Issue Date
February 23, 1996
Audit Case Number
96-SF-204-1003

TO: Kevin Marchman, Acting Assistant Secretary for Public and Indian Housing, P

John A. Knubel, Chief Financial Officer, F

FROM: Gary E. Albright, District Inspector General for Audit, 9AGA

SUBJECT: Housing Authority of the City of Las Vegas
Low-Rent Housing Program
Las Vegas, Nevada

We have completed an audit of the Housing Authority of the City of Las Vegas (Authority). We audited the Authority's low-rent housing program, and our report contains seven findings.

This report recommends actions necessary to improve the Authority's current operations. But it also raises questions about past operations - and the integrity of the audit resolution process. This report includes deficiencies we have addressed to HUD management for more than seven years. In 1989, we reported material deficiencies in Authority operations - including the need for the Authority to repay $6 million to HUD or its own low-rent program (Report No. 89-SF-209-1004). In 1992 we performed a corrective action verification and found that these deficiencies remained (Report No. 93-SF-209-1801). In 1996, many of the same deficiencies remain - including the $6 million debt.

To underscore the critical need for corrective action, we addressed the report to you - the Department's highest level action officials for both public housing and audit resolution. Although recent changes in Authority management and action indicate a willingness to improve operations, your attention is essential to achieve that improvement.

On February 8, 1996, we met with the Authority's Executive Director and the Pacific/Hawaii Director of Public Housing. In that meeting, the Authority identified current efforts to improve operations and discussed its workout plan that provides for repayment of more than $7 million (including the overdue $6 million) debt within two years.

Within 60 days please furnish us, for each recommendation in the report, a status 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.

To ensure timely action on this report, we will adhere to the Departmental requirement for a management decision within 120 days after report issuance. If a decision is not reached by then, we will refer the report to the Deputy Secretary.

We provided copies of this report to the Auditee.

If you have any questions, please call me or Glenn Warner, Assistant District Inspector General for Audit at (415) 436-8101.

Executive Summary

We completed an audit of the Housing Authority of the City of Las Vegas's (Authority) low-rent housing program. The engagement began as a limited review to follow-up on areas identified during a site visit we made while assisting Pacific/Hawaii's Office of Public Housing in their review. Initially, we concentrated on three areas because of outstanding audit recommendations with large amounts owed to HUD, and because of questionable business practices that needed to be addressed. As the review progressed, we expanded the areas to include all of the following:

- Long overdue obligations from its non-federal program to HUD and its low-rent program
- Condemned and vacated Section 8 project - Madison Terrace
- PILOT funds diverted from the low-rent program to support non-federal programs
- Improper use of the Risk Management Trust Fund (RMTF)
- Abusive travel practices
- Interest-free loans to staff members
- Inappropriate payments to a former executive director

As a result of our review of these areas, we concluded that substantial improvements are needed to ensure efficient, effective and economic program operations.

The Authority needs to liquidate some of its non-aided and other assets to pay its overdue debts

As disclosed during past audits, the Authority used funds from its federally-assisted low-rent program to support its non-aided housing programs-and more than seven years later still has not repaid $6.3 million owed. As a result, HUD and the Authority's low-rent program have not received the funds to which they are entitled. This occurred because the Authority had not submitted a viable and acceptable repayment plan. In our opinion it is time for the Authority to liquidate and/or encumber a sufficient amount of its non-aided and other assets to fulfill its obligations. However, any disposal of those assets must be approved by HUD. During this review we noted instances where the planned disposition of such assets may not have provided the Authority with the greatest proceeds with which to pay its debts.

The Authority unnecessarily allowed Madison Terrace units to be vacated

The Authority did not appeal the City of Las Vegas' Notice and Order to Make Repairs/Vacate Madison Terrace even though that Order was inaccurate, not in accordance with the Uniform Housing Code, and many issues were not supported. The Authority did not appeal because it placed an unwarranted and unquestioned reliance on the City's Department of Building & Safety to objectively assess and report on conditions at Madison Terrace. As a result more than $165,000 was spent, including amounts for ineligible items, to relocate all Madison Terrace residents. In addition, applicants on waiting lists were not housed, available affordable housing units at Madison Terrace have been boarded up for more than a year, and the Authority has lost more than $670,000 annually in Section 8 Housing Assistance Payments (HAP) since March 1994. Also, the operating reserves are being drained by monthly mortgage payments of more than $10,000 for a property that is not being used.

The Authority diverted funds from its federally-funded low-rent program to support its non-federal program

The Authority modified the terms of its Cooperation Agreement with the City of Las Vegas without obtaining the required HUD approval. The new agreement allowed a majority of funds that the Authority paid to the City for Payment-in-Lieu-of-Taxes (PILOT) to be returned to the Authority to be used for the Authority's non-federal programs. As a result, funds that had previously been available for the Authority's federally funded low rent program will now be used to support the Authority's non-federal housing programs. This occurred because the Authority intentionally devised a scheme to circumvent HUD requirements. HUD approval is required for modifications or amendments to Cooperation Agreements but it was not sought. The Authority expects to receive $760,000 in returned PILOT over a five year period and plans to use more than $500,000 of that amount for its non-federal program.

The Authority's non-federal program owes the RMTF more than $900,000

The Authority not only improperly used monies from its Risk Management Trust Fund (RMTF) to pay debts owed by its non-federal program but also has been unable to accurately determine the amounts misspent. The debts were mostly for legal fees and costs of settling a lawsuit that resulted from past improper activities. As of September 30, 1994 the Authority's unaudited books showed a balance of $920,535 owed to the RMTF by its non-federal program; however, the Authority could not demonstrate that the balance shown represented the actual amount owed. We attribute the problems to a disregard for HUD requirements. The misuse of these funds deprived the Authority's federally-assisted housing program of nearly $1 million that could have been used to benefit low-rent housing tenants.

The Authority's travel practices were abusive and costly

The Authority's controls over travel expenditures were not consistent with good business practices and HUD requirements. The Authority did not reconcile travel advances to actual travel expenses; therefore, it did not know how much had been spent for that travel. When out-of-town on official travel, employees claimed and were reimbursed for costs that were personal in nature and not necessary to accomplish the Authority's business. Also, an Authority executive often charged in-town lunches to the Authority. Charges for those lunches in Las Vegas included costs incurred for the executive director, other Authority employees, individual commissioners, and persons seeking to do business with the Authority. Further, employees routinely charged expenses to Authority credit cards, and the bills were paid without supporting documentation or evidence that the charges were legitimate. We are particularly concerned about the lack of controls since travel and training expenditures have exceeded $125,000 a year for each of the past two fiscal years. The abuse occurred because the Authority did not have a travel policy that was comparable to local public practice and Annual Contributions Contract requirements. In addition, even though the policy itself allowed excessive costs, the limits shown therein were not enforced.

The Authority used low-rent funds to make interest-free loans to employees

Contrary to HUD requirements, the Authority used low-rent housing funds to make interest-free loans of at least $130,585 to employees. We attribute these ineligible expenditures to a desire to assist employees but the practice exhibited faulty judgement. Funds used in such a manner are not available for the day-to-day operations of the Authority's low-rent housing program.

The Authority inappropriately provided $21,302 to a former executive director

Contrary to HUD requirements and its own personnel policies the Authority paid $21,302 to a former executive director for termination pay ($18,259) and unused sick leave ($3,043). As a result, those funds were not available for necessary and appropriate low-rent housing expenditures. Further, since it was not consistent with the Authority's written personnel policies it clearly demonstrates inequitable treatment of its employees. We attribute this improper use of the Authority's low-rent housing funds to a disregard for published requirements.

Auditee Comments

We reviewed and considered the Authority's written comments to the draft findings. Those written comments are displayed in Appendix A. We also discussed the audit's conclusions with Authority management officials at a December 5, 1995 exit conference. Authority officials expressed general concurrence with the audit's conclusions except for the finding on diverted PILOT funds (Finding 3) and the finding on the termination pay to a former executive director (Finding 7). The Officials also took exception to some of the findings' conclusions and/or recommendations. The Authority's comments and our evaluation are summarized in each finding.

Recommendations

We are recommending that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to require the Authority to:

- Place liens on non-aided and other non-federal properties to ensure recovery of the $7.2 million owed;
- Repair or replace the major deferred maintenance items at its condemned Madison Terrace project if it is not sold in the near future;
- Return all refunded PILOT funds to its federally-supported low-rent program;
- Ensure that any funds used as matching funds for the HOME program are from non-federal sources as required by 24 CFR 92.220;
- Provide evidence that the amounts owed the Risk Management Trust Fund have been paid before approving dissolution of the Fund;
- Change its travel policy and practices to comply with HUD requirements;
- Ensure that amounts owed as a result of interest-free loans to employees are all collected; and
- Return to the low-rent program any improper termination costs that were paid by the low-rent program.

Field Office Comments

HUD field office comments are included in Appendix B. Pacific/Hawaii field office officials expressed general concurrence with the audit's conclusions except for two areas. The Pacific/Hawaii Director, Office of Public Housing (Director) did not believe that the Authority could be required to place liens on its non-aided or other properties and stated that HUD could not require the

Authority to obtain HUD approval prior to disposing of its non-aided and other assets. The field office also said that it had obtained legal advice that said HUD could not require the return of PILOT funds since the City had provided the necessary services pursuant to the Cooperation Agreement.

The Director also said that we needed to clarify the amounts owed the RMTF, and requested that we provide comments on an analysis that the Authority attached to its May 26, 1995 response to the draft finding. The Director also said that we should not cite the Handbook as criteria for comparability of travel costs since it had been discontinued, and that we should not recommend that the Authority review travel expenses as far back as 1992.

OIG Evaluation of Field Office Comments

As discussed in the management memorandum and Finding 1, the Authority has proposed a workout plan that appears to be viable. At the request of the Pacific/Hawaii Director, Office of Public Housing, we met with her and the Authority's Executive Director and members of his staff to discuss details of the plan. The Authority agreed to place liens on the properties and obtain HUD approval before selling them. We referred the PILOT issue (Finding 3) to the Inspector General's Counsel who stated that the finding was valid. The IG's Counsel cited Part 85 of Title 24 of the Code of Federal Regulations and OMB Circular A-87 which state that costs must be necessary and reasonable and be the net of all applicable credits. Accordingly, we are leaving the finding in the report.

We do not plan to review the Authority's analysis of the RMTF because it was not provided to us while we were on site. However, it was sent to the Director's staff in February 1995 for their review, and we believe there has been sufficient time for that review to have been completed. The Handbook pertaining to the comparability of travel was in effect during our audit period so it was the valid criteria. In addition OMB A-87 requires that all costs be reasonable and necessary.

Introduction

BACKGROUND

The Housing Authority of the City of Las Vegas (Authority) was established pursuant to the laws of the State of Nevada to administer various low-income housing programs provided through the United States Housing Act of 1937, as amended, and local efforts. The Authority is governed through a five member Board of Commissioners, each with limited terms, appointed by the Mayor of the City of Las Vegas. The Commissioners establish policies and appoint an Executive Director who is responsible for policy implementation.

The Authority operates both federally-assisted and non-federally assisted programs through the same Board of Commissioners and staff.

During the audit period, the Authority was administering 4,789 low-income and other housing units as follows:

TYPE	NUMBER
Conventional low-rent	2,670*
Section 8 Existing	796
Section 8 Voucher	370
Section 8 Mod Rehab	221
Madison Terrace	100*
Rayson Manor	57*
Managed	115*
Non-Federally Assisted and owned	460*
TOTAL	4,789

* A total of 775 of the units in these projects were out of service according to the Authority's Vacancy Report for October 1995.

The Authority received a significant amount of HUD subsidy for its 2,670 low rent units during the past three years:

FISCAL YEAR	OPERATING REVENUE	HUD SUBSIDY	TOTAL REVENUES	PERCENT HUD SUBSIDY
1992**	$2,408,597	$5,123,680	$ 7,532,277	68%
1993	2,856,032	8,318,553	11,174,585	74%
1994	2,429,019	9,460,374	11,889,393	80%

** This was for only a 9 month period due to a change in fiscal year reporting

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The original purpose of our review was to follow-up on three areas identified during a site visit we made while assisting Pacific/Hawaii's Office of Public Housing. As the review progressed and the complexity of the issues became evident, we determined that an audit was necessary and expanded it to include the seven areas identified within this report.

The audit generally covered the period October 1, 1992 through September 30, 1994; however, we extended the review to other periods as appropriate.

Audit procedures and methodologies for the audit included, but were not limited to:

- Examining financial records and supporting documents;
- Examining public records from City Hall;
- Interviews with Authority staff and vendors;
- Reviewing prior OIG reviews and IPA audit reports; and
- Reviewing minutes of the Board of Commissioners meetings.

The audit was conducted in accordance with generally accepted government auditing standards.

The Authority Needs To Obtain HUD Approval And Liquidate/Encumber Some Of Its Non-Aided And Other Assets

As disclosed during past audits the Authority used funds from its federally-assisted low-rent program to support its non-aided housing programs and more than seven years later still has not repaid $6.3 million owed. As a result, HUD and the Authority's low-rent program have not received the funds to which they are entitled. This occurred because the Authority had not submitted a viable and acceptable repayment plan. In our opinion it is time for the Authority to liquidate and/or encumber a sufficient amount of its non-aided and other assets to fulfill its obligations. However, any disposal of those assets must be approved by HUD because during this review we noted instances where the planned disposition of such assets may not have provided the Authority with the greatest proceeds with which to pay its debts.

Section 201 of the Annual Contribution Contract requires the Authority to conduct its operation in a manner which promotes serviceability, efficiency, economy and stability, and achieves the economic and social well-being and advancement of its low-rent program tenants.

Paragraph 5-4 b.(3)(c) of HUD Handbook 2000.6, Audits Management System, establishes that the action official's decision to disallow costs should be accompanied by a specific plan for recovering the costs. The repayment plan should include the method (i.e., repayment, accounting adjustment, net offset, etc.) and either a realistic target date for a single recovery amount or an installment recovery schedule.

The Authority's repayment is long overdue

The Authority used $6.3 million of federally-assisted low-rent program funds for non-federal purposes as identified in a January 1989 Office of Inspector General (OIG) audit (Report No. 89-SF-209-1004) and those funds plus another $900,000 relating to the same time period (see Finding 4 in this report) are still owed. Since the original audit report was issued the Authority has submitted several proposals for satisfying its debt; however, they were not acceptable to HUD. In our opinion, most were not reasonable and did not

accurately reflect the Authority's capacity to pay. As reported in our October 27, 1992 Corrective Action Verification (CAV) Report, information provided to HUD by the Authority proved to be misleading and in some cases false.

The Authority took questionable disposition actions

Despite the more than $7 million owed by its non-aided program, the Authority continued to pursue arrangements and questionable deals for its non-aided and other assets while making no payments to reduce its debts to HUD or its own low-rent program. In our opinion, these actions were due to the Authority's disregard for HUD requirements and its poor judgement in handling public funds. It signed a joint venture agreement with a non-profit entity in January 1994 to use vacant Rayson Manor land, and also negotiated with a developer to sell approximately eight acres of vacant land known as the Torrey Pines parcel. Based on information obtained during our review we are concerned that the Authority would not receive the most that it could from the disposition of those properties. It is a concern to HUD and to the Authority's low-rent tenants if non-aided and other assets are disposed of at less than the best price. Unless the Authority receives the greatest proceeds for its non-aided and other assets, there is no assurance that either HUD or the Authority's low-rent program would receive the entire amounts due.

Vacant Land - Rayson Manor

The Authority negotiated a joint venture agreement (Agreement) to use approximately eight acres of vacant land that was not part of the Authority's low-rent program to build a project with Southern Nevada Housing Corporation (SNHC), a non-profit entity run by a for-profit developer. Most, if not all, of the negotiations took place between the President of SNHC and the Authority's Executive Director. The Authority's Board of Commissioners (Board) approved the Agreement on January 19, 1994, and it was signed by the Authority's Executive Director and the President of SNHC on the same day. The Authority's Executive Director and the President of SNHC later signed an addendum to the Agreement on Friday March 11, 1994. Three days later, on Monday March 14, 1994, the Authority's Executive Director tendered a letter of resignation. He resigned effective April

29, 1994 and subsequently became the Executive Director of SNHC.

The addendum significantly changed the ownership terms of the Agreement and granted 50% ownership to the SNHC; however, it was never approved by the Authority's Board. Prior to the March 11, 1994 addendum the ownership interest was to be in proportion to the value of the equity or land contributed by each of the partners. We questioned the Authority and reviewed both the Agreement and claims that had been made by SNHC at the Board meeting on January 19, 1994 to determine what SNHC contributed that was worth a 50% ownership. According to a September 16, 1994 response to our question SNHC's President wrote ..."it was anticipated (emphasis added) that SNHC, through its own efforts, would be raising $1 million in equity to contribute to the project ...." SNHC, however, did not raise the $1 million as it had claimed it would at the January 19, 1994 Board meeting when it was seeking approval of the Agreement. SNHC had planned to raise monies by applying for grants and appeared to have no intention of using its identity-of-interest developer funds, or any of its own funds to assist in financing the project. Further, as stated in the September 16, 1994 letter ... "SNHC had no assets." Since no funds were going to be provided by SNHC the proposed project would be financed through the sale of Low-income Housing Tax Credits, obtaining mortgages, and equity contributed by the Authority. The Authority was to contribute eight acres of vacant Rayson Manor land believed to be worth between $400,000 and $500,000 as their share of equity.

During the review we also learned that the Agreement was severely flawed in that the legal description for the "vacant" land to be conveyed actually included the 57-unit Rayson Manor project which receives federal funding.

We believe that this Agreement has conditions that are not in the best interest of the Authority since it would not allow the Authority to receive the largest amount possible for repayment of funds owed to HUD and its own low-rent program. The Agreement in its present form also appears to be invalid since it was never approved by the Authority's Board. In our opinion it should not have received approval since there would be no economic benefit for the Authority

if SNHC received 50% ownership with no equity contribution.

Vacant Land - Torrey Pines

The Authority had been negotiating to sell approximately 7.8 acres of vacant land to a developer; however, it now appears that the City of Las Vegas may be interested in purchasing or receiving the land in a trade. The Authority obtained an appraisal of the estimated value in July 1993; however, there is some uncertainty regarding its "Highest and Best Use". "Highest and Best Use" is a critical appraisal element and the zoning at the time of an appraisal is not necessarily the "Highest and Best Use" for a property. Over two and a half years have passed since the appraisal so it should no longer be considered valid. Therefore, any planned sale or trade would require a new appraisal with full consideration as to the "Highest and Best Use".

We were not advised of the Authority's intentions on the use of the proceeds from any sale that may occur but we have identified this as an unencumbered property that it lists as a non-aided asset.

The Authority proposed unsatisfactory recovery plans

The Authority has had interim repayment plans and proposed recovery plans since shortly after the January 1989 OIG audit report was issued; however, none have been successful in eliminating the Authority's debt to HUD and its low-rent program. The Authority's failure to render a plan that is acceptable is the reason that only a very small portion of the original amount owed has been repaid. The last recovery plan we reviewed was discussed in the CAV report dated October 27, 1992. In that report we concluded ..."that the alternatives espoused in the proposed Recovery Plan do not accurately portray the non-Federal program's ability to repay amounts owed." The San Francisco HUD office sent the Authority a December 14, 1992 letter stating that the proposed repayment plan would not be approved and required the Authority to immediately initiate the development of another repayment plan. Approximately one and one half years later, in a letter dated July 15, 1994, the Authority **submitted the <u>same</u> plan that had been rejected by HUD in the December 14, 1992 letter.** In our opinion, this was yet another example, in addition to those

in the CAV, that indicates the Authority's lack of good faith efforts to resolve the issues.

On April 24, 1995 the Authority submitted another proposed recovery plan to HUD. This was only a draft plan and contained three proposals (not one) for HUD to review and advise if any were acceptable. Since the plan was **only in draft form** we did not spend much time reviewing the three proposals. However, after our limited review of the proposals, we concluded that none appear to be viable methods for resolving the Authority's $7.2 million obligation.

The Authority has had several Executive Directors (including two Acting Executive Directors) and a number of different Commissioners since the 1989 OIG audit report was issued; however, no real progress has been made towards resolving the significant findings on the misuse of funds discussed in that report. The Authority has sufficient non-aided and other assets that could be used to satisfy its obligations to HUD and its low-rent program. According to information provided to us during this review the Authority's recorded book value for non-aided fixed assets owned as of September 30, 1994 was $18 million with related notes payable of only $2.3 million (see Appendix C). The Authority also owns two Section 8 subsidized projects, Rayson Manor and Madison Terrace, whose recorded book balances totaled $4.6 million and whose notes payable totaled $2.9 million as of that same date.

The Authority needs to realize and accept that its low-rent program and HUD can no longer be used to fund its non-aided program. That which was once envisioned by the Authority as a means of funding a non-federal program at the expense of low-rent tenants and HUD is not acceptable. The Authority has had to discontinue: (1) charging tenants rent for stoves and refrigerators that HUD had paid for, (2) charging the low-rent program for leasing vehicles from its non-aided program at a profit, and (3) charging overhead for supplies and materials at the expense of HUD. Since those sources of revenues were severed the Authority has relied on rents, PILOT funds and HUD HOME grants (see Finding 3) to fund its non-aided program. Despite the loss of the discontinued revenues the Authority's non-aided program's Surplus Earnings have continued to grow yearly

and according to the latest available draft financial statements for the fiscal year ended September 30, 1993 the balance was $15.8 million.

In our opinion, the Authority has had more than enough time to establish an acceptable plan to pay off its debts. It should immediately plan to reduce its non-aided and other assets and/or take out mortgages on its unencumbered non-aided and other assets and repay HUD and its low-rent program.

Auditee Comments

The Authority provided a copy of its latest Recovery/Work-Out Plan dated October 25, 1995 and stated that it had been submitted to the HUD Office of Public Housing in San Francisco.

OIG Evaluation of Auditee Comments

At the request of the Pacific/Hawaii Director of Public Housing, we met on February 8, 1996 with her and the Authority's Executive Director and members of his staff to discuss details of the proposed work-out plan to pay back the amounts owed. Based on those discussions, the plan is being modified and should be approved by the HUD field office within the next two weeks. As presented, the plan proposes the sale of various non-aided and other properties to obtain money to pay the long-standing debts. The proposal envisions that all debts will be paid within two years. If the debts are paid within two years, we agreed that the plan would be acceptable. We have, however, made two recommendations that will assist in ensuring that the amounts owed are repaid.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to:

1A. Obtain a judgement and place liens on the Authority's non-aided properties and Rayson Manor and Madison Terrace, as identified in Appendix C, in an amount equal to the outstanding debt owed as

identified in this and previous OIG audit reports; and

1B. Closely monitor the approved workout agreement to evaluate, on a continuing basis, the progress toward repayment in accordance with the repayment plan. If the sales of the properties do not provide enough money to repay in the manner envisioned, HUD should evaluate whether mortgages on remaining properties are needed to ensure the two-year repayment commitment is realized.

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The Authority Unnecessarily Allowed Madison Terrace Units To Be Vacated

The Authority did not appeal the City of Las Vegas' Notice and Order to Make Repairs/Vacate Madison Terrace even though that Order was inaccurate, not in accordance with the Uniform Housing Code, and many issues were not supported. The Authority did not appeal because it placed an unwarranted and unquestioned reliance on the City's Department of Building & Safety to objectively assess and report on conditions at Madison Terrace. As a result, more than $165,000 was spent, including amounts for ineligible items, to relocate all Madison Terrace residents. In addition, applicants on waiting lists were not housed, available affordable housing units at Madison Terrace have been boarded up for more than a year, and the Authority has lost more than $670,000 annually in Section 8 Housing Assistance Payments (HAP) since March 1994. Also, the operating reserves are being drained by monthly mortgage payments of more than $10,000 for a property that is not being used.

Section 1.7 of the Housing Assistance Payments (HAP) contract requires the Authority to provide decent, safe and sanitary housing. Exhibit C of the HAP contract requires the Authority to provide routine exterminating services as conditions may require.

The City declared Madison Terrace a public nuisance

On January 21, 1994 the City of Las Vegas issued a Notice and Order to Make Repairs/Vacate Madison Terrace. The Order stated that inspections by the City's Department of Building & Safety on January 19 and 20, 1994 revealed conditions such that the housing units and ancillary facilities were determined to be substandard as defined in the Uniform Housing Code (UHC). The Order further stated that the units were declared a public nuisance and if the nuisances were not abated within a specified time frame such failure would initiate the order to vacate. The Order stated that the Authority could appeal the Order or any action by The Department of Building & Safety to the City Council. Any appeal was to be made in writing as provided in the UHC within ten (10) days from the date of service of the Order. The Order stated that <u>failure to appeal would constitute a waiver of all rights to an administrative hearing and determination of the matter</u> (emphasis added).

The Authority should have appealed the City's flawed Order

The Authority had numerous reasons to appeal the Order; however, it did not do so. Instead, the Authority only asked for more time to vacate (emphasis added) the buildings even though the Order contained irregularities and inconsistencies. Those included:

Compliance time was insufficient - The time given for the Authority to comply with the Order was insufficient for any responsible corrective action to be taken. The Order was issued on Friday, January 21, 1994 and gave the Authority only until Monday, January 24, 1994 to make the repairs and if not completed by then to vacate the buildings. This short time frame was not practical. In fact it was not possible to comply since the City did not provide the Authority with the details of the inspections until January 27, 1994 (three days after all work was required to be accomplished). When the inspection report did arrive, it was equivalent to a deferred maintenance laundry list with the notation that all work be done by licensed contractors under permits and inspections for major jobs such as plumbing, and that Authority maintenance staff could do the others.

Time given to appeal was erroneous - The Order stated the Authority could appeal the action within 10 days of service. The City adopted the Uniform Housing Code (UHC) which states in Sections 1101 and 1201 that appeals shall be filed within 30 days from the date of service.

Severity of infestations not properly determined - The Order cited the infestation of insect vermin or rodents as the number one condition needing abatement. It cited [UMC Sec. 201(c)] Paragraph 4 and Sec. 1001 as requiring the abatement. The correct citation should have been from the UHC; however, the significant problem with this was that the responsible health official did not render a report supporting the City's concerns. Since the City cited UHC Section 1001 as an authority for issuing the Order, we followed up to determine who the referenced health officer was for the metropolitan area in and around Las Vegas. Contrary to what we were told by City officials, and contrary to the Order, we learned that this was not a City function. This was, by State statute, a function of the District Health Department. We contacted that Department and learned that its personnel had been to Madison Terrace

and there had been some talk of tenting the buildings to rid them of roach infestation. However, that Department's conclusion was that **it did not perceive there was an emergency situation that required evacuation of the units.**

Inadequate sanitation not supported - The Order listed inadequate sanitation as the second condition needing abatement. It cited UHC Sec. 100 (b) no. 8 as the reason for abatement and stated there was a lack of minimum amount of natural light and ventilation (interior bathrooms). Since the UHC does not include a section 100 we believe the City intended to cite 1001 (b) which does pertain to light and ventilation required by the UHC. Those requirements are found in Section 504 (b) which discusses light for guest rooms and habitable rooms but does not have any such requirement for bathrooms. Further, it does not seem to be practical or necessary for "interior bathrooms" to have natural light as stated by the City in the Order.

HUD report differed from that of the City - Our review of a HUD Inspection Report of an inspection that was made during November 1993 disclosed that a number of units had deferred maintenance and repair items in addition to severe vermin infestations. However, the report did not indicate that the units were in such poor condition that they should either be immediately repaired or immediately vacated.

As shown, the City's Order was full of inconsistencies and errors and as such did not warrant the unquestioned compliance by the Authority. It is our belief that had the Authority appealed the City's Order, reviewed and questioned its contents, and asked for time to exterminate and make repairs it would not have had to vacate all of the tenants. It could have temporarily housed the Madison Terrace residents as necessary and not have had to spend money for permanent relocations. Such an appeal would have negated the necessity of boarding up the units that were needed for affordable housing. Although Madison Terrace had a significant infestation and needed repairs, there was insufficient justification for the Authority to hastily vacate the property. By not appealing the City's Order, the Authority waived all rights to an administrative hearing that could have been used to discuss a rational and planned approach to correcting the problems.

Relocation costs were excessive

The Authority spent $165,079 to relocate the tenants of Madison Terrace; however, a significant portion of the expenses were improper or questionable. As a result the costs of the tenants' relocation were higher than necessary. This occurred because the Authority disregarded HUD requirements pertaining to the payment of moving expenses.

HUD requirements for paying moving and related expenses are included in 49 Code of Federal Regulations (CFR) Part 24, Subpart D and HUD Handbook 1378, Tenant Assistance, Relocation and Real Property Acquisition. Those requirements provide that displaced residents may choose to receive payment for their actual reasonable moving and related expenses or an allowance as determined according to a schedule of allowances as published by the Federal Highway Administration.

Our review of the amounts disbursed and included in the $165,079 showed that the Authority paid amounts that were excessive. The various types of expenses paid by the Authority and our evaluation thereof are:

Relocation Fee ($35,800) - This total was paid to 88 displaced tenants of Madison Terrace with individual payments that ranged from $300 to $900. Since the Authority also paid actual moving expenses of the displaced tenants these were not eligible costs. The regulations allow for actual costs or an allowance, but not both.

Rents written off ($9,436) - The Authority wrote off the total $9,436 that was owed by 44 tenants that had been displaced. The rents were owed to the Authority and should have been collected. The write offs were even more questionable since 39 of the tenants that owed the money had each received a refund of their security deposit plus interest. We believe that the Authority should have, at least, applied the security deposit to the unpaid rent. In addition, it is questionable whether tenants who had not been paying rent should be offered another subsidized place to live.

Utilities ($16,760) - The Authority paid a total of $16,760 for the cost of utilities that displaced tenants owed for service at Madison Terrace as well as the cost of utilities

hookup at their new residences. The costs associated with new hookups, including reinstallation of telephone and cable television service are allowable; however, the past bills for service at Madison Terrace are not. We did not attempt to isolate the costs of new hookups, however, we believe it would be minimal since they were $7.50, $21.08, and $36.60 for electricity, gas, and telephone respectively.

Utility Allowances ($15,271) - The Authority provided utility allowances to displaced tenants during the period January through July 1994. If the tenants were supposed to receive utility allowances for any rents after they had been moved, the costs would be applicable to their new situation and not charged as a moving cost.

Other costs ($87,812) - The other costs for security deposit refunds ($8,660) and moving expenses ($64,645) appear to be allowable as valid relocation expenses in accordance with federal regulations. The moving expenses included costs for moving vans, moving crews, a coordinator for the move, cellular phone bills for the coordinator and various other nonspecific tenant costs. We also concurred with the Las Vegas HUD office that since the displaced tenants were forced to pay new security deposits of $14,507, this will be considered as an eligible expenditure.

The Authority did not fulfill its management and maintenance responsibilities

The Authority did not properly manage and maintain Madison Terrace. Local HUD office staff in November 1993 performed an on-site inspection of 11 occupied and 9 vacant apartments. The rating given the Authority for overall management was "Unsatisfactory". The majority of the occupied units inspected were heavily infested with german cockroaches and the vacant units were uninhabitable due to fire damage or maintenance needs. The report stated that roof covers for three of the buildings had been leaking and need to be replaced as soon as possible. It further indicated that bids had already been obtained but no work had been done and that the bids should be updated and work begun. The report cited numerous other deferred maintenance items including leaking sprinkler systems, facia boards in need of paint, worn out weatherstripping and damaged kitchen cabinets; however, **it did not state anywhere that the units were in such a condition that they needed to be immediately vacated**.

The report stated that needed major repairs had not been done and that no major physical improvements had been made during the year. However, the most urgent need mentioned repeatedly in the report was the need to rid the project of the heavy roach infestation. It stated..."This is a major health problem and must, at all costs, be dealt with immediately. Since the owner cannot or will not provide for these units to be properly exterminated by staff, it is imperative that a private contractor be retained to do the work." It further stated that tenants should be instructed on the importance of keeping their units clean and free of open containers that perpetuate the problem.

The Authority could have prevented the City from getting involved with Madison Terrace if it had acted promptly to solve the overriding problem of roach infestation and then established a reasonable plan to correct the other maintenance problems in a timely manner. If that had been done there would have been no question concerning the relocation of the tenants and the resulting adverse effect that it has had on the tenants, waiting list personnel, the Authority, and HUD.

Auditee Comments

The Authority's written response stated that on October 23, 1995 its Board of Commissioners approved the sale advertisement of the Madison Terrace Development at a specified minimum price of $2 million. It also stated that HUD would be informed and concurrence sought prior to the sale.

OIG Evaluation of Auditee Comments

At the Exit Conference, Authority staff stated that the written reply did not respond to the recommendations in the finding because it now plans to sell the project. As a result, we have revised the recommendations to state that they need to be implemented if no sale has occurred by December 31, 1996.

We also need to express our concern regarding obtaining the greatest proceeds for the project. Per correspondence dated April 24, 1995 from the Authority to the Las Vegas

HUD office, the project had recently been appraised at $2.3 million and not $2 million. Since it appears the $2.3 million did not include the appreciation in value to be expected from the recent rehabilitation work on one of the 16 unit buildings, we would expect the fair market value to exceed $2.3 million unless the Authority provides substantiated and reasonable evidence to the contrary. In addition, we recommend that while negotiating the sale the Authority should consider the added value of expected tax credits and the HAP contract.

Recommendations

If the Authority does not sell the project by December 31, 1996, we recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to contact the Director of Housing and inform that person to require the Authority to:

2A. Immediately repair or replace major deferred maintenance items, including roof covers and heating and air conditioning systems;

2B. Repair and replace, as necessary, minor deferred maintenance items including resetting bathroom sinks and water closets, caulking tubs and showers, weatherstripping and patching holes in walls and ceilings;

2C. Have an adequate number of its staff obtain certifications to be allowed to perform pest control services or retain the services of licensed pest control contractors. Pest control spraying should be provided on a scheduled periodic basis;

2D. Provide counseling on good housekeeping and sanitation practices to assist in ensuring that sanitary conditions are maintained. The counseling should be given to new tenants and annually thereafter;

2E. Repay $35,800 from non-federal funds, to the applicable accounts for funds that were improperly disbursed for relocation fees;

2F. Repay, from non-federal funds, to the applicable accounts any of the $32,031 spent for utilities and utility allowances that can not be supported as necessary and consistent with HUD requirements for relocation expenses; and

2G. Repay, from non-federal funds, to the applicable accounts an amount equal to tenant security deposits that were refunded to tenants whose unpaid rents were written off. The maximum applied to any tenant account should not exceed the amount written off for that account.

The Authority Diverted Funds From Its Federally Funded Low-Rent Program To Support Its Non-Federal Program

The Authority modified the terms of its Cooperation Agreement with the City of Las Vegas without obtaining the required HUD approval. The new agreement allowed a majority of funds that the Authority paid to the City for Payment-in-Lieu-of-Taxes (PILOT) to be returned to the Authority to be used for the Authority's non-federal programs. As a result, funds that had previously been available for the Authority's federally funded low-rent program will now be used to support the Authority's non-federal housing programs. This occurred because the Authority intentionally devised a scheme to circumvent HUD requirements. HUD approval is required for modifications or amendments to Cooperation Agreements but it was not sought. The Authority expects to receive $760,000 in returned PILOT over a five year period and plans to use more than $500,000 of that amount for its non-federal program.

Section 301(A) of the ACC states the Local Authority shall comply with all provisions of the Cooperation Agreement, including making payments in lieu of taxes as provided therein, and shall not amend or modify the same in any manner except with the approval of HUD.

The Authority modified the Cooperation Agreement without HUD approval

On June 4, 1992 the Authority submitted a proposal to the Las Vegas City Council to change the way the Cooperation Agreement was used as it related to the PILOT. The Authority signed the new agreement with the City on November 4, 1992 which in effect modified the Cooperation Agreement dated December 21, 1978. The proposal and new agreement were not presented to HUD for approval as required. This omission by the Authority was very significant because it not only allowed the Authority to use HUD assisted program funds to support its non-federal program but also circumvented management decisions that had been reached between the HUD program staff and our office to correct past program abuses by the Authority.

Based on information presented in the Authority's proposal to the City these actions were deliberate and did not fully

disclose the reasons behind the non-federal program's problems. The proposal submitted to the Las Vegas City Council by the Authority stated that in the past it had..."obtained large amounts of revenue from the federal government through leasing arrangements between its non-aided and its federally aided programs. As a result of an investigation in 1989 by the Inspector General of HUD, those leasing arrangements were found to be improper and thus were ordered discontinued." That statement was essentially true; however, it did not provide a complete disclosure as to how the Authority's non-federal program found itself in need of more money. A complete discussion would have disclosed that our 1989 audit report had cited other areas wherein the Authority had used improper and questionable methods in obtaining funds for its non-federal program. Those included the improper use of its revolving fund, leasing of appliances to low income housing tenants, and excessive charges to the low income program for salaries. Another problem for the Authority's non-federal program was the cost of defending against lawsuits because of the Authority's improper appliance leasing practices.

Funds for benefit of low-rent tenants were diverted

A major consideration for questioning the change in the Authority's Cooperation Agreement is that the Authority had not been paying PILOT to the City and in its proposal the Authority actually stated ... "Moreover, since the City has never had use of the funds, approving this proposal will not result in any reduction of existing income for the City." A major problem with this plan is that of the expected $760,000 in federal funds to be paid and returned over the projected five year period, $502,750 (66%) is to be diverted to non-federal program uses. During 1993 and 1994 the Authority paid a total of $354,574 in PILOT to the City. That total was returned and the Authority planned to use $106,375 as matching funds for obtaining HUD HOME program funding for James Jones Gardens, a non-federal project. Any such use of returned PILOT funds not only allows the federal low-rent program to support the non-federal program but also clearly violates 24 CFR 92.220. That section states that contributions made with or derived from federal resources are ineligible forms of matching contributions for obtaining HOME funds.

The methods devised by the Authority may help its non-federal program; however, it deprives federally assisted low

rent tenants of funds that have previously been available for their benefit. In our opinion programs for federally assisted low-rent tenants should not be used to help fund activities of the Authority's non-federal program. This plan is even more questionable since it was devised as a means of perpetuating the Authority's past improper practices that were disclosed in the 1989 audit report. We believe that this would not have been approved by the City if all the facts had been presented in the proposal.

Auditee Comments

In its written reply the Authority stated that it did not agree with the finding and it strongly opposed the cause as stated in the finding ... "This occurred because the Authority intentionally devised a scheme to circumvent HUD requirements." The Authority stated that it never modified any terms of the original Cooperation Agreement dated December 21, 1978. It also stated that on November 4, 1992 it signed an agreement with the City which allowed returned PILOT funds to be used for certain scheduled activities and expenditures.

OIG Evaluation of Auditee Comments

We reviewed the facts as presented in the finding and based on the evidence and documents provided concluded the root cause to be as was stated. Since the Authority did not provide explanations or evidence that the root cause as stated was incorrect, we did not modify the finding. The referenced November 4, 1992 agreement with the City is clearly a modification of the Cooperation Agreement. Section 301 of the ACC clearly and unambiguously prohibits the Authority from terminating, amending, or modifying the agreement without obtaining HUD approval. We do not believe that it would have been appropriate for HUD to approve the modification of the Agreement had it been submitted for approval. The facts as presented would amount to HUD approving a misuse of federal funds. Both the ACC and OMB Circular A-87, Cost Principles for State and Local Governments, require that costs are only allowable if they are necessary and reasonable. The expenditure of low-rent program funds for other than low-

rent purposes would not be consistent with those documents.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to require the Authority to:

3A. Return the $354,574 in 1993 and 1994 refunded PILOT funds to its federally supported low-rent program. Any subsequent PILOT money that is refunded should also be returned. Those funds must be from the Authority's non-federal program;

3B. Immediately rescind the November 4, 1992 Agreement with the City of Las Vegas that allows for PILOT to be returned unless all of the funds are used for the federally assisted program;

3C. Submit any and all modifications and amendments to the Cooperation Agreement to the Pacific/Hawaii Public Housing office for approval prior to execution; and

3D. Provide assurance that any funds used as matching funds for the HOME program are from non-federal sources as required by 24 CFR 92.220.

The Authority's Non-Federal Program Owes The Risk Management Trust Fund More Than $900,000

The Authority not only improperly used monies from its Risk Management Trust Fund (RMTF) to pay debts owed by its non-federal program but also has been unable to accurately determine the amounts misspent. The debts were mostly for legal fees and costs of settling a lawsuit that resulted from past improper activities. As of September 30, 1994 the Authority's unaudited books showed a balance of $920,535 owed to the RMTF by its non-federal program; however, the Authority could not demonstrate that the balance shown represented the actual amount owed. We attribute the problems to a disregard for HUD requirements. The misuse of these funds deprived the Authority's federally assisted housing program of nearly $1 million that could have been used to benefit low-rent housing tenants.

Section 406(B) of the Annual Contributions Contract (ACC) requires that "Operating Expenditures" include all costs incurred for administration, maintenance and other costs and charges which are necessary for the operation of each project in such a manner as to provide decent, safe, and sanitary dwellings within the financial reach of low income families. The ACC has no provisions for paying debts for non-federal programs, making loans to non-federal programs, or using low-rent housing funds for other than ACC purposes.

RMTF was established as a self-insurance fund

The RMTF was established as a self-insurance fund in 1986 after the Authority requested and received a waiver of Section 305(A) and part of Section 305(B) of its ACC regarding fire and liability insurance. The RMTF was discontinued in May 1994 when the Authority went from self-insurance to pooled insurance from the Housing Authorities Risk Retention Group, Incorporated. In July 1994 the Authority's Controller prepared a draft plan to close out the RMTF and distribute the excess reserve funds by September 30, 1994. That date corresponded with the end of the Authority's fiscal year. However, by the conclusion of our field work, the proposed analysis had not

been prepared. As a result the funds remained in limbo in the unneeded RMTF.

RMTF assets appear to be considerable

The Authority's unaudited books showed that the RMTF had net assets totaling $2,076,998 as of September 30, 1994. This total included a $920,535 receivable due the RMTF from the Authority's non-federal program; however, the Authority could not be certain of those amounts because it had not closed its books for the past two fiscal years. In our opinion most of the $2 million is owed to the Authority's federally-funded low-rent housing program. We previously reported, in a January 20, 1989 audit report (No.89-SF-209-1004), that the primary source of funding for the RMTF was federal funds. Therefore, the remaining assets should go back primarily to the low-rent housing program, and not the Authority's non-federal program.

Our concerns regarding the mishandling of the RMTF were previously addressed in a memorandum (No.93-SF-209-1801) dated October 30, 1992. In that memorandum we recommended the Authority be required to submit an analysis of the RMTF account for all expenditures from January 1, 1988 through September 30, 1992 and reimburse the RMTF for non-allowable expenditures and loans. Recommendation 2A of that memorandum showed a $533,590 receivable due the RMTF and it has now increased an additional $386,945 to a balance due of $920,535 as of September 30, 1994. Recommendation 2B in that memorandum, which recommended an analysis of expenditures, was closed based on incomplete information submitted to HUD program staff. The Authority claimed to have analyzed all RMTF expenditures through December 31, 1991 and the proof of the analysis was copies of adjusting journal entries for the fiscal year ended December 31, 1991. This was not satisfactory because we had recommended an analysis of the RMTF and not simply journal entries. We also recommended that the analysis include the Authority's new fiscal year which ended September 30, 1992, but this was not done. If the analysis required to close this previous recommendation had been properly done the Authority should have had no problem updating that analysis to close out the RMTF by September 30, 1994 as proposed. The Authority also should have had no difficulty providing us the requested analysis of income

and expenditures in the RMTF, but our numerous requests during site work were not fulfilled.

RMTF should be dissolved and assets distributed

We believe it is imperative that the RMTF be dissolved as soon as possible. It is unconscionable that the Authority has large amounts of money sitting in an account when it could be put to good use for its low-rent housing program. However, the following concerns must be addressed before the fund's assets are disbursed. First, all funds improperly spent from the RMTF must be identified and replaced, and second the Authority must complete an analysis of the fund so it can determine where the money should go. Any actions affecting the assets in the RMTF must be approved by HUD.

Auditee Comments

The Authority's written reply stated it has submitted an analysis to the San Francisco HUD office showing income and expenditures from the RMTF through September 30, 1994 (as was recommended in the Draft Finding). The response also stated that it would transfer all cash investments in the Fund to its Federal Low-Rent Program and concurred that its non-federal would still owe $920,535 ($533,590 + $386,945) to the RMTF. It stated that the final distribution can only be made after its non-Federal program reimburses the RMTF. At the exit conference Authority staff stated that all amounts in the RMTF had been transferred to its low-rent program except the amount owed by its non-federal program.

OIG Evaluation of Auditee Comments

The Authority concurred with the finding and submitted an analysis of income and expenditures from the RMTF to the San Francisco HUD office for review and approval. We have revised our recommendations that were in the draft finding to reflect the Authority's actions.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to require the Authority to:

4A. Provide evidence that it has transferred all of its cash investments in the RMTF to the low-rent program and identify net assets remaining in the RMTF that need to be distributed; and

4B. Submit a proposed distribution plan to the Pacific/Hawaii Director, Office of Public Housing for review and approval before further distribution of the net assets still in the RMTF. All amounts identified should be reimbursed to the RMTF by the program, or fund, that received or benefitted from the monies. The Pacific/Hawaii Director, Office of Public Housing should require evidence that the additional $386,945 ($920,535 - $533,590) owed to the RMTF by the Authority's non-federal program has either been repaid or included in an approved repayment plan before approving dissolution of the Fund.

The Authority's Travel Practices Were Abusive And Costly

The Authority's controls over travel expenditures were not consistent with good business practices and HUD requirements. The Authority did not reconcile travel advances to actual travel expenses; therefore, it did not know how much had been spent for that travel. When out-of-town on official travel, employees claimed and were reimbursed for costs that were personal in nature and not necessary to accomplish the Authority's business. Also, an Authority executive often charged in-town lunches to the Authority. Charges for those lunches in Las Vegas included costs incurred for the executive director, other Authority employees, individual commissioners, and persons seeking to do business with the Authority. Further, employees routinely charged expenses to Authority credit cards and the bills were paid without supporting documentation or evidence that the charges were legitimate. We are particularly concerned about the lack of controls since travel and training expenditures have exceeded $125,000 a year for each of the past two fiscal years. The abuse occurred because the Authority did not have a travel policy that was comparable to local public practice and Annual Contributions Contract requirements. In addition, even though the policy itself allowed excessive costs, the limits shown therein were not enforced.

Section 201 of the Annual Contributions Contract (ACC) instructs the Authority to operate each project in such a manner as to achieve the economic and social well-being of the tenants. In addition, Section 406(B) of the ACC requires that "Operating Expenditures" include all costs incurred for administration, maintenance and other costs and charges which are <u>necessary</u> (emphasis added) for the operation of a project in such a manner as to provide decent, safe, and sanitary dwellings. It also requires that the operation promote serviceability, efficiency, economy, and stability.

The Authority did not control travel advances

The Authority did not ensure that employees who were given travel advances accounted for costs of the travel for which the funds had been advanced. Since the Authority did not reconcile its travel advances on a monthly basis it had no idea whether the amounts advanced were necessary for operating its projects. We found instances where travelers did not provide an accounting of amounts advanced to them for travel completed as long ago as

October 1993. Our selective testing disclosed that one of the Authority's executives had received ten separate advances totaling $1,475 during a ten month period beginning in October 1993. These were in addition to the executive's use of an Authority credit card for travel expenses during the same travel periods. The advances ranged in size from $25 to $250 and no travel expense reports were on file showing whether the costs associated with the travel were paid for by the executive from the advance, or by the Authority when it paid the credit card charges.

One reason for the unreconciled advances appears to be the low priority given the subject by the Authority's management staff and the culpability of the executive staff itself as demonstrated by the example cited above. A major factor causing these long outstanding unreconciled travel advances was the Authority's method of accounting for the advances. It recorded the advances as expenses rather than as receivables as required by HUD and generally accepted accounting principles. Since there were no receivables on the Authority's books for travel advances given, the advances appear to have been ignored.

Ineligible expenses

Out-of-town costs - The Authority spent travel funds for out-of-town travel that should not have been charged to the Authority. Instead the costs appeared to be personal in nature and thus should have been paid for by the individuals themselves. Included in this category were payments to travelers for in-room movies, baby sitting expense, laundry, taxi charges for going to dinner even though the executive who claimed the costs simultaneously claimed the costs of renting and parking a rental automobile. Other ineligible payments were made for lodging and meals for two days after a conference had ended, duplicate payments of $463 each for a travel expense report that was submitted twice by the same Authority executive. The duplicate payment was made even though the second expense report had no supporting documentation.

In-town-costs - We tested some of the charges on selected expense reports and found expenditures for in-town executive staff lunches at local restaurants with individual commissioners, city representatives, and persons pursuing

business arrangements with the Authority. The total cost of these lunches was not significant when compared to the overall cost of the Authority's travel; however, the cost of a lunch for those individuals in our test ranged from $13 to $25 per person. We are not aware of any valid reason, or necessity, for spending federal funds for such lunches even if any business was discussed. HUD requirements do not allow such expenditures as eligible operating expenses regardless of the amount spent.

Unsupported credit card costs - We observed frequent charges to Authority-issued credit cards for restaurants (both local and out-of-town), car rentals, and hotels. These credit card charges were routinely paid even though no supporting documentation had been submitted by the individuals who had incurred the expense. Such payments should not have been made unless supporting documentation was provided by the traveler. Our limited review disclosed questionable payments for such things as a car rental that cost $294 and a hotel cost of $527 when travel had been authorized for only four days in December 1993. We also noted a restaurant charge of $327 for a Las Vegas restaurant in September 1993, and another for a restaurant charge of $137 and rental car charge of $79 for a trip to San Francisco for an executive to attend a meeting in May 1994. Another example of questionable costs occurred in August 1993 when an executive incurred a restaurant charge of $190 and a car rental cost of $225 in San Francisco on August 13 and 15 respectively. We were not provided with any approved travel order for that travel. The unrestrained and unsupported use of credit cards and the questionable travel practices clearly demonstrate that there is a need to review and revise the Authority's travel policy and practices.

The Authority's travel policy and practices permitted excessive costs

The Authority's travel policy was not consistent with local public practice as required by HUD. The policy allowed Authority personnel more money for travel than the City of Las Vegas allowed its employees. In addition, even though the policy allowed excessive expenditures the Authority did not ensure that its employees complied with the limits of that policy. The limitations specified in the policy were routinely ignored and Authority travelers were reimbursed for actual costs without regard for any limitations.

HUD Handbook 7401.1, Low-Rent Housing Administration of Program, Chapter 5, Section 1, paragraph 7, states that the Authority's travel policy should be comparable with local public practice. It further states that if the officially adopted policy of the local government provides a per diem allowance in lieu of subsistence, the local Authority should adopt a per diem allowance which is equal to or below the allowance provided in that local government's policy. However, if the officially adopted policy of the local government provides for reimbursement of actual subsistence expense, the local authority shall adopt an actual subsistence policy with a maximum allowance (emphasis added) which is equal to or below the maximum provided in that policy.

The Authority's travel policy was not comparable to the City's

The Authority's written travel policy allowed a maximum per diem of $50 per day for meals when overnight lodging was required while the City of Las Vegas allowed the Internal Revenue Service's (IRS) per diem limits. The current IRS rates range from $26 to $38 per day for meals and incidental expenses covered by per diem. The $38 maximum amount is limited to specified high cost cities.

The Authority's travel policy was not followed or enforced

Even though the Authority's written travel policy stated it used a per diem rate, none of the travelers whose expense reports we reviewed were reimbursed through an applied per diem rate. Instead the Authority's practice was to provide reimbursement for actual expenses claimed regardless of the amount. Its travel practice observed no set limits, or maximum, when travelers chose to submit actual costs incurred. Although our review of selected vouchers showed that travelers routinely were reimbursed for meals that exceeded the $50 per diem we noted several reimbursements to Authority executives that were significantly above the maximum. For one trip in March 1994 an executive charged and was reimbursed for meals totaling $74, $87, $77, and $83 for four consecutive days. Those amounts were in addition to round trip taxi fares of $10, $9, and $9 to go to lunch/dinner on each of the first three days claimed. Those taxi fares not only increased the cost of the meals but appeared to be unnecessary since the same executive was reimbursed for a rental car and $16 for daily parking during the same period. If the traveler had been a City employee the maximum allowed each day for meals would have been $38. During March 1993 another

executive was reimbursed $75, $57, and $93 for meals for three consecutive days. This executive was reimbursed even though no one ever officially approved payment of the voucher. While these two examples were the highest we noted during our testing our review disclosed that excessive meal costs were not just occasional occurrences but were generally the rule. These were not only excessive when compared to the City of Las Vegas travel policies but were excessive when compared to the Authority's. We consider any practice that allows unlimited reimbursement of travel costs to be abusive and not necessary for a housing program that exists to provide decent and safe housing for low and moderate income persons.

Auditee Comments

In its written response the Authority concurred that its travel policy needed to be revised and stated that an amended travel policy that complies with HUD's requirements would be submitted to its Board of Commissioners. It agreed to change its method of accounting for travel advances and to discontinue the use of all credit cards except for use by its Procurement Agent for guaranteeing payment for goods and services and reserving rooms. It also stated that it would review all credit card purchases since October 1, 1992, expected to have it completed by July 15, 1995, and would submit the results to HUD. At the Exit Conference Authority staff stated that its review of credit card purchases since October 1, 1992 has been completed but the results had not yet been submitted to the San Francisco HUD office.

In addition, the response stated that the Authority will request reimbursement from its employees for any ineligible expenditures or reimburse the federal programs from non-federal sources.

OIG Evaluation of Auditee Comments

The Authority agreed to correct its travel practices and amend its policies to comply with HUD requirements. As a result, we revised the recommendations to reflect that the HUD staff should verify that the changes have been implemented.

Recommendations

We recommend the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Office of Public Housing to obtain evidence and verify that the Authority has:

5A. Changed its travel policy to comply with HUD's requirements;

5B. Discontinued paying for in-town meals for employees, individual commissioners, and patrons and reimburse its low-rent program for any such amounts paid since October 1, 1992;

5C. Reviewed all travel advances made since October 1, 1992 for which a travel expense report has not been filed. The entire advance amount must be paid back unless the traveler files an expense report that is supported by acceptable documentation showing that the funds had been spent for eligible and necessary items;

5D. Changed its method of accounting for advances to record each advance as a receivable until it is paid and/or a travel expense report has been submitted;

5E. Discontinued the use of all credit cards, except for use by its Procurement Agent for the purpose of guaranteeing payment for goods and services and room reservations; and

5F. Reviewed all travel expense reports submitted for the period October 1, 1992 through the present, required repayment for any ineligible expenses included on the expense reports, and submitted the results to HUD for review and approval.

The Authority Used Low-Rent Housing Funds To Make Interest-Free Loans To Employees

Contrary to HUD requirements, the Authority used low-rent housing funds to make interest-free loans of at least $130,585 to employees. We attribute these ineligible expenditures to a desire to assist employees but the practice exhibited faulty judgement. Funds used in such a manner are not available for the day-to-day operations of the Authority's low-rent housing program.

Section 201 of the Annual Contributions Contract (ACC) instructs the Authority to operate each project in such a manner as to achieve the economic and social well-being of the tenants.

Section 406(B) of the ACC requires that "Operating Expenditures" include all costs incurred for administration, maintenance and other costs and charges which are necessary for the operation of each project in such a manner as to provide decent, safe, and sanitary dwellings within the financial reach of low income families (emphasis added).

Employee "pay advances" were interest-free loans

The Authority used low-rent housing funds to provide what it claimed to be pay advances to employees for personal reasons such as car loans and college tuition. The advances ranged from $100 to $2,000 and were not paid off with the next pay check as one would expect from advances. The amounts owed were paid off at $40 to $250 per pay period and, as such, were in every respect interest-free loans. These loans in no way assisted in achieving the economic and social well-being of the tenants as is required by Section 201 of the Authority's ACC. Instead, it was the employees' economic and social well-being that was being attended to at the expense of low income tenants.

The interest-free loans issued grew from $6,665 in September 1992 to $130,585 by August 1994. The outstanding loans balance after payment deductions at August 31, 1994, was $85,731. Some of the employees had two, and even three, loans outstanding. One employee received a $1,500 interest-free loan for ..."personal

reasons"... that was repaid over a 10 month period. Another employee received a $2,000 loan to purchase a car two months after becoming a permanent employee. Before that loan was paid off the same employee received another $800 loan for his child's college tuition. The employee signed an agreement that should he resign, or be terminated, his vacation and unpaid compensation would be credited to the advance/loan. But the total loan amount outstanding was greater than his biweekly salary and he had earned practically no vacation pay. In this instance the employee continued to pay off the loan. However, the Authority was not so fortunate in another example where an employee abandoned his job in December 1993 with an unrecovered $700 loan balance.

The Acting Executive Director took immediate actions to stop the interest-free loans when we brought the practice to his attention. The outstanding balances of all active employees are continuing to be collected from bi-weekly salary payments.

Auditee Comments

The Authority stated in its written response that it has continued to collect amounts owed by employees and would try to collect amounts due from terminated employees by June 15, 1995. It stated that if they are unsuccessful in recovering the amounts due from terminated employees, it will pay the amounts owed from non-federal funds.

OIG Evaluation of Auditee Comments

The Authority has discontinued the practice, has been collecting amounts owed from current employees, and has agreed to repay any amounts not collected with non-federal funds.

Recommendations

We recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Public Housing Division to confirm that the Authority:

6A. Continued collecting amounts owed by employees from their paychecks until all amounts owed are collected; and

6B. Reimbursed its low-rent housing program from non-federal funds for all amounts owed by terminated employees.

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The Authority Inappropriately Provided $21,302 To Its Former Executive Director

Contrary to HUD requirements and its own personnel policies the Authority paid $21,302 to a former executive director for termination pay ($18,259) and unused sick leave ($3,043). As a result, those funds were not available for necessary and appropriate low-rent housing expenditures. Further, since it was not consistent with the Authority's written personnel policies it clearly demonstrates inequitable treatment of its employees. We attribute this improper use of the Authority's low-rent housing funds to a disregard for published requirements.

Section 201 of the Annual Contributions Contract (ACC) requires the Authority to operate each project in such a manner as to promote efficiency, economy, and stability for achieving the economic and social well-being of the tenants.

The Authority's personnel handbook determined benefits

The Authority's personnel handbook prescribes various personnel procedures to ensure that employees are aware of their rights and that all employees are treated fairly and equally. The former executive director's February 14, 1990 employment contract stated that salary and fringe benefits were to be paid as contained in the rules of the personnel handbook. The contract further stated that fringe benefits were to be the same as those of other Authority employees.

The former executive director offered his resignation on March 10, 1994 and asked that it be effective within 45 to 60 days. The Board of Commissioners accepted the resignation with an effective date of April 29, 1994. The payment of termination pay and unused sick leave was approved by the Authority's Board of Commissioners on April 20, 1994, and on April 29, 1994 the Authority paid its departing executive director $18,259 for termination pay and $3,043 for unused sick leave in addition to accumulated vacation pay. Payment for up to 200 hours of accumulated vacation pay was allowed by the Authority's personnel handbook; however, payments for termination pay and unused sick leave were not. In fact, the personnel

handbook specifically stated there were to be no payments for unused accumulated sick leave.

The Authority could not explain why it deliberately violated its own personnel policies and its contract with the former executive director by providing him with termination pay and pay for unused sick leave. Any such payments were also clear violations of Section 201 of the ACC in that those payments were not necessary for the efficient and economic operation of the Authority's low-rent housing program.

Auditee Comments

The Authority's written response stated that the $21,302 was termination pay and the action was outside the Authority's Personnel Policy because it was related to the contract between the Authority and the previous Executive Director. It stated that the action did not violate any policies and the costs were allocated to all programs. It also stated that if it is found unacceptable it will prepare journal entries charging non-federal sources for the amount allocated to the low-rent Program.

OIG Evaluation of Auditee Comments

We do not agree with the Authority's assessment that it did not violate any policies. As stated in the finding, the terms of the personnel policies and contract were clear and neither provided for the termination pay given to the former executive director.

Recommendation

We recommend that the Assistant Secretary for Public and Indian Housing direct the Pacific/Hawaii Director, Public Housing to:

7A. Require the Authority to reimburse its low-rent program for that portion of the $21,302 that was paid by the low-rent program. The reimbursement should be made with non-federal funds.

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Internal Control

In planning and performing our audit, we considered internal control systems used by the Housing Authority of the City of Las Vegas in order to determine our auditing procedures and not to provide assurance on internal control. Internal control is the process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

In each of these categories of objectives, organizations will establish their own specific control objectives and control procedures aimed at achieving these broad objectives. If organizations are to meet these control objectives, five components of internal control--control environment, risk assessment, control activities, information and communication, and monitoring--must be present. That is the control objectives in each category are inextricably linked with the five supporting components.

We evaluated pertinent internal control systems

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

- Accounts Payable Procedures
- Dwelling Maintenance Practices
- Use of Low-Rent Program Funds
- Administration of the Risk Management Trust Fund
- Travel Policy and Practices
- Payroll Practices
- Accounting Books and Records

We assessed all of the relevant control categories identified above. For the assessment we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we evaluated control risk.

Significant control weaknesses were noted

A significant weakness exists if internal control does not give reasonable assurance that all three control objectives are met. Based on our review, we believe the following were significant weaknesses:

- The Authority did not make good faith efforts to submit a viable and acceptable repayment plan (Finding 1).
- The Authority placed an unwarranted and unquestioned reliance on the City (Finding 2).
- The Authority disregarded HUD requirements (Findings 3, 4, and 7).
- The Authority's travel policy was not comparable to local public practice (Finding 5).
- The Authority used faulty judgement in its desire to assist employees at the expense of its low-rent program (Finding 6).

Follow Up On Prior Audits

The last Office of Inspector General (OIG) audit of the Housing Authority of the City of Las Vegas (Report No. 89-SF-209-1004) was issued January 20, 1989. Eleven of the findings from that report have not yet been closed. Those findings include a total of $6.3 million that has not been paid to either HUD or the Authority's own low-rent program.

We also accomplished a Corrective Action Verification (CAV) and issued a report (93-SF-209-1801) on October 30, 1992. One finding in that report is also still open and it includes an additional $533,590 that needs to be returned to the Authority's Risk Management Trust Fund for redistribution to the low-rent program.

This report discusses the open issues and addresses ways that the open findings can be closed.

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Auditee Comments

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Field Office Comments

Schedule of Non-Aided and Other Assets

AVAILABLE NON-AIDED AND OTHER ASSETS			
Development Name	Recorded Book Value	Loan Amount @ 9/30/94	Difference
Non-Aided			
Rayson Manor Annex	$ 947,026	$ 0	$ 947,026
Robert Gordon Plaza	10,115,024	1,835,051	8,279,973
Howard Cannon Center	1,291,016	0	1,291,016
Rulan Earl Mobile Home Park	1,017,877	470,240	547,637
Sartini Plaza Annex	1,942,314	0	1,942,314
James Jones Gardens	1,602,640	0	1,602,640
Houses	463,679	0	463,679
Torrey Pines Land	553,711	0	553,711
Central Office Additions	59,198	0	59,198
Structures	35,487	0	35,487
Subtotal	$18,027,972	$2,305,291	$15,722,681
Rayson Manor	$3,249,346	$1,920,323	$1,329,023
Madison Terrace	$1,393,180	$1,044,107	$349,073
Total	$22,670,498	$5,269,721	$17,400,777

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Schedule of Ineligible Costs

Finding Number	Amount (a)
2. Funds improperly disbursed for relocation fees and deposits	$ 35,800
2. Funds spent for utilities and utility allowances that did not meet relocation expense requirements	32,031
3. Refunded PILOT	354,574
4. Non-federal program misspent RMTF's monies	386,945
7. Ineligible expenditures for termination pay and unused sick leave	21,302
Total	$830,652

(a) Ineligible amounts obviously violate law, contract, HUD or local agency policies or regulations.

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