



Internal Audit Report: Rent Geared to Income Calculation 2015 Supplementary Report

Item 3C

October 12, 2016

Building Investment, Finance and Audit Committee

Report:	BIFAC:2015-125
To:	Building Investment, Finance and Audit Committee (BIFAC)
From:	Chief Internal Auditor
Date:	September 15, 2016
Strategic Plan Priority:	Service Excellence: <ul style="list-style-type: none"> Demonstrate Value for Money and Public Accountability

PURPOSE:

To provide the Building Investment, Finance and Audit Committee (the Committee) with the Internal Audit report *Rent Geared to Income Calculation 2015 Supplementary Report*.

RECOMMENDATIONS:

That the Committee receive the Internal Audit report *Rent Geared to Income Calculation 2015 Supplementary Report* for information.

REASONS FOR RECOMMENDATIONS:

Background

During their audit of Toronto Community Housing Corporation's (TCHC) 2014 year-end financial statements, TCHC's auditors (PricewaterhouseCoopers (PwC)) noted errors made in Rent-Geared-to-Income (RGI) rent calculations in 2013 and 2014.

Management rectified the identified errors and created an action plan approved by the Board to prevent such errors from occurring in the future.

The Board also requested the Chief Internal Auditor to include RGI rent calculation reviews as part of the Internal Audit Work Plan. The intent of the review was to conduct

an independent review of RGI calculations and support PwC's 2015 year end audit work.

PwC selected a sample of 100 RGI calculations throughout 2015 for their and IAD's review that was conducted in two phases:

- First tranche, 75 files: In our October 20, 2015 report, *Rent Geared to Income Calculation Review 2015*¹, we reported on RGI calculations of 75 tenant files over the period of January 2015 to August 2015, inclusive; and
- Second tranche: 25 files: This supplementary report sets out the results of our review of the remaining 25 RGI calculations for the period of September 2015 to December 2015.

Findings

In the current sample of 27² RGI calculations we found:

- No instances where the RGI calculation resulted in an overcharge of rent to the tenant;
- 2 instances where the RGI calculation resulted in an undercharge of rent to the tenant; and
- The net \$ error rate amounted to 0.46% (\$39 per month on a sample of \$8,520 per month).

Similar to our previous report, we continued to find deficiencies in the availability of supporting documentation for RGI calculations.

These findings were communicated to management.

No further recommendations are made in this report as we will follow-up in the fall of 2016 on the recommendations made in the October 2015 report.

IMPLICATIONS AND RISKS:

The 2015 RGI calculation review program was developed to decrease the following risks to the Corporation:

- Overcharging tenants;
- Incurring revenue loss by undercharging tenants; and
- Losing confidence from tenants, shareholders, and the public if all tenants are not treated fairly and not in alignment with its mandate.

¹ This report was presented at the November 16, 2015 meeting of the Building Investment, Finance and Audit Committee.

² This supplementary review was based on 27 tenant files with a RGI calculation during the time period of September 2015 to December 2015, inclusive. The sample size and actual files were selected by PwC and included 2 additional files to make up for the first sample where two tenants were market rent at the time of the review rather than being RGI tenants.

SIGNATURE:

“Michael Vear”

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ATTACHMENT:

1. Internal Audit Report: *Rent Geared to Income Calculation 2015 Supplementary Report*

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Rent Geared to Income Calculation Review 2015

Supplementary Report

September 6, 2016

EXECUTIVE SUMMARY

Background

During their audit of Toronto Community Housing Corporation's (TCHC) 2014 year-end financial statements, TCHC's auditors (PricewaterhouseCoopers (PwC)) noted errors made in Rent-Geared-to-Income (RGI) rent calculations in 2013 and 2014.

Management rectified the identified errors and created an action plan approved by the Board to prevent such errors from occurring in the future.

The Board also requested the Chief Internal Auditor to include RGI rent calculation reviews as part of the Internal Audit Work Plan. The intent of the review was to conduct an independent review of RGI calculations and support PwC's 2015 year end audit work.

PwC selected a sample of 100 RGI calculations throughout 2015 for their and IAD's review that was conducted in two phases:

- First tranche, 75 files: In our October 20, 2015 report, *Rent Geared to Income Calculation Review 2015*¹, we reported on RGI calculations of 75 tenant files over the period of January 2015 to August 2015, inclusive; and
- Second tranche: 25 files: This supplementary report sets out the results of our review of the remaining 25 RGI calculations for the period of September 2015 to December 2015.

Audit Objectives

In agreement with senior management, the objectives of this audit were to:

- Determine whether tenant RGI calculations were made in accordance with TCHC policies and procedures and relevant legislation;
- Ascertain the error rate of RGI calculations, based on a sample;
- Assess the completeness of the rent review documentation; and
- Identify opportunities for improvement, as appropriate.

Methodology and Scope

Our methodology included:

- Examining documents in a sample of tenant files;
- Using an Audit tool designed by Internal Audit to verify RGI calculations; and
- Performing an analysis on our findings.

This review was based on 27 tenant files with a RGI calculation during the time period of September 2015 to December 2015, inclusive. The sample size and actual files were selected by PwC and included 2 additional files to make up for the first sample where two tenants were market rent at the time of the review rather than being RGI tenants.

In making their sample selection PwC excluded tenant files from contract managed buildings (approximately 21% of TCHC's tenants).

¹ This report was presented at the November 16, 2015 meeting of the Building Investment, Finance and Audit Committee.

Terminology

For purposes of this report:

- An **overcharge** means that the RGI rent calculation resulted in the tenant being charged rent greater than what was supposed to be; and
- An **undercharge** means that the RGI rent calculation resulted in the tenant being charged rent less than what was supposed to be.

When this was first brought to management's and the Board's attention for fiscal 2014, it was decided that tenants reviewed in the sample who were:

- Overcharged would receive a refund of the amount overcharged retroactively for a two year period; and
- Undercharged would be charged the correct amount of rent on a go forward basis.

Findings

In the current sample of 27 RGI calculations we found:

- No instances where the RGI calculation resulted in an overcharge of rent to the tenant;
- 2 instances where the RGI calculation resulted in an undercharge of rent to the tenant; and
- The net \$ error rate amounted to 0.46% (\$39 per month on a sample of \$8,520 per month).

Similar to our previous report, we continued to find deficiencies in the availability of supporting documentation for RGI calculations.

No further recommendations are made in this report as IAD will follow-up in the fall of 2016 on the recommendations made in the October 2015 report.

We would like to take this opportunity to thank staff and management in the following areas:

- Asset Management;
- all of the Operating Units; and
- Finance

for their cooperation and assistance during this audit.

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DETAILED REPORT

1.0 RGI Calculations Compliance

Findings:

Errors Per Number of RGI Calculations Reviewed

With respect to the number of RGI calculations reviewed for the second stage review:

- No overcharges were detected; and
- 2/27 files were noted as the TSC having undercharged the rent calculation.

Dollar Value of Errors Noted

- The following table summarizes the dollar value of the errors made in the second stage of the 2015 sample for undercharges, showing that the undercharges of \$39 represent a 0.46% error rate (\$39 per month on a sample of \$8,520 per month).

In this table:

- **\$ Sample Error** means the dollar amount of the rent calculation error for all of the errors noted for a one month period; and
- **\$ Sample Population** means the dollar value of the monthly rent for all tenants included in the sample tested.

	\$ Rent Undercharged
\$ Sample error	(\$39)
\$ Sample population	\$8,520
% Error	(0.46%)

The nature of the errors found have been communicated to management for rectification and further training to staff.

Mitigation Strategy

When the matter of errors in RGI calculations arose with respect to the TCHC 2014 fiscal year end, the Board approved an action plan to address the issues raised.

Included in that action plan was the creation of the role of Administrative Audit Assistant (AAA) for each TCHC operating unit. The responsibilities of this position includes the review of all annual RGI calculations prior to the tenant being notified of same.

Although at the time of our review the AAAs were not yet fully deployed, management indicated that, as part of the AAA implementation, they are also tracking the nature of the errors in order to identify training needs.

2.0 Completeness of Rent Review Documentation

In our October 2015 report we noted a number of deficiencies in the availability of supporting documentation for RGI calculations.

In this supplementary review we continued to find deficiencies in appropriate documents to support the RGI calculations, such as:

- Missing documentation;
- Documents other than those prescribed by the RGI Manual were used for rent calculations; and
- Missing signatures on the Income and Assets Review Form.

Although the poor documentation is not a direct link to calculation errors, we had to rely on previous rent reviews.

Mitigation Strategy

During the current review we obtained the necessary documentation to rectify some of those documentation deficiencies.

We also understand that the AAAs' responsibilities includes obtaining adequate supporting documentation prior to processing Annual Rent Reviews.

3.0 Previous Recommendations Made

In our October 2015 report we made a number of recommendations with respect to RGI calculations and tenant file documentation.

We will report on the status of those recommendations as part of our annual follow up review of recommendations made in Internal Audit reports.