Housing York Inc. Rent Collection Audit Report

April 2005

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1.0 Management Summary

Audit Services has completed a review of the rent collection procedures for Housing York Inc.

The scope of the audit included:

1. Meetings with management to discuss procedures, and review of procedural documentation;
2. Detailed testing of current rent collections; and,
3. Detailed testing of tenant files to ensure appropriate and timely follow-up for rent arrears.

Based on the work performed, there were no major issues noted. The rent collection and collection of arrears processes at Housing York Inc. is well controlled. However, we did note a potential opportunity relating to payment option offerings to tenants, and administrative observations that would further enhance tenant services and strengthen internals controls.

A draft copy of this report has been discussed with the necessary Housing York Inc. management. They have provided us with their comments and have agreed to take the necessary action to implement the noted recommendations.

Should the reader have any questions or require a more detailed understanding of the risk assessment and sampling decisions made during this audit, please contact the Director, Audit Services.

We wish to thank the Housing York Inc. management and employee staff for their co-operation and assistance in providing Audit Services with requested documentation and timely responses.

2.0 Introduction

As part of our 2004 Audit Plan, which accommodates various types of audit projects, consulting engagements, and follow up requests from the Audit Committee and York Region management, the Audit Services Branch has performed an audit of rent collection at Housing York Inc.

The Audit Plan, is approved by York Region's (the Region's) Audit Committee, and is developed annually by the Audit Services Branch using a Risk Assessment Methodology that helps to define the different risks associated with the various processes at the Region. It is one tool that Audit Services uses in assessing where best to allocate audit resources.

Housing York Inc. is responsible for the rental of 1,753 housing units in buildings located in eight of the nine municipalities. The units are rented at 'market rate' or 'rent geared to income' rates. Affordable housing options are offered to seniors, families, and singles.

Rent collection for 2005 is budgeted at $10.26 million. The collection and processing of the rents is an ongoing process both for current rents due and rent in arrears. Tenants are offered three methods of payment for rents: cash (accepted at the Gorham office only), cheques (current and post-dated are collected at each facility and the Gorham office by Housing York Inc. staff), and pre authorized payments (processed automatically through the banks).

Pre authorized payment (PAP) is most popular method of payment among tenants, with approximately 60% of rent dollars collected through this method. Cheques comprise 38% and cash 2%. Pre authorized payments allow funds to move to the Housing York Inc. bank account immediately, and require less administrative resources to process. As a result, it is a relatively low level of risk associated over all.

Cheques and cash carry a correspondingly higher level of inherent risk. This risk has been aggressively lowered by HYI management and staff through segregation of duties and monitoring of the cash / cheques transaction process.

Collection of rent in arrears also carries a high level of inherent risk. As time passes, the collection of outstanding amounts diminishes. The arrears collection process was found to be timely, which is an essential ingredient to successful collection.

The rent and rent arrears collection at Housing York Inc. is guided in part by two dominant pieces of legislation: The Tenant Protection Act and the Social Housing Reform Act.

3.0 Objectives and Scope

The objectives of this engagement were to:

- Confirm policies and procedures exist for the collection and processing of rent payments (pre approved payment, post dated cheques, cheques, and cash).
- Ensure compliance with the policies and procedures.
- Ensure operations are being executed effectively and efficiently.

The audit objectives were accomplished through:

- Meetings with management to discuss procedures, and review of procedural documentation;
- Detailed testing of current rent collections; and,
- Detailed testing of tenant files to ensure appropriate and timely follow-up for rent arrears.

4.0 Detailed Observations and Recommendations

4.1 Direct Deposit Terminals

Observation

An opportunity to offer an additional rent payment option at Housing York Inc. was noted in the form of direct deposit for tenants currently paying by cheques and cash.

For the six-month period July to December 2004, over $2 million in cheques and $118,000 in cash was deposited by the Gorham office. Cash payments for rent will only be accepted at the Gorham Street office. The collecting, handling, and depositing of cash and cheque payments involve a number of individuals, and introduce risks inherent when dealing with cash and cheques.

Recommendation

The Housing York Inc. Program Manager – Finance & Administration should explore the costs / benefits of having direct deposit as a payment option for tenants by piloting a direct deposit terminal installation at the Gorham Street Office. If successful, consideration should also be given to installation of these terminals at other HYI rental buildings. The direct deposit terminal pilot should be co-ordinated with the assistance of the York Region Finance Manager Corporate Accounting.

Offering a direct deposit program would reduce the manual efforts and inherent risks associated with cash / cheque collection, handling, and deposit. It would also allow for Housing York Inc. to obtain immediate use of the funds paid by tenants.

Management Response

Management agrees to explore the cost/benefits of a direct deposit (debit) terminal in the Gorham office on a pilot basis with the cooperation of the staff of the York Region Financial Services Branch.

It is recognized that a reduction in handling cash and cheques at the front counter is a desirable outcome, but this is offset by the additional processing entries that will be required in Accounts Receivable to recognize the bank charges applicable to every transaction that is paid via this medium.

Further business intelligence from the pilot project as well as an evaluation of tenant payment patterns is required before assessing the feasibility of introducing this technology is any HYI rental buildings.

HYI management estimates a 12 month timeline for the cost / benefit analysis due to resource availability and other technological priorities.

4.2 New YARDI Tenant File Creation

Observation

Timing issues and untimely new YARDI tenant file creation has created the need for a monthly Tenant File Suspense Account reconciliation. This reconciliation adds an additional step in the rent collection and accounting cycle. Timing issues associated with the month end processing of rent deposits cannot be avoided. However, untimely YARDI tenant file creation could be addressed through the introduction and monitoring of a benchmark much like the 2 day deposit schedule used to ensure that the amount of cash / cheques held in the office at any given time is minimized.

Recommendation

Housing York Inc. management introduce and monitor a benchmark that would help to ensure that new YARDI tenant files are created within a set timeframe. This would help to ensure that new tenant deposits are allocated promptly to the correct account the first time, and reduce the time required to perform the Tenant Payment Suspense Account reconciliation at month end.

Management Response

Management agrees. Except when timing issues associated with month-end deposits cannot be avoided, Tenant Service Coordinators will be instructed to open new tenant files in YARDI not later than two days of receiving the initial payment, typically at the time of lease signing. This will allow Accounts Receivable to deposit the cheque directly to the tenant's account without using the Tenant Payment Suspense Account. This will be implemented immediately.

4.3 Finalization of Policies

Observation

Housing York Inc. policies relating to Accounts Receivable and Cash Control have not been formally finalized and remain in 'draft' format.

Recommendation

Housing York Inc. management should formally finalize these policies and communicate the finalization to employees. This will help to ensure that employees are aware of these policies, and the Housing York Inc. policy manual is kept up-to-date.

Management Response

Management agrees. The 2005 business plan identifies an objective of enhancing the HYI performance management system which includes policy completion initiatives. This will be undertaken during 2005.

Original Signed

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