



## Internal Audit Report: TCHC Employees Who Are Also TCHC RGI Tenants

Item 3B

October 19, 2016

Building Investment, Finance and Audit Committee

<b>Report:</b>	BIFAC:2015-124
<b>To:</b>	Building Investment, Finance and Audit Committee (BIFAC)
<b>From:</b>	Chief Internal Auditor
<b>Date:</b>	September 15, 2016
<b>Strategic Plan Priority:</b>	<b>Service Excellence:</b> <ul style="list-style-type: none"> <li>• Demonstrate Value for Money and Public Accountability</li> </ul>

### PURPOSE:

To provide the Building Investment, Finance and Audit Committee (the Committee) with the Internal Audit report *TCHC Employees Who Are Also TCHC RGI Tenants*.

### RECOMMENDATIONS:

That the Committee receive the Internal Audit report *TCHC Employees Who Are Also TCHC RGI Tenants* for information.

### REASONS FOR RECOMMENDATIONS:

#### Background

There are a number of Toronto Community Housing Corporation (TCHC) employees who are also TCHC Rent-Geared-To-Income (RGI) tenants (Employee/Tenants).

The Internal Audit Department (IAD) wanted to determine if there are situations where Employee/Tenants do not declare:

- They were part of the RGI household; or
- Their income from TCHC despite being on the TCHC lease.

Such a situation would pose a risk of fraud, as well as non-compliance with the *Housing Services Act*, if RGI households that include TCHC staff are misrepresenting their income. There would also be a reputational risk to the organization.

## Findings

A very small sample of Employee/Tenants did not declare their TCHC salary, or increase in TCHC salary, for the purpose of their household's RGI rent calculation. IAD reported those exceptions TCHC management for resolution.

IAD also came across a number of administrative errors with respect to some Employee/Tenant household RGI calculations and reported them to TCHC management for resolution.

The main concern, however, is how should TCHC, which in these cases is both employer and landlord, treat employees who are also members of a TCHC RGI household with respect to disclosure of their employee's income to their landlord.

This review raised a number of questions. For example, should TCHC:

- As the employer, automatically disclose to TCHC, the landlord, the Employee/Tenant's annual income for RGI rent calculations? Or not?
- Perform an annual review of all Employee/Tenants to ensure that the appropriate income amounts have been reported?
- Require all TCHC employees, regardless of where they live, to acknowledge an obligation to disclose their income to TCHC if they are, or become, RGI tenants in a TCHC unit?
- Treat Employee/Tenants with the same privileges as other TCHC RGI tenants with respect to reporting income (which is self-reporting income as opposed to the tenants' employer directly providing income information to TCHC)?
- Receive a complaint (e.g. through the TCHC Do What's Right fraud hotline) that alleges an Employee/Tenant has not declared their TCHC income for RGI rent calculations, should this be reviewed as an HR/employee matter or a landlord/tenant matter?

These are complex issues for which IAD does not have a solution. This report recommends that management find them.

This report includes two Recommendations related to the queries noted above. Management has agreed with our Recommendations. Management's Action Plan with respect to these Recommendations are included in this report.

## **IMPLICATIONS AND RISKS:**

It is a risk of fraud, as well as non-compliance with the *Housing Services Act*, if RGI households that include TCHC staff are misrepresenting their income. There would also be a reputational risk to the organization.

In addition, it is important that TCHC, the landlord and the employer, set out protocols that will treat TCHC employees who are also RGI tenants with the same level of respect accorded to other RGI tenants.

**SIGNATURE:**

*“Michael Vear”*

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Michael Vear, CPA, CA, CPA (Illinois)  
Chief Internal Auditor

**ATTACHMENT:**

1. Internal Audit Report: *TCHC Employees Who Are Also TCHC RGI Tenants*

**STAFF CONTACT:**

Michael Vear, Chief Internal Auditor  
416-981-4065  
michael.vear@torontohousing.ca

Genevieve Ségu, Manager Internal Audit  
416-981-4397  
genevieve.segu@torontohousing.ca



# TCHC Employees Who Are Also TCHC RGI Tenants

## **REPORT**

September 7, 2016

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## EXECUTIVE SUMMARY

### Background

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The Internal Audit Department (IAD) wanted to determine if there are situations where Employee/Tenants do not declare:

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- Perform an annual review of all Employee/Tenants to ensure that the appropriate income amounts have been reported?
- Require all TCHC employees, regardless of where they live, to acknowledge an obligation to disclose their income to TCHC if they are, or become, RGI tenants in a TCHC unit?
- Treat Employee/Tenants with the same privileges as other TCHC RGI tenants with respect to reporting income (which is self-reporting income as opposed to the tenants' employer directly providing income information to TCHC)?
- Receive a complaint (e.g. through the TCHC Do What's Right fraud hotline) that alleges an Employee/Tenant has not declared their TCHC income for RGI rent calculations, should this be reviewed as an HR/employee matter or a landlord/tenant matter?

These are complex issues for which IAD does not have a solution. This report recommends that management find them.

We would like to take this opportunity to thank staff and management of the Legal, Asset Management and the Human Resources Departments for their cooperation and assistance during this audit.

## **CONTACT**

Barb Kapeluch  
Business Analyst  
Internal Audit Department  
416-981-4209  
Barb.Kapeluch@torontohousing.ca

Genevieve Segu, CPA, CMA, CIA,  
CRMA, CISA  
Manager, Internal Audit  
Internal Audit Department  
416-981-4397  
Genevieve.Segu@torontohousing.ca

## **Approved**

Michael Vear, CPA, CA, CPA (Illinois)  
Chief Internal Auditor  
Internal Audit Department  
416-981-4065  
Michael.Vear@torontohousing.ca

## **1.0 BACKGROUND**

According to the *Housing Services Act* (the Act), Housing Providers are required to review income of RGI households at least once every 12 months. The Act also states that households receiving RGI assistance must report any changes to the household composition, income and/or assets within 30 days of the change occurring.

There are a number of TCHC employees who are also TCHC RGI tenants (Employee/Tenants).

## **2.0 ENGAGEMENT OBJECTIVES AND SCOPE**

### **2.1 Engagement Objectives**

The objectives of this assignment were to determine if:

- Employee/Tenants in RGI units are declaring themselves as part of the household;
- Employee/Tenants are reporting TCHC income;
- Rent is being calculated properly for Employee/Tenant households; and
- There are opportunities for improvement, as appropriate.

### **2.2 Engagement Methodology and Scope**

Our methodology included:

- Reviewing policies, procedures and forms relevant to the process;
- Analyzing data;
- Examining a sample of Employee/Tenant tenancy files; and
- Performing an analysis on our findings.

In 2014, out of the 1,540 employees working for TCHC, 5% (76) lived in a RGI unit managed by TCHC.

Internal Audit reviewed the tenant files of 15 units where an Employee/Tenant was identified. This represented approximately 20% of the identified Employee/Tenants. Since Internal Audit used a risk based approach to select the tenant files, the results of the audit are not to be extrapolated over the population of 76 employees that are also TCHC tenants.

### **3.0 DETAILED FINDINGS**

#### **3.1 Non-Compliance with Income Reporting Requirements**

Six of the fifteen (6/15) files reviewed were non-compliant with the income reporting requirements under the Act.

##### **3.1.1 Salary Not Reported**

Two households did not report the salary of the TCHC employee in the household's income.

IAD referred these two files directly to the Human Resources (HR) Department for review and follow up.

##### **3.1.2 Increase in Income Not Reported**

One household did not declare the increase in income of the TCHC employee included in the household.

Management has informed Internal Audit that they have updated the household's rent calculation retroactively.

##### **3.1.3 Delay in Reporting Increase in Income**

Three households waited until their next rent review date to declare the income or increase in income of the TCHC employee included in the household instead of the required 30 days. Since then, two of the employees have left TCHC's employment.

For these three files, Management has informed Internal Audit that they have updated the household's rent calculation retroactively.

#### **Risk of Data Manipulation**

As a compensating exercise, we reviewed the names of the Employee/Tenants and compared them to the names of employees who have the ability to make changes in the system that charges the tenant's account, Housing Management System (HMS).

None of these Employee/Tenants had or have access to changing data in the HMS system.

#### **Lost Revenue**

For the households in 3.1.1 and 3.1.2, Internal Audit estimated a potential revenue loss of approximately \$15,300 for the year 2015.

Though the dollar amounts are not material to TCHC's operations, there is a potential reputational risk, and also a possible loss of confidence from our clients and other stakeholders.

### 3.2 Sharing Payroll Information Between TCHC Departments

As noted above, there were three instances where a TCHC employee who is a member of a TCHC RGI household did not follow the income reporting rules set out in the Act.

This raises the following questions:

- How does the corporation mitigate this risk?
- Alternatively, should the corporation even be trying to mitigate this risk?

#### Direct Exchange of Information

By mitigating the risk, should there be an automatic exchange of the TCHC employee's annual income information from the Payroll Department to the household's Tenant Services Coordinator (TSC)<sup>1</sup> to calculate the Employee/Tenant's household's Annual Review? When the employee receives an increase in salary, should this information be automatically shared with the TSC so that they can revise the rent calculation for the household?

#### The Honour System

Alternatively, the reporting of annual income by an RGI household, or increases in income, for purposes of RGI rent calculations is essentially based on the honour system. Within certain reporting requirements, RGI tenants will submit the requisite documents and information to their TSC. TCHC does not receive this information directly from the source of this income.

As such:

- Why should TCHC employees, who are also members of a RGI household, be treated any differently?
- Why should there be an automatic exchange of income information from their employer, which happens to be TCHC, to their landlord, which also happens to be TCHC. Should there not be an expectation that the Employee/Tenant will fully and timely report their income?

Another consideration, should all TCHC employees, regardless of where they live, be required to acknowledge an obligation to disclose their income to TCHC if they are, or become, RGI tenants in a TCHC unit?

We do not have the answer to these questions.

There are currently no policies or procedures in place to address the sharing of information about employees who are also RGI tenants of TCHC.

#### **Recommendation #1**

*Management develop a policy and/or protocol with respect to the internal identification and sharing of annual income information between TCHC*

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<sup>1</sup> Tenant Services Coordinators are responsible for calculating a household's RGI rent amount.

*departments of TCHC employees who are also TCHC RGI tenants, if appropriate.*

### **3.3 Complaints About TCHC Tenants Who Are Also TCHC Employees**

Where it comes to management's and/or staff's attention that allegedly a RGI household:

- Does not appear to be declaring all of the household income; and/or
- Includes a person who is not on the lease,

there are mechanisms and procedures in place to review such allegations.

If such a complaint is made about, or is related to, a TCHC employee who is also a member of an RGI household, the review of such an allegation becomes problematic, as there are no policies/procedures in place to follow. Is it a:

- Landlord/tenant matter (following the normal processes of a tenant complaint)? or
- Human Resources/Professional Conduct complaint?

And, depending on the answer, how and by whom should such a complaint be reviewed?

Again, we do not have the answer to these questions.

#### ***Recommendation #2***

*Management develop a policy and/or protocol with respect to the review of complaints received involving RGI tenants who are also TCHC employees and who allegedly:*

- *Did not disclose their TCHC income for RGI calculation purposes; or*
- *Have not been included on the household's lease.*

## APPENDIX A: MANAGEMENT'S ACTION PLAN

#	Recommendation	Agree/Disagree	Management's Action Plan	Timeline
1	<p>Management develop a policy and/or protocol with respect to the internal identification and sharing of annual income information between TCHC departments of TCHC employees who are also TCHC RGI tenants, if appropriate.</p>	Agree	A policy and/or protocol will be developed, taking into consideration such things as the Ontario <i>Municipal Freedom of Information and Protection of Privacy Act</i> (MFIPPA).	Q2-2017
2	<p>Management develop a policy and/or protocol with respect to the review of complaints received involving RGI tenants who are also TCHC employees and who allegedly:</p> <ul style="list-style-type: none"> <li>• Did not disclose their TCHC income for RGI calculation purposes; or</li> <li>• Have not been included on the household's lease.</li> </ul>	Agree	A policy and/or protocol will be developed, taking into consideration such things as MFIPPA.	Q2-2017