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**LIONS CLUB OF WINNIPEG HOUSING CENTRES
(LHC)**

**SPECIAL AUDIT
January, 2001**



Manitoba

Office of the Provincial Auditor
MANITOBA

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1.0 REPORT OVERVIEW

1.1 Background

In early 2000, the former Executive Director of the Lions Club of Winnipeg Housing Centres (LHC) approached the Province requesting financial assistance.

Pursuant to the Social Housing agreement with Canada Mortgage and Housing Corporation (CMHC) dated September 3, 1998, Manitoba Housing and Renewal Corporation (MHRC) assumed responsibility for CMHC programs. The Province assumed administrative responsibilities over CMHC agreements with LHC effective April 1, 1999.

Due to MHRC concerns that were beginning to be raised since this transition, the former Executive Director was advised that a comprehensive review of all LHC operations, involving both the Department of Family Services and Housing and the Department of Health would be required before further support would be contemplated.

Subsequently, in April 2000, at the request of the Department of Family Services and Housing, LHC provided financial information, along with a request for additional funding support. LHC requested the following:

- \$1.0 million toward debt reduction attributable to the 333 Maryland Project;
- \$175,000 for capital refurbishment in Lions Manor;
- That the Province replace West Broadway Housing financing with funding from Governmental Inner City Housing Initiatives;
- That the Province postpone LHC's required contribution of \$525,000 on the PCC for up to five years; and
- The option of using over \$900,000 of monies (that LHC was at one point eligible to receive under a Contribution Agreement with the Province for the construction of the Personal Care Centre (PCC) to use for Lions Manor refurbishment) to cover operating deficits and debt.

This information, along with additional Provincial follow-up suggested that LHC was experiencing financial difficulties and may be in breach of Provincial agreements.

The Province subsequently offered assistance to the LHC Board in the summer of 2000 conditional on a proposal that LHC enter into an agreement to establish, on an interim basis, a management committee made up of a majority of Provincial representatives together with LHC representatives. The intent was that this committee would provide the Province with a temporary monitoring role. The Province also proposed engaging a professional management consulting firm to provide assistance and direction until the financial and management difficulties could be resolved to the Province's satisfaction. As well, the Province indicated that the Office of the Provincial Auditor would be engaged to perform a Special Audit. The LHC Board refused to accept these conditions as a basis for additional funding. The Province determined that a Special Audit was appropriate under the circumstances.

On July 14, 2000 the Office of the Provincial Auditor was requested by the Minister of Finance (*Appendix C*) to perform a Special Audit of the Lions Club of Winnipeg Housing Centres (LHC) to:

- Determine the financial well being of LHC as a whole; and
- Examine the appropriateness of financial transactions over the last three years.

1.2 Scope

A Special Audit, as provided for in Section 15(1) of The Provincial Auditor's Act is comprised of such examinations and procedures as we determine are necessary to address the issues raised in the request from the Minister of Finance, and any other issues that arise during the audit.

This Special Audit was conducted from September 2000 to December 2000 and included extensive interviews, detailed review and analysis of supporting documentation, and independent confirmation of transactions. The scope of the work varied in each area of review, as we deemed appropriate in the circumstances. We interviewed past and present LHC Board members; past and present senior management; and a number of past and present employees.

We have not performed an audit of the financial records of LHC, but have performed various procedures we considered necessary in these circumstances. The scope of our work was negatively affected by numerous inadequacies in the financial records of LHC, absence of key documentation in certain cases and the inability of staff to provide us with the rationale for certain transactions. As a result, while we have made our best efforts to validate and substantiate the numbers used in this report, further adjustments to the reported results of LHC may be warranted. However, we are confident that any adjustments made would not affect our fundamental conclusions.

This Special Audit generally covered the period from April 1, 1997 to September 30, 2000.

1.3 Summary

LHC is an organization in trouble. Unfortunately, its difficulties have been self-inflicted. Through poor and questionable management, an organization that was in excellent financial health a few short years ago, finds itself close to financial failure. This is most unfortunate because most of the activities of LHC are valuable to our community. Many of our citizens are provided with a safe, secure and affordable place to live through initiatives carried out by LHC and financed largely by the Province of Manitoba.

We would like to indicate at the outset, that the troubling findings and conclusions contained in this report should not be attributed to everyone involved with LHC activities. Many members of the Board and staff are contributing selflessly and performing a valuable service as well.

Why should the citizens of Manitoba care about the situation that has unfolded at LHC? In our view, there are two fundamental answers to this question. One is that significant amounts of public monies have been put at risk. The other is that the deteriorating financial results have placed the ability of LHC to continue to deliver its services at risk.

We believe that those of us charged with managing public monies owe a special duty of care to the citizens of Manitoba. There is a duty of care to utilize such monies with transparency, due diligence, and with an appreciation of the accountability to government and donors of private funds. The special duty of care arises because citizens are compelled to provide government with most of its revenues. In this circumstance, it is incumbent on anyone with access to public monies to be particularly prudent in managing the use of these monies.

Throughout this report, we cite examples where public monies have been mismanaged. We cite other examples where public monies have been put at an unacceptable risk and used for purposes other than those for which they were intended.

Perhaps one quote from a former senior member of the staff we interviewed would help to illustrate why we are so concerned about LHC. With respect to the creation of numerous separate entities to conduct LHC affairs, the individual advised us that "*the entities were set up to keep the Provincial, Federal governments at bay*". Other findings in our report suggest that the desire to

"keep...governments at bay", may have influenced many of the decisions and accounting transactions entered into by LHC entities.

The key question now is: Given the culture evident in LHC, and given the serious financial condition that LHC is in, what should the Government of Manitoba do? While we make a number of recommendations in the report, we believe that there is one overriding recommendation that should be actively pursued:

We recommend that the Government, as one of its options, consider whether it would be appropriate to transfer control of all the housing and personal care facilities currently managed by LHC that are financed by the Province of Manitoba to another organization.

1.4 Key Conclusions

- Losses over the past three years have eroded the equity position of LHC and have placed a serious financial strain on the entities. LHC is in its current financial position for a number of reasons in addition to the fact that there have been significant operating losses in virtually all of the operating entities. Contributors to this current financial position include the following:
 - Incomplete and inaccurate financial information negatively impacted decision-making; and
 - Questionable decisions were made regarding the future direction of the organization (LHC Associates; West Broadway Housing; Wilson House; 333 Maryland Building; 677 Portage Avenue Building; Lions Cove) (Section 4.0).

These issues along with others highlighted in the report need to be addressed by this organization in the larger context of future corporate governance, strategic direction, financial management and accountability.

- The Projection that was prepared and submitted to the Province by LHC was incomplete, inaccurate and unreliable (Section 4.5).
- New and non-core business initiatives have drawn over \$2.9 million of cash from LHC core operations (Section 5.2).
- Governance reviews that we have conducted indicate that it is not uncommon for a board, especially not-for-profit board, to experience some of the issues noted in Section 6.1.1 from time to time. However, we believe it is unusual for such a wide range of governance issues to exist for such a considerable period of time, without being addressed. We believe that the poor governance practices contributed to poor decision-making. We also believe that a reasonable person would perceive that the significant business some Board members obtained from LHC activities may have contributed to a lack of concern with governance issues (Section 6.0).
- Over the last four years transactions between various LHC entities and Board member companies, and between LHC entities and companies of former Board members have amounted to in excess of \$2.0 million (we did not attempt to determine the amount of profit earned on these transactions). We believe that this is inappropriate. The culture of LHC has resulted in public monies being treated in a cavalier fashion (Section 6.1.2).
- We found evidence that certain individuals placed themselves in either a real or a perceived conflict of interest position (Section 6.1.3).

- Although, it is easy to see with hindsight, that the business plans for LHC Associates Limited were unrealistic, we believe that a prudent Board and management would not have embarked on this risky venture, nor have continued with it when it became apparent it was failing on all fronts. Some of the reasons we hold this view are:
 - The nature of the proposed business was so different from that normally conducted by LHC that the risks of adverse outcomes could have been anticipated to be high;
 - As each year went by, the results were so much worse than planned that there were many missed opportunities to shut the organization down and stem the losses; and
 - From the outset, it was clear that the resources of a not-for-profit entity would have to be put at risk to start up and maintain the operations of LHC Associates (*Section 7.1*).

- A number of transactions, in our view, were specifically designed to mask the negative operating results of LHC Associates to the detriment of other not-for-profit LHC entities. Transactions with other LHC entities have had a material impact on the equity position of LHC Associates. All lines of business that did not involve other LHC entities accumulated losses on an annual basis (*Section 7.2*).

- Given the extensive level of renovations that were planned, administration and carrying costs that were foreseeable and the reality that properties in the West Broadway area of the city have a limit on their maximum market value, the expectation to break even on the sale of West Broadway Housing properties was unrealistic. Estimated total losses on West Broadway Housing activities are \$491,400 to date. When the grants received of \$162,800 are taken into account, the amount of money actually lost on this initiative to date totals \$654,200 (*Section 8.2.1*).

- As of December 31, 2000, Lions Manor and the WCB had made arrangements to defer the December 31, 2000 payment due of \$600,000 to March 31, 2001 (*Section 8.3*).

- It is clear that Wilson House was acquired with no specific purpose or tenant identified (*Section 8.4 and 8.4.1*).

- Since the LHC comingled bank account is in a negative position, with LHC carrying a line of credit, it is likely that approximately \$490,000 of funds raised for the construction of PCC were initially used for other purposes (*Section 8.5.2*).

- The comingling of funds has contributed to:
 - An inability of LHC to demonstrate that it has initially used government grants and charitable donations for the purposes intended;
 - Inadequate financial reporting to the Board;
 - Inadequate controls over the operation of LHC entities; and
 - A lack of transparency in LHC's financial reporting.

This is especially critical because the funds of a for-profit entity are comingled with non-profit entities (*Section 9.1*).

- It appears that public monies are being expended on administrative costs without due regard for economy or efficiency (*Section 9.4*).

- In our opinion, costs allocated to LHC entities are questionable. In too many instances, LHC has not documented the basis for these allocations. It is possible that some of these allocations may have resulted in overpayments by the Province to the LHC entities affected (*Section 9.5*).

- It was not possible for us to determine whether all donations have been used for the purposes intended. However, we believe that it is very likely that some donations have, in fact, been used for purposes other than intended (*Section 11.2*).

- The confusing accounting system, combined with the comingled bank account, have contributed to LHC's inability to be transparent and accountable with respect to the use of donations received (*Section 11.2*).
- Replacement reserve funds were not available for use at March 31, 2000 as required under the Lions Place, Lions Gate, Lions Manor and Lions View agreement with Manitoba Housing and Renewal Corporation (formerly a Canada Mortgage and Housing Corporation responsibility) (*Section 13.2*).
- Numerous breaches of funding agreements have occurred including:
 - Advances to related parties which contravene the prohibition against encumbrances and lending;
 - Audited financial and other statements not submitted when required;
 - Monthly financial information not provided to the Winnipeg Regional Health Authority;
 - Hypothecation of investment funds which were only to be used for MHRC (formerly CMHC) approved repairs and capital replacement; and
 - Reserve funds not being held in a special bank account as required (*Section 13.3*).

1.5 Key Recommendations

- We recommend that the Government, as one of its options, consider whether it would be appropriate to transfer control of all the housing and personal care facilities currently managed by LHC that are financed by the Province of Manitoba to another organization.
- Additional adjustments as described in *Section 4.2* are recommended to be made prior to LHC finalizing their draft financial statements of March 31, 2000 for Lions Manor, LHC Associates and Lions Cove (*Section 4.0*).
- We recommended to the Province in October 2000 that additional monies not be advanced to LHC based on LHC Projections. No funds have been advanced to date. We continue to recommend that no additional funds other than those currently being advanced under existing service agreements be provided to LHC until the concerns in our report have been satisfactorily addressed (*Section 4.0*).
- LHC should immediately cease the practice of awarding LHC business to Board member's companies and those of former Board members as long as they remain members of the Lions Club of Winnipeg (*Section 6.0*).
- The Province should make it a condition of providing public monies to not-for-profit organizations, that neither individual board members nor their companies should benefit from the public monies.
- The Province should obtain legal advice to assess whether public monies were paid to individuals with a conflict of interest and to consider what, if any, action would be appropriate (*Section 6.0*).
- The Province of Manitoba and the LHC Board should review all financing arrangements and security with a view to ensuring that these are appropriate and manageable (*Section 8.3*).
- A business plan for the operation of 333 Maryland should be developed. If the business plan shows that the facility is not viable, an action plan should be developed in

conjunction with the Province to minimize the loss of public monies in this venture (*Section 8.3*).

- LHC should determine the least costly alternative to divest itself of Wilson House and act upon this plan expeditiously (*Section 8.4*).
- LHC should establish separate bank accounts and lines of credit for each LHC entity together with separate bank accounts for restricted charitable donations and government grants to the extent necessary to enable them to demonstrate appropriate accountability for funds (*Section 9.0*).
- The Province should consider requiring LHC to prepare a special audited report on the use to which public monies have been put. This could include assessing the appropriateness of cost allocations and the potential for past overpayments by the Province. The Province should subsequently consider whether it would be appropriate to recover public monies that have been spent for purposes other than those intended and whether actions to recover these overpayments would be practical (*Section 9.0*).
- The Province should advise Canada Customs and Revenue Agency (CCRA) of our concern with respect to the appropriateness of the use of donated monies and request them to conduct an audit (*Section 11.0*).
- LHC should take steps to satisfy Manitoba Housing requirements for providing an adequately detailed plan for proposed expenditures through the replacement reserves (*Section 13.0*).
- Appropriately funded replacement reserves should be put in place for all LHC properties and funding deficiencies need to be addressed by LHC management. As well, capital plans should be prepared for all facilities (*Sections 8.1.3 and 13.2*).
- The Province should direct LHC to begin complying with its agreements immediately (*Section 13.3*).

2.0 BACKGROUND

2.1 Introduction

In early 2000, the former Executive Director of the Lions Club of Winnipeg Housing Centres (LHC) approached the Province requesting financial assistance.

Pursuant to the Social Housing agreement with Canada Mortgage and Housing Corporation (CMHC) dated September 3, 1998, Manitoba Housing and Renewal Corporation (MHRC) assumed responsibility for CMHC programs. The Province assumed administrative responsibilities over CMHC agreements with LHC effective April 1, 1999.

Due to MHRC concerns that were beginning to be raised since this transition, the former Executive Director was advised that a comprehensive review of all LHC operations, involving both the Department of Family Services and Housing and the Department of Health would be required before further support would be contemplated.

Subsequently, in April 2000, at the request of the Department of Family Services and Housing, LHC provided financial information, along with a request for additional funding support. LHC requested the following:

- \$1.0 million toward debt reduction attributable to the 333 Maryland Project;
- \$175,000 for capital refurbishment in Lions Manor;
- That the Province replace West Broadway Housing financing (LHC financing) with funding from governmental inner city housing initiatives;
- That the Province postpone LHC's required contribution of \$525,000 on the PCC for up to five years; and
- The option of using over \$900,000 of monies (that LHC was at one point eligible to receive under a Contribution Agreement with the Province for the construction of the Personal Care Centre (PCC) to use for Lions Manor refurbishment) to cover operating deficits and debt.

This information, along with additional Provincial follow-up suggested that LHC was experiencing financial difficulties and may be in breach of Provincial agreements.

In accordance with the Contribution Agreement, following the date that the first resident was admitted to the PCC, the Province deposited \$929,600 into a dedicated fund. As per that Agreement, the provision of this money to LHC was conditional upon LHC submitting to MHRC, a proposed business case for refurbishment of Lions Manor (North Tower) and Lions Manor (South Tower). This business case was to be provided for MHRC approval no later than six months prior to the opening of the PCC. In the event that the business case was accepted by MHRC, then the moneys were to be provided to LHC to be applied in accordance with the approved business case and for no other reason whatsoever. In the event that MHRC did not approve the business case, the monies held in the dedicated fund were to be used by MHRC to pay down the Province's loans to LHC. LHC did not provide the required business case by the appropriate date. (Section 4.5 discusses LHC's subsequent request in September 2000 to use the funds.)

The Province subsequently offered assistance to the LHC Board in the summer of 2000 conditional on a proposal that LHC enter into an agreement to establish, on an interim basis, a management committee made up of a majority of Provincial representatives together with LHC representatives. The intent was that this committee would provide the Province with a temporary monitoring role. The Province also proposed engaging a professional management consulting firm to provide assistance and direction until the financial and management difficulties could be resolved to the Province's satisfaction. As well, the Province indicated that the Office of the Provincial Auditor would be engaged to perform a Special Audit. The LHC Board refused to accept these conditions as a basis for additional funding. The Province determined that a Special Audit was appropriate under the circumstances.

On July 14, 2000 the Office of the Provincial Auditor (PAO) was requested by the Minister of Finance (*Appendix C*) to perform a Special Audit of the Lions Club of Winnipeg Housing Centres (LHC) to:

- Determine the financial well being of LHC as a whole; and
- Examine the appropriateness of financial transactions over the last three years.

Our authority for this investigation is contained in The Provincial Auditor's Act in Section 15(1) that states:

"Notwithstanding any other provision of this Act, the Lieutenant Governor in Council or the member of the Executive Council charged with the administration of The Financial Administration Act may, at any time, direct the Provincial Auditor to make an examination and audit of the accounts of any person, institution, branch, commission, Board, department or agency of the government in any way receiving, paying or accounting for, public monies and report thereon to him, and the Provincial Auditor shall forthwith make the examination, audit and report as directed, if in his opinion the making of the examination, audit and report does not interfere with his primary responsibilities."

After an assessment of the impact of the Special Audit on our primary responsibilities, we agreed to proceed with the Special Audit.

2.2 Corporate Structure and Board Structure

The corporate structure of LHC is complex, comprising several related entities. LHC receives public monies annually from two provincial departments, the Department of Health (Manitoba Health) and the Department of Family Services and Housing.

The LHC Associates Limited (LHC Associates) website describes LHC as follows:

"The Lions Club of Winnipeg Housing Centres (LHC) is a not-for-profit organization sponsored by the Lions Club of Winnipeg, a 73 year old affiliate of Lions International, a world-wide service club. The Board of Directors of LHC consists of volunteers who have made a major time commitment to the welfare of LHC and their residents. Many of the projects LHC has undertaken have been supported by various levels of government, foundations, private individuals and corporations."

LHC's mission statement is... *"to serve the evolving needs of seniors, families, and the community through specifically designed facilities, personalized services, and quality programs based upon wellness principles."*

The corporate structure of LHC is illustrated in *Appendix A*.

LHC is not an incorporated entity. The reference on the LHC Associates website to the Board of Directors of LHC, and the multiple references in the internal documents of the organization to the Board of Directors of the Lions Club of Winnipeg Housing Centres are therefore misleading and inaccurate. Each LHC entity has its own Board of Directors, and some of these Boards (and perhaps all) are comprised of the same individuals. The individuals who are described as members of the Board of Directors of LHC are members of the Board of Directors of some (and perhaps all) of the LHC entities.

Hereafter, the Boards of Directors of the LHC entities, and the group referring to itself as the Board of Directors of the Lions Club of Winnipeg Housing Centres, will be referred to as "the

LHC Board". Reference to LHC includes all LHC entities and references to LHC Associates specifically refers to LHC Associates Limited.

We are concerned that the use of a single board for all entities (that is, the same members, meeting at the same time) may give rise to conflicts between the interests of particular entities.

The following entities comprise LHC:

Legal Entity	Operating Name	Nature of Business
Lions Club of Winnipeg Senior Citizens Home (Not-for-profit)	Lions Manor	<ul style="list-style-type: none"> • Operation of residential low income seniors complexes, including Lions Manor North and South Towers (320 Sherbrook Street), providing care and housing with 317 suites. • Operation of the Alzheimer Residence (32 suites) & Research Centre (333 Maryland Street). • Operation of four separate Adult Day Club Programs. • Owner of LHC Associates Limited.
Lions Club of Winnipeg Place for Senior Citizens Inc. (Not-for-profit)	Lions Place	<ul style="list-style-type: none"> • Operation of a residential low-income seniors complex at the Lions Place building with 287 suites (610 Portage Avenue).
Lions Club of Winnipeg Gateway to Affordable Housing Inc. (Not-for-profit)	Lions Gate	<ul style="list-style-type: none"> • Operation of a 72-unit low-income townhouse complex at 1321 Beaumont Street in Fort Garry for low-income families. Included within this operation is the Lions Gate Day Care for pre-school and before and after-school children.
Lions Club of Winnipeg View From the South Inc. (Not-for-profit)	Lions View	<ul style="list-style-type: none"> • Operation of a 32-unit low-income housing project for special needs individuals living on assistance or low income (311 Furby Street).
Lions Club of Winnipeg Cove for Life Inc. (Not-for-profit, Life-Lease)	Lions Cove	<ul style="list-style-type: none"> • Operation of a 48-unit mid-income seniors life lease project on Valhalla Drive in East Kildonan.
LHC Associates Limited (For-Profit, Share Capital Entity owned by Lions Manor)	LHC Associates	<ul style="list-style-type: none"> • Provision of property management and consulting services. • Operation of LHC Associates building (677 Portage Avenue)
West Broadway Housing Inc. (Share Capital Entity owned by LHC Associates operating as a Bare Trustee)	West Broadway Housing	<ul style="list-style-type: none"> • Operation of West Broadway house purchase, renovation, and sale projects and the Wilson House Project.
Place for Health Inc. (Also known as George Thomson Health Centre) (Not-for-profit)	Place for Health	<ul style="list-style-type: none"> • Provision of geriatric care as an independent medical center (located in Lions Place).
LHC Personal Care Home Inc. (Not-for-profit)	PCC	<ul style="list-style-type: none"> • Operation of a Personal Care Centre with 116 beds (320 Sherbrook).
Lions Cove Inc. (For-Profit, Share Capital)	Trademark	<ul style="list-style-type: none"> • Established for the sale of the Cove Trademark in Canada.

2.3 Organization Structure

An Executive Director, who is accountable to the LHC Board, manages LHC. The present Executive Director was appointed in September 2000. Prior to her appointment, a former Board member and member of the Lions Club of Winnipeg served as an Interim Management Coordinator and performed the Executive Director role for a few months. Prior to this, the former Executive Director served in this capacity from May 1, 1993 to April 30, 2000. An organization chart is presented in *Appendix B*.

2.4 Public Monies Provided To, and Invested In, LHC

Over \$8.7 million (provincial and federal monies) was paid to LHC over the three year period ending March 31, 2000 for their provision of services or debt servicing. As well, over the same period, special Provincial, Federal and City of Winnipeg grants were paid to LHC amounting to over \$1.8 million.

Pursuant to the Social Housing agreement with Canada Mortgage and Housing Corporation (CMHC) dated September 3, 1998, Manitoba Housing and Renewal Corporation (MHRC) assumed responsibility for CMHC programs. The Province assumed administrative responsibilities over CMHC agreements with LHC effective April 1, 1999. The Province (Department of Health) and the Department of Family Services and Housing now has responsibility for LHC's mortgage default and capital financing of over \$27.6 million, which is the majority of LHC's debt of \$35.2 million at March 31, 2000.

As well, the Workers Compensation Board (WCB) has provided capital financing of \$3.8 million.

3.0 SCOPE

A Special Audit, as provided for in Section 15(1) of The Provincial Auditor's Act, is comprised of such examinations and procedures as we determine are necessary to address the issues raised in the request from the Minister of Finance, and any other issues that arise during the audit.

This Special Audit was conducted from September 2000 to December 2000 and included extensive interviews, detailed review and analysis of supporting documentation, and independent confirmation of transactions. The scope of the work varied in each area of review, as we deemed appropriate in the circumstances. We interviewed past and present LHC Board members; past and present senior management; and a number of past and present employees.

We engaged Deloitte & Touche LLP to work with Provincial Audit staff and assist in the:

- Determination of an investigation strategy and the performance of specific procedures;
- Review of financial statement disclosures and accounting treatment in the audited financial statements for March 31, 1998 and March 31, 1999 and the draft unaudited financial statements for March 31, 2000;
- Assessment of the LHC Business Case and Financial Projections provided to the Province in September, 2000; and
- Preparation of balance sheets and income statements for LHC as of September 30, 2000.

This Special Audit generally focused primarily on the period from April 1, 1997 to September 30, 2000.

We have not performed an audit of the financial records of LHC, but have performed various procedures we considered necessary in these circumstances. The scope of our work was negatively affected by numerous inadequacies in the financial records of LHC, absence of key documentation in certain cases and the inability of staff to provide us with the rationale for certain transactions. As a result, while we have made our best efforts to validate and substantiate the numbers used in this report, further adjustments to the

data and the reported results of LHC may be warranted. However, we are confident that any adjustments made would not affect our fundamental conclusions.

This report summarizes our findings, conclusions and recommendations.

4.0 ASSESSMENT OF CURRENT FINANCIAL POSITION

We reviewed the financial information for LHC for a three-year period assisted by Deloitte & Touche LLP. In some cases, transactions leading up to this period of time were reviewed in order to obtain an overall appreciation for the decisions that were made and the operations of LHC. The following discussion highlights the results of this financial review.

4.1 Operating Losses

Findings

LHC has experienced significant and growing financial losses over the past three years. Lions View is the only entity that made a profit over this time frame. The losses for the years ended March 31, 1998, 1999 and 2000 are as follows:

Entity	Financial Results for the Years Ended March 31				
	1998	1999	2000	PAO Proposed Adjustments	Preliminary 2000 as Adjusted (unaudited)
	(audited)		(unaudited)		
Lions Manor and subsidiaries:					
Lions Manor	\$(201,800)	\$(281,000)	\$(870,000)	\$(1,627,300)	\$(2,497,300)
LHC Associates	(123,000)	(175,700)	(183,500)	771,400	587,900
West Broadway Housing	-	(51,000)	(192,000)	(270,600)	(462,600)
	\$(324,800)	\$(507,700)	\$(1,245,500)	\$(1,126,500)	\$(2,372,000)
Lions Place	(145,000)	(15,200)	(140,100)	-	(140,100)
Lions Gate	(28,800)	(15,900)	(111,200)	-	(111,200)
Lions View	-	-	16,000	-	16,000
Lions Cove	-	(88,200)	(87,100)	-	(87,100)
Place for Health	(33,800)	(7,100)	(20,700)	-	(20,700)
Total	\$(532,400)	\$(634,100)	\$(1,588,600)	\$(1,126,500)	\$(2,715,100)

Note 1: Individual PAO adjustments are described in Section 4.2.

Note 2: Further adjustments having both a positive and negative effect will likely be required prior to finalizing the March 31, 2000 financial statements.

4.2 Asset Valuation

Findings

During the course of the Special Audit the need for a number of adjustments was identified. We believe that these should be reflected in LHC entity statements:

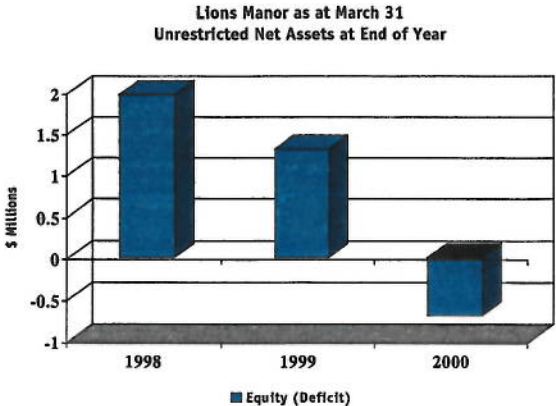
Description	Amount	PAO Assessment
Lions Manor deferred employee benefits	\$234,800	Lions Manor recorded a receivable from the Province. The Province is not responsible for paying this in the future.
Lions Manor deferred charges net of accumulated amortization	\$422,000	This represents deferred fundraising costs. It is questionable whether various costs should have been capitalized. There does not appear to be any future benefit to be derived.
Lions Manor due from LHC Associates	\$771,400	LHC Associates does not have the means to repay the loan from Lions Manor of \$1,169,300. The amount should be written down to the net realizable value of LHC Associates building. The net book value of land and building at March 31, 2000 was \$397,900. Tax implications have not been determined. Further adjustments may be required due to operations subsequent to March 31, 2000.
Project Management Fees paid to LHC Associates capitalized in the construction cost of 333 Maryland	\$150,000 (includes \$90,000 inter-company profit)	No LHC Associates services were provided. Also, the amount charged exceeded our estimate of a reasonable internal project management cost. The portion of adjustment related to the year ended March 31, 2000 is \$30,000. The March 31, 2000 balance sheet should reflect the prior year's adjustment of \$120,000 (includes \$60,000 of inter-company profit).
West Broadway additional property write-down	\$270,600	Additional writedown based on subsequent actual property sale price or on an independent market valuation conducted in November 2000.
Internal salary costs capitalized in the construction cost of 333 Maryland	\$ 84,600	Overstated internal charges. \$17,000 of this balance relates to the current year. The March 31, 2000 capital cost should reflect the prior year's portion of this adjustment of \$67,600.
Wilson House property write-down	\$152,100	Additional write-down of \$345,600 to estimated net realizable value net of deferred contributions of \$193,500.
Inter-company profit component of LHC Project Management Fees capitalized in the construction cost of Lions Cove	\$100,000	The March 31, 2000 Lions Cove balance sheet reflects LHC project management fees of \$200,000. These were capitalized in the construction costs of Lions Cove. The amount capitalized exceeded cost as \$100,000 of this balance was inter-company profit.

Description	Amount	PAO Assessment
333 Maryland capital cost increase	\$254,000	March 31, 2000 Lions Manor balance sheet should reflect St. Boniface Research Centre funded renovations in capital costs with note disclosure. Deferred revenue for prepaid rent should be taken into income over a period of time agreed upon with the St. Boniface Research Centre.

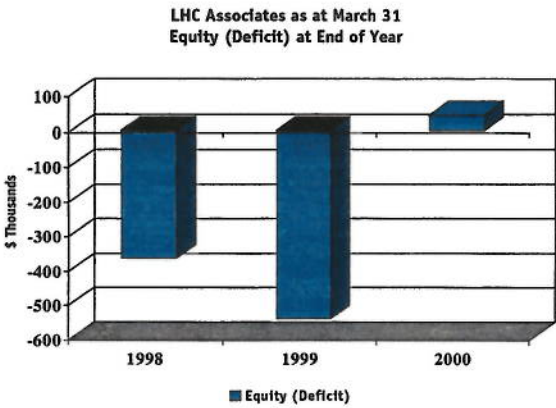
4.3 Equity Position

Findings

Below is a synopsis of the equity positions of the LHC entities for the last three fiscal years taken from their March 31, 1998 and 1999 audited financial statements and their March 31, 2000 draft unaudited financial statements reflecting our recommended adjustments.



LIONS MANOR operations have generated significant losses in each of the last three years. As a consequence of these losses and the use of unrestricted net assets to finance capital asset acquisitions, Lions Manor has a significant deficit of approximately \$725,300 after reflecting our estimated adjustments.

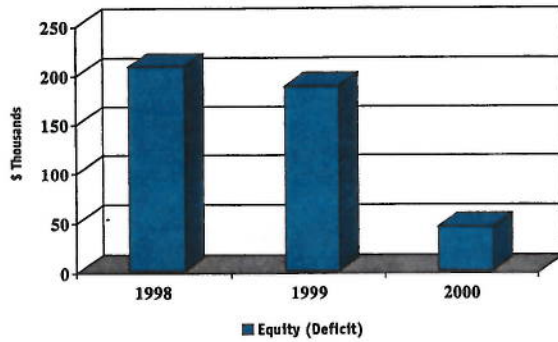


LHC ASSOCIATES has shown losses on operations in each of the last three fiscal years. During that time, the company's principal source of income has been fees for services and project management from related entities. Its expenses reflect a variety of administration, overhead, salary, and project management costs. As a consequence of the losses, LHC Associates accumulated deficit has grown to approximately \$727,500. After adjustment for the writeoff of the advance from Lions Manor, LHC Associates equity position becomes approximately \$43,000. The deficit of \$727,500 has been financed by way of

a loan from Lions Manor. The principal asset available to LHC Associates to repay the remaining loan to Lions Manor is its capital assets comprised of property at 677 Portage Avenue. However,

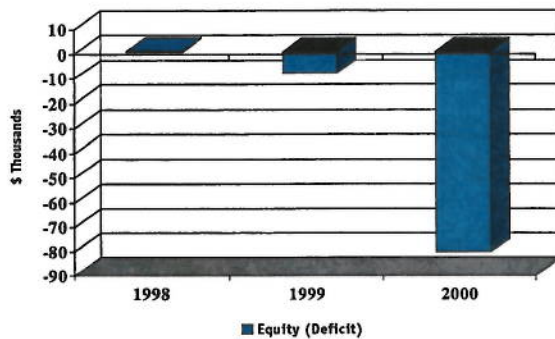
the building has recently been pledged as security for the Lions Manor operating line of credit. As such, any sale proceeds would be required to be applied against the outstanding line of credit. Our recommended adjustment in *Section 4.2* has the effect of transferring the LHC Associates' deficit to Lions Manor as LHC Associates does not have the resources to retire its deficit.

Lions Place as at March 31
Operating Fund Equity at End of Year



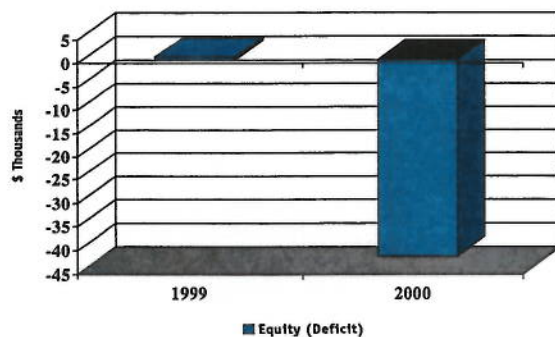
LIONS PLACE financial results have deteriorated over the last three years. After a breakeven position in 1998, the 1999 year end resulted in a small loss. In that year, revenues were less than expected and expenditures were managed to be below budget, resulting in the small loss. In the year ended March 31, 2000, revenues were substantially less than expected while expenditures were higher than anticipated, resulting in a significant loss. As a consequence, the remaining equity in Lions Place's operating fund is less than \$45,000.

Lions Gate as at March 31
Operating Fund Equity (Deficit) at End of Year

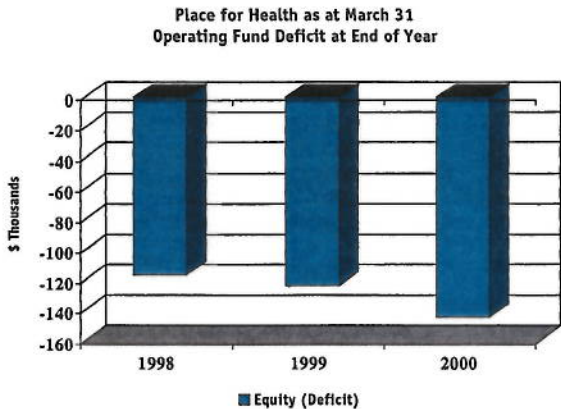


LIONS GATE operating fund losses have continued to increase in each of the last two years resulting in an aggregate operating fund deficit to March 31, 2000 of approximately \$81,400. This deficit is funded primarily by way of an inter-company advance from Lions Manor of \$72,000, with the remainder inappropriately funded through replacement reserve monies.

Lions Cove as at March 31
Unrestricted Net Assets at End of Year



LIONS COVE operations are funded by the long-term debt and equity contributions of life lease interest holders. The amount of these sources of financing is currently providing the financing to offset the \$42,300 deficit incurred to March 31, 2000.



PLACE FOR HEALTH has incurred operating losses for the past three fiscal years resulting in a net deficiency of assets of approximately \$144,000 at March 31, 2000. This deficit has been financed exclusively by way of a loan from Lions Place’s capital fund.

LIONS VIEW’s first period of operations is for a 16 month period ended March 31, 2000. During this period its draft unaudited financial statements reflect an operating surplus. The combination of this surplus, plus the surplus transferred to Lions View at the time of the property acquisition, leaves a positive equity balance of approximately \$135,600.

4.4 Debt Levels

Findings

Debt increased over 100% over the last three years from \$17.2 million at the year ended March 31, 1998 to \$35.2 million at the year ended March 31, 2000. This resulted from the following increases:

Schedule of Increases in Debt from March 31, 1998 to March 31, 2000		\$(millions)
Capital Initiatives		
PCC Construction		\$10.4
Lions Manor - 333 Maryland Building Project		2.9
Lions Cove		1.7
Lions View		1.9
Reductions in Lions Gate & Lions Place		(0.8)
Other		
Line of Credit Related to Various LHC Entities		1.9
Total Increase in Debt		\$18.0

The majority of new debt was incurred in support of new construction.

4.5 Assessment of LHC Cash Flow Projection Provided to the Province

Findings

In September 2000, LHC provided a Business Case and Financial Projections (Projection) for the year ended March 31, 2001 to the Department of Family Services & Housing. The Projection included all LHC entities with the exception of Lions Cove and Lions View and was prepared by management as a two-part plan to:

- Provide a business case to the Department of Family Services & Housing to secure approximately \$930,000 of funding for previously incurred construction costs purportedly related to the development of the Personal Care Centre (PCC) as well as certain proposed costs related to the redevelopment of Hostel rooms in Lions Manor; and
- Outline the financial position of LHC by detailing the anticipated cash receipts and disbursements for the year ended March 31, 2001.

LHC management was of the opinion that these documents clearly indicated that if LHC was allowed to utilize the funding in the manner outlined in the Projection, LHC would stabilize and be able to carry on business without further financial assistance from the Province.

We were assisted in our review of the Projection by representatives from Deloitte & Touche LLP. In summary, the results of this review highlighted deficiencies in the documentation, which cast doubt on their reliability. Furthermore:

- There were no monthly financial statements for comparison purposes;
- Excessive use of netting and internal charges made it difficult to compare operating expenditures;
- The limited support that was available for the cash flows was provided on a piecemeal basis from a variety of sources;
- The bank balance referenced (as at August 31, 2000) was the bank statement balance, and not the properly reconciled balance. The last bank reconciliation prepared was at April 30, 2000;
- The position that LHC was taking with its financial institution (i.e., non-disclosure of collateral shortfall) appears to be short sighted and filled with risk; and
- The cash flow made no provision for property tax reassessments for construction and renovations relating to PCC and 333 Maryland, funding of Lions Place and Lions Gate replacement reserves and increased energy costs.

We disagreed with management's assessment. It was apparent that the Projection was based on incomplete information without assessing the impact on the entire organization. We consider the credibility of the information presented by LHC to be questionable at best.

4.6 Financial Position as at September 30, 2000

Findings

In order to obtain a more current picture of LHC, Deloitte & Touche LLP in collaboration with LHC staff prepared unaudited financial statements for the period April 1, 2000 to September 30, 2000. These statements were provided to LHC and the Province.

This was an onerous process requiring additional PAO staff to assist LHC staff in reconciling their bank accounts from April 2000 to September 30, 2000. This exercise provided additional information on operations that are reflected in other sections of this report. The statements confirmed that LHC continues to be in poor financial condition.

Conclusions

- *Losses over the past three years have eroded the equity position of LHC and have placed a serious financial strain on the LHC entities. LHC is in its current financial position for a number of reasons in addition to the fact that there have been significant operating losses in virtually all of the operating entities. Contributors to this current financial position are discussed in other sections of this report, but include the following:*
 - *Incomplete and inaccurate financial information negatively impacted decision-making; and*
 - *Questionable decisions were made regarding the future direction of the organization (LHC Associates; West Broadway Housing; Wilson House; 333 Maryland Building; 677 Portage Avenue Building; Lions Cove).*

These issues along with others highlighted in the report need to be addressed by this organization in the larger context of future corporate governance, strategic direction, and financial management and accountability.

- *In our opinion, the Projection that was prepared and submitted to the Province by LHC was incomplete, inaccurate and unreliable.*

Recommendations

- *Additional adjustments as described in Section 4.2 should be made by LHC prior to finalizing the draft financial statements of March 31, 2000 for Lions Manor, LHC Associates and Lions Cove.*
- *LHC should review the tax implications associated with the writedown of the advance from Lions Manor.*
- *We recommended to the Province in October 2000 that additional monies not be advanced to LHC based on LHC Projections. No funds have been advanced to date. We continue to recommend that no additional funds other than those currently being advanced under existing service agreements be provided to LHC until the concerns in our report have been satisfactorily addressed.*

5.0 OVERVIEW OF CAUSES FOR DETERIORATING FINANCIAL CONDITION

The purpose of this section is to summarize our findings and conclusions from elsewhere in this report that we believe have made a direct or indirect contribution to the deteriorating financial condition of LHC.

In 1995, LHC began expanding into new lines of business with the formation of LHC Associates, a “for-profit” company wholly owned by Lions Manor. Starting up new lines of business is a risky proposition for any enterprise. It requires careful planning, cautious forecasting and strong governance. These risks are magnified when a “for-profit” company depends on the money and staff of a “non-profit” company for its survival.

Unfortunately, the experience since 1995 with respect to LHC Associates and other new projects of LHC has been negative. As of September 2000, LHC Associates is in wind-up mode and has essentially ceased operations. We believe that contributing factors to this experience are poor planning, poor monitoring, poor management, inherent conflict of interest and inadequate governance.

It is of particular concern to us that Lions Manor has used public monies and charitable donations to prop up a failed “for-profit” company.

5.1 Governance

Section 6.0 provides details of our review of governance practices. In that section we conclude that it is unusual for such a wide range of governance issues to exist for such a considerable period of time, without being addressed. We believe that the poor governance practices contributed to poor decision-making. We also believe a reasonable person would perceive that the significant business some Board members obtained from LHC activities may have contributed to a lack of concern with governance issues.

5.2 Overview of Impact of Alzheimer Residence and Research Centre and Non-Core Initiatives

Findings

As per The Lions Club of Winnipeg Housing Centres Annual Report for 1998-1999 its Mission Statement is as follows:

"To serve the evolving needs of seniors, families and the community through specifically designed facilities, personalized services and quality programs based on wellness principles."

This Mission Statement should be kept in mind when the sections outlining the business initiatives are read.

The 333 Maryland Project houses an Alzheimer residence and a Memory Assessment Clinic. While the Alzheimer residence and the Memory Assessment Clinic portion of the 333 Maryland building are consistent with the Mission Statement, this was a discretionary decision by management and the LHC Board to add a new service. Further, the costs associated with the building have, and will continue to have, a significant impact on LHC's cash flow.

LHC became involved in a number of what we consider to be non-core business initiatives and transactions. We would define non-core to mean initiatives that do not involve resident care in Lions Manor, Lions Place, and the PCC as well as Lions Gate and Lions View.

Non-core businesses and transactions over the past five years have resulted in a cash outflow from the organization of \$2.9 million as shown in the following table:

Cash Outflows on the 333 Maryland Project and Non-Core Business Initiatives for the Five Years Ended March 31, 2000	
Initiatives	Impact on Cash (millions)
LHC Associates	\$1.6
West Broadway Properties	.5
333 Maryland Project	.6
Purchase and renovation of Wilson House and purchase and sale of Eddy's Printing building	.2
Total	\$2.9

In addition, the 333 Maryland Project required additional debt of \$2.9 million. Projections indicate that this facility will be unable to break-even. Therefore, this debt may have to be repaid by core operations. Further, it is unclear whether the sale of West Broadway Housing properties will be able to repay the mortgages on these properties. The result of these items is that at least an

additional \$2.9 million may need to eventually be repaid from Lions Manor and Lions Place, and now the PCC operations unless an alternative source of funding can be found.

Prior to becoming involved in non-core operations in 1995 when LHC Associates began operations, the audited financial statements for Lions Manor for the year ended March 31, 1994, indicated that Lions Manor had a surplus of \$2.15 million. As well, they show that Lions Manor had no bank indebtedness and had \$2.06 million in cash and investments at that same date. As at March 31, 1994, the only debt on the balance sheet was two mortgages related to Lions Manor Towers. As indicated in *Section 4.3*, Lions Manor's financial position has deteriorated to an estimated deficit position.

When reviewing the impact of non-core business on LHC operations we considered the present condition of the facilities, given that these monies were not used for the purpose of maintaining the facilities:

- Lions Gate property shows significant signs of deterioration and needs to be addressed through capital refurbishment;
- We were advised that a number of significant capital improvements required to Lions Manor and Lions Place were delayed as a result of no funds being available; and
- LHC did not have documented, consolidated maintenance and capital improvement plans for resident facilities available for our review.

5.3 Administrative Practices

Section 9.0 describes a number of deficiencies in administrative practices. In essence, LHC was operated without due regard for economy and efficiency in the spending of public monies. Further, in our opinion, the controls over revenue and expense were inadequate.

5.4 Financial Reporting

We identified shortcomings in both external and internal financial reporting in this report. We believe that the lack of good financial information and internal financial reporting hindered the Province in its monitoring role and contributed to the LHC Board making inappropriate decisions.

Conclusions

- *In our opinion, a number of initiatives undertaken by LHC over the past three years would not be considered as part of the organization's core business. Prior to LHC Associates and various special projects, Lions Manor was in a solid financial position with cash and investments. It did not have an operating line of credit. The only debt was related to mortgages on the Lions Manor towers.*
- *New and non-core business initiatives have drawn over \$2.9 million of cash from LHC core operations.*
- *Lions Manor and Lions Place funds were put at risk through the Board and Management's non-core business projects.*
- *It was represented to us that building repairs on Lions Manor, Lions Place and Lions Gate have been delayed because of a shortage of funds due to monies being invested in non-core initiatives. Capital improvement plans for resident facilities were not available during our review.*

6.0 GOVERNANCE

6.1 LHC Board

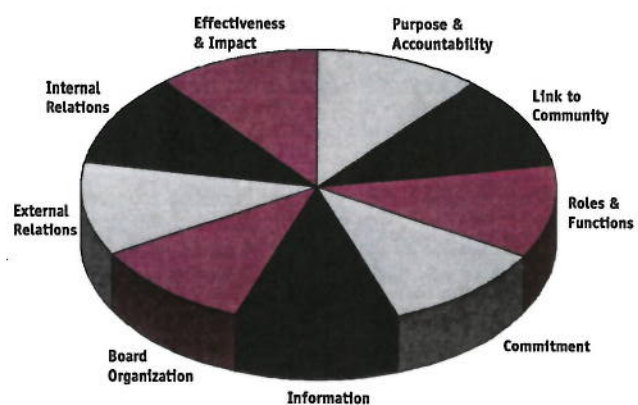
6.1.1 Overview

A review of the LHC Board and its governance practices was conducted. Our work consisted of a review of Board by-laws, minutes and correspondence. As well, we interviewed all individuals who served on the LHC Board over the period under review. In total, 23 interviews were conducted with current or past Board members.

The Model of Governance developed by our Office in 1998 was used in conducting this review. This model was developed based on a review of leading research and perspectives in Board governance. Our model identifies a set of nine attributes that represent the attributes of an effective Board. It states that an effective Board should:

- Be accountable for the effectiveness of the organization achieving a set of agreed-upon priorities, based on clearly understood goals;
- Be clear on who the Board represents;
- Be clear on Board responsibilities;
- Have members on the Board who are committed to the organization
- Have the appropriate information to make decisions;
- Be organized as a Board with appropriate structures and processes;
- Maintain appropriate linkages with other organizations;
- Define clear relations with the Executive Director and staff;
- Make policy decisions for the organization and, as necessary, change the recommendations made to the Board from staff.

Attributes of an Effective Board



It is our opinion that, in general, the more a Board fulfils each of these attributes, the more effective it is.

Findings:

Our review resulted in the following findings with respect to the governance practices of the LHC Board of Directors:

- LHC Board members were unclear as to whom their Board is primarily accountable for the actions of the organization. The lack of consistency in response indicates that the issue has not been specifically discussed and clarified by the Board. This lack of clarity is of concern. Accountability to the Lions Club of Winnipeg is presumed to exist by some Board members, as membership on the LHC Board is restricted to Club members and the annual general meeting of LHC is held in conjunction with the Club. However, the specific requirements of that accountability, if any, have not been clarified. This has resulted in a strained and difficult relationship between the two groups over the past few years.
- All Board members noted that specific strategic planning sessions to set organizational goals and ensure a common view on strategic priorities had not occurred. As a result, the overall

goals and direction for the organization were not adequately placed into a comprehensive strategic plan by the Board. Rather, the Board relied on the Executive Director to set the strategic direction. This is an abdication of the Board's responsibility as leaders and stewards for the organization. As the ultimate authority for the organization, it is the Board's role to set the strategic direction and plan, as well as annual goals/targets. The Executive Director is the Board's agent in carrying out the plan and should be held accountable for achieving the goals/targets set by the Board.

- The specific roles, responsibilities and functions of the Board were unclear to the majority of Board members interviewed. While many Board members stated this was a "policy" Board, most were unsure as to what that term meant in practice. No Board orientation or training occurred within the period of our review. Board training and development may have been deemed to be unnecessary as the majority of Board members had served for many years. However, it meant that newer Board members were left to "find their own way." As a result of this, the Board did not do a good job in carrying out some basic Board functions, such as setting organizational direction, monitoring the achievement of goals and ensuring that accountability obligations are discharged.
- The LHC Board is composed of volunteer Board members who are not paid for time spent on Board duties. Yet, attendance at Board meetings and achieving a quorum is not an issue. Membership on this Board is limited to members of the Lions Club of Winnipeg. As the Lions Club of Winnipeg consists of a relatively small group (currently 54 members), a "recycling" of Board members occurs in order to fill Board positions. Although Board by-laws stipulate that members must go off the Board for a 2 year period after serving two consecutive 3 year terms, by-law amendments allow members to continue on the Board in 1-year term allotments, if agreed to by 2/3 vote at the annual general meeting. As a result, some individuals have served on the Board almost continuously and we were told that the Board relies too much on the opinions and experience of these "senior members". An effort to recruit "newer" members for the LHC Board had only recently occurred, with one joining in 1998 and five joining in 1999. However, our review found that by the end of 1999, three of these "newer" Board members had already left the Board.
- Issues were raised with respect to the information received by Board members for decision-making. Information and business plans were presented by the Executive Director on a project-by-project basis, rather than via a comprehensive strategic document linked to financial budgets. As previously noted, the Board did not receive complete monthly financial statements for all LHC entities. As a result, Board members were unable to assess the risk and financial impacts of the decisions being made. Board members told us they were generally presented with a "rosy picture" and assured that there was little financial concern in undertaking proposed projects. We were told that supplemental information requested by Board members was generally not provided on a timely basis. Most Board members were not aware of the organization's overall financial position until the audited financial statements were provided at the annual general meeting. In more recent years, as the Board started to see an erosion in the financial position of LHC, members indicated that they felt problems may have been purposely hidden from the Board.
- Issues were raised with respect to the Board's committee structure. It was the Board's general practice to have a report from each Committee's Chairperson whereupon the Board would generally ratify decisions that had been made by Committees. It was generally assumed that the committee had adequately dealt with any issues. We were told that Board members often felt that, especially with respect to the Executive Committee "the decision had already been made". We were also told that some committees did not play a substantive role. While the by-laws specify the Board's committees, actual Board practice did not always adhere to the by-laws. For a number of years, the Board's Finance Committee was amalgamated with the Executive Committee. In 1999/2000, the Board's Executive Committee did not meet, its work largely replaced by the Financial and Administration Review Committee. The Board by-laws do not require an Audit committee.

- All Board members felt that they were given sufficient opportunity to participate and discuss issues at Board meetings. However, we were told of a large amount of dissension and conflict that existed on this Board. In 1999/2000, there was conflict on the Board, conflict with the Lions Club of Winnipeg, and conflict with the Executive Director. Shouting matches and unprofessional behaviour were reported to occur at Board meetings. The level of dissension led to difficulties for this Board and most members reported being frustrated by the discord. It should be noted that the Board's by-laws do not allow for the removal of any one or more "unproductive" members.
- Issues were placed on the agenda by the Board President, the Executive Director or a Committee Chairperson. All decisions were made by motion and all motions voted upon. Board members told us that issues were thoroughly discussed and debated and that the Executive Director was questioned and challenged. But, they noted that at the end of the day, they usually agreed to what was proposed as they felt that the decision was "already made" by the Executive Committee. As one long term Board member noted, *"I've never seen the Board turn it down...nothing of importance was ever reversed."* Thus non-executive Board members felt they had little impact. We were also told that there was often lobbying and side meetings. As one Board member noted, *"depending on the political relationships at the time, as long as there's three or four people who have an "understanding", they can influence the Board's decisions."* As per another Board member, *"In the Lions, it's unfortunately true that the phones ring at night... There's a lot of lobbying that's going on all the time."*
- The relationship between a Board and its Executive Director is one of, if not the, most important relationship in the Board form of governance. The Executive Director's role and responsibilities were not clearly delineated nor were his authorities (or executive limitations) clearly specified. Our understanding is that the Executive Director was hired to be an "entrepreneur and builder". It is unclear to us whether this was the consistent understanding among all Board members. Board members reported they were repeatedly told to have no involvement with respect to operations and staff. As a result, the Executive Director was given almost complete authority and control of the organization. While no Board should be overly involved in day-to-day management issues, as the ultimate authority for the organization a Board does need to monitor the Executive Director to ensure responsibilities are carried out efficiently and effectively, and that organizational goals are achieved. While Board members had a number of concerns with the performance of the former Executive Director, he was not held effectively accountable for his actions. It was explained that it was seen to be the role of the Board President. However, our review found that the Board President did not approve the Executive Director's expenses, nor was an adequate, formal annual performance review process in place. Reviews were done in an ad-hoc manner. One former Board President told us that he just approved a performance review that was provided to him by the Executive Director. He signed it, even though he did not agree with it.
- Board members felt the Executive Director is generally more responsible for organizational effectiveness than are Board members and almost all held the former Executive Director responsible for the current financial situation of LHC. However, many Board members did acknowledge that they had approved many initiatives and that the Executive Director had never "forced" them to agree to anything.
- No formal evaluation of the Board nor of individual Board members was ever completed. However, in our discussions, Board members generally self-assessed this Board as ineffective.

6.1.2 Transactions Between LHC and Board Member Companies

Findings

The purpose of this section is to demonstrate the extent of financial transactions between LHC entities and board member companies. It is important to note that almost all of these transactions were conducted with the companies of five individuals.

Transactions Between LHC Entities and Board Member Companies					
Entity	For the Years Ended March 31				Total
	1997	1998	1999	2000	
Lions Manor	\$241,100	\$154,100	\$419,300	\$365,100	\$1,179,600
Lions Place	63,500	28,700	1,700	-	93,900
Lions Gate	45,500	6,900	600	-	53,000
LHC Associates	5,600	15,100	-	-	20,700
Place for Health	800	100	-	-	900
Total	\$356,500	\$204,900	\$421,600	\$365,100	\$1,348,100

Transactions by Service Type between LHC and Board Member Companies					
Services	For the Years Ended March 31				Total
	1997	1998	1999	2000	
Architecture*	\$ -	\$ 15,700	\$306,000	\$194,000	\$515,700
Construction**	129,000	7,000	66,700	170,200	372,900
Painting	123,600	52,800	48,100	-	224,500
Insurance	79,400	94,800	-	-	174,200
Legal	24,500	34,600	-	-	59,100
Other	-	-	800	900	1,700
Total	\$356,500	\$204,900	\$421,600	\$365,100	\$1,348,100

* Architecture fees and disbursements relating to the PCC Project of approximately \$970,700 were paid to a Board member company. A portion of these expenses is reflected in this table with the balance of approximately \$455,000 being paid in previous years.

**Construction services reflect project management fees.

Transactions between LHC and Companies of Former Board Members Who Were Members of the Lions Club of Winnipeg					
Services	For the Years Ended March 31				Total
	1997	1998	1999	2000	
Architecture	\$230,900	\$128,000	\$ -	\$ -	\$358,900
Painting	-	-	-	174,700	174,700
Insurance	-	-	126,000	110,600	236,600
Legal	-	-	900	20,100	21,000
Other	15,000	500	-	-	15,500
Total	\$245,900	\$128,500	\$126,900	\$305,400	\$806,700

6.1.3 Board Member Conflict of Interest Disclosure Process

Findings

Conflict of interest guidelines do exist in the Corporation's by-laws. They state that those members *"who are in a position to receive any direct or indirect material benefit from financial transactions with Lions Manor shall disclose the situation and ... abstain from voting for any Resolution resulting in a direct or indirect material benefit."* Board minutes do reflect that members abstain from voting in such cases.

The by-laws further state that members are *"not disqualified from contracting with Lions Manor...provided that a proper disclosure has been made and the contract is reasonable and fair to Lions Manor"*.

In one situation, in 1993, the then Board took issue with the Finance Committee Chairperson who earned commissions from the investment of LHC monies. The issue was not one that the individual benefited, but that the commission earned was not disclosed to other Board members. This issue is ongoing. LHC has incurred approximately \$30,000 in legal fees.

6.1.4 Awarding of Business

Findings

As per Lions Manor Articles of Incorporation, *"the directors shall serve as directors and officers without remuneration and no director shall directly or indirectly receive any profit from his position as a director or officer provided that a director may be paid reasonable expenses incurred by such director in the performance of such director's duties"*. During the course of our review we noted that there were inconsistencies between LHC practice and the Articles of Incorporation of various LHC entities.

The awarding of work for projects over \$1,000 at LHC required Executive Director approval. Projects over \$5,000 required Committee or Board approval with the requirement that the following information be presented to the Committee or the Board:

- Clear definition of the project with rationale and explanation;
- Initial approval by the Executive Director to obtain quotes;
- Confirmation of available funding by the Manager of Finance;
- Distribution of request for quotations and receipt of the same from a minimum of three appropriate suppliers;
- Summary of quotations and recommended suppliers; and
- Confirmation letters to suppliers.

We selected eight contracts, from several projects undertaken by LHC. The practices followed for these contracts were compared to the above policy. The following exceptions were noted:

- For the PCC and Lions Cove Projects, only two proposals were obtained for architectural services. Only LHC Board members or former Board members were asked to submit proposals.
- In some instances, companies owned by Lions Club of Winnipeg members were awarded contracts through the quotation process, despite not submitting the lowest bid. There was no documentation available to support the decision not to proceed with the lowest bid.
- From the sample of contracts, one was awarded to the company of a LHC Board member without following the quotation process. This Board member's company was not selected for different work they had requested. However they were given untendered construction management business as indicated in the following Board minute extract. "Although [a

former Board member's company] will not be retained for their services of design/build, consideration will be given to allow [a former Board member's company] to participate in presenting to the Committee to provide other services on the project, should the Committee choose Construction Management, Contractor, etc." This company was sole sourced for construction management services.

In addition to the review of the above sample of contracts, we obtained the following information through interviews and review of additional documentation:

- Up until recently, insurance services for LHC entities had never been tendered. On December 13, 2000, the LHC Finance and Administration Committee reviewed tenders for insurance for Lions Cove and Lions View. Three quotes were reviewed. The Committee selected the Board member's quote even though it was the highest quote received. No documentation was available to indicate the rationale for selecting the highest quote.
- External audit services have never been tendered.
- The architect working on the construction of Lions Cove was a former Board member. A serious parking deficiency was realized after construction. The LHC Board discussed potential legal action, but decided against this.
- During the course of this review, numerous employees cited Board member business involvement with LHC as a concern. As well, situations were cited where an employee felt they were either directly or indirectly being pressured to utilize Board member services.
- A former employee stated, "I was always put in the position where I had to go to the Lions Club members for a bid, and in several instances was forced to accept bids that I did not consider to be appropriate from people who had not actually performed on jobs that we had already given to them".
- During our review, it was brought to our attention that a Board member may have received preferential treatment with respect to the payment of their outstanding bills at a time when cash was tight. In one incident, we were advised that a Board member insisted they be paid immediately after the individual learned of a potential cash drain at LHC.

Conclusions

- *Governance reviews that we have conducted indicate that it is not uncommon for a board, especially a not-for-profit board, to experience some of the issues noted in Section 6.1.1 from time to time. However, we believe it is unusual for such a wide range of governance issues to exist for such a considerable period of time, without being addressed. We believe that the poor governance practices contributed to poor decision-making. We also believe that a reasonable person would perceive that the significant business some Board members obtained from LHC activities may have contributed to a lack of concern with governance issues.*
- *Over the last four years transactions between various LHC entities and Board member companies and between LHC entities and companies of former Board members have amounted to in excess of \$2.0 million (we did not attempt to determine the amount of profit earned on these transactions). We believe that this is inappropriate. The culture of LHC has resulted in public monies being treated in a cavalier fashion.*
- *We found evidence that certain individuals placed themselves in either a real or a perceived conflict of interest position.*

- *We believe that the use of a single Board for all LHC entities may give rise to inherent conflict of interest whereby decisions may not take into account all entities interests equally.*

Recommendations

- *Legal advice should be sought as to the advisability of the same persons meeting at the same time acting as a Board for multiple LHC entities in order to avoid conflicts of interest as between LHC entities.*
- *The accountability relationships of the LHC Board need to be clarified with respect to the various corporate entities it oversees.*
- *The Board needs to develop an overall strategic plan for this organization that ensures a systematic approach to sustaining the properties, planning for future directions, and monitoring of organizational performance.*
- *Board members need to be clear on their responsibilities and functions. It is not appropriate to leave the “real” governance work to others, whether it be more senior Board members or the Executive Director. Board orientation and development is a necessary part of effective Board membership and should occur whenever a new member is brought on the Board.*
- *Boards should be comprised of a mix of individuals who bring a variety of experience, values, and perspectives to the table. The requirement that LHC Board members have to be Lions Club of Winnipeg members is a limitation on the cross-section of expertise available to the LHC Board. This practice should be reconsidered given the small Lions Club membership (54) from which to draw.*
- *The Board should be monitoring budget expenditures and variances, and should receive comprehensive business plans linked to financial budgets in making future decisions. The sole reliance on internal management for all information also needs to be addressed by this Board, as multiple sources of information can provide new perspectives and alternatives.*
- *This Board needs to re-think their committee structure to ensure that committees that do not serve a useful purpose are removed. The limits of authority in terms of what decisions can be made at a committee level and what must be made by the full Board must also be clarified.*
- *Establishing an Audit Committee would enhance Board communication with the External Auditor. Had this been in place, the Board may have been more aware of control weaknesses and would have been in a better position to ensure LHC annual audited financial statements were discussed and understood by Board members. As well, a fully functioning Finance Committee can play a useful role in reviewing the administration’s financial information in detail, analyzing budget variances on a monthly basis and providing up-to-date financial information to the Board.*
- *The Board needs to strike the right balance of power with its Executive Director. A Board that is too involved in the day-to-day management of its organization may compromise its responsibility, while a Board that is too “hands off” abdicates its authority and places too much power and unrestricted authority in the hands of senior managers. In this case, all authorities were perceived to fall to the Executive Director, thereby eroding the Board’s role as ultimate authority. While the Executive Director is most responsible for organizational efficiency and effective management, this should not be confused with overall organizational effectiveness*

for which the Board is responsible and ultimately accountable. The LHC Board needs to ensure that their Executive Director is given a clear job description, which specifies authorities as well as annual objectives to achieve. Monitoring the performance of the Executive Director is a major responsibility of any Board. While the Board may choose to delegate this responsibility to the Board President or Executive Committee, all Board members should have input and be informed of the results of any review.

- *In future, the Board should conduct regular self-assessments of its performance.*
- *LHC should immediately cease the practice of awarding LHC business to Board member's companies and those of former Board members as long as they remain members of the Lions Club of Winnipeg;*
- *The Province should make it a condition of providing public monies to not-for-profit organizations, that neither individual board members nor their companies should benefit from the public monies; and*
- *The Province should obtain legal advice to assess and consider whether public monies were paid to individuals with a conflict of interest and to consider what, if any, action would be appropriate.*

6.2 Compensation and Expense Accounts of the Former Executive Director

Findings

A number of elements of compensation for the former Executive Director have not been formally approved by the LHC Board. These include certain bonuses, vehicle allowances, and compensatory payments toward personal expenses charged to the corporate credit card. We noted that corporate credit card transactions for three years ending April 30, 2000 amounted to \$102,200 of which \$57,500 has been recorded as personal expenses in LHC records. These personal expenses have either been repaid to LHC or covered through the compensatory payments from LHC. The only documentation supporting the credit card charges is credit card statements. Receipts setting out the nature and purpose of the expenses were not available for our review. The former Executive Director's expenses were not approved by any LHC Board member.

LHC had signed a consulting agreement with the former Executive Director in May 1993. There were further contract renewals made over the course of his tenure that ended April 30, 2000.

The LHC treated the former Executive Director as an independent contractor and therefore made no deduction from his compensation for employment insurance, Canada Pension Plan or income taxes.

Conclusions

- *We believe that the former Executive Director was a contract employee of LHC and that LHC should have reported his compensation to the Canada Customs and Revenue Agency (CCRA).*
- *The LHC Board was not sufficiently diligent in managing its financial arrangements with the former Executive Director.*

Recommendations

- *The Province should advise CCRA of the nature of LHC's transactions with the former Executive Director. CCRA should be asked to advise LHC as to whether LHC has appropriately reported the former Executive Director's income and made all the appropriate deductions and remittances to CCRA.*
- *We recommend that the LHC Board adopt a more formal process to approve contractual arrangements with, and expense accounts of, its Executive Directors. It should also require appropriate documentation of expenses.*

7.0 LHC ASSOCIATES LIMITED

LHC Associates (formerly 3139042 Manitoba Ltd.) was incorporated in the Province of Manitoba in 1995 as a for-profit company and is owned 100% by Lions Manor. Its 1998/99 annual report indicates that its purpose is as follows: *"LHC Associates provides consulting, project management and property management services to external clients utilizing LHC staff and management."* One objective of this company was to generate profits, which could be used to fund activities in LHC core operations.

The operations of LHC Associates are currently being wound down.

7.1 Business Plans

Findings

Two business plans for LHC Associates were presented to the Board. The first business plan was presented in May 1997 and the second business plan was presented in June 1998.

The May 1997 Business Plan contained a pro forma financial statement that indicated that LHC Associates would generate \$479,900 in profits over the two years ended March 31, 1999. The audited financial statements indicate that LHC Associates incurred losses of \$298,700 over this same period.

The June 1998 Business Plan that was presented to the Board did not contain a pro forma financial statement. However, the Business Plan did project revenues totaling \$989,600 for the two years ended March 31, 2000. The Business Plan presented to the Board did not contain any estimates of expenses for this period.

We obtained an internal management copy of the June 1998 Business Plan, which contained a pro forma financial statement that projected net earnings before interest of \$162,700 for the 2 years ended March 31, 2000. Adjusting for the actual interest expense in this period of \$133,000, there was a projected net profit of \$29,700. Financial statements subsequently indicated that LHC Associates incurred an actual total loss of \$359,200 over this period.

One example of flawed assumptions in the June 1998 business plan has to do with rates for property management. The business plan used a rate of \$62.50/unit/month, whereas correspondence from another company involved in the projects suggested an appropriate rate would have been \$20/unit/month or lower.

7.2 Losses by Line of Business

Findings

As at March 31, 2000, the draft unaudited financial statements of LHC Associates reflect an accumulated operating loss over the past five years of \$727,500 (Section 4.2 contains adjustments to this that transfer most of the losses to Lions Manor). Three lines of business (consulting services, property management and project management) were established by LHC. Over the past five years, these lines of business have contributed approximately \$252,000 to the accumulated operating loss.

There were a number of transactions between LHC Associates and other LHC entities that resulted in the net transfer of cash from LHC not-for-profit entities to this for-profit entity. Examples include:

- Rental charges (\$269,300) for Lions Manor staff resident in 677 Portage Avenue where Lions Manor did not have a valid business case for locating staff at that premise;
- Although interest expense (\$291,900) was recorded in LHC Associates books on its advance from Lions Manor, no such interest was ever paid;
- Project management fees charged (\$350,000) to Lions Manor and Lions Cove where employees performing the work were employees of Lions Manor; and
- Salaries of key LHC Associates staff, including the former Executive Director, were paid by other LHC entities.

7.3 Overview of Business Activities in Alberta and British Columbia

Findings

An important contributing factor to the losses of LHC Associates was its failed attempt to establish a consulting and life lease business in Alberta and British Columbia (BC). Internal records of LHC Associates shows that consulting and life lease activities in Alberta and BC accumulated a loss of \$136,200 over the three year period ended March 31, 2000. The markets never materialized for these highly speculative activities. Revenue and expense details as recorded in LHC Associates accounts were as follows:

Consulting and Life Lease Activities in Alberta and British Columbia for the Three Years Ended March 31, 2000	
Description	Amount
Revenues:	
Consulting Fees and Life Leases	\$ 74,800
Bad Debts	(57,400)
Total Revenue	<u>17,400</u>
Expenses:*	
Salary – Alberta Employee	46,500
Other Expenses – Alberta Employee	37,400
Consulting Fees – Alberta Consultant	5,000
Travel for Executive Director	31,800
Travel for Head Office Staff	25,700
Legal	7,200
Total Expenses	<u>153,600</u>
Net Loss	<u>\$(136,200)</u>

*Expenses do not include salary costs for the Executive Director who expended significant time on the initiative.

Other findings with respect to business activities in Alberta and British Columbia are as follows:

- LHC Associates invoiced two British Columbia projects \$35,000 on March 31, 1999. We confirmed that these amounts were contingent on the project proceeding to the construction phase and were payable from the first construction draw. These accounts receivable were never collected and were written-off in the 2000 fiscal year. A former employee of LHC Associates stated that the revenue from these receivables was known to be uncollectable at the time of recording.

Conclusions

- *Although, it is easy to see with hindsight, that the business plans for LHC Associates were unrealistic, we believe that a prudent Board and management would not have embarked on this risky venture, nor have continued with it when it became apparent it was failing on all fronts. Some of the reasons we hold this view are:*
 - *The nature of the proposed business was so different from that normally conducted by LHC that the risks of adverse outcomes could have been anticipated to be high;*
 - *As each year went by, the results were so much worse than planned that there were many missed opportunities to shut the organization down and stem the losses; and*
 - *From the outset, it was clear that the resources of a not-for-profit entity would have to be put at risk to start up and maintain the operations of LHC Associates.*
- *A number of transactions, in our view, were specifically designed to mask the negative operating results of LHC Associates to the detriment of other not-for-profit LHC entities. Transactions with other LHC entities have had a material impact on the equity position of LHC Associates. All lines of business that did not involve other LHC entities accumulated losses on an annual basis.*
- *British Columbia project revenue for LHC Associates of \$35,000 was recorded for the fiscal year ending March 31, 1999 before it was earned.*

8.0 NEW PROJECTS

8.1 Lions Cove

Lions Cove is a life lease retirement community developed and operated on a not-for-profit basis by the Lions Club of Winnipeg Cove for Life Inc. Its principal activity is the operation of a 48 unit life lease residential complex for senior citizens. Lions Cove was incorporated on February 24, 1997 and commenced operating January 1, 1998 being the substantial completion date of construction of the building.

Life lease housing is made possible when retirees contribute capital, on a refundable basis, to the not-for-profit organization that is building the project and will operate the life lease project. This capital pays for all or a portion of the costs of construction of the life lease project. A tenant's monthly rent will depend on the size of the suite selected and the amount of capital contributed to the project. Monthly rents are used to fund all project-operating costs in respect of a suite, such as building financing costs, building operating costs, property taxes and parking.

8.1.1 Project Construction Costs

Lions Cove Budget and Actual Construction Costs			
Description	Budget January 8, 1997	Actual	Variance (Unfavourable)
Land Purchase	\$ 487,800	\$ 429,300	\$ 58,500
<u>Soft Costs:</u>			
Professional Fees	240,000	417,300	(177,300)
Marketing Fees	116,900	129,600	(12,700)
Financing	95,000	77,400	17,600
Management Fees to LHC Associates:			
- Payout of LHC Associates Project to Lions Manor	100,000	100,000	-
- Payout of LHC Associates 100% Profit on Above	100,000	100,000	-
Other	117,000	56,300	60,700
Total Soft Costs	768,900	880,600	(111,700)
Construction Costs	4,941,600	5,104,600	(163,000)
Interest Capitalized	-	31,300	(31,300)
GST and Other	346,000	338,500	7,500
Total Costs	\$6,544,300	\$6,784,300	\$(240,000)

8.1.2 Rental Rates and Tenant Reporting

Findings

According to the tenants' leases, the monthly rent from each tenant is their share of the estimated operating costs calculated on a square footage basis. After the actual expenses are known, the Landlord is required to advise the tenants as to the actual costs and calculate the actual rent owing. If the tenant owes additional money, it is due and payable and if the tenant has overpaid, the excess is credited to the next year's rent. As per the tenant lease agreements, management is required to circulate to all tenants an audited statement of the actual operating expenses and a calculation of the rent owing or refundable within three months of the end of the fiscal year end. During our review, we determined this obligation to communicate with residents and adjust their rents has not been met.

8.1.3 Replacement Reserves

Most organizations of this nature build up a cash reserve to pay for high cost repairs and maintenance that can be expected to occur in the future, such as, roof replacement or parking lot repavement. The use of the reserve enables these items to be paid without causing a large increase in rent in the year the expense is incurred. We found that Lions Cove has not established a capital replacement reserve.

Conclusions

➤ *The total Lions Cove construction cost overrun is not, in itself, unusually high, representing less than 5% of the original budget. However, the cost overrun in professional fees of approximately 74% is of concern. This particular overrun is problematic because of two key design issues:*

- *the original design had to be redone when it was determined by the City of Winnipeg officials that the building would have been too close to the river;*
- *and*
- *there were not enough parking spaces for the residents built into the final design.*

Additional architectural fees were incurred as a result of these errors. We believe this is problematic because the architect was both a former member of the LHC Board and a member of the Lions Club of Winnipeg. We believe it is possible, if the architect was at greater arm's length from LHC, that Lions Cove would have insisted on the redesign being done at no cost to Lions Cove and that the architect reimburse Lions Cove for lost revenues as a result of the mistakes in designing the parking spaces.

- *We also noted that Lions Cove allowed LHC Associates to earn a 100% profit on project management services provided by Lions Manor staff, but flowed through LHC Associates. This \$100,000 cost was capitalized as part of building costs. As noted in Section 4.2, we are recommending that this inter-company profit be reversed.*
- *Lions Cove is not meeting its legal obligation to tenants with respect to communicating with them and ensuring that they are assessed the correct amounts.*
- *Operating without a replacement reserve is a poor business practice that exposes future tenants to an unacceptable risk that their rents may rise dramatically.*

Recommendations

- *We recommend that Lions Cove take immediate action to comply with its legal obligations to tenants with respect to rental rates.*
- *We recommend a replacement reserve fund for Lions Cove be established.*

8.2 West Broadway Housing Inc.

West Broadway Housing is a 100% owned subsidiary of LHC Associates, which in turn is a 100% owned subsidiary of Lions Manor. The West Broadway Housing project was initiated by LHC in December 1997. Management advised that West Broadway Housing operated as a "Bare Trustee" acquiring the properties on behalf of Lions Manor.

The purpose of the West Broadway Housing project was to promote inner city renewal in the area surrounding LHC buildings. By refurbishing inner city homes, it was hoped that homeowners would return to the community and that the general quality of the area around LHC buildings would be improved. West Broadway Housing, acting as a bare trustee, purchased a total of 20 properties for refurbishment.

8.2.1 Analysis of Renovation Projects

Findings

The more important findings arising out of our review are:

- As of September 30, 2000 approximately \$376,500 in financing to West Broadway Housing had been provided by Lions Manor and Lions Place through the comingled bank account.
- The original plan was designed not to require large amounts of capital as the number of properties under construction at any given time was to be fairly small. The plan called for the purchase of a small number of inner city homes, renovation of these homes using volunteer labour where possible, and subsequent sale of the renovated homes at a small profit. The proceeds of the sale would then be used to fund the refurbishment of the next home. The initial goal was to recover all costs associated with the properties.
- Of the 20 properties purchased by West Broadway Housing, only six were in the area surrounding LHC properties. The other 14 were located south of Broadway Avenue.
- The following table shows the amounts invested in houses, together with realized and unrealized losses as at September 30, 2000:

Financial Analysis of West Broadway Housing Initiative			
Descriptions	Properties On Hand (12)	Properties Sold (8)	Totals (20)
Proceeds on Sales of Properties	\$ -	\$604,300	\$ 604,300
Purchase price and closing costs	272,900	191,700	464,600
Less: Charitable donation receipts issued	(22,000)	(40,000)	(62,000)
Net Purchase Price	250,900	151,700	402,600
Renovation and carrying costs:			
Construction	460,200	438,900	899,100
Administration	142,500	186,000	328,500
Carrying costs	82,800	24,400	107,200
Sub-total	685,500	649,300	1,334,800
Grants received:			
CMHC forgivable loan- 15 years	(21,800)	-	(21,800)
HRDC grants	(84,600)	(56,400)	(141,000)
Sub-total	(106,400)	(56,400)	(162,800)
Net renovation and carrying costs	579,100	592,900	1,172,000
Total Cost	\$830,000	\$744,600	\$1,574,600
Estimated Net Realizable Value	478,900	-	478,900
Total Realized and Unrealized Losses	\$351,100	\$140,300	\$ 491,400

Note: We have recommended writing down these assets to the estimated net realizable value in Section 4.2.

Other findings associated with the West Broadway Housing initiative are as follows:

- As per a February 4, 1998 memorandum from the former Executive Director to a former Board member, "the monies to purchase West Broadway properties were to come from Lions Place Capital Account. These funds are donations and their use is at the discretion of the Board." Audited financial statements for the year ended March 31, 1998 reflect a \$229,000 reduction in the Lions Place Replacement Reserve Fund.
- CMHC monies of \$21,800 represent a forgivable loan that requires that the property it was applied to remain as a rent-regulated low-income rental for a period of 15 years.
- We reviewed the file for each of the West Broadway properties and observed that not all files contained budgets. In files that contained budgets, only construction costs were budgeted. Administration and carrying costs were not budgeted.
- As well, some files did not contain any evidence that an engineer had inspected the property prior to purchases. One property that was purchased without having the property examined by a professional engineer, was subsequently found to have an unsalvageable foundation. The home was demolished and a completely new R2000 home was built on this site.
- Undertaking a large number of projects at one time contributed to losses as homes in inventory incurred carrying costs such as property taxes, insurance, and interest while they were awaiting renovation. Properties sold had average administration and carrying costs of \$26,000 per house.

- Location in the West Broadway area places a limit on the maximum market value of a property.
- Regular reporting on the status of West Broadway properties is not provided to the LHC Board.
- A review of LHC minutes indicates that the Board was not provided with an estimate of the potential total costs associated with this initiative. For example, the Board was given estimates of \$15,000 for renovation costs for each of two properties for a total of \$30,000. Actual renovation costs (construction, administration and carrying costs) for the two properties totaled \$183,300 (Property #1 - \$88,100 and Property #2 - \$95,200).
- As at September 30, 2000, West Broadway Housing had sold eight properties that had been refurbished. The book values of these properties ranged from a high of \$138,000 to a low of \$70,500. All these properties were located on Langside Street. The \$140,300 realized loss on the sale of eight properties had also been funded by the core LHC operations. The average loss on sale was \$17,500 per property.
- We have been advised that LHC is no longer purchasing properties under this initiative. Existing houses in inventory will eventually be completed to enable their resale.

8.2.3 Comparison of West Broadway Housing Operations to a Not-for-Profit Organization with Similar Activities

Findings

As an additional review of the reasonableness of West Broadway Housing activity, we compared West Broadway Housing sales to sales of houses by a not-for-profit organization with similar activities. The mandate of this comparable operation is to strengthen home ownership in neighborhoods in need through the acquisition and renovation of existing homes. This organization acquires single detached and duplex housing units in the inner city. The houses are purchased, renovated and then sold to first time homebuyers. Seven houses that were purchased, renovated, and sold by the organization produced the following results:

Details	Not-For-Profit Seven Sold	West Broadway Housing Eight Sold
Average purchase price per house (excluding donation receipts for West Broadway)	\$27,900	\$19,000
Average renovation costs incurred per house	\$21,900	\$74,000
Average Cost of the house	\$49,800	\$93,000
Average selling price of the seven houses	\$48,100	\$75,500
Average Loss per house	\$(1,700)	\$(17,500)

This comparison shows that it is possible to limit the losses incurred in this kind of a program to a level well below that experienced by West Broadway Housing.

Conclusions

- *The goal of recovering costs associated with the properties has not been achieved.*
- *The purchase of the 14 properties located south of Broadway was inconsistent with the original plan.*
- *Lions Place and Lions Manor monies were used to supplement outside financing.*
- *An independent market valuation of the 12 properties in inventory as at September 30, 2000, highlighted the need for an additional write-down of \$270,600.*
- *Given the extensive level of renovations that were planned, administration and carrying costs that were foreseeable and the reality that properties in this area of the city have a limit on their maximum market value, the expectation to break even on the sale of West Broadway Housing was unrealistic. Estimated total losses on West Broadway Housing activities are \$491,400 to date. When the grants received of \$162,800 are taken into account, the amount of money actually lost on this initiative to date totals \$654,200.*
- *Undertaking a large number of projects contributed to losses as homes incurred carrying costs (i.e. property tax, insurance, rent, etc.) while they are waiting to be renovated. We are concerned that these expenses continued to be incurred on buildings where it was already obvious that the amounts invested could not be recovered.*
- *Board reporting on the West Broadway Housing initiative was incomplete:*
 - *No regular monthly financial summaries were provided and annual figures were consolidated into the Lions Manor financial statements making separate analysis of West Broadway results difficult; and*
 - *The Board was not given all of the information on the purchase of the properties noted above.*
- *A comparable operation demonstrated that it is possible to manage the purchase and renovation of houses while incurring significantly lower losses than West Broadway Housing.*

Recommendations

We recommend that:

- *Controls over future expenditures on West Broadway properties be put in place to ensure excess costs are not incurred;*
- *Monthly Board reporting on the costs associated with this initiative be implemented; and*
- *The Board follow through with the discontinuance of this non-core line of business.*

8.3 Alzheimer Residence and Research Centre (333 Maryland)

In March 1998, Lions Manor purchased the 333 Maryland property from the Workers Compensation Board of Manitoba (WCB) at a cost of \$1,000,000. LHC paid \$100,000 cash and WCB took back a mortgage of \$900,000.

The Alzheimer Residence & Research Centre Project included the following facilities:

- 12 Unit Apartment Residence
- 20 Unit Supportive Home
- Bed and Breakfast Respite Centre
- Adult Day Club
- Memory Assessment Clinic
- Administrative Offices

The Memory Assessment Clinic, located on the third floor of the Lions Alzheimer Residence & Research Centre, is a partnership between LHC and the St. Boniface General Hospital Research Centre (Research Centre). The renovation costs of the third floor facility, incurred by LHC, were recovered from the Research Centre. The Research Centre does not make any lease payments to LHC for their use of the third floor facilities.

8.3.1 Summary of Acquisition and Renovation Costs

Findings

Budget to Actual Comparison for the Construction of 333 Maryland		
Details	Board Approved Budget	Actual Costs
Purchase of Land and Buildings	\$1,000,000	\$1,000,000
Original Projection for Renovations and Furniture	2,200,000	
Budget Adjustment	1,300,000	
Amount Approved	3,500,000	
Construction Costs		2,990,800*
Other Costs:		
Construction Management Fees		227,000
Architect Fees		217,200
Project Management Fees		160,200
Salaries and Benefits		133,600
Furniture		155,000
Interest		139,500
Property Taxes		87,000
Legal		9,000
Insurance		16,400
Utilities		54,500
Cell Phone Charges		3,400
Miscellaneous		13,900
Total Costs	\$4,500,000	\$5,207,500

*Includes \$254,000 of costs paid for by the St. Boniface General Hospital Research Centre.

Supplementary facts regarding building costs are as follows:

- On August 18, 1997, LHC obtained an appraisal for 333 Maryland indicating a value of \$475,000. WCB has on file a 1994 formal appraisal indicating a value for this facility of \$1.5 million;
- The purchase agreement was signed by the Province, WCB and LHC. The agreement provided for a \$500,000 contribution from the Province to Lions Manor;
- We are aware that in December 1998 LHC management were concerned that the 333 Maryland Project could potentially cause the organization financial difficulties;
- On February 1, 1999 the LHC Board approved that the 333 Maryland Project proceed with a budget of \$4.5 million. No detailed budget was available to us to identify what was included in the \$4.5 million and no detailed information was included in the Board documentation; and
- Although the above table shows a cost overrun of \$707,500, when the costs are compared to the original projection, the actual expenditures amount to over \$2,000,000 or approximately 63% of the original projection.

8.3.2 Cost Allocation

Findings

The following analysis was prepared to compare the internal project charges that were capitalized in the 333 Maryland Project to the PCC construction project (a project that was closely monitored by the Department of Health). The employee providing project management services to the 333 Maryland Project was a Lions Manor employee on Lions Manor payroll. This employee's Lions Manor salary was capitalized to the project at the same time project management fees for this employee's work were being charged to the project by LHC Associates.

The following table shows the costs charged to 333 Maryland by other LHC entities. For comparative purposes, we have shown the costs charged to the construction of the Personal Care Centre (PCC) by LHC entities.

Comparison of 333 Maryland Internal Charges to PCC Internal Charges			
Details	PCC	333 Maryland	Difference
Project Costs	\$13,725,500	\$4,953,500	\$8,772,000
Clerk of the Works/Salaries & Benefits charged by Lions Manor (% of Project Costs)	\$ 35,000 .25%	\$ 133,600 2.7%	\$ (98,600)
Project Management Fees charged by LHC Associates (% of Project Costs)	\$ - 0%	\$ 150,000 3.03%	\$ (150,000)
Total Internal Charges to the Projects (% of Project Costs)	\$ 35,000 .25%	\$ 283,600 5.7%	\$ (248,600)

In *Section 4.2* we recommend a writedown of \$234,600 to the capitalized construction costs of 333 Maryland. This represents that portion of internal charges that we think are inappropriate leaving \$49,000 as the appropriate charge.

8.3.3 Capitalization Policy

Findings

Discussions with current management confirmed that there is no formal capitalization policy in place at LHC. However, the informal amount used as a minimum for capitalizing costs is \$1,000. For the 333 Maryland Project all capital related costs (no minimum amount) incurred during construction were capitalized.

Total items capitalized that individually were under \$1,000 amounted to approximately \$82,000. Costs capitalized included cell phone charges, lunch and dinner expenses for some LHC staff, office supplies, work boots, books, hangers, soap dispensers, and a mail box for a Langside property.

8.3.4 Financing the Project

Findings

Source of Funds for the 333 Maryland Project		Amount
Private Donations		\$ 285,800
Provincial Government – Urban Development Grant		500,000
Federal Government Grant – Residential Rehabilitation Assistance Program		594,000
St. Boniface General Hospital Research Centre(Research Centre)		254,000
Workers Compensation Board - Mortgage and Renovation Loans		2,900,000
Total Funds		<u>\$4,533,800</u>
Project Costs		\$4,953,500
Third Floor Renovation Costs (Research Centre)		254,000
Total Project Costs		<u>\$5,207,500</u>
Funding of deficit through LHC entities		<u>\$ (673,700)</u>

- LHC established a special bank account for the costs associated with the construction of 333 Maryland. However, monies received from donations, Provincial and Federal grants and WCB financing were deposited to the LHC comingled bank account. Monies were transferred from the comingled bank account to the special bank account as payments were required to cover construction expenditures.
- During our review we noted a number of renovation costs for the third floor of the 333 Maryland Project were not included in the total project costs. These costs totaling \$254,000 have been recovered from the Research Centre.

Conclusions

- *As of December 31, 2000 Lions Manor and WCB had made arrangements to defer the December 31, 2000 payment due of \$600,000 to March 31, 2001.*
- *There is no business plan in place by which Lions Manor demonstrates how it will cover future costs to operate the 333 Maryland facilities, while at the same time providing for appropriate repair and maintenance reserves and repaying the debt.*

- *Officials of both LHC and the Research Centre advised us that no agreement is in place that sets out the nature and amounts of costs that LHC could recover from the Research Centre. They also advised that there is no agreement in place that sets out the respective obligations of the parties as the Research Centre continues to occupy the space on the third floor of 333 Maryland. No rent has been paid by the Research Centre as of September 30, 2000.*

Recommendations

- *The \$254,000 should be capitalized in the costs of the 333 Maryland Project. As well, a deferred revenue should be recorded for prepaid rent and taken into income over a period of time agreed upon with the Research Centre.*
- *The Province of Manitoba and the LHC Board should review all financing arrangements and security with a view to ensuring that these are appropriate and manageable.*
- *A business plan for the operation of 333 Maryland should be developed. If the business plan shows that the facility is not viable, an action plan should be developed in conjunction with the Province to minimize the loss of public monies in this venture.*
- *LHC should establish a formal capitalization policy.*

8.4 Wilson House Project

The former Executive Director presented a proposal for the purchase and restoration of Wilson House to the Board on February 1, 1999. The Executive Summary indicated that the project was consistent with LHC involvement in refurbishing houses in the West Broadway area and describes the purpose of the project as follows:

“As one of the first significant buildings on Broadway moving west from Osborne, the building sets the tone for the neighborhood. In its current boarded and graffiti-covered condition, the message is one of a deteriorating neighborhood not one that is in the midst of redevelopment.”

The proposal presented “a number of options for the restored building which included some revenue generating (professional office space leasing for example) or community use by non-profit organizations. The vacant portion of the lot would be used for parking and the construction of a second historical theme structure. An example could be a “twin house” or a “carriage house” that could have specific uses such as a restaurant/tea house with an outdoor patio.”

8.4.1 Costs Associated with Wilson House

Findings

The following table shows the planned sources of funding as originally presented to the Board in February 1999, together with the actual funds raised to September 30, 2000.

Wilson House Comparison of Budget to Actual			
Description	Budget (Total)	Actual (to Sept. 30, 2000)	Variance (Unfavourable)
Private donors	\$200,000	\$225,000	\$ 25,000
Government grants	200,000	35,600	(164,400)
Tenant (unidentified)	90,000	-	(90,000)
West Broadway Development Corporation (an unrelated non-profit corporation)	50,000	-	(50,000)
Value of vocational labour to be provided at no cost	10,000	-	(10,000)
"Paint the Town Red" fundraising events	-	42,200	42,200
	550,000	302,800	(247,200)
Cash required for purchase and renovation (Budget = complete; Actual to Sept.30, 2000 = incomplete)	600,000	495,600	-
Cash provided by LHC entities (Budget = complete; Actual to Sept.30, 2000 = incomplete)	\$ 50,000	\$192,800	\$(142,800)

The above table shows that, although the project is not yet complete, LHC entities, through the comingled bank account, have been required to provide \$192,800 to the project, about four times the original budgeted level of support.

The following table shows the costs incurred to September 30, 2000 on this project.

Cost of Purchase and Renovations To September 30, 2000	
Purchase	\$320,700
Project management, audit fees, carrying costs, consulting	91,700
Temporary fencing and signage	20,400
Wrought iron fence (fabricated, not installed)	17,700
Physical renovation to building (approximate)	45,100
	<u>\$495,600</u>
Estimated costs yet to be incurred:	
Foundation	\$230,000*
Other physical renovations	unknown
Independent market valuation	\$ 90,000

*We noted that the budget presented to the Board in February, 1999 showed only \$100,000 for foundation repair, while other internal documents estimated this amount at \$230,000.

The above table shows that total costs to purchase and renovate the building will far exceed the original budget. The photo below shows the building still in a "boarded up state". When we toured the building we found that substantial interior and exterior renovations are still required.



Conclusions

- *It is clear that Wilson House was acquired with no specific purpose or tenant identified. It would have been inappropriate to put funds raised by LHC entities for other purposes at risk by embarking on this project even if it was well planned.*
- *It was inappropriate to begin this project without first ensuring that all funding requirements were in place.*
- *It was inappropriate to begin this project without a realistic construction budget.*

Recommendation

- *LHC should determine the least costly alternative to divest itself of this asset and act upon this plan expeditiously.*

8.5 Personal Care Centre (PCC) Construction Project

8.5.1 Background

In 1995, negotiations between the Province and LHC resulted in agreement on the construction of a personal care home.

The project then moved into the design stage, but in January 1996 the project was suspended as part of the Province's overall Capital Program Suspension initiative. The Capital Program Suspension initiative ended in March 1997 and negotiations between LHC and the Province then resumed.

The culmination of these negotiations occurred on April 30, 1999 with the signing of a Memorandum of Agreement between the Lions Club of Winnipeg Senior Citizens Home, LHC Personal Care Home Inc., the Province of Manitoba and the Manitoba Housing and Renewal Corporation (MHRC), on behalf of the CMHC. The principal provisions of the Memorandum of Agreement were as follows:

- The Province of Manitoba and LHC shall enter into a Contribution Agreement.
- Upon execution of the Contribution Agreement by the Province and LHC, construction of the Care Home will proceed in accordance with the provisions of the Contribution Agreement.
- Ninety days following the date that the first resident is admitted to the Care Home, the Province shall deposit in a dedicated fund its share of the amount remaining owing on the 1964 and the 1970 agreements with Lions Manor
- The monies placed in the dedicated fund by the Province shall not be made available to LHC until such time as LHC have submitted to MHRC, on behalf of CMHC, a proposed business case for refurbishment of Lions Manor (North and South Tower). The business case must be submitted no later than six months prior to the opening of the Care Home. If the business case is accepted by MHRC, on behalf of CMHC, then the monies in the dedicated fund shall be released by the Province to LHC and be applied in accordance with the approved business case.
- In the event that MHRC, on behalf of CMHC, does not approve of the business case, the monies held in the dedicated fund shall be remitted by the Province to MHRC, on behalf of CMHC, as full and final payment of all of the Province's obligations with respect to the 1964 and the 1970 agreements.
- The Province is released by LHC from any and all obligations pursuant to the 1964 and the 1970 agreements with Lions Manor.

Subsequent to the signing of the Memorandum of Agreement LHC and the Province of Manitoba entered into a Contribution Agreement. This agreement contained a capital budget that set the capital cost for the PCC Project at \$13,765,100. The Province of Manitoba's portion of costs amounted to \$12,202,100 with LHC responsible for the remaining \$1,563,000.

8.5.2 Financial Analysis

Findings

Summary of PCC Funding Sources	Project Status at October 31, 2000
Private Donations	\$ 711,700*
Provincial Government – Health Grant	806,600*
Bank Financing Guaranteed by Province	11,122,100
WCB Loans	900,000*
Total Funding	13,540,400
Total Project Costs	(13,049,500)**
Surplus That Should be Available to Pay Outstanding Amounts Owing to Suppliers	\$ 490,900

*These funds were deposited into LHC comingled bank account.

**Excludes land contribution by LHC of \$676,000.

Additional facts regarding this project are as follows:

- The above table indicates that sufficient funds were raised to pay for all the construction costs of the PCC. Unfortunately, all the funds raised, with the exception of bank financing, were deposited into the LHC comingled bank account making it difficult to account for the funds. At the time of this review, approximately \$400,000 remained unpaid to suppliers. Given the amount of cash raised, these suppliers should have already been paid.
- As required under the provisions of the Memorandum of Agreement of April 30, 1999, the Province deposited \$929,600 into a dedicated fund on August 4, 2000. LHC failed to comply with the provision of the Memorandum of Agreement whereby they would submit a business case to MHRC, on behalf of CMHC, six months prior to the opening of the PCC. The PCC opened on May 8, 2000. At the time of this report the final decision on this is pending and the money has not been provided to LHC.

8.5.3 Use of PCC Operating Monies

Findings

A separate PCC bank account has not been established. LHC Administrative/Financial Review Committee minutes indicate that *“a concentrated effort has been made to save approximately \$400,000 on the \$3.0 million staff budget (authorized by Winnipeg Regional Health Authority) for the PCC by hiring less staff to start up than provided for in WRHA funding.”*

Conclusions

- *Since the LHC comingled bank account is in a negative position, with LHC carrying a line of credit, it is likely that approximately \$490,000 of funds raised for the construction of PCC were initially used for other purposes.*
- *No separate bank account for the operation of PCC has been established.*
- *In our view, it appears likely that the PCC staff complement is being managed below that funded by the WRHA so that the WRHA funding can be used for other purposes.*

Recommendation

- *We recommend that WRHA initiate an audit of the PCC to determine whether the funding provided for staffing is appropriate given the present level of staffing.*

9.0 ADMINISTRATIVE PRACTICES

9.1 Comingling of Funds

Findings

All deposits and cheques of LHC entities (with the exception of Lions View and Lions Cove) are processed through a single bank account. This makes determining the source and disposition of the individual entity funds almost impossible. This means that government grants, charitable donations (both restricted and unrestricted) and regular operating revenues and expenses for most LHC entities are comingled in a common bank account. Further, an operating line of credit arranged for Lions Manor of \$1.0 million has been used to meet the cash flow requirements of other LHC entities.

As part of our review we determined that Lions Manor had breached its borrowing covenants with its financial institution. A review of the credit facility document between the financial institution and Lions Manor in September, 2000 indicated that the \$1,000,000 operating line is repayable on demand. The agreement also indicated that as part of the security granted for the loan, Lions Manor should have maintained an unencumbered liquid/bond investment portfolio of at least 125% of the loan. At the time of our review, management indicated that they were in violation of this requirement.

As well, management advised that in 1997 certain restricted investment funds of Lions Gate and Lions Place were pledged to a bank. The restricted funds represent reserve investment funds to be used for MHRC (previously CMHC's responsibility) approved repairs and capital replacement. Management is now of the opinion that these investments were improperly pledged to a bank.

In December 2000, LHC renegotiated their Lions Manor credit facility. LHC has once again improperly pledged restricted investment funds to its financial institution.

Comingling of funds has complicated both the bank reconciliation process and the accounting for transactions in the appropriate entities. Monies from for-profit and not-for-profit work have been mixed.

9.2 Accounting Records and Control Weaknesses

Findings

The accounting records of LHC were found to be in poor condition. We express this view not only from the perspective of the records not being current (i.e., as at November 1, 2000, the bank had not been reconciled since April 30, 2000), but also from the perspective of the records not being in a condition which would allow management and/or the Board the opportunity to make reasonable decisions about the business aspects of LHC. As a general rule, LHC did not prepare a monthly balance sheet or regular monthly financial statements.

The LHC Board did not receive a management letter from their external auditor for the years ended March 31, 1998 and 1999.

9.3 Inter-Company Advances

Findings

Each of the LHC entities is supposed to operate on an independent stand-alone basis. The table below shows the extent to which Lions Manor and Lions Place were supporting the cash flow requirement of other entities at the end of each fiscal year.

Outstanding Inter-Company Advances for Years Ended March 31	1998	1999	2000
Advances by Lions Manor:			
to LHC Associates	\$1,392,000	\$ 987,000	\$1,169,000
to (from) Lions Cove	(6,723,000)	279,000	38,000
to (from) Lions Place	(275,000)	(146,000)	(257,000)
to Lions Gate	-	-	72,000
Net advances by Lions Manor to other LHC entities	<u>\$(5,606,000)</u>	<u>\$1,120,000</u>	<u>\$1,022,000</u>
Advances by Lions Place to Place for Health	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ 154,000</u>

The above table is indicative of the extent to which funds available for Lions Manor and Lions Place have, in fact, been used for other purposes. The most significant of these other purposes is the financing of the "for-profit" LHC Associates. As noted earlier in this report, we do not believe that LHC Associates has the ability to repay these advances.

In 1997/98, LHC Associates invested money in Lions Cove through the purchase of life lease units. Lions Manor money was used by way of inter-company indebtedness as venture capital for the Lions Cove. 3139042 Manitoba Ltd. (now LHC Associates) purchased five life lease units in Lions Cove at a cost of approximately \$312,000 on March 27, 1997. This transaction was required in order to have the necessary number of units sold to begin construction of Lions Cove. As per LHC minutes of August 27, 1997, the Board then approved the interest free advance of \$410,400 to 3139042 Manitoba Ltd. for the outstanding balance on Lions Cove suites leased (purchased) by the corporation.

Another indicator of the fact that the financial strength of one of LHC entities is being used to provide financial support to another organization lies in the nature of the security provided by various entities. For example, Lions Place has hypothecated \$765,000 of investments (of which \$575,000 relates to restricted replacement reserve) as security for the operating line of Lions Manor.

9.4 Administrative Expenses

Findings

In common with other non-profit corporations, LHC funds a significant portion of its administrative costs from public sources, including government grants, payments received from government for services provided and charitable donations. It is incumbent on such organizations to maintain administrative costs as low as possible compatibly with providing quality services, having appropriate internal controls and having in place an effective reporting and accountability system. Judging whether administrative expenses are at an appropriate level is as much an art as a science. In the case of LHC, forming such an assessment is complicated by the comingling of funds and the poor state of the accounting records and financial reports. However, we did note a number of worrying instances that indicate further review would be appropriate:

- Administrative costs in Lions Manor have increased by \$964,300 or 110% in 5 years (after taking into account our recommended adjustments);
- LHC provided corporate credit cards to a number of employees. Over a three year period \$243,500 was charged to these credit cards;
- There are no formal policies in place for the use of corporate credit cards, expense accounts or travel expenses;
- For the year ended March 31, 2000, 25 cell phones incurred usage costs of \$28,500;
- LHC incurred legal costs with respect to a dispute between two Board members over the construction of the PCC; and
- In 1999/2000, LHC incurred recruitment agency fees of \$24,100 despite having human resource personnel on the payroll.

9.5 Cost Allocation

Findings

The comingling of funds, together with the sharing of staff and other resources among the LHC entities, necessitates a reliable and accurate system for allocating costs. These allocations need to be transparent and supportable so that the entities can demonstrate that they have used public monies and charitable donations for the purposes intended by the government and donors.

We noted a number of instances that indicate some cost allocations may be questionable:

- Many journal entries allocating revenue and expenses among the LHC entities have no supporting documentation.
- In some cases, the basis of allocation is subjective and not based on objective data (for example, dietary expenses).
- Lions Manor has allocated approximately \$290,000 in administrative costs to Lions Place annually since 1982. The annual allocation has not changed over these 18 years. No supporting documentation was available for this allocation.
- A number of cost allocations are treated as revenue in Lions Manor as opposed to netting the cost allocation against the expenditure.

- Lions Manor allocated \$44,600 in administrative costs to Lions Gate in the year ended March 31, 2000. No supporting documentation was available for this allocation.
- Lions Manor charges PCC \$10.50/person/day for meals. There is no support available to demonstrate the validity of this charge.

Conclusions

- *The comingling of funds has necessarily required LHC to create a large volume of journal entries in order to record transactions in the correct entity. These actions have made the production of accurate and reliable financial statements inordinately difficult and time consuming. LHC may not have the resources to overcome these difficulties and implement an effective and reliable system of financial reporting.*
- *The comingling of funds has contributed to:*
 - *an inability of LHC to demonstrate that it has used government grants and charitable donations for the purposes intended;*
 - *inadequate financial reporting to the Board;*
 - *inadequate controls over the operation of LHC entities; and*
 - *a lack of transparency in LHC's financial reporting.*

This is especially critical because the funds of a for-profit entity are comingled with non-profit entities.

- *For an organization of this nature that handles significant volumes of cash and charitable trust funds, we consider its operational procedures (sharing of the same bank account, comingling of transaction and, non-existence of proper internal financial reporting controls) inadequate.*
- *The LHC Board and management should have requested and received a finalized annual management letter from their external auditors in conjunction with the annual audit process.*
- *It appears that public monies are being expended on administrative costs without due regard for economy or efficiency.*
- *Controls over corporate credit cards, expense accounts and travel expenses are inadequate.*
- *It is inappropriate for LHC to pay for legal costs incurred in a dispute between two Board members as this may have required the use of public monies.*
- *In our opinion, it is likely that some of the costs allocated to LHC entities are incorrect. In too many instances, LHC has not documented the basis for these allocations.*
- *It is possible that some of these allocations may have resulted in overpayments by the Province to the LHC entities affected.*

Recommendations

- *LHC should establish separate bank accounts and lines of credit for each LHC entity together with separate bank accounts for restricted charitable donations and government grants to the extent necessary to enable LHC to demonstrate an appropriate level of accountability.*

- *The Province should consider requiring LHC to prepare a special audited report on the use to which public monies have been put. This could include assessing the appropriateness of cost allocations and the potential for past overpayments by the Province. The Province should subsequently consider whether it would be appropriate to recover public monies that have been spent for purposes other than those intended and whether actions to recover these overpayments would be practical.*
- *LHC should implement appropriate controls over administrative expenses.*
- *LHC should no longer pay for legal costs incurred in disputes between Board members.*
- *LHC should ensure that all cost allocations are valid and appropriately documented.*

10.0 FINANCIAL REPORTING

Section 4.2 lists adjustments we are recommending to the unaudited financial statements for the year ended March 31, 2000. In our opinion, there are shortcomings in the previous years' audited financial statements with respect to the disclosure of related party information, revenue and expense presentation, asset valuation and investment pledging disclosure. We have advised the Province, LHC and its auditors of these shortcomings. Many of these items are discussed throughout this report.

Conclusion

- *We believe that these shortcomings may have contributed to a lack of understanding on the part of the users of the financial statements as to the operations of LHC entities.*

Recommendation

- *We recommend that the LHC Boards review our recommendations with their external auditor with a view to strengthening the appropriateness and transparency of their financial reporting.*

11.0 DONATIONS OVERVIEW

11.1 Private Donations and Fundraising Costs

Findings

The following schedule outlines the three-year history for private donations provided to LHC entities and fundraising costs. Employee donations of \$5,400 and Lions Club of Winnipeg member donations of \$41,000 collected over the last three years are reflected in the figures.

Private Donations and Fundraising Costs for the Years Ended March 31				
Entity	1998	1999	2000	Total
Private Donations				
Lions Manor (excluding PCH, Alzheimer & Wilson House)	\$ 25,600	\$ 24,800	\$ 14,600	\$ 65,000
Lions Place	-	2,400	400	2,800
West Broadway Housing	42,000	24,500	2,000	68,500
PCC & Alzheimer Facility (Treasured Memories)	124,800	343,700	428,900	897,400
Wilson House	-	200,000	51,700	251,700
Total	\$192,400	\$595,400	\$497,600	\$1,285,400
Fundraising Costs	\$ 98,100	\$221,600	\$397,300	\$ 717,000
Fundraising Costs as a % of Private Donations	51.0%	37.2%	79.9%	55.8%

11.2 Donation Receiving Process

Findings

The following steps outline the process at LHC for handling donations:

- The Fund Development Department records all donations received, pledges and gifts in kind by fund. A number of these funds have been established;
- The Accounting Department records the donations received, as processed by the Fund Development Department, to the financial system. Various fund accounts have been set up in the accounting records that coincide with the Fund Development Department funds established; and
- Up to October 1999 all donation monies were deposited into the comingled bank account used by LHC to handle operating monies. In October 1999 a separate bank account was established for donations. However, most of these deposits were subsequently transferred to the general account to cover the line of credit. (From October 1999 to September 2000 \$731,700 was deposited to the donation account and \$676,600 had been transferred to the comingled bank account.)
- It was noted in the LHC Board Administrative/Financial Review committee minutes of April 4, 2000 that, *"In response to Committee Members concerns, (Management) confirmed fundraising monies to date have been used for operating purposes which is not the normal practice. An account had been set up separately to deposit funds raised and contains approximately \$6,000"*.
- Documentation obtained noted that, *"currently there are two significant developments in progress (PCC and 333 Maryland Project). For these developments there is no detailed tracking of where the funds used on these projects arise from, being the demand revolving credit facility, external financing, donations or internal financing"*.

In addition:

- We noted that four West Broadway properties were purchased using a combination of cash and charitable donation receipts. Donation receipts for this purpose totaled \$62,000.

- The process generally worked as follows:
 - LHC issued a cheque to the vendor for the gross purchase price.
 - The vendor wrote a cheque to LHC in the amount of the donation. The amount of the donation was either specified as part of the purchase agreement or was determined by a separate agreement that was attached to the purchase agreement and signed at the same date as the purchase agreement.
 - LHC issued a charitable donation receipt to the vendor.

For one property, the gross purchase price (including the charitable donation receipt) was \$10,000 in excess of the appraisal value and a \$6,000 charitable donation receipt was issued. For the other three purchases involving a charitable donation receipt, the gross purchase price was equal to the appraisal value.

Conclusions

- *It was not possible for us to determine whether all donations have been used for the purposes intended. However, we believe that it is very likely that some donations have, in fact, been spent for purposes other than intended.*
- *The poor accounting system, combined with the comingled bank account, have contributed to LHC's inability to be transparent and accountable with respect to the use of donations received.*
- *With the speculative operation of LHC Associates for commercial purposes, the provision of donation receipts for the purchase of West Broadway Housing property and the comingling of donation monies, we believe that LHC has potentially placed its charitable status at risk. This could result in LHC losing its ability to raise funds, and also losing its exemption from taxation offered in Section 149(1)(f) of the Income Tax Act.*
- *We believe that Lions Manor should not have issued a charitable donation receipt for \$6,000 on the house purchased for more than the appraised value. The effect of the transaction may represent an inappropriate use of Lions Manor's charitable status.*
- *Fundraising costs as recorded in LHC financial statements for the respective years have consumed a substantial portion of the private donations as indicated by the annual and average relationship of fundraising costs to private donations.*

Recommendation

- *The Province should advise CCRA of our concern with respect to the appropriateness of the use of donated monies and request them to conduct an audit.*

11.3 Recent Fundraising Initiative

Findings

LHC distributed a mailing on Saturday, November 11, 2000 requesting donation funds which reads in part as follows: "But Lions needs your help raising the remaining \$2.5 million to complete their two latest care residences, the Lions Alzheimer Residence and Research Centre and the Lions Personal Care Centre." However, these facilities opened in the spring of 2000.

Conclusion

- *The November 11, 2000 mailing requesting donations was potentially misleading. There is a risk that potential donors would conclude that they were helping to finish the construction of the two facilities noted.*

Recommendation

- *We recommend that LHC issue a revised mailing which more accurately describes the purpose of the fundraising drive and take steps to ensure that those that have already made a donation are aware of the use to which the funds are to be put.*

12.0 QUALITY OF CARE ISSUES**12.1 Employee Turnover****Findings**

The following chart summarizes employee turnover over the past five years:

LHC Employee Turnover					
	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000
Management	3	3	2	10	7
Staff	46	69	78	104	144
Total Turnover	49	72	80	114	151
Total Employees	163	181	191	245	270
% of Total Employees	30%	40%	42%	47%	56%

This chart confirms a high employee turnover rate for LHC over the past five years.

A number of employees advised us that they believed that declining morale, concerns over the leadership, and concerns with a lack of clear direction are contributing to the high turnover.

Several current and former employees expressed concerns that the high turnover is potentially impacting the quality of care provided to residents.

As well, several current employees expressed concern about the deteriorating physical condition of certain LHC facilities.

Conclusion

- *A review of the detailed reasons for the turnover and a review of the current morale situation and quality of care at LHC are outside the scope of this report. However, based on the limited evidence we gathered, it appears that there may be employee issues that could affect the quality of service.*

Recommendation

- *We recommend that LHC and the Province undertake a comprehensive review of human resource and quality of care issues in order to assess whether employee concerns are warranted.*

13.0 PROVINCIAL MONITORING OF LHC

13.1 General

Findings

A review of government correspondence with LHC, and discussions with government civil servants in the Department of Health and the Department of Family Services and Housing highlighted the following points:

- Issues regarding conflict of interest and non-transparency of financial information being received from LHC were raised by CMHC over five years ago. These concerns continue to be expressed;
- CMHC did not believe that they were in a position to take more serious action with LHC to ensure that LHC was using money provided as intended;
- Rental rates are supposed to be approved by MHRC for Lions Manor. LHC has increased rents without Provincial approval;
- Departments were frustrated in their communications with LHC as a result of LHC employee turnover contributing to constant change in contacts;
- On May 21, 1999, the Department of Family Services and Housing (formerly the Department of Housing) approved, on an exception basis, the encumbering of Lions Manor (both North and South Towers) to facilitate the development of the 333 Maryland Project based on a request from LHC;
- CMHC had responsibility for LHC Housing operations prior to the signing of the Social Housing Agreement which transferred administrative responsibility to the former Department of Housing as of April 1, 1999. Since that time the Department of Family Services and Housing has expressed concerns regarding information not being received on a timely basis from LHC, high and increasing administration expenses in LHC, charges being made to Lions Place replacement fund without adequate supporting details, potential conflict of interest at LHC, and the financial viability of LHC given their rapid expansion;
- After being approached by LHC for additional monies, the Province offered assistance to LHC in July 2000 on the condition that LHC enter into a management agreement. The Province proposed creating a management committee made up of LHC and a majority of Provincial representatives. The Province also proposed engaging a professional management consulting firm to provide assistance and direction until the financial and management difficulties could be resolved to the Province's satisfaction, and engaged us for this Special Audit. The LHC Board refused to accept these conditions. The Special Audit was performed in any event.

Conclusions

- *A number of factors with respect to receipt of information from LHC has made monitoring of LHC difficult. It should be noted, however, that the Province only assumed administrative responsibility pursuant to the Social Housing Agreement with CMHC on April 1, 1999.*
- *LHC did not provide the Department of Family Services and Housing with a business case to support their need to encumber Lions Manor Towers as security for the 333 Maryland Project.*

Recommendation

- *The Province should review its monitoring practices and its authorities under existing agreements with a view to taking such action as may be necessary to improve its monitoring rights and control of the use of public monies.*

13.2 Replacement Reserves**Findings**

Manitoba Housing Agreements (formerly CMHC) pertaining to Lions Manor, Lions Place, Lions Gate, and Lions View require the establishment of a Replacement Reserve for each entity. Each Reserve is to provide for major building repairs and replacement of equipment. The amounts to be set aside for these reserves are to be approved by Manitoba Housing and are to be funded annually by LHC. The Agreements for Lions Place, Lions Gate and Lions View require that:

- Use and disposition of reserve funds shall be subject to the approval or direction of Manitoba Housing; and
- Reserve funds are to be comprised of monies deposited in a special bank account identified for its intended purpose and/or invested in Government bonds or such other securities as may be acceptable to Manitoba Housing.

As at March 31, 2000 the Replacement Reserves were highlighted on the draft unaudited financial statements as follows:

Composition of Replacement Reserves			
Entity	Restricted Investments*	Restricted Cash Requirement*	Total
Lions Place	\$575,000	\$44,200	\$619,200
Lions Gate	20,000	4,600	24,600
Lions View	124,800	7,700	132,500

*The restricted investments have been hypothecated as security and therefore are not available for use by LHC. As well, as at March 31, 2000, LHC were operating with a line of credit and did not have any restricted cash on hand.

We observed that there is no funded Replacement Reserve for Lions Manor and other LHC entities. Current management has indicated that the Lions Manor building is 35 years old and will require significant repairs and maintenance in the coming years.

Conclusion

- *Replacement Reserves were not available for use at March 31, 2000 as required under the Lions Manor, Lions Place, Lions Gate and Lions View Housing Agreements.*

Recommendations

We recommend that:

- *LHC should ensure restricted cash is on hand for each entity;*
- *LHC should take steps to satisfy Manitoba Housing requirements for providing an adequately detailed plan for proposed expenditures through the Replacement Reserves; and*

- *Appropriately funded Replacement Reserves should be put in place for all LHC properties and funding deficiencies need to be addressed by LHC management. As well, capital plans should be prepared for all facilities.*

13.3 Breach of Government Financing and Funding Agreements

Findings

Various agreements between a number of LHC entities and the Province of Manitoba/CMHC and between Lions Manor and the Winnipeg Regional Health Authority (formerly the Winnipeg Community and Long-term Care Authority) were reviewed. The following breaches were confirmed:

Entity	Agreement Breaches	Causes of Breach
Lions Manor	1970 Agreement 05-207-675/Clause 2 1964 Agreement 05-206-982/Clause 4 1964 Agreement 05-206-982/Clause 15 1970 Agreement 05-207-675/Clause 6 1970 Agreement 05-207-675/Clause 1 & Clause 5 1964 Agreement 05-206-982/Clause 7	<ul style="list-style-type: none"> Advances to LHC Associates, Lions Cove, and Lions Gate Replacement reserve is not funded. Rents have been increased without Provincial approval.
Lions Gate	1983 Agreement 10-374-189/Clause 11 & Clause 15 1983 Agreement Section 13 (3) 1983 Agreement Section 13 (5c)	<ul style="list-style-type: none"> Investments hypothecated as security for operating line of credit of Lions Manor. This occurred in 1997. The restricted funds represented reserve investment funds to be used for CMHC approved repairs and capital replacement. A Board member signed credit facility documentation. Audited financial statements for March 31, 2000 were not received within four months of the fiscal year end. A statement was not prepared by LHC's external auditor indicating whether or not verification of the incomes of the occupants and the rent calculations as required by Clause 2(5) have been undertaken.

Entity	Agreement Breaches	Causes of Breach
Lions Place	1982 Agreement 10-375-178/Clause 11 & Clause 15 1982 Agreement 10-375-178/Clause 11 1982 Agreement Section 13 (3) 1982 Agreement Section 13(5c)	Investments hypothecated as security for operating line of credit of Lions Manor. This occurred in 1997. The restricted funds represented reserve investment funds to be used for CMHC approved repairs and capital replacement. A Board member signed credit facility documentation. <ul style="list-style-type: none"> • Advance to Lions Manor – operating losses funded by Lions Place Capital Fund. • Audited financial statements for March 31, 2000 were not received within four months of the fiscal year end. • A statement was not prepared by LHC's external auditor indicating whether or not verification of the incomes of the occupants and the rent calculations as required by Clause 2(5) have been undertaken.
Place for Health	1982 Agreement 10-375-178/Clause 11	<ul style="list-style-type: none"> • Operating losses funded by Lions Place Capital Fund.
Lions View	1998 Agreement Section 10(2)	<ul style="list-style-type: none"> • Audited financial statements for March 31, 2000 not received within two months of the fiscal year end. • An opinion of Lions View compliance with the 1998 Agreement has not been provided.
Personal Care Centre/Lions Manor	1999 Contribution Agreement (Section 4.03)	<ul style="list-style-type: none"> • The WCB has a first mortgage registered on the Personal Care Home obtained without prior written consent of Manitoba Health. Manitoba Health was advised of this in January 2000.
Lions Manor	1999 Personal Care Home Program Service Purchase Agreement between the Winnipeg Community and Long-Term Care Authority (now the Winnipeg Regional Health Authority) (Authority) and Lions Manor Section 12.2 and Sections 2, 3 & 4 of Schedule C Reporting Requirements	<ul style="list-style-type: none"> • As of December 2000 monthly financial information has not been provided to the Authority. This is a requirement under the Service/Purchase Agreement. • Audited financial statements for March 31, 2000 were not received by August 1, 2000.

Entity	Agreement Breaches	Causes of Breach
Lions Manor (4 Adult Daycare Programs)	1999 Memorandum of Understanding for Adult Daycare Program between the Authority and Lions Manor Reporting Sections 11 & 12	<ul style="list-style-type: none"> • As of December 2000 monthly financial information has not been provided to the Authority. • Audited financial statements for March 31, 2000 were not received by August 1, 2000
Lions Manor	1999 Supportive Housing Service Purchase Agreement between the Authority and Lions Manor Schedule C Reporting Requirements, Sections 2 & 4	<ul style="list-style-type: none"> • As of December 2000 monthly financial information has not been provided to the Authority. This is a requirement under the Service Purchase Agreement. • Audited financial statements for March 31, 2000 were not received by August 1, 2000

Conclusions

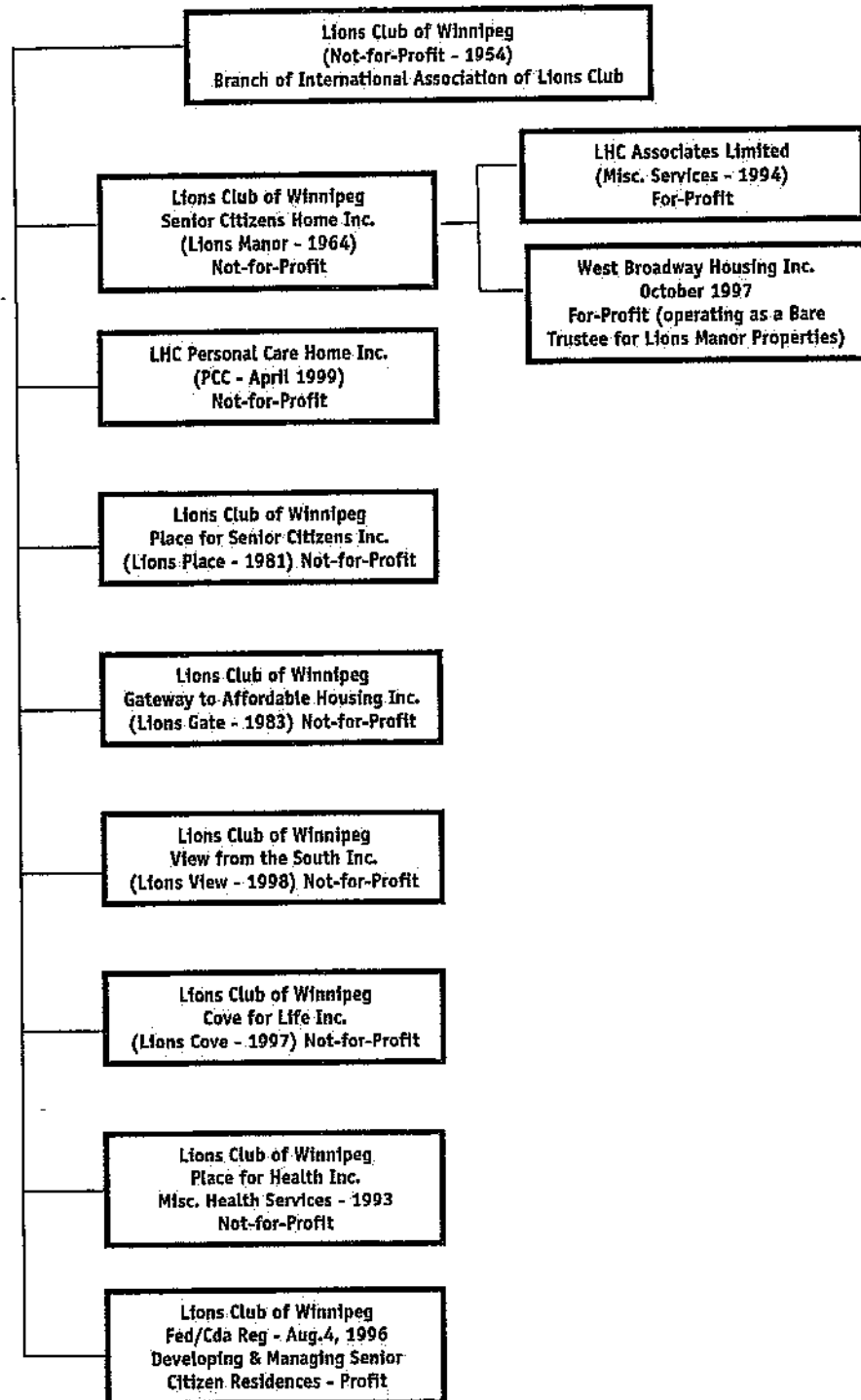
- *Numerous breaches of funding agreements have occurred including:*
 - *Advances to related parties which contravene the prohibition against encumbrances and lending;*
 - *Audited financial and other statements not submitted when required;*
 - *Monthly financial information not provided to the WRHA;*
 - *Hypothecation of investment funds which were only to be used for MHRC (formerly CMHC) approved repairs and capital replacement;*
 - *Replacement reserve funds not being held in a special bank account as required for Lions Place and Lions Gate;*
 - *Replacement reserve funds for Lions Manor is not in place; and*
 - *Lions Manor rents have been increased without Provincial approval.*
- *A first mortgage is registered on PCC by WCB. Prior written consent from the Province was not obtained by LHC.*

Recommendation

- *The Province should direct LHC to begin complying with its agreements immediately.*

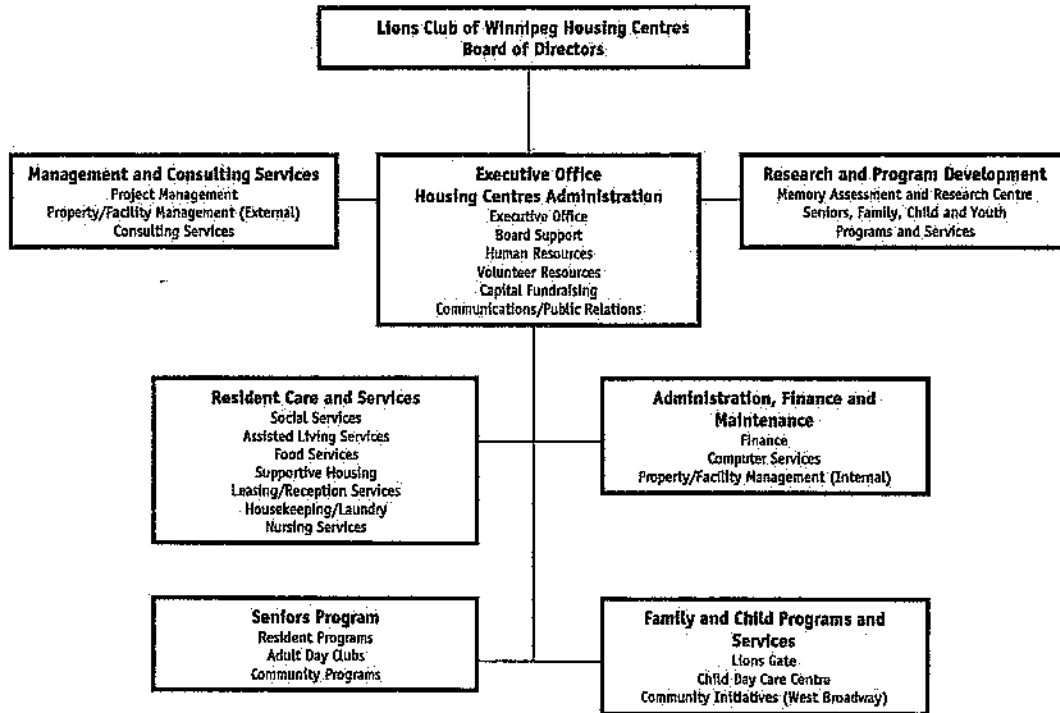
APPENDIX A

Lions Club of Winnipeg Housing Centres (LHC) Corporate Structure
(Compiled by PAO)



APPENDIX B

LHC Organization Chart
Source: LHC 1998/99 Annual Report



APPENDIX C

Letter Initiating Special Audit

MINISTER OF
FINANCE

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

JUL 14 2000

Mr. Jon Singleton
Provincial Auditor
500 - 330 Portage Avenue
Winnipeg MB R3C 0C4

Dear Mr. Singleton:

In accordance with Section 15(1) of The Provincial Auditor's Act (The Act), I am hereby directing that a Special Audit of the Lions Club of Winnipeg Housing Centres, otherwise known as LHC, be undertaken. The corporate structure of the LHC organization is complex, including several inter-related corporate entities. The organization receives public moneys annually from two provincial departments, Family Services and Housing and Health. In my opinion, a Special Audit is required to determine the financial wellbeing of the LHC organization as a whole, and to examine the appropriateness of financial transactions over the last approximately three years.

A Steering Committee is expected to be established through the Board of Directors of LHC, that will assume an interim executive management role for the LHC organization. I believe that it would be appropriate that the timing and direction of the Special Audit be determined in consultation with this Steering Committee, and that the final report on the Special Audit be submitted to the Steering Committee for review before being provided to me.

As the audit of housing programs often requires specialized expertise and/or knowledge, I note that you may deem it necessary to contract for professional services, as provided for in Section 5(3) of The Act. Please also note that incremental costs related to the Special Audit may be charged to the departments of Family Services and Housing and Health, as Section 16(1) of The Act suggests.

Please advise me as soon as possible whether this special request will interfere with your primary responsibilities and whether you concur with the process for scheduling and finalizing the audit.

Thank you for your prompt attention to this matter.

Sincerely,

Greg Selinger

cc: Hon. Tim Sale
Bonnie Lysyk



Our Past. Our Future. Our Celebration.
Notre passé. Notre avenir. Notre fête.