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**Auditor General
of Canada**
to the House of Commons

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Chapter 6
Federal Government Support to First Nations—
Housing on Reserves

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The April 2003 Report of the Auditor General of Canada comprises seven chapters, a Message from the Auditor General, and Main Points. The main table of contents is found at the end of this publication.

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For copies of the Report or other Office of the Auditor General publications, contact

Office of the Auditor General of Canada
240 Sparks Street, Stop 10-1
Ottawa, Ontario
K1A 0G6

Telephone: (613) 952-0213, ext. 5000, or 1-888-761-5953
Fax: (613) 954-0696
E-mail: distribution@oag-bvg.gc.ca

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Chapter

6

Federal Government Support to
First Nations—Housing on Reserves

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Federal Government Support to First Nations—Housing on Reserves

Main Points

6.1 Poor housing on reserves has a negative effect on the health, education, and overall social conditions of First Nations individuals and communities. Although we noted signs of improvement in some First Nations communities, there is still a critical shortage of adequate housing to accommodate a young and growing population. In 2001, Indian and Northern Affairs Canada estimated that there was a shortage of about 8,500 houses on reserves and about 44 percent of the existing 89,000 houses required renovations. The growth rate of the on-reserve population is twice that of the Canadian average, with more than half the population under 25 years of age.

6.2 Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. We calculated that these two organizations have provided First Nations with about \$3.8 billion over the last 10 years for on-reserve housing. However, they have not clearly defined what their assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it.

6.3 The Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined, with clear assignment of responsibility for results. All the main parties involved—First Nations individuals, their leaders, and federal organizations—need to reach a broad agreement on their respective roles and responsibilities for on-reserve housing.

6.4 Parliament is not receiving a complete picture of the housing situation on reserves and what is actually being achieved with departmental and CMHC funds. Better information about on-reserve housing costs, program performance, and results is also needed, both to help the Department, CMHC, and First Nations make informed decisions about the allocation of funds and to strengthen accountability to Parliament and to First Nations communities.

6.5 Although some corrective action is being taken or planned, we identified a number of additional issues that the Department and CMHC need to address promptly to improve program performance and to ensure compliance with authorities. These issues are reflected in our recommendations.

Background and other observations

6.6 The First Nations populations on reserves are diverse. Significant differences exist among communities in their culture, size, location, aspirations, capacity, and access to non-government resources. Despite some progress, the gap in socio-economic conditions between First Nations and the rest of Canada remains wide.

6.7 On-reserve housing is fundamentally different and more complex than off-reserve housing. It is governed by the legal framework defined by the *Indian Act*. Many practices and approaches related to off-reserve housing do not apply on reserves. For example, taking out a mortgage to buy a house or renting an apartment, and all the infrastructure, rules, and regulations that surround these activities, are taken for granted off-reserve. However, they do not exist to the same extent—or at all—for on-reserve housing.

6.8 In 1996 the government approved a new on-reserve housing policy. It was intended to provide First Nations with more flexibility and control in managing their housing funds to better address the housing needs of each community. The Department and CMHC announced that \$140 million in funds to support the policy changes would be reallocated from their existing budgets over the next five years. The Assembly of First Nations, however, estimated that about \$750 million would be required annually to meet the increasing housing needs of the growing on-reserve population and that an additional \$2.5 billion would be needed to deal with the shortage of adequate houses.

6.9 The unacceptable housing situation on reserves is a long-standing problem. It has been the subject of numerous studies over the last 20 years, including an important study by the Royal Commission on Aboriginal People in 1996. However, according to the Department, despite some progress the current level of investment by all parties is insufficient for many First Nations to sustain improvements and keep pace with the demand over the long term. As a result, the high levels of substandard housing and overcrowding are expected to continue.

Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada have responded. The Department accepts all the recommendations and states that it will co-operate with First Nations, CMHC, and other federal departments to develop strategies to improve housing conditions on reserves.

Canada Mortgage and Housing Corporation accepts most recommendations, and states that it will continue to work with First Nations and the Department to address the issues raised in the report. CMHC believes its role is clear and its programs have clearly defined objectives. It also believes that the responsibility for meeting the National Building Code rests with First Nations.

Health Canada agrees with the recommendation directed to it.

Introduction

A critical shortage of adequate houses continues

6.10 Numerous studies over the last 20 years have noted that poor housing negatively affects the health, education, and overall social conditions of individuals and communities on reserves (see Appendix A). They have all called for action to address the shortage of adequate housing on reserves.

6.11 In 2001, Indian and Northern Affairs Canada estimated there were about 89,000 housing units on reserves to accommodate about 97,500 households, a shortage of 8,500 units. In addition, around 44 percent of existing units required renovations. About 4,500 new households are expected to be formed every year for at least the next 10 years. Current federal funding is expected to support the construction of about 2,600 houses and the renovation of about 3,300 houses a year.

6.12 First Nations told us that housing is a high priority for them. Yet, according to the Department, despite progress in some communities the current level of investment by the main parties is insufficient for many First Nations to sustain improvements and keep pace with the demand over the long term. As a result, the high levels of substandard housing and overcrowding are expected to continue given the growing population, rising construction and maintenance costs, limited access to non-government resources, and growing debt levels.

Profile of First Nations communities and issues affecting on-reserve housing

6.13 According to the Department, there are 612 First Nations communities consisting of 52 nations or cultural groups and more than 50 languages. Most First Nations communities have fewer than 500 residents. In 2001 about 423,000 people were living on reserves (about 146,500 on reserves located in urban areas, 189,000 in rural areas, 15,500 in remote regions, and 72,000 in [special access areas](#)). In general, the housing stock deteriorates more rapidly on reserves; this is attributed mainly to substandard construction practices or materials, lack of proper maintenance, and overcrowding.

6.14 People living on reserves face some fundamental and long-standing issues that impede progress on improving their housing conditions. For example, the legal rules applicable to housing on reserves may be difficult to determine. The powers of band councils to regulate on-reserve housing are not clear. In addition, under the *Indian Act*, the Crown holds title to reserve lands, and properties located on reserves can be mortgaged only in favour of, or by, an Indian or band. Exhibit 6.1 summarizes key differences between on-reserve and off-reserve housing.

6.15 Socio-economic factors in First Nations communities also contribute to their poor housing. According to departmental data, the growth rate of the on-reserve population is twice that of the Canadian population, with more than half the population under 25 years of age. The unemployment rate is

Special access area—An area where a First Nations community has no year-round road access to supplies and equipment, a pool of labour, at least one financial institution, and government services.

twice the national rate and significantly higher among the young. Average income levels are less than 60 percent of the Canadian norms. Social problems on reserves, such as alcohol and drug abuse, family violence, and suicide, are also linked to poor housing conditions.

6.16 Several First Nations told us that increasing debt is impeding their ability to build and renovate houses. We noted that housing-related debt, guaranteed by the Minister of Indian and Northern Affairs, has increased from \$806 million in 1992–93 to \$1.25 billion in 2001–02.

Exhibit 6.1 Differences between on-reserve and off-reserve housing

Dimension	On-reserve	Off-reserve
Ownership	<ul style="list-style-type: none"> • Crown has title to land. • Collective possession of land and houses is most prevalent. • Individual possession is under the <i>Indian Act</i>. 	<ul style="list-style-type: none"> • Land and houses are privately owned. • Collective possession of land and houses is rare.
Financing	<ul style="list-style-type: none"> • <i>Indian Act</i> allows mortgage or seizure of land and property, in favour of, or by, an Indian or a band. • Access to private financing is limited; there is no collateral. • Government subsidies are critical. • Ministerial loan guarantee system is available but must be supported by the community. 	<ul style="list-style-type: none"> • Land and property can be mortgaged and seized, within the legal framework. • Access to private financing is the norm. • Lending institutions specializing in property financing are involved. A complex financial system is used to ensure flow of funds and mitigate risks.
Legal rules governing housing, rent, occupancy, tenure, ownership, and responsibilities	<ul style="list-style-type: none"> • Legal powers of band councils to define and enforce rules are imprecise. • Limited enforcement. • Not clear to what extent off-reserve legal framework is applicable. 	<ul style="list-style-type: none"> • Covered under provincial laws. • Enforced by designated agencies and judicial system.
Housing supply	<ul style="list-style-type: none"> • Many occupants do not consider it their responsibility to meet their housing needs. • Many occupants carry out little maintenance, repair, or renovation. • Access to building supplies and skilled labour is limited in isolated areas. • Application of codes and regulations is uncertain. 	<ul style="list-style-type: none"> • Individuals are responsible for meeting their housing needs. • Occupants/owners buy or rent, maintain, repair, and renovate. • There is generally a good supply of material and labour. • Inspections ensure compliance with applicable codes and regulations.
Housing allocation	<ul style="list-style-type: none"> • Chiefs and councils often decide on the number of constructions and renovations each year and their allocation. • Limited market for buying, selling, or renting houses. 	<ul style="list-style-type: none"> • Individuals can buy, sell, and rent houses on local markets. • Private financial means is the main form of allocation.
Geographical considerations	<ul style="list-style-type: none"> • 65% of the population is in rural, remote, and special access areas. 	<ul style="list-style-type: none"> • 80% of the population is in urban areas.

6.17 Despite these impediments, we noted that some communities have implemented good housing practices and found solutions to most of their housing problems (see case study, “Successful housing initiatives in a First Nations community”). Other First Nations could benefit from these practices.

Federal programs and funding to support on-reserve housing

6.18 Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. Each organization is decentralized and provides its assistance to First Nations mainly through its regional offices. Although the Department does not compile the total annual federal funding to support on-reserve housing, we calculated that the Department and CMHC have provided about \$3.8 billion for on-reserve housing over the last 10 years. According to data from both organizations, these funds have contributed to the construction of about 29,000 houses, the renovation of about 33,000 existing houses, and the payment of subsidies for houses in the CMHC portfolio.

Successful housing initiatives in a First Nations community

Although First Nations housing on reserves is considered to be among the worst in Canada, some First Nations communities have established successful housing programs. One such community, the Mohawks of the Bay of Quinte in Ontario, was identified during the audit. This community has an on-reserve population of about 1,900, occupying about 800 houses (682 are privately owned and 118 are owned by the community and rented to members). The quality of housing is very good. The community’s long-standing commitment to housing has resulted in diverse programs and services for members, the promotion of individual responsibility, and the construction of innovative, high-quality housing.

According to community leaders, specific practices contributed to housing success. A revolving loan program was created in 1971. This program provides housing loans to eligible community members, to a maximum of \$70,000, at a fixed interest rate of six percent. Applicants are selected through a point system. When selected, they are required to build their home to the applicable building codes and policies. The revolving loan fund is replenished each year through a combination of loan paybacks, interest charges, and a portion of the departmental housing subsidy. Typically, 12 new loans are approved every year. At January 2002, 347 loans were outstanding, totalling \$12.4 million. With incentives to facilitate loan repayments, default rates are very low. Individual owners are responsible for maintenance and upkeep of their units.

For the 118 rental units, a specific management regime ensures that these homes are constructed and maintained in accordance with relevant standards. Most rental units are built to R-2000 standards and include modifications to maximize energy efficiency. These units are also subject to periodic maintenance performed by the community’s administration.

The community’s management of housing has positioned the community as a model for other First Nations. It has won a number of awards, through CMHC and a provincial home builders association, for its innovative housing projects. In recent years, the community has also been successful in reducing the number of families waiting for rental units or housing loans.

Source: Community documentation and meeting with representatives

6.19 The Department's programs and funding. Indian and Northern Affairs Canada introduced a housing subsidy program in the mid-1960s. The program provided conditional subsidies to First Nations to assist in building and renovating housing through contributions. There were no significant changes to the program until the introduction of a new housing policy in 1996. According to the Department, its "core" housing budget is \$138 million a year and has essentially remained unchanged since the early 1990s. The Department also provides First Nations with about \$66 million annually to cover the costs of housing infrastructure such as roads and sewers. In addition, it contributes about \$75 million annually toward shelter through its social assistance program.

6.20 The Department's activities in on-reserve housing also involve providing ministerial loan guarantees. The guarantees allow individuals and communities to secure housing loans despite the fact that they cannot give a lender the rights to the property. In this process, the Minister guarantees repayment of a housing loan to an approved lender under the *National Housing Act* in the event of default by the borrowing First Nation or individual. In turn, the Minister seeks guarantees from First Nations that they will reimburse payments to an approved lender. Under existing authority, the Minister can guarantee up to \$1.7 billion in outstanding loans. At 31 March 2002, outstanding loans were more than \$1.25 billion and about \$10 million had yet to be recovered from First Nations as a result of defaulted loans.

6.21 CMHC's programs and funding. As Canada's national housing agency, CMHC has a mission that includes a commitment to housing quality, affordability, and choice for Canadians. For the year ended 31 December 2001, CMHC spent about \$1.9 billion on housing programs and services across the country delivered through programs administered under the *National Housing Act*. These programs are intended to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions in general.

6.22 CMHC became involved in on-reserve housing in the late 1970s. Initially, it provided assistance to First Nations incorporated as non-profit organizations. Since 1979, First Nations have had direct access to CMHC assistance through two main programs, the Non-Profit Rental Housing Program (section 95 program) and the Residential Rehabilitation Assistance Program (RRAP).

6.23 Compared with departmental programs, CMHC programs are more targeted, with greater controls and reporting requirements for the use of funds. The section 95 program assists First Nations in the construction, purchase, rehabilitation, and administration of rental housing on reserves. Until 1997, CMHC provided a subsidy up to an amount that would reduce the interest rate on housing capital costs to two percent; this was known as a two percent write-down. In 1997 CMHC revised this program to allow First Nations more flexibility in determining the number and type of units within the subsidy dollars allocated. Under the revised program, CMHC provides a

“deep subsidy” to each approved project, which covers the difference between estimated expenditures and rental income. The CMHC subsidy runs for the duration (typically 25 years) of the loan used to finance the construction of the housing project. Exhibit 6.2 illustrates the financial assistance provided by the Department and CMHC to a First Nations housing project that we reviewed.

Exhibit 6.2 A First Nations housing project funded by Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC)

Construction costs ⁽¹⁾		\$757,960
Financing:		
Departmental subsidy ⁽²⁾	\$320,000	
Borrowing ⁽³⁾	\$437,960	
Total		\$757,960
Annual operating costs ⁽⁴⁾		
Capital and interest	\$35,099	
Insurance	\$3,640	
Maintenance	\$4,800	
Administration	\$4,800	
Local services	\$4,000	
Audit	\$800	
Replacement reserve ⁽⁵⁾	\$5,600	
Other	\$1,350	
Total		\$60,089
Annual operating revenue		
Minimum revenue contribution ⁽⁶⁾	\$27,000	
CMHC subsidy ⁽⁷⁾	\$33,089	
Total		\$60,089

Notes: The figures above are taken from an eight-house project we reviewed during the audit.

(1) These costs do not include infrastructure costs (about \$20,000/house) funded under another departmental program.

(2) The First Nation made the decision to combine the departmental housing subsidy and CMHC funding, with a view to increasing the number of houses built.

(3) Funds were borrowed from CMHC and covered by a ministerial loan guarantee from the Department. The loan will be renewed every 5 years and repaid over 22 years.

(4) Capital and Interest costs are actual; other costs are estimated by CMHC.

(5) The reserve is intended to cover the cost of replacing major house components, such as roof, furnace, flooring, and windows.

(6) This amount is set by CMHC and can be paid by either the occupants or the community. If the occupants were eligible for social assistance, the amount would then be financed by the Department's Social Assistance Program. Consequently, if the houses are occupied by social assistance recipients for the entire 22 years of the subsidy, the project will be fully paid for by departmental and CMHC assistance.

(7) The CMHC subsidy is calculated as the difference between loan payments and operating cost benchmarks, and minimum revenue contribution (rent). It will be adjusted at every loan renewal and provided monthly for 22 years. At that time, CMHC will stop subsidizing this project.

Source: Departmental and CMHC documentation

6.24 According to CMHC, about 470 First Nations have used its programs. Under its section 95 program, CMHC subsidizes the operating costs (including the repayment of outstanding loans) of 22,000 of the total 89,000 houses on reserves. In 2001 CMHC spent about \$75 million under this program. However, the program is very sensitive to changing interest rates. A CMHC analysis indicated that a one-percent increase in interest rates in 2003 would result in a need to increase subsidies by about \$14 million over the next five years.

6.25 The other main program administered by CMHC, the Residential Rehabilitation Assistance Program, provides financial assistance to First Nations and their members to repair existing substandard housing to provide minimum levels of health and safety. In 2000–01, CMHC spent about \$12 million under this program.

The 1996 policy for on-reserve housing

6.26 In 1996 the Department and CMHC requested the government's approval to implement a new federal on-reserve housing policy. The aim of the new policy was to increase local control and accountability for housing, improve program flexibility, and encourage more use of non-government resources to improve housing conditions. To obtain this flexibility, First Nations were required to prepare and implement community-based housing programs and multi-year housing plans. The programs and plans were to incorporate a broad range of elements consistent with the following policy goals:

- Protect and extend the life of existing houses and ensure that housing meets minimum national standards by introducing maintenance and insurance regimes and renovation programs.
- Construct good-quality, affordable new housing designed to respond to the variety of housing needs within the community.
- Promote individual pride and shared responsibility, including home ownership and increased private market investment.
- Link housing activities with training, job, and business development to create new opportunities for socio-economic development.

6.27 Under the proposed policy, community multi-year housing plans were to be the main tools for co-ordinating resources, measuring progress, and strengthening accountability to the government and the community. They were also to provide a basis for supporting federal funding.

6.28 The Department and CMHC presented several options to the government in 1996. These varied in the level of federal resources that would be available to support the new policy and the pace at which they could be obtained. The Department and CMHC announced that \$140 million in funds to support the policy changes would be reallocated from their existing budgets over the next five years. The Assembly of First Nations, however, advocated a more substantial increase in federal expenditures, based on its assertion of First Nations' treaty right to housing. It estimated that about \$750 million would be required annually to meet the housing needs of the

growing on-reserve population and that an additional \$2.5 billion would be needed to deal with the shortage of adequate houses.

6.29 The government approved the new policy in July 1996. According to the Department, by March 2001 about 400 First Nations communities had adopted the new policy and had received a one-time contribution totalling about \$240 million that came from a reallocation of funds within the Department. The communities that did not adopt the 1996 policy continue to operate under the old policy.

Focus of the audit

6.30 Our audit examined the delivery of housing programs on First Nations reserves. The objectives of the audit were to determine whether roles, responsibilities, and expected results had been defined; management had assurance on the performance of the programs and was taking corrective action as necessary; authorities were in place and complied with; and appropriate information had been provided to Parliament.

6.31 The audit focussed on the Department's and CMHC's activities and results related to on-reserve housing. We did not audit the activities carried out by First Nations and their organizations. However, we sought their views on housing matters and visited eight First Nations communities to observe their housing situations. Further details on the audit are found at the end of the chapter in About the Audit.

Observations and Recommendations

Roles and responsibilities

6.32 We expected that following the approval of a new housing policy in 1996, the Department and CMHC would have clearly defined their roles and responsibilities and expected results, both for themselves and for the First Nations governments and individuals involved. However, we found little consensus among the parties on what they believed their respective roles and responsibilities to be in addressing the housing needs of people living on reserves. We also found that the Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined. These issues have a negative effect on program participation and the management of housing on reserves.

Key players disagree on their roles and responsibilities

6.33 The main parties involved with on-reserve housing are Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, First Nations and their housing authorities and tribal councils, and the families that live in the houses. Each of these parties has an important role in providing and maintaining adequate on-reserve housing.

6.34 Many First Nations individuals, chiefs and councils, and organizations believe that First Nations people living on reserves have a treaty right to free housing. They believe that the federal government is responsible for providing First Nations with enough funds to meet its treaty obligations. The

government does not agree that on-reserve housing is a treaty right, and it provides assistance pursuant to government policy.

6.35 In First Nations communities that support the concept of “free housing,” many individuals are unwilling to make a financial contribution to meet their housing needs. In addition, some First Nations do not take advantage of CMHC assistance because it requires a financial contribution from individuals or the community. According to the Department and CMHC, this makes it difficult to plan and manage federal programs that require a contribution from individuals or the community.

6.36 The Department and CMHC have not defined, jointly or separately, what the federal assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it. Further, the organizations are not always clear about their respective roles and responsibilities. For example, confusion exists over who is responsible for allocating CMHC funds to the regions. CMHC has acted on the understanding that the Department determines how CMHC funds are to be allocated. The Department, however, believes that it simply provides advice to CMHC and that the Corporation is not obligated to follow the advice. This lack of clarity clouds accountability for the CMHC funds that are allocated to the regions.

6.37 It is also not clear whether the Department’s role is that of a “funding agency” or what its role entails. We noted that practices vary significantly in the regions. While some regions attempt to manage their housing programs—for example, by providing funds on a project basis—most regions interpret their role as that of a funding service with little or no accountability for results.

6.38 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should reach a broad agreement on their respective roles and responsibilities in addressing the housing shortage on reserves.

Indian and Northern Affairs Canada’s response. Agrees.

Canada Mortgage and Housing Corporation’s response. CMHC will work with Indian and Northern Affairs Canada and the First Nations to ensure a clear understanding of respective roles and responsibilities. CMHC programs have clearly defined objectives, program policy guidelines, and related accountability measures. These program objectives include creating a new supply to alleviate overcrowding and meet the new demand, funding repairs to existing housing, providing for special housing needs of the elderly or disabled, and building the capacity of First Nations and their housing institutions. CMHC’s role is clear. As Canada’s housing agency, it delivers specialized housing programs and related capacity development activities to First Nations. With respect to allocation decisions, the 1996 housing policy confirmed that Indian and Northern Affairs Canada has the lead role in on-reserve housing; consequently, the Department has been allocating CMHC program budgets (section 95 program and Residential Rehabilitation Assistance Program) in conjunction with its housing funds.

Federal programs and funding are complex

6.39 As already noted, the Department and CMHC have introduced a number of programs and funding mechanisms over the last several decades to assist First Nations with on-reserve housing. These programs have operated largely independent of each other and have not been well co-ordinated. The policy changes introduced in 1996 were intended, among other things, to streamline federal assistance and strengthen accountability to the government and First Nations communities. We found that, overall, the programs and funding mechanisms continue to be complex and accountability for results remains unclear.

6.40 The Department and CMHC both support the construction and renovation of houses. While the programs and funding mechanisms of both organizations are complex, they are very different from one another. Appendix B illustrates the complexity and differences.

6.41 In the Department, the on-reserve housing activity is one part of the Indian and Inuit Affairs Program, which provides broad community funding assistance. The Department has two housing policies and uses five different types of funding agreements to transfer funds to First Nations. Although these agreements contain general provisions on how money is to be spent, they do not always specify the intended results or require recipients to be accountable for the results.

6.42 CMHC introduced a simpler program after the 1996 policy was adopted, but it has not harmonized the old program with the new one. As a result, CMHC and the affected First Nations are now administering two programs with different operating and funding conditions and reporting requirements. This situation will continue until the old agreements expire over the next 15 to 20 years.

6.43 Having to deal with two federal organizations that operate a number of housing programs under different management and control frameworks adds to the complexity. First Nations told us that they do not understand why they have to deal with two organizations and that they find their programs confusing and costly to administer. The Department and CMHC informed us that while the Department's mandate is to provide overall assistance to all First Nations, CMHC delivers specialized housing programs and provides housing expertise.

6.44 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation should streamline their program structure and delivery.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and is committed to continuing to identify opportunities to streamline program structure and delivery. The overall range of program options is indicative of the complexity of on-reserve housing.

Program performance

Mould contamination is a significant problem

6.45 Mould is a fungus with a cotton-like appearance. Under certain conditions, it produces poisonous substances that can cause headaches, dizziness, and nausea. According to the Department, problems with mould exist in many on-reserve houses. The main factors contributing to the mould are lack of proper care or maintenance, inadequate air circulation and ventilation, poor site selection and drainage, overcrowding, and improper construction.

6.46 After the 1996 policy was introduced, a committee consisting of members from Indian and Northern Affairs Canada, CMHC, Health Canada, and the Assembly of First Nations was formed to address the mould problem. The focus to date has been limited to promoting awareness and prevention of mould by distributing information kits and householder pamphlets. CMHC, in conjunction with an Aboriginal advisory group, has also developed training sessions with the aim of producing qualified technical advisers to assist First Nations in dealing with health and safety emergencies related to mould.

6.47 We are concerned that although mould contamination has been identified as a serious and growing health and safety problem for several years, a comprehensive strategy and action plan has not yet been developed. The Department and CMHC, together with First Nations, have not fully assessed the extent of mould contamination on reserves and the full cost of remediation, which could amount to more than \$100 million based on preliminary estimates in three regions. Currently, the Department and CMHC do not know how much they are spending to address the mould problem because such costs are not tracked separately.

6.48 Recommendation. Indian and Northern Affairs Canada, Canada Mortgage and Housing Corporation, and Health Canada, in consultation with First Nations, should develop a comprehensive strategy and action plan to address the problem of mould on reserves.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC recognizes that mould contamination on reserves is a serious issue. CMHC will continue to work in co-operation with Indian and Northern Affairs Canada, Health Canada, and the Assembly of First Nations to address this issue.

Health Canada's response. Agrees.

Little assurance that houses on reserves meet National Building Code

6.49 Since 1983, the federal government has required that all new construction that the Department funds meet the National Building Code standards, as a minimum. This requirement was intended to extend the useful life of houses, protect the health and safety of occupants, and help ensure reasonable operating costs. We are concerned that the Department and CMHC cannot consistently demonstrate that federally subsidized housing on reserves meets the Code.



Mould contamination inside a home on-reserve

Source: Indian and Northern Affairs Canada

6.50 Departmental officials say that each band chief and council are responsible for ensuring that all housing units on reserves, including those subsidized with federal funding, meet the National Building Code. A number of processes are in place to provide inspection services. While some First Nations have their own inspectors, others rely on tribal councils or inspection services controlled by First Nations. However, it is not always clear to what extent these inspections ensure compliance with the National Building Code. We found that requirements for First Nations to provide the Department with inspection reports vary from region to region. With the exception of one region, most inspection reports that we reviewed did not demonstrate that the housing complied with the National Building Code. We are concerned that without adequate inspection systems on reserves, there is a high risk that dwellings constructed and renovated with departmental subsidies will not meet the required standards.

6.51 Similar risks exist for housing activities subsidized through CMHC programs. CMHC requires First Nations to be responsible for ensuring that housing complies with the Code, but it does not require certification to that effect. Although new construction projects require as many as six on-site inspections, these inspections are not intended to certify compliance with the Code but rather to assess the progress of the project for payment purposes.

6.52 Although the Department's and CMHC's inability to demonstrate compliance of federally subsidized units with the National Building Code is a serious weakness, both entities are making efforts to promote First Nations capacity in this area. This capacity is being developed through the support of institutions involved with First Nations inspections and through efforts such as the Native Inspection Services Initiative. But much more work remains to be done before the government and First Nations can be assured that federally subsidized houses comply with the National Building Code. The capacity of the First Nations to conduct inspections needs to be further strengthened.

6.53 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should provide reasonable assurance that all federally subsidized housing on reserves meets the National Building Code.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC is not a regulatory agency and has no mandate or authority to enforce building codes or standards. The responsibility to implement quality assurance measures and ensure code compliance rests with the First Nations. This is similar to off-reserve housing where local authorities such as municipalities, and sometimes provinces, are responsible for enforcement of building codes and standards. CMHC will continue to work to develop the capacity of the First Nations technical services industry. CMHC's Native Inspection Services Initiative currently provides training, support, and job opportunities to strengthen First Nations inspection capacity.

Unclear eligibility criteria and inadequate monitoring of departmental year-end transfers of funds for emergency housing

6.54 In January 2001, the Department reallocated about \$34 million of unspent funds from other programs to address urgent housing needs in First Nation communities. The process was repeated in late 2001–02, with \$40 million in funds reallocated. The reallocations were intended to provide additional funding to those First Nation communities with substandard or overcrowded housing conditions—that is, conditions posing significant health and safety risks that could not be addressed within the current housing program budget.

6.55 We expected that the Department would establish clear eligibility criteria and monitoring practices when it reallocated funds to housing. We found that, due to the late timing of these funds, both the Department and First Nations were under pressure to spend the money before fiscal year end. This resulted in “emergency spending” in the Department, with questionable results.

6.56 The Department had not established transparent eligibility criteria and a clear methodology for allocating emergency housing funds. We found inconsistencies between regional suggestions for funding and the final allocations made by headquarters. Departmental officials could not provide us with a clear rationale to explain these inconsistencies.

6.57 We also found that the management information specifying how the funds were spent was inadequate. The Department could not demonstrate how well emergency housing funds were used or whether they were actually spent on housing. We are concerned that the management processes in place do not ensure the most effective use of these funds.

6.58 Recommendation. Indian and Northern Affairs Canada should establish clear eligibility criteria for the use of funds that are reallocated to housing from other programs. It should also monitor the results achieved with these funds against its stated objectives.

Indian and Northern Affairs Canada’s response. Agrees.

Community housing plans are not used as intended

6.59 Under the 1996 housing policy, participating First Nations are required to develop multi-year community housing plans that link housing funds and programs with training, job creation and work opportunity programs, and economic development activities. These housing plans were intended to be the main tools for co-ordinating resources, measuring progress, and strengthening accountability to the government and the community. They were also intended to support federal funding.

6.60 The premise of the 1996 policy was that the community housing plans would help First Nations deal with the shortage of adequate housing on reserves. However, we found that they are not being used as intended under the policy. For example, the Department is not reviewing the plans adequately against its own established criteria. In one region, although the

plan indicated that the community would not be contributing funds toward the construction of houses, the region informed headquarters that this community would be contributing more than \$400,000.

6.61 We also found that the Department does not adequately monitor the implementation of housing plans. In the case just noted, the plan indicated that nine houses would be built in 2002–03. We visited this community in October 2002 and were told that no houses had yet been built and none were planned. Departmental officials were unaware of the situation.

6.62 The community plans are not used to co-ordinate and allocate federal funding. The Department considers them simply a planning tool for individual First Nations. It continues to use the planning documents in place before the 1996 policy to allocate and administer housing assistance. We also noted that the community plans are not shared with CMHC.

6.63 Several First Nations told us that they cannot fully implement their housing plans due to insufficient resources. The Department also informed us that it does not have sufficient resources to properly manage the housing program. It claimed that additional staff are needed to help provide regional offices with greater capacity to better manage the housing program, particularly to adequately review and monitor community plans. However, the Department did not demonstrate that the additional resources needed to properly manage its housing program could not be funded from within its overall annual budget of over \$5 billion.

6.64 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should ensure that community housing plans are used as intended by the 1996 housing policy.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and is willing to support First Nations and Indian and Northern Affairs Canada in their efforts to develop and implement a community planning process that meets the intent of the 1996 housing policy.

In its supportive role in the planning process, CMHC provides access to information on its programs and related services to both the Department and First Nations to allow for possible inclusion in the plans. Program funding limits and eligibility criteria restrict the availability of CMHC programs to certain communities in a given year.

CMHC internal controls for subsidy payments are weak

6.65 CMHC is spending about \$13 million annually to administer on-reserve housing assistance. We expected that it would have in place internal controls and management practices to ensure that new housing projects are properly approved and constructed and that previously approved projects comply with operating agreements.

6.66 We found that new housing projects are properly approved but the process is lengthy, so most projects do not start until late in the fiscal year. During the construction period, CMHC ensures that inspections are done to measure progress before releasing funds, and it uses audited reports to verify that the projects were delivered within budget. Many First Nations told us that “CMHC houses” are of better quality than “band houses,” which are generally financed with departmental funds.

6.67 Following construction, CMHC administers housing subsidies in accordance with the operating agreement. A key component of this process involves ensuring that its subsidy payments are accurate. Each time a loan is renewed, CMHC must adjust its subsidy payments to reflect the new interest rate. This adjustment should occur within one month of the loan’s renewal date and be properly reviewed and approved.

6.68 We found several instances in which CMHC had not adjusted the subsidy payments in a timely manner. In one region, although a First Nation was eligible to receive subsidy assistance, it took CMHC 37 months to start making payments. In another region, CMHC failed to adjust the subsidy to two First Nations after they had renewed a number of loans between 1999 and 2002. This situation continued for as long as 32 months and resulted in overpayments of almost \$300,000. At the end of our audit, CMHC had not yet recovered this money.

6.69 As part of the loan renewal process, First Nations are required to solicit three interest rate quotes to ensure that the rate they receive is competitive. According to CMHC guidelines, CMHC subsidy payments should be calculated based on the lowest quote. However, we found several examples where CMHC had calculated and advanced subsidy payments based on the rate chosen by the First Nation, without assurance that the First Nation had solicited three quotes as required or that it had chosen the lowest of the three. This increases the risk of an incorrect subsidy payment.

6.70 A recent CMHC internal audit identified similar control weaknesses. Specifically, the audit noted that controls were not in place in all regions to ensure that loan renewals are processed in a timely manner. Of the 384 loans in the audit sample, 94 loans (24 percent) had been processed at least four months past the loan renewal date, and 40 loans (10 percent) had been processed at least 11 months past the loan renewal date.

6.71 The internal audit also identified a lack of controls in some regions to ensure that adjustments are accurate. Of the 384 loans in the audit sample, 17 loans (four percent) contained errors in the calculation of adjustments. The error amount for one loan was about \$44,000.

CMHC has difficulty ensuring that First Nations comply with operating agreements

6.72 Project operating agreements are the key documents that define the terms and conditions associated with CMHC funding to First Nations recipients. We found that First Nations had difficulty complying with some

key requirements in the agreements, and there was little, if any, remedial action. The following are some examples of non-compliance.

- Many First Nations either did not collect rent from their members or collected an amount lower than agreed with CMHC.
- Many First Nations either did not adequately fund their replacement reserve (see Exhibit 6.2) or spent money from the fund without CMHC's approval. The Corporation's internal audit found that in 129 of the 167 files reviewed (77 percent), First Nations housing projects had replacement reserves that were not fully funded. The audit further pointed out that in 28 of these 129 files (22 percent), the correspondence CMHC sent to the First Nation did not address the lack of replacement reserve funding or there was no correspondence following the financial statement review.
- Some First Nations did not submit their audited financial statements within four months of the fiscal year end.
- In several cases, client selection criteria or project data reports were not provided. The selection criteria and the information in the project data reports would help CMHC determine whether housing is actually being targeted to low- and moderate-income families in communities.
- Some First Nations' auditors did not confirm that the First Nation had requested and obtained evidence of the incomes of clients paying rent according to a rent-to-income scale, and some auditors confirmed that First Nations had not obtained this information.

6.73 We are concerned about weaknesses in internal controls and management practices for subsidy payments and about the non-compliance with operating agreements. CMHC informed us that corrective action has been taken or is planned to address these issues. As part of this corrective action, the Corporation needs to find practical ways to help First Nations meet their obligations in the operating agreements while meeting its requirements to properly manage the program.

6.74 Recommendation. Canada Mortgage and Housing Corporation should strengthen its internal controls for subsidy payments and, in consultation with First Nations, ensure compliance with operating agreements.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation. The audit findings confirm the results of the CMHC internal audit. Efforts are underway to address the control weaknesses, including those related to subsidy payments. For overpayments of subsidy, CMHC is investigating the extent of the issue and is developing, with the First Nation, a repayment schedule that ensures the First Nation is not subject to any undue financial hardship. The focus will also be on ensuring compliance with operating agreements and ensuring that First Nations possess the necessary capacity to fulfill their responsibilities under the agreements.

Lack of good information on spending and results

6.75 The information to manage on-reserve housing assistance and measure the results achieved is inadequate and is not shared consistently between the Department and CMHC. The Department collects information from First Nations about the adequacy of their housing stock and the number of houses built and renovated. However, the necessary steps to ensure the quality of this information are not taken. In addition, the criteria for determining whether a house is adequate or inadequate are vague, leading to different interpretations. CMHC requires project-related information from First Nations to monitor housing projects and guide the disbursement of funds. It also carries out periodic inspections of a sample of subsidized houses in recipient communities. However, this information is not shared with the Department.

6.76 We also found that the Department and CMHC rarely use this information to manage housing assistance and assess results. For example, they do not normally use it as a basis for allocating funds to First Nations. Instead, the core funding for housing is allocated mainly on the basis of population.

6.77 The Department and CMHC have not defined a common basis that First Nations could use to report financial information. CMHC provides First Nations with a detailed format for financial reporting and requires their auditors to provide an opinion based on that format. In contrast, the Department requests First Nations to provide a summarized level of financial information based on generally accepted accounting principles. In this situation, the Department and CMHC cannot assess a specific First Nation's overall financial situation related to on-reserve housing.

6.78 The Department and CMHC consider audited financial statements to be a key control for monitoring how First Nations use federal funds. However, we noted that several auditors qualified their reports or even declined to provide an opinion. In addition, while CMHC uses First Nations' audited financial statements to assess the viability of housing projects that it subsidizes, the Department does not typically review these statements to manage its housing program.

6.79 Recommendation. Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation, in consultation with First Nations, should define, collect, and use reliable information to manage on-reserve housing assistance.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation and will work with Indian and Northern Affairs Canada and First Nations to streamline reporting requirements, to the extent possible, taking into consideration that CMHC is a Crown corporation bound by separate policy and legislation that has an impact on reporting requirements and the nature and financing of its programs.

Compliance with governing authorities

The Department needs Treasury Board approval for its program authority

6.80 We expected that the Department would have clear authority governing the housing program and would comply with it. However, we found that the existing authority had ambiguities and that the Treasury Board had not approved program terms and conditions resulting from the 1996 policy. This affects the Department's and First Nations' understanding of the program.

6.81 We observed that many of the terms and conditions of the 1996 housing policy applied by the Department differ from those of the housing program that the Treasury Board originally approved in the 1980s. Yet, the Department did not seek approval from the Board before implementing the changes called for in the policy.

6.82 The 1996 policy is largely based on a perceived need to remove some of the key limitations on funding set in the 1980s, because they were impeding further improvements to on-reserve housing. Given the difficulties in attracting non-government sources of funds, the subsidy per construction or renovation was often the only source of funds to build or renovate houses. This resulted in houses inappropriate to household size or needs. The Department also considered that funding only the capital costs under its housing program was not encouraging First Nations to look at other issues related to housing, such as the need to properly finance houses, insure them, and maintain them in good condition. Therefore, under the 1996 policy, the Department expanded the range of housing costs eligible for subsidy beyond those initially approved by the Treasury Board. The subsidy could now cover insurance, interest on borrowed funds, or general administration of housing stock. To expand the range of eligible expenses, the Department transferred funds from its capital program without seeking the approval of the Treasury Board.

6.83 Program authority is important in implementing the policy. Although the terms and conditions approved in the 1980s were not rescinded, their application in the context of the 1996 policy is ambiguous as little guidance was provided to regional offices on the policy's application. During our visits to the Department's regional offices, we noted that interpretations of what the 1996 housing policy covered varied. Some officials stated that the policy covered only the funds provided when a First Nations community plan was approved. Others claimed that the policy covered all departmental housing funds but was valid only for the period covered by a plan—that is, five years. In our view, officials will have difficulty implementing a policy if they are not sure what it entails. Accordingly, any uncertainties in interpretation need to be resolved.

6.84 Recommendation. Indian and Northern Affairs Canada should seek approval from the Treasury Board for the terms and conditions of the 1996 housing policy. The Department should provide its regional offices with sufficient guidance and training to ensure that the policy is properly understood and applied consistently.

Indian and Northern Affairs Canada's response. *Agrees.*

The Department is not consistently applying its shelter allowance policy

6.85 Like other “basic needs” allowances, shelter allowance, a component of social assistance, is generally provided according to the benefit rates and eligibility criteria set by the provinces. The shelter allowance further subsidizes the cost of First Nations housing. To ensure that its social assistance program did not duplicate the funding that First Nations receive through federal housing programs, the Department established a policy on shelter allowances in 1990. The conditions under which a community can receive a shelter allowance for a social assistance recipient living in a particular house are as follows:

- The house must not have been constructed solely with government funds.
- The house must be subject to loan repayments.
- The community customarily must collect rent for the house, whether or not it is occupied by someone receiving social assistance.
- The amount of rent must be reasonable in terms of household needs, size, the condition of housing, and prevailing community rental practices.

6.86 The 1990 shelter allowance policy was drafted as an interim policy to address certain on-reserve housing conditions, pending the introduction of a new housing policy. During the 1990s, CMHC’s section 95 program generated new demands for shelter allowance funding from First Nations in different regions at different times. A region’s ability to respond to the demand depended on the availability of funds. According to the Department, some regions could not pay the shelter allowance to First Nations communities because of lack of funds. As a result, the interim policy was not being applied consistently and equitably across the country. Although the Department recognized the problems with the interim policy in 1997, at the end of our audit the policy had not yet been updated.

6.87 According to the Department, more funding for certain regions would be required to fully apply the interim policy on shelter allowance. We noted that a preliminary assessment of the financial implications of introducing the shelter allowance universally in one region concluded that an additional \$20 million would be needed annually for that region. The Department estimated the additional cost of fully applying the policy nationally to be \$40 million to \$65 million a year.

6.88 Recommendation. Indian and Northern Affairs Canada should evaluate its interim policy on shelter allowances and approve a final policy with necessary changes resulting from the evaluation, while taking into account approved funding levels.

Indian and Northern Affairs Canada’s response. Agrees.

Information for Parliament

Parliament is not receiving complete information

6.89 The Department’s reporting to Parliament on costs, program performance, and results of on-reserve housing is incomplete. Accordingly, parliamentarians have not been getting a complete picture of the housing situation on reserves and what is actually being achieved with departmental and CMHC funds. Our review of the Department’s Estimates documents for the past 10 years suggests that fundamental information is missing. Exhibit 6.3 summarizes our assessment of the completeness of the housing information that the Department has reported to Parliament.

6.90 Although CMHC spends a significant amount of money each year (\$87 million in 2000–01) to support on-reserve housing, the Department does not include these figures when it reports total housing expenditures. However, it does include construction and renovation activities funded by

Exhibit 6.3 Completeness of housing information reported to Parliament by Indian and Northern Affairs Canada

Reporting criterion	Current reporting in departmental performances reports	Suggested reporting for departmental performance reports
Organizational context and strategic outcomes are clear	<ul style="list-style-type: none"> Housing is identified under the high-level strategic outcome of “Strong Communities, People and Economies.” Other partner’s contribution to housing is not identified. 	<ul style="list-style-type: none"> Describe the difference that federal assistance is making in addressing the critical housing shortage. Identify other partners involved in housing, namely CMHC and First Nations, and their contribution to results achieved.
Performance expectations are clear and concrete	<ul style="list-style-type: none"> There is no clear explanation of how housing contributes to strategic outcome, including failure to identify an objective for the housing program. There is no description of strategies to achieve performance expectations. 	<ul style="list-style-type: none"> Identify an objective for the housing program. Identify strategies to achieve performance expectations.
Key results are reported against expectations	<ul style="list-style-type: none"> Results achieved are not reported against all performance expectations. There is no discussion of challenges faced in achieving results. There is no discussion of CMHC expenditures or contribution to results achieved. 	<ul style="list-style-type: none"> Report results against all performance expectations. Discuss challenges faced in achieving results. Identify CMHC contribution and expenditures for housing.
Reliability of performance information is supported	<ul style="list-style-type: none"> Department asserts that housing information is “very reliable.” However, our audit found that reliability of housing information is questionable. 	<ul style="list-style-type: none"> Provide a more balanced discussion of quality and sources of housing information.
Use of performance information is demonstrated	<ul style="list-style-type: none"> The Department has not shown that it uses results information in managing its housing program. Lessons learned or plans to improve results are not identified. 	<ul style="list-style-type: none"> Discuss how results information is used in managing the housing program. Identify lessons learned and plans to improve results.

Source: Departmental performance reports from 1991–92 to 2001–02 and April 2002 Report of the Auditor General, Chapter 6, A Model for Rating Departmental Performance Reports

CMHC in reporting on the volume of housing activity. We also noted that the Department's reported housing expenditures omit at least \$109 million that it contributes annually toward housing through its social assistance program and reallocation of funds from other activities. This reporting practice significantly understates total federal expenditures and creates an incomplete picture of the results achieved with the reported expenditures. Our estimate of \$3.8 billion spent over 10 years could not be derived from the Department's and CMHC's reports to Parliament.

6.91 In reporting results to Parliament, the Department has consistently used the total number of houses, the percentage of adequate houses, and changes from the previous year as its main performance indicators. The Department asserts that housing conditions are improving by stating that, at the end of March 2001, the total number of houses had increased by 1,412 units during the past year and reached 89,897 units, and the percentage of adequate houses on reserves had increased to 56 percent, from 50 percent at March 1996.

6.92 In our view, the information provided does not tell the whole story. Although the total number of houses has increased, our analysis shows that the average number of houses constructed since adoption of the policy in 1996 actually declined by 30 percent, to 2,485 units a year from the 3,522 units a year in the five years before 1996. Moreover, the overall improvement in the percentage of adequate houses between 1996 and 2001 is almost entirely attributable to new construction rather than improvements to existing housing.

6.93 We also noted that the Department's reporting to Parliament does not state the objective of its housing activity; nor does it say what difference its housing assistance makes in addressing the critical housing shortage.

6.94 Recommendation. Indian and Northern Affairs Canada, in co-operation with Canada Mortgage and Housing Corporation, should improve its reporting to Parliament. It should clearly articulate its expected results; report on costs, program performance, and results; and clarify how the reported outputs have an impact on the critical housing shortage.

Indian and Northern Affairs Canada's response. Agrees.

Canada Mortgage and Housing Corporation's response. CMHC agrees with this recommendation. The Corporation reports on-reserve expenditures separately in its Annual Report, which is submitted to the Treasury Board and tabled in Parliament. It also submits information to Indian and Northern Affairs Canada for reporting purposes. CMHC will work with the Department, the lead agency, to ensure that the information is available to it, to produce a complete report of all federal on-reserve housing funding to Parliament.

Conclusion

6.95 We found that despite numerous studies about on-reserve housing and a significant investment of federal funds, a critical shortage of adequate housing to accommodate a young and growing on-reserve population continues to exist. The audit identified a number of factors that impede progress. One of these is that the main parties involved do not agree on their roles and responsibilities. In particular, there is a long-standing disagreement between the government and many First Nations on the rationale for federal assistance. Further, the two main federal entities providing assistance have not defined, jointly or separately, what their assistance is intended to achieve in terms of addressing the critical housing shortage; nor have they defined a time frame in which to achieve it. In addition, the Department's and CMHC's programs and funding mechanisms to support on-reserve housing are complex and need to be streamlined, with clear assignment of responsibility for results.

6.96 The Department and CMHC need to strengthen the management of their housing programs. Although some corrective action is being taken or planned, we identified a number of areas where program performance and compliance with authorities can be improved. These are reflected in our recommendations.

6.97 The Department, CMHC, and First Nations need better information about on-reserve housing costs, program performance, and results to help them make informed decisions about the allocation of scarce resources and to strengthen accountability for the money spent and results achieved. Currently, Parliament is receiving incomplete information on the housing situation on reserves and the difference that federal assistance is making in addressing the critical housing shortage.

6.98 We recognize that impediments and long-standing issues affecting on-reserve housing continue to exist and that addressing them requires the political will and good faith of all parties. However, we believe that a more focussed federal approach to assistance is needed to address the critical shortage of adequate housing.

Indian and Northern Affairs Canada's overall response. Indian and Northern Affairs Canada agrees with the recommendations made in Chapter 6 and will co-operate with the First Nations, the Canada Mortgage and Housing Corporation, and the other federal departments concerned to develop relevant strategies for improving housing conditions on reserves.

Canada Mortgage and Housing Corporation's overall response. CMHC, as Canada's housing agency, is committed to improving First Nations housing on reserves through the delivery of specialized housing programs and related capacity development activities. In addition to the programs noted in this chapter—that is, the section 95 program and the Residential Rehabilitation Assistance Program, CMHC delivers a number of other programs and related

services to First Nations communities and housing institutions. Under current funding levels, the ability of CMHC to have a significant impact on housing conditions on reserves through direct subsidies is limited. CMHC's responses to the recommendations are included in the chapter.

About the Audit

Objectives

Aboriginal issues are one of the Auditor General's main focus areas. Accordingly, our audit examined the delivery of on-reserve housing programs that influence the social, economic, and environmental conditions faced by Aboriginal people and their communities.

The objectives of the audit were to determine whether roles, responsibilities, and expected results were defined; management had assurance on the performance of the programs and was taking corrective action as necessary; authorities were in place and complied with; and appropriate information was provided to Parliament.

Scope and approach

Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation (CMHC) are the two main federal organizations that assist First Nations in meeting their on-reserve housing needs. The audit focussed on their activities and results related to on-reserve housing. It covered primarily the programs specifically developed to address this issue and included other supporting programs in these two organizations where relevant. We reviewed policy developments and analyzed information covering the 10 years since our last audit. We also examined (for 2000–01) the systems and practices that the Department and CMHC use to transfer and monitor federal funding to 30 First Nations, including reporting on costs and results.

The audit team carried out interviews with departmental and CMHC managers and staff and reviewed relevant documents at the Department's and CMHC's headquarters and in six regions (Atlantic, Quebec, Ontario, Manitoba, Alberta, and British Columbia). Although we did not audit the activities carried out by First Nations and their organizations, we did seek their views on housing matters. The team also visited eight First Nations communities. The community visits involved discussions with political leaders and housing managers as well as general observation of housing conditions. We also sought the views of national and regional First Nations organizations, including the Assembly of First Nations (AFN), the Assembly of Manitoba Chiefs, and the Saskatchewan Federation of Indian Nations, and we reviewed the documentation provided by them.

Criteria

Our audit was based on the following criteria:

- Clear authorities would be in place and complied with.
- Roles, responsibilities, and expected results would be clearly defined.
- The allocation of resources would be consistent with program objectives.
- Programs would be implemented with due regard to efficiency and economy.
- Appropriate information on results and costs would be provided to Parliament.

Related audit work

See also December 2002 Report, Chapter 1, Streamlining First Nations Reporting to Federal Organizations.

Audit team

Assistant Auditor General: Maria Barrados

Principal: Joe Martire

Directors: André Côté and Gerald Chu

Erin Jelinek
Mathieu Lefèvre
Pascale Legault
Martha Fortier
Monica Reda

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll-free).

Appendix A Chronology of key studies/reports related to on-reserve housing over the past two decades

Year	
1983	The report of the Special Committee on Indian Self-Government , also known as the Penner Report, concluded that economic development of lands and resources on reserves was inadequate. The Committee recommended that, until claims could be settled and an adequate land and resource base provided, First Nations be provided with substantial funding to enable them to build up their community infrastructure, including water, sewage, and housing.
1985	The Report of the Task Force on Program Review , the Nielsen Task Force Report, noted that on-reserve housing continued to be among the poorest in Canada, as evidenced by the fact that one quarter of units were in need of major renovation and one third of units were overcrowded. The Task Force estimated that at least \$500 million was required to address the housing shortage. The report recommended, among other things, that housing assistance be provided on the basis of need, and not on the basis of right.
1990	The Standing Committee on Aboriginal Affairs Report to the House of Commons, <i>Unfinished Business: An Agenda for all Canadians in the 1990's</i> , noted that the critical need for adequate housing on reserves continued to be one of the most difficult problems facing Aboriginal people and the government. The Report qualified the housing situation of many First Nations as a crisis—a crisis that has an impact on other concerns such as health and education.
1991	In an Office of the Auditor General chapter on Indian and Northern Affairs Canada, the Office concluded that the annual supply of houses on reserves was not able to meet the normal replacement demand and much of the older housing on reserves was among the poorest in Canada. It further concluded that the Department had no plan for addressing the existing shortage. The Office recommended that the Department redirect its existing resources and explore a new approach to permitting and encouraging private capital investment in the on-reserve housing market.
1992	The Standing Committee on Aboriginal Affairs Report to the House of Commons, <i>A Time for Action</i> , concluded that there was a crisis in Aboriginal housing due in large part to federal budget reductions, and that addressing the on-reserve housing crisis was an essential precondition to solving many health and social problems. Specifically, the report noted that crowding rates were considerably higher than the Canadian figure and that the gaps were increasing. It further noted that only half of the 70,000 houses on reserves were adequate and suitable for living in. The report contained 14 main recommendations related to housing. These included an injection of funds to address the housing shortage and health and safety deficiencies, and clarification of the government's responsibility and role related to on-reserve housing.
1993	In a follow-up report on Chapter 14 of the 1991 Report, the Office of the Auditor General agreed with the recommendation made by the Standing Committee on Aboriginal Affairs that the government bring the Department's review of the on-reserve housing program, begun in 1975, to an immediate conclusion and present recommendations to Cabinet for a new on-reserve housing policy. The report asserted that the issue of a housing shortage was complex and that its resolution would require consultation and action by all the affected parties.
1996	The report of the Royal Commission on Aboriginal People concluded that Aboriginal housing was sub-standard and was threatening the health and well-being of Aboriginal people. Citing the living conditions as intolerable, the report suggested that acute risks to health and safety be treated as an emergency and targeted for immediate action. The report further noted that over one quarter of the houses on reserves needed major repair or replacement. The report contained 11 recommendations related to housing, including, among other things, the need to address adequate housing shortages over a 10-year period, and the need for an injection of additional funds, clarification of treaty rights to housing, increased control and jurisdiction over housing, the establishment of First Nation institutions, shared responsibility for housing costs, and increased co-operation between First Nations and the government.
1998	In Gathering Strength, Canada's Aboriginal Action Plan , the government stated that one of the most important elements of people's sense of well-being is access to good-quality housing. It recognized housing as a priority area and planned to make increased investments, in combination with existing resources, to accelerate implementation of the new on-reserve housing policy by First Nations.

Source: Cited publications

Appendix B Complexity of housing programs—Indian and Northern Affairs Canada and Canada Mortgage and Housing Corporation

	Indian and Northern Affairs Canada			Canada Mortgage and Housing Corporation (CMHC)		
Policy/ Program¹	1983 policy	1996 policy	Ministerial loan guarantee	Section 95: two percent program	Section 95: “deep subsidy” program	Residential Rehabilitation Assistance Program (RRAP)
Number of First Nations or units serviced	About 146 First Nations (at 31 March 2001) ²	About 400 First Nations (at 31 March 2001)	591 First Nations (since inception of the program in 1966)	About 18,000 units	About 4,000 units	About 9,577 units (from 1992 to 2001)
Key Features	<p><i>Construction:</i> Subsidy between \$19,000 and \$45,000 per unit, depending on location.</p> <p><i>Renovation:</i> Subsidy averaging \$6,000 per unit.</p> <p><i>Funding Allocation:</i> Funding is allocated mostly on the basis of population. Core budget set in the early 1990s.</p>	Level and allocation of funding remain unchanged, however, funding can be used to support a broad range of housing activity, including construction, renovation, insurance, and maintenance.	The Minister guarantees repayment of a loan to an approved lender under the <i>National Housing Act</i> in the event of default by a First Nation or an individual. In the event of reimbursement to a lender, the Department recovers funds from the First Nation.	Subsidy is provided monthly over the duration of the loan to reduce the interest rate on housing capital costs to two percent. Rent is charged on a rent-to-income scale, up to a maximum.	Deep subsidy is provided monthly over the duration of the loan to cover the difference between loan payments and project operating benchmarks and minimum revenue contribution. Minimum revenue contribution is required (funded through collection of rent, other First Nations funds, or from Department's Social Assistance Program if occupant is a social assistance recipient).	Financial assistance is provided to repair substandard homes to a minimum level of health and safety or improve accessibility for disabled persons. Assistance has forgivable and repayable portions, depending on cost of eligible repairs, household income, and location of First Nation. Maximum forgivable assistance ranges from \$12,000 to \$18,000.
Eligibility	All First Nations not under the 1996 housing policy.	<ul style="list-style-type: none"> - Development of housing programs and policies to respond to local needs and opportunities. - Development of multi-year housing plans that set out specific tasks and identify required resources. 	<ul style="list-style-type: none"> - Housing projects must be viable. - For individual loans, satisfactory financial reputation and ability to repay loan. - First Nation must be well managed and operating without a significant deficit, have a satisfactory record of meeting financial obligations, and have a satisfactory previous record for completing housing projects. 	<p><i>New Projects:</i> As of 1997, all new construction is under the deep subsidy program.</p> <p><i>Existing Projects:</i> Operating in accordance with project operating agreements.</p>	<p><i>New Projects:</i></p> <ul style="list-style-type: none"> - Access to unencumbered land. - Eligible for a Ministerial Loan Guarantee from the Department. - Current projects operating in accordance with project operating agreements. <p><i>Existing Projects:</i></p> <ul style="list-style-type: none"> - Operating in accordance with project operating agreements. 	First Nations or individual homeowners with a limited income whose house is older than five years and lacks basic facilities or is in need of major repair.

Appendix B (continued)

<p>Delivery requirement³</p>	<p>Annual comprehensive funding arrangements</p> <p>Construction: Prepare and carry out project implementation plans, including scope, schedule, and costs.</p> <ul style="list-style-type: none"> - Compliance with code requirements. <p>Renovation: Similar requirements defined.</p> <p>Multi-year block funding arrangements</p> <p>Construction: Prepare and carry out approved capital plan, including scope, schedule, and costs.</p> <ul style="list-style-type: none"> - Compliance with applicable regulatory requirements. <p>Renovation: No requirements defined.</p>	<p>Annual comprehensive funding arrangements</p> <p>Construction: Prepare and carry out project implementation plans, including scope, schedule, and costs.</p> <ul style="list-style-type: none"> - Compliance with code requirements. <p>Renovation: Similar requirements defined.</p> <p>Multi-year block funding arrangements</p> <p>Construction: Prepare and carry out approved capital plan, including scope, schedule, and costs.</p> <ul style="list-style-type: none"> - Compliance with applicable regulatory requirements. <p>Renovation: No requirements defined.</p>	<ul style="list-style-type: none"> - Loans will be used for housing. - Environmental assessment of subject property. - Formal commitment by First Nation to reimburse Department in event of guarantee payout. 	<p>New projects: As of 1997, new commitments made under the “Deep Subsidy” program.</p> <p>Ongoing subsidies: - Charging of rent in accordance with income. - Annual verification of tenant income. - Loan payments in full and on time. - Funding of replacement reserve. - Allocation of units to maintain viability of project and program objectives. - Client visits and cyclical inspections periodically undertaken by CMHC.</p>	<p>New projects: - In accordance with approved plans and specifications and in compliance with applicable building codes.</p> <p>Ongoing subsidies: - Loan payments in full and on time. - Funding of minimum revenue contribution, replacement reserve, and operating reserve. - Use of client selection criteria. - Client visits and cyclical inspections periodically undertaken by CMHC.</p>	<ul style="list-style-type: none"> - Complete all mandatory repairs to property to provide minimum levels of health and safety and extend useful life to a minimum of 15 years. - Adopt occupancy and building maintenance standards acceptable to CMHC.
<p>Reporting requirements</p>	<ul style="list-style-type: none"> - Five-year Capital Plan (updated annually). - Housing Conditions Annual Report. - Housing Totals Annual Report. - Certificate of Completion for new construction.⁴ 	<ul style="list-style-type: none"> - Five-year Capital Plan (updated annually). - Housing Conditions Annual Report. - Housing Totals Annual Report. - Certificate of Completion for new construction. - Annual Update to Community Housing Plan. 	<p>Lenders are required to submit the following reports to the Department:</p> <ul style="list-style-type: none"> - Guaranteed Loans Terms and Conditions Report. - Yearly Status Report of Guaranteed Loans. 	<ul style="list-style-type: none"> - Annual Project Data Reports. - Annual audited financial statements (including confirmation that verification of incomes has been performed). 	<ul style="list-style-type: none"> - Audited statement of final capital costs when construction is completed. - Annual audited financial statements. 	<ul style="list-style-type: none"> - Inspections or invoices for work completed prior to CMHC payment. - Final inspection report.

Notes: 1. Departmental and CMHC programs are not mutually exclusive. For instance, First Nations can use departmental subsidies in support of CMHC section 95 projects. Section 95 projects also require the support of departmental ministerial loan guarantees. However, CMHC RRAP subsidies cannot be used to support the renovation of section 95 units.

2. The figure was derived from the number of First Nations that reported on housing conditions to the Department in 2001.

3. The interpretation and enforcement of some delivery requirements vary from region to region. There is one type of annual funding arrangement and four types of multi-year block funding arrangements (Alternative Funding Arrangements, Financial Transfer Agreement, Indian and Northern Affairs Canada/First Nations Funding Agreement and Canada/First Nations Funding Agreement).

4. Requirements for certificates of completion depend on the type of funding arrangement used and the terms and conditions attached to any additional housing allocations.

Source: Departmental and CMHC documentation

Report of the Auditor General of Canada to the House of Commons—April 2003

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