minimal consequences.</p>

<sup>2</sup> Dollar value amounts are agreed with the client prior to execution of fieldwork.

## Audit Report Classification

Report Classification	The internal audit identified one or more of the following:
Cause for considerable concern	<ul style="list-style-type: none"> <li>• Significant control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• An unacceptable number of controls (including a selection of both significant and minor) identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Material losses have occurred as a result of control environment deficiencies.</li> <li>• Instances of fraud or significant contravention of corporate policy detected.</li> <li>• No action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
Cause for concern	<ul style="list-style-type: none"> <li>• Control design improvements identified to ensure that risk of material loss is minimized and functional objectives are met.</li> <li>• A number of significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Losses have occurred as a result of control environment deficiencies.</li> <li>• Little action taken on previous significant audit findings to resolve the item on a timely basis.</li> </ul>
No major concerns noted	<ul style="list-style-type: none"> <li>• Control design improvements identified, however, the risk of loss is immaterial.</li> <li>• Isolated or “one-off” significant controls identified as not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Numerous instances of minor controls not operating for which sufficient mitigating back-up controls could not be identified.</li> <li>• Some previous significant audit action items have not been resolved on a timely basis.</li> </ul>
No or limited scope for improvement	<ul style="list-style-type: none"> <li>• No control design improvements identified.</li> <li>• Only minor instances of controls identified as not operating which have mitigating back-up controls, or the risk of loss is immaterial.</li> <li>• All previous significant audit action items have been closed.</li> </ul>