



Province of Nova Scotia

Department of Community Services and North End United Housing Co-operative Ltd.

Oversight of Social Housing Assistance Repair Program, Governance and Financial Sustainability Review

August 10, 2011

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Executive summary

Background

The North End United Housing Cooperative Ltd. (NEU or Co-op) was officially formed in September 2009 upon the amalgamation of four existing housing co-ops containing 131 affordable housing units in north end Halifax. The Co-op is overseen by a volunteer board of directors comprised of representation from each of the four amalgamated co-ops, as well as four external board members.

All four co-ops required significant capital upgrades as the approximately 30 year-old buildings had not undergone major repairs, nor had the buildings been maintained adequately. Due to the financial position of all four predecessor co-ops, already at risk of financial failure, additional debt was not considered a viable option.

In the summer of 2009 the Province of Nova Scotia (Province) announced the Social Housing Assistance Repair Program (SHARP), which provided up to \$24,000 per unit, in forgivable loans to social housing projects. Objectives of SHARP included:

- Bring housing units up to a minimum level of health and safety;
- Improve the accessibility of dwellings, and
- Enhance energy conservation measures.

Within SHARP, the approved scope of work for NEU included new roofs, windows, doors, and bathrooms and mould and rot remediation. The Co-op received a commitment letter dated July 9, 2009 from the Department of Community Services (DCS) confirming the provision of SHARP funds totalling \$3,114,000 towards this work. One of the SHARP's requirements included hiring a project manager to oversee the work. The project manager worked closely with and reported to the building project committee, a committee of the NEU board.

Work on eligible SHARP projects commenced in late 2009. Cost overruns related to mould and rot were experienced early in the process. Also, an additional \$250,000 in DCS funding, outside of the SHARP program, was provided for interior upgrades of 15 vacant units. The repairs to the 15 vacant units exceeded the anticipated costs. To stop any further cost overruns, DCS issued a stop work order on August 3, 2010. Based on a review of invoices and discussions with suppliers, invoices totalling \$135,762 relate to work that should have been cancelled by the project manager and the NEU board.

Grant Thornton LLP was engaged by DCS to conduct a review of the NEU in relation to management of funds received through SHARP. Primary objectives of the engagement were to examine the specific roles and responsibilities of individual stakeholders, including a review of the various activities that culminated in misunderstanding and miscommunication and ultimately significant overruns to the approved SHARP funding of \$3.114 million.

It should be noted that the SHARP program has been executed successfully by many housing co-operatives in Nova Scotia without the occurrence of cost overruns.

Summary

The board and the project manager allege that funds in excess of \$3.114 million were promised by the DCS Coordinator. The DCS Coordinator maintains that although additional funding was discussed, the Co-op was instructed not to exceed \$3.114 million. The DCS Coordinator states that he would not have been in a position where he could successfully approach his superiors to request additional funding until the \$3.114 million was exhausted and budgets were obtained for the remaining work. This understanding is shared by both the Co-operative Housing Federation of Canada (CHF) Consultant and CHF Program Manager.

The NEU Board of Directors was brought together by DCS and CHF, and in the case of external board members recruited by CHF. Board members understood from the DCS Coordinator and the CHF Consultant that the plan for the NEU was to renovate the units to ensure long term sustainability. DCS shared this vision and committed \$3.1 million to assist in achieving long term sustainability.

The CHF Consultant contributed to the funding confusion by leading the Co-op to believe that there would be more SHARP funds available, and by permitting the budget numbers to be based on a wish list rather than guaranteed funding. In April 2010, the DCS Coordinator expressed concerns and requested financial information relating to SHARP funds that had already been spent. At that time, he did not order the stoppage of work. Simultaneously, NEU residents were concerned that promised work was not being completed.

The NEU board received enthusiasm and encouragement from the CHF Consultant and pressure from NEU residents. There had been funding promised and successfully received in the past based only on verbal agreements, albeit for a much smaller amount. It was within this context that the NEU board chose not to address the risk associated with informal commitments to funding. As a result, total work completed exceeded approved SHARP funding.

We have documented specific observations and recommendations related to the management of funds received through SHARP. Additionally, to improve financial oversight and financial sustainability, we have documented observations and recommendations related to NEU's governance framework and the Co-op's going forward financial position and sustainability.

Observations – Repairs to vacant units

- SHARP funds were earmarked for urgent exterior repairs, but the interior of the units also required significant attention related to kitchen countertops, cupboards and drawers, 30 year old carpets and damaged walls and railings.

- The DCS Coordinator had major concerns with the cost overruns and the use of higher end products. Cost concerns as well as concerns around the management of the project ultimately culminated in the termination of the CHF Consultant by the DCS Coordinator. It is not apparent that the NEU board, within the context of cost concerns and the termination of the CHF Consultant, increased its level of financial oversight and control.
- The DCS Coordinator advised us that he verbally approved \$12,000 to \$15,000 per unit for interior repairs to 15 vacant units. The actual expenditures amounted to more than \$40,000 per unit or over \$600,000. The DCS Coordinator did not communicate funding caps in writing or otherwise provide the Co-op with documented vacant unit budgets.
- As the result of a miscommunication, the Project Manager began the vacant unit work in the role of a general contractor. He performed some of the work himself, and he subcontracted the remaining work. This arrangement was deemed to be inappropriate and lacking in transparency by the DCS Coordinator, and the remaining vacant units were completed in accordance with the project management contract between the Project Manager and the NEU. All vacant unit invoices were paid in accordance with the project management contract, whereby the Project Manager earned 7% of the invoices submitted by other contractors.
- The Project Manager contends that if the vacant unit work had been billed in accordance with his proposed arrangement (Project Manager acting as general contractor), cost savings of \$120,000 would have been realized. The Project Manager claims to have obtained competitive bids, but he also submitted his own bids. The Project Manager stated that the original quotes were provided to the DCS Coordinator, but they have not been provided to us and DCS has no record of receipt. We have insufficient information to conclude on the Project Manager's assertions that money would have been saved had he continued in his role as general contractor.

Recommendation

- All funding provided by DCS should be supported by written agreements, setting out budget parameters and expectations regarding project management including the quotation process, scope of work, and role of project managers. DCS should ensure that these agreements clearly identify those parties who are accountable for the funds, which in the case of a housing co-operative, is the Board of Directors.

Observations –Department of Community Services

- The extent of the authority exercised by the DCS Coordinator to approve funding is not clear. The DCS Coordinator appeared to have authority to authorize smaller expenditures. He managed to provide additional funding of \$250,000 to remediate interiors of specific NEU vacant units.
- No written agreements between the NEU board and DCS were in place for funding related to amalgamation (\$100,000) and interior remediation of the vacant units (\$250,000). This absence of formal documentation may have created a perception by the NEU board that other funding amounts were available on an equally informal basis.

- DCS had no direct responsibility to monitor the extent or quality of the financial oversight provided by the NEU Board of Directors. In hindsight, NEU board members, although ultimately responsible for ensuring that funding was in place and costs were appropriately controlled, have indicated that they felt DCS should have been more involved.
- The DCS Coordinator communicated to the board largely through the CHF Consultant. With the termination of the CHF Consultant, the effectiveness of communication between DCS and the NEU board may have declined. Notwithstanding, it was the NEU board's responsibility to ensure it received full and complete information in order to provide the appropriate financial oversight.
- There is evidence that the DCS Coordinator was trying to obtain an accounting of the work that had been completed and would be billed against the \$3.114 million. This information was initially requested by the DCS Coordinator on April 17, 2010. However, as late as June 15, 2010, the information had not been received, and on June 15, 2010 the DCS Coordinator became aware that a tender for flooring had just been issued by the Project Manager the day before. The DCS Coordinator states that he did not know the SHARP funding had already been committed by this date, and presumably he would not have permitted the tender to continue if he had realized this was the case. It is not clear why the NEU board did not either provide the information directly to the DCS Coordinator or instruct the Project Manager to provide the requested information.

Recommendations

- We would not expect DCS to communicate expenditure authority levels of DCS employees to external parties. However, if the DCS Coordinator or his successor does not have a clear, documented and well communicated authority level, it should be implemented.
- DCS should consider a clause in Commitment Letters that clearly stipulates that only formal funding agreements, in writing, are entered into by DCS.
- DCS should maintain a consistent protocol for funding projects, other than nominal amounts and on an emergency basis. That is, funds over a specific amount should not be advanced without formal documented agreements.

Observations – Co-operative Housing Federation of Canada

- Both the CHF Consultant and the CHF Program Manager understood that only approved SHARP funds (\$3.114 million) were available for the NEU remediation. However, both also believed, from the early stages of the project, that additional funding was likely forthcoming.
- The CHF Consultant either misunderstood and/or miscommunicated the status of available funding for the project to NEU board members, inflating the board's expectations. Since the CHF Consultant was initially the main liaison with the NEU board, board members' perceptions of funding appeared to be more in line with the CHF Consultant than the DCS Coordinator.
- From the outset, the CHF Consultant accepted a budget from the Project Manager in excess of \$5 million, with the knowledge that existing approved funding was only \$3.114 million. At no time, should any budget, informal or otherwise, have exceeded the approved funding of \$3.114 million.

- The CHF Consultant and the DCS Coordinator disagreed over the timing and scope of the SHARP project, with the DCS Coordinator governed by the \$3.114 million in funding and the CHF Consultant referring to a \$5 million plus budget compiled by the Project Manager.
- Although in an advisory role, the CHF Consultant took a more active role and appears to have approved actual activities and expenditures related to the SHARP project. The NEU board apparently accepted the CHF Consultant in this inappropriate expanded role. As a result, the NEU board did not fulfil its own fiduciary and financial responsibilities in regard to oversight of the SHARP project.

Observations – North End United Co-operative Ltd.

- NEU board members are resolute in their perception that the DCS Coordinator made numerous verbal promises relating to the availability of additional funding in the absence of signed agreements.
- Until the termination of the CHF Consultant, the NEU board had limited interaction with the DCS Coordinator and had been relying upon information from the CHF Consultant.
- Board members placed reliance upon the DCS January 2010 press release that reiterated the commitment to the remediation of the Co-op. The press release clearly indicated a funding limit of \$3.1 million. It is not clear why the board interpreted general statements in the press release so liberally and failed to focus on the specific funding amount in the press release.

Observations –Project Manager

- The NEU board selected the Project Manager from applicants that had been pre-approved by CHF. The roles and responsibilities of the Project Manager are clearly documented. While the contract with the Project Manager does not refer to SHARP funding, the Project Manager was experienced with such projects and was aware of the funding limit.
- The NEU board and the CHF Consultant were satisfied with the performance of the Project Manager. As evidence of this satisfaction, the Project Manager was subsequently hired to manage the NEU in the capacity of property manager. It is not clear that the NEU board had sufficient detailed information in its financial oversight role to accurately assess the performance of the Project Manager.
- The Project Manager had been involved in other SHARP projects. Therefore, he knew or should have known that available funds were restricted to the approved amount of \$3.114 million. However, in spite of his previous experience with SHARP projects, the Project Manager did not prepare cash flow projections tracking the sources of funding. Inexplicably, the budgets followed by the Project Manager far exceeded the approved funding of \$3.114 million.
- The Project Manager did not always discuss specifications with staff at DCS Housing Services in order to reach agreement on the appropriate specification of each component. Again, documents were provided to the CHF Consultant, but there is not an indication that DCS was also a recipient of such documentation.

- Although the Project Manager has stated that competitive bids were obtained, the lack of documentation does not support this assertion. We identified three projects where three quotes were not obtained. These three projects represented 44% of the \$3.114 million SHARP funds. In our opinion, the SHARP requirement to obtain three competitive bids was not consistently followed.

Recommendation

- The Project Manager contract should be adjusted to specifically detail the requirement for all budgets to adhere to approved funding. Reporting requirements of the Project Manager to the board of directors and the board's financial oversight responsibility, which cannot be delegated, should be clarified and specifically agreed to at the outset of each project.

Observations – Governance

- It is not evident that all NEU board members had received, reviewed and were familiar with the Letter of Commitment issued by DCS approving SHARP funding of \$3.114 million.
- From the outset, the NEU's working budget exceeded \$5 million, although authorized funding was \$3.114 million. This situation should have been a red flag prompting action by the board.
- Roles and responsibilities associated with the capital upgrades were not well defined or documented. Specifically, the building project committee did not have a documented mandate. Therefore, the extent to which board authority was delegated to that committee is not clear. Additionally, there is no indication that the NEU board approved the committee membership.
- The board approved approximately 25% of expenditures, leaving \$2.249 million where there is no evidence documented in board minutes or elsewhere that the board actually approved the expenditures. Board members indicate that in their estimation, the board had approved all expenditures. Through an inappropriate delegation of oversight responsibility to the building project committee and the CHF Consultant, the NEU board did not fulfil its fiduciary obligations.
- The CHF Consultant appeared to have an active role in decision making processes, including the actual authorization of specific expenditures. The NEU board relied excessively on the CHF Consultant and at the time of his departure, while others took a more active role, a gap in communication between DCS, the NEU board, and the building project committee surfaced.
- The perception of specific NEU board members was that the role of the NEU board had been usurped by other participants such as the CHF Consultant and the DCS Coordinator.

Recommendations

- The NEU board must ensure that governance documentation is completed that clearly outlines the roles and responsibilities of the board, board members, board positions (e.g., president, treasurer), and board committee mandates. There is a significant body of governance literature to serve as "best practices" guidelines.

- The NEU board is responsible for the governance of NEU and cannot delegate its responsibilities or allow its responsibilities to be usurped by others. The NEU board should ensure that board members receive appropriate training relative to their fiduciary responsibilities, including their joint and several liabilities for outstanding liabilities.
- Board minutes must reflect all significant activities undertaken by the board, including the approval of expenditures and appointments to board committees.

Observations – Financial sustainability

- The NEU is effectively insolvent and does not generate sufficient revenue to pay its operating expenses and make payments on debt that is currently in arrears.
- The Province of Nova Scotia has supported the financial position of NEU by not enforcing payment and other terms and conditions related to NEU debt.
- The objective of amalgamating existing mortgages thereby improving cash flow has not been realized.
- There is no surplus cash flow until the fiscal year ending July 31, 2014.
- The NEU will have difficulty fully funding the Replacement Reserve Fund during the fiscal years ending 2011, 2012 and 2013.
- The NEU is not in a position to fund capital projects over the next four fiscal years.

Recommendations

- The Province should consider its options under existing legal documents which provide certain rights and abilities to enforce its security.
- Alternatively, the Province and NEU should refinance the existing CMHC mortgages, if possible, including an additional amount (\$1,200,000) to pay the outstanding debts to the contractors and subcontractors.
- The remaining CMHC mortgage (Charles Court) should be amalgamated at the time of renewal in 2013.
- The monthly payments on the consolidated loan should be minimized to improve cash flow.
- The NEU should enter into immediate discussions with the Province relative to the possible deferral of the transfer of operating funds to the Replacement Reserve Fund during the fiscal years ending July 2011, 2012 and 2013.
- All board members must be fully aware of all debt (e.g., type, terms, arrears, default) and ensure that arrangements/understandings are in place with the Province. The status of all debt should be a standing agenda item at board meetings.

- The NEU board must oversee vacancy and bad debt ratios against revenue to ensure that operating revenue is not eroded. These ratios should be a standing agenda item at board meetings, forming the basis for corrective action, if necessary.
- The NEU must develop a plan to fund future capital projects.

Observations – Unpaid invoices

- The amount of unpaid invoices as at May 27, 2011, including interest is approximately \$1,200,000.
- Monk Construction (Monk) was subcontracted by Reliable Rooter (Reliable). The amount of the debt that Reliable owes to Monk is greater than the amount owed by the Co-op to Reliable. In the past, DCS issued one cheque in the names of both Reliable and Monk as a result of disagreements between the contractor and subcontractor.
- Subsequent to the stop work order of August 2010, costs were incurred in the amount of \$135,762 relating to projects that were not yet substantially complete. This work should have been cancelled by the Project Manager and NEU.

Introduction

Grant Thornton LLP was engaged by the Province, DCS to conduct a review of the NEU in relation to oversight of funds received through the SHARP. The objectives of the engagement include:

- Examination of DCS records relative to NEU and SHARP;
- Examination of NEU records and processes relative to board oversight of SHARP;
- Examination of Eagle Project Management Inc. (Eagle) records relative to the project management of SHARP;
- Evaluation of board governance and board oversight in relation to the financial oversight of SHARP;
- Examination of the roles and responsibilities of the key players tasked with overseeing SHARP and the rationale for exceeding the allotted funding;
- Evaluation of the current financial position of NEU and its ability to meet current and future financial obligations; and
- Determination of the amount of unpaid invoices related to work completed.

Documents reviewed and relied upon

In preparing this report, we reviewed and relied upon the following information and documents:

- Meetings and telephone discussions with various NEU board members;
- Meeting, email and telephone discussions with the Project Manager (*Note: the project management contract was actually awarded to an incorporated company. However, we have referred to the Project Manager as “him”, because the contractual duties were fulfilled almost exclusively by one person representing the management company*);
- Meeting with Program Manager, CHF Canada;
- Telephone discussion with CHF Canada Consultant;
- Meeting with former Coordinator Projects in Difficulty, DCS;
- Meetings and telephone discussions with current Coordinator Projects in Difficulty, DCS;
- Telephone discussion with former Housing Case Worker, DCS;
- Meeting and telephone discussion with Manager, Mortgage and Loans Administration;
- Meeting with Director of Housing, DCS;
- Meeting and telephone discussions with Executive Director, Employment Support, Income Assistance and Housing, DCS;
- Meeting and telephone discussion with two DCS Building Inspectors;
- Telephone discussions with suppliers who are currently unpaid;
- Invoices related to the SHARP funding provided by DCS, the NEU, and unpaid suppliers;
- Tenders relating to SHARP program and vacant units;
- SHARP related commitment letter with the NEU dated July 2009, and the final contract dated February 2010.

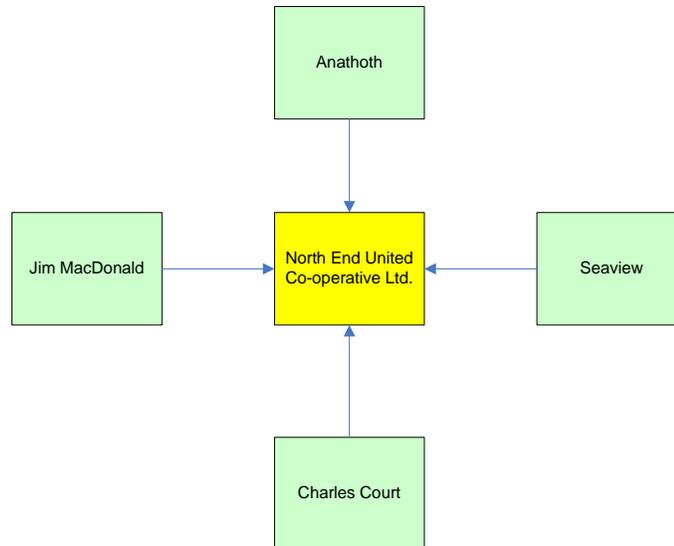
- DCS press release dated January 20, 2010;
- Minutes of NEU Board of Directors meetings;
- Minutes of Building Project Committee meetings;
- SHARP Project Management agreement (contract);
- Scope of work documents for SHARP related projects and vacant units;
- Various SHARP project budgets prepared by the Project Manager;
- SHARP project schedules prepared by the Project Manager;
- Various emails and letters provided by the NEU, the Project Manager, and DCS;
- SHARP related invoices paid by DCS via mortgage draws;
- Cooperative Associations Act of Nova Scotia;
- NEU Spending Policy approved November 2, 2009;
- NEU financial statements for year ended July 31, 2010;
- NEU budgets for year 2010/2011 and 2011/2012;
- NEU SHARP File Audit Report prepared by DCS; and
- NEU response to SHARP File Audit Report.

Background

Overview

The NEU contains 131 affordable housing units in north end Halifax. The Co-op is overseen by a volunteer board of directors and day to day management is delegated to a property manager. Co-op members have the right to approve budgets and amendments to by-laws, but do not have an equity interest in the assets of the Co-op. Some members are eligible for reduced rents based on income tests. The Province of Nova Scotia (Province) provides subsidies to the Co-op related to eligible lower income Co-op members who pay reduced rents.

NEU was officially formed in September 2009 upon the amalgamation of four existing housing co-ops depicted in the following illustration:



The four predecessor co-ops had many challenges, those shared by the four co-ops, and those unique to specific co-ops. Generally, challenges included:

- Difficulty forming strong boards of directors with the necessary skills to provide appropriate financial and other oversight;
- Financial difficulty due in part to significant rent arrears; and
- The significant extent of maintenance and capital upgrades required.

DCS assumed management of two of the predecessor co-ops under the authority of the Assignment of Rents and Leases. DCS made the financial decisions for the two co-ops and their boards of directors remained involved in non-financial decision making only. All four co-ops required significant capital upgrades as the approximately 30 year-old buildings had not undergone major repairs, nor had the buildings been maintained adequately. Due to the financial position of all four predecessor co-ops, already at risk of financial failure, additional debt was not considered a viable option.

In early 2009 a solution for saving the co-ops was devised by the CHF and the DCS Coordinator of Projects in Difficulty. The solution was amalgamation. A CHF Consultant, who had significant experience working with co-ops, was instrumental in executing the NEU amalgamation. Also, a new NEU Board of Directors was established, containing representation from each of the four amalgamated co-ops, as well as four external board members. The new board members brought their prior experience serving on volunteer boards, expertise in the area of social housing, administrative and engineering experience, and strong ties to the community in which the co-op housing units are located. The anticipated benefits of amalgamation were threefold:

- Improved finances and cash flow were to be achieved through refinancing the mortgages held by the individual co-ops into one combined mortgage at more favourable terms;
- Creation of a strong new board of directors to oversee the management of the day to day affairs of the amalgamated co-op; and
- Anticipated leadership from the new board regarding much needed capital upgrades.

In the summer of 2009 the Province announced SHARP, which provided up to \$24,000 per unit, in forgivable loans to social housing projects. Objectives of SHARP included:

- Bring housing units up to a minimum level of health and safety;
- Improve the accessibility of dwellings, and
- Enhance energy conservation measures.

Within SHARP, the approved scope of work for NEU included new roofs, windows, doors, and bathrooms and mould and rot remediation. The Co-op received a commitment letter dated July 9, 2009 from DCS confirming the provision of SHARP funds totalling \$3,114,000 towards this work. One of SHARP's requirements included hiring a project manager to oversee the work. The project manager worked closely with and reported to the building project committee, a committee of the NEU board.

Work on eligible SHARP projects commenced in late 2009. Cost overruns related to mould and rot were experienced early in the process. Also, an additional \$250,000 in DCS funding, outside of the SHARP program, was provided for interior upgrades of 15 vacant units. The repairs to the 15 vacant units exceeded the anticipated costs. In July 2010 the Coordinator of Projects in Difficulty for DCS (DCS Coordinator), who was the key contact with the Co-op, resigned from his position to pursue other opportunities. In early August 2010 it became evident to DCS that total costs incurred and committed exceeded the \$3.114 million allotted, and DCS issued a stop work order. Upon receipt of additional invoices, it was determined by DCS that outstanding invoices totalled nearly \$1 million.

DCS prepared an internal SHARP File Audit Report in the fall of 2010, which outlined concerns regarding the SHARP Project. The NEU submitted a response (December 6, 2010) to the DCS File Audit Report, in which the board disputed most of the DCS findings, and maintained that additional funding had been approved by DCS.

In December 2010, DCS offered to provide a \$1 million repayable loan to NEU on the condition that the NEU Board of Directors acknowledge in writing that the funds spent in excess of the amounts approved in writing by DCS were not approved by DCS under either SHARP or for vacant unit repairs. The NEU board declined to provide that acknowledgement in writing because board members are resolute that DCS approved the additional funding. In addition to the issue of signing a statement the board members believed to be untrue, there was general concern over personal financial liability based on board members' admission of wilful overspending. As a result, the board declined the loan offer. Currently, liens and other claims have been filed in the amount of \$563,934.

For ease of reference, those who played significant roles relative to the SHARP project include:

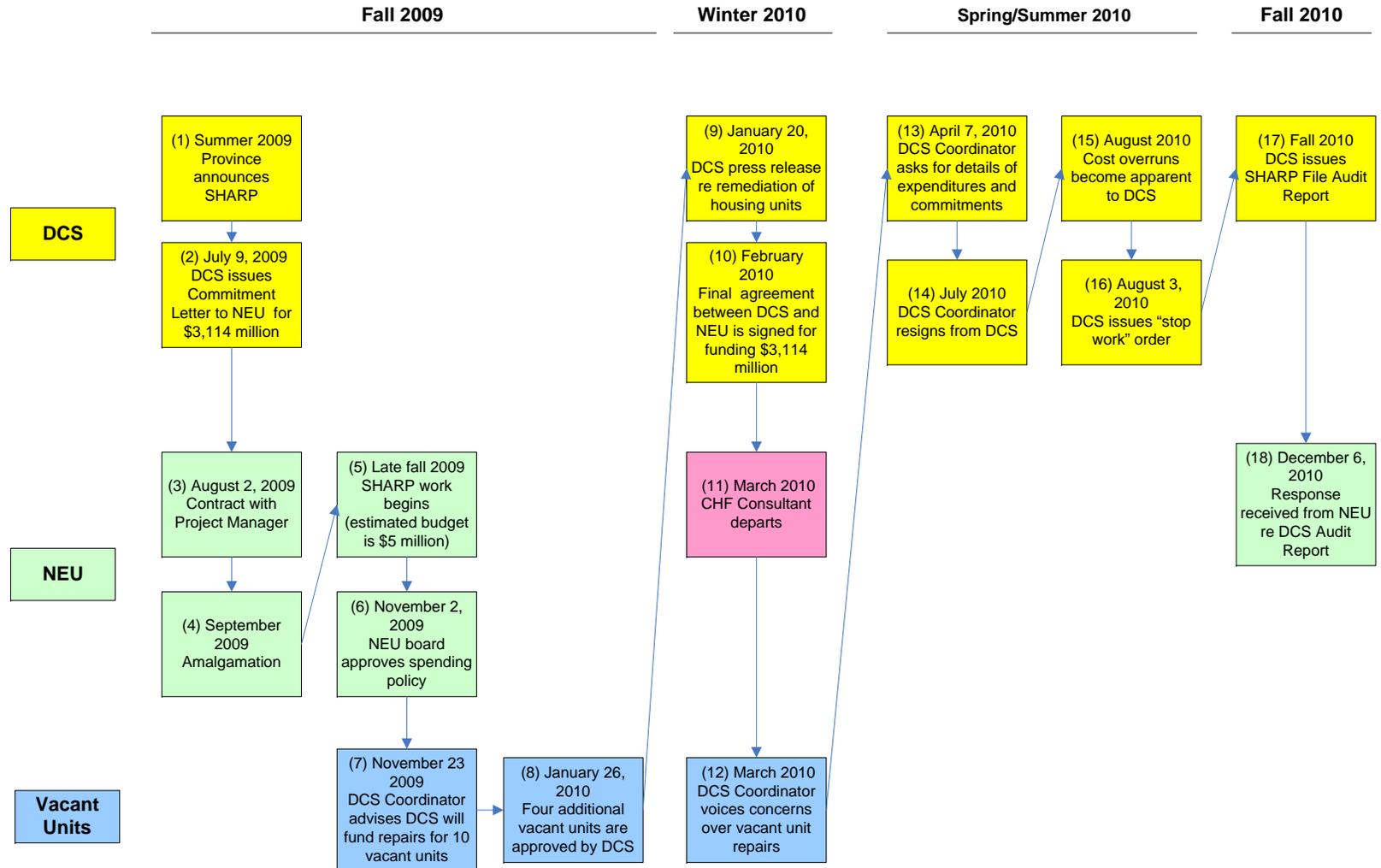
- **NEU Board of Directors**, responsible for financial oversight of the NEU, including the disbursement of all SHARP related funds;
- **Coordinator of Projects in Difficulty (DCS Coordinator)** represented DCS. The DCS Coordinator administered the SHARP program and was the key DCS contact for housing cooperatives in Nova Scotia;
- **Consultant, with the Co-operative Housing Federation of Canada (CFH Consultant)**, provided guidance to the NEU through the amalgamation process and the SHARP renovations. The CHF

Consultant was the intermediary between DCS and the NEU board of directors. The CHF Consultant was paid by DCS and specific responsibilities included the coordination of the scope and costing of required repairs, assistance with the selection and hiring of the Project Manager, and working closely with the board's building project committee on SHARP and vacant unit work;

- **Project Manager**, third party hired by the NEU board of directors to manage the SHARP renovations; and
- **Building Project Committee**, a committee formed by the board, comprised of the CHF Consultant and two board members. There is no documented mandate for this committee.

Also for ease of reference, we provide the following timeline of significant events:

Timeline of Events



Our Approach

We segregated our analysis and findings into the following areas:

- Agreed and disputed facts;
- Repairs to vacant units;
- Roles and responsibilities of those charged with overseeing SHARP and the rationale for exceeding allotted funding. Parties include:
 - Department of Community Services
 - Co-operative Housing Federation of Canada
 - NEU Board of Directors
 - Project Manager
- Review of NEU board governance as it relates to SHARP and other capital spending;
- Evaluation of NEU's financial sustainability; and
- Determination of amount of unpaid invoices related to work completed.

Our findings and recommendations are based on a detailed review of documentation, including financial records, and discussions with representatives of DCS, CHF, NEU board members, and the Project Manager.

Agreed facts and disputed facts

To provide context and clarity, we have summarized those facts for which there appears to be consensus by all relevant parties. Similarly, we have summarized those issues that are disputed by the various relevant parties.

Agreed facts:

- The amalgamated Co-op was to be a flagship housing cooperative. The plan was to transform at risk affordable housing units into a thriving cooperative that would be sustainable in the long term. Sustainability would only be achieved with a significant investment in capital upgrades to the exterior and interior of units;
- Significant time and resources had been committed to the amalgamation process, and the amalgamation in September 2009 was deemed to be a success. The amalgamation was a first step toward the achievement of the goal of financial sustainability;
- The \$3.114 million SHARP agreement was the only funding commitment in writing by DCS; and
- \$100,000 was provided by DCS as transitional funding to assist with the amalgamation process. DCS also provided an additional \$250,000 for renovations to vacant units. No written agreements were in place for either of these amounts.

Disputed facts:

- The board and the Project Manager allege that funds in excess of \$3.114 million were promised by the DCS Coordinator; and
- The DCS Coordinator maintains that although additional funding was discussed, the Co-op was instructed not to exceed \$3.114 million. The DCS Coordinator states that he would not have been in a position where he could successfully approach his superiors to request additional funding until the \$3.114 million was exhausted and budgets were obtained for the remaining work. This understanding is shared by both the CHF Consultant and the CHF Program Manager.

Repairs to vacant units

Background

Explanation of the vacant unit situation has been presented in this separate section because: a) repairs to vacant units contributed to the overspending by the NEU; and b) evaluation of the roles of the various parties regarding SHARP funding requires an understanding of vacant unit issues.

SHARP funds were earmarked for the most urgent repairs, including roofs, exterior repairs, doors, windows, bathrooms and possibly floors. Additional interior repairs were also required in every unit. These repairs were called ‘maintenance items’ by the DCS Coordinator. However, due to the age and condition of the housing units and the absence of routine maintenance, major repairs were required. It is our understanding that most of the units contained damaged kitchen countertops, cupboard doors and drawers that did not function properly, 30-year old carpets, damages such as holes in walls, broken hand railings, and other similar conditions.

The cost of required repairs was unknown, and the units varied in size from one bedroom apartments to three-bedroom townhouses. As such, it was decided to begin the interior repairs with a sample of housing units that were vacant at the time, all having different floor-plans and different square-footage. The DCS Coordinator has stated that another consideration in determination of the sample was the condition of the vacant units, because he believed that some units only required minor repairs while others required more extensive repairs. The DCS Coordinator attended the November 23, 2009 board meeting and advised that he would fund interior repairs for a sample of 10 vacant units to determine the actual average cost of required repairs (on January 26, 2010, the CHF Consultant advised the Project Manager that four to five more units had been approved by Housing Services). There was no written agreement for this additional funding, which amounted to \$250,000.

The DCS Coordinator had two major concerns with the vacant unit renovations, being cost over-runs and the management of the renovations.

Cost overruns

We are not aware of any written documentation setting out the DCS Coordinator’s expectations on a per-unit basis, but he upholds that he only authorized funding in the amount of approximately \$12,000 to \$15,000 per unit. Therefore, 15 units at a potential cost of \$15,000 would have resulted in total costs of \$225,000. Board members and the Project Manager believed that a budget had not been set because the purpose of renovating a sample of units was to determine the actual cost of each of the different floor plans. The CHF Consultant was aware of the actual costs to renovate the units as early as January

2010, and it appears that he did not provide the DCS Coordinator with cost updates prior to March 2010.

Actual costs incurred for vacant unit renovations were in excess of \$40,000 per unit. The DCS Coordinator was displeased with the amounts spent to renovate the vacant units, and he advised that the overspending prompted him to terminate the contract of the CHF Consultant. The DCS Coordinator criticized the Project Manager and the CHF Consultant for utilizing higher end materials. The Project Manager prepared a vacant unit scope of work, but it is not known whether or not this document was received by the DCS Coordinator.

Total vacant unit costs exceeded \$600,000, and DCS provided funding for vacant units in the amount of \$250,000. Some of the remaining vacant unit costs in excess of \$400,000 were paid from the allotted pool of \$3.114 million SHARP funds, thereby reducing SHARP funds available for other priorities. Some of the costs have not been paid and form part of the \$1.2 million of unpaid invoices.

Project Management

The DCS Coordinator was also displeased with the way in which the repairs to the vacant units were managed. According to board minutes from November 23, 2009, the DCS Coordinator instructed the board to proceed with repairs for a sample of 10 vacant units, and to “Get two qualified bidders and send in invoices they will be covered.” We are not aware of any other documented instructions concerning the vacant units.

Project Manager as ‘construction manager’

The Project Manager began the vacant unit renovations in the role of ‘construction manager’, which appears to be an arrangement similar to that of a general contractor. He performed some of the work himself, and he subcontracted the remaining work. We requested copies of the subcontractor quotes but they were not provided by the Project Manager, who informed us the quotes had been sent to DCS. DCS has no record of receiving this material.

As a ‘construction manager’, the Project Manager intended to charge a quoted fee per vacant unit. Quotes were based on subcontractor costs plus a mark-up, as well as his own time and materials. This differed from the standard 7% project management fee under the Project Manager’s agreement with the NEU.

According to the Project Manager, the DCS Coordinator and CHF Consultant initially approved the ‘construction manager’ arrangement and then changed their position and insisted that the work be completed in accordance with the SHARP agreement and the Project Manager’s agreement with the NEU. Also, the Project Manager could not perform any of the work himself. The CHF Consultant informed us that he realized the ‘construction manager’ arrangement was inappropriate and that it was the result of a miscommunication he had with the Project Manager.

The initial vacant unit renovations were managed under the ‘construction manager’ method, but the Project Manager’s fees were calculated at 7% of the invoices submitted, in accordance with the SHARP agreement and the Project Manager’s management agreement with the NEU. Cheques were made

payable to the Project Manager who would then reimburse the subcontractors, and in this respect the arrangement was non-traditional.

Project Manager in traditional role

Subsequent vacant unit interior work was performed largely by one contractor, who performed most of the carpentry work, and who hired his own sub-contractors for bathrooms and electrical work etc. The Project Manager earned fees calculated at 7% of the total invoices submitted. Cheques were made payable to the Project Manager who would then reimburse the subcontractors, which in this case comprised the carpentry contractor, and the kitchen and flooring suppliers. This payment arrangement was in contrast with his contract with the NEU for SHARP funds, whereby supplier payments were approved by DCS and paid by lawyers as draws on the SHARP mortgage directly to the individual suppliers.

Criticism of project management

The Project Manager believed he could have done the work as ‘construction manager’ more affordably and saved the Co-op \$120,000. The DCS Coordinator had several criticisms including:

- The Project Manager’s involvement may not have been required. The NEU board could have solicited quotes for the interior repairs, and the property manager could have provided the required site supervision such as providing access to the vacant units. The 7% project management fee may have been redundant, given that one contractor was engaged to do most of the work in the units and supervised his own subcontractors;
- The DCS Coordinator’s instructions, as per the November 23, 2009 board minutes, were to “Get two qualified bidders and send in invoices they will be covered.” It is not clear that the two required quotes were obtained, and the DCS Coordinator criticized this omission. The Project Manager responded to this criticism by providing, for several units, the quoted costs under the initially planned method of management, whereby the Project Manager would have acted as a ‘construction manager’. These costs were allegedly based on quotes received from third parties, and in some cases were based on quotes provided by the Project Manager, who intended to do some of the work himself. The Project Manager stated that the original quotes were provided to the DCS Coordinator. DCS has no record of receiving the quotes. As such, we do not have proof that two sets of quotes were received;

Regardless of the Project Manager’s explanations, when the project shifted away from the ‘construction manager’ method, two quotes should have been obtained for the carpentry contractor relating to demolition, carpentry, painting, and electrical work, and there is no evidence to show that more than one quote was obtained; and

- The Project Manager initially hesitated to provide copies of vacant unit quotes and tenders to the DCS Coordinator, on the basis that those initial quotes were his property in accordance with the ‘construction manager’ arrangement. It was unreasonable to expect that these documents could be withheld from the NEU or the Province, as no written agreement was in place setting out the details of the ‘construction manager’ arrangement. Any involvement by the Project Manager should have

been within the parameters of the project management contract, which sets out responsibilities and tendering requirements.

Recommendation

- 1 All funding provided by DCS should be supported by written agreements that set out budget parameters and expectations regarding project management which include the quotation process, scope of work, and role of project managers. DCS should ensure that these agreements clearly identify those parties who are accountable for the funds, which in the case of housing co-operatives is the Board of Directors.

Roles and responsibilities and rationale for exceeding allotted funding – Department of Community Services

Roles and responsibilities - DCS

The DCS Coordinator had ten years of experience working with housing cooperatives in Nova Scotia. By all accounts he was committed to helping housing cooperatives and was interested in the success of the amalgamated NEU.

The DCS Coordinator was the main contact at DCS for housing cooperatives and in this capacity he signed the SHARP agreement on behalf of the Province. The only SHARP-related DCS responsibility is found in the Commitment Letter, issued by DCS to NEU in July 2009. The Commitment Letter states that “Repairs are subject to a professional project management plan approved by the Department”. The DCS Coordinator carried out this function on behalf of DCS by approving the project management plan, also known as the ‘scope of work’.

The DCS Coordinator had some discretion over the budgets he managed. Specifically, he could approve small sums of money for cooperatives related to issues such as replacement of oil tanks to mitigate environmental risk. The extent of his authority level is not clear. However, CHF and the board were aware that neither the DCS Coordinator nor anyone else in the DCS Housing Division could approve funding to cover the outstanding invoices (which have totalled approximately \$1.2 million). It is our understanding that at a minimum, the Deputy Minister would be required to approve funding of this amount.

Certain board members believe that DCS should have been more closely involved in the affairs of the board, and should have been monitoring NEU’s spending more closely. This was not the role of the DCS Coordinator or anyone else at DCS. The NEU is an independent legal entity and as such the monitoring of all spending, including SHARP, is the NEU’s responsibility. Further, the DCS Coordinator asserts that he was unaware that costs were incurred in excess of approved funding, and no evidence has been found to disprove that assertion. On April 7, 2010, the DCS Coordinator requested an accounting of “overall work completed to date versus the \$3.1 million” and “remaining work to be billed against the \$3.1 million.” This request indicates that as of April 7, 2010 the DCS Coordinator did not believe the approved funding had been exceeded. By June 15, 2010, the requested data had still not been received, as the DCS Coordinator stated “I understood the Co-op would provide

me with some data prior to issuing that work. I am trying to arrange for the additional funding and need that supporting data.” This was followed up on June 28, 2010, with an email to the board president in which the DCS Coordinator stated “We still don’t have (the Project Manager’s) #'s to support your letter.”

At the time of the DCS Coordinator’s departure in early July 2010, submitted draws had not yet reached \$3.114 million. We are not aware that the DCS Coordinator received the requested estimate of amounts required to complete the renovations, or other information that met his requirements.

DCS’ role in funding misunderstanding

The DCS Coordinator contributed to the funding misunderstanding in the following ways:

- The DCS Coordinator did not obtain a written agreement concerning the vacant unit repairs and he appears to have entrusted the supervision of the vacant units to the CHF Consultant. The funding for vacant units was limited to \$250,000 and actual costs exceeded \$600,000. A portion of the costs greater than \$250,000 were paid using SHARP funds, thereby eroding the amount of available SHARP funding. If the DCS Coordinator had communicated expectations or set out specific parameters, costs may have been lower;
- The vacant unit funding created a precedent whereby significant amounts of money were provided to the NEU based on the verbal commitment of the DCS Coordinator. Based on this precedent, it is possible to see how the board may have become resigned to the lack of written confirmation of funding from the DCS Coordinator;
- The DCS Coordinator did not have a close working relationship with the Project Manager, and communicated with the board primarily via the CHF Consultant. Therefore, when the DCS Coordinator terminated the relationship with the CHF Consultant, the board lost the direct link to DCS. The DCS Coordinator played a more active role from that time on, but the loss of the CHF Consultant may have impacted communications between the DCS Coordinator and the NEU board;
- There is evidence that from April 17, 2010, the DCS Coordinator was attempting to obtain an accounting of the work that had been completed and would be billed against the \$3.1 million. However, as late as June 15, 2010 the information had not been received and on June 15, 2010, the DCS Coordinator became aware that a tender for flooring had just been issued by the Project Manager the day before. The DCS Coordinator states that he did not know the \$3.114 million funding had been committed by this date, and presumably he would not have permitted the tender to continue if he had realized this was the case. In our opinion, the failure to obtain a full accounting of expenditures contributed to overspending.

Recommendations

- 2 We would not expect DCS to communicate authority levels of DCS employees to external parties. However, if the DCS Coordinator or his successor does not have a clear, documented and well communicated authority level, it should be implemented.

- 3 DCS should consider a clause in Commitment Letters that clearly stipulates that only formal funding agreements, in writing, are entered into by DCS.
- 4 DCS should maintain a consistent protocol for funding projects, other than nominal amounts and on an emergency basis. That is, funds over a specific amount should not be advanced without formal documented agreements.

Roles and responsibilities and rationale for exceeding allotted funding – CHF Canada

Roles and responsibilities

CHF provides advocacy and advisory support to its members on an as needed basis. DCS and NEU utilized the services of two CHF representatives, the Consultant and the local Program Manager. There were no formal agreements between DCS and CHF setting out the roles and responsibilities of either of these positions.

The CHF Consultant was engaged to advise and support the amalgamation and the renovation project. The Consultant informed us that his role was to help create a strong, self-sufficient board through facilitation and modelling best practices. His renovation project duties also included coordination of the scope of required repairs, costing those repairs, assistance with the selection and hiring of the Project Manager, and working closely with the NEU board's building project committee on SHARP and vacant unit work, including preparation of documentation requesting draws on the repayable SHARP mortgage. The cost of the CHF Consultant was paid by DCS.

The local CHF Program Manager provided advice to the NEU board on governance issues and assisted with the development of policies.

CHF Canada's role in funding misunderstanding

Expectation of total project funding

Both the local CHF Program Manager and the CHF Consultant understood that the only approved, committed DCS funding was for SHARP funds in the amount of \$3.114 million. They also clearly understood the DCS Coordinator's instructions that the \$3.114 million must be fully exhausted before any additional funding would be requested.

Although the CHF representatives were clear on the DCS position regarding the extent of authorized funds, they both have stated that prior to August 2010 they believed the renovation project would be completed in its entirety. CHF was involved in the early stages, when the idea of the amalgamated co-op was conceived as a solution to the four troubled cooperatives. The CHF Consultant and the CHF Program Manager believed that the DCS Coordinator and DCS would follow through on the plans to make the NEU a truly sustainable cooperative, which could only be possible when most of the required capital upgrades were complete. It is possible that this optimism and enthusiasm were conveyed to the

board by the CHF Consultant, and may have led to confusion by the NEU board between possibilities and actualities.

Budget misunderstanding

In the early phases of the project the CHF Consultant misunderstood or miscommunicated the details of the SHARP program. This miscommunication is reflected in email correspondence dated October 1, 2009 to the Project Manager, three NEU board members, the property manager, and the CHF Program Manager, where the CHF Consultant stated: "Phase 1 will be this fall and winter and will be funded through the first round of SHARP money (\$3.1million)." In another paragraph of the same email the CHF Consultant further stated "That work will be funded by a second allocation of SHARP money, the total still to be worked out." DCS staff has indicated that the DCS Coordinator's files demonstrate that there was discussion of phased funding. However, it appears that the CHF Consultant incorrectly interpreted 'Phase 2' as relating to additional SHARP monies. Funding for the planned 'Phase 2' was not finalized and there was no identification of which programs/budgets would be accessed to provide that funding.

In the same email the CHF Consultant further contributed to the confusion by advising the Project Manager "The total budget for the project is still not fully established. But I think we should work to your revised estimate of \$4,544,635 plus HST." The Project Manager followed those directions and subsequently increased the budget to more than \$5.5 million in 2009 and then increased the total budget again in 2010 to \$6.5 million. These budgets reflected the work that the NEU felt should be done, but should have reflected the funds available (\$3.114 million). The confusion surrounding the budget amount certainly contributed to the situation whereby actual spending exceeded the allotted funding, as demonstrated by one NEU board member's belief that the approved funding was \$5 million.

Timeline misunderstanding

In correspondence dated October 22, 2009 the DCS Coordinator summarized the results of a recent SHARP meeting "Agreed capital work for SHARP includes, doors, roofs, windows, and exterior repairs/paint. We will re-assess the remaining scope of work once this money is expended." On November 5, 2009 the CHF Consultant replied that:

"For the record, we discussed the whole scope of work and you agreed that the work described seems necessary. At the same time you said that all the rehab work can't be paid for at once and will need to be spread out over the next two years. I emphasized that there are critical advantages in carrying out the interior renovations in a concentrated way over as short a period as possible...At a previous meeting we discussed doing the bathroom rehab before March 31, 2010 out of the existing SHARP commitment, and then the kitchen renovations, flooring and landscaping in the next fiscal year. This still makes a lot of sense."

It appears that the CHF Consultant is advocating for faster action and a broader scope of work, even though it is clear that the DCS Coordinator has set out the specific uses for the SHARP funds. Also, the quote indicates that the CHF Consultant disagreed with the DCS Coordinator's summary of events. Regardless of this disagreement, the DCS Coordinator did communicate, in writing, that scope would be re-assessed once the initial funding of \$3.114M was exhausted. Given that the CHF Consultant and

the DCS Coordinator were unable to agree on the outcome of their own meeting, it is possible that the DCS Coordinator's intentions were miscommunicated to the NEU board by the CHF Consultant.

Miscommunication

An important example of the DCS Coordinator's instructions being miscommunicated to the board took place in November 2009. The CHF Consultant forwarded to the DCS Coordinator board minutes from November 3, 2009 in which the board approved a motion that 24 vacant units be given priority, and approved the following communiqué to members: "[...] new kitchens, doors, windows, roofs, are being ordered for all units." In reference to those minutes, the DCS Coordinator emailed the CHF Consultant and expressed his disappointment that the board was moving ahead prior to approved funding, and stated he planned to set the record straight at the next meeting. He also discussed the risk to DCS if NEU Co-op members were promised repairs for which the DCS Coordinator could not secure additional funding. Despite these cautions that had been expressed to the CHF Consultant, the DCS Coordinator attended the November 23, 2009 board meeting and approved the repairs to interiors of ten vacant units. This may have set a precedent for how the board and CHF could achieve desired outcomes.

In this case, the board made decisions and announcements that had not been approved by DCS, and it appears that these decisions and announcements were based on assurances from the CHF Consultant.

Over-reliance on CHF Consultant

Although the CHF Consultant's stated objective was to teach leadership and not to make decisions, it is possible that the board became too reliant on his services. He appears to have been a key member of the building project committee and at times appears to have provided approvals. He worked closely with the Project Manager and the DCS Coordinator. At least one board member asked the question whether the board served any purpose, as much of the important decision-making was being done by other parties. Similarly, correspondence dated October 22, 2009, indicates that the DCS Coordinator encouraged the CHF Consultant to transfer some responsibilities to the board. It is not clear that this transfer of responsibility was initiated by the CHF Consultant or that the NEU board took steps to ensure it was appropriately involved in decision making and was fulfilling its oversight responsibilities.

The local CHF Program Manager had completed her work with the board on governance policies and by the spring of 2010 was no longer meeting regularly with the board. Since the CHF Program Manager was unaware of the misunderstanding related to authorized funding, she did not have an opportunity to advise the board against incurring further liabilities.

Roles and responsibilities and rationale for exceeding allotted funding – NEU Board

Roles and responsibilities – NEU Board

The Cooperative Associations Act of Nova Scotia states that “The qualifications, powers, and duties of the directors shall be as set forth in the regulations and by-laws.” (S.33(4)). However, the NEU by-laws do not address the specific duties of directors with respect to financial affairs. It is our understanding that a director’s handbook is being compiled by the NEU, but is not yet finalized.

Typically a board of directors would be responsible for all activities of the organization, including but not limited to, approval of operating budgets and authorization of capital spending. Also, a board is responsible for ensuring that there are sources of funds secured to offset expenditures incurred or contemplated.

Funding promises and lack of written confirmation

We interviewed five NEU board members, who all maintain that the DCS Coordinator made numerous verbal promises which satisfied the board members that additional funds would be provided. These promises included:

- Assistance with remediation of mould and rot issues;
- Additional funding needed to complete the initial scope of work related to SHARP funding; and
- Additional funding for interior work such as kitchens and flooring.

The board did not obtain written approval from DCS relating to additional funding, although in discussion, some board members realized the importance of this confirmation. The board members maintain that they attempted to secure written agreements at various times. However, the board members whom we interviewed believed that the verbal assurances from the DCS Coordinator were sufficient to continue with the work. One of the unpaid suppliers has stated that he also received positive assurances from the DCS Coordinator regarding availability of funds.

Rationale for exceeding allotted funding

We assessed the underlying rationale that resulted in NEU board acceptance of verbal assurances, which ultimately resulted in cost overruns. We make the following comments:

Direction from DCS and CHF

The DCS Coordinator required that the board include community representatives because he believed that the amalgamated Co-op would require expertise not available within the existing membership. External board members are unusual in the housing cooperative governance model, where typically boards of directors are comprised exclusively of cooperative members, who are also residents. The amalgamated NEU was, in the opinion of the board members, created by DCS and CHF and external board members were recruited by CHF. DCS provided most of the Co-op's financing, including existing mortgages. DCS was also involved in decisions regarding quality of materials and what type of capital work could be undertaken in the amalgamated Co-op. Given this level of involvement, it is possible to see how board members might accept DCS' assertions, written or verbal. In the case of funding, the NEU board believed that the DCS Coordinator could do business with the Co-op based on verbal agreements.

Although the CHF Consultant's stated objective was to teach leadership and not to make decisions, the board appears to have become too reliant on his services. The CHF Consultant was a key member of the building project committee, and at times appears to have provided approvals. He worked closely with the Project Manager and the DCS Coordinator, and at least one board member asked the question whether the board served any purpose, as all decisions seemed to be made by other parties. It is our assessment that the CHF Consultant played a key role in the renovation project, and was involved with the Co-op longer than most of the board members. Therefore, it may be that the NEU board effectively and inappropriately delegated its oversight responsibilities to the CHF Consultant. With the CHF Consultant's departure, there was a gap in knowledge and communication. The NEU board should have stepped back into its appropriate oversight role, but did not.

Vacant units

The vacant unit funding created a precedent whereby significant amounts of money were provided to the NEU based on the verbal commitment of the DCS Coordinator. Similarly, \$100,000 of transition funding related to the amalgamation was provided without a written agreement. Based on these precedents, it is possible to see how the board may have become accustomed to the absence of written funding confirmation from the DCS Coordinator.

Communication

The DCS Coordinator did not have a close working relationship with the board or the board's Project Manager. Therefore, when the DCS Coordinator terminated the relationship with the CHF Consultant, the board also lost their direct link to DCS. The DCS Coordinator played a more active role from that time on, but the board's previous reliance on the CHF Consultant had already set a precedent for the level of oversight provided by the NEU board. With the CHF Consultant's departure, the NEU board should have stepped up its involvement and oversight activities.

On June 15, 2010 the DCS Coordinator became aware that a tender for flooring had just been issued by the Project Manager the day before. The DCS Coordinator states that he did not know the \$3.114 million funding had been committed by this date, and presumably he would not have permitted the tender to continue if he had realized this was the case. However, the board, without conducting the appropriate due diligence, assumed the continued progression as a sign that funding was assured.

In the early phases of the project the CHF Consultant misunderstood or miscommunicated the details of the SHARP program, as indicated in correspondence to the Project Manager, three board members, the property manager, and the CHF Program Manager, dated October 1 2009, where he stated “Phase 1 will be this fall and winter and will be funded through the first round of SHARP money (\$3.1 million)” and in another paragraph of the same email “That work will be funded by a second allocation of SHARP money, the total still to be worked out.” DCS staff indicated that the DCS Coordinator’s files reflect a discussion of phased funding. However, it appears that the CHF Consultant incorrectly interpreted ‘phase 2’ would also be funded by SHARP, whereas funding for the planned ‘phase 2’ was not finalized and there was no identification of which programs/budgets would be accessed to provide that funding.

In the same email (October 1, 2009) the CHF Consultant further contributed to the confusion by advising the Project Manager “The total budget for the project is still not fully established. But I think we should work to your revised estimate of \$4,544,635 plus HST.” The Project Manager followed those directions and worked with that budget and an even higher budget in 2010 that reflected the work that needed to be done. All budgets should have reflected the actual funds available (\$3.114 million). The confusion created by the CHF Consultant surrounding the budget amount contributed to the situation whereby actual spending exceeded the allotted funding.

Press release

Board members placed reliance upon a press release DCS issued on January 20, 2010 reiterating the commitment to the remediation of the Co-op. The press release clearly indicated that the government was making a \$3.1 million commitment. It is not clear why the board interpreted general statements in the press release so literally and failed to focus on the specific funding amount in the press release. Also of note, the CHF Consultant erroneously interpreted the press release and other releases that focused on the amalgamation as an indication that senior DCS staff was aware of and committed to a comprehensive NEU rejuvenation, failing to focus on the \$3.1 million limit commitment advised by the government.

Summary

The board was brought together by DCS and CHF, and in the case of external board members recruited by CHF. Board members understood from the DCS Coordinator and the CHF Consultant that the plan for the NEU was to renovate the units to ensure long term sustainability. DCS shared this vision and committed \$3.1 million to assist in achieving long term sustainability.

The CHF Consultant contributed to the funding confusion leading the NEU to believe that there would be more SHARP funds available, and by permitting the budget numbers to be based on a wish list rather than guaranteed funding. The DCS Coordinator expressed concerns and requested information, but he did not order the stoppage of work. Simultaneously, Co-op members were concerned that promised work was not being completed.

The NEU board received enthusiasm and encouragement from the CHF Consultant and pressure from NEU residents. There had been funding promised and successfully received in the past based only on verbal commitments. It was within this context that the board chose not to address the risk associated with informal commitments to funding.

Roles and responsibilities and rationale for exceeding allotted funding – Project Manager

The SHARP funding agreements between DCS and recipient housing cooperatives required the hiring of project managers to oversee the remediation work. Prior to the announcement of the SHARP program, the DCS Coordinator requested that CHF Canada pre-screen potential project managers and recommend three candidates. The purpose of the pre-screening was to provide cooperatives with the names of pre-approved project managers so that when the SHARP program was rolled out, cooperatives could move quickly to engage project managers and commence their projects.

NEU board members performed their own selection process, interviewing four candidates and checking references. The Project Manager engaged by the NEU board was one of the three CHF pre-approved candidates. The agreement with the selected Project Manager is not dated, but it indicates that the relationship will commence August 24, 2009 and expire on the earlier of project completion or December 31, 2011.

Roles and responsibilities – Project Manager

The roles and responsibilities of the Project Manager are set out in *Appendix A* of the Project Management Agreement. This agreement was drafted by CHF Canada and templates were provided to the various housing cooperatives. We have summarized the roles and responsibilities of the Project Manager as set out in the agreement.

Part A – Remedial action plan

Revise existing Remedial Action Plan, review with Cooperative, make recommendations to the Cooperative on the contracting and tendering strategy, prepare master schedule for implementation of the Remedial Action Plan, and prepare an overall budget for finalized Remedial Action Plan.

Part B – Preparation of specification and tender documents for remedial work

Develop specifications for components of Remedial Action Plan, discuss specifications with staff of Nova Scotia Housing Services in order to reach agreement on the appropriate specification for each component, prepare tender documents.

Part C – Tendering of remedial work

Administer tender process by public or invitational tender, if not public must obtain three tenders, submit completed tenders to Cooperative, analyze tenders received and make recommendations to

Cooperative, number successful bids on a batch basis with that number carrying on to invoices related to that bid, assist Cooperative in negotiation and signing of contracts with successful bidders.

Part D – Co-ordination, contract administration and inspection of remedial work
Coordination of work, administer terms of contracts, provide directions and instructions on behalf of the Cooperative to all contractors, coordinate inspections, conduct pre construction meetings, ensure all permits, insurance bonds, are in place, ensure overall site security, monitoring and site visits, submit contemplated changes for approval to Cooperative prior to authorizing the work, inform Cooperative of site instructions that will have cost implications prior to issuing to contractor. Also includes convening site meetings and preparing written minutes, reviewing shop drawings, assist in informing members of work plans, verify work completed for progress advance purposes, conduct testing and materials evaluation, recommending payment of invoices on a batch basis numbered sequentially (all extras and the price thereof must be approved in writing by the Cooperative), close out contracts, carry out necessary warranty reviews.

General services

More general services associated with the Project Manager and documented by CHF include:

- Establish a program to progressively review the scope, cost, and schedule of the project to ensure effective control;
- Establish a detailed master schedule;
- Provide preliminary cost estimates for all remedial work, assist in developing a definitive budget for planning and cost control purposes, prescribe a system for reporting and controlling expenditures, prepare cash flow projections as required; and
- Project Manager will regularly update the Cooperative on all aspects of work.

Evaluation of roles and responsibilities – Project Manager

General comments

The NEU board and CHF Consultant believe the Co-op received good value from the Project Manager. Their confidence and support of the Project Manager was reinforced in the fall of 2010 when the board awarded the Project Manager the contract for property management of the NEU.

The project management contract does not contain the term “SHARP” or otherwise refer to funding from the Province of Nova Scotia. However, it is clear that the Project Manager was aware that the purpose of the contract was to deal specifically with SHARP related remediation, as evidenced by the fact that the Project Manager planned to perform vacant unit repairs outside of the existing contract which he referred to as the “SHARP contract”.

We evaluated the Project Manager’s adherence to the contract. Our findings are as follows:

Part A - Remedial action plan

The Project Manager prepared a Remedial Action Plan (referred to by the Co-op and Project Manager as the 'Scope of Work'), which was based on earlier property inspection reports, replacement reserve studies, and physical inspections. The Project Manager assisted with the development of the tendering strategy and prepared an overall budget.

The overall budget prepared by the Project Manager was based on the total work that had been identified for remediation. The budget document should also have disclosed the SHARP funds available (\$3.114 million), so that users could monitor the unfunded portion of the budget.

Part B - Preparation of specification and tender documents for remedial work

As per the contract, the Project Manager developed specifications and prepared tender documents.

The Project Manager did not always discuss specifications with staff at DCS Housing Services in order to reach agreement on the appropriate specification for each component. For example, although the Project Manager prepared a document detailing vacant unit specifications and sent it to the CHF Consultant, there is no evidence that it was provided to DCS. As a result, the DCS Coordinator was surprised to see the level of actual costs related to vacant unit renovations. The DCS Coordinator deemed the excessive costs to be related to the use of unnecessarily high end products.

Part C - Tendering of remedial work

The Project Manager and the building project committee decided to make tenders invitational rather than public. Using his industry knowledge and experience, as well as the advice of local manufacturers, the Project Manager identified suppliers capable of undertaking large contracts. The Project Management contract specifies that if the tender process is not public, three tenders should be received. This policy is reinforced by the NEU's Spending Policy which was approved by the board on November 3, 2009. This policy contains the following section on competitive bids:

- Before approving an expense of more than \$500.00, the Co-op will normally get three bids or quotes. This does not apply to emergency expenses;
- The Co-op's management company does not need to get three bids where it has established a standing offer for goods or services with a supplier through a competitive process or has otherwise already determined that a supplier or contractor offers competitive prices; and
- The Co-op's management company will review the prices of regular suppliers or contractors from time to time to make sure they are still competitive.

(Note: the management company referred to in the Spending Policy should not be confused with the Project Manager. While the Project Manager was hired for a finite period of time to oversee major renovations funded by SHARP, the management company manages the day to day affairs of the Cooperative including collection of rents, maintenance of books and records, performance of routine maintenance, etc.)

The Project Manager obtained three quotes for some of the major work, and there is evidence that he reviewed those quotes and provided advice to the building project committee. The requirement to obtain three quotes was not adhered to in the following circumstances:

- The Project Manager was unable to obtain three quotes for the bathroom renovations. The successful bid was \$864,000, approximately 28% of the available SHARP funds;
- There is no evidence that three quotes were provided for unexpected work that arose during the renovation project. We have only seen two quotes for deck replacement, and two quotes for mould removal from attics (the cost of these projects totalled approximately \$400,000 and \$115,000 respectively or 17% of the available SHARP funds); and
- For vacant units, three quotes were not obtained. The DCS Coordinator specified that at least two quotes must be obtained, but it is not clear that two quotes were obtained in all cases (please refer to the earlier Repairs to Vacant Unit section).

Also, during the renovation project certain unexpected additional repairs were required. The DCS SHARP File Audit Report stated that the additional repairs were added to existing contracts, and we agree that this does appear to have been the case. However, the NEU spending policies listed earlier in this section make exceptions to the requirement for three quotes when standing offers are in place. Although the Project Manager did not have formal standing offers, the suppliers on site had been initially selected via a tendering process and had been identified as the suppliers who would provide the best value. When faced with situations where work was required in a timely fashion to make units secure from the elements and safe for the residents, it may have been appropriate to utilize those suppliers that were already on site.

The Project Management contract specified that successful bids should be numbered on a batch basis with that number carrying on to invoices related to that bid. This was not done. As such, it is difficult to determine whether supplier invoices relate to original contracts or extra work.

Part D – Co-ordination, contract administration and inspection of remedial work
The Project Manager appears to have fulfilled his duties with respect to co-ordination of work and inspections.

The CHF Consultant prepared funding requests until his departure in the spring of 2010, after which time the Project Manager performed this task. There were issues with submissions to the Province, including invoices being submitted twice and applying for payments without providing the supporting invoices.

General services

The Project Manager established a detailed master schedule; tracked costs including estimates for work not tendered, and regularly updated the Cooperative on the status of the work being completed.

The Project Manager tracked costs, but he did not prepare cash flow projections tracking the sources of funding. Also, he did not prescribe a system for controlling expenditures. For example, the budgets

(which were revised throughout the project) did not distinguish between work completed and invoiced but not paid, work in progress, and work required but not yet started. This detail would have helped to define committed costs. From an oversight viewpoint, the NEU board should have insisted upon such documentation so that it could ensure that funds were being disbursed as intended and within the parameters of the approved funding.

The CHF Consultant contributed to the situation whereby the Project Manager monitored costs rather than funding sources, as was demonstrated by the CHF Consultant's instructions on October 1, 2009: "I think we should work to your revised estimate of \$4,544,635". The Project Manager was aware or should have been aware that his contract with the Co-operative for project management services related to SHARP as he was involved with a SHARP project at another housing cooperative. Therefore, regardless of the CHF Consultant's instructions regarding budget amounts, the Project Manager should have monitored spending and ensured that incurred costs did not exceed the approved SHARP funding. For the foregoing reasons, the Project Manager was not compliant with the contract with respect to cash flow monitoring and controlling expenditures. Exacerbating the situation, the NEU board did not provide the appropriate oversight to the Project Manager to ensure he adhered to the terms of the contract.

SHARP File Audit Report

DCS conducted a review of spending associated with the NEU SHARP program, indicating that due to missing documentation related to a number of key services outlined in the Project Management Agreement, a full audit was not feasible. Missing documentation included original quotes, change orders, master schedule including key dates and progress reports, detailed budgeting and cost controls. Following is a list of specific findings detailed in the DCS report:

- There are very few original quotes in the files. Rather, quotes are summarized on a separate document;
- The lowest bidder for a roofing contract was not selected;
- An amended invitation to quote was sent to the successful roofing contractor regarding a roof that had been replaced in the previous year and was still under warranty;
- Cost increases were not formally documented for approval by the NEU board; and
- Draw requests were submitted without supporting invoices or on occasion with duplicate invoices. Invoices that were submitted did not consistently identify individual units or provide specific repair details.

Rationale for exceeding allotted funding

Evaluation of compliance with contract

In evaluating the extent to which the Project Manager adhered to the terms of his contract with the NEU board, we make the following observations:

- The contract does not specifically refer to SHARP funding. Where the source of funding was not specifically referred to in the contract, this absence may have contributed to confusion over the actual budget with which the Project Manager was dealing;
- The required three quotes were not obtained in all cases. In some cases two quotes were obtained and in the case of vacant units it is not clear that even two quotes were obtained;
- Correspondence appears to indicate that the Project Manager was proceeding with “extra” repairs with approval from the building project committee, but was not obtaining the normally required quotes for this “extra” work;
- The Project Manager does not appear to provide an accounting of expenses that have been incurred/committed and those that have not yet been tendered (e.g., kitchens, floors);
- The Project Manager had been involved in other SHARP programs. Therefore, he knew or should have known that available funds were restricted to the approved amount of \$3.114 million; and
- The Project Manager appears to have attempted to work within the confines of a budget but he did not prepare cash flow projections tracking the sources of funding. The various budgets that the Project Manager followed far exceeded the approved funding of \$3.114 million, and the result was overspending.

Recommendation

- 5 The Project Manager contract should be adjusted to specifically detail the requirement for all budgets to adhere to approved funding. Reporting requirements of the Project Manager to the board of directors and the board’s financial oversight responsibility, which cannot be delegated, should be clarified and specifically agreed to at the outset of each project.

Governance

During our review of documents and interviews with board members, we noted several issues related to governance, some of which may have had an impact on the overspending.

Communication

It is our understanding that for a period of time there was confusion surrounding the amount of approved funding. This misunderstanding began in 2009, demonstrated by the disparity between the written agreement of \$3.114 million and the NEU's working budgets which exceeded \$5 million. As an example of the extent of the misunderstanding, one board member stated that for many months she erroneously believed the approved funding to be \$5 million.

Stronger communication and clearly defined roles and responsibilities may have helped to ensure that all board members were provided with important documents and that members understood the contents of those documents.

Authority of building project committee

Committees are designed to assist the board and their duties and responsibilities are limited to those assigned to them by the board. Financial decisions should be made by the board as a whole and should not be delegated to individuals. The duties and responsibilities of the building project committee should have been documented and formally approved by the board. The board's 'Spending Policy' which was approved November 2, 2009, states that "Individual member or committees of the Co-op may not approve expenses or make financial commitments on the part of the Co-op unless the board has given them this authority". Our review of board minutes does not indicate that such authority exists. Board members explained to us that committees were formed prior to the official amalgamation but committee mandates were not developed and documented since record keeping and governance best practices were developed subsequent to official amalgamation in the fall of 2009. Membership on the various committees was based on the various skill-sets of individual directors.

The Project Manager's contract (with the Co-op regarding SHARP) indicates that "The Cooperative may elect to designate a committee or individual to act in its stead and provide a written report to the board of directors. The Cooperative must provide that delegation authority in writing." (Contract section *Appendix A, Part C7*). This section of the Project Manager's contract is the only documentation we have found that contemplates the delegation of the board's authority to an individual or a committee. However, there is no evidence that any such authority was delegated in writing by the board.

If the powers and duties of the building project committee had been documented, it is expected that at a minimum delegated responsibility would include:

- Detailed review of budgets compiled by the Project Manager and submission of those budgets to the board for approval;
- Review of quotes, tenders and change orders for recommendation to the board for approval; and
- Regular written progress updates to the board.

Specific powers and duties should be retained by the board and should not be delegated to any committee or individual, including:

- Approval of all planned expenditures other than those deemed to be of an immaterial dollar amount;
- Approval of the scope of work prior to the issuance of calls for tenders; and
- Approval of budgets.

Building project committee membership

There is no written documentation of the approved membership of the building project committee. In practice it was comprised of two board members and the CHF Consultant. Subsequent to the departure of the CHF Consultant, the board president appears to have joined the building project committee. The Project Manager, as an agent of the board, would have reported to the building project committee.

The CHF Consultant should have participated solely in an advisory role. His role was to advise and teach the board members. However, the CHF Consultant appears to have made decisions. The Project Manager's requests for approval relating to change orders and other additional work were routinely sent to the CHF Consultant, and there were times when he provided his approval.

Most decisions appear to have been approved by a certain board member and the CHF Consultant. The other board member on the building project committee played only a minor role for much of the duration of the project, until the departure of the CHF Consultant around March 2010, when that board member began to play a larger role.

Approval of tenders and other expenditures

Our review of board minutes has shown that tenders and other approvals of planned expenditures were approved in the amount of \$1.215 million during the period October 2009 through to October 2010. Amounts advanced by DCS totalled \$3.464 million. Therefore there are \$2.249 million of expenditures that were apparently not authorized by the board, plus the additional unpaid invoices of approximately \$1.2 million. It is possible that these approvals were made and the board minutes do not reflect the approvals. It is also possible that the CHF Consultant approved the invoices.

Board members indicated to us that the building project committee provided the board with the relevant information and the board believed it was approving all expenditures. The NEU board did not ensure that there was a process or mechanism in place to ensure that all expenditures were appropriately approved.

We reviewed all available correspondence between the Project Manager and building project committee members. The correspondence indicates that the Project Manager requested permission prior to engaging contractors for new work or change orders. In some cases the building project committee approved requests in principal based on the agreement of the board. In other cases the building project committee appeared to approve additional work without the requirement that the board must also agree. Some, but not all, of these approvals relate to emergency work comprising low dollar values.

Summary

The board has not clarified in writing the powers and duties of the building project committee, or the membership of that committee.

The CHF Consultant's role on the building project committee encompassed more than that of advisor. The board appears to have relied on the CHF Consultant for decision-making including authorization of expenditures.

The board relied excessively on the building project committee. The SHARP approved renovations, vacant unit renovations, and the extra work required for mould and rot remediation represented a significant amount of work to oversee, even with the services of the Project Manager. Minutes indicate that the board only approved 25% of the expenditures prior to incurring the costs. There is no evidence that the board challenged the "building" project committee regarding reasonableness of costs, particularly with regard to vacant units.

Recommendations

- 6 The NEU board must ensure that governance documentation is completed that clearly outlines the roles and responsibilities of the board, board members, board positions (e.g., president, treasurer), and board committee mandates. There is a significant body of governance literature to serve as a "best practices" guideline.
- 7 The NEU board is responsible for the governance of NEU and cannot delegate its responsibilities or allow its responsibilities to be usurped by others. The NEU board should ensure that board members receive appropriate training relative to their fiduciary responsibilities, including their joint and several liabilities for outstanding liabilities.
- 8 Board minutes must reflect all significant activities undertaken by the board, including the approval of expenditures and appointments to board committees.

Financial Sustainability

Overview

Debt – Arrears and Default

The NEU is effectively insolvent. Given this, the Province may want to consider its options under existing legal documents which provide certain rights and abilities to enforce its security. One of the primary objectives of amalgamation of the four individual co-operatives, to be achieved over time, was to improve the amalgamated Co-op’s cash position by refinancing the four individual mortgages into one new mortgage at more favourable terms and conditions. This objective has not yet been achieved and as such there has been no improvement in the financial situation of the co-operatives post-amalgamation. Currently the NEU does not generate sufficient revenue to pay its operating expenses and is in no financial position to repay the debts owed to the Province. Specifically, the Province has supported the financial viability of NEU by:

- Not enforcing payment of mortgage arrears;
- Not demanding payment of the subsidy surplus;
- Providing a loan of \$74,632 for which payments (since September 2001) have not been made; and

Therefore, in addition to operating expenses and unpaid invoices (approximately \$1,200,000) related to the capital renovations, the Co-op has debt obligations in arrears that if demanded by the Province would immediately end any semblance of financial sustainability. Table 1 is a summary of the debt payable to the Province that is in arrears.

Table 1 – Summary of debt as at July 31, 2010 owed to the Province of Nova Scotia that is in arrears

Description	Amount
Mortgage arrears	\$1,338,425
Miscellaneous loan, no payments to date	78,698
Subsidy Surplus payable	284,963
Miscellaneous loan, no payments to date	<u>74,632</u>
Total	<u>\$1,776,718</u>

Our cash flow projections, attached as *Appendix A*, reflect the situation where the Province continues to support the NEU and does not demand payment of the debts summarized in Table 1.

Outstanding mortgages

The plan to amalgamate the existing mortgages has not yet been executed due to legal issues relating to the validity of mortgage security. Table 2 depicts the NEU's outstanding mortgages, including arrears, as at July 1, 2011. Current monthly payments relating to these four mortgages total \$46,942, or on an annual basis \$563,304 (12 x \$46,942), including principal and interest.

Table 2 – Outstanding mortgage loans (including arrears) as at July 31, 2011

No.	Name	Balance (including Arrears)	Interest Rate	Interest Renewal Date	Monthly Principal & Interest Payments
1	Charles Court	\$1,843,682	3.90%	2013	\$18,756
2	Anatoth	1,436,465	5.77%	2000	7,947
3	Seaview	1,291,934	4.97%	2006	9,954
4	Jim MacDonald	<u>29,421</u>	4.73%	2007	<u>10,285</u>
	Total	<u>\$5,301,502</u>			<u>\$46,942</u>

Cash flow projections

To determine if NEU could become financially sustainable in the long term, if certain measures were put in place, we prepared cash flow projections for the fiscal years ending July 31, 2011 to July 31, 2014.

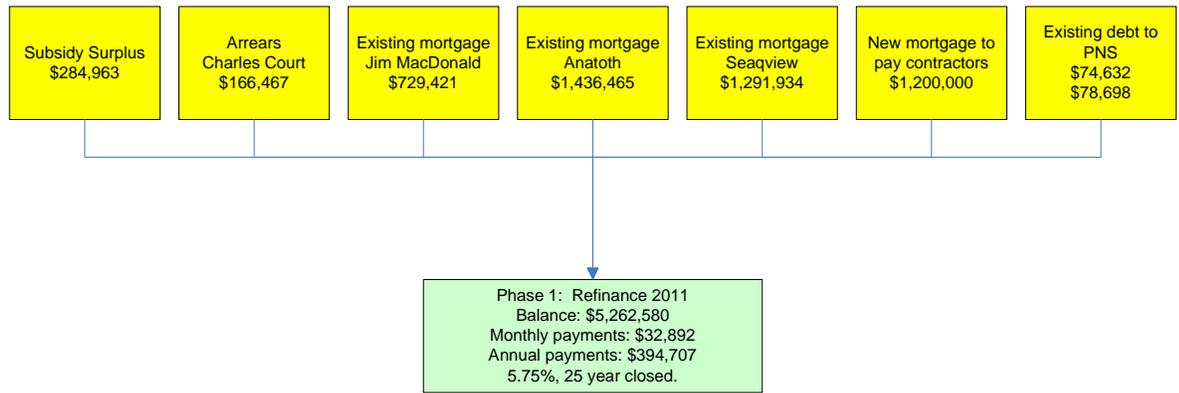
Refinance existing mortgages

We have been advised by the Province that mortgage terms exceeding ten years may be financed at 5.50% to 5.75%. Rates vary depending on the Province's cost of borrowing and the risk associated with the loan. We are recommending a longer fixed term to support financial stability. Therefore, we used an interest rate of 5.75% in our projections.

It is our understanding that the Charles Court mortgage does not renew until 2013. Therefore, due to high payout penalties, the mortgage will not be refinanced until 2013. As a result, the current debt could be restructured in two phases.

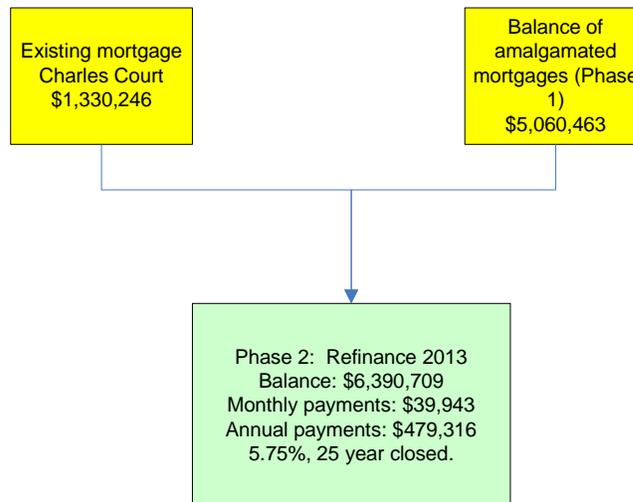
Phase 1: Mortgages on the Anatoth, Seaview and Jim MacDonald properties that are currently on month-to-month interest renewals will be combined with other outstanding debt and amortized over a 25 year period at a rate of 5.75%. For illustration purposes, we have used a refinance date of July 1, 2011, with the understanding that legal issues have not yet been resolved in relation to mortgage security.

Phase 1 – 2011 Refinancing



Phase 2: The Charles Court mortgage, which comes up for renewal in 2013 will be refinanced and the outstanding principal balance will be added to the amalgamated loan in Phase 1 (illustrated above). If NEU makes all required payments on this loan, it is expected the principal balance will be \$1,330,246 at the time of renewal.

Phase 2 – 2013 Refinancing



Existing budgets 2011 and 2012

The NEU prepares annual budgets. For the fiscal years ending July 2011 and July 2012, operating surpluses of \$9,614 and \$7,307 have been projected. We have adjusted only those line items that we determined were likely to have large budget to actual variances. Our adjustments included:

- Loan payments for the years ending July 2011 and July 2012 replaced with the loan schedule described above;
- We included a bad debt expense in the amount of \$34,160 in 2011; and
- The RRAP forgiveness revenue budgeted for 2012 was removed because this is not an actual cash receipt.

Cash projections 2013 and 2014

In projecting cash flow for the fiscal years ending 2013 and 2014, we made the following primary assumptions:

- The financial focus of the NEU is to improve and manage its cash flow as opposed to focusing on an aggressive repayment of debt. Therefore, an amortization period of 25 years has been used;
- Mortgages have been refinanced as described above, including new debt of \$1.2M
- The vacancy rate will be maintained at 4% of revenue;
- Bad debts will be maintained at 3% of revenue;
- Expenses will increase by 2% per year, unless otherwise stated; and
- Utilities will increase by 7% in the year ending July 2012 and 12% in the year ending July 2013.

Summary

By eliminating, in whole or in part, the annual transfers to the Replacement Reserve Fund, the Co-operative will be able to achieve break-even results for fiscal years ending July 31, 2011, 2012, and 2013.

The cash projections depend upon the willingness of the Province to maintain the status quo relative to the debt that is in arrears. The cash projections also depend upon the Province's assistance in amalgamating the existing mortgages and financing one additional loan to pay the contractors and subcontractors.

The revenue projections are dependent upon the ability to increase rent for three consecutive years (e.g., 2012, 2013 and 2014). Currently, average rent is \$724 per month (\$1,138,653/131 units) and by 2014 is \$807 per month (\$1,268,090/131 units).

Additionally, the projections do not include funding for future capital projects beyond the existing Replacement Reserve Fund. Other than incurring additional debt, which the NEU cannot service, the NEU does not currently, or into the foreseeable future, have sufficient operating revenue to fund capital projects.

Refer to *Appendix A* for cash projections for the four fiscal years ending July 31, 2011 to July 31, 2014.

Recommendations

- 9 The Province should consider its options under existing legal documents which provide rights and abilities to enforce its security.
- 10 The Province and the NEU should refinance the existing CMHC mortgages, if possible, including an additional amount (\$1,200,000) to pay the outstanding debts to the contractors and subcontractors.
- 11 The remaining CMHC mortgage (Charles Court) should be amalgamated at the time of renewal in 2013.
- 12 The monthly payments on the consolidated loan should be minimized to improve cash flow.
- 13 The NEU should enter into immediate discussions with the Province relative to the possible deferral of the transfer of operating funds to the Replacement Reserve Fund during the fiscal years ending July 2011, 2012, and 2013.
- 14 All board members must be fully aware of all debt (e.g., type, terms, arrears, default) and ensure that arrangements/understandings are in place with the Province. The status of all debt should be a standing agenda item at board meetings.
- 15 The NEU board must oversee vacancy and bad debt ratios against revenue to ensure that operating revenue is not eroded. These ratios should be a standing agenda item at board meetings, forming the basis for corrective action, if necessary.
- 16 The NEU must develop a plan to fund future capital projects.

Unpaid Invoices

Determination of amount of unpaid invoices

The amount of unpaid invoices as at May 27, 2011 has been determined to be \$1,039,777 plus interest of \$156,018 for a total liability of \$1,195,795. Table 3 sets out the amounts owing to individual suppliers.

Table 3 – North End United unpaid invoices as of May 27, 2011

Supplier	Unpaid invoices for work on or before August 31 2010	Unpaid invoices for work on or after Sept 1 2010	Interest Charges	Total Outstanding
Aqua Air Ventilation Systems	\$ 6,328.00	\$ -	\$ 1,518.72	\$ 7,846.72
B&B Security Locksmithing	2,655.35	165.60		2,820.95
Bobby Gionet Painting and Decorating	109,188.64	80,563.36		189,752.00
Eagle Project Management Inc	41,705.08	28,390.91	18,481.88	88,577.87
Enviro Bate	90,722.99	21,461.30	1,549.17	113,733.46
Five Star - Roofing and Masonry	151,380.25	0	29,222.35	180,602.60
Floors Plus	15,876.26	23,555.57		39,431.83
Nova Doors and Windows	85,914.25	0	5,062.09	90,976.34
Reliable Rooter Limited	116,630.09	151,488.07	73,456.45	341,574.61
Sanmac Construction	85,175.25	0	23,824.36	108,999.61
Teak Tree	18,559.50	10,016.50	2,902.98	31,478.98
Total	\$ 724,135.66	\$ 315,641.31	\$ 156,018.00	\$ 1,195,794.97

Determination of amount of unpaid invoices

Completeness

We have determined that the amount owing to suppliers is complete by ensuring that all unpaid suppliers have been identified, and that the amounts owing to unpaid suppliers are correct. Unpaid suppliers were identified by reviewing outstanding invoices submitted to DCS and to the NEU, and then reviewing the final list of supplier names with the Project Manager to ensure it appeared complete. We have ensured that the amounts of unpaid invoices owing to each supplier are accurate by contacting suppliers and requesting copies of outstanding invoices. We then cross checked these with the list of paid invoices.

Timing of work

We understand that on August 3, 2010 the Co-op was instructed by DCS to immediately cease work on the projects, and that the only additional work to be completed should have been to secure the building from the elements and to ensure it was safe. There have been allegations that the Project Manager and

the Co-op did not stop the work fast enough, and that certain repairs continued beyond a reasonable time frame. Based on our review of invoice dates and discussions with suppliers, we have determined that there were invoices in the amount of \$151,488 submitted by Reliable Rooter that were dated October 2010, two months subsequent to the stop work order. Reliable Rooter was unsure as to the exact timing of the work. However, invoices submitted to Reliable by their subcontractor Monk Construction were last dated September 25, 2010 and therefore it is plausible that the Reliable Rooter work billed in October was for work that had been substantially complete in early August 2010. We have not found any evidence to suggest that work in progress was continued for an unreasonable amount of time (e.g. the door supplier picked up un-installed doors from the project site and issued a credit note).

However, aside from the cleaning up of work in progress, it appears that subsequent to the August 3, 2010 stop work order there were new projects undertaken. While some of this work was minor, and clearly of a maintenance type nature, other invoices relate to the renovations of vacant units. That work appears to have been substantially completed in mid to late August and September, which was subsequent to the date of the stop work order. Based on our review of invoices and discussions with suppliers, we determined that invoices totalling \$135,762 relate to work that should have been cancelled by the Project Manager and the NEU board.

Subcontractors

Some of the work was completed by subcontractors. It is our understanding that any amounts owed to subcontractors are included in the amounts listed to the general contractors in Table 3. For example, Sanmac Construction (Sanmac) is owed \$85,175 for work completed directly for the Co-op, and Sanmac is also owed additional funds by Bobby Gionet Painting and Decoration (Bobby Gionet) for subcontract work. The amounts owed by Bobby Gionet to Sanmac are reflected in Table 3 in the total amount due to Bobby Gionet.

Liens

Three suppliers have filed builder liens against the Co-op. We attempted to verify the appropriateness of the amounts listed in the liens with the following results:

- **EnviroBate** filed a lien in the amount of \$18,662 and a statement of claim for additional unpaid invoices in the amount of \$90,722.99 for a total claim of \$109,384.99. Invoices supporting their claim total \$112,184. The difference of \$2,799.30 is the amount of HST on those invoices that comprise the lien of \$18,622. These claims are supported;
- **Reliable Rooter** filed liens totalling \$278,084.62. Total outstanding invoices amount to \$268,118.16, a difference of \$9,966.46. Reliable has confirmed that the amount of the lien was overstated by an amount reflecting interest, and the appropriate amount should be \$268,118.16. These claims are supported; and

- **Monk Construction** – was subcontracted by Reliable Rooter, and has filed a lien in the amount of \$176,464.56. Reliable Rooter provided us with a statement that was generated by Monk showing the amount owed by Reliable to Monk. Our review of this statement indicates that the amount owing to Monk is \$274,995 (before interest and legal charges). The total amount owed to Reliable is \$268,118 (before interest charges). However, total liens from Reliable and Monk total \$454,549 (\$278,085 + \$176,464). Therefore, builders' liens exceed outstanding invoices by \$186,431 (\$454,549 - \$268,118).

Summary

Total unpaid invoices total approximately \$ 1,200,000 including interest as at May 27, 2011.

The amount of outstanding unpaid invoices could have been decreased if the stop work order had been adhered to, and the vacant unit work undertaken in mid to late August and September, 2010 had been cancelled. The Project Manager and the NEU board should have ensured that all inappropriate work was stopped in accordance with the instructions of the DCS Acting Director of Housing and the Executive Director, Employment Support, Income Assistance and Housing.

Restrictions and qualifications

This report was prepared for the Province of Nova Scotia, Department of Community Services, in relation to a review of the North End United Housing Cooperative regarding oversight of funds received through the Social Housing Assistance Repair Program (SHARP). This report is not intended for general circulation or publication, nor is it to be reproduced for any other purpose than that stated herein, without the prior written permission in each specific instance.

We acknowledge that the Province of Nova Scotia, Department of Community Services, is bound by the Freedom of Information and Protection of Privacy Act and agree that the Province of Nova Scotia, Department of Community Services, may use its sole discretion in any determination of whether, and if so in what form, this report may be required to be released under this Act. Grant Thornton LLP does not assume any responsibility for losses occasioned by the Province or any other parties as a result of the circulation, publication, reproduction, or use of this report contrary to the provisions in this report.

In preparing this report, we relied upon the documentation and information listed herein.

We are not guarantors of the information upon which we have relied in preparing our report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report.

Yours very truly,

The signature is written in a cursive, black ink style. It reads "Grant Thornton LLP".

Susan D. MacMillan, FCA, CFE, CFI
Partner, Advisory Services

Appendix A – Cash Projections

North End United Housing Co-operative Limited Cash Projections

	Actual	NEU Budget	NEU Budget	Projected	Projected
	July 31, 2010	July 31, 2011	July 31, 2012	July 31, 2013	July 31, 2014
Revenue					
Housing charges	\$972,903	\$1,138,653	\$1,195,296	\$1,231,155	\$1,268,090
Less:					
Vacancy		(38,125)	(48,000)	(49,246)	(50,724)
Bad debts	(70,637)	(34,160)	(10,000)	(36,935)	(38,043)
Other revenue	171,110	5,000	5,500	5,000	5,000
PNS subsidies (housing)					
Total Revenue	1,073,376	1,071,368	1,142,796	1,149,974	1,184,323
Expenses					
Administration & management	90,857	76,500	95,400	97,308	99,254
Insurance	24,108	24,990	25,000	25,500	26,010
Landscaping and snow removal	39,510	30,600	41,486	42,316	43,162
Garbage removal	29,453	21,420	30,925	31,544	32,174
Utilities	143,580	80,000	72,708	81,433	91,205
Maintenance & operating	164,480	117,198	117,704	120,058	122,459
Property taxes	60,197	88,046	72,428	73,877	75,354
Professional fees	62,443	28,560	30,000	30,600	31,212
Replacement reserve	56,597	131,000	131,000	131,000	131,000
Renewed mortgage		0	394,707	394,707	479,316
Existing mortgages	473,259	563,304	225,072	225,072	0
Total Expenses	1,144,484	1,161,618	1,236,430	1,253,414	1,131,147
Cash Surplus/(Deficit)	(\$71,108)	(\$90,250)	(\$93,634)	(\$103,440)	\$53,176

