Audit Report

District Inspector General for Audit
Northwest/Alaska District

Report: 98-SE-202-1002 *Issued: May 29, 1998*

TO: Elizabeth J. Santone, Director, Office of Public Housing, OEPH

FROM: A. George Tilley, District Inspector General for Audit, OAGA

SUBJECT: Request for Assistance
Nampa Housing Authority
Indian Creek Child Care Center
Use of Operating Funds to Pay For Child Care Expenses
Nampa, Idaho

At your request for assistance, we reviewed the Nampa Housing Authority's (Housing Authority) operation of the Indian Creek Child Care Center (Center). We also reviewed HUD's review and approval process for the Housing Authority's 1993 applications for Comprehensive Improvement Assistance Program (CIAP) funds. Our review resulted in two findings.

Within 60 days please give us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

If you have any questions please contact Robert Woodard or Wayne Rivers at (206) 220-5360.

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Executive Summary

The Nampa Housing Authority (Housing Authority) completed construction of the Indian Creek Child Care Center (Center) through the use of 1993 Comprehensive Improvement Assistance Program funds (CIAP) in 1994. After taking over the Center's operations in August 1997, the Housing Authority used operating funds to pay for child care expenses, the majority of which were ineligible. The Housing Authority took over the Center without a plan, procedures, or adequate controls to properly operate the Center. As a result,

- the Housing Authority used over $70,000 of its operating funds for child care expenses, primarily for nonresident children,
- payments from parents were unaccounted for, and
- some parents stopped using the facility due to its poor management and record keeping.

Prior to taking over the Center, the Housing Authority leased the Center to Head Start at no cost. The takeover occurred because the former Executive Director convinced the Board that the Housing Authority would make money and better serve its residents. Convinced the takeover was in the Housing Authority's best interests, the Board relied on the former Executive Director's overly optimistic financial projections and assumed she had adequate plans to properly manage and operate the Center.

In addition, the Housing Authority did not fully justify and document its need for a 7,700 square foot child care center and HUD's Portland Office did not do a thorough enough review to find this out before approving 1993 CIAP funds for its construction. As a result, CIAP funds totaling over $552,000 were used to construct a child care facility which may have been in excess of resident needs and is currently underutilized by Housing Authority residents. HUD officials approved CIAP funds to construct the facility because they relied on the Housing Authority's assertions and Head Start's commitment to use the facility without determining what the residents' child care needs were, relative to the size of the facility proposed.

We are recommending that the Housing Authority cease its operation of the Center and contract with a qualified provider to operate the Center. Also, the Housing Authority Board needs:

- to determine a reasonable allocation of the funds they expended for the Center, and

- to replenish its reserves by the amount paid for nonresident expenses.

We held an exit conference at the Housing Authority's office on April 30, 1998. On May 1, 1998, we provided a draft of the findings to the Board for their comments. The Housing Authority Board Chairman provided us his comments on May 15, 1998, and concurred with Finding 1, with no comments on Finding 2. We incorporated portions of his comments into this report as we determined appropriate along with our evaluation. The Housing Authority Board Chairman's comments are included in their entirety in Appendix 1.

Table of Contents

Abbreviations:

HUD	Department of Housing and Urban Development
CIAP	Comprehensive Improvement Assistance Program
ACC	Annual Contributions Contract
CFR	Code of Federal Regulations
HHS	Department of Health and Human Services
NOFA	Notice of Fund Availability

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Introduction

The Nampa Housing Authority (Housing Authority) currently manages 142 federally assisted low income housing units in Nampa, Idaho. The Board of Commissioners oversees the Housing Authority, with an Executive Director hired to run the day-to-day operations. In 1994, the Housing Authority completed construction of the Indian Creek Child Care Center (Center), designed to help its residents obtain affordable child care. Prior to August 15, 1997, the Housing Authority used a contractor to operate the Center. On August 15th, the Housing Authority took over the operations of the Center and was still operating it as of May 1998.

On December 12, 1997, due to mismanagement of the Center, financial mismanagement, insubordination, and inappropriate behavior, the Housing Authority's Board terminated the Executive Director. She had been hired by the Housing Authority on August 19, 1996. The HUD Portland Office contacted our office and requested our assistance after learning of the Executive Director's termination and having concerns with the Housing Authority's operation of the Center and the Housing Authority's financial position.

Audit Objectives

We performed audit work at the Housing Authority to determine: (1) whether the Housing Authority used its operating funds to pay for the Center's expenses in accordance with HUD requirements, (2) whether the Housing Authority properly followed the application process for obtaining 1993 CIAP funds including funds for the construction of a child care facility, and (3) whether HUD's approval was consistent with CIAP rules and regulations.

Audit Methodology

To accomplish our objectives, we:

- reviewed HUD rules and regulations to obtain an understanding of the criteria related to the CIAP application, review and approval process and the use of operating funds.

- interviewed appropriate Housing Authority staff (previous and current) to obtain an understanding of the Housing Authority's CIAP application process and the Housing Authority's use of operating funds.

- interviewed HUD officials to obtain an understanding of its review and approval process of the Housing Authority's 1992 and 1993 CIAP applications.

- reviewed the 1992 and 1993 CIAP application and related documents.

- reviewed records and documents to determine whether the Housing Authority properly used its operating funds to pay for the Center's expenses.

Audit Period

Our review period for the Center's operations was from September 1994 through February 1998; and from 1992 through 1993 for the CIAP application and approval process. We extended our review period as necessary to fully respond to our audit objectives. We performed our audit field work at the Housing Authority and the Portland Office from January through April 1998.

We conducted our audit in accordance with generally accepted government auditing standards.

Findings

FINDING 1: THE HOUSING AUTHORITY USED OPERATING FUNDS TO PAY FOR INELIGIBLE CHILD CARE EXPENSES

After taking over the Center's operations in August 1997, the Housing Authority used operating funds to pay for child care expenses, the majority of which were ineligible. The Housing Authority took over the Center without a plan, procedures, or adequate controls to properly operate the Center. As a result,

- **the Housing Authority used over $70,000 of its operating funds for child care expenses, primarily for nonresident children,**
- **payments from parents were unaccounted for, and**
- **some parents stopped using the facility due to its poor management and record keeping.**

Prior to taking over the Center, the Housing Authority had leased the Center to Head Start at no cost. The takeover occurred because the former Executive Director convinced the Board that the Housing Authority would make money and better serve its residents. Convinced the takeover was in the Housing Authority's best interests, the Board relied on the former Executive Director's overly optimistic financial projections and assumed she had adequate plans to properly manage and operate the Center.

The Annual Contributions Contract restricts the use of operating funds.

In its Annual Contributions Contract (ACC) with HUD and its amendments, the Housing Authority agreed to develop and manage housing in accordance with the ACC and HUD requirements.

Part A, Section 2, of the Housing Authority's ACC states that operating expenditures are all costs necessary for the operation of its projects. In addition, Section 4 of the same Part states that the Housing Authority shall at all times develop and operate each project solely for the benefit of eligible families to promote the economic and social well-being of the tenants. In accordance with these sections, the Housing Authority is limited in its use of operating funds to pay for expenses related to services for residents, such as a child care facility. In that regard, HUD's Director of Public Housing in the Portland Office agreed that the Housing Authority can only use its funds for child care expenses that are directly related to Housing Authority residents.

Housing Authorities are also required to ensure that effective controls are in place for all operations. OMB Circular A-123 states that the proper stewardship of federal resources is a fundamental responsibility of agency managers and staff. The agency head must establish controls that reasonably ensure that:

- assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
- revenues and expenditures are properly recorded and accounted for.

The Standards for Financial Management Systems at 24 CFR 85.20 require an agency that receives federal funds to maintain effective control and accountability for all of its grants and other assets and to adequately safeguard all such property.

HUD and the Department of Health and Human Services (HHS) encourage communities to integrate assistance programs.

In PIH Notice 90-51, HUD and HHS encouraged interagency cooperation to promote self-sufficiency of families receiving welfare in public housing. On January 24, 1990, the Secretaries of HUD and HHS signed a Memorandum of Understanding pledging to develop and implement joint initiatives to more effectively help low-income families and individuals move toward independent living and economic self-sufficiency. Included in the examples of activities encouraged under the Memorandum of Understanding was conversion of public housing units to provide onsite facilities for delivering supportive services such as Head Start and child care services. Head Start, one of HHS's programs, serves children of low-income families who may or may not receive housing assistance from HUD.

On August 3, 1993, HUD approved $500,000 in CIAP funds for the Housing Authority to construct a 7,700 square foot child care facility. In 1994, the Housing Authority completed construction of the facility at a cost of approximately $552,000. Construction of this child care facility was consistent with the principles of HUD's Memorandum of Understanding with HHS.

The Housing Authority used its operating funds to pay for ineligible child care expenses of nonresidents.

The Housing Authority then entered into a 20 year lease with Head Start. Under the lease dated September 29, 1994, Head Start agreed to operate and maintain the Center at no cost to the Housing Authority while the Housing Authority received no income from Head Start. Head Start was solely responsible for operating the entire Center and did so for about three years. Head Start ran four Head Start classes during the school year and subleased two rooms of the Center to a local day care operator who provided year-round day care services.

On August 15, 1997, the Housing Authority terminated its 20 year lease with Head Start and locked the day care provider out of the Center. The Housing Authority had hired its own child care Director in mid-July 1997 who started operating the facility on August 15th. The Housing Authority's takeover was in accordance with plans set forth in its June 18, 1997 Board meeting. In that meeting, the Board gave the former Executive Director approval to proceed with the "day care facility project" with the following steps:

(1) Void the existing lease with Head Start/Day Care;

(2) Proceed with the establishment of the new Child Care facility; and

(3) Survey the resident files for the number of children in Housing Authority units and their ages.

At the July 16, 1997 Board meeting, the former Executive Director presented budgets she had developed assuming the Center was operated at full enrollment. Her budget projections showed the Housing Authority would make about $4,900 per month after five months of operation; however this did not occur. When presenting the budget, the former Executive Director included the use of teachers funded by Americorps (the domestic side of Peace Corps). She anticipated that the Housing Authority would be able to use the volunteers under Americorps as teachers to run the Center. However, under the agreement with Americorps, although volunteers could be used to help operate the Center, they could not displace any staff normally needed. This arrangement did not lower the Housing Authority's expenses, but actually increased expenses because of non-reimbursable costs incurred by the Housing Authority for these volunteers.

From August 1997 through February 1998, the Housing Authority used its operating funds to subsidize the Center since the income generated by the Center was far less than its expenses. The following table shows the Center's monthly income and expenses in addition to reimbursements and expenses related to the Americorps program.

Month	Income & Re-imbursements		Expenses		Amount Expenses Exceeded Income
	Daycare	Americorps	Daycare	Americorps	
August	$0	$0	($1,191)	($423)	($1,614)
September	$3,280	0	(17,573)	(4,261)	($18,554)
October	5,310	0	(17,167)	(6,986)	($18,843)
November	4,530	4,450	(20,006)	(6,243)	($17,269)
December	6,053	0	(11,528)	(5,726)	($11,201)
January	9,895	14,558	(15,545)	(7,318)	$1,590

February	6,816	5,760	(8,779)	(8,420)	($4,623)
Totals	$35,884	$24,768	($91,789)	($39,377)	($70,514)

Contrary to HUD requirements, the Housing Authority expended the majority of these operating funds on nonresident children. The Center's current Director has only recently started to keep track of which children are resident children and which are not. These records show that, as of March 1998, the Center served 61 children and only 24 (39 percent) are residents' children. In addition, for the week of March 23 to 27, 1998, an average of 31 children used the Center each day; 8 (26 percent) were residents' children and 23 (74 percent) were nonresidents' children. Our interview with the local daycare provider who leased space at the Center from Head Start supports a similar percentage of use by residents. He estimated that of the 25 to 30 children served by the daycare, only about 5 (or about 20 percent) were residents' children.

When the Housing Authority took over operation of the Center, the former Executive Director expected the Center's former Director, who she had hired, to manage the Center and maintain its accounting records. However, the Center's former Director told us that when she was hired, she was led to believe that the Housing Authority would take care of all billings and accounting.

The Housing Authority did not establish adequate management controls after the

After a few weeks, it was apparent the Housing Authority was not taking care of the billings and accounting, so the Center's former Director tried to develop her own system to bill and receive payments from parents. However, the Center's former Director told us that she was not qualified to do accounting work and had limited experience in bookkeeping. Apparently due to her inexperience, there were not adequate financial records on what transactions occurred at the Center from August to December 1997. We concluded that the Housing Authority had not established a system of internal controls to properly safeguard receipts and to account for funds.

Also, the Board's Vice Chairman conducted a review of the Center's operations due to the termination of a Center employee. Her November 5, 1997 report included the following determinations: (1) any employees could receive payments from child care patrons; (2) payments received were not delivered to the Housing Authority in a timely manner; (3) parents complained about inaccurate bills and late billings; and (4) no Cash Receipts, Accounts Receivable, and Accounts Payable records were maintained. During our review, we found that the Vice Chairman's determinations were accurate.

In addition, the Center's current Director told us that when she took over in October 1997, she found that sign-in sheets, ledger cards, and receipt books were missing or located in a number of places throughout the facility (including classrooms). She also found that receipts were not numbered and had not been given to parents.

The Housing Authority used over $70,000 (as of February 28, 1998) of its operating funds for the Center's child care expenses, the majority of which were ineligible because they were for nonresident children. The Housing Authority paid for child care expenses such as salaries, benefits, and training. With the former Executive Director's knowledge, the Housing Authority's Accountant decided to use operating reserves to pay the Center's expenses because, as she explained to us, the Housing Authority really had no choice. The amounts were owed and were liabilities to the Housing Authority.

The Housing Authority used over $70,000 of its operating funds for the Center's expenses.

Due to the poor condition of the Center's records for the three months following the takeover, we were unable to determine the following: (1) how many children were served, whether resident or nonresident; (2) if and when parents were billed; (3) how much money was taken in by the facility;

and (4) what amounts may still be owed the facility.

However, we did estimate that up to approximately $25,000 may be unaccounted for or still owed. To calculate this amount, we determined the average monthly income earned by the Center in January and February 1998 and projected that amount over the previous four months. Based on this projection, the Center may have earned approximately $61,000 for those six months. However, the Center only collected $35,883, leaving a difference of approximately $25,000. The Center's current Director agreed with our method of estimating the amount of funds unaccounted for. The poor condition of the records and lack of adequate controls prevented us from definitively determining why the funds could not be accounted for. We believe the majority could not be accounted for primarily due to poor management.

In addition, we found that parents who used the Center objected to some billing charges. For example:

- A parent was billed for more hours than the child was at the Center,
- A parent was charged when the child was never at the Center,
- In some cases, payments made by parents were neither credited nor reflected in their statements, and
- There were mathematical errors in the billings provided to parents.

The Housing Authority's Occupancy Clerk has been working with the Center's current Director and parents to resolve these complaints.

Due to the Center's poor management and record keeping, some parents stopped using the

Center for daycare. The Center's current Director told us that she knows the Center lost a lot of children and parents because of the way it was operated. In addition, one parent told us that she quit using the Center because there was usually no one at the Center to receive payments, she never received a receipt for payment, and her last billing included time that her child wasn't attending the Center. She also stated that one check she wrote to the Center was found by a man at a local ski resort who mailed it back to her. Another parent told us that initially she was happy with the Center, but when the Housing Authority took over its operations, service started a downward spiral that never stopped. She said she finally had to leave because the daycare operations were not stable.

The Housing Authority took over the Center's operations because the former Executive Director convinced the Board that the Housing Authority would make money and would better serve their residents by doing so. However, the former Executive Director's financial projections were overly optimistic and not realistic, forcing the Housing Authority to use operating funds to keep the Center open.

The Board Chairman told us that at Board meetings prior to the take over, the former Executive Director persuaded the Board that: (1) Head Start was not adequately serving Housing Authority residents, was not providing quality child care, and was not meeting its commitments under the lease, and (2) the Housing Authority would make money if it took over the operation of the Center.

The former Executive Director convinced the Board that the Housing Authority would make money and would better serve the residents.

In Board meetings, the former Executive Director stressed that Head Start was not meeting the terms of the 20 year lease. Specifically, she emphasized that Head Start had agreed that 51 percent of the child care slots were to go to Housing Authority residents' children. However, Head Start's Director interpreted the wording of the lease differently. She believed that residents' children should be given preference, but they would not have to make up 51 percent of the children served by the Center unless it was at capacity.

Convinced that taking over the Center was in the Housing Authority's best interests, the Board then relied on the former Executive Director to do the takeover. They assumed it would not require Housing Authority resources based on the former Executive Director's financial projections. The Board also assumed the former Executive Director had sufficient plans, procedures, and controls in place to take over the Center. According to the Board Chairman, the Board relied solely on the Executive Director's representations and financial projections related to the Housing Authority's taking over the Center's operations. The Board also relied on the conditions they had required when the takeover was approved being followed, including having established policies and procedures in place. The Board did not realize their conditions were not being met until November 1997 when the Board's Vice Chairman did her review.

The Board relied on the former Executive Director's overly optimistic representations and financial projections.

The Board Chairman commented that the Board did not verify the accuracy of the former Executive Director's representations and financial projections. He stated that a combination of things prevented the Board from getting a clear picture of the financial events. Financial reports prepared by the former Executive Director presented a very rosy picture according to the Chairman. We contacted the former Executive Director by telephone to discuss the issues related to the Housing Authority's takeover of the Center, but she declined to discuss specific issues.

The Housing Authority Board Chairman agreed with the Finding, stating that it is apparent that:

- The former Executive Director did not furnish the Board with valid information.

OIG Evaluation of Auditee Comments

- The former Executive Director totally disregarded or was unconcerned about HUD rules and regulations.

- The manner in which the Day Care was taken over doomed it to failure.

- The former Executive Director was not able to establish critical priorities.

The Chairman indicated that all recommendations are being addressed. For Recommendation 1B, he stated the Board is looking at a quarterly checklist for the Executive Director which states all rules and regulations have been complied with.

Auditee Comments

Our work verifies that the Board Chairman's statements are substantially correct. As we state in the Finding, the Board relied on the former Executive Director and her representations in taking over the Day Care. However, for Recommendation 1B, we want to emphasize that a checklist by itself will not enable the Board to ensure the HUD assisted projects are properly managed. But we are encouraged that the Board will be more proactive in their monitoring.

Recommendations

We recommend that you:

1A. Require the Housing Authority to stop operating the Center and contract with a qualified provider to operate the facility.

1B. Require the Board to more closely monitor the Executive Director's and the Housing Authority's activities to ensure that

HUD assisted projects are properly managed and to prevent the use of funds for expenditures not benefiting the residents.

1C. Require the Housing Authority to determine a reasonable allocation of the costs paid for child care expenses between residents and nonresidents.

1D. Require the Housing Authority to replenish its reserves by the amount paid for nonresident expenses incurred in its operations of the Center.

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FINDING 2: THE HOUSING AUTHORITY DID NOT FULLY DOCUMENT ITS NEED FOR A CHILD CARE FACILITY

The Housing Authority did not fully justify and document its need for a 7,700 square foot child care center and HUD's Portland Office did not do a thorough enough review to find this out before approving 1993 Comprehensive Improvement Assistance Program (CIAP) funds for construction. As a result, CIAP funds totaling over $552,000 were used to construct a child care facility which may have been in excess of resident needs and is currently underutilized by Housing Authority residents. HUD officials approved CIAP funds to construct the facility because they relied on the Housing Authority's assertions and Head Start's commitment to use the facility without determining what the residents' child care needs were, relative to the size of the facility proposed.

Non-dwelling additions such as child care facilities are eligible for CIAP funding.

24 CFR 968.210(b) identifies non-dwelling additions as an eligible cost for CIAP funding. HUD Handbook 7485.2 REV-1, Public Housing Modernization Standards, identifies child care facilities as a non-dwelling addition.

Under the Notice of Fund Availability (NOFA) for the CIAP dated March 15, 1993, to be eligible for processing, the Field Office must determine if the work items appear to be eligible and needed.

Under the NOFA's Rating and Ranking criteria, the Field Office shall identify the estimated dollar value of all proposed modernization recommended for funding, subject to confirmation of need and cost at the Field Office's Joint Review.

Per HUD's Public and Indian Housing Comprehensive Improvement Assistance Program Handbook (7485.1 REV-4):

- Paragraph 3-18 states the Joint Review shall include review of the PHA's physical needs assessment which should include eligibility, need, and appropriateness of the physical work items as measured against mandatory standards and the project specific work items.

- Paragraph 3-15 specifies that the PHA shall complete the detailed physical and management needs assessments and, during Joint Review, the Field Office shall document that the PHA has completed the physical needs assessment and that it is of acceptable quality using the Joint Review Checklist.

Section 2-8B of HUD's Public Housing Modernization Standards Handbook (7485.2 REV-1) states that the need for community service facilities (which include child care facilities) where space requirements are within permissible allowances shall be fully justified. This justification shall address the amount of space being requested, use of space, cost of constructing the facility, identification of an organization or group who will operate the facility, daily operational hours, and estimated annual cost to the housing authority (operating costs).

HUD and the Department of Health and Human Services (HHS) encourage communities to integrate assistance programs.

In PIH Notice 90-51, HUD and HHS encouraged interagency cooperation to promote self-sufficiency of families receiving welfare in public housing through a Memorandum of Understanding dated January 24, 1990. Included as examples of encouraged activities were conversion of public housing units to provide onsite facilities for delivering supportive services such as Head Start and child care services. Head Start, one of HHS's programs, serves children of low-income families who may or may not receive housing assistance from HUD.

HUD's Portland Office did not require the Housing Authority to fully justify and document its need for a child care facility

PHA Resident Initiatives Circular Number W90-5 issued by the Seattle HUD office to all Public Housing Agencies and all Resident Councils pertained to Head Start programs in public housing communities. This Circular refers to PIH Notice 90-51 and states that one step toward self-sufficiency would be the provision of on-site facilities for a Head Start program. In addition, PHA Circular Number 91-12, issued by the Seattle HUD office to all Public Housing Authorities, discussed CIAP provisions for economic development activities - Head Start/Child Care. The Circular states the Housing Authority should be prepared to show a need for an onsite Head Start program or demonstrate a need for expanding an existing program to be accessible to residents.

The Housing Authority applied for funds to construct a child care facility in its 1992 and 1993 CIAP applications. This was consistent with HUD initiatives such as its Memorandum of Understanding with HHS and with requests from some residents. Although HUD approved $215,800 in 1992 CIAP funds to construct a 6,667 square foot "Head Start Daycare Center", those funds were used for other, higher priority purposes that year. In 1993, the Housing Authority applied for $425,000 of CIAP funds to construct a 7,740 square foot "Head Start Daycare Center". In both its 1992 and 1993 CIAP applications, the Housing Authority included narratives expressing a need for child care facilities for its residents. On August 3, 1993, HUD approved $500,000 in CIAP funds for the Housing Authority to construct the Head Start Day Care Center.

We interviewed appropriate HUD officials and reviewed appropriate CIAP files to determine how HUD processed the Housing Authority's applications. We found that HUD officials followed the NOFA and handbook processes when these CIAP applications were reviewed and approved. However, they did not determine: (1) if such a facility was not otherwise available in the community or if existing facilities were inadequate for current needs of the residents as prescribed in HUD's Modernization Handbook 7485.2 REV-1 and (2) if the size of the proposed day care facility was proportional to the residents' child care needs at that time.

The Housing Authority's former Executive Director who was involved with the 1992 and 1993 CIAP applications told us that there was a great need for a child care facility in the Nampa area. To support his position, the former Executive Director identified resident surveys, the local Head Start's commitment to use the facility for its programs, and the community's interest as expressed by Nampa's Mayor.

We reviewed the Housing Authority's files and found 19 resident survey forms completed in 1991and 3 resident survey forms completed in 1993. The resident survey forms showed that all 22 residents checked the "yes" box indicating they agreed that a new child care facility would benefit the children and improve the appearance of the vacant property. The surveys did not include any other information such as the number of children in the resident's household or whether the resident would use the facility. These surveys represented about 18 percent of the 120 units under Housing Authority management at the time.

A letter from Nampa's Mayor urged HUD to fund the Housing Authority's 1993 CIAP application, but did not directly address the need for a child care facility. In addition, Head Start sent a letter to the Housing Authority on March 30, 1992, which expressed great interest in using a facility that the Housing Authority would construct with its CIAP funds, and said they were committed to provide all needed equipment and furnishings for the facility.

HUD relied on the Housing Authority's assertions and Head Start's commitment to use the facility.

In both HUD's files and the Housing Authority's files, we did not find any evaluation of other child care facilities available to residents in the Nampa area or an evaluation of how many residents with children would use the child care facility. The former Executive Director confirmed that the resident surveys were the only information he had obtained related to the residents' need for the facility.

As a result, the Housing Authority was able to use CIAP funds totaling over $552,000 to construct a child care facility which may have been in excess of resident needs. It currently serves primarily nonresidents, and is underutilized by Housing Authority residents. Due to the poor condition of the Center's records, we were not able to determine how many resident and nonresident children were served by the Center after the Housing Authority took over the Center in August 1997.

The Housing Authority used over $552,000 of CIAP funds to construct its child care facility.

However, we were able to determine how many children used the Center while we were onsite. For the week of March 23 to 27, 1998, an average of 31 children used the child care Center; 8 (26 percent) of which were residents' children and 23 (74 percent) of which were nonresidents' children. Also, according to the Center's records, as of March 27, 1998, 61 children are registered for the daycare and only 24 (39 percent) are residents' children. We did not specifically determine why residents did or did not use the Center.

HUD officials approved CIAP funds for the Housing Authority to construct the child care facility because they relied on Housing Authority assertions and Head Start's commitment to use the facility. Because of this reliance, HUD did not require the Housing Authority to determine and document the residents' child care needs relative to the size of the facility proposed.

Conclusion

Prior to approval, HUD performed joint reviews of the Housing Authority's 1992 and 1993 CIAP applications in which HUD was required to assess the need for the child care facility. In approving the Housing Authority's 1992 and 1993 CIAP applications, HUD officials indicated that they were satisfied that there was a need for the child care facility. HUD officials told us that they reviewed the resident surveys obtained by the Housing Authority during an onsite review, and relied on (1) the Housing Authority's assertions in its applications, (2) discussions with Housing Authority officials, and (3) letters from Head Start showing a commitment to use and operate the day care facility.

Auditee Comments and OIG Evaluation

During our review, we found that no thorough evaluation of the residents' need for a 7,700 square foot child care facility was ever performed at any time. Based on our observations of the Center, the number of children served by the Center is far less than the Center's capacity. According to Nampa Fire Department records, the Center has a capacity of 120 children for its four classrooms. During our review, we found that Head Start serves 18 children in one classroom and the daycare uses three class rooms serving an average of 31 children per day.

While HUD encouraged housing authorities to provide space for Head Start and child care to enable residents to find jobs and improve their economic situations, the need for such facilities should be thoroughly evaluated and fully justified prior to approving CIAP funds for construction. The Housing Authority had the responsibility to fully justify the need for a child care facility to serve its residents prior to receiving funds for construction. As the oversight agency, HUD has the responsibility to ensure that CIAP funds are efficiently used for the primary benefit of low-income residents. Based on our review, we concluded that the child care facility built with

CIAP funds may have been overbuilt and is currently under utilized by the residents.

The Board Chairman provided no comments on Finding 2.

Recommendations:

We recommend that you:

2A. Require a thorough review to ensure the need for a non-dwelling structure such as a child care center is fully justified and comparable to the size of the facility proposed prior to approving funding.

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Management Controls

In planning and performing our review, we considered the Housing Authority's management controls relating to our objectives to determine our procedures and not to provide assurance on internal controls.

Management controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. The components of internal control are interrelated and include integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring. The entity's management is responsible for establishing and maintaining adequate systems of management controls.

Relevant controls

For the purpose of our review, we determined the management controls relevant to our objectives were the Housing Authority's policies, procedures, and practices relative to:

- its use of operating funds consistent with program rules;
- adequate safeguarding of funds received, and
- management's philosophy and strategies.

Scope of work

We evaluated the categories listed above by assessing control design, implementation, and effectiveness.

A significant control weakness exists if the controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Based on our review, we identified the following significant control weaknesses in the Housing Authority's management controls:

Assessment Results

- The Housing Authority used operating funds for ineligible expenses for nonresidents, and

- The Housing Authority did not properly safeguard and account for funds received at the Indian Creek Child Care Center.

Appendices

Appendix 1
Auditee Comments

Appendix 2

Distribution

Secretary's Representative, 0AS
Office of the Comptroller, 9AF
Director, Administrative Service Center, ASC3
Director, Field Accounting Division, 0AAF
Director, Portland Office of Public Housing, 0EPH (2)
Assistant to the Deputy Secretary for Field Policy and Management, SDF (Rm. 7106)
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