



Indigenous and  
Northern Affairs Canada

Affaires autochtones  
et du Nord Canada

# **Indigenous and Northern Affairs Canada**

## **Internal Audit Report**

### **Audit of On-Reserve Housing**

**Prepared by:**

**Audit and Assurance Services Branch**

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## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	1
1. INTRODUCTION AND CONTEXT .....	5
2. AUDIT OBJECTIVE AND SCOPE .....	6
3. APPROACH AND METHODOLOGY .....	7
4. CONCLUSION .....	7
5. FINDINGS AND RECOMMENDATIONS.....	8
5.1 Objectives, Governance, Roles and Responsibilities .....	8
5.2 Funding Allocation and Reporting.....	9
5.4 Management Control Framework .....	11
5.5 Ministerial Loan Guarantees Administration .....	13
5.3 Performance Management .....	14
6. MANAGEMENT ACTION PLAN .....	16
Appendix A: Audit Criteria.....	19

## ACRONYMS

BC	British Columbia
CIB	Community Infrastructure Branch
CFO	Chief Financial Officer
CFMP	Capital Facilities and Maintenance Program
CMHC	Canada Mortgage and Housing Corporation
CMO	Capital Management Officer
FNIIP	First Nation Infrastructure Investment Plan
GC	Government of Canada
GCIMS	Grants and Contributions Information Management System
GLMM	Guarantee Loan Management Module
HQ	Headquarters
INAC	Indigenous and Northern Affairs Canada
MLG	Ministerial Loan Guarantee
NCOF	Northern Communities Opportunity Fund
PMS	Performance Measurement Strategy

## EXECUTIVE SUMMARY

### ***Background***

The provision and management of housing on reserve lands is the responsibility of First Nations. The Government of Canada's (GC) role with respect to on-reserve housing is to support the First Nations in providing their membership with safe and affordable on-reserve housing. Indigenous and Northern Affairs Canada (INAC) provides funding to First Nations through the minor capital component of the Capital Facilities and Maintenance Program (CFMP).

In 1996, the Department introduced the *On-Reserve Housing Policy* (1996 Policy). The Policy was intended to provide greater flexibility and more control to First Nations on how their housing funds are invested. For First Nations that have opted into the policy, funding for on-reserve housing is provided each year based on a regionally derived formula. All First Nations except for those in the British Columbia (BC) region and a small number in the Ontario region opted into the 1996 Policy.

INAC has consistently provided funding of approximately \$125 million per year for the last several years to First Nations across Canada for on-reserve housing. Budget 2016 proposes that \$416.6 million over two years be provided to INAC starting in Fiscal Year (FY) 2016-2017 to address immediate housing needs on reserve.

INAC also administers the Ministerial Loan Guarantee (MLG) Program which provides the loan security required by Canada Housing and Mortgage Corporation (CMHC) or other commercial lenders that extend debt financing to First Nations or individual band members for the construction, acquisition or renovation of on-reserve housing. INAC has the statutory authority to issue loan guarantees that total up to \$2.2 billion.

### ***Audit Objective***

The objective of this audit was to provide assurance that governance, risk management and control frameworks are adequate and effective to support the achievement of the Department's objectives related to the funding of on-reserve housing as well as the administration of Ministerial Loan Guarantees.

### ***Audit Scope***

The scope of the audit included an assessment of the adequacy and effectiveness of the management control framework over the funding of on-reserve housing and the administration of MLGs, including the supporting governance structure and risk management processes. The scope of the audit covered the period April 1, 2013 to August 31, 2015. As audit fieldwork occurred from January to April 2016, relevant information that was obtained during the fieldwork, but fell outside the audit period, was included in the findings. Audit fieldwork was conducted at INAC Headquarters and four regions (i.e., Alberta, Ontario, Manitoba, and British Columbia)

The audit scope related to the funding provided to First Nations by INAC for on-reserve housing, primarily through the CFMP, but included any other one-time or special funding that occurred during the audit period, for example, funding for the Northern Communities Opportunity Fund. The scope of the audit also included the administration of MLGs by INAC.

### **Statement of Conformance**

This audit conforms to the *Internal Auditing Standards for the Government of Canada*, as supported by the results of the quality assurance and improvement program.

### **Positive Observations**

- Several regions within the scope of the audit are working with First Nations communities to assist in Community strategy development for on-reserve housing, and facilitating community to community mentoring and sharing of leading practices.
- In one region, a new tiered approach to fund on-reserve housing is being piloted and is intended to address First Nation capacity and planning before providing funding for housing maintenance and construction.
- Several regions have begun to undertake strategies to ensure that Regional Office staff such as Capital Management Officers (CMOs) and Funding Service Officers that interact frequently with First Nations communities include various considerations related to on-reserve housing in their conversations, and ensure that insights gained are communicated to the Housing Officer(s) in the region.
- INAC held a national housing meeting in February 2015 and one in January 2016, which brought together representatives from Headquarters, several regions, and other departments and Crown corporations including CMHC; which allowed the sharing of practices and lessons learned between organizations and from across the country.

### **Conclusion**

The audit identified gaps related to the ability to provide assurance that governance, risk management and control frameworks are adequate to provide a reasonable expectation that the Department's objectives related to the funding of on-reserve housing as well as the administration of MLGs can be achieved. Opportunities for improvement were identified related to: defining on-reserve housing objectives, governance, roles, and responsibilities; funding allocation and reporting; separate funding initiatives for on-reserve housing; the management control framework; MLG administration; and performance measurement.

## ***Recommendations***

The audit identified areas where management control practices and processes could be improved, resulting in the following recommendations:

1. The Senior Assistant Deputy Minister, Regional Operations should:
  - Define INAC's objectives related to on-reserve housing.
  - Establish formal governance mechanisms to ensure there is ongoing and formal engagement between INAC and other key on-reserve housing stakeholders, as well as engagement between those within INAC supporting on-reserve housing activities across the regions.
  - Define and communicate expectations for roles and responsibilities related to the support of on-reserve housing within the regions.
2. The Senior Assistant Deputy Minister, Regional Operations in collaboration with the Chief Financial Officer, and Senior Assistant Deputy Minister, Policy and Strategic Direction should:
  - Review the allocation of funding provided to regions; and in turn the formulae used by the regions to provide funding to First Nations communities, to ensure funding is linked to INAC's objectives for on-reserve housing.
  - Ensure appropriate processes are implemented to accurately track and monitor the INAC funding that is being used by First Nations communities for on-reserve housing.
3. The Senior Assistant Deputy Minister, Regional Operations should conduct an exercise to determine the lessons learned related to Northern Communities Opportunity Fund and use those lessons learned to ensure any new separate funding initiatives, such as Federal Budget 2016 on-reserve housing funding, are allocated in an efficient and effective manner. This includes ensuring the benefits that are intended to be achieved by the funding are identified and processes are developed and implemented to monitor and measure the results and outcomes of the funding against expectations.
4. The Senior Assistant Deputy Minister, Regional Operations in collaboration with the Chief Financial Officer and Senior Assistant Deputy Minister, Policy and Strategic Direction should:
  - Ensure that the CFMP MCF is updated to include a consideration of the allocation of minor capital funding, including funding for on-reserve housing,
  - Ensure controls for on-reserve housing project approval and monitoring are defined, and that these controls include a risk-based approach that considers the amount of funding and the capacity of the First Nations communities.

5. The Senior Assistant Deputy Minister, Regional Operations in consultation with the Chief Financial Officer should enhance the support for the administration of MLGs by: i) updating the manual and related processes to better define roles and responsibilities, as well as guidance on ongoing risk management and loan monitoring activities for those administering MLGs; ii) ensuring the right capacity and capability is available in the regions; and, iii) ensuring that supporting systems, such as the Guarantee Loan Management Module of the Grants and Contributions Information Management System (GCIMs), can meet the business requirements for MLG administration.
6. The Senior Assistant Deputy Minister, Regional Operations should consult with senior management to confirm INAC's objectives related to on-reserve housing and ensure that performance measures are developed that align with these objectives. At a minimum they should measure i) the development of community-based housing programs and capacity within First Nations communities; ii) the improvement of on-reserve housing infrastructure based on the funding provided to First Nations; and, iii) the extent to which MLGs have been successful in achieving improved housing outcomes.

### ***Management Response***

Management is in agreement with the findings, has accepted the recommendations included in the report, and has developed a management action plan to address them. The management action plan has been integrated into this report.

# 1. INTRODUCTION AND CONTEXT

## 1.1. *Background*

The provision and management of housing on reserve lands is the responsibility of First Nations. The Government of Canada's (GC) role with respect to on-reserve housing is to support the First Nations in providing their membership with safe and affordable on-reserve housing. First Nations own and operate housing on reserve and are responsible for the completion and ongoing management of housing projects. First Nations responsibilities include rent collection, repairs and maintenance, and ensuring that units constructed meet or exceed the requirement of the National Building Code of Canada or an accepted equivalent. First Nations generally have a mix of three types of housing models within each community: individual home ownership, social housing, and rentals.

In 1996, the Department introduced the *On-Reserve Housing Policy* (1996 Policy). The 1996 Policy was intended to provide greater flexibility and more control to First Nations on how their housing funds are invested. The 1996 Policy's principles are:

- First Nation control (community-based housing programs);
- First Nation expertise (development of capacity);
- Shared responsibilities with First Nations and the GC; and,
- Better access to private capital by First Nations (debt financing).

Indigenous and Northern Affairs Canada (INAC) provides funding to First Nations through the Capital Facilities and Maintenance Program (CFMP). Housing falls under the "minor capital component" of the CFMP, as there is no separate housing program. The CFMP is administered by the Community Infrastructure Branch (CIB) within the Region Operations Sector. INAC provided approximately \$125 million annually from Fiscal Year (FY) 2013-2014 to FY 2015-2016 to First Nations related to on-reserve housing. The annual budget allocations for on-reserve housing have remained stable over the last several years.

All First Nations except for those in the British Columbia (BC) region and a small number in the Ontario region opted into the 1996 Policy. First Nations in the BC Region apply for on-reserve housing funding through a proposal-based approach. For First Nations communities in all other regions, funding for on-reserve housing is provided annually based on formulae developed within each region. First Nations have the flexibility to use the funds provided by INAC for a range of housing needs including construction, renovation, maintenance, insurance, capacity building, debt servicing and the planning and management of their housing portfolio.

The Northern Community Opportunities Fund (NCOF) provided separate, one-time funding of \$25M for FY 2013-2014 and 2014-2015 for projects that would result in significant, long-term infrastructure improvements in remote communities including targeted spending for on-reserve housing projects.



Although outside the scope of the audit period, Budget 2016 proposed that \$416.6 million over two years, beginning in FY 2016-2017 be provided to INAC to address immediate housing needs on reserve. Furthermore, the budget indicates that the GC will work with First Nations communities to develop an effective long-term approach to supporting the construction and maintenance of an adequate supply of housing on reserve as part of a broader National Housing Framework.

INAC also administers the Ministerial Loan Guarantee (MLG) Program which provides the loan security required by Canada Housing and Mortgage Corporation (CMHC) or other commercial lenders that extend debt financing to First Nations or individual band members for the construction, acquisition or renovation of on-reserve housing. INAC has the statutory authority to issue loan guarantees that total up to \$2.2 billion. Responsibility for managing MLGs is a shared responsibility among Regional Offices and CIB. Regional offices are responsible for the assessment of applications and eligibility requirements, and are the main INAC contact with First Nations, CMHC and Financial Institutions for the management of each loan, including defaults and loan recoveries.

## **2. AUDIT OBJECTIVE AND SCOPE**

### **2.1 *Audit Objective***

The objective of this audit was to provide assurance that governance, risk management and control frameworks are adequate and effective to support the achievement of the Department's objectives related to the funding of on-reserve housing as well as the administration of MLGs.

### **2.2 *Audit Scope***

The scope of the audit included an assessment of the adequacy and effectiveness of the management control framework over the funding of on-reserve housing and the administration of MLGs, including the supporting governance structure and risk management processes. The scope of the audit covered the period from April 1, 2013 to August 31, 2015. Testing of files was restricted to this time period. As audit fieldwork occurred from January to April 2016, relevant information that was obtained during fieldwork, but fell outside the audit period, were included in the findings. Audit fieldwork was conducted at INAC Headquarters (HQ) and selected regions (i.e., Alberta, Ontario, Manitoba, and British Columbia)

The scope of the audit included all key components of on-reserve housing under the control of INAC, specifically:

- Governance, roles and responsibilities;
- Performance and risk management practices;
- Processes related to funding allocation, approval, monitoring and reporting; and,
- Processes related to MLG approval, monitoring and reporting.

The audit scope relates to the funding provided to First Nations by INAC for on-reserve housing, primarily through the CFMP, but included any other one-time or special funding that occurred

during the audit period, for example, funding for on-reserve housing provided under the NCOF. The scope also included the administration of MLGs by INAC.

The audit scope did not include income assistance funding, for example the Shelter Allowance that may be used by First Nations for housing-related expenses, including the payment of rent. These funding mechanisms are separate from the capital funding that is the focus of the audit and administered by a separate sector, the Education and Social Development Programs and Partnerships Sector.

### **3. APPROACH AND METHODOLOGY**

The audit was conducted in accordance with the requirements of the Treasury Board Policy on Internal Audit and followed the Internal Auditing Standards for the Government of Canada. The audit examined sufficient and relevant evidence, and obtained sufficient information to provide a reasonable level of assurance in support of the audit conclusion.

The principal audit techniques used at HQ and in each region in the scope of the audit included:

- Interviews and walkthroughs with key individuals across INAC, including those within the Regional Operations Sector (Community Infrastructure Branch), the Chief Financial Officer (CFO) Sector, and staff involved with on-reserve housing within Regional Offices;
- Documentation review including the CFMP MCF, MLG manual, guidance and templates developed by HQ and Regional Offices, reports, and other relevant documentation related to on-reserve housing; and,
- Audit testing of selected on-reserve housing projects to determine if the allocation of on-reserve housing funding was approved and monitored by INAC in a manner that was controlled and followed established processes. Audit testing was also conducted on selected MLG files to ensure approved MLGs met all eligibility requirements and included the required supporting documentation.

The approach used to address the audit objectives included the development of audit criteria against which observations and conclusions were drawn. The audit criteria developed for this audit are included in Appendix A.

### **4. CONCLUSION**

The audit identified gaps related to the ability to provide assurance that governance, risk management and control frameworks are adequate to provide a reasonable expectation that the Department's objectives related to the funding of on-reserve housing as well as the administration of MLGs can be achieved. Opportunities for improvement were identified related to: defining on-reserve housing objectives, governance, roles, and responsibilities; funding allocation and reporting; separate funding initiatives for on-reserve housing; the management control framework; MLG administration; and performance measurement.

## 5. FINDINGS AND RECOMMENDATIONS

### 5.1 *Objectives, Governance, Roles and Responsibilities*

The audit expected to find that INAC has defined and communicated clear objectives related to its support of on-reserve housing. Furthermore, the audit expected that adequate governance, oversight, and coordination exists for on-reserve housing activities; and roles and responsibilities between INAC and stakeholders such as CMHC, and within INAC, have been defined and consistently applied across the Regional Offices.

INAC has not formally defined its objectives related to on-reserve housing. The lack of defined objectives has made it difficult to define and establish governance mechanisms, as well as role and responsibilities in relation to on-reserve housing.

The audit found that although Committee structures at both the national and regional level have been developed to bring on-reserve housing stakeholders together, such as INAC, CMHC, Health Canada, and the First Nations, these have not been active in a formal manner over the last several years. Mechanisms to regularly communicate and discuss roles and responsibilities with other external stakeholders are applied on an inconsistent basis.

There is no formal governance structure or mechanism for the sharing of best practices between the regions, however, HQ does hold informal conference calls with the regional network on an ad hoc basis. INAC held a national housing conference in February 2015 and in January 2016, which brought together representatives from HQ, several regions, and other departments and Crown corporations including CMHC. A conference of this nature had not been held for many years previously.

The CIB is responsible for developing and maintaining all policies, standards and procedural manuals for the CFMP. CIB has not defined expectations for regions related to roles and responsibilities within the region specifically for on-reserve housing, including how on-reserve housing support should be staffed. Within each region, the Infrastructure group is responsible for supporting on-reserve housing; however, a wide variation of regional practices was observed in terms of the number, positions, and reporting lines of staff that are responsible for housing.

One region did not have a dedicated Housing Officer; and housing is one of the responsibilities of the Capital Management Officers (CMOs). CMOs are typically focused on major infrastructure projects, and may lack the appropriate training or experience related to appropriate housing management and practices.

In regions with Housing Officers, limited capacity means that Housing Officers may have limited engagement with each First Nation, and have little ability to provide advice or support in relation to housing initiatives the First Nation may undertake.

In some regions, individuals responsible for on-reserve housing may be focused on the review and approval of the annual First Nation Infrastructure Investment Plan (FNIIP); and in these cases, most of the engagement with First Nations is left to the CMOs. In one region included in the scope of the audit, responsibility for on-reserve housing was transferred from Funding

Services to the Community Infrastructure Directorate; and was subsequently transferred between units within the Directorate (from Capital Operations to Capital Planning and Allocation). In this region, given the transition and lack of guidance related to roles and responsibilities, interviews indicated that there was a lack of understanding and awareness among CMOs regarding their roles and responsibilities with respect to on-reserve housing.

Limited capacity dedicated to on-reserve housing within the regions means there is often limited visibility and engagement with the First Nations. Recognizing this, several regions have begun to undertake strategies to ensure that Regional Office staff such as CMOs and Funding Service Officers that interact frequently with First Nations communities include considerations related to on-reserve housing in their conversations, and ensure that insights gained are communicated to the Housing Officer(s) in the region.

***Recommendation:***

1. The Senior Assistant Deputy Minister, Regional Operations should:
  - Define INAC's objectives related to on-reserve housing.
  - Establish formal governance mechanisms to ensure there is ongoing and formal engagement between INAC and other key on-reserve housing stakeholders, as well as engagement between those within INAC supporting on-reserve housing activities across the regions.
  - Define and communicate expectations for roles and responsibilities related to the support of on-reserve housing within the regions.

## ***5.2 Funding Allocation and Reporting***

The audit expected to find that the allocation of INAC funding for on-reserve housing would be linked to ensuring the achievement of INAC's objectives.

The audit found that on-reserve housing funding provided from HQ to each of the regions through the minor capital component of the CFMP has remained constant over the last several years.

For all regions except BC, the Regional Offices administer the allocation of housing funds to the First Nations communities in their region based on regionally-derived funding formulae. The formulae used by the regions to allocate funding to the First Nations vary widely between the regions and have not been revisited in a number of years.

In one region, funding to First Nations is allocated based on the regional share of population by each First Nation community and is adjusted annually using data from the Indian Registry System. However, the total amount of funding allocated across the region has stayed consistent. In this case, funding allocation levels do not take into account communities with lower capacity, the current state of housing infrastructure, or factors that may impact costs (e.g., remoteness).

In another region, the funding formula currently used originated in the 1990s and allocated funding to First Nations communities based on many factors including population, proximity to urban areas, ground conditions, seasonal access and availability of building supplies. The amount of housing funding allocated to each First Nation is based on the calculations used in the 1990s, and therefore does not reflect the current situation of this First Nations communities.

Under the “minor capital component” of the CFMP, funding for on-reserve housing can be used by First Nation communities for other projects such as the maintenance of other assets. Given this, not all the funds initially allocated for on-reserve housing are spent on housing. For example, a region may allow First Nations communities to use some of the funds allocated for on-reserve housing to address Asset Condition Reporting System deficiencies to improve health and safety conditions within a community. The proportion of funding allocated to First Nations communities for on-reserve housing through the regional formulae that must be used for on-reserve housing projects varies by region and is not formally documented.

INAC Regional offices control and monitor the funding that is used for on-reserve housing projects by requiring each First Nations community to provide an annual FNIIP, which outlines the projects that will be funded through the minor capital funding, including on-reserve housing projects. In one region, First Nations were not required through the FNIIP process to provide details on the specific projects that would use the minor capital funds. In this region, it was difficult to determine the funding amount spent by First Nations communities for on-reserve housing. Conversely, it was also noted that funding provided by INAC and identified for programs other than housing, may also be redirected by First Nations communities to on-reserve housing. This would not be reflected in the FNIIP or coded as funds spent for on-reserve housing within INAC’s reporting systems.

The requirements of the 1996 Policy have not been fully implemented; nor has the funding provided by INAC to First Nations communities been linked to the demonstration of the implementation of these requirements by the First Nations. The majority of First Nations currently do not have mature housing management structures or rental regimes in place.

***Recommendation:***

2. The Senior Assistant Deputy Minister, Regional Operations in collaboration with the Chief Financial Officer and Senior Assistant Deputy Minister, Policy and Strategic Direction should:
  - Review the allocation of funding provided to regions; and in turn the formulae used by the regions to provide funding to First Nations communities, to ensure funding is linked to INAC’s objectives for on-reserve housing;
  - Ensure appropriate processes are implemented to accurately track and monitor the INAC funding that is being used by First Nations communities for on-reserve housing.

### ***5.3 Separate Funding Initiatives for On-Reserve Housing***

The audit expected to find that INAC would ensure that any additional funding targeted for on-reserve housing would further INAC’s objectives related to on-reserve housing and the lessons

learned from targeted funding initiatives would be documented and used to inform future targeted funding for on-reserve housing.

The audit found that the NCOF provided separate, one-time funding of \$25M for fiscal years 2013-14 and 2014-2015 for projects that would result in significant, long-term infrastructure improvements in remote communities in Manitoba and Northern Ontario. This included targeted spending for on-reserve housing. Funding was provided on both a priority basis within the two regions (i.e., identification by INAC of First Nations that required funding) and through a proposal-based submission process.

For the proposal based projects, a number of scoring criteria were used, and those proposals submitted by First Nations communities with the highest cumulative score were selected for funding by the regional office. Documentation substantiating how the priority-based projects were selected was not available to the audit team. Audit testing of a sample of the proposal-based projects determined that appropriate processes were followed related to the oversight and approval of funding.

In certain cases, First Nations that were provided funding on a priority basis (i.e., not proposal based) were not able to spend their allocated funds within the timeframe provided. These were noted to be First Nations communities with low capacity related to the management of on-reserve housing, and in some cases insufficient infrastructure capacity (i.e., water and waste water) to support their current housing stock.

In one case, the funds provided to a priority-based project appear to have been rolled into a longer term five-year infrastructure project that started in 2011-2012 and was not specifically focused on on-reserve housing. It was not possible from the evidence provided to determine how much of the funding was actually dedicated to on-reserve housing.

Finally, the results, outcomes (i.e., benefits realized), and lessons learned for NCOF were not assessed and documented.

***Recommendation:***

3. The Senior Assistant Deputy Minister, Regional Operations should conduct an exercise to determine the lessons learned related to the Northern Communities Opportunity Fund and use those lessons learned to ensure any new separate funding initiatives, such as Federal Budget 2016 on-reserve housing funding, are allocated in an efficient and effective manner. This includes ensuring that the benefits that are intended to be achieved by the funding are identified and processes are developed and implemented to monitor and measure the results and outcomes of the funding against expectations.

## ***5.4 Management Control Framework***

The audit expected to find that a management control framework related to the allocation, approval, and monitoring of funding for on-reserve housing was developed and implemented in a consistent fashion across the regions.

The audit found that a Management Control Framework (MCF) for CFMP has been developed by CIB. It was noted, however, that the MCF focuses on the major capital component of the program and there is minimal guidance related to the minor capital component including for on-reserve housing.

Although minor capital funding, including on-reserve housing funding, is allocated to First Nations communities based on regionally derived formulae, First Nations must identify how their funding allocation will be spent through the completion of the annual FNIIP. The MCF, however, does not provide guidance related to the documentation required to be submitted by First Nations communities to INAC in order to be provided the funding for the initiatives outlined within the FNIIP; for example, the required details of each project, as well as the requirements for the submission of completion reports once projects have been completed.

Given the lack of guidance in the MCF, regional practices related to the approval and monitoring of on-reserve housing identified in the FNIIP are not consistent. In addition, these practices are largely informal and are not consistently documented.

In one region included in the scope of the audit, the practices related to the review, approval, and monitoring of projects is inefficient. For example, documentation for a small on-reserve housing related project listed on a First Nations community's FNIIP is required to be reviewed and approved by the Capital Services Officer, Technical Services Officer, Lands Status Officer, and Environment Official, before being finally approved by the Manager.

None of the regions assessed during the audit are currently using risk-based approaches to tailor the degree of monitoring and oversight over funding provided to First Nations for on-reserve housing. Within each region, the process for the oversight of funding to each First Nation is the same regardless of the risk or capacity of the individual First Nation.

Audit testing indicated that, in every region but one, on-reserve housing projects were appropriately approved and established processes were followed (i.e., submission of project information with the FNIIP, receipt of a completion report). In one region, specific projects were not required to be identified on the FNIIP and the prior year's completion reports were not received in a timely fashion. In some cases the reports had not been received at the completion of the conduct phase of the audit. Interviews indicate that the region established a new process for FY 2016-2017.

***Recommendation:***

4. The Senior Assistant Deputy Minister , Regional Operations in collaboration with the Chief Financial Officer and Senior Assistant Deputy Minister, Policy and Strategic Direction should:
  - Ensure that the CFMP MCF is updated to include consideration of the allocation of minor capital funding, including funding for on-reserve housing.
  - Ensure controls for on-reserve housing project approval and monitoring are defined, and that these controls include a risk-based approach that considers the amount of funding and the capacity of the First Nations communities.

## 5.5 Ministerial Loan Guarantees Administration

The audit expected to find that MLGs were administered and managed in a consistent and controlled manner within each region, that approved MLG applications met eligibility criteria, and that they were in compliance with terms and conditions. The audit also expected to find processes to support ongoing risk management and loan monitoring activities.

The audit found that responsibility for the administration of MLGs is shared amongst Regional Offices and CIB. Regional offices are responsible for the assessment of applications and eligibility requirements, and the approval of the MLGs. They are also the main departmental contact with First Nations, CMHC and other commercial lenders regarding the management of each loan, including defaults and loan recoveries. CIB has responsibility for providing guidance to the regions, for instance the development of the *Ministerial Loan Guarantee Manual*; and as the primary responsibility to monitor the total MLG authority to ensure INAC stays within its authorized limit.

The *Ministerial Loan Guarantee Manual*, last updated by INAC in September 2011, is the primary resource used in the Regional Offices for the administration of MLGs. Although the manual provides details on the application process, it does not include sufficient details to guide regional staff on the day-to-day administration of MLGs, including risk management activities and the ongoing monitoring of loan guarantees. Given this, loan management processes are applied inconsistently across regions, for example, the extent to which the regions may contact and/or follow-up with First Nations or lenders regarding the status of a loan. Furthermore, the manual does not define in sufficient detail the roles and responsibilities of the key INAC stakeholders in the process (i.e., Regional Offices, CIB, CFO Sector).

In addition to the lack of guidance, insufficient capacity and capability in regional offices create challenges in assessing and managing loan guarantees in the regions. Those responsible for administering the MLG process in the regions indicated they required additional training on the MLG process.

For the administration and reporting of MLGs, the Guarantee Loan Management Module (GLMM) of the Grants and Contribution Information Management System (GCIMS) is used. It was noted that information on MLGs is not consistently entered into the system by the regions. Furthermore, given the functionality of GLMM, it does not adequately support the ability of regions to perform ongoing loan management.

Audit testing of a sample of MLG files indicated that MLGs that were approved by the regions met all eligibility requirements, included the required supporting documentation, and were appropriately approved. In a number of cases however, the time required to approve the MLGs was greater than INAC's established 60 day standard.

INAC, either at HQ or the regional level, does not conduct monitoring activities to determine if loans may be at risk once the loan is active. Furthermore, although CMHC and other commercial lenders are required to report to INAC on First Nations communities in arrears on MLG loans, the audit found that timely reporting does not always occur. Given this, some regions were not aware of defaults by First Nations.



The nature of the relationship and degree of information sharing between CMHC and INAC regions varies across regions. For example, sharing of information related to adherence to the terms and conditions of the MLGs by the First Nation across the regions is not consistent. At the HQ level, there is an increased level of communication and sharing of information between CMHC and INAC since the development of a Memorandum Of Understanding between the organizations in 2013.

The audit noted that roles and responsibilities between HQ and regions were not clearly defined and that there was a lack of defined processes related to defaults and debt management resulting in challenges in recovering payments for defaulted loans. A September 2015 Operations Committee report indicated that the balance of loans in default in INAC's portfolio was over \$35 million and that the provision for uncollectible loans was \$25.8 million. The majority of the uncollectible loan amount is related to accrued interest on original loan balances. A number of regions are planning to seek the remission of MLG-related loans which are uncollectible or have been repaid under a compromise settlement. Some of these defaults are from 2010, while others date back to 1995-2005.

**Recommendation:**

5. The Senior Assistant Deputy Minister, Regional Operations in consultation with the Chief Financial Officer should enhance the support for the administration of MLGs by: i) updating the manual and related processes to better define roles and responsibilities, as well as guidance on ongoing risk management and loan monitoring activities for those administering MLGs; ii) ensuring the right capacity and capability is available in the regions; and, iii) ensuring that supporting systems, such as the Guarantee Loan Management Module of the Grants and Contributions Information Management System (GCIMs), can meet the business requirements for MLG administration.

## **5.6 Performance Management**

The audit expected to find that the objectives for on-reserve housing have been identified, and linked to planned results and defined performance measures. Furthermore, it was expected that these results are reported, and acted upon, on a regular basis.

The audit found that a Performance Measurement Strategy (PMS) for CFMP was developed in April 2014 that covers all aspects of the Program, including on-reserve housing. Within the CFMP PMS, there is one specific measure for housing, related to the expected result "*Housing infrastructure meets the needs of First Nation communities*". The PMS does not address the development of community-based housing programs and capacity within First Nations communities as outlined within the 1996 Policy; nor whether MLGs have been successful in achieving improved housing outcomes.

The performance indicator used for the current expected result related to housing infrastructure is "*Percentage of First Nations housing is "adequate" as assessed and reported annually by First Nations*". The information used for this performance indicator is provided by First Nations on an annual basis through a Data Collection Instrument (DCI 41701) termed the *Community*

*Infrastructure and Housing Annual Report*. The report includes the total number of housing units, plus the housing conditions in one of three categories: (1) replacement required; (2) major renovations required; and, (3) total adequate units. The report also indicates whether or not the band has a housing plan, and the number of houses without services such as electricity and roads. Given that the information is self-reported by First Nations, and that there is no standard or consistent definitions related to items such as the definitions of 'adequate housing' or need for 'major renovations', the report is not viewed as reliable or useful by the regions.

The Performance Measurement Strategy notes that eventually additional data will be available via the Integrated Capital Management System but at the time of the audit, the system has not yet been fully implemented across the regions.

Based on current reporting, it is not easily determined how the funding used for on-reserve housing projects increased the adequacy of the housing infrastructure or relates to improvements in housing infrastructure as reported through the *Community Infrastructure and Housing Annual Report*.

***Recommendation:***

6. The Senior Assistant Deputy Minister, Regional Operations should consult with senior management to confirm INAC's objectives related to on-reserve housing and ensure that performance measures are developed that align with these objectives. At a minimum they should measure: i) the development of community-based housing programs and capacity within First Nations communities; ii) the improvement of on-reserve housing infrastructure based on the funding provided to First Nations; and, iii) the extent to which MLGs have been successful in achieving improved housing outcomes.

## 6. Management Action Plan

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>1. The Senior Assistant Deputy Minister, Regional Operations should:</p> <ol style="list-style-type: none"> <li>a. Define INAC's objectives related to on-reserve housing.</li> <li>b. Establish formal governance mechanisms to ensure there is ongoing and formal engagement between INAC and other key on-reserve housing stakeholders, as well as engagement between those within INAC supporting on-reserve housing activities across the regions.</li> <li>c. Define and communicate expectations for roles and responsibilities related to the support of on-reserve housing within the regions.</li> </ol>	<p>In summer and fall 2016, the Department will be engaging First Nations to reform of the On-Reserve Housing Program.</p> <p>Once options for the reform are approved, INAC will ensure that the Department's objectives are clearly defined with respect to on-reserve housing, that formal governance is in place, and that roles and responsibilities are defined and communicated with internal and external stakeholders.</p>	SADM RO	Q2 2017-18
<p>2. The Senior Assistant Deputy Minister, Regional Operations in collaboration with the Chief Financial Officer, and Senior Assistant Deputy Minister, Policy and Strategic Direction should:</p> <ul style="list-style-type: none"> <li>• Review the allocation of funding provided to regions; and in turn the formulae used by the regions to provide funding to First Nations communities, to ensure funding is linked to INAC's objectives for on-reserve housing.</li> <li>• Ensure appropriate processes are implemented to accurately track and monitor the INAC funding that is being used by First Nations communities for on-reserve housing.</li> </ul>	<p>In summer and fall 2016, the Department will be engaging First Nations on the reform of the On-Reserve Housing Program.</p> <p>Once options for the reform are approved, INAC will review its funding allocation methodology, and modify tracking and monitoring processes to ensure funding is used for its intended purpose.</p>	SADM RO with CFO and SADM PSD	Q2 2017-18
<p>3. The Senior Assistant Deputy Minister, Regional Operations should conduct an exercise to determine the lessons learned related to the Northern</p>	<p>Regional Operations will review the investments made under the Northern Community Opportunities Fund to identify any lessons learned that could inform the</p>	SADM RO	Q2 2016-2017

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>Communities Opportunity Fund and use those lessons learned to ensure any new separate funding initiatives, such as Federal Budget 2016 on-reserve housing funding, are allocated in an efficient and effective manner. This includes ensuring the benefits that are intended to be achieved by the funding are identified and processes are developed and implemented to monitor and measure the results and outcomes of the funding against expectations.</p>	<p>design and implementation of other programming, including the on-reserve housing programming under Budget 2016.</p> <p>Investment decisions for funding under Budget 2016 will be made using priority ranking tools to ensure approved projects will address most immediate housing needs on reserve across the country. Investments will be tracked to ensure projects are duly implemented and to allow INAC to measure outcomes against expectations.</p>		Q1 2016-17
<p>4. The Senior Assistant Deputy Minister, Regional Operations in collaboration with the Chief Financial Officer Sector and Senior Assistant Deputy Minister, Policy and Strategic Direction should:</p> <ul style="list-style-type: none"> <li>– Ensure that the CFMP MCF is updated to include a consideration of the allocation of minor capital funding, including funding for on-reserve housing,</li> <li>– Ensure controls for on-reserve housing project approval and monitoring are defined, and that these controls include a risk-based approach that considers the amount of funding and the capacity of the First Nations communities.</li> </ul>	<p>In summer and fall 2016, the Department will be engaging First Nations on the reform of the On-Reserve Housing Program.</p> <p>Following the reform, INAC will update the Capital Facilities and Maintenance Program's Management Control Framework to include funding for on-reserve housing.</p>	SADM RO with CFO SADM PSD	Q4 2018-19
<p>5. The Senior Assistant Deputy Minister, Regional Operations in consultation with the Chief Financial Officer should enhance the support for the administration of MLGs by: i) updating the manual and related processes to better define roles and responsibilities, as well as guidance on ongoing risk management and loan monitoring activities for those</p>	<p>The Ministerial Loan Guarantee Manual is being revised to clarify roles and responsibilities of all parties. Community Infrastructure Branch, together with CFO Sector, is discussing the recommendations of the Risk Review conducted by Interis Inc., which include ongoing risk</p>	SADM RO CFO	Q4 of 2017-18

Recommendations	Management Response / Actions	Responsible Manager (Title)	Planned Implementation Date
<p>administering MLGs; ii) ensuring the right capacity and capability is available in the regions; and iii) ensuring that supporting systems, such as the GLMM module of GCIMS, can meet the business requirements for MLG administration.</p>	<p>management and loan monitoring activities, ensuring the right capacity and capability is available in the regions, and enhancing the Guaranteed Loan Management Module to serve as a reliable and accurate risk management and loan monitoring tool.</p>		
<p>6. The Senior Assistant Deputy Minister, Regional Operations should consult with senior management to confirm INAC's objectives related to on-reserve housing and ensure that performance measures are developed that align with these objectives. At a minimum, they should measure: i) the development of community-based housing programs and capacity within First Nations communities; ii) the improvement of on-reserve housing infrastructure based on the funding provided to First Nations; and iii) the extent to which MLGs have been successful in achieving improved housing outcomes.</p>	<p>In partnership with Audit and Evaluation, the Performance Measurement Strategy for the Capital and Facilities Maintenance Program will be revised and updated to ensure that logic model and key performance indicators for housing are aligned with the program's design and objectives.</p> <p>Through the annual Reporting Guide cycle led by Chief Financial Officer, the Program Reporting Forms for Infrastructure and Housing will be reviewed and updated to ensure that housing data collection supports performance measurement. The program database, Integrated Capital Management System, will be updated to ensure integrity of the data collected in order to support performance measurement and analysis.</p>	<p>SADM RO</p>	<p>Q3 2016-2017</p> <p>Q3 2016-2017</p>

## Appendix A: Audit Criteria

To ensure an appropriate level of assurance to meet the audit objectives, the following audit criteria were developed to address the objectives:

<b>Governance and Oversight</b>	
1.1	Adequate governance, oversight, and coordination exist for on-reserve housing activities (i.e., both the funding of on-reserve housing and the administration of MLGs).
1.2	Documented guidelines, tools, procedures, training and templates exist to support on-reserve housing activities; which includes the sharing of best practice between regions.
<b>People and Tools</b>	
2.1	There are appropriate human resource capacity and capabilities to effectively deliver and manage activities of the housing program.
2.2	Information systems and processes track, accumulate and report on-reserve housing-related information in a consistent, efficient, effective and timely manner for decision making purposes.
<b>Stewardship</b>	
3.1	Allocation of INAC funding includes steps taken to demonstrate how related on-reserve housing objectives will be achieved by the funded activity.
3.2	On-reserve housing activities conducted by INAC meet eligibility criteria and are in compliance with terms and conditions.
3.3	Information related to on-reserve housing activities is captured and reported in a timely, useful, accurate and complete manner, and reported information is reviewed and approved by INAC.
3.4	Compliance activities are conducted on a regular and structured basis to assess whether INAC and recipients are complying with program policies and procedures.
<b>Performance Management</b>	
4.1	Management has identified planned results and performance measures linked to housing program objectives and reports on these results on a regular basis.
4.2	Management has developed a risk management strategy for on-reserve housing activities.