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Memo

To Atira Womens Resources Society

Cc

From BDO Canada LLP

Date November 7, 2018

Subject Financial Review

1. Summary of Recommendations

THEME / ANALYSIS	Timeliness of Financial Decision-Making	Comprehensive Budget Review and Budgeting Process	Financial Controls
Symptoms	<ul style="list-style-type: none"> ▪ Delay in budgets getting approved results in draft budgets used as guides not effective management tools for operations ▪ Board members are unable to promote effective oversight with draft budgets ▪ Board members are unable to support decision-making with incorrect, incomplete or misleading information 	<ul style="list-style-type: none"> ▪ Approved budgets are carry-forward budgets, therefore lacking critical thought to deep analysis of cost of operations, and upcoming purchases ▪ History of limited resources to allocate appropriate time to budgeting process ▪ Staff may not have had the experience or training to be able to uncover variances ▪ Some maintenance repairs on facilities is reactionary to keep vacancy rates down ▪ Discussions with BC Housing focus on 	<ul style="list-style-type: none"> ▪ Inconsistent accounting practices applied across the portfolio ▪ Financial processes have historically not been consistent or in alignment with best practices across all facilities ▪ Lack of understanding/clarity of the root cause for all variances and/or planned solution ▪ Unable to manage overages ▪ Management have limited time to provide oversight due to requirement to be active in operations

		financial variances and not outcomes	
Consequences	<ul style="list-style-type: none"> ▪ Ineffective Board oversight ▪ Lack of commitment to budget as a primary financial control ▪ Assumption that variances should be expected, common trend ▪ Assumptions that overages will be covered by BC Housing 	<ul style="list-style-type: none"> ▪ Budgets are presented based on the poor legacy assumptions and mathematical aggregate errors (e.g. 52 weeks vs 365 days) ▪ Limited succession planning in financial department causing loss of knowledge and timely reporting 	<ul style="list-style-type: none"> ▪ Cash Flow is pressured ▪ Purchasing and variable contract commitments may have material unpredictable impact to cash flow ▪ Budget is managed by the line item, not on service outcomes
Externalities	<ul style="list-style-type: none"> ▪ Management practices shift towards operational from strategic, and away from best practice controls ▪ Board members do not ask strategic questions due to historical lack of accuracy with base business model 	<ul style="list-style-type: none"> ▪ Staff turnover creates pressure to hire and train, with less attention to due diligence ▪ Staffing is not optimized across organization ▪ Low wages stimulate poor use of benefits, e.g. using sick time to work a second job ▪ More overtime paid out, increased short-term and long-term leave from stress 	<ul style="list-style-type: none"> ▪ Staff look for ways to reduce the pressure on Cash Flow with other downstream consequences ▪ Staff cannot be moved to different facilities easily to relieve operational pressures
Considerations for Improvement	<ul style="list-style-type: none"> ▪ BC Housing and Atira should work to an agreed schedule with clear terms of reference, process milestones, and definitions for all budget process commitments. (not 	<ul style="list-style-type: none"> ▪ Improve capacity and competencies of staff assigned to financial controls and budgeting ▪ Allocate dedicated resources to fix historical budgeting and accounting problems 	<ul style="list-style-type: none"> ▪ Documented procedures followed, such as a check list ▪ Segregation of duties to assist in controls and succession planning ▪ Improve overall capacity and understanding of the

	<p>purely deadlines but all discussion meetings required prior to deadlines)</p> <ul style="list-style-type: none"> ▫ Improve financial reporting to the Board to enable effective oversight and decision-support. 	<ul style="list-style-type: none"> ▫ Assign more senior BC Housing staff to provide oversight and support. 	<p>financial process within Atira</p>
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2. Background and Purpose

BDO commenced an initial review of finances as outlined in our scope of work documented in our letter dated September 26, 2017.

The original intent of the review was to isolate the root causes of recurring deficits and operating cash flow issues for Atira Women’s Resources Society (“Atira”). Once the causes were identified, focus would be aligned to outline solutions and remediation requirements to avoid a relapse.

BDO was approached by BC Housing to assist their staff in assessing the situation. BC Housing indicated that Atira was suffering from a series of annual deficits, a pattern of late financial reporting, and repeated correspondence and meetings regarding cash flow deficiencies.

In reviewing the correspondence from the external financial statement auditors, BC Housing noted that several management letters had been received by Atira highlighting some key matters that needed to be addressed. BC Housing received copies of such letter for several periods, whereby there was no indication that the issues were being adequately addressed.

The cash position for Atira was discussed with BC Housing many times, over the last five year. During this period, and through the discussions, BC Housing received several requests from Atira for additional cash injections to meet payroll and supplier obligations. A specific example of a funding request was to cover a 27th pay period, totaling \$300K, from fiscal 2015. BC Housing felt that this item was unsubstantiated.

BC Housing provides funding and enabling frameworks to preserve affordable rental and supportive housing. BC Housing indicated its intentions to work in partnership with Atira, to provide adequate funding to allow Atira to effectively operate the large portfolio of facilities. Atira has 22 buildings supporting different levels of accommodation within the housing continuum.

BC Housing also acknowledged its intentions to provide appropriate resources to execute improvement projects recommended by the external auditors. These administrative and operational changes typically require

temporary resources to assist in implementing new processes and procedures, but may also require additional resources to maintain the new systems.

BDO was approached to explore the current level of finance resources and the ability to manage the volume and complexity of Atira once all record keeping is brought up to date, the capacity to investigate and resolve past errors/issues, and ensure additional processes are implemented to improve monthly/quarterly close processes and develop appropriate and timely financial reporting for the Board and funders. In the interim, until this was achieved, BC Housing expected that additional temporary resources may be necessary to help implement the changes that result from the review procedures above.

BC Housing, as the primary funder, needs to gain comfort that the necessary changes are in progress and that management is able to provide accurate and timely information on the current and future operations.

Initially, in March 2017 BDO met with BC Housing and Atira management to determine the scope of the review to meet the needs of both users. The first scoping proposal was focused on:

- Reviewing the auditor recommendations
- Perform assessment of any outstanding auditor recommendations
- Perform a benchmarking assessment of staff resources
- Review internal staffing with respect to related entities
- Draft a project plan to address remaining recommendations

The initial scoping proposal was discussed over several months. There were further meetings where BDO met with BC Housing and Atira management to review the scope of the project to ensure it met the needs of both organizations. Throughout these meetings, there were many speculations from all parties as to the root causes of the deficits. However, neither party could clearly articulate the specific cause of the deficits. Areas explored included, specific expense types (repairs and maintenance, payroll, bad debts), specific buildings, related party transactions (property management and development costs), room vacancies not filled by BC Housing, and the timing of BC Housing supplement payments. These meetings and the commencement of the project were delayed due to discussions about scope and awaiting Atira's team to complete the 2017 financial statement audit, so they would have capacity to assist the BDO team.

As a result of these discussions, a project scope was created, jointly agreed to by BC Housing and Atira. The focus at that time was to include:

- A. Review the status of Atira's 2015 and 2016 Management letter recommendations from the auditors
- B. A review of Atira's ongoing cash flow challenges, to the extent required by BC Housing, as noted over the fiscal years ended March 31, 2009 to March 31, 2017. We anticipate the following steps:
 - review actual vs budgeted spending with explanations regarding variances;
 - specific review of certain expense categories to provide an explanation of changes from year to year, including but not limited to:
 - bad debts expenses;

- repairs and maintenance;
 - property management fees;
 - professional fees;
 - rent; and
 - development expenses;
 - wages and benefits
- C. A review of affiliated organization transactions and the nature thereof to ensure the amounts are in line with the BC Housing approved budgets and have the appropriate support
- D. A summary of any recommendations for software systems improvements or integration efficiencies that are noted during our review.

The BDO team was then directed by BC Housing to select samples (total of 218 items) from each period and each account type to verify the charges. BDO worked with management to obtain the necessary financial data, select samples, and obtain the supporting information. Once a substantial portion of this work was completed, BDO, BC Housing representatives, and Atira management met to discuss the results to date.

In this meeting, it was determined, that many of the invoices being tested had previously been audited by BC Housing financial analysts, therefore the exercise was a duplicated effort. Furthermore, all the property management invoices were charged by APMI to Atira Women's Resource Society under a related party contract. What constituted appropriate supporting information for such related party transactions (for BC Housing) was identified as an outstanding matter. In addition, a significant number of the older invoices could not be located as there had been a flood and records had been lost.

During this meeting [DATE], a significant amount of progress was made to review the project scope and determine a more appropriate focus moving forward, specifically it was agreed that:

- The initial project was not effective in addressing the key issues. It was revisiting expenses that had already been reviewed and in many cases approved by BC Housing for additional funding.
- The previous scope included years for which the supporting invoices were already known to be unavailable (primarily 2012-2014);
- Delivery of a report summarizing the previous scope would not be relevant or highlight any new conclusions, therefore a report was not delivered at that time;
- A revised scope was drafted incorporating the additional information, specifically focused on understanding:
 - How significant was the cumulative deficit and what were the root causes?
 - Which expenses were not funded by BC Housing and if so why?
 - Which facilities had contributed to accumulated deficit?
 - * • How do the related party transactions impact the reporting and comparability to other NPOs?

3. Financial Position

We reviewed Atira's financial position at March 31, 2018 (from the audited financial statements) and noted that the three themes outlined in the summary above: timeliness of reporting, a lack of comprehensive budgeting process, and inconsistency of best practice processes have contributed to the current state. For context, this section has been inserted to highlight certain material items that were relevant to this review.

Atira management communicated, on many occasions, to BC Housing the existing financial pressure and cash flows concerns for the organization. The financial pressures indicated appear to stem from four areas:

- ▶ Operational underfunding due to lack of comprehensive budgeting and cost analysis
- ▶ Extraordinary expenditures that were not historically managed based on best practices
- ▶ Delayed financial reviews to enable appropriate reaction and/or remedies. This would include clarifications of what are controllable/non-controllable, identification of any budget errors, and identification of spending without proper pre-approval.
- ▶ Delayed funding of the net financial review amounts from BC Housing

We reviewed the March 31, 2018 audited financial statements of Atira and noted the following items that we felt were key to understand as part of this financial review:

	March 31 2018	March 31 2017
Accumulated Operating Deficit	\$ (1,565,526)	\$ (683,837)
Invested in Capital Assets	9,357,025	2,449,957
Replacement Reserve	617,421	725,523
Net Assets	\$ 8,408,920	\$ 2,491,643

	March 31 2018	March 31 2017
Excess (Deficiency) of Revenues over Expenditures	\$ (595,555)	\$ 198
<i>BCHMC recovery (expense) (included in above)</i>	(201,205)	179,476
<i>Property management expense - APMI (included in above) - includes 80% of amount received from BC Housing for SROs</i>	(594,933)	(551,149)
<i>Administration charges and other income (included in above) - further analysis provided</i>	466,320	326,823

	March 31 2018	March 31 2017
Net Receivable from BCHMC (estimated)	\$ 78,322	\$ 329,589

Clarifying notes:

- ▶ Although the investment (equity) in capital assets appears quite healthy at \$9.3M, we highlight that this may be overstated. Atira's external financial statements are following BC Housing policies and are not in compliance with GAAP, whereby the cost of certain buildings are being amortized at an annual amount equivalent to the principal reduction of the related mortgage payable during the year and the appropriation from operations of an annual provision for the residential replacement reserves. This essentially amortizes buildings at an increasing amount each year, instead of evenly over the assets useful life.
 - We recommend that the Society distinguish between external GAAP reporting and the BC Housing budget reporting requirements.
- ▶ Financial statements are not prepared on a consolidated basis. Assets, liabilities, revenues, and expenses of the subsidiaries are not consolidated on a line by line basis i.e. the operating results of APMI are not included, but the payments to APMI for their contracted services are included. This is highlighted for clarification as there are many indicators that AWRS is ultimately responsible for all of the APMI activities, including those facilities not funded by BC Housing. Due to this relationship, it is important to distinguish the activities related to BC Housing from third party activities for any BC Housing reporting requirements. *Going forward this may require a further reconciliation process.*
- ▶ The contract with APMI states, "APMI is exclusively retained as an agent of AWRS to provide property management services for the Developments". APMI receives 80% of the gross monthly subsidy payment received by AWRS from BC Housing Management Corporation or any other public or private bodies who may from time to time provide operating funding for the Developments. 20% of the subsidy stays with Atira to cover oversight and administrative of APMI. The property management fee received by APMI in general covers the cost of wages and benefits, office expenses, and rent.
- ▶ If the costs were born directly by AWRS, not via a subcontract relationship, the breakdown would be approximately as follows:

Expenses covered by APMI Property Management Fees	Est Ratio	Estimated Expenses
Wages and Benefits <ul style="list-style-type: none"> • Two Senior Rental Manager (each responsible for half the SRO portfolio) • Senior Property Accountant (CPA) • AP Clerk • AR Clerk • Payroll and benefits administrator • Human Resources assistant 	85%	505,693

Ownership of APMI? Atira Prop. Mgt. Inc.

Office expenses • Yardi licenses • Computers/technology • Utilities	10%	59,493
Rent	5%	29,747
Total Property Management Fee		\$594,933

► The Society owns 100% of the issued and outstanding share capital of Atira Property Management Inc. ("APMI"). APMI results are not consolidated; they are reported using the equity method of accounting for investments and by providing the disclosure recommended under Part III of the CPA Canada Handbook - Accounting.

- Typically, under the equity method the net investment would equal the net assets (equity) of the subsidiary; thereby including the operations in the financial statements, but on a one line basis.
- As the APMI investment is currently recorded at \$1, the accumulated losses of APMI of \$386,692 have not been picked up in the Atira financial statements.
- The notes disclosure should be improved to clearly disclose that the accumulated losses were not recorded on the equity method. The auditors have clarified that more information can be added to the note disclosures about APMI and how the deficits are not reflected in AWRS's financial statements. However, the reason would be that the equity method is not being followed. This explanation is inconsistent with the financial statement accounting policies and needs to be clarified.

► The net equity of APMI can be broken down into the following components to assess the cash flow risks of APMI:

	March 31 2018	March 31 2017
Net equity in capital assets	\$ (213,708)	\$ (273,230)
Future income tax expense, not recognized	Unknown	Unknown
Surplus from operations, excluding vacation accruals and management fees paid to AWRS	169,573	140,309
Unpaid vacation accruals (expensed, not paid)	(255,031)	(204,225)
Management fees paid to AWRS to reduce taxes	(87,525)	(87,525)
Net Assets	\$(386,691)	\$ (424,671)

From this analysis, we are able to clarify APMI's net deficit position, but conclude that APMI is not contributing to AWRS' cash flow pressures.

- A significant portion of the net deficit is non-cash and related to the net deficit in capital assets (capital assets less outstanding debts). Which represents non-cash amortization in excess of cash payments on the debt. This is due to highly favorable debt repayment terms.
 - There are significant accruals for vacations, which have accumulated over the years and been expensed (increased the deficit) but have not required any cash payments.
 - We note that the intercompany balance shows a receivable from Atira of \$48,529, which confirms that Atira is not lending funds to APMI.
 - BDO also confirmed through discussions with management that Atira has not been loaning funds to APMI. Management confirmed that they understand loaning money to a for profit business would put their charitable status at risk, and confirmed they do not loan any monies to APMI.
 - *The accumulated deficit needs to be monitored from a risk management perspective to ensure that Atira will not be liable to cover APMI losses.*
- The Society controls Atira Development Society (“ADS”), a not-for-profit organization, through common directors and management. ADS’s results are not consolidated; they are reported by providing the disclosure recommended under Part III of the CPA Canada Handbook - Accounting. ADS is 100% controlled not-for-profit organization of the Society. The purpose of ADS is to act as a development arm for the Society by purchasing housing units for social redevelopment. The objectives of the redeveloped properties include providing low income housing to those in need and supporting the programs operated by the Society. ADS has a January 31 year end.

	March 31 2018	March 31 2017
Receivable from Atira Development Society	\$21,373	\$22,807

	March 31 2018	March 31 2017
Capital assets of Atira Development Society	\$29,145,576	\$15,882,548
Construction liabilities, capital grants, other liabilities	29,122,928	15,888,827
Net accumulated surplus (deficit)	\$22,648	\$6,279

The significant increase in the year is related to the construction project at 41 East Hastings, which is financed by BC Housing and Vancity. It is important to note, there is not significant deficit or related party transactions that impact the net results of AWRS.

► Administrative income

	March 31 2018	March 31 2017
BCH SRO Portfolio Funding	744,809	688,935
BCH & Other Funding - AWRS Portfolio	1,288,314	996,143
Administration charges - allocation to APMI & facilities	(1,883,097)	(1,685,307)
Office Lease - changed to facilities	(174,429)	-
Net Administration Income	(24,403)	(229)
Other Items	286,908	237,950
Golf for Good Event	203,815	89,102
Administrative and other income	\$ 466,320	\$ 326,823

- We specifically reviewed this account to ensure there were no unusual items that should be highlighted in the overall results for the year.
- We highlight that the administration funding is provided to AWRS from BC Housing, which is then passed to the individual facilities and/or APMI. This is for internal record keeping and allocations to cost centres, but the net impact \$24K is not material.
- In discussions with management, we were able to attribute the increase to the following items:
 - Other items still fairly significant - additional information available?
 - Presentation of the Golf for Good event revenues and expenses netted in 2017 and presented as gross in 2018, resulting in a \$115k increase in this account.

4. Observations and Recommendations

The following observations and recommendations are offered to support both BC Housing and Atira in making improvements to processes and controls. Our review uncovered a number of areas for which improvements can be further implemented (as some changes are already in progress) to promote better management and control of the finances. In some cases, over the past few years, and throughout this engagement, Atira have presented information or commitments to shift processes towards some of the discussed improvements in advance of this report. Not in all cases, are the commitments in place, however, Atira have worked openly and productively with BDO to commit to better financial management and reporting.

a. Financial Reporting to the Board

Atira's Board has the primary oversight and fiduciary duty for the organization. BDO reviewed all applicable reporting and documentation made available to the Board for effective decision-making with a specific focus on financial oversight. Atira's Board leverages a standing Finance Committee to assist the Board in fulfilling the financial oversight responsibilities including, but not limited to, review of:

- Audited financial statements
- Financial risk management oversight
- Financial health

The Financial Committee is provided, by Atira Finance Department, the monthly Financial Statement Package consisting of financial statements and an analysis of the variances. The variance report includes supporting details at the program level. The Financial Committee will periodically, a couple time a year, request the Cash Flow statements.

Our review focused on the June 30, 2018 Financial Statements Package which provided comparisons to the March 31, 2018 results. The following documents were reviewed:

- ▶ Atira financial position and statement of operations
- ▶ Q1 Analysis by property - showing results compared to approved budgets
- ▶ Cash Flow Analysis - Next Two Months - "Updated"
- ▶ Cash Flow Analysis - Next Two Months - "Subsidy Payments"
- ▶ June 2018 - BCH SRO Portfolio Analysis

Our review assessed the comprehensiveness of the report package, and whether improvements based on best practices could be recommended. Based on our review, the following high-level recommendations can be considered:

- 1) **Include an Executive Summary or high-level summary of the overall financial results.** The Executive Summary is intended to augment the detailed analysis, and provide more effective conversations at the Board level and focus on key decisions/actions that are required.
 - a. *BDO received from Atira' Executive Director a first draft template of a revised format intended to provide summary information to the Board.*
- 2) **Include full disclosure within the financial report of items which can skew results.** Items such as potential changes, missing information, etc. should be transparent and obvious to the Board.
- 3) **Include explanations for overages and financial outliers.** Effective reporting requires adequate context of the underlying causes and potential planning remedies. For the Board to fulfill its fiduciary duties, items such as an over budget amount should include the accounting mapping of where that summary amount occurred. Currently, in some areas, the variance was identified but the underlying cause was not articulated clearly.
- 4) **Improve documentation clarity to support effective oversight.** Atira's portfolio is complex and includes numerous contracts and facilities. An effective Board does not manage at the detail level, and thus must be provided information in a format that highlights considerations for discussion and challenges. For example, potential repayment of funding to BC Housing and/or the ability to retain any accumulated surplus should be highlighted such that the Board can support Atira with effective guidance and oversight. For clarity, each facility has a separate operating contract and the funding restrictions vary. In our discussions with Management, we agreed that the key factor was identifying which variances had remedies in place and which items remained as key contributors to an unfunded expenditure for the organization.
- 5) **Improve the Single Room Occupancy (SRO) variance analysis and provide causes for variances to enable effective decision-making.** Revenues from rent may not be consistently paid, all units may not be

rented, and/or units may be incurring bad debts. Reporting of where the variances are coming from and what factors are driving the variances, is critical for decision-making at the Board level as well as conversations with BC Housing and sector colleagues. It was identified that the Coordinated Access System can provide some delays that increase the length of vacancies and therefore revenue losses. There may be delay in identifying a suitable tenant through the CAS system, as they system operates on a first come, first served basis, but the tenant on the top of the list may not accept a room in an renovated building. This results in a unit remaining vacant, while the CAS list is followed, but there may be tenants on site willing to accept the unit. In this case, the vacancy rate is not fully controllable by AWRS.

- 6) **Review overall report for consistency and clarity of key messages and highlights.** Atira has emphasized its tight cash flow and deficits during fiscal 2017/2018, however, for example, commentary in the SRO reporting discusses *prior year surpluses* and *utilizing past surpluses*. Messages do not consistently support the same view of a key topic for oversight. An overall review of the SRO reporting should be performed to ensure clarity of the benchmarks being measured and the messaging delivered when multiple parties are involved in the preparation of documents.

b. Oversight and Decision-Making

Review of Board reporting and discussions with management, uncovered a number of items that will improve oversight and decision-making, and should be addressed on a go forward bases:

- 7) **Clarify the funding relationship and budget approval process between BC Housing and Atira, and communicate to staff, management, and the Board, specifically with regards to approval schedules and requirements to complete the review and approval process.** Generally, annual budgets are approved by BC Housing each year and additional funds, for any reason, must be pre-approved on a case by case basis. Based on our documentation review and discussions, Atira has not been using the overall budgets as an effective management tool because it was not accurately developed due to misalignment of approval schedules and the process followed to create the budget. For clarity, in all discussions, it has been acknowledged that the payroll and maintenance budget amounts are not appropriate, so not acknowledged by Management as the "agreed limit".
 - Atira has received a roll-over budget, due to verbal discussions between various BC Housing staff and various Atira management representatives. This roll over budget does not reflect any improvements in the level of accuracy in budgeting rigour expected by budgeting best practices, including the following changes annually:
 - i) Assess prior year variances to determine if they will reoccur
 - ii) Where over runs have occurred, discussions with BC Housing as to the causes and potential needs for increased funding. At this time, items are being reviewed/approved on an adhoc basis through monthly/quarterly meetings, but there has not been approved increases to the annual budget to acknowledge any systematic errors.
 - iii) Where costs are materially higher than other comparable organizations, explanations are required to determine whether these should be supported by BC Housing (see discussions on female staffing costs and bad debt expenses). Due to the changeover in finance staff at AWRS and lack of

- capacity, the Finance team has been unable to effectively provide documented evidence as to the rationale for variances to their peers to advocate for permanent increases. For example, if buildings are in worse condition than peers and need additional maintenance costs, this has not been supported by appropriate evidence.
- iv) Further analyze variances (i.e. payroll budgets) to determine if past errors were made that need to be remedied.
 - v) Analyze assumptions to further refine the accuracy of key estimates, such as benefit costs and relief staffing. This has been discussed on various occasions between BC Housing and AWRS management, and they have failed to agree on the appropriate budget amounts and assumptions.
 - Atira management recognizes that the budget broadly represents the requirements and uses information as a control mechanism, except in the cases of payroll and repairs and maintenance. As a result of roll over budgets, Atira management do not have a vested ownership of the final “approved” budget. The process has lacked a collaborative review and final approval, which has resulted in an ongoing presumption that it is inaccurate, ineffective, and inappropriate. This has been reinforced by many verbal discussions, suggesting it will be further assessed in mid year reviews.
 - BC Housing financial analysts are operating under the assumption, that the approved budgets presented, consistent with all other operators. This has led to ineffective budget review discussions.
 - There have been multiple discussions between BC Housing staff and Atira management staff, throughout the years that have further confused the matters and led to further ambiguity, such as concepts including:
 - i) In some cases, management were told by BC Housing staff that there was a pool of money available and that the total portfolio could not go over that amount.
 - ii) In some cases, it was indicated that staff savings in one facility could be utilized to fund overages in another facility. This was the rational followed in some cases where corrections to the staffing costs or operational costs were required to meet deliverables of the program and client needs. These one off approvals led to the expectation that flexibility was allowable.
 - iii) Management were told that the wages budget would be looked at globally as they realize that the budget amounts/allocations may be incorrect. Again, this gave Management the impression that they would be able to offset variances.
 - iv) Management were told that due to the budget roll overs, there would be on-going budget meeting to amend any pressures via mid year adjustments. This process was interpreted by Atira that the budget was open to discussion/amendment.
 - ***The critical difference in interpretation of type of approval has resulted in assumptions that BC Housing will cover any overages.***
- 8) Procurement and purchasing process should be clarified to ensure expenditures and/or commitments are not made in excess of approved funding. If expenditures are outside of approved budget, approvals from BC Housing must be obtained in advance of making the commitment or other funding sources must be identified prior to making the commitment. This process has improved significantly over the years with the extraordinary expense process, but in some cases there are emergencies that must be addressed and AWRS does not have sufficient reserves to manage unexpected expenditures.

- 9) **Increase the level of detail included with expense and cash flow management to clearly track commitments and payments.** The financial review exposed the concern, by both management and the Board, of ability for the organization to fulfil its obligation to make payments each month. Currently, management is not tracking commitments entered (primarily non-routine maintenance) and is unable to accurately predict some payments and their relative impact on cash flow. Management is, however, focused on stretching AP payment terms as a method to relieve pressure on near-term cash flow.
- Related to both 2) and 3):
 - i) **Improve oversight decision-making controls implemented to assist in cash flow management.** There is a Payments and Approvals Policy for which the Board is required to review and approve non-recurring payments, contracts, and mortgages over \$10,000. This process appears to be followed in some cases. However, during our review process, we noted some decisions to hire additional staff without identifying committed funding sources. In some cases, the decision was tied to verbal approvals from BC Housing. It is not clear that the Board is approving these decisions and has complete supporting evidence for decision-making on the procurement process (procurement decision framework, sourcing process, funding source, etc.) or the impacts to cash flow.
 - ii) **Financial controls should shift to be more proactive from reactive.** Management signing cheques, in alignment with span of control, will have little influence on cost overruns as this is occurring after the commitment is made. The process of segregating duties for cheque signing is good practice, but is not intended to be a control for budgets. Atira needs to implement purchasing decision-controls before commitments are made with suppliers. This can include, improved procurement controls, pre-approval from funders for extraordinary items, alignment of increased spending to available surpluses, and uses of internal reserves. Atira is working towards fixed price/scope contracts to minimize the risks. Many costs are influenced by tenant population and external events, where the volume cannot be influenced but the pricing can be fixed in advance. Where the costs are expected to exceed budget, at the time of purchasing, BC Housing should be involved in approving the overage through the various streams (non-controllable maintenance, pest control, unit turnover costs, extraordinary expenditures, replacement reserves).
- 10) **Review the competencies and capacity of the key roles for Oversight, Operations, Finance, and Human Resources.** The organization has grown substantially both in number of facilities and complexity of services aligned to sector needs over the last number of years. Critical roles and reporting structures should be reviewed against current and near-term requirements. Operational governance is structured so the Chief Executive Officer manages strategic information for the Board, fundraising and advocacy, communications, and operational problem solving. This role has management oversight over the key executives.
- At Atira, the Executive Director has all key executives and senior managers reporting in, as well, the ED is required to be operational. At this time, with these obligations, the individual in the role is unable to provide adequate oversight or time to critical strategic responsibilities.

11) **Budget development and approval should be timely to ensure systematic issues are identified and resolved earlier.** Effective operational management relies on a realistic and approved budget. Our review uncovered that the past five years or more have been managed without accurate budgets. Additional observations are also offered in the next section: Financial Controls.

- The following process flow created a compounded impact to managing the operations:
 - year one's budget is inaccurately prepared
 - overages are not considered extraordinary or inappropriate overruns and therefore not funded by BC Housing as expected by management
 - year one's actual results exceeded the annual budget without approval from BC Housing
 - discussions ensued to determine how the overruns will be funded
 - financial reporting is delayed to BC Housing due to short staff and turnover of staff
 - delays in formal final annual review by BC Housing, with no clear conclusion as to the key issues
 - meanwhile the year two's fiscal budget is being prepared without final and/or accurate data from BC Housing as to their assessment of year one
 - this has been repeated for the last five years by rolling these amounts forward and throughout Atira Management and BC Housing staff have not been able to agree on appropriate figures, particularly with respect to payroll

c. Financial Controls

Review of the various financial controls employed at Atira uncovered a number of specific areas where improvements to the current practices would benefit the organization. The recommendations have been outlined in the above sections, however this section offers observation against each practice reviewed. The following controls were assessed:

Budget Process

Budget development and approval should be timely to ensure systematic issues are identified and resolved earlier. Best practices supported that budgeting is one of the most important processes and activities for an organization. Budgeting control should compel management to think about the organization in a planned and holistic view. Budgeting also provides a basis for performance appraisal or variance analysis. Atira, has not engaged in a standard budgeting process since 2015. Related to our recommendation in Oversight and Decision-Making, clarity on roles and confusion between Atira and BC Housing is identified as the core challenge.

Delays in actual financial reporting and operational reviews resulted in both BC Housing and Atira having limited information to implement a proper budgeting process. To continue to operate, BC Housing used the 2015 budget as the foundation and rolled this budget forward for 2016 with a 2% increase for inflation. There was no inflation in 2017 and a 1.5% increase in 2018. The inflationary increases contemplated market increases, but did not contemplate other operational circumstances of the organization. Throughout, there have been many meetings to attempt to develop, review and discuss the annual budgets, but there was never a comprehensive process where both parties agreed on the final figures. The adhoc discussions and reviews throughout the years, with

many different individuals, have further confused the process and led to a lack of clarity. For example, the 2017/2018 budget that was prepared by Atira in fiscal 2016 has not yet been approved by BC Housing. However, Atira is now in the process of starting the budgeting process for the 2018/2019 fiscal year.

Atira management believe that the budgeting process is a significant cause of the current deficits. In recent years, they have attempted to prepare comprehensive budgets and advocate for appropriate adjustments for operational needs. Poor budgeting includes the inability to do a comprehensive budgeting process, inability to inform and enable the Board to provide effective oversight, and overall inadequate understanding and education on fiscal responsibilities across all management roles.

Examples of processes that lack the required accuracy when rolled up into a budget is estimating payroll on a weekly calculation as opposed to daily. Using an estimation of weekly payroll times 52 weeks, resulted in one day of payroll being missed in the budget. Atira incurs approximately \$50K per day in payroll which would result in approximately \$250K in five years.

The following symptoms will occur without appropriate budgeting:

- ▶ Spending without an approved budget
- ▶ Lack of clarity if there is sufficient revenues to support expenses
- ▶ Lack of ability to categorize expenses as overages as opposed to the true cost of items
- ▶ Ineffective oversight of financial results due to the inability to assess the quantum of the shortage or the root cause of the shortage, and any planned or actions to solve issues

An example obtained through discussion was that some recent hires at senior positions and updates to salaries were not pre-approved by BC Housing, resulting in additional costs to Atira that may not have appropriate funding sources. This example demonstrates all the above symptoms.

SRO Reporting

Ensure that messaging is consistent between service providers reporting and consolidated results. The Single Room Occupancy (SRO) units are managed by the service provider (APMI) that uses the Yardi financial system. These units are recorded separately from the other programs administered by Atira. Every month, the service provider is required to provide statements to Atira early in the Close process so that the information can be included in the monthly financial statements for Atira. The package received includes the full trial balance as well as an explanation of the variances to budget. Analysis received quarterly reporting and at year end more detailed reporting is provided that included further more separation in lines such as wages and repairs.

Process:

- ▶ Manual journal entry made by APMI and entered into Atira's records of costs incurred on behalf of Atira i.e. repairs and maintenance

- ▶ Financial reporting is to be delivered to Atira's by the end of the 3rd week by statute. APMI generally beats the deadline by a few days with the analysis and journal entry entered into Atira's records.
- ▶ Atira has an assigned manager in charge of the SRO's, tasked with monitoring budget and ensuring any extraordinary expenditures information is sent to BC Housing as soon as they are aware.
 - The manager monitors the budget against the BC Housing budgets
 - Extraordinary expenses are largely reviewed by the manager and BC Housing is notified as soon as the manager is aware of an item that may be eligible. (this process has improved over the years)

The SRO reporting needs to maintain the financial results by each budget line item and facility, and if applicable, any adjustments between facilities. The financial results are included in the package with full details by facility, but the overall commentary and analysis analyzes variances by line item i.e. wages, repairs and maintenance. This is valuable information to help understand what operational issues are causing variances. However, the format of the information can lead a reader to the following improper assumptions:

- variances can be offset across facilities i.e. the wage overage at the Savoy Hotel cannot be offset against wage savings at the Hutchinson Block.
 - *In discussions with management, at times this concept has been communicated by BC Housing staff to Atira management as acceptable, so this needs to be clarified to understand whether it was a one time approval or consistently allowable.*
- variances within a facility can be offset, which is not always approved by BC Housing (i.e. food savings may not be used in the same facility to pay for wage overages). This is further complicated when a facility is funded by more than one funder, the variances may be covered by another funder, but this is not clear from the documentation.

Atira has oversight over a complex facility portfolio. Tracking expenses and revenues, and requests for additional funding and rejections of requests, requires detailed accounting to support transparent reporting and decision-making. The accumulation of these negative variances by line item and by facility may appear to be individually insignificant but can accumulate to significant amounts if they continue to repeat and are not funded by BC Housing or offset by positive variances in other accounts or facilities.

Atira management believes that the mid-year review process should be continued/restored. In order to be effective, there needs to be clear decisions made by those with the appropriate authority. Further, there needs to be clarity as to the rationale for approvals to distinguish between one-time exceptions/approvals vs. a change in process.

Monthly / Quarterly / Year End Close Process

The Monthly, Quarterly, and Year End Close processes are essentially the same, and follow the Month End checklist. Year End processes require all previous process to be managed effectively to increase accuracy and consistency between BC Housing review and estimates from Atira management. The Atira Year End process is

similar to the Month End process, however includes the creation of all of the reconciliations and working papers for the audit.

Generally, Atira is now using effective Close processes. Atira is creating financial reporting with reasonably accurate actual financial data, however, the organization continues to measure and report against an inaccurate budget.

The reports that are produced every month are:

- ▶ Balance Sheet and Income Statement - consolidated - YTD and prior fiscal year results
- ▶ P&L by program
 - Detailed P&L by project showing current YTD, current year budget-to-date, prior YTD, and prior year budget-to-date
 - Overall analysis by building showing budget surplus/deficit, actual surplus deficit, capital adjustments (mortgage payments), and adjusted surplus/budget
 - *Analysis does not include any provisions for keeping or repaying any surpluses to BC Housing; but this should be clearly articulated so the net risk can be identified*
 - See discussion above regarding SRO reporting

Payroll

Payroll for employees, auxiliary, and contractors is one of the largest budget items for Atira. Payroll requires specialized processes to control for hourly time entry, vacation and use of benefits, overtime, vacancies, and other non-conforming budget items. Time for hourly staff is recorded by each person in Payworks. Permanent employees are programed in the system, and the pay allocations are automatically calculated for each pay period. For hourly relief staff, time is reviewed and approved by the program director in charge of the staff member as well by the finance department.

Broadly, payroll processes are operating properly; however, overall management of the payroll to a budget is recognized as being inaccurate. Overages across the portfolio could be as a result of many factors such as miscoding, underestimating requirements for casual labour, increased sick time experience, and other leaves. Some examples of factors impacting payroll overages at Atira and in the industry are:

- ▶ The sector is experiencing higher labour costs due to a material increase in stress, WorkSafe Claims, and sick leave, as well as high turnover requiring additional investments in hiring and training, plus reduced efficiency. Atira has performed the calculations for each program and considered all these factors, but have not come to an agreement with BC Housing with respect to the appropriate levels.
- ▶ Current processes:
 - Accrued Vacation Earned - Atira is accruing for vacation obligations as they are earned and reducing the accrual as leave is taken.

- Sick leave - Bank accruals are tracked in the payroll system but are not accrued for in the financials statement as the amounts are not eligible to be paid unless the employee is sick (this process is consistent with GAAP). Expenses are recorded on an event basis when the employee takes a sick leave. This causes management issues whereby there is a potential liability that is not being recorded until realized. Due to the management issue that is created, there may be misleading results and cause challenging variances. As such, many organizations chose to accrue the estimated sick leave obligation based on the expected usage rates. Section 3462.062 "In addition, as a practical matter, an entity is not required to accrue a liability for sick-pay benefits that accumulate but do not vest." suggests that an accrual is not required, but permitted. Similarly guidance with respect to contingent liabilities are used to justify this approach, which we recommend for Atira. By accruing for the expected sick leave to be taken, Management will be building an accrual in the early months that will be drawn down in later months. This will provide a more accurate and conservative actual vs budget comparison on a monthly and year to date basis, with less surprise variances during the peak sick leave periods.
- Overtime - All overtime is paid out each period, therefore all costs are expensed and no accruals are recorded. For the calendar year 2017, overtime expense incurred was 2.7% of wages paid to FT and PT staff (non-relief staff incurred approx. 2% for SRO staff). This should be monitored and incorporated into future budget assumptions.

Note: multiple staff persons on sick leave can put a lot of pressure on cash flow.

- Essentially, the payroll expense may be over budget for many months as Atira pays the staff and accrues for any unused vacation time (minimal vacation is used in the early part of the year). This does not cause a cash pressure as the amounts are accrued but not paid.
 - When the regular staff take leave (often summer months) and relief staff are hired, then the cash outflow requirement hits and the problem is crystalized.
 - Year over year Atira and other like organizations are being impacted by trends of increases sick leave. As noted above, Management should review the accrual process to ensure the estimates and related accruals are aligned with the most current experience and this should also be incorporated into the cash flow analysis.
- ▶ The current staffing model and legal requirements cause all roles to be considered critical and require backfilling with casual and relief staff, i.e. to maintain staff safety short staffing is not a viable option.
 - ▶ When staff are away from work for any unplanned reason, Atira, along with all others in this sector, must pay the benefits as well as an additional person. Therefore, use of relief staff is not a always a net zero cost.

Revenue

Revenue is collected from BC Housing, rent, partners, and other altruistic sources. Atira collects funds from both BC Housing and tenants at the end of the previous month or on the first day of the start of a month,

intended to cover the month forward. For BC Housing, funds reflect the commitments agreed upon from the approved budget.

Renters are less consistent. 35-37% of Atira revenues is from rent. Many renters use welfare as their primary income to pay rent. Within the housing continuum, these units create a higher risk of not fully recovering expected rent due to the conditions for each individual. Default on rent for these clients cannot result in eviction without consideration of the larger economic and social impacts, i.e. Atira is in conflict when providing housing for this demographic and balancing the basic needs against enforcing payment.

- ▶ A streamlined approach to directly recover rent from welfare reduces administration and bad debts, however, currently, renters can stop direct payment at anytime, regardless if they have not moved from their unit.
- ▶ Atira has traditionally provided a bad debt allowance for outstanding tenant rent arrears that were over 90 days overdue. The allowance approach ensures the history remains and management can still pursue collection, even if unlikely.
 - In recent discussions with BC Housing, Management understood that allowances for bad debts are not eligible expenditures, only accounts that have been written off can be considered as eligible expenditures. Atira have updated their process and the current policy such that tenant balances are reviewed and written off on a quarterly basis to bad debt expense.
 - If the above is true, there is minimal incentive to pursue collection, it is in Management's best interest to write off accounts to ensure they are funded by BC Housing.
 - BC Housing staff have stated that they made a one time approval for uncollected rent from tenants who have left the buildings and not be found or contacted. They have not agreed to accept/approve all bad debts written off. This is an example of a verbal decision that was not clearly understood by both parties.
 - There is a lack of clarity between BC Housing staff and Management with respect to bad debts.
- ▶ During the time of this review, BC Housing completed their review of the SRO portfolio for the periods of 2015-17 and \$258,475 of bad debt allowances were disallowed as eligible expenditures, and were not funded. Atira is continuing to discuss this with BC Housing.
- ▶ Bad debt write offs for fiscal 2018 were \$158,437, Management expects these to be eligible expenses, but until the clarity is obtained, this may be a risk for Atira.
- ▶ An appropriate collection strategy and practice needs to be established along with agreement of how to fund bad debt allowances and/or write offs. The policy needs to be aligned to the strategy of the organization and ensure staff resources are not used ineffectively. Due to the nature of the tenants, the collection risk is high, an appropriate strategy needs to balance the cost of collection with the likelihood of collection and reputation risk when people are turned to the streets.

Purchasing and AP

The majority of the invoices for Atira are for common recurring payments for item like mortgage, insurance, hydro, and others. These items should all be set-up to automatically withdraw from the bank account, and be reflected in the cash flow statement. One key issue for management is tracking the costs to the specific facilities where it is a single vendor serving multiple locations e.g. BC Hydro for each facility, or pest control services. This should be reviewed to identify ways to simplify the process with better documentation from third party vendors.

Atira uses the Beanworks system for AP management. The managers load invoices into the system and code the invoices. The invoices are circulated to the appropriate individuals to collect the right approvals, which then triggers the approved invoices to be exposed to the accounting software (Simply ERP).

As discussed in the section for decision-making and reporting, planned commitments (such as unfunded repairs and maintenance costs) were not reflected in the cash flow analysis, resulting in an incomplete picture of all committed costs.

Atira is moving toward transferring the property management functions for rent collections and asset management to the Yardi system (currently utilized by APMI), which will allow for a better tracking of required expected future costs, committed costs and actual expenditures.

5. Contracts Causing Significant

a. Imouto

The Imouto contract is not a BC Housing operating contract, as this contract was intended to be fully funded through third party donations. These donation have not been realized in recent years. The financial result is a deficit of \$180K in 2017. The deficit for fiscal 2018 was \$200K. Currently BC Housing is providing a subsidy of \$191,734. Is this included in the \$180K?

The budget process should include identification of any risk of lack of funding which will impact budgets. Management noted that only \$3K of direct donations were contemplated for this project. It is also best practice to provide information on such items, include a contingency plan if risk happens, and potentially controls to limit the risk happening.

b. Murray Hotel

Per Maria BC Housing, there is not operating agreement between BC Housing and AWRS for the Murray Hotel.

Atira took over the Murray Hotel so that SRO funding could be received to do repairs. When the original budget was done, assumptions were made that were not reflective of the current state as follows:

- ▶ It was assumed that the historical amount for rents would remain consistent. This amount included non-SRO rates for a significant percentage of the room available and resulted in revenue which was lower than budgeted. Tenants presumed this was an Atira property and that SRO rates would be applied and therefore demanded lower rates.
- ▶ The budget was created by including maintenance services by non-union staff at non-union rates. Existing staff are union and they insisted that the facility be staffed by Atira SRO unionized workforce which is creating variances with respect to payroll. This was noted by management as a risk, but subsequent to the agreement being signed.
- ▶ The budget did not account for expected vacancies during renovations.
- ▶ During the renovations there were significant staff costs incurred to manage safety regulations (while a fire panel was removed) these costs were borne by Atira, not the landlord or the City.

The budget was done assuming a self-sustaining amount with a projected small surplus to be paid to the owner of the hotel, the shortfalls noted above were believed to be covered under an existing SRO operational agreement with BC Housing. It is not known if the operational agreement was completed, and at this time, no BC Housing funding was provided for the Murray Hotel.

We need to understand what the Board was provided to make this decision? Where they aware that the BC Housing funding was not secured?

c. Shimai

Outstanding

d. London

To date the London building has a \$129K cumulative deficit. Per discussion with management the London is a un-renovated building so turnover is higher and maintenance costs tend to be higher. Per the earlier comment, if the costs of maintenance are above industry standard, Management needs to provide sufficient evidence to get the appropriate budget approval.

There are support staff variances (@\$14K annually) as the budget only covers 36 hours of the 52 hours require to staff the building, and no funding provided for relief.

There were variances in move out cleaning costs (@\$10K), Atira does not have control over the unit turnover or the room cleanliness, they believe the cost is non-controllable; however, the expense has been determined to be controllable by BC Housing and therefore not funded.

The rent vacancies were higher than planned (\$8K), which has been discussed previously.

This strategy requires increased efforts to train and develop necessary skills. This strategy further inflates staff retention risk, as once the difficult task of recruiting staff, and training them on the organization and specific systems is complete, the wage offered for the role is further below market rates, making other jobs more attractive.

Additionally, the financial training programs are currently assigned to the ED of Finance, which require the ED of Finance to spend time for training, which then takes resources away from oversight and business management.

It shall be noted, that this is a similar issue on the BC Housing staffing side. Where the analysts who review the results of AWRS have seen fairly significant turnover and may be underqualified in relation to the complexity of the operations. In our discussions, we have noted that the AWRS portfolio is assigned to two different analysts for oversight at BC Housing, which causes confusion between parties and lack of relevant information being transferred between parties. From AWRS's perspective, there appears to be inconsistency in the processes for approvals and budgeting across the two portfolios.

As noted, in many discussions with BC Housing and AWRS, there is a lack of consistency on what has been performed and/or agreed to in the past among all parties. This suggests that there is poor written documentation of decisions and the rationale to support decisions - one time approval/exception, change in interpretation, change in process, etc.

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7. Appendix - Summary of Observations from Board Reporting

These are the observations from reviewing the Board reporting, the key results are included in the various areas of the report, while the detailed findings are shown below:

Atira financial position and statement of operations -

- The statement presented to the Board is non-consolidated and does not include the expenses for APMI. However, the statement does include the fee charged from APMI to Atira for the management of the SRO's which Atira has contracted APMI to perform for them.
- March 31, 2018 shows deficiency of \$730K, includes a recovery from BC Housing of \$280K, which is an expected repayment to BC Housing primarily attributable to the bad debts disallowed from 2015 - 2017. (note that the March 31, 2018 audited figures are different as they reflect further audit adjustments and new information)
- March 31, 2018 shows accumulated deficit of \$1.4M (note the final audited f/s were \$1.6M)
- March 31, 2018 shows a remaining replacement reserve of \$617K, which has not been utilized to date. In our discussions with Management, the intention is that this is to be utilized for major renovations that may be required in the future. This is primarily restricted to the Bridge building and Sorella, so not available for general use.
- June 30, 2018 shows surplus of \$247K for the three months, which appears inconsistent with recent discussions of cash flow issues being experienced by Atira. Per discussions with Management, this surplus was related to lower staff costs in the early parts of the year, that were utilized in the summer months for vacations and higher relief time. This emphasizes the need to make a provision to account for additional relief costs in the early periods and avoid providing the suggestion that there are surpluses available for use, if expected to be utilized in future months.
- The June 30, 2018 figures, excludes amortization of deferred capital contributions

Q1 Analysis by property - showing results compared to approved budgets - This report does get presented to the Board of Directors.

- Analyzes the variances to budget by property for both salary variances and "other" variances

In reviewing the variances the comments focused on where the variances were attributed, but did not given the operational reasons i.e. "Wages are over budget", but no indication of whether the budget was inaccurate, more people were hired than planned, etc.

- June 30, 2018 shows \$294K surplus for the quarter, which is \$493K under budget. Salaries attribute to \$50K of under budget variance and other items account for \$465K of variance. There is no clear indication of the significant operational factors that cause a \$493K surplus compared to budget. Management has indicated that some of the programs had negative or new budgets as funding amounts we not incorporated into the budget templates. The \$493k underbudget should be off set by the negative budget total for the programs, bringing this down to \$294k, resulting in salaries under budget of \$50k and other \$244k. The large surpluses are attributed to late start of Aneki and Little's programs, and the revenues from G4G. This was not evident from the analysis we reviewed.
- June 30, 2018 - there is no indication as to whether these surpluses can be retained by Atira. If these are not Atira surpluses, then the Board and/or Management may make future operational decisions about funds that are not controlled by Atira. Management clarified that these surpluses were utilized in August 2018 to cover additional wage costs due to vacation and sick leaves during the summer and winter months, but this was not evident in the original analysis.
- There are multiple tabs by facility but this is all information that is summarized on the Summary tab - this is given to the Board, but not believed to be reviewed in detail.

Cash Flow Analysis - Next Two Months - "Updated"

- Continuity from July 19 - August 31st
- Shows opening cash balance of \$328K; outflows of \$1.9M; inflows of \$1.7M
- Cash inflows show \$1.035M of "transfer from Atira required" - This is the APMI cash flow analysis for the purposes of managing the SRO's, i.e. timing of expenditures on the SROs, that is used to help plan Atira cash management as necessary. The transfer from Atira to APMI is the re-imburement of costs incurred.

Cash Flow Analysis - Next Two Months - "Subsidy Payments"

- Continuity from May 8 - August 1st
- Shows opening cash balance of \$342K; outflows of \$2.9M; inflows of \$2.8M
- Cash inflows show \$2.05 of "subsidy payments" - This details the subsidy payments from BCH made to Atira. This spreadsheet is to help plan the cash payments to APMI so that AAtira is better able to plan its cash flow between the payments between Atira, APMI and BCH.

June 2018 - BCH SRO Portfolio Analysis

- Email went from Kevin O'Donohue to Jacqui Evans-Atkinson, Michael Tjaya; Ashely Kim, Bella Sun (This analysis is provided to the CEO and the Board)

- Using the 2017/18 budget as 2018/19 budget is not yet approved, but has been submitted as per the schedule. The initial meeting was regarding the relief calculations. The next meeting was postponed.
- Comparison of net results to the budget - "Portfolio as whole - Gain of \$29,383 for June 2018 - YTD gain of \$52,707. Atria hasn't sent chargebacks for June 2018 so this will somewhat lower the gain. Also we are expecting ~\$50,000 in furniture expenses in July/August and we have yet to receive the majority of the invoices. However, Sarah Ross (Kaslo) expenses total \$8,668 as of June, this will increase the surplus once funding is received." *Management clarified that an intercompany bill was delayed due to short staffing.*
- Shows building wages have positive variance of \$81K - common explanation is "Close to fully funded, staffing issues and lower cost of relief likely reasons for surplus" *Management clarified they are unable to fill vacancies.*
- Shows support wages have \$53K positive variance - "appears to be primarily due to vacant positions" *Management clarified that this will be drawn down in summer months.*
- Shows maintenance wages have \$27K negative variance - "caused by over-staffing - we have three current employees who were not previously budgeted for, they were brought on to help tackle the workload and use up our surplus last year. In addition, as we can no longer use our maintenance team for non-BCH buildings our chargebacks to other programs is limited, and therefore less than it was for the 2017-2018 year. These considerations have been included in the proposed budget, but if not approved will result in a deficit. This is one of the more critical items, when addressing the 2018-2019 budget and the timing of when it is approved." *Management clarified that some maintenance staff from non-Atira buildings were charged back to these programs (from Abbott, Cosmo, Asia).*

This explanation indicates a:

- presumed positive surplus from the prior year that can be utilized on a global basis, not facility by facility
- suggests that maintenance was previously subsidized by chargebacks to non-BCH buildings
- decisions are made prior to budgets being approved (as previously noted)

Interior building Repairs and Maintenance - shows a \$58K negative variance shared between both categories some a surplus and some a deficit. "We have requested increase funding for R&M at most buildings (especially Colonial and Flint which were highly over budget last year), included increased budgets for interior building (junk removal) costs. Hopefully these increases will be approved."

This explanation indicates:

- Spending is occurring prior to confirmed budget (Colonial and Flint account for \$55K of negative variances)
- A focus on overall variances i.e. there are another \$33K of negative variances that if not approved will also impact Atira - the explanation seems to assume these will net out and not have an impact.

Pest Control - shows a \$12k negative variance in almost all facilities. "Pest control continues to be over budget. We are requesting further funding as this is a holding trend." There is no indication of whether the funding is likely, or other alternatives are being explored, or other budget savings can be utilized to cover these costs. Management has indicated that this is a non-controllable cost that will be funded by BC Housing, but that is not clear in the reporting.

Janitorial Supplies - shows a \$10k negative variance in almost all facilities. "Again costs are continually exceeding budget, we are requesting more funding for 2018-2019." There is no indication of whether the funding is likely, or other alternatives are being explored, or other budget savings can be utilized to cover these costs. *Management clarified that janitorial costs are budgeted at 2015 levels, therefore Management expects to negotiate increased budget in this area.*

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8. Appendix - Detailed Considerations and Recommendations - Proposed Changes Recommended by the Board

- | # | |
|-----|---|
| 1. | <p>Include an Executive Summary or high-level summary of the overall financial results for Board financial package.</p> <ul style="list-style-type: none">▪ Finance Committee should meet 1-2 weeks before the Board meeting▪ Latest financials should be sent no less than 1 week before the Finance Committee meetings▪ Report should reflect details to support decision-making and oversight▪ Atira to consider a formal Finance report provided in person, or at minimum, in a commentary summary report to provide context and examples for challenges |
| 2. | <p>Include full disclosure within the Board financial report of items which can skew results.</p> |
| 3. | <p>Include explanations for overages and financial outliers in financial reports for oversight.</p> |
| 4. | <p>Improve documentation clarity to support effective oversight.</p> <ul style="list-style-type: none">▪ Mature financial and operational reporting to enable a strategic shift in effectiveness and efficiency of operations such as:<ul style="list-style-type: none">○ Program growth / economic impacts / utilization and demand trends○ Demographic highlight and trends○ Upcoming budget estimates |
| 5. | <p>Improve the Single Room Occupancy (SRO) variance analysis and provide causes for variances to enable effective decision-making.</p> |
| 6. | <p>Review overall financial report for consistency and clarity of key messages and highlights.</p> |
| 7. | <p>Clarify the funding relationship and budget approval process between BC Housing and Atira, and communicate to staff, management, and the Board, specifically with regards to approval schedules and requirements to complete the review and approval process.</p> |
| 8. | <p>Procurement and purchasing process should be clarified to ensure expenditures and/or commitments are not made in excess of approved funding.</p> |
| 9. | <p>Increase the level of detail included with expense and cash flow management to clearly track commitments and payments.</p> |
| 10. | <p>Review the competencies and capacity of the key roles for Oversight, Operations, Finance, and Human Resources.</p> |
| 11. | <p>Budget development and approval should be timely to ensure systematic issues are identified and resolved earlier.</p> |

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