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Audit of Financial Stewardship of the CF Housing Portfolio

March 2010

7053-50-4 (CRS)



Canada 

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Acronyms and Abbreviations

AFC	Armed Forces Council
A for P	Authorization for Project
ADM(IE)	Assistant Deputy Minister (Infrastructure and Environment)
CA	Condition Assessment
CDS	Chief of the Defence Staff
CF	Canadian Forces
CFHA	Canadian Forces Housing Agency
CMHC	Canada Mortgage and Housing Corporation
CMP	Chief Military Personnel
CRS	Chief Review Services
DCC	Defence Construction Canada
DM	Deputy Minister
DND	Department of National Defence
DSX	Defence Strategic Executive Committee
FAA	<i>Financial Administration Act</i>
FAM	Financial Administration Manual
FMAS	Financial Managerial Accounting System
FPRM	Financial Planning and Resource Management
FY	Fiscal Year
HAMIS	Housing Agency Management Information System
ITS	Infrastructure and Technical Services
LCAMP	Life Cycle Asset Management Plan
MIG	Management Instructions Guide
NBV	Net Book Value
OAG	Office of the Auditor General
OPI	Office of Primary Interest
OPTEC	Operations and Technical Evaluation Committee
PJRB	Project Review Board
Recap Program	Recapitalization Program
SOA	Special Operating Agency
TB	Treasury Board

Synopsis

Chief Review Services (CRS) conducted an audit of Financial Stewardship of the Canadian Forces (CF) Housing Portfolio, during the period of October 2007 to April 2009. The audit assessed management practices in terms of a CF housing recapitalization program, on-going housing management and financial reporting.

The Department of National Defence (DND) will not meet the residential housing goals of Vision 2020. Significant constraints such as specific housing requirements and insufficient resources are preventing the upgrading to the CF housing portfolio to contemporary standards to be done within the chosen timeframe. Accordingly, there is a need to assess the viability of the residential section of Accommodation 2020, as well as possible alternative means of meeting the established goals.

Sound financial management practices and tools to support housing management at housing sites are in place. For example, a review of some transactions managed by the Canadian Forces Housing Agency (CFHA) indicated that the processing of expenses is compliant with Section 34 of the *Financial Administration Act* (FAA). However, other elements of housing management, such as the planning of annual renovation projects, need to be improved upon.

For financial reporting, there are outstanding issues that have prevented CFHA from having audited financial statements, as required under the CFHA charter. There is a need to determine how to report financial figures and ensure that all relevant information is captured.

The management action plan is sound and will address the issues raised. The Department will monitor the progress made in implementing the management action plan and will undertake an audit follow-up if warranted.



Results in Brief

During the 1990s, the provision of appropriate housing became a high priority in improving the quality of life for CF personnel and their families. In 1996, a Special Operating Agency (SOA) known as the CFHA was created and made responsible for the operations and maintenance of CF housing across Canada. In 2002, the Deputy Minister (DM) and Chief of the Defence Staff (CDS) spearheaded Vision 2020,¹ making a clear goal to complete the transition from old military housing to residential accommodation that is more contemporary and well maintained; this became known as the Recapitalization Program (Recap Program). The objective of the audit was to examine the adequacy of specific financial management practices in terms of the Recap Program, on-going housing management, and financial reporting.

Findings and Recommendations

Recapitalization Program. The constraints of time, resources and defined housing requirements are preventing DND from meeting the desired timeline to bring the CF housing portfolio to the DND contemporary standards developed in 2007.

It is recommended that Chief Military Personnel (CMP), in consultation with the Assistant Deputy Minister (Infrastructure and Environment) (ADM(IE)) revisit the residential section of Accommodation 2020 to assess its continuing viability, the risks of not meeting its goal, and possible alternative means of ensuring contemporary standards are met within the desired timeframe.

Housing Management at CFHA Sites. CFHA has improved planning on short-term housing projects but there is still a need to improve accountability and project accounting. As well, CFHA has implemented a second control framework for managing rent accounts.

It is recommended that CFHA formally approve initial project annual plans and subsequent amendments to provide milestones for monitoring projects and site managers' performance. CFHA should also ensure financial transactions are accurately and consistently recorded in the CFHA and DND financial systems.

Overall Assessment

The constraints of time, resources and defined housing requirements are preventing DND from reaching the residential housing goal of Vision 2020.

Improvements have been made to enhance project monitoring and planning. However, CFHA senior management priorities must be better communicated to site managers.

CFHA must improve the accuracy of its financial information to ensure the completeness and reliability of CFHA and DND financial statements.

¹ Accommodation 2020 is a vision for the future to support the living accommodation needs of CF members and thereby contribute to the goals and objectives of Defence Strategy 2020.

Financial Reporting. CFHA has not produced audited financial statements as required in its charter, mainly because its financial system is lacking key information. This system is also a source database² to DND regarding residential housing, thereby affecting the accuracy of the Department's financial reports. The latter is amplified with interface problems between the two databases that occur when uploading spending transactions. CFHA should determine how to report its financial figures and ensure that key information is being captured to produce the annual audited financial statements. As well, management must ensure that the charter is aligned with the reporting structure.

Note: For a more detailed list of CRS recommendations and management response, please refer to [Annex A](#)—Management Action Plan.

² Data from CFHA's financial system becomes an input into DND's Financial Managerial Accounting System (FMAS).

Introduction

Background

DND is the custodian of Crown housing at the various CF sites across the country. It continues to assume full responsibility for accommodation policy and real property policy. The responsibility for the operation of the housing portfolio units, the majority of which were built in the 1940s and 50s, was delegated to CFHA.

In 1996, CFHA was designated as an SOA. In 2002, the DM and CDS spearheaded Vision 2020 to complete the transition from old military housing to updated accommodation by 2020.³

At the time of the audit, CFHA was responsible for the management of a portfolio of 14,000 housing units at 26 sites across Canada. According to the CFHA charter, its operations rely primarily on revenue from shelter charges and capital funds transferred from DND. Figure 1 shows the breakdown of CFHA’s sources of revenue and expenditures in 2007.⁴

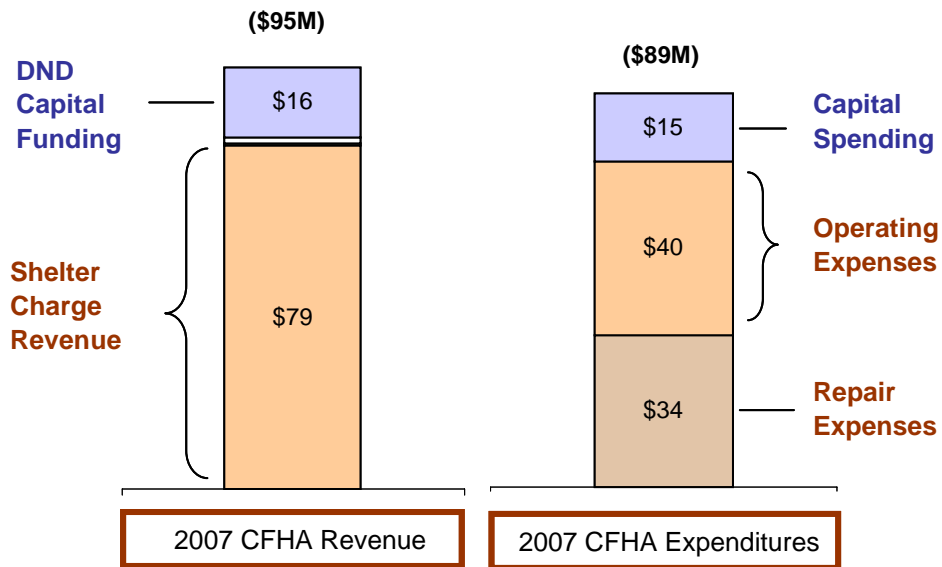


Figure 1. Breakdown of CFHA Revenue and Expenditures in 2007. CFHA revenue amounted to \$95 million and expenditures totalled \$89 million. The data is summarized in the following tables:

³ Accommodation in Support of the Canadian Forces: A Vision for 2020, *Residential Accommodation Support*, page 8.

⁴ CFHA Annual Report, 2006-2007—Note: This report is the only source of annual financial data and was not audited for reliability.

CFHA Revenue	Revenue (\$)
Shelter Charge Revenue	\$79,245,000
DND Capital Funding	\$16,416,000
Total	\$95,661,000

Table 1. Breakdown of CFHA Revenue in 2007.

CFHA Expenditures	Revenue (\$)
Repair Expenses	\$34,408,000
Operating Expenses	\$39,627,000
Capital Spending	\$15,285,000
Total	\$89,320,000

Table 2. Breakdown of CFHA Expenditures in 2007.

Objectives

This audit assessed the adequacy of specific financial management practices of the CF housing portfolio in terms of:

- Recap Program;
- On-going Housing Management;
 - The planning of, and accounting for, short-term projects,
 - The quality of housing portfolio information used by CFHA for reporting and decision making, and
 - CFHA's payment and collection processes in compliance with Treasury Board (TB) and DND policies; and
- Financial Reporting.

The audit criteria employed for these assessments are listed in [Annex B](#).

Scope

The audit reviewed the funding and results of the first four years of the Recap Program (fiscal year (FY) 2004/05 to FY 2007/08), the short-term projects conducted in FY 2007/08, and the spending approval process and revenue management of FY 2007/08. Project management activities undertaken by Defence Construction Canada (DCC) were excluded from this audit.

Methodology

Interviews were conducted with CFHA senior managers and site managers, as well as with staff in the Department's ADM(IE) and Assistant Deputy Minister (Finance and Corporate Services) organizations. Data analysis was performed on information held in databases accessed solely by CFHA and from the DND financial management system (FMAS). Testing for compliance with the FAA was based on sample transactions extracted from FMAS. Analysis of revenue accounting was based on sample accounts and reports provided by CFHA. The selection of the sites visited was based on the size of the portfolio. This audit aimed for sites of various sizes to compare the level of compliance and governance. As shown in Table 3, the following sites were visited:

Site Name	Size of Housing Portfolio
Gagetown	1,614
Esquimalt	710
Trenton	649
Ottawa	587
Vancouver	110
Aldergrove	35

Table 3. Sites Visited. The total of these housing unit portfolios is 3,705. This represents 26 percent of the 14,236 units in CFHA's entire housing portfolio at the time of the conduct of this audit.



Findings and Recommendations

Recapitalization Program

The CF housing portfolio will not be raised to contemporary standards within the desired timeframe.

The goal of the Recap Program, which is managed by the CFHA head office, is to both rationalize the size of the CF housing portfolio and to recapitalize the needed housing portfolio. At the time of this audit, the targeted size was approximately 12,000 units, and defined contemporary standards had been established for recapitalization.⁵

The Recap Program's goal will not be reached within DND's desired timeframe. A primary reason is the growing gap between the proposed and the actual level of funding to the program. According to the original plan that CFHA be designated as an SOA, it was proposed that \$46 million per year be invested in the Recap Program over 26 years. To help start the program DND/CF provided \$15 million a year for the first five years (2004-2009), and CFHA was to commit the remaining \$31 million a year from its revenue. CFHA has not been able to generate sufficient revenues to fulfill its \$31-million obligation which, as of March 2009, had caused a cumulative funding gap of \$155 million.⁶

The proposed funding level for the Recap Program (\$46 million) is supported by the realty asset investment plan, which recommends that 2 percent (\$46 million) of the estimated replacement value⁷ of housing units be directed to recapitalization annually.⁸ As well, the investment target requires an additional 2 percent (\$46 million) allocation for maintenance and repairs. Based on the current revenues reported in CFHA's financial statements, if both these amounts had been invested in FY 2006/07, virtually no funding would have remained to cover annual operating expenses.

As reflected in the ADM(IE) FY 2009/10 Level 1 Strategic Assessment,

“Life Cycle Asset Management Plan (LCAMP) determined that CFHA had only sufficient funding from rent revenues to meet internal expenses (...) and that current rent revenues were insufficient to provide any contribution to recapitalization.”⁹

⁵ These are defined in the DND Living Accommodation Instruction.

⁶ \$31 million/year x 5 years = \$155 million.

⁷ When the Recap Program began, the estimated replacement value of the CF housing portfolio was \$2.3 billion.

⁸ Infrastructure and Environment Functional Planning Guidance FY 2008/09, paragraph 32.

⁹ ADM(IE) FY 2009/10 Level 1 Strategic Assessment.

Other factors affecting the Recap Program are forecasted static revenue, a shortened deadline from 2030 to 2020¹⁰ to meet the contemporary standards, and improved insight into the expected costs of raising the condition of these houses from poor to good. A CFHA representative indicated that, given the current condition of the housing units, the original investment plan of 2 percent (\$46 million) of current estimated replacement value over 26 years is far from sufficient to ensure that all units meet the required contemporary standards by the desired target date of 2020.

Accommodation Vision 2020

“By 2020, the transition from the existing inventory of old military housing and barracks to contemporary crown-controlled residential accommodation will be complete.”

Progress to Date

At the time of the audit, the Recap Program had been in place for four years. This audit reviewed what had been accomplished with the funding received from DND (i.e., average of \$15 million per year over four years).

To measure the achievements in the Recap Program, CFHA began the project by assessing the condition of each housing unit in the portfolio of over 15,000 housing units. The LCAMP study was completed in 2006. It focused on basic asset conditions; it did not assess the units by DND’s contemporary standards. As reflected in Figure 2, only 2 percent of housing units required regular on-going maintenance (good), 73 percent required some recapitalization restoration (fair) and 25 percent needed major restoration work or should be disposed of (poor).

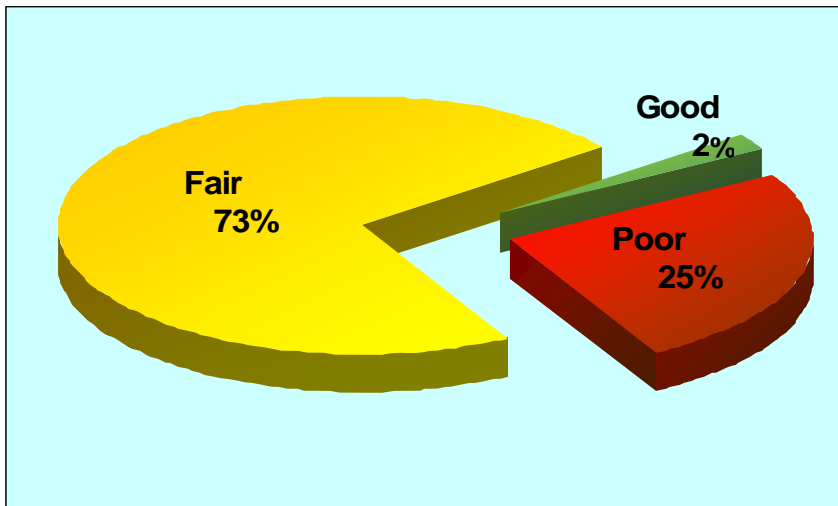


Figure 2. Condition Assessment of the CF Housing Portfolio (2006). The assessment of the housing units focussed on basic asset conditions rather than assessing units according to DND’s contemporary standards. The data is summarized in the following table:

¹⁰ Accommodation in Support of the Canadian Forces: A Vision for 2020.

Assessment	Percentage
Good	2%
Fair	73%
Poor	25%

Table 4. Condition Assessment of the CF Housing Portfolio (2006).

In its first four years, the program has:

- Completed renovation of 196 housing units at 10 sites;
- Began renovation of another 312 units;
- Constructed 60 new housing units; and
- Disposed of housing units deemed dilapidated or excessive to a site’s needs, to decrease the portfolio from 15,000 to 14,000 housing units.

The combination of these Recap Program activities increased the percentage of the portfolio in “good” condition from 2 percent to 6 percent. At this rate (1 percent a year), by 2020 the “good” would account for only 16 percent of the units.

The use of the funds received from DND was also reviewed. According to data provided by CFHA, the vast majority of such funding was used as intended. Figure 3 shows the actual DND funding received each year; it was not a constant \$15 million per year, but the total over the four years does average out to that amount.

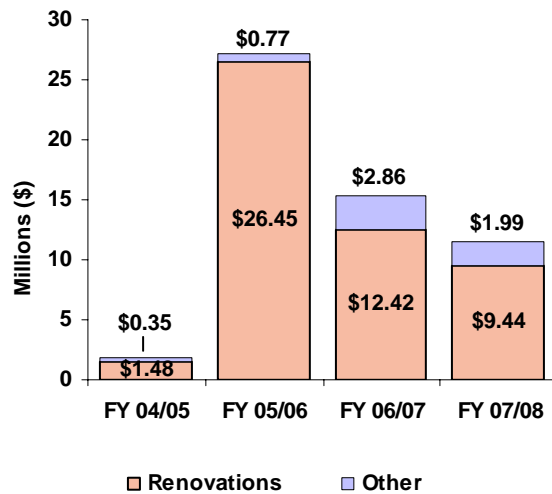


Figure 3. Annual DND Funding. Capital funds were spent on housing renovations and other expenditures such as renovations of site offices and a purchase of vehicles for CFHA house inspectors. The data is summarized in the table below:

Fiscal Year	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08
Renovations (\$M)	1.48	26.45	12.42	9.44
Other (\$M)	0.35	0.77	2.86	1.99

Table 5. Annual DND Funding.

Recommendation

Recapitalization Program. Revisit the residential section of Accommodation 2020 to assess its continuing viability, the risks of not meeting its goal, and possible alternative means of ensuring contemporary standards are met within the desired timeframe.

OPI: CMP, in consultation with ADM(IE)



Housing Management at CFHA Sites

Although sound financial management practices and tools are in place, CFHA requires more timely information, clearer performance goals, and consistent accounting.

Planning of Annual Renovation Projects

Site managers begin the planning phase for projects such as basic housing repairs, lifecycle maintenance and small capital projects by reviewing the needs and risks of their site's housing portfolio. To strengthen the planning phase of these projects, CFHA has recently implemented an LCAMP and developed internal guidelines for planning projects and an information system for project approvals (see [Annex C](#) for more detail).

The LCAMP records the age and condition of housing components, the due date for replacement and the overall condition of each housing unit across Canada. This information is captured and updated in CFHA's Condition Assessment (CA) database (see [Annex D](#)). There is concern that the database is not updated on a timely basis. In 2007, CFHA performed a verification of the database and concluded that on-going monitoring from head office is required to ensure that CFHA has reliable information to support decision making.

Internal guidelines have increased the consistency of project details and risk analyses in the annual proposals submitted by site managers. An oversight committee at head office reviews the proposals, along with the CA database, forecasted revenue, housing requirements of the base/wing commanders, and the schedule of the Recap Program. Following the review, letters are sent to site managers specifying allocated budgets.

Site Proposals

Approval of site proposals relies on both financial and non-financial information provided to an oversight committee.

Despite the committee's review of all sites' proposals to decide which projects to fund, following the CFHA Risk Profile ([Annex C](#)), the budget allocation letters to site managers for FY 2007/08 did not mention which project proposals were approved, or the priority of such projects. Such information is required for establishing priorities for site managers. Currently, as site managers are not advised which projects are most important, they cannot be held accountable for not achieving senior management's desired output. Another keystone to accountability is monitoring of the projects. At the time of this audit, CFHA created a new position in head office to monitor site project budgets and status.

Financial Accounting of Renovations and Repairs

Each site project is considered to be either a major renovation that adds capital value to a housing unit (i.e., betterment) or an on-going annual maintenance expense. The manner in which the projects are classified is reflected in the financial statements for CFHA and DND. A review of CFHA records of site projects in FY 2007/08 revealed inconsistencies in the accounting for similar projects. Interviews with site managers demonstrated various interpretations of what constitutes a betterment versus an expense. For example, some managers view the renovation of an entire kitchen of a 50-year-old house as

lifecycle maintenance and account for it as an expense of that year; others view it as a major capital improvement (or betterment) to the house and account for it as a betterment. A contributing factor is that the CFHA internal guidelines are not clear. The following examples illustrate inconsistent project accounting in FY 2007/08.

Same project, various coding

- Upgrade of CO detectors to all housing units.
- Costs were recorded as operational expense, basic repair, or betterment.

Same coding, different funding

- Kitchen renovations at different sites were coded as minor capital projects but only one was funded with capital funds.

Recapitalization projects managed as site projects not capitalized

- Upgrade to a particular house was originally in the plans of the Recap Program, but was managed as a site project to hurry the upgrade, and accounted for as an operating expense.

To address this inconsistency, CFHA should clarify and communicate the guidelines to all site managers to increase the consistency of the accounting treatment.

There also appears to be a lack of oversight on the project coding at the time of project initiation. Expenditure initiation authority for short-term renovation projects is obtained electronically through a CFHA information system known as Authorization for Project (A for P).¹¹ To obtain proper financial authority to commence a project, site managers enter details from which A for P automatically creates the financial coding of the project. This information is subsequently approved at head office. Discussions revealed that there is little review of financial coding as site projects are approved.

Common repair jobs are entered into the Housing Agency Management Information System (HAMIS). A variety of repair jobs, such as plumbing and grass cutting, were properly recorded in the CFHA database to the corresponding expense accounts, but were incorrectly uploaded to DND's financial system as road and highway repairs. In FY 2007/08 an amount of \$2.7 million¹² of house repairs in HAMIS was wrongly coded to road repairs in FMAS, which in turn was reflected in DND financial statements. This represents close to 8 percent of the total repairs and maintenance expenses of CFHA for that year, and is the only expense account this audit examined. The Agency is aware of this interface problem and has already corrected the mapping of many codes between the two databases.

¹¹ A more detailed description can be found in [Annex D—Reporting Mechanisms](#).

¹² 8 percent of FY 2007/08 total repairs and maintenance expenses of CFHA.



Payment Approval Process (Transactions Initiated at Housing Sites)

CFHA is listed on Schedule 1 of the FAA and therefore, pursuant to Sections 33 and 34 of the FAA, must have all payments certified by properly authorized officers. The CFHA process must also be in compliance with the departmental Financial Administration Manual (FAM).

Site managers handle mainly two types of expenditure transactions: work orders¹³ and utility services. A review of the payment process at visited sites, along with testing of random payment transactions, indicated that the processing of these expenses is compliant with Section 34 of the FAA. The review of the expenditure approval process did not include those transactions managed by DCC.

Processing of Expenses

Supporting documentation of the 223 reviewed transactions was properly authorized for payment.

A review of transactions during three months of FY 2007/08 found that reviews for Section 33 of the FAA were carried out in accordance with the departmental policy¹⁴ by the CFHA comptroller office.

Revenue Management

HAMIS provides site managers with the information and controls needed to carry out and facilitate their responsibilities in regards to managing occupancy and collection of shelter charges (see [Annex D](#)).

The visited CFHA site offices demonstrated that key controls are in place for revenue management as required in DND's policy. For example, there is a segregation of duties between billing and receiving, safeguarding of public monies and monthly reconciliation of outstanding accounts. Review of rent accounts for 55 housing units found that CFHA is correctly charging the shelter rates that the occupants had agreed to, or were advised of after re-evaluations, and that these shelter rates were in compliance with the rates determined by the Canada Mortgage and Housing Corporation (CMHC), as required in DND's Accommodation Policy.

However, prompt collection action is not being taken to keep delinquent rent accounts at a minimum. This is the responsibility of CFHA head office after site managers notify that all regulatory action has been taken to recover the outstanding balance. In FY 2008/09, CFHA had an accounts receivable balance of \$1 million. Nearly 40 percent (\$359,875¹⁵) had been delinquent for three years, but had not been written off. Some delinquent accumulated account balances exceed the accounts receivable write-off authority of the CFHA chief executive officer and require the approval of the departmental write-off committee. According to DND policy, these amounts should be kept at a minimum.¹⁶

¹³ A work order is a call-up for a contractor to do a maintenance job under a standing offer.

¹⁴ FAM 1016-4—Payment—FAA Section 33, 1 April 2001.

¹⁵ This is the sum of 308 accounts.

¹⁶ FAM 1018-2—Accounting and Control of Accounts Receivable and Public Revenue, 15 September 2000.



Recommendations

Project Oversight. CFHA should formally approve initial annual plans and amendments of site projects to provide milestones for subsequent monitoring of projects and of site managers' performance.

OPI: CFHA

Financial Coding. CFHA should implement measures to ensure financial transactions of CFHA are being accurately and consistently recorded in the CFHA and DND financial systems. The task of reviewing financial coding of annual projects should be added to the project approval process.

OPI: CFHA



Financial Reporting

CFHA has not addressed the outstanding issues that have prevented it from producing complete, audited financial statements, as required in the CFHA Charter.

Preparing separate annual audited financial statements was a requirement upon creation of CFHA as an SOA in 1996, and is still in the CFHA Charter. At the time of the audit, CFHA had not produced complete, audited financial statements. The absence of a Statement of Financial Position along with the incompleteness of the Statement of Operations reduces the credibility of CFHA's annual report as a whole.

New TB guidelines allow CFHA and DND to choose whether to include only CFHA's financial figures in the Department's reports or, in addition, to disclose publicly CFHA's planning and reporting documents separately. If CFHA and DND are willing to have CFHA's systems as source databases¹⁷—with their reporting embedded in DND's reports—the charter should be amended to align with these conditions.

CFHA's main reason for not yet producing financial statements is that to date there are no accurate net book value (NBV) figures for the CF housing portfolio. When CFHA took responsibility of operations of the CF housing portfolio, the Canadian government was not required to follow accrual accounting principles; CFHA has been endeavouring to determine the NBV from incomplete historical data on housing construction and renovations.

There is also a limitation regarding the capabilities of CFHA's current financial information system. In FY 2007/08, this system reported zero amortization on the housing portfolio when the records reflected an NBV of \$30.8 million. This zero amortization was reported in DND's financial statements.

To maintain an accurate NBV, all betterments should be added to the value of the housing portfolio. CFHA follows the DND definition of betterment, which requires a minimum value of \$30,000 per project per housing unit.¹⁸ TB accepts a minimum limit of \$10,000; DND was permitted to increase this limit to \$30,000 to reflect the size of many projects it carries out as compared with other departments. Consideration should be given as to whether this limit is appropriate for housing renovations. None of the renovations managed by site managers in FY 2008/09 bore a cost as high as \$30,000 a unit and therefore were not accounted for as betterments to the portfolio's NBV. An increasing NBV could be a means of demonstrating CFHA's results of improving the overall condition of the CF housing portfolio.

As CFHA is an SOA within DND, these issues with respect to CFHA's financial reporting directly impact DND's financial statements.

¹⁷ A separate financial database that uploads to DND's FMAS.

¹⁸ FAM Chapter 1020-4 Capital Assets, paragraph 23.



Recommendation

Financial Statements. CFHA should determine how to report its financial figures and ensure that key information is being captured to produce the annual audited financial statements. As well, management must ensure that the charter is aligned with the reporting structure.

OPI: CFHA and ADM(IE)



Annex A—Management Action Plan

Recapitalization Program

CRS Recommendation

1. Revisit the residential section of Accommodation 2020 to assess its continuing viability, the risks of not meeting its goal, and possible alternative means of ensuring contemporary standards are met within the desired timeframe.

Management Action

The DND Residential Housing Portfolio was built primarily in the 1950-1960 timeframe and is now coming to the end of its lifecycle. Given the current service delivery and funding models, it is quite clear that we will not be able to recapitalize this \$2.3 billion portfolio to contemporary standards by 2020 as envisioned by the Accommodation 2020 policy. Following AFC direction, CMP and ADM(IE) will go jointly to DSX and propose that an independent review by a third party from a group outside DND be completed by summer 2010 with the intent to come up with innovative alternative forms of service delivery and funding models that would tackle this complex issue both from a policy point of view and a Real Property Life Cycle Management perspective.

OPI: CMP, in consultation with ADM(IE)

Target Date: Fall 2010

Housing Management at CFHA Sites

CRS Recommendation

2. **Project Oversight.** CFHA should formally approve initial annual plans and amendments of site projects to provide milestones for subsequent monitoring of projects and of site managers' performance.

Management Action

CFHA has since developed a revised governance framework and structure which includes the implementation of a Program Review Board and a Project Review Board (PJRB) (superseding OPTEC), which meet quarterly and provide review, approval, oversight and monitoring of all minor and major capital projects.

Definitions are being clarified to alleviate the current inconsistencies in projects of similar types being coded as Lifecycle versus Betterment. These definitions will also be promulgated and communicated to assist with common understanding throughout the Agency.

All capital projects are reviewed by PJRB. Operational projects identified under specific risk categories (costs, heritage, environmental, technical) are also subject to a review by PJRB.

Annex A

Further, management of all major and minor recapitalization projects has been centralized in CFHA's ITS Division. Monitoring of the implementation of lifecycle and minor capital projects that are implemented at the site level is done in the CFHA Housing Operations Division, under the oversight of the General Manager Housing Operations who is accountable for management of the site offices.

OPI: CFHA

Target Date: Implemented

CRS Recommendation

3. **Financial Coding.** CFHA should implement measures to ensure the financial transactions of CFHA are being accurately and consistently recorded in the CFHA and DND financial systems. The task of reviewing financial coding of annual projects should be added to project approval process.

Management Action

Work was already under way and completed during the audit to identify mapping inconsistencies between FMAS and Oracle Financials. A review of this mapping is completed annually.

As of FY 2008/09, all Vote 5 A for P approval documents are reviewed by the CFHA Financial Planning and Resource Management (FPRM) Division before they are approved by the Chief Executive Officer. One of the checks performed by FPRM is to ensure that the financial coding is correctly identified, including classification as Vote 1 or Vote 5.

Additionally, a detailed reconciliation of expenses has been performed since FY 2009/10 between FMAS and Oracle Financials to eliminate coding irregularities.

OPI: CFHA

Target Date: Implemented

Financial Reporting

CRS Recommendation

4. **Financial Statements.** CFHA should determine how to report its financial figures and ensure that key information is being captured to produce the annual audited financial statements. As well, management must ensure that the charter is aligned with the reporting structure.

Management Action

Effective FY 2009/10, CFHA's annual report will include a full set of financial statements including the statement of financial position, statement of operations and cash flow in accordance to Treasury Board Accounting Standard 1.2 on financial statements.

However, it is suggested that considering the Agency's financial activities are fully incorporated into DND's reporting entity, the Agency and Department must weigh the benefits of developing audited financial statements at the Agency level against the cost of developing and maintaining the capacity to do this with funds that could be used as direct investment in the housing portfolio.

The Charter requirement for audited financial statements is noted. CFHA submitted an administrative revision to its Charter during FY 2009/10 to DND and CF senior management to ensure that the reporting structure and minor changes to the internal structure were updated in the Charter.

CFHA uses the DND \$30,000 threshold for capitalization of assets and supports the departmental rationale for using this threshold. The Agency is capable of producing information around capital expenditures that are not capitalized if this information is needed for decision making or transparency of reporting. Because CFHA is required to produce audited financial statements, this threshold will have to be revisited with DND in regards to CFHA as it may have an impact on the Agency's ability to get a clean opinion on its financial statements.

OPI: CFHA and ADM(IE)

Target Date: Partial implementation

Annex B—Audit Criteria

Objective

1. Assess CFHA's financial stewardship controls over its Recap Program and projects.

Area Assessed

- Recap Program.

Criteria

- Review the planning, budgeting, accounting and reporting of the Recap Program.

Area Assessed

- Projects managed by site managers.

Criteria

- Planning includes risk management and good communication;
 - There is consistency in accounting for the various types; and
 - Budgets are monitored on a continuous basis.
-

Objective

2. Assess the quality of information on the housing portfolio.

Area Assessed

- Information for reporting.

Criteria

- There is reliable information to produce complete financial statements for the Agency; and
- CFHA produces the financial statements requested in its Charter.

Area Assessed

- Information for decision making.

Criteria

- The data in the following information systems is timely, reliable, useful and complete:
 - HAMIS
 - CA Database
 - A for P
 - Oracle Financials
-

Objective

3. Assess CFHA's payment and collection processes in compliance with TB and DND policies.

Area Assessed

- Payment approval.

Criteria

- Only a person with delegated authority is signing for Section 34;
- Accurate payments (invoice is an original document, the transactions match the terms of the invoice, and the proper dates are entered);
- Legal payments (goods/services have been received as per contract specifications, and the payment is not made until the later of receipt of the goods or the invoice);
- Timely payments (late payments are not consistent); and
- Non-duplicate payments.

Area Assessed

- Revenue processing.

Criteria

- Shelter rates being collected are equivalent to the shelter rates accepted by the occupants;
- Shelter rates being charged match the rate in the most recent CMHC assessment for the matching housing model; and
- The accounts receivables in arrears are kept to a minimum.

Area Assessed

- Shelter rating.

Criteria

- Shelter rates set for housing models are the rates determined by CMHC, with deductions, if applicable, as per the DND Accommodation Policy.

Annex C—Codes and Standards for CFHA Planning

Life Cycle Asset Management Plan

This is a list of major components in each housing unit, their current condition and scheduled date of replacement, depending on expected lifetime. The information is a guideline as to when preventive maintenance projects should be done, which was reported by the Office of the Auditor General (OAG) in 1994 as lacking for efficient asset lifecycle management.¹⁹ CFHA responded by defining the major components of a housing unit and the estimated lifetime of each component, assessing the current condition of all components in the 14,000 housing portfolio across Canada, and recording this information in an in-house system known as the CA database. The CA database was installed in 2005; the portfolio assessment was completed in 2007.

Internal Guidelines on Planning

Head office has issued a Management Instructions Guide (MIG) on planning. The MIG directs site housing managers to submit a formatted program each year addressing four areas: repairs, operations, lifecycle, and minor capital projects. The submissions reflect a list of problems that currently exist, such as health and safety risks, a list of proposed projects to address the problems and an estimation of the funds required to carry out the proposed projects. Endorsement from head office is required for program approval.

Risk Profile

CFHA has developed and communicated a risk profile that provides direction in prioritizing the annual proposed housing projects and allocation of resources. First is the health and safety of the occupants; second is regular maintenance and repair of the properties, third is major renovation to improve the overall condition of the housing units, and fourth is disposal.

¹⁹ 1994 Report of the Auditor General of Canada, Chapter 27—National Defence—Infrastructure Management.

Annex D—Reporting Mechanisms

Housing Agency Management Information System

HAMIS provides useful information for daily operations of site managers. It creates and tracks the status of accounts for occupants, allows automatic shelter charge revenue from DND's military pay system, tracks repair jobs, allows electronic approval of contractor jobs as completed, maintains a history of both occupancy and repairs of each housing unit since the inception of CFHA, and provides reports for local budget management. HAMIS is programmed with controls to prevent users from entering erroneous information or contravening policy. Examples of these controls are fixed prices of repair jobs programmed to job codes, inability to duplicate work orders thereby preventing duplicate payments, and automatic deductions from the military pay system for shelter charges.

Condition Assessment Database

The CA database reflects the age and condition of housing components, their due date for replacement and the overall condition of each housing unit. This is the information the OAG had reported as lacking for asset lifecycle management.²⁰ CFHA responded by creating the CA database to provide the required information on an exhaustive list of housing components. CFHA has defined all relevant components of a housing unit's lifecycle and the estimated lifetime of each component, and has assessed the current condition of all components in the 14,000 housing portfolio across Canada. This was completed in 2006 and the DND Accommodation Board endorsed the CFHA LCAMP on 30 January 2007. As a result, the information in the CA database feeds the planning of the LCAMP, which is a main driver of the Recap Program.

CA Database

CA database maintains required information to life cycle management that the OAG had reported as lacking in CFHA records.

Authorization for Project

The A for P process is a means for site managers to obtain the proper financial authorization to commence a housing project. Site managers enter the site, project number, number of housing units involved and estimated costs. From a drop-down list of text descriptions, they choose the most appropriate activity category and expense account. From this information, A for P automatically creates the financial coding of the project, which is used for all payment transactions of the project uploaded to DND's financial system.

Oracle Financials

Oracle Financials is the source database to FMAS for financial data on residential assets; this information is relied on in the preparation of DND financial statements, specifically: increases to the NBV of residential housing, the cost of amortization, and the value of annual expenses related to repairs and maintenance of the CF housing portfolio.

²⁰ Ibid.