

CITY AUDITOR'S OFFICE



AUDIT OF THE OFFICE OF COMMUNITY SERVICES Redevelopment Agency Set-Aside Funds

Report CS005-1819-06

December 24, 2018

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CITY AUDITOR

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BACKGROUND

Nevada Revised Statutes (NRS) 279.685 requires cities in Nevada with a population greater than 500,000 residents to set aside 18% of its redevelopment area property tax revenue for low-income housing and public educational facilities. The city of Las Vegas must utilize these revenues to:

1. Increase, improve, preserve or enhance the operating viability of dwelling units in the community for low-income households; and
2. Increase, improve, preserve or enhance public educational facilities and support public educational activities and programs.

To comply with these requirements, as redevelopment area property tax revenues are received by the city from Clark County, 9% is allocated to the Office of Community Services (Community Services) for use in addressing area #1 and the remaining 9% is allocated to the city's Department of Youth Development and Social Innovation for addressing area #2.

This audit's focus was on the funds allocated to Community Services referred to as the Redevelopment Agency Set-Aside Funds for Affordable Housing (RDA set-aside funds).

During fiscal year 2018 Community Services received \$1,615,024 in RDA set-aside funds. During this year, these funds were used to fund various programs to help the homeless and development and operational costs for the city's courtyard campus that assists homeless individuals. Unused funds are rolled over to the next fiscal year. NRS does not address how long cities have to use the funds. As of June 30, 2018, the RDA set-aside funds balance was \$3,506,870.

OBJECTIVE

Our objective in completing this audit was to assess the adequacy of management controls over the monitoring and use of the RDA set-aside Funds by Community Services including testing to determine whether:

- Correct amounts are being allocated from the redevelopment area property tax revenues to Community Services.
- The RDA set-aside funds balance is being appropriately monitored.
- The RDA set-aside funds are being used appropriately and in accordance with the limitations identified within NRS.
- Organizations who were awarded RDA set-aside funds are complying with select contract terms and compliance is being appropriately monitored by Community Services.
- Payments to outside organizations are appropriate and properly approved.

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SCOPE AND METHODOLOGY

The scope of our work was limited to the controls within the context of the audit objectives and the scope of the audit. The scope of our work was limited to the testing of the RDA set-aside funds allocated to Community Services during the fiscal year ended June 30, 2018. Our audit included testing of a sample of disbursements from the RDA set-aside funds that occurred during that fiscal year. While we did not complete audits of the organizations or programs which received RDA set-aside funds during the fiscal year, we did test their compliance with the following select provisions within their contracts with the city:

- Requests for release of funds form submittals
- Match requirement documentation submittals
- Client data report submittals
- Insurance coverage requirements

The last fieldwork date of this audit was November 1, 2018.

Our audit methodology included:

- Interviews of city employees
- Review of monitoring procedures
- Review and testing of a sample of transactions

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no effect on the audit or the assurances provided.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Our audit found the following:

- Correct amounts are being allocated from the redevelopment area property tax revenues to Community Services.
- The RDA set-aside funds balance is being appropriately monitored.
- The RDA set-aside funds are being used appropriately and in accordance with the limitations identified within NRS.
- Payments to organizations were found to be appropriate and properly approved.
- Several organizations whose services were funded with RDA set-aside funds during the fiscal year ended June 30, 2018 were found to be out of compliance with insurance requirements within their respective contracts. See Finding #1.
- The city partners with the Las Vegas Metropolitan Police Department (LVMPD) and non-profit organizations to form a multi-agency homeless outreach team known as the MORE

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Team. The city's contract with the participating non-profit organizations states that the city is responsible for maintaining a memorandum of understanding (MOU) with the LVMPD detailing their roles and responsibilities in the program. No such MOU exists. See Finding #2.

Further information on these areas is contained in the sections below. While other issues were identified and discussed with management, they were not deemed appropriate for reporting purposes.

1. Non-Compliance with Insurance Requirements

Criteria

City personnel should appropriately monitor an organization's compliance with the terms of contracts entered into with the city to timely identify areas of non-compliance.

Condition

Certain organizations that received RDA set-aside funds during the fiscal year ended June 30, 2018 were found to be out of compliance with specific insurance requirements within their contracts as outlined below.

Public Service Contracts

The three organizations with RDA set-aside funded public service contracts during the fiscal year ended June 2018 failed to comply with all of the insurance requirements as follows:

- Organization A
 - The insurance certificate did not specifically identify directors and officers insurance coverage.
 - The insurance carrier's rating was not identified on the insurance certificate.
 - The insurance certificate did not correctly identify the program covered by the insurance certificate. It incorrectly referred to a previous contract with the city that was completed on December 31, 2012.
- Organization B
 - The insurance certificate did not specifically identify directors and officers insurance coverage.
- Organization C
 - The insurance certificate did not identify any workers' compensation insurance.
 - The insurance certificate did not correctly identify the program covered by the insurance certificate. It incorrectly referred to a program funded with Community Development Block Grant funds.

The grant program coordinators are responsible for ensuring that the contract insurance requirements are met prior to execution of the contract and throughout the term of the contract.

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MORE Team Contracts

The city partners with the Las Vegas Metropolitan Police Department and non-profit organizations to form a multi-agency homeless outreach team known as the MORE Team (**M**ulti-agency **O**utreach **R**esource **E**ngagement Project Team) to proactively engage the homeless in the downtown area. Community Services entered into contracts with four non-profit organizations for the period from July 1, 2017 through June 30, 2018. These contracts were executed by the city's Purchasing division (Purchasing) of the Department of Finance. Purchasing utilizes the services of a third-party insurance tracking service for monitoring insurance coverage compliance by organizations.

Two of the four MORE Team organizations failed to comply with all of the insurance requirements during the term of the contract. The following insurance coverage deficiencies were identified based on third-party insurance tracking service reports as of May 23, 2018:

- One of the organizations failed to maintain all the required insurance policies during the complete term of the contract. Their general liability and auto liability insurance expired in September 2017 while their workers' compensation policy expired in January 2018. In addition, this organization was missing additional insured endorsements and waiver of subrogation endorsements.
- One of the organizations failed to maintain their workers' compensation policy throughout the complete term of the contract. This organization's workers' compensation policy expired in February 2018. In addition, this organization was missing a waiver of subrogation endorsement.

Cause

- Inadequate review and monitoring of compliance with contractual insurance requirements of organizations receiving RDA set-aside funding by grant program coordinators.
- While a third-party insurance tracking service is being used by Purchasing, notifications of insurance coverage deficiencies are only sent to the policy holders. Purchasing staff must query the third-party insurance tracking software to identify and research deficiencies. Purchasing has not formalized a process for routinely monitoring deficiencies identified by the insurance tracking service.

Effect

- Non-compliance by non-profit organizations with contractual insurance requirements.
- Increased risk to the city in the case of an incident in which an insurance claim is filed.

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Recommendations

- 1.1 Community Services management should document and implement procedures to ensure organizations are in compliance with the contractual insurance requirements prior to execution of contracts and throughout the term of the contracts. Consideration should be given to utilizing the services of a third-party insurance tracking service as is being done by Purchasing.
- 1.2 Purchasing management should document and implement procedures to more timely identify and address areas of non-compliance with insurance requirements within contracts they monitor using the third-party insurance tracking service. Consideration should be given to enhancing their contract with the third-party insurance tracking service in order to allow them to receive notifications of deficiencies.

2. Lack of Required Memorandum of Understanding

Criteria

The MORE Team contracts for the fiscal year ended June 30, 2018 state the following:

City Responsibilities: (1) Maintenance of a Memorandum of Understanding (MOU) with the Las Vegas Metropolitan Police Department (LVMPD) detailing LVMPD roles and responsibilities for participation in the program, including the assigned officer's oversight of the day to day operations of the MORE program. (C-1(b)(i)(1))

Condition

The city does not have an MOU with the LVMPD detailing their roles and responsibilities for participation in the MORE program. The MORE Team contracts continued to include the contractual verbiage noted above in the August 2018 contract modification and extension despite the lack of an MOU with the LVMPD.

Cause

- The city has not obtained an MOU with the LVMPD.

Effect

- LVMPD roles and responsibilities for participation in the MORE program are not formally defined and agreed-upon in an MOU as required in the MORE Team contracts.

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Recommendation

- 2.1 Community Services management should obtain an MOU with the LVMPD as required in the MORE Team contracts. If no longer deemed necessary or alternative measures are taken, reference to this MOU should be removed from the MORE Team contracts.

MANAGEMENT RESPONSES

1. Non-Compliance with Insurance Requirements

- 1.1 Community Services management should document and implement procedures to ensure organizations are in compliance with the contractual insurance requirements prior to execution of contracts and throughout the term of the contracts. Consideration should be given to utilizing the services of a third-party insurance tracking service as is being done by Purchasing.

Management Action Plan:

The Office of Community Services (OCS) has previously requested support from Purchasing and Contracts on monitoring insurance issues and given consideration to utilizing the services of a third-party insurance tracking service as is being done by Purchasing.

- A. OCS will document current procedures to ensure organizations are in compliance with the contractual insurance requirements prior to execution of contracts and throughout the term of the contracts.
- B. OCS will train staff and implement current procedures to ensure organizations are in compliance with the contractual insurance requirements prior to execution of contracts and throughout the term of the contracts.
- C. OCS will schedule meetings with P&C to explore utilizing the services of a third-party insurance tracking service.

Estimated Date of Completion: March 30, 2019

- 1.2 Purchasing management should implement procedures to more timely identify and address areas of non-compliance with insurance requirements within contracts they monitor using the third-party insurance tracking service. Consideration should be given to enhancing their contract with the third-party insurance tracking service in order to allow them to receive notifications of deficiencies.

Management Action Plan:

Purchasing management agrees with the recommendation and will document and implement procedures to more timely identify and address areas of non-compliance with insurance requirements within contracts they monitor using the third-party insurance tracking service. We will work with the third-party insurance tracking service to provide Purchasing with notification regarding deficiencies on existing contracts.

Estimated Date of Completion: June 30, 2019

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2. Lack of Required Memorandum of Understanding

- 2.1 Community Services management should obtain an MOU with the LVMPD as required in the MORE Team contracts. If no longer deemed necessary or alternative measures are taken, reference to this MOU should be removed from the MORE Team contracts.

Management Action Plan:

Reference to an MOU with the LVMPD will be removed from the MORE Team contracts.

Estimated Date of Completion: June 30, 2019