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| Audit Report Number 2007-LA-1015 |
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TO: Stephen Schneller, Director, Office of Public and Indian Housing, Region IX,
9APH

Joan S. Hobbs

FROM: Joan S. Hobbs, Regional Inspector General for Audit, Region IX, 9DGA

SUBJECT: The Housing Authority of the City of North Las Vegas, Nevada, Significantly
Underleased Its Section 8 Housing Choice Voucher Program

HIGHLIGHTS

What We Audited and Why

We audited the Housing Authority of the City of North Las Vegas, Nevada (the Authority), based on concerns expressed by the San Francisco Office of Public and Indian Housing regarding the administration of its Section 8 Housing Choice Voucher program funds.

The objective of the audit was to determine whether the Authority administered its Section 8 Housing Choice Voucher program funds in accordance with U.S. Department of Housing and Urban Development (HUD) requirements.

What We Found

The Authority did not follow HUD requirements when administering its Section 8 Housing Choice Voucher program funds. Although the Authority had \$4.4 million in program funds and related interest to house additional eligible participants, its Section 8 program was significantly underleased. We attributed this to the Authority's inadequate management of its Section 8 Housing Choice Voucher program. As a result, eligible Section 8 participants were denied the opportunity to seek safe, decent, and quality housing under the Section 8 Housing Choice Voucher program.

What We Recommend

We recommend that the director of the San Francisco Office of Public and Indian Housing require the Authority to implement adequate controls and procedures to ensure it does not underlease its Section 8 Housing Choice Voucher program.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided the draft report to the Authority on August 16, 2007, and held an exit conference on August 23, 2007. The Authority provided written comments on August 29, 2007. The Authority fully agreed with our report.

The complete text of the auditee's response can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Housing Authority of the City of North Las Vegas (Authority) is a public agency organized under the laws of the State of Nevada by the City of North Las Vegas for the purpose of providing adequate housing for qualified low-income individuals. Funding for the Authority is primarily from the U.S. Department of Housing and Urban Development (HUD), with the majority of its funding generated from HUD's Section 8 Housing Choice Voucher program. The Authority also receives funding from the following sources: HUD's Public Housing Capital Fund program, HUD's Low-Rent Housing program, HUD's HOME program, non-HUD-funded properties, and its non-HUD-funded business ventures.

The Authority administers 1,371 Section 8 housing choice vouchers. During the period January 1, 2005, to March 31, 2007, the Authority received \$26.1 million in housing assistance funds.

Our audit objective was to determine whether the Authority administered its Section 8 Housing Choice Voucher program funds in accordance with HUD requirements.

RESULTS OF AUDIT

Finding 1: The Authority Significantly Underleased Its Section 8 Housing Choice Voucher Program

Although the Authority had sufficient funds to house eligible participants, its Section 8 program was significantly underleased. We attributed this to the Authority's inadequate management and staffing of its Section 8 Housing Choice Voucher program. As a result, the Authority did not meet HUD's expected lease-up thresholds and it did not use nearly \$4.4 million in program funds and related interest to provide eligible participants safe, decent, and quality housing.

Section 8 Voucher Leasing Threshold Not Met

As part of the Section 8 Housing Choice Voucher program, HUD expects public housing authorities to lease up at least 95 percent of the allocated yearly vouchers issued to participants. HUD uses this threshold as part of its review and scoring of the Authority's Section 8 program.

During the period January 1, 2005, to March 31, 2007, the Authority averaged a lease-up rate of 89.5 percent (see appendix C). HUD expressed concerns that the Authority did not meet the expected lease-up threshold during the period of the review. In addition, the Authority's inability to meet HUD's expected lease-up levels raised concerns about the management of the Section 8 program.

During this same period, HUD paid the Authority \$26.1 million in Section 8 funding to provide housing assistance for participants in the Section 8 Housing Choice Voucher program. Of this amount, the Authority spent \$21.8 million in housing assistance payments (see appendix C). Therefore, \$4.4 million in Section 8 funds and the related interest earned went unused. During this period, the Authority maintained the unused funds in an interest-bearing bank account that earned \$120,028 in interest (see appendix D). According to the Authority, its bank account continued to accumulate unused Section 8 funds while earning interest.

Problems Acknowledged

The Authority acknowledged the problems associated with its administration of the Section 8 Housing Choice Voucher program and attributed the problems to several issues. The Authority contended that there were staffing shortages, which resulted in

low morale. It stated that constant turnover of Section 8 managers within the past few years played a role in the lack of continuity and stability in the Section 8 program. In addition, there were lengthy delays in Section 8 applicant background checks. To alleviate the problems, the Authority opened its waiting list and issued vouchers to meet HUD's lease-up requirements for the fiscal year ending June 30, 2007. In addition, the Authority eventually contracted out its background check services to another firm to speed up the process. The Authority's management suggested the possibility of merging with another public housing authority with adequate staffing and resources as a way of better administering its Section 8 Housing Choice Voucher program. The Authority's board of commissioners supported the Authority and its action plan to deal with the problems identified.

Conclusion

The Authority's inadequate administration of its Section 8 Housing Choice Voucher program resulted in unfulfilled leasing expectations and unused program funds. This caused eligible Section 8 participants to be denied the opportunity to find safe, decent, and quality housing under the program. Discussions with the Authority, its board of commissioners, and HUD officials included a number of suggestions, such as merging with another public housing authority, transferring the Section 8 program to another public housing authority, and hiring a Section 8 manager capable of ensuring that program funds are administered in accordance with HUD requirements.

Recommendations

We recommend that the director of the San Francisco Office of Public and Indian Housing require the Authority to

- 1A. Implement adequate controls and procedures to ensure all vouchers are used so that Section 8 Housing Choice Voucher program funds are fully used to provide housing to eligible participants on an annual basis, thereby putting \$4,419,629 (Section 8 funds and accumulated earned interest) in program funds to better use.

SCOPE AND METHODOLOGY

We performed on-site work at the Authority, located in North Las Vegas, Nevada, from January through June 2007. Our audit generally covered the period July 1, 2004, through March 31, 2007. This period was adjusted as necessary. Our objective was to determine whether the Authority administered its Section 8 Housing Choice Voucher program funds in accordance with HUD requirements.

To accomplish our objective, we

- Reviewed Authority operations related to its administration of Section 8 Housing Choice Voucher program funds;
- Interviewed Authority and HUD staff to obtain information about the Authority and its Section 8 Housing Choice Voucher program;
- Reviewed Authority financial records; and
- Reviewed public records and databases.

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

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of documents,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Reliability of documents used in the administration of Section 8 Housing Choice Voucher program funds.
- Policies and procedures in place to ensure that Section 8 Housing Choice Voucher program funds were administered in compliance with HUD requirements.
- Safeguarding Section 8 Housing Choice Voucher program funds from high-risk exposure through controls over its administration of such funds.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

The Authority did not have sufficient controls to ensure it met HUD's expected leasing thresholds for issuing available vouchers to eligible participants.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

| Recommendation Number | Funds to Be Put to Better Use <u>1/</u> |
|--------------------------|--|
| 1A | \$4,419,629 |

1/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified.

By implementing a plan that ensures the Authority meets HUD's expected leasing thresholds in issuing available vouchers, it can provide more housing assistance to eligible participants.

Appendix B

AUDITEE COMMENTS



HOUSING AUTHORITY OF THE CITY OF NORTH LAS VEGAS

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Chief Executive Officer

August 29, 2007

U.S. Department of Housing and Urban Development
Office of Inspector General, Region IX, 9DGA
c/o Ms. Joan S. Hobbs, Regional Inspector General for Audit
611 West Sixth Street, Suite 1160
Los Angeles, California 90017

RE: Hard Copy of Response to DRAFT OIG Audit findings

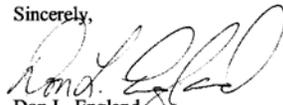
Dear Ms. Hobbs:

Enclosed please find a hard copy of the Housing Authority's response to the DRAFT OIG Audit findings.

I have already sent an electronic version to you per the instructions of Fredrick Lee.

If you have any questions feel free to contact me.

Sincerely,


Don L. England
Chief Executive Officer

Enclosure:

Response to DRAFT OIG Audit findings
August 29, 2007

The Housing Authority of the City of North Las Vegas concurs with the finding of the HUD OIG Audit that the Housing Authority has been under leased in its Section 8 Housing Choice Voucher program and needs to lease up ASAP.

To that end, the Authority has made, and continues to make, great strides to achieve a 100% lease up rate. Beginning in April, 2007 a concerted effort was begun whereby the existing waiting list was exhausted and a new lottery was held placing an additional 1,600 families on the wait list. The Authority has been holding briefings weekly since that time and has seen its lease up rate go from 83% to 93% over the past four (4) months. As of this date (August 29, 2007) the Authority has 1,281 vouchers leased (93.4%) and another 72 vouchers have been issued to families who are in the process of looking for a unit to rent. The Authority continues to issue vouchers on a weekly basis and anticipates a 95% (1302) lease up rate before the end of September, with a goal of reaching 97% (1330) before the end of October. We anticipate a 100% (1371) lease up rate by the end of 2007.

As was pointed out to the OIG auditors, a number of factors contributed to the decline in lease up over the past two years. Namely we have had a significant turnover of supervisors in the Department; every employee, except one, was out for an extended period of time on FMLA; and, initially we were hurt by the inordinate amount of time it took to get background clearances from the federal government.

We have taken the following steps in an attempt to ensure that we do not fall behind in the future:

1. All staff have been cross trained in all aspects of Section 8 from intake, to verification of eligibility, to processing files, to reporting accurately our Section 8 Management Assessment Program (SEMAP) scores. We received assistance in reporting SEMAP Scores from a technical assistance team from HUD.
2. We now contract out, at additional expense, the background checks on all applicants over the age of 18 years that guarantees a turnaround of 48 hours.
3. We have counseled staff, individually and collectively, about the negative effect of absences from the work place. While we understand that some things cannot be avoided, proper preventive health care can often prevent more serious health problems that could lead to long term illness.
4. We are currently advertising nationally for a seasoned Section 8 Manager. If successful, we hope to hire a new Manager by October 1st.

Appendix C

SCHEDULE OF SECTION 8 FUNDING AND VOUCHER LEASING LEVELS

| Month | Monthly number of vouchers allowed | Monthly number of vouchers issued | Monthly number of vouchers not used | Voucher lease-up levels | Section 8 funding provided to the Authority | Section 8 funding used by the Authority | Monthly Section 8 funds not used by the Authority |
|-------------------|------------------------------------|-----------------------------------|-------------------------------------|-------------------------|---|---|---|
| January 1, 2005 | 1,371 | 1,296 | 75 | 94.53% | \$1,006,170 | \$920,929 | \$85,241 |
| February 1, 2005 | 1,371 | 1,285 | 86 | 93.73% | \$1,006,170 | \$914,081 | \$92,089 |
| March 1, 2005 | 1,371 | 1,274 | 97 | 92.92% | \$1,006,170 | \$886,513 | \$119,657 |
| April 1, 2005 | 1,371 | 1,253 | 118 | 91.39% | \$946,110 | \$871,705 | \$74,405 |
| May 1, 2005 | 1,371 | 1,247 | 124 | 90.96% | \$946,110 | \$854,557 | \$91,553 |
| June 1, 2005 | 1,371 | 1,229 | 142 | 89.64% | \$946,110 | \$831,213 | \$114,897 |
| July 1, 2005 | 1,371 | 1,215 | 156 | 88.62% | \$946,110 | \$819,288 | \$126,822 |
| August 1, 2005 | 1,371 | 1,211 | 160 | 88.33% | \$946,110 | \$814,192 | \$131,918 |
| September 1, 2005 | 1,371 | 1,212 | 159 | 88.40% | \$946,110 | \$797,303 | \$148,807 |
| October 1, 2005 | 1,371 | 1,234 | 137 | 90.01% | \$946,110 | \$828,334 | \$117,776 |
| November 1, 2005 | 1,371 | 1,281 | 90 | 93.44% | \$946,110 | \$868,670 | \$77,440 |
| December 1, 2005 | 1,371 | 1,333 | 38 | 97.23% | \$946,110 | \$901,435 | \$44,675 |
| January 1, 2006 | 1,371 | 1,284 | 87 | 93.65% | \$979,458 | \$852,388 | \$127,070 |
| February 1, 2006 | 1,371 | 1,287 | 84 | 93.87% | \$979,458 | \$805,861 | \$173,597 |
| March 1, 2006 | 1,371 | 1,283 | 88 | 93.58% | \$979,458 | \$842,386 | \$137,072 |
| April 1, 2006 | 1,371 | 1,242 | 129 | 90.59% | \$979,458 | \$769,987 | \$209,471 |
| May 1, 2006 | 1,371 | 1,244 | 127 | 90.74% | \$979,458 | \$787,408 | \$192,050 |
| June 1, 2006 | 1,371 | 1,211 | 160 | 88.33% | \$979,458 | \$781,428 | \$198,030 |
| July 1, 2006 | 1,371 | 1,226 | 145 | 89.42% | \$979,458 | \$757,810 | \$221,648 |
| August 1, 2006 | 1,371 | 1,182 | 189 | 86.21% | \$979,458 | \$731,344 | \$248,114 |
| September 1, 2006 | 1,371 | 1,161 | 210 | 84.68% | \$979,458 | \$746,732 | \$232,726 |
| October 1, 2006 | 1,371 | 1,135 | 236 | 82.79% | \$979,458 | \$731,512 | \$247,946 |
| November 1, 2006 | 1,371 | 1,168 | 203 | 85.19% | \$979,458 | \$685,346 | \$294,112 |
| December 1, 2006 | 1,371 | 1,146 | 225 | 83.59% | \$979,458 | \$747,744 | \$231,714 |
| January 1, 2007 | 1,371 | 1,142 | 229 | 83.30% | \$979,458 | \$761,232 | \$218,226 |
| February 1, 2007 | 1,371 | 1,182 | 189 | 86.21% | \$916,793 | \$774,342 | \$142,451 |
| March 1, 2007 | 1,371 | 1,157 | 214 | 84.39% | \$948,126 | \$748,032 | \$200,094 |
| Total | 37,017 | 33,120 | 3,897 | 89.50% | \$26,131,373 | \$21,831,772 | \$4,299,601 |

Appendix D

SCHEDULE OF INTEREST EARNED FROM SECTION 8 FUNDS

| Month | Interest earned |
|----------------|------------------|
| November 2005 | \$1,809 |
| December 2005 | \$3,162 |
| January 2006 | \$3,590 |
| February 2006 | \$3,921 |
| March 2006 | \$4,708 |
| April 2006 | \$4,659 |
| May 2006 | \$6,499 |
| June 2006 | \$6,666 |
| July 2006 | \$7,554 |
| August 2006 | \$7,717 |
| September 2006 | \$7,338 |
| October 2006 | \$8,628 |
| November 2006 | \$9,696 |
| December 2006 | \$10,794 |
| January 2007 | \$10,576 |
| February 2007 | \$10,347 |
| March 2007 | \$12,364 |
| Total | \$120,028 |

Note: The Authority did not open the interest-bearing account until November 2005.

Appendix E

CRITERIA

Notice PIH [Public & Indian Housing] 2005-9 states: “PHAs [public housing authorities] are provided a fixed amount of funds to assist as many families as possible, provided that on December 31, 2005, the number of unit months leased [vouchers issued] for the calendar year does not exceed the cumulative number of unit months available [vouchers authorized for use] for the same period.”

Notice PIH [Public & Indian Housing] 2006-03 states: “...excess budget authority disbursed to PHAs that is not utilized to pay Housing Assistance Payments (HAP)...may only be used to assist additional families up to the number of units [vouchers] under contract. HUD will closely monitor both overutilization and underutilization of funds and will take appropriate action to assure appropriated funds are being used to serve as many families up to the number of vouchers authorized under the program.”