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FINANCIAL MANAGEMENT AND CONTROL STUDY
REPORT ON
THE NORTHWEST TERRITORIES HOUSING
CORPORATION
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A FINANCIAL MANAGEMENT AND CONTROL STUDY	
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I INTRODUCTION

1.1 A memorandum setting out the objectives, the terms of reference, the reporting format, and the organization of the Financial Management and Control Study is attached as Appendix A to this report. In accordance with that memorandum we have completed an evaluation of the effectiveness of the present financial management and control systems in the Northwest Territories Housing Corporation.

1.2 This report is one part of an overall evaluation of the existing system of financial management and control in the NWT, and includes a description of various parts of this system with an analysis of the deficiencies revealed by our review, including their impact on the effectiveness of the system of financial management and control.

1.3 The deficiencies included in this report are those which we believe are within the authority of the Northwest Territories Housing Corporation and the Government to correct. Recommendations for corrective action have been made where appropriate.

II SCOPE

2.1 The full study encompassed the financial management and control practices of departments and agencies comprising the Government of the Northwest Territories, including the Workers' Compensation Board and the Northwest Territories Housing Corporation. It did not include an examination of the municipal governments in the NWT or any of the housing associations which are not audited by the Auditor General of Canada.

2.2 The study consisted primarily of fact finding interviews with key officials and staff, followed by detailed investigation and analysis where appropriate. We reviewed the Financial Administration Ordinance, the Treasury Manual and other selected manuals, position descriptions, organization charts and other supporting documentation as we considered necessary.

2.3 The study focused on evaluating the adequacy of existing systems, and our examination of financial records and individual financial transactions was limited to that necessary to understand and document information obtained in interviews and discussions. Our report, therefore, contains observations and recommendations on the system of financial management and control and is not concerned with irregularities or inaccuracies in detailed transactions.

2.4 This type of review is the initial step in a planned transition to a systems-based audit approach. In future, greater weight will be given to the degree of reliance which can be placed on the internal system of control. Thus, this report concentrates on those aspects of this system that appear to offer scope for improvement rather than those that appear to be operating satisfactorily.

2.5 We would like to express our appreciation to the officers and staff of the Housing Corporation for the assistance and co-operation extended to the study team. Those with whom we came in contact showed an interest in improving financial management and control and we observed instances where action had already commenced on matters identified by the study.

III LISTING OF RECOMMENDATIONS

3.1 The recommendations made in the body of this report are as follows:

Relationship with the Government of the Northwest Territories

3.2 *The Northwest Territories Housing Corporation and the Government of the Northwest Territories should continue their efforts to reach a working agreement to clarify the roles of the two organizations in the management of the Corporation. This agreement should make specific reference to the financial affairs of the Corporation including:*

- *the treatment of the Corporation's surpluses and deficits; and*
- *the preparation and submission of annual budgets.*

3.3 *Financial and accounting policies and standards for the Housing Corporation should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government.*

Senior Financial Officer

3.4 *The Corporation should accelerate its efforts to recruit a Manager, Finance and Administration whose responsibilities should include the financial aspects of corporate planning.*

Communication of Financial Policy and Procedures

3.5 *The financial manual should be expanded to include all financial procedures in the Corporation. The accounting manual designed for the use of the housing associations should be amended by the Manager, Finance and Administration, with the policies governing its application being approved by the Managing Director before implementation.*

Staff Training

3.6 *A financial training program should be developed and implemented under the direction of the Manager, Finance and Administration. This program should be integrated where practicable with the training programs in the Government of the Northwest Territories and should include all persons with financial responsibilities and in particular program assistants and housing association managers.*

Budgetary Control

3.7 To provide a basis for accountability to the Government for expenditures in the Corporation:

- the supplementary information presented to the Council by the Corporation at the time of Main Estimates approval should be subjected to review by the Department of Finance; and
- the Corporation should be required to account annually to the Government for all unexpended or lapsed funds.

3.8 To improve the budgetary control of expenditures;

- the Corporation should prepare an operating budget, including all anticipated expenditures for the year in addition to the cash budget required for Government funding;
- a system should be developed for analysing variances between budgeted and actual costs in relation to output with a view to corrective action; and
- the financial information on capital projects presented monthly to the Managing Director and Board of Directors should include details of actual costs and costs to complete, compared to budget, on a project by project basis.

Operating Grants to Housing Associations

3.9 The Corporation should continue its efforts to hold housing associations receiving operating grants accountable by:

- requiring all associations to enter into agreements with the Corporation establishing the responsibilities of the associations and the conditions under which the funds are provided; and
- developing and documenting proper procedures for reviewing their annual budgets.

Internal Audit

3.10 The Corporation should provide for an internal audit to test the system of financial administration annually. The internal auditor's reports should be reviewed by an audit committee to ensure adequate consideration of, and effective action on, the audit findings and recommendations.

Fixed Assets

3.11 *A complete inventory of all housing units should be taken to ensure that rent is being collected on all units where applicable.*

IV BACKGROUND, ANALYSIS AND RECOMMENDATIONS

RELATIONSHIP WITH THE GOVERNMENT OF THE NORTHWEST TERRITORIES

Background and Analysis

4.1 The Northwest Territories Housing Corporation was established by Ordinance on October 13, 1972, to develop, maintain and manage housing in the Territories. The Ordinance provides for a Board of Directors to conduct the affairs of the Corporation on behalf of the Commissioner.

4.2 The working relationship between the Corporation and the Government has not been clearly defined. As yet, no working agreement has been entered into to clarify the respective positions and responsibilities concerning such items as the treatment of surpluses and deficits of the Corporation, the preparation of annual budgets and the control to be exercised by the Government over the financial affairs of the Corporation.

4.3 The development of a working agreement has been listed as one of the goals of the Finance Division of the Corporation in the 1977-1978 fiscal year. A report setting out the position of the Corporation on these matters has been approved by the Board of Directors and has been presented to the Commissioner for review.

Recommendation

4.4 *The Northwest Territories Housing Corporation and the Government of the Northwest Territories should continue their efforts to reach a working agreement to clarify the roles of the two organizations in the management of the Corporation. This agreement should make specific reference to the financial affairs of the Corporation including:*

- *the treatment of the Corporation's surpluses and deficits; and*
- *the preparation and submission of annual budgets.*

4.5 *Financial and accounting policies and standards for the Housing Corporation should be clearly prescribed, communicated and monitored by the Senior Financial Officer of the Territorial Government.*

SENIOR FINANCIAL OFFICER

Background and Analysis

4.6 The Chief Executive Officer of the Corporation is the Managing Director. As a result of a recent reorganization, which created the position of Manager-Finance and Administration, the activities of the Corporation are carried out by three

divisions: the Development Division, the Finance and Administration Division and the Program Division. The manager of each division reports to the Managing Director. The position of Manager, Finance and Administration has not yet been filled. In prior years the responsibility for various financial functions was shared by the Finance Division and the operating divisions. For example, detailed subsidiary records of projects and programs were maintained in the operating divisions with little involvement of finance officers. Similarly, much of the planning, including the financial aspects, has been handled by the operating divisions.

4.7 The creation of the position of Manager, Finance and Administration has resulted from a recognition of the need to vest responsibility for financial functions in a senior financial officer. The duties and responsibilities of this position include most of those normally associated with the financial management and control function. However, two areas have been identified where problems may occur. These are:

- (i) The Manager of Finance and Administration is responsible, in addition to finance, for many other functions including administrative services, insurance, legal services, public relations and information, and personnel and training. Once the position has been filled, care should be taken to ensure that the financial responsibilities receive adequate emphasis in relation to the other administrative responsibilities.
- (ii) The Manager-Development and Manager-Programs have been assigned the responsibility for capital planning and program evaluation. These two functions require very close liaison with finance and there should be involvement of senior financial personnel if they are to be properly carried out.

Recommendation

4.8 *The Corporation should accelerate its efforts to recruit a Manager, Finance and Administration whose responsibilities should include the financial aspects of corporate planning.*

COMMUNICATION OF FINANCIAL POLICY AND PROCEDURES

Background and Analysis

4.9 The Corporation's financial manual covers a number of aspects of its financial management and control system. In recent months, sections covering accounting procedures in such areas as cash receipts and accounts payable have been added. However, the manual does not include procedures covering the control over the detailed subsidiary records of projects and programs which are maintained in the operating departments. In addition, a separate manual exists dealing with accounting records and procedures to be completed by housing associations. These manuals have been prepared with little input from the Finance Division and are not used in all locations. Concern has been expressed that these manuals are too complex to be useful to the housing associations.

4.10 The Manager, Finance and Administration, is responsible for all aspects of financial management and control in the Corporation, including those related procedures which may be performed in the operating divisions. To properly discharge this responsibility, he must have direct involvement in determining the financial procedures to be followed in such areas as housing associations. He therefore has the responsibility for documenting the procedures to be followed and the responsibility for monitoring the activities of the associations and operating divisions to ensure that these procedures are adhered to.

Recommendation

4.11 *The financial manual should be expanded to include all financial procedures in the Corporation. The accounting manual designed for the use of the housing associations should be amended by the Manager, Finance and Administration, with the policies governing its application being approved by the Managing Director before implementation.*

STAFF TRAINING

Background and Analysis

4.12 The program assistants in the Program Division, who carry out the liaison with the housing associations, require accounting knowledge as well as the ability to effectively relate to and communicate with the housing association managers and staff. Because considerable travel is required, the Corporation has had great difficulty in hiring adequately qualified program assistants. As a result, the financial controls in most of the housing associations are deficient, as evidenced by the inability of the auditors to give unqualified opinions.

4.13 To increase the knowledge and ability of program assistants and housing association managers, a training program should be developed and implemented. Officers from the Finance Division should have significant input to these programs to ensure that the finance and accounting functions are covered. Until very recently the Finance Division had little involvement in the limited financial training activities which have taken place.

Recommendation

4.14 *A financial training program should be developed and implemented under the direction of the Manager, Finance and Administration. This program should be integrated where practicable with the training programs in the Government of the Northwest Territories and should include all persons with financial responsibilities and in particular program assistants and housing association managers.*

BUDGETARY CONTROL

Background and Analysis

4.15 Operating deficits and capital requirements of the Corporation are funded by the Territorial Government. The required funds are included in the Executive Office appropriation in the Main Estimates of the Government. There is insufficient information in the Estimates to adequately inform the Council concerning the operations of the Corporation. For example, the information contained in the 1977-78 Estimates consisted of a breakdown of the total funding between operations and maintenance (\$6,105,000) and capital (\$5,000,000) with the explanation to "provide for the operating and capital deficits for the NWT Housing Corporation". The Corporation makes a separate presentation to the Council giving more details of the programs administered and reasons for the expenditures. However, this detailed information is not subjected to the same review by the Department of Finance of the Government as are operating departments in the Government.

4.16 Some of the practices followed by the Corporation in accounting for the funds provided by the Government weaken the control over and accountability for such funds. For example, the Government funds all the deficits of the Corporation. However, if the Corporation has a surplus in any year resulting from actual expenditures being less than budget or any other reason, the Corporation is not required to account for or return these surpluses to the Government. This can be particularly important for capital expenditures. All capital funds are placed in a development fund in the Corporation. As the funds are required for particular projects, they are transferred from the development funds and charged to that project. If for any reason the funds for a project are not spent in a given year, either because the project could not be completed or because it was completed at less than estimated cost, the unexpended funds remain in the development fund for use in future periods on the given project or other projects and may escape review by Council.

4.17 The budgets for the Corporation are prepared on a cash basis, which is necessary to determine the net funding required from the Government. However, these budgets do not reflect expenditures to be made from prior years' accumulated lapsed funds such as unexpended capital funds. For example, about \$300,000 was obtained for land assembly in 1976. These funds were not spent in 1976 but are expected to be spent in 1977. Because of the principles on which the budgets are prepared, there is no indication in the 1977 budget that this expenditure will occur.

4.18 While financial information on actual revenue and expenditures compared with budget is prepared monthly, the Corporation does not have an appropriate budgetary control system whereby each responsibility manager is held accountable for, and controls the utilization of resources in his budget. Such a system would require:

- cost by activity and type of expenditure budgeted by period in relation to planned output;

- actual costs and output reported by period; and
- variances between budgeted and actual cost in relation to output be analysed with a view to corrective action.

4.19 In addition, the financial information presented to the Managing Director and Board of Directors does not provide a meaningful basis for controlling capital expenditures. This information does not include on a project basis actual costs to date, percentage completion, estimated costs to complete and total budgeted cost.

4.20 As a result of these deficiencies in the budgeting and reporting procedures, the Managing Director and Board of Directors are not supplied with adequate information to hold their subordinates accountable for funds under their control. Similarly, the Government and Council are not in a position to hold the management of the Corporation accountable for its expenditures.

Recommendations

4.21 *To provide a basis for accountability to the Government for expenditures in the Corporation:*

- *the supplementary information presented to the Council by the Corporation at the time of Main Estimates approval should be subjected to review by the Department of Finance; and*
- *the Corporation should be required to account annually to the Government for all unexpended or lapsed funds.*

4.22 *To improve the budgetary control of expenditures;*

- *the Corporation should prepare an operating budget, including all anticipated expenditures for the year in addition to the cash budget required for Government funding;*
- *a system should be developed for analysing variances between budgeted and actual costs in relation to output with a view to corrective action; and*
- *the financial information on capital projects presented monthly to the Managing Director and Board of Directors should include details of actual costs and costs to complete, compared to budget, on a project by project basis.*

OPERATING GRANTS TO HOUSING ASSOCIATIONS

Background and Analysis

4.23 The delivery of the housing programs is accomplished through housing associations established in each settlement. There are approximately 50 such associations, their main functions being the collection of rent and payment of expenses for housing units owned by the Corporation.

4.24 The annual financial deficits for these associations are funded through operating grants from the Corporation, which in turn recovers a portion of the costs from CMHC. The Corporation's share of these costs for the year ending December 31, 1976 was \$6,449,891 or approximately two-thirds of the total operating costs of the Corporation.

4.25 The recovery of costs from CMHC is based on annual audited financial statements, from the associations, which are to be submitted by March 31 of each year. Generally, accounting controls within the associations are very poor and there is considerable delay in obtaining audited financial statements, causing substantial delays in recovering costs from CMHC. In early June of 1977, only ten financial statements had been received and for seven of these, the auditors were unable to express an opinion on the statements because of insufficient information and inadequate records.

4.26 Housing associations are required to submit annual budgets prior to the commencement of the fiscal year. It is the responsibility of the programs division to review these budgets and determine the funding required. At the time of our study, procedures for this review had not been documented and did not appear to be formalized in any manner.

4.27 While progress has been made in the last few months, at the time of our study the Corporation had entered into formal agreements with only approximately 20% of the housing associations. Because the responsibilities of the housing associations have not been clearly documented and communicated in an agreement, officers in the Corporation have difficulty holding the housing associations accountable for operating grants received.

4.28 The funds necessary for the operation of the Corporation are included in the Main Estimates of the Government. As such, Council is approving the expenditures on this program within the conditions of the program. One of the conditions of making operating grants to the housing associations is that the association will be accountable for these funds. It is evident from a review of procedures covering the preparation and review of the association budgets and financial statements that the associations are not being held responsible to properly account for the funds they receive. Thus, the Corporation is not in a position to satisfy itself that the funds contributed to the associations are being properly controlled or being used for the purposes intended.

Recommendation

4.29 *The Corporation should continue its efforts to hold housing associations receiving operating grants accountable by:*

- *requiring all associations to enter into agreements with the Corporation establishing the responsibilities of the associations and the conditions under which the funds are provided; and*
- *developing and documenting proper procedures for reviewing their annual budgets.*

INTERNAL AUDIT

Background and Analysis

4.30 *The Corporation does not have an internal audit function. Although funds were made available in the 1977-78 Estimates for an internal auditor within the Finance Division, this position has not yet been filled.*

4.31 *The purpose of an internal audit is to provide management with independent, objective and constructive appraisals of the propriety of expenditures and the effectiveness and efficiency with which financial administration is being performed. The internal audit should test the system of financial administration annually, covering each district office at least once every three years. A schedule of audits to be carried out should be prepared in advance each year with an annual report being submitted to the Managing Director indicating actual coverage and results. To provide for the necessary degree of independence and objectivity the internal auditor should be responsible to the Managing Director who should be Chairman of an audit committee of the Board of Directors. This reporting relationship will provide a basis for ensuring that effective action is taken on audit findings and recommendations.*

4.32 *Because of the size of the Corporation, it may not be practical to have a separate internal audit group within the Corporation. Consideration may be given to reaching an agreement with the Audit Bureau of the Territorial Government to use their internal audit staff.*

Recommendation

4.33 *The Corporation should provide for an internal audit to test the system of financial administration annually. The internal auditor's reports should be reviewed by an audit committee to ensure adequate consideration of, and effective action on, the audit findings and recommendations.*

FIXED ASSETS

Background and Analysis

4.34 The housing units owned by the Corporation and administered by the associations include northern rental houses constructed by the Corporation as well as houses originally administered by the federal government which were transferred to the Corporation by the Territorial Government.

4.35 While detailed records are available concerning the cost and number of units constructed by the Corporation, the records concerning houses transferred to the Corporation are incomplete. A complete inventory has not been taken to determine whether or not these housing units still exist. As a result, a complete listing of houses which are owned by the Corporation and for which rent should be received is not available.

Recommendation

4.36 *A complete inventory of all housing units should be taken to ensure that rent is being collected on all units where applicable.*

APPENDIX A

OFFICE OF THE AUDITOR GENERAL

FINANCIAL MANAGEMENT AND CONTROL STUDY

OBJECTIVES AND TERMS OF REFERENCE

The Auditor General proposes to undertake a government-wide study to evaluate the adequacy of financial management and control in departments, agencies, Crown corporations and territorial governments of which he is the auditor. The study will be directed to an examination of:

- (a) the statutes and centrally controlled regulations, policies, directives and guidelines relevant to financial management and control, and the extent of compliance therewith in the departments, agencies, Crown corporations and territorial governments;
- (b) financial systems and procedures in these organizations including budgetary controls, accounting for revenues, pricing and costing systems, expenditures, assets, liabilities, commitments, and financial reporting systems;
- (c) the integration of accounting processes and systems with the central systems and departments;
- (d) the extent to which the financial systems and procedures are monitored and audited by internal and/or operational audit groups;
- (e) the type, accuracy, timeliness, purpose and use of financial information and reports currently prepared;
- (f) the duties, responsibilities and functions of financial and accounting managers and staff with special reference to the system of financial and accounting control and the relationships of their functions with central financial/accounting agencies.

REPORTING

It is expected that the findings and recommendations arising from the study will be reported upon under headings which will include the following:

- (a) the organization of the finance/accounting function (with special reference to financial and accounting controls);
- (b) expenditure and revenue control including the pre-audit function;

- (c) accounting control procedures relating to assets and liabilities;
- (d) internal audit;
- (e) budgetary control;
- (f) financial reporting.

A detailed interim report will be issued to each organization reviewed. These reports are to be issued promptly upon completion of each review followed by meetings with the Deputy Head, Senior Financial Officer and the appropriate members of the organization.

Highlights of the reports may be included in the Annual Report of the Auditor General to the House of Commons.