Audit Highlights

Highlights of Legislative Auditor report on the Manufactured Housing Division issued on April 14, 2003. Report #LA04-01.

Background

The Division is primarily responsible for administering and enforcing manufactured housing laws and regulations. In addition, the Division provides lot rent subsidies to low-income owners of manufactured homes; investigates and resolves landlord, tenant, and consumer complaints; makes court-ordered payments to consumers who have won judgments against licensees; and provides training to licensees. The Division administers four budget accounts in two funds and is supported by fees. The Division had revenues of $1.6 million and expenditures of $1.8 million in fiscal year 2002.

Purpose of Audit

The purpose of this audit was to evaluate the Division's financial and administrative practices, including whether activities were carried out in accordance with applicable laws and policies. Our audit included a review of the Division's financial and administrative activities for the fiscal year ended June 30, 2002.

Audit Recommendations

This report contains six recommendations to improve the Division's financial and administrative practices. Specifically, the Division should develop policies and procedures for allocating costs between programs, analyzing and tracking program expenditures and revenues, and setting fees. In addition, the Division should ensure state laws and regulations are followed, and appropriate internal control systems are established.

The Manufactured Housing Division accepted all six recommendations.

Status of Recommendations

The Division's 60-day plan for corrective action is due on July 9, 2003. In addition, the six-month report status of audit recommendations is due on January 9, 2004.

Manufactured Housing Division

Department of Business and Industry

Results in Brief

The Division needs to improve its financial and administrative practices to ensure it maintains adequate reserves in its four budget accounts. Reserves in two of the four accounts were at critically low levels at the end of fiscal year 2002. This occurred because the Division's growth in expenditures outpaced its growth of revenues. Furthermore, not all costs were appropriately allocated between the four budget accounts. Low reserves increase the risk that the Division will not have the money to provide services, such as provision of lot rent subsidies, to all qualified persons.

Principal Findings

The Division has not developed an adequate method for allocating costs between budget accounts. Even though some costs are allocated, the Division has not ensured that programs funded by specific sources are not subsidizing other programs funded by different sources. Because costs are not accurately allocated between the four budget accounts, financial information that should be used to analyze fee levels is not accurate.

The Division has not developed a methodology for evaluating and adjusting its fees and expenditures. Division expenditures have increased at a faster rate than its revenues over the past 10 years, leaving its reserve balances critically low in two of its four budget accounts. Revenues for all budget accounts increased almost 8% from fiscal year 1998 through 2002; expenditures increased almost 27% during that same period. Even though reserves began declining in fiscal year 1999, the Division did not increase fees until October 2001. In the 3 years from fiscal year 1999 through 2001, the reserve in the Division's main operating account decreased by more than 80%. The Division has not established procedures to periodically evaluate its fee levels to determine if changes are necessary. In addition, no management reports are prepared to provide Division management with analyses regarding the status of the rates of growth of revenues and expenditures. Furthermore, the Division has not established a methodology for determining appropriate fee levels for services. Therefore, it has no assurance that fees cover the cost of providing a particular service or group of services.

The Division has not followed regulations for the lot rent subsidy program. The Division determined there would not be sufficient funds in the account to pay each approved applicant a subsidy during fiscal year 2002. However, instead of reducing the amount of assistance distributed to each approved applicant, the Division put newly approved applicants on a waiting list. During fiscal year 2002, approximately 375 applicants received payments totaling over $370,000. However, there were 49 approved applicants on a waiting list in January 2002, who were not receiving payments.

The Division did not set aside funds for education purposes as required by state law. Any balance in the Account for Education and Recovery over $500,000 at the end of a fiscal year is required to be set aside and used for education relating to manufactured homes. Division management told us the Division does not track unspent funds for future training use.

The Division has not established an effective system of internal control as required by NRS 353A. The Division does not have written procedures for functions such as purchasing, inventory, approving overtime, and contracting. As a result, the Division had problems in these areas. For example, the Division did not comply with certain personnel laws and regulations, contractors were allowed to work under contracts that expired up to 8 years earlier, and duties were poorly segregated.