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| Issue Date          | June 9, 2010 |
| Audit Report Number | 2010-LA-1012 |

TO: Maria F. Cremer, Acting Director, San Francisco Office of Community Planning and Development, 9AD

*Joan S. Hobbs*

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

SUBJECT: Clark County, NV, Needs To Revise Its Written Procedures and Developer Agreements To Ensure Compliance With Neighborhood Stabilization Program Requirements

## **HIGHLIGHTS**

### **What We Audited and Why**

We completed a review of Clark County's (grantee<sup>1</sup>) Neighborhood Stabilization Program (Program). We performed the review because Housing and Economic Recovery Act of 2008 (Act) reviews are part of the Office of Inspector General's (OIG) audit plan as of December 1, 2009, and the Program was identified as high risk. In addition, the grantee was awarded more than \$29.6 million in Program funding.

Our objectives were to determine whether the grantee (1) had sufficient capacity and controls to administer and manage Program funds and (2) had been administering its Program in accordance with U.S. Department of Housing and Urban Development (HUD) regulations.

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<sup>1</sup> The grantee includes Clark County and the City of North Las Vegas.

## **What We Found**

We found no evidence indicating that the grantee lacked the capacity to adequately administer its Program. The grantee generally had been administering its Program in accordance with HUD requirements. However, Clark County (County) needs to revise its written procedures and developer agreements to ensure that properties to be sold to eligible home buyers will be sold at a price permitted by Program requirements.

## **What We Recommend**

We recommend that the Director of the San Francisco Office of Community Planning and Development require the County to revise its written procedures and developer agreements to ensure that rehabilitated properties will be sold at no more than the cost of acquisition and rehabilitation.

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

## **Auditee's Response**

We provided the grantee a discussion draft report on May 24, 2010, and held an exit conference with grantee officials on May 26, 2010. The grantee provided written comments on May 28, 2010, and generally agreed with our findings.

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

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## **BACKGROUND AND OBJECTIVES**

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The Neighborhood Stabilization Program (Program) was authorized under Title III of Division B of the Housing and Economic Recovery Act of 2008 (Act) and provides grants to every State and certain local communities to purchase foreclosed-upon or abandoned homes and rehabilitate, resell, or redevelop these homes to stabilize neighborhoods and stem declining values in neighboring homes. The Act calls for allocating funds “to states and units of general local government with the greatest need,” and in the first phase of the Program, the U.S. Department of Housing and Urban Development (HUD) allocated \$3.92 billion in Program funds to assist in the redevelopment of abandoned and foreclosed-upon homes.

The Federal Register, Volume 73, Number 194 (dated October 6, 2008), provided the public a list of grantees that would receive Program funds. Clark County (County) received more than \$22.8 million in Program funding, and the City of North Las Vegas (City) received more than \$6.8 million. HUD allowed entitlement communities (metropolitan cities or urban counties) to submit a joint request to implement a joint Program. Under this arrangement, the County submitted a single action plan substantial amendment on behalf of both jurisdictions. The County, as the lead agency, receives the funds and administers the combined grant of more than \$29.6 million. HUD executed the County’s Program grant agreement, which included the City’s allocation, on March 19, 2009; therefore, the grantee has until September 19, 2010 (18 months), to obligate the Program funds and until March 19, 2013 (4 years), to spend all of the Program funds. As of March 31, 2010, the grantee had obligated \$16.4 million (55 percent) and expended more than \$3.6 million (12 percent) of the Program funds.

Our objectives were to determine whether the grantee (1) had sufficient capacity and controls to administer and manage Program funds and (2) had been administering its Program in accordance with HUD regulations.

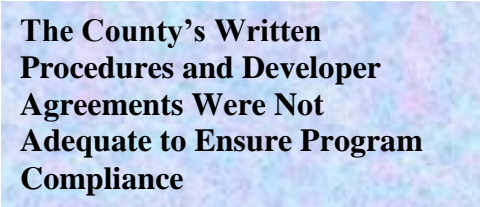
## RESULTS OF AUDIT

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### Finding 1: The County's Written Procedures and Developer Agreements Were Not Adequate to Ensure That Sales Prices of Rehabilitated Properties Complied With Program Requirements

Although both jurisdictions had developed written procedures to support their Program activities, the County's written procedures and developer agreements relative to property resale prices were not adequate to ensure compliance with Program requirements. County officials did not consider how policies and procedures would be affected when market conditions change. As a result, the County's written procedures and developer agreements would not be able to ensure that rehabilitated properties would be sold at prices permitted by Program requirements.

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**The County's Written Procedures and Developer Agreements Were Not Adequate to Ensure Program Compliance**

At the beginning of our audit, we noted that the County's acquisition, rehabilitation for resale procedures, and the signed developer agreements stated that the rehabilitated properties would be marketed to eligible home buyers at fair market value. County officials explained that under current market conditions in Las Vegas, the fair market value of the properties would be lower than the total cost of acquisition and rehabilitation. However, the Act limits the sales price of a property to an amount equal to or less than the cost of acquisition and rehabilitation. County officials acknowledged that "fair market value," as stated in the written procedures and developer agreements, can pose a problem when market conditions change, because the fair market value of a rehabilitated property can potentially exceed the total cost of acquisition and rehabilitation.

In May 2010, the County stated it would revise its written procedures by adding language stating that the sales price of the home may not be greater than the total amount of Program funds expended for acquisition, rehabilitation, and redevelopment (including activity delivery costs) of the property. The revised written procedures will comply with the Act. In addition, the County is receiving assistance from HUD's technical assistance team to make changes and updates to the developer agreements as needed to ensure full compliance.

## **Recommendation**

We recommend that the Director of the San Francisco Office of Community Planning and Development require the grantee to

- 1A Revise the County's written procedures and developer agreements to ensure that sales prices of rehabilitated properties will not exceed the cost of acquisition and rehabilitation.

## SCOPE AND METHODOLOGY

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We performed our onsite audit work at the County's and City's offices, located in Las Vegas and North Las Vegas, NV, respectively, between January and April 2010. Our audit generally covered the period July 1, 2008, through January 31, 2010. We expanded our scope as necessary.

To accomplish our objective, we interviewed HUD staff and grantee staff responsible for Program execution. We also reviewed

- The Act.
- The Program Federal Register notice, dated October 6, 2008.
- The Program Federal Register bridge notice, dated June 19, 2009.
- The grantee's substantial amendment to its 2008 action plan to include proposed Program activities.
- The grantee's Program grant agreement, dated March 19, 2009.
- HUD's Disaster Recovery Grant Reporting system financial data and quarterly performance reports.
- The grantee's organizational charts.
- The grantee's policies and procedures for Program activities.
- Payment vouchers, property files, and supporting documentation for a nonstatistical sample<sup>2</sup> of 4 of 19 completed drawdown requests, covering \$1.02 million of \$2.26 million in Program funds drawn down as of February 8, 2010.

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

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<sup>2</sup> Our sample was selected based on the highest dollar amount drawn down for each Program activity for each jurisdiction and the most recent drawdown request for administrative expense.

# INTERNAL CONTROLS

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

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

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

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## Relevant Internal Controls

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

- Policies and procedures that were implemented to reasonably ensure that Program activities comply with applicable laws and regulations.
- Policies and procedures that were implemented to reasonably ensure that Program funds are safeguarded from unauthorized use.

We assessed the relevant controls identified above.

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

## Significant Weaknesses

Based on our review, we believe that the following item is a significant weakness:

- The County's written procedures and developer agreements were not adequate to ensure that sales prices of rehabilitated properties would comply with Program requirements.



# APPENDIXES

## Appendix A

### AUDITEE COMMENTS



#### Department of Finance Community Resources Management

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George W. Stevens, Chief Financial Officer • Yolanda King, Director of Budget and Financial Planning  
Michael J. Pawlak, Manager

May 28, 2010

Joan S. Hobbs  
U.S Department of Housing and Urban Development  
Office of Inspector General  
Region IX  
611 West Sixth Street, Suite 1160  
Los Angeles, CA 90017-3101

Dear Ms. Hobbs,

The purpose of this letter is to provide written comment in response to the draft audit report submitted to staff on May 24, 2010, related to review of Clark County's Neighborhood Stabilization Program.

**Condition:**

The results of the OIG audit stated that Clark County's written procedures and developer agreements were not adequate to ensure that sales prices of rehabilitated properties complied with program requirements.

**Recommendation:**

That Clark County revise its written procedures and developer agreements to ensure that the sales prices of rehabilitated properties will not exceed the cost of acquisition and rehabilitation.

**Corrective Action:**

The following actions have been undertaken by Clark County staff in order to correct this oversight and to ensure that the agreements and procedures adequately ensure program compliance:

- On April 9, 2010, communication regarding the sales price limitation was sent via email to all nonprofit developers engaged in Clark County's acquisition rehabilitation resale program specifying the price limitation not to exceed the total amount of NSP funds expended for acquisition, rehabilitation, and redevelopment of the property. The issue was discussed at an in-person meeting with all developers on April 15, 2010.
- A draft of amended procedures including the language of sales price limitation requirements was provided to the nonprofit developers for their review on May 7, 2010.

**BOARD OF COUNTY COMMISSIONERS**  
RORY REID, Chairman • SUSAN BRAGER, Vice-Chair  
LARRY BROWN • TOM COLLINS • CHRIS GIUNCHIGLIANI • STEVE SISOLAK • LAWRENCE WEEKLY  
VIRGINIA VALENTINE, P.E., County Manager

- Revised procedures are attached as "Exhibit C" to the amended grant agreements which are scheduled to go before the Board of County Commissioners for their approval on June 15, 2010.

**Background:**

Clark County staff was aware of the sales price limitation as set forth in Public Law 110-289 (Housing and Economic Recovery Act of 2008), Division B, Title III, Section 2301(d)(3) and it was an oversight not to include the specific language of that limitation in our program procedures. However, program procedures do provide the opportunity for Clark County staff to monitor the property sales prices through the review of the after-rehab appraisal and the purchase agreement contract between developer and homebuyer prior to the resale transaction. Additionally, no rehabilitated homes have been sold such that an incident of noncompliance has occurred.

If you have questions or need additional information, please contact me at (702) 455-5025.

Sincerely,



Michael J. Pawlak  
Manager

## **Appendix B**

### **CRITERIA**

Public Law 110-289 (Housing and Economic Recovery Act of 2008), Division B, Title III, Section 2301(d)(3)

(d) LIMITATIONS.—

(3) SALE OF HOMES.—If an abandoned or foreclosed upon home or residential property is purchased, redeveloped, or otherwise sold to an individual as a primary residence, then such sale shall be in an amount equal to or less than the cost to acquire and redevelop or rehabilitate such home or property up to a decent, safe, and habitable condition.