

# Municipal Affairs — Systems to Deliver Affordable Housing Grants

## SUMMARY

In 2007, the Alberta Affordable Housing Task Force recommended that the Government of Alberta enhance capital resources for affordable housing supply. The task force estimated the need for 12,000 affordable housing units at a cost of \$480 million annually over five years for a total cost of \$2.4 billion.<sup>1</sup> The Department of Municipal Affairs<sup>2</sup> responded by creating the municipal block funding and housing capital initiatives programs to fund the development of 11,000 affordable housing units for low-income Albertans.<sup>3</sup>

In September 2011, the department reported that it had met its objective of approving funding for the development of 11,000 affordable housing units. In total, the department's investment of \$1.1 billion<sup>4</sup> combined with \$1.1 billion of investment from partnerships with municipalities, non-profit groups and the private sector resulted in \$2.2 billion of investment in affordable housing across the province. As of April 2013, 5,900 units have been built.<sup>5</sup> The remaining units are in various stages of development.

### What we examined

We examined the department's systems to plan, award, monitor, report on and evaluate the two affordable housing grant programs. Our objective was to determine whether the department had adequate systems to deliver grant programs to increase Alberta's supply of affordable housing. Our audit was not an assessment of whether the programs' goals were met, but rather an audit of the systems management used to deliver the grant programs.

### What we found

The department approved funding to its partners for the development of 12,000 affordable housing units over a five-year period, which met the program objective of increasing supply in Alberta. However, we found several areas where the department's systems to deliver grant funding for these two programs could be improved.

#### *Grant eligibility criteria*

The department's eligibility criteria could have been better aligned with the programs' objectives. The eligibility criteria of need and affordability were assigned fewer points than we would have expected for a program designed to provide additional affordable housing options to Albertans in need. Some grant applicants had high combined scores for need and affordability but were not approved for funding.

#### *Documentation of decisions*

The department's awarding process was not well documented. Significant judgement was applied by the department in selecting who would receive grant funding. However, the rationale for these critical judgements was not well documented.

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<sup>1</sup> The task force issued its report, *Housing First: An Investment with a Return in Prosperity*, in March 2007.

<sup>2</sup> The Department of Housing and Urban Affairs was responsible for these programs from 2008 to 2011.

<sup>3</sup> Alberta Municipal Affairs and Housing Annual Report 2007–2008, page 56. The department's performance measure was the number of affordable housing units developed with support from provincial funding. It defined developed as projects with funding commitments that are in any phase of development.

<sup>4</sup> The department's investment includes \$119 million in federal funding.

<sup>5</sup> Unaudited information provided by the department.

*Monitoring of recipients*

The department has not sufficiently monitored grant recipients to ensure they comply with their obligations. Many of the grant recipients we visited did not comply, in some aspect, with the grant agreement because they charged rental rates higher than allowed or had ineligible tenants living in affordable housing units.

*Evaluation of grant programs*

The department does not have an evaluation strategy for its affordable housing grant programs. It has not conducted evaluations of these programs to assess whether the programs are effective. Also, the department does not have sufficient data or comprehensive performance measures to evaluate and assess the performance of the two programs.

**What needs to be done**

We made two recommendations to the department to improve its monitoring processes and develop an effective evaluation system. The grant agreements require municipal block funding and housing capital initiatives grant recipients to provide and maintain affordable housing for 10 and 20 years, respectively. Therefore, it is critical that the department establishes and maintains effective monitoring processes to ensure these housing units remain affordable, available and the savings<sup>6</sup> are passed along to Albertans in need.

The department should also evaluate whether its affordable housing grant programs are operating efficiently, achieving value for money and meeting their objectives. Evaluations become more difficult if performance targets or benchmarks are not established or considered as part of the program design. However, evaluations should still be conducted and can be useful to identify lessons learned that the department could apply to future housing grant programs.

We did not make recommendations related to our findings for the planning and awarding processes because grant applications are no longer being accepted. However, we expect the department to apply lessons learned to its other housing grant programs.

**Why this is important to Albertans**

The department has invested \$1.1 billion dollars to increase Alberta's supply of affordable housing. Albertans need to have confidence that this investment is supporting the development of housing options that serve the needs of low income Albertans. For Albertans to receive value for money from these programs, those who qualify to live in these units should benefit from increased availability and lower rates for affordable housing.

**AUDIT OBJECTIVE AND SCOPE**

Our objective was to determine whether the department had adequate systems to deliver grant programs to increase Alberta's supply of affordable housing.

We examined the affordable housing grant programs for the period April 2007 to March 2013. We did not examine the department's operating grant programs, such as the rent supplement and homeless emergency and transitional housing programs. We did not examine the Alberta Secretariat for Action on Homelessness, other than the department's allocation of housing for the homeless units under its affordable housing grant programs.

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<sup>6</sup> The difference between market rental rates and affordable housing rental rates.

We developed our audit criteria using the department's accountability framework for municipal grant funding, the grant funding agreements and our understanding of the department's grant funding processes.

We conducted our field work from July 2012 to April 2013. We substantially completed our audit on May 8, 2013. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set by the Canadian Institute of Chartered Accountants.

## BACKGROUND

### Affordable housing in Alberta

In February 2007, the Government of Alberta appointed the Alberta Affordable Housing Task Force to recommend ways to make housing more affordable, accessible and available to Albertans. At the time, Alberta was experiencing the strongest economic growth in Canada and attracting workers to the province. Alberta's population was growing at double the national rate, rental rates were increasing and vacancy rates were declining. The task force estimated that 8,900<sup>7</sup> people were on waitlists for all forms of affordable housing in Alberta in 2006.

One of the task force's recommendations was to increase Alberta's affordable housing supply by delivering 12,000 units at an estimated cost of \$480 million annually over five years. The task force also recommended allocating capital funds through block funding to municipalities, to better respond to regional and community needs.

In response, the department implemented a granting system, in a short period of time, to deliver on its commitment to fund the development of 11,000 affordable housing units by 2012. Initially, the department provided funding through three programs: municipal block funding; affordable housing request for proposal; and housing for the homeless request for proposal. In 2010–2011, the department combined the two RFP programs and renamed them housing capital initiatives.

### Housing division

The housing division works with housing management bodies,<sup>8</sup> municipalities, and non-profit and private sector organizations to help low-income Albertans access below market housing options that meet their needs. The department is responsible for:

- ensuring Albertans of modest means have access to affordable housing
- supporting a mix of existing and new housing options
- delivering grant programs to increase the supply of affordable housing
- monitoring housing agreements
- ensuring that provincially owned and social housing units are managed effectively
- managing the delivery of rent supplement programs and other grant initiatives<sup>9</sup>

This division administers the municipal block funding and housing capital initiatives programs. In the past five years, the department has approved funding to develop over 12,000 affordable housing units. As of April 2013, 5,900 units have been built and another 2,800 units are expected to be completed by March 31, 2014.<sup>10</sup> The remaining units are in various stages of development.

<sup>7</sup> Housing First: An Investment with a Return in Prosperity, page 8.

<sup>8</sup> The *Alberta Housing Act* (RS 2000 cA-25) establishes and provides authority to housing management bodies to operate housing programs and administer the ministry's social housing assets under the *Management Body Operation and Administration Regulation* (AR 243/97). Management bodies accept applications from individuals or households to determine eligibility and provide financial support under these housing programs.

<sup>9</sup> <http://municipalaffairs.gov.ab.ca/housing.cfm>

<sup>10</sup> Unaudited information provided by the department.

## Legislation

The *Housing and Urban Affairs Grants Regulation*<sup>11</sup> gives the minister authority to make grants to people or organizations. The department requires grant recipients to sign a grant agreement for each project. The grant agreements have terms and conditions such as payment, use, reporting, monitoring, termination, insurance requirements and breach of the agreement.

## Affordable housing grant programs

The department requires grant recipients to use approved funds to build housing units, create secondary suites, purchase and renovate existing housing or convert non-residential space into affordable housing. The department defines affordable housing as a self-contained unit with one or several bedrooms rented to a low-income individual or family at rents below market.

### *Municipal block funding*

Through this program, the department committed a minimum of \$100 million per year over three years to help high-growth, high-need municipalities to provide affordable housing. The following table<sup>12</sup> summarizes grants made through municipal block funding.

	2007–2008	2008–2009	2009–2010	Total
Funding (\$ millions)	145	113	100	358
Eligible municipalities	33	37	39	N/A
Units approved for development	1,679	1,510	1,397	4,586

Alberta municipalities with a population over 5,000 qualified for this program. The department assessed these municipalities for eligibility based on three criteria:<sup>13</sup>

- population growth above the provincial average
- vacancy rate under the provincial average
- monthly market rental rate for a two-bedroom unit above the provincial average

The department required eligible municipalities to submit an affordable housing plan in order to receive funds from this program.

### *Housing capital initiatives*

The objective of housing capital initiatives was to increase the availability of affordable housing through one-time grants. Funding was distributed through project-specific requests for proposal from entities that identified a need for affordable housing. In July 2012, the department decided not to proceed with a request for proposal for 2012–2013 and allocated the available funds towards maintaining its own social housing inventory.

<sup>11</sup> AR 18/2009

<sup>12</sup> Unaudited information provided by the department.

<sup>13</sup> The department sets these benchmarks annually.

The following table<sup>14</sup> summarizes funding for housing capital initiatives.

	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	Total
Funding (\$ millions)	113	187	190	188	120	798
Approved grant applicants	21	35	55	40	25	176
Units approved for development	911	1,527	1,892	2,011	1,212	7,553

Organizations eligible for funding under the housing capital initiatives included municipalities, non-profit organizations, housing management bodies and private sector developers. The department evaluated each proposal on six criteria: application requirements, project need, project sustainability, project affordability, funding sources and the project's technical aspects.

Under the program, the total funding from all provincial government sources or government funded agencies could not exceed 65 per cent of the total capital costs or a maximum of \$150,000 per unit. Total grant funding for housing for the homeless could not exceed 70 per cent of the total capital costs.

### Income eligibility and rental rates

The department requires grant recipients to provide affordable housing units only to individuals and families whose incomes are at or below the income thresholds for the type of unit they need. The core need income threshold, or CNIT, is reported annually by the Canada Mortgage Housing Corporation in partnership with the department<sup>15</sup>. Households with annual incomes equal to or less than CNIT are said to have insufficient income to afford the costs of rental units in their area. For example, an individual living in Airdrie with an annual income at or below \$37,500 is eligible for a one-bedroom affordable housing unit.

The department also requires grant recipients to maintain rental rates:

- at least 10 per cent below the average market rent for affordable housing units
- at least 20 per cent below the average market rent for housing for the homeless units

To determine market rental rates, the department uses its annual Apartment Vacancy and Rental Costs Survey<sup>16</sup> for municipalities with populations under 10,000. For municipalities with populations over 10,000, the department uses the CMHC's bi-annual Rental Market Survey.<sup>17</sup>

## FINDINGS AND RECOMMENDATIONS

### Planning

#### Background

For municipal block funding, the department determined eligibility based on the municipality's population growth above, vacancy rate below and rental rate above the provincial averages. Municipalities that met all three criteria were eligible for category 1 funding, while municipalities that met two of the three criteria were eligible for category 2 funding. Category 1 was allotted 93 per cent of total

<sup>14</sup> Unaudited information provided by the department.

<sup>15</sup> <http://www.municipalaffairs.alberta.ca/documents/hs/2012-CNITs-by-Municipality.pdf>

<sup>16</sup> <http://www.municipalaffairs.alberta.ca/1740.cfm>

<sup>17</sup> [http://www.cmhc-schl.gc.ca/odpub/esub/64483/64483\\_2012\\_B02.pdf?fr=1366207007381](http://www.cmhc-schl.gc.ca/odpub/esub/64483/64483_2012_B02.pdf?fr=1366207007381)

approved funding and category 2 was allotted seven per cent. The department determined a per capita rate for category 1 and category 2 each year and ensured that category 2 rates did not exceed category 1 rates.

If a municipality received category 1 funding in a previous year, it automatically received category 1 funding in subsequent years. If a municipality received category 2 funding in a previous year, it received, as a minimum, category 2 funding. However, it could receive category 1 funding if it subsequently met all three criteria.

To evaluate housing capital initiatives grant applications, the department awarded points for six criteria: application requirements, project need, project sustainability, project affordability, funding sources and technical aspects of the project. Appendix A: Housing Capital Initiatives points by sub-criteria (2009–2010) shows the sub-criteria and their respective points.

The department required grant recipients, under both programs, to sign a standard grant agreement. The terms and conditions in the agreement included payment, grant use, reporting requirements, monitoring requirements, termination and breach of agreement provisions.

The department has a draft policies and procedures manual for the administration of the grant programs. The manual provides a program description, grant application process, risk management, performance measures, and roles and responsibilities of stakeholders for each grant program. The manual also includes a project process chart with controls and workflow.

#### Criteria: the standards for our audit

The department should plan its affordable housing grant programs to ensure the program results support its objectives.

Effective planning for grant programs includes systems that:

- align grant program objectives with ministry and government goals
- clearly define eligibility criteria that align with the grant programs' objectives
- clearly define and communicate roles and responsibilities, policies and procedures, and grant agreement terms and conditions

#### Our audit findings

##### KEY FINDINGS

- The department's eligibility criteria for both programs could have been better aligned with the programs' objectives.
- The eligibility criteria of need and affordability were assigned fewer points than we would have expected for a program designed to increase the supply of affordable housing options to Albertans in need.
- Some grant applicants had high combined scores for need and affordability, but were not approved for funding. Four applicants received funding even though the projects they proposed received no points for affordability.

#### *Eligibility criteria design*

The department's eligibility criteria for both programs could have been better aligned with the programs' objectives. For housing capital initiatives eligibility criteria, the department assigned fewer points to key criteria such as need, affordability and funding. These criteria were designed to support projects that:

- demonstrated need in communities with low vacancies, high population growth and a defined client
- provided rental rates that low-income Albertans can afford
- required financial contributions from the grant applicant

In 2009–2010, the department assigned only 28 per cent of total points to these three criteria, while it assigned 72 per cent for application, sustainability and a project’s technical merits. We interviewed several grant recipients who provided their thoughts on the criteria weighting. Most told us need and affordability should have been the highest priority criteria.

The table below summarizes the total points and percentage weighting of eligibility criteria for housing capital initiatives.

Eligibility criteria	2009–2010		2010–2011	
	Points	Weighting	Points	Weighting
Application	84	26%	69	28%
Need	15	5%	50	20%
Affordability	40	13%	20	8%
Funding	30	10%	20	8%
Sustainability	20	6%	30	12%
Project – Technical	125	40%	58	24%
<b>Total</b>	<b>314</b>	<b>100%</b>	<b>247</b>	<b>100%</b>

The department assigned fewer points to need and affordability than we would expect for a program designed to increase the supply of affordable housing options to Albertans in need. As a result, the department risked approving projects that were not well suited for the program, while rejecting others that may have been. As an illustration, the department could award 30 points under technical merits to a project that adopted green technology.<sup>18</sup> Likewise, it could award 30 points under the application criterion for a grant application that simply had a signature and date, history of the organization, contact information, articles of incorporation, legal description and financial statements. In both examples, the 30 points are twice the total points allocated to need and nearly equal to the total points individually allocated for funding and affordability.

Although the department adjusted the weighting of its eligibility criteria over the years, these adjustments were not enough to clearly align the eligibility criteria to program objectives. We analyzed the points awarded for 2010–2011 and found several grant applications with high combined scores for need and affordability. Despite total scores that were comparable to approved grant applications, these grant applications were rejected. Meanwhile, a third of the approved applications scored lower for need and affordability and most had lower total scores than the rejected applications. We also identified four applications that received no points for affordability, meaning the projects could not provide affordable housing rental rates to low-income Albertans. Yet, these grant applications were approved.

Under municipal block funding, the department’s policy was that municipalities retain the funding category they were assigned in the prior year. The department determined a municipality’s need based on population growth, rental rates and vacancy rates. We found that some municipalities would not have met the eligibility criteria in subsequent year(s) if they were re-evaluated annually, yet they still received funding because of the policy. For example, two municipalities did not meet any of the eligibility criteria and nine municipalities only met one criterion in subsequent year(s), but they still received funding. For two municipalities, the department did not have rental rate or vacancy data to assess eligibility; however, they continued to receive funding based on prior year eligibility. It appears that some municipalities no

<sup>18</sup> This analysis was based on 2009–2010.

longer had a need as defined by the department's eligibility criteria yet continued to receive funding in subsequent year(s).

### *Policies and procedures*

The department has not finalized its policies and procedures manual for its affordable housing grant programs. The department last updated its draft procedures manual in November 2010. As a result, important sections of the manual, such as the program logic model,<sup>19</sup> performance measures and program risk assessment have not been completed or updated. The department explained that the staff member responsible for the manual has been away on leave since the last update.

### **Implications and risks**

The department risked funding projects that did not align with the program's objectives and may have inefficiently administered its programs because it:

- could have better aligned eligibility criteria to program objectives
- did not update or formalize its policies and procedures manual

## **Awarding**

### **Background**

Awarding is the process the department follows to evaluate and approve funding. The department used different approaches to award grants for the two programs. For municipal block funding, the department approved funding requests if municipalities:

- had a population over 5,000 and
- met at least two of the following criteria: population growth above, vacancy rate below and rental rate above provincial averages

It automatically awarded municipalities the same level of funding in subsequent years, even if their circumstances changed.

Funds for the housing capital initiatives were awarded through a request for proposal model. The department publicly requested project proposals. After the submission deadline, an evaluation team assessed proposals against the established criteria and sub-criteria. Evaluation team members assessed each application independently and then discussed the points they awarded as a team.<sup>20</sup>

After awarding points, the department made its final funding recommendation to the minister based on the following discretionary criteria:

- total funding available
- regional distribution of projects
- type of housing
- experience of the applicants
- type of clientele served (affordable, homeless)
- suitability for federal funding (family, seniors, special needs)

### **Criteria: the standards for our audit**

The department should follow a clear and well-documented process to award affordable housing grant funding.

<sup>19</sup> Logic models explain the relationships among resources, activities, outputs and outcomes of a program and are used to evaluate the effectiveness of its programs.

<sup>20</sup> In 2010–2011, the evaluation team members evaluated grant applications independently and did not discuss their scores as a team.

## Our audit findings

### KEY FINDING

The department applied judgement and discretion in its housing capital initiatives funding decisions. However, it did not document its rationale for these critical judgements.

The department's processes to evaluate and approve grant applications were not well-documented. We repeated the department's funding approval processes under both grant programs, and were unable to arrive at the same list of approved municipalities and grant recipients. For 2009–2010, we found one municipality that had met all three criteria but did not receive any block funding. It was excluded because the data for this municipality was not included in the department's analysis.

We also attempted to repeat the department's funding recommendation for the Housing Capital Initiatives Program. However, we were unable to do so because the department's process was not well-documented and it could not explain the exact criteria used. We acknowledge that funding decisions require judgement and discretion; however, the department did not document its rationale for these critical judgements. We reviewed the points awarded for approved and rejected grant applications for Edmonton and Calgary. The following table summarizes their results.

	Edmonton	Calgary
Point range for approved grant applications	151 to 200	158 to 202
Number of grant applications approved with scores within the range	7	15
Number of grant applications not approved with scores within the range	6	4

The department rejected some grant applications that were awarded points within the approval point range. For example, three of the four highest scoring grant applications in Calgary were not approved for funding. When significant judgement and discretion is used, such as in the cases above, the department needs to document how it arrived at its decision. Supporting documentation is important so the department can show that its awarding process is transparent and fair.

The department awarded points inconsistently and inaccurately. We re-evaluated a sample of successful and unsuccessful applications from 2010–2011 to determine whether the department followed its own criteria for awarding points. There were differences between our scoring and the department's scoring of applications because the department:

- awarded points to some applicants for required information they had not provided
- deducted partial points when the rule required a deduction of zero or the maximum points

We also found several instances of discrepancies of five or more points because the department did not accurately add the points on the assessment form. A few had discrepancies greater than 15 points.

We also found that the department accepted additional information from grant applicants during the housing capital initiatives evaluation process, which was against its stated procedures. The department asked four applicants to provide additional information during the evaluation process. Two applicants were subsequently awarded extra points for the additional information submitted, which significantly increased their total points. The department approved funding for both grant applications.

### Implications and risks if recommendation not implemented

Without a well documented award process, the department risked making selection decisions through a process that was not transparent.

## Monitoring

### Background

The draft policies and procedures manual requires the department to monitor its programs to ensure grant recipients comply with the grant agreement. These agreements are in effect for 10 years for municipal block funding and 20 years for housing capital initiatives.

### *Reviewing reports*

For housing capital initiatives, the department requires grant recipients to provide:

- annual updates on their use of funds and construction status
- audited financial statements and budget to actual cost analysis, six months after the project is complete
- annual reports (tenant income information, rental rates, and operating revenues and expenses) for 20 years after the project is complete

Procedures require the department to review the reports as they are submitted. For annual reports, the department sends a pre-populated annual report to the grant recipient, who reviews, makes changes and submits the report back to the department. The department has to review the annual reports, income of tenants and proposed rental rate increases.

For municipal block funding, the department requires municipalities to provide:

- semi-annual updates during construction
- annual updates for 10 years after the end of construction

The department is responsible for reviewing all these updates.

### *Conducting compliance reviews*

According to the department's compliance review manual, the purpose of these reviews is to determine compliance with the agreement and correct non-compliance. The department is required to conduct compliance reviews on every grant recipient once every five years, at a minimum. The reviews should:

- confirm rental rates through tenant interviews and surveys
- determine whether tenants are eligible for affordable housing
- verify the grant recipients' source of eligible tenants
- review the grant recipient's process for verifying tenant income
- confirm rental rate increase requests

Once a review is completed, the department issues an audit report to the grant recipient. If the department identifies non-compliance, it requires the grant recipient to provide a plan to correct the non-compliance and set an implementation timeline. The department has to follow up to confirm that the grant recipient has corrected the non-compliance.

### **RECOMMENDATION 12: IMPROVE MONITORING PROCESSES**

We recommend that the Department of Municipal Affairs improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:

- developing and conducting risk-based monitoring activities
- following procedures and processes when performing monitoring activities

**Criteria: the standards for our audit**

The department should monitor its affordable housing grant recipients for compliance with their grant agreements.

**Our audit findings****KEY FINDINGS**

- The department did not monitor grant recipients sufficiently and does not have a risk-based approach to monitoring.
- Many of the grant recipients we visited did not comply, in some aspect, with the grant agreement. For example, they charged rental rates higher than allowed and had ineligible tenants living in affordable housing units.
- Where the department performed monitoring activities, it did not obtain the required reporting, document its work, issue reports for its compliance reviews or follow up to ensure grant recipients complied with the agreement.

*Insufficient monitoring*

The department did not monitor grant recipients sufficiently and does not have a risk-based approach to monitoring. Two staff members are responsible for reviewing all reports and conducting compliance reviews. The department has not conducted any municipal block funding compliance reviews despite the municipalities having completed many housing units. The department is currently designing this process.

We found that the department has completed only four housing capital initiatives compliance reviews since the inception of the program. To date, grant recipients have completed approximately 100 projects. Many of these projects have been completed for over a year, but they have not undergone a compliance review.

As part of the audit, we visited and interviewed 22 grant recipients who had completed their projects. We found that many of the grant recipients did not comply, in some aspect, with the grant agreement. Nine grant recipients charged rental rates above the affordable housing rental rate. These grant recipients charged higher rental rates for a third of the 60 affordable housing units we reviewed. We found that almost half of the grant recipients had one or more tenants whose incomes were above the income threshold for affordable housing.<sup>21</sup> Two individuals had incomes that were more than twice the threshold and had been living in these affordable housing units for 16 months and three years, respectively. Also, some grant recipients did not have information to support their tenants' income.

The department has not designed a risk-based approach to conduct its compliance reviews. Despite limited resources, the department plans to conduct reviews of all grant recipients once every five years without considering the size of the grant, number of units, project completion date, compliance history and other factors. In January 2012, the department decided to stop these reviews, so that it could assess the effectiveness of its monitoring. Management told us that it would restart the compliance reviews in 2013. As of May 2013, this has not yet happened.

*Non-compliance with processes and procedures*

When the department performed monitoring activities, it did not obtain the required reporting, document its work, issue reports for compliance reviews or follow-up to ensure grant recipients complied with the agreement. In its review of housing capital initiatives reports, the department did not issue letters to the grant recipients requesting annual reports or have the required reports for most of the files we examined. We also found some municipal block funding files that did not have the required reports.

<sup>21</sup> These tenants were ineligible at intake and at the time we conducted our audit work.

The department's monitoring processes are designed to ensure compliance. When it does not follow policies and procedures, the department exposes itself to the risk that grant recipients may not comply. For example, the grant agreement requires grant recipients to begin the project within 90 days and complete it within two years. The department approved funding to several grant recipients who have not yet started their projects. These projects were approved more than a year ago, with some being approved more than three years ago. The department has committed funding for these delayed projects, when it could have allocated these funds to other grant applicants that could have expeditiously developed their projects.

In its four completed compliance reviews, the department identified non-compliance but did not follow up to ensure the grant recipients took corrective actions. The department has not issued an audit report for three compliance reviews despite it being more than a year since the reviews were completed. The department issued one report, but did not obtain a response from the grant recipient and did not follow up to ensure compliance, as required. In addition, the department did not complete all the sections and forms in the file (rental rate, tenant eligibility, tenant interview).

### Implications and risks if recommendation not implemented

Without effective monitoring, the department cannot know whether the grant recipient is complying with the grant agreement and whether funds have been spent cost effectively.

## Evaluating

### Background

#### *Program objectives and performance measures*

In its three-year business plan and operational plan, the department states that its goal is for low-income Albertans to have access to a range of safe and affordable housing options. The department supports, measures and reports on whether it is achieving this goal based on its funding of the development of 11,000 affordable housing units.

#### *Measuring and reporting on program performance*

The department uses spreadsheets to capture grant program information such as:

- municipality, funding amounts and installments dates, approval dates, municipality and agreement signed date for municipal block funding
- organization, location, units, grant amount, breakdown of advances and estimates for housing capital initiatives

### **RECOMMENDATION 13: DEVELOP AN EVALUATION SYSTEM**

We recommend that the Department of Municipal Affairs improve its evaluation processes by:

- developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs
- completing periodic evaluations of its affordable housing grants programs

### Criteria: the standards for our audit

The department should measure and evaluate the extent to which its affordable housing grant programs have met their objectives and incorporate the evaluation results into future planning for housing initiatives.

## Our audit findings

### KEY FINDINGS

- The department cannot properly evaluate and assess the performance of its affordable housing grant programs because it does not have sufficient performance measures, collect the right program information and have an adequate information system.
- The department does not have an evaluation strategy in place for its affordable housing grant programs and has not completed an evaluation of these programs.

#### *Performance measures*

As part of its program planning, the department did not define sufficient performance measures for its affordable housing grant programs. The one performance measure it uses, the funding of 11,000 units, is focused on program activities and outputs. We also found that no measurable targets were developed when the programs were established other than funding the development of 11,000 units. If targets for cost effectiveness are not established at the start of a program, it is difficult to demonstrate whether this was achieved.

The department's affordable housing program's policies and procedures manual states that performance measures should be developed for the various components of the program logic model (inputs, activities, outputs and outcomes). The department has carried out preliminary work to develop additional measures, including a measure of affordable housing units completed. However, it has not yet developed comprehensive measures that assess the contribution of these programs towards longer-term outcomes the government is trying to achieve.

The department does not have complete data for its affordable housing programs. We found that the grant recipients sourced their tenants through their own waitlists, housing management bodies and a myriad of agencies. The number of people and the length of time people have been on these waitlists varied significantly. Grant recipients also had different processes and standards for verifying income and prioritizing potential tenants. For example, we found grant recipients with more than a few people on their waitlists while others, in the same municipality, had vacant units.

#### *Information systems*

The department's spreadsheets do not have adequate information technology controls to protect the integrity of the data through effective access, backup, and version and change management controls. The department acknowledged this in its business case for developing the housing access link (HAL), a new enterprise information management system that is under development.

HAL will store and maintain housing support client data, track housing portfolio inventory, provide management and financial accounting support, and maintain corporate information. HAL is expected to replace and re-engineer the following grant program processes:

- affordable housing operations support
- client profile survey
- vacancy tracking
- waitlist tracking

The department approved the HAL project in July 2010 and tendered for its development in October 2011. It has identified key implementation deliverables and deadlines. The department should continue its progress towards implementing HAL by demonstrating that it has met its key deliverables within the timelines identified.

*Program evaluation*

The department has not completed evaluations of its affordable housing programs. The department does not have an evaluation strategy in place for its programs that would:

- define an evaluation plan and how it would execute this plan
- identify evaluation issues and questions to consider
- identify key achievements and areas for improvement

The department did not evaluate the municipal block funding program because eligibility was not based on a competitive process. The department's housing capital initiatives evaluation was limited to reviewing the program criteria and updating its grant application evaluation forms.

We also noted that the department does not have complete data on the demand for affordable housing in Alberta. Therefore, it cannot measure what impact the two programs have had on affordable housing demand. We acknowledge it is unlikely that programs designed to increase the supply of affordable housing would not have reduced demand somewhat. But the questions that should be considered as part of the evaluation are:

- what impact did the programs have on overall provincial demand for affordable housing?
- was the supply targeted at the right segments of the population and in the right locations?
- was value for money achieved?

**Implications and risks if recommendation not implemented**

Without effective evaluation and performance measurement systems, it is difficult for the department to:

- assess whether its programs meet their objectives
- identify lessons learned that should be considered as part of future program delivery

## HOUSING CAPITAL INITIATIVES POINTS BY SUB-CRITERIA (2009–2010)

The following table shows the sub-criteria and their respective points compiled from the department's evaluation form.

Application	Points
Signature and date by appropriate signing officer	5
Certificate and Articles of Incorporation	5
Financial statements for past three years	5
Organization's history including current list of board members/directors	5
Contact information	5
Project legal description	5
Estimated forecasted revenue table	5
Separate costing for affordable costs/green costs/revitalization	Up to 34
Detailed estimated project capital cost table	5
Funding source table	5
Five-year operating budget table	5
<b>Need</b>	
Community vacancy rate is less than five per cent or provide valid explanation of project need, if vacancy rate is over five per cent	5
Community population growth is more than one per cent or provide a valid explanation of project need, if population growth is less than one per cent	5
Target client defined in needs determination	5
<b>Sustainability</b>	
Revenues are from rental income, not other sources (e.g., fundraising)	5
Management fee is not higher than five per cent	5
Replacement reserve is included in operating costs and is at least two per cent of gross revenue and not higher than five per cent	5
Project will operate at three per cent minimum surplus, not higher than five per cent	5
<b>Affordability</b>	
Rents or payments are at least 10 per cent below market	10
Rents or payments are below market 10 per cent / 20 per cent / 30 per cent / 40 per cent	Up to 30
<b>Funding</b>	
Funding sources confirmed in writing (e.g., bank letter)	5
Proponent's contribution does not include financing	5
Contribution exceeds 35 per cent / 45 per cent / 55 per cent	Up to 20
<b>Project – Technical</b>	
Modesty guidelines	5
Capital cost per unit	Up to 15
Inclusion of floor plans	Up to 15
Green technology	Up to 30
Revitalization elements	Up to 30
Inclusion of the appropriate number of adaptable units	5
Provided an approved development permit	5
Start of construction 30/60/90 days after approval	Up to 20

