



# City of Las Vegas, NV

## Neighborhood Stabilization Program 3

**Office of Audit, Region 9  
Los Angeles, CA**

**Audit Report Number: 2017-LA-1008  
September 13, 2017**





**To:** Laurence Wuerstle, Acting Director, Office of Community Planning and Development, San Francisco, 9AD

**//SIGNED//**

**From:** Tanya E. Schulze, Regional Inspector General for Audit, 9DGA

**Subject:** The City of Las Vegas, NV, Did Not Administer Its Neighborhood Stabilization Program 3 Homebuyer Assistance Program in Accordance with HUD Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the City of Las Vegas, NV's Neighborhood Stabilization Program.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG website. Accordingly, this report will be posted at <http://www.hudoig.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at 213-534-2471.



**Audit Report Number: 2017-LA-1008**

**Date: September 13, 2017**

**The City of Las Vegas, NV, Did Not Administer Its Neighborhood Stabilization Program 3 Homebuyer Assistance Program in Accordance With HUD Requirements**

## Highlights

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### What We Audited and Why

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We audited the City of Las Vegas', Homebuyer Assistance Program under the U.S. Department of Housing and Urban Development's (HUD) Neighborhood Stabilization Program 3 (NSP3). We initiated this review because of a prior HUD Office of Inspector General audit of Evergreen Home Loans issued September 12, 2016 (audit report 2016-LA-1011). The Evergreen Home Loans audit report identified 14 loans that received home-buyer assistance as part of the City's NSP3 Homebuyer Assistance Program. Contrary to HUD requirements, the home-buyer assistance agreements included recapture provisions that required borrowers to repay more than the assistance provided. Our audit objective was to determine whether the City administered its NSP3 home-buyer assistance agreements and payments in accordance with HUD requirements.

### What We Found

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The City did not administer its NSP3 home-buyer assistance agreements and payments in accordance with HUD requirements. Specifically, the City included language in its agreements that did not meet HUD's recapture requirements, and it did not adequately track or document NSP3 payments and activities. As a result, the City's agreements may require 35 recipients who received \$488,519 in assistance to repay more than required. In addition, the City's inadequate tracking and documentation for overpayment of closing costs resulted in (1) recipients' overpaying \$95, (2) inadequate tracking of \$12,275 in potential overpayments from recipients, and (3) the City's improperly receiving \$1,495 in NSP3 funds for closing costs not incurred.

### What We Recommend

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We recommend that the Acting Director of HUD's San Francisco Office of Community Planning and Development require the City to (1) modify the recapture provisions of the 35 loan agreements totaling \$488,519 to meet HUD requirements, (2) repay \$95 to program recipients who overpaid on their agreements, (3) develop policies and procedures for tracking overpayments to ensure that program recipients are not at risk of overpaying an additional \$12,275, and (4) repay the program \$1,495 for closing costs not incurred.

# Table of Contents

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<b>Background and Objective.....</b>	<b>3</b>
<b>Results of Audit .....</b>	<b>5</b>
<b>Finding 1: The City’s Agreements Did Not Meet HUD Recapture Requirements....</b>	<b>5</b>
<b>Finding 2: The City Did Not Adequately Track or Document NSP3 Activities.....</b>	<b>7</b>
<b>Scope and Methodology.....</b>	<b>10</b>
<b>Internal Controls.....</b>	<b>12</b>
<b>Appendixes.....</b>	<b>13</b>
<b>A. Schedule of Questioned Costs and Funds To Be Put to Better Use.....</b>	<b>13</b>
<b>B. Auditee Comments and OIG’s Evaluation.....</b>	<b>14</b>
<b>C. Criteria.....</b>	<b>17</b>
<b>D. Adjusted Loan Amounts.....</b>	<b>19</b>
<b>E. Overpayment of Loan for Properties Sold or Refinanced .....</b>	<b>21</b>

# Background and Objective

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The U.S. Department of Housing and Urban Development (HUD) established the Neighborhood Stabilization Program (NSP) to provide emergency assistance to stabilize communities with high rates of abandoned and foreclosed-on homes and to assist households with annual incomes of up to 120 percent of the area median income. HUD administers NSP under the Office of Community Planning and Development. Congress appropriated three rounds of NSP funding. NSP3 was authorized by Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Public Law 111–203, approved July 21, 2010), also known as the Dodd-Frank Act. NSP3 made \$1 billion available on a formula basis to 270 State and local governments. NSP3-eligible activities included

- establishing financing mechanisms for the purchase and redevelopment of foreclosed-on homes and residential properties,
- purchasing and rehabilitating homes and residential properties that were abandoned or foreclosed on,
- establishing land banks for foreclosed-on homes,
- demolishing blighted structures, and
- redeveloping demolished or vacant properties.

HUD awarded the City of Las Vegas more than \$10 million in NSP3 funds on March 9, 2011. Its Office of Community Services administered the City’s NSP3 program. The City’s NSP3 plan included an Acquisition Rehabilitation and Resale (ARR) program. Under this program, the City acquired and rehabilitated homes within targeted neighborhoods impacted by a high percentage of foreclosures to reverse the trend toward disinvestment and the deterioration of properties and property values. The City designed the Homebuyer Assistance Program to help families purchase homes, which it acquired under the City’s ARR program. The City allocated more than \$1 million in NSP3 funds for its Homebuyer Assistance Program. The program provided recipients deferred loans, which it used to buy down the mortgage, pay closing costs, pay half of the downpayment, or any combination of the three. The deferred loan agreements used by the City required recipients to repay the loan if the recipient did not use the home as a primary residence or if the home was sold or refinanced before the end of the affordability period<sup>1</sup>.

The HUD Office of Inspector General (OIG) audit of Evergreen Home Loans (audit report 2016-LA-1011) identified 14 loans that received home-buyer assistance as part of the City’s NSP3. The audit concluded that the agreements used to secure those loans subjected the borrower to contractual liability other than the repayment of assistance provided.

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<sup>1</sup> NSP imposes requirements that are designed to ensure that assisted properties remain affordable to income eligible occupants for a certain period of time. Affordability periods range from 5 to 10 years, depending on the amount of the assistance.

Our objective was to determine whether the City administered its NSP3 home-buyer assistance agreements and payments in accordance with HUD requirements.

# Results of Audit

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## **Finding 1: The City's Agreements Did Not Meet HUD Recapture Requirements**

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The City did not administer its 35 NSP3 home-buyer assistance agreements in accordance with HUD requirements. Specifically, the agreements did not calculate the recapture amount using the sales price, did not include a provision for closing costs, and limited the sales proceeds retainable by the seller. The problem occurred because the City was not aware of the recapture requirements related to closing costs and net proceeds. As a result, it could limit the recipient's sales proceeds or require the recipient to use funds outside the sale of the property to repay its assistance for the City's 35 agreements totaling \$488,519.

### **The City's Home-Buyer Assistance Agreements Did Not Meet HUD Requirements**

As part of its NSP3, the City provided home-buyer assistance to 38 recipients, which was subject to recapture provisions if the homes sold during the agreement's affordability period. When the recapture requirement is triggered by a sale (voluntary or involuntary), 24 CFR (Code of Federal Regulations) 92.254(a)(5)(ii)(A) provides that the amount recaptured cannot exceed the net proceeds, if any. The net proceeds are the sales price minus superior loan<sup>2</sup> repayment (other than HOME Investment Partnerships program funds<sup>3</sup>) and any closing costs (appendix C).

The City's agreements contained terms that violated HUD requirements. Specifically, the City's agreements (1) used the appraised value instead of the sales price of the property to calculate the recapture amount, (2) did not include a provision to deduct closing costs from the recapture amount, and (3) did not limit the recapture amount to the net sales proceeds. This condition occurred because the City was unaware of the requirements resulting in procedures that included a template for agreements that violated HUD requirements.

Of the 38 recipients, 35 had active agreements because 3 sold or refinanced their home during the affordability period. The three recipients who sold their homes did not pay more than required because the net sales proceeds from the property allowed them to repay the entire amount of assistance. However, if the City does not modify the agreements and property values decline, it would place the remaining 35 recipients who received \$488,519 in assistance at risk of paying the City more than required (appendix D).

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<sup>2</sup> A superior loan was recorded prior to other loans or because the lender of another loan agreed to have a lien subordinate its interest.

<sup>3</sup> The HOME Investment Partnerships Program (HOME) provides formula grants to States and localities that communities use to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.

## **Conclusion**

Because the City was not aware of HUD's requirements and developed a deficient template for the agreements in its procedures, it subjected 35 recipients who received \$488,519 in assistance to unallowable recapture provisions. If the City does not modify the recapture provisions of its agreements and update its procedures, the sale of the property during the affordability period could result in the recipient's paying the City more than required.

## **Recommendations**

We recommend that the Acting Director of HUD's San Francisco Office of Community Planning and Development require the City to

- 1A. Modify the recapture provisions of the 35 home-buyer assistance agreements totaling \$488,519 to meet HUD recapture requirements relating to the sales price, closing costs, and net proceeds.
- 1B. Update its procedures to ensure that any additional home-buyer assistance agreements contain recapture provisions that meet HUD recapture requirements relating to the sales price, closing costs, and net proceeds.
- 1C. Train its staff to ensure that recapture amounts do not exceed net sales proceeds.



## **Finding 2: The City Did Not Adequately Track or Document NSP3 Activities**

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The City did not adequately track or document its NSP3 home-buyer assistance activities in accordance with HUD requirements. Specifically, it did not consistently maintain documentation for escrow refund checks, and its tracking mechanisms contained various inaccuracies concerning the refund amount and activity type. These conditions occurred because the City did not have adequate written procedures or training for tracking and documenting NSP3 activities. As a result, it (1) put 24 recipients at risk of overpaying their assistance by \$12,275, (2) improperly retained \$95 in refunds from two recipients, (3) overdraw \$1,495 in funds for closing costs not incurred, and (4) reported program expenses and credits under the wrong activity.

### **Program Recipients Were at Risk of Paying Back More Than They Received**

Under the NSP3 program, the City provided assistance for recipients' closing costs on homes previously purchased and rehabilitated by the City. After selling the homes to the recipients, the City received escrow refund checks for closing cost overpayments for 26 properties, which reduced the amount of assistance provided by the City to the recipients. Since the agreements were executed before the City received the refunds, the agreements overstated the amount of the assistance. Therefore, the City needed to track the refunds to ensure that recipients did not pay more than the assistance provided.<sup>4</sup>

The City's tracking was inaccurate and incomplete and did not include all refunds in its tracking spreadsheet. In addition, the City could not rely on the property files to determine the refund amounts because it did not always maintain evidence of the refund checks in its home-buyer assistance files. HUD regulations require grantees to maintain records sufficient to identify the source and application of funds.<sup>5</sup> However, the City did not have adequate written procedures for tracking NSP3 activities and, therefore, did not provide adequate training and guidance to newly assigned staff after turnover.

Without proper tracking and documentation, the City would be unable to calculate the correct amount due, and at least 24 recipients would be at risk of repaying \$12,275 more than received<sup>6</sup>. The remaining two recipients with refunds sold or refinanced their properties during the affordability period, resulting in repayment of the assistance. The City did not consider one of the refunds when it calculated the loan repayment amount and miscalculated the repayment due from the second recipient. As a result, the two recipients repaid \$95 more than the amount of assistance received (appendix E).

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<sup>4</sup> Recipients are not required to repay the assistance if they own and reside in the home throughout the affordability period. Affordability periods range from 5 to 10 years, depending on the amount of the assistance.

<sup>5</sup> The applicable regulations changed from 24 CFR 85 to 2 CFR 200 during our audit period (appendix C).

<sup>6</sup> To determine the total number of refunds received by the City, we reviewed property files, DRGR voucher supporting documentation, and the City's general ledger (Scope and Methodology).

### **The City Received NSP3 Funds for Refunded Closing Costs**

The City paid for recipients' closing costs to escrow companies on behalf of the recipient. HUD reimbursed the City NSP3 funds for these closing costs. In some cases, the City received escrow refunds for overpayment of closing costs. In addition to the City's not adequately tracking the \$12,275 in refunds to ensure that the recipient did not overpay, the City also handled the refunds in an inconsistent manner. We identified eight instances totaling \$1,495 in which the City received NSP3 reimbursement from HUD for the refunded closing costs. As a result of the City's inconsistencies and inadequate procedures, it improperly received \$1,495 in NSP3 funds for closing costs not incurred and may have incorrectly reported some of the refunds as program income.

### **The City's Procedures Were Inadequate To Accurately Classify NSP Activities**

The City tracked NSP3 activities in HUD's Disaster Recovery Grant Reporting<sup>7</sup> (DRGR) system and in its general ledger under ARR program, Homebuyer Assistance Program, and long-term rental activities. The City intended for all properties purchased under the ARR program to move into the Homebuyer Assistance Program. Although the City had DRGR and the general ledger set up this way, it had incomplete written procedures to ensure that its staff classified the activities in a consistent manner in the event of turnover. This deficiency resulted in the City's classifying home-buyer assistance expenses and refunds in the general ledger and DRGR under the incorrect activity code<sup>8</sup>.

### **Conclusion**

The City's inadequate written policies and procedures, combined with inadequate training of its newly assigned staff, resulted in inaccurate and inconsistent tracking of NSP3 activities. Due to these issues, the City received \$95 in overpayments from recipients, put recipients at risk of paying the City \$12,275 more than the assistance received, and improperly received \$1,495 in NSP3 funds. In addition, the City misclassified expenses and refunds in both HUD's DRGR system and its general ledger. The City's inconsistent and inaccurate documentation could also result in problems when closing out the program unless it reconciles its tracking data to activities and expenses reported in DRGR and in its general ledger.

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<sup>7</sup> HUD's Office of Community Planning and Development developed the DRGR system for programs such as NSP. Grantees primarily use the DRGR system to access grant funds and report performance accomplishments for grant-funded activities. HUD staff uses the DRGR system to review grant-funded activities, prepare reports to Congress and other interested parties, and monitor program compliance.

<sup>8</sup> The City recorded and drew \$66,121 expenses from the incorrect activity code and recorded an additional \$45,487 expenses to be drawn under the wrong activity code. In addition, the City incorrectly recorded \$1,495 refunds under the incorrect activity.

## Recommendations

We recommend that the Acting Director of HUD's San Francisco Office of Community Planning and Development require the City to

- 2A. Revise and implement written policies and procedures for managing and accurately tracking all NSP3 activity to ensure that the \$12,275 in identified closing cost refunds and any additional refunds identified in recommendation 2B are not overpaid by recipients.
- 2B. Identify any additional closing cost refunds for NSP3 properties using the general ledger, DRGR supporting documentation, and the property file and either repay the recipients from non-Federal funds or update its tracking spreadsheet.
- 2C. Repay \$95 from non-Federal funds to the two recipients who paid more than the assistance provided (appendix E).
- 2D. Repay the program \$1,495 for closing cost expenses not incurred from non-Federal funds and remove the expenses from program records if the City incorrectly recorded the refunds as program income.
- 2E. Reclassify home-buyer assistance expenses and refunds from the City's NSP3 ARR program to its NSP3 Homebuyer Assistance Program in DRGR and the general ledger.
- 2F. Consolidate and reconcile all NSP3 home-buyer assistance tracking spreadsheets and the general ledger with HUD's DRGR to ensure that all information is accurate and up to date.
- 2G. Develop and implement written policies and procedures to periodically reconcile all NSP3 tracking spreadsheets to ensure that data remain accurate and up to date.
- 2H. Provide training to all employees responsible for NSP3 to ensure that the City adequately determines repayment amounts and tracks and records NSP3 activities.

# Scope and Methodology

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Our audit period covered July 2013 through May 2017, which we expanded as necessary. We conducted our fieldwork on site at the City's office between May and July 2017.

To accomplish our objective, we

- Reviewed prior HUD OIG audits
- Reviewed pertinent laws and regulations
- Reviewed HUD monitoring reports
- Reviewed the City's NSP3 action plans and program funding agreements
- Reviewed the City's audited financial statements for fiscal years 2014, 2015, and 2016
- Obtained an understanding of the City's internal controls through interviews and written policies and procedures
- Reviewed reports from HUD's DRGR system to obtain NSP3 disbursements for the audit period
- Reviewed the home-buyer assistance files to determine whether the agreements used by the City complied with HUD regulations noted in appendix C
- Reviewed NSP3 vouchers, the City's general ledger, home-buyer assistance files, and the City's tracking spreadsheets to determine whether the City adequately tracked home-buyer assistance refunds.

We used DRGR voucher documentation to determine the universe of home-buyer assistance because the City's tracking spreadsheets could not be relied on. The universe consisted of 40 properties intended for the Homebuyer Assistance Program. Of the 40 properties, the City had 35 program recipients under active home-buyer assistance agreements because 3 recipients had resold or refinanced the homes and were no longer part of the NSP3 program and 2 homes were still in the City's inventory for purchase by an eligible home-buyer recipient. We reviewed all 35 active home-buyer assistance agreements, which required that we expand our universe to include April 2013 through June 2017. We determined that the universe was small enough for us to review the entire population. To determine the \$488,519 effective dollar amount of the 35 agreements, we reduced the loan by the subrecipient fee<sup>9</sup> and closing cost refunds as shown in appendix D.

We reconciled home-buyer assistance agreements with DRGR vouchers to ensure that the correct amount was drawn. During this review, we determined that the City recorded and drew \$66,121 from the incorrect activity code and recorded an additional \$45,487 to be drawn under the wrong

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<sup>9</sup> A subrecipient is a public or private nonprofit agency, authority or organization, or an entity receiving CDBG funds from the recipient to undertake activities eligible for assistance. The City pays a subrecipient \$2,690 per recipient to operate the Homebuyer Assistance Program.

activity code. We determined this based on a review of the DRGR voucher supporting documentation, wire documentation, and the general ledger.

Based on our file review, we noted that some files contained refund checks for overpayments of closing costs. To determine the total number of refunds received by the City, we reviewed property files, DRGR voucher supporting documentation, and the City's general ledger. Using the supporting documentation for DRGR vouchers and the City's property files, we identified \$11,492 in refunds. To identify additional refunds, we included cash receipts in the general ledger that were less than the highest home-buyer assistance of \$25,000. We reviewed only cash receipts for the Homebuyer Assistance Program and the ARR program activity. We included the ARR program codes because we verified that the City incorrectly recorded some closing cost refund checks under this project code. To narrow down which cash receipts were for home-buyer assistance refunds, we compared the date of the cash receipt with the date of the home-buyer assistance. We determined that \$1,127 in cash receipts that occurred after the home-buyer assistance were for closing cost refunds. We then determined the assigned property based on the task codes assigned for each activity type. The closing cost refunds totaled \$12,619.

We did not project the results of our testing.

Our assessment of the reliability of DRGR was limited to the data sampled, and the data were reconciled with data in City's records. Therefore, we judged the data sampled to be sufficiently reliable for the audit conclusion; however, we did not assess the reliability of the systems that generated the data.

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 objective(s). We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Internal Controls

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Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls 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.

## **Relevant Internal Controls**

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

- Program operations – Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Compliance with applicable laws and regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

## **Significant Deficiencies**

Based on our review, we believe that the following items are significant deficiencies:

- The City did not have adequate controls to ensure that it used program funds in compliance with laws and regulations concerning home-buyer assistance recapture requirements (finding 1).
- The City's did not have adequate controls to ensure that it properly tracked and documented NSP3 activities (finding 2).

# Appendixes

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## Appendix A

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**Schedule of Questioned Costs and Funds To Be Put to Better Use**

<b>Recommendation number</b>	<b>Ineligible 1/</b>	<b>Funds to be put to better use 2/</b>
1A		\$488,519
2A		12,275
2C	\$95	
2D	1,495	
<b>Totals</b>	<b>1,590</b>	<b>500,795</b>


- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations. In this instance, the ineligible costs included (1) \$95 in overpayments received by the City from program recipients (appendix E) and (2) \$1,495 overdrawn from NSP3 for closing costs not incurred by the City
- 2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, the funds put to better use include (1) \$488,519 in home-buyer assistance agreements, which the City should amend to ensure that it does not subject the recipients to unallowable recapture provisions (appendix D), and (2) \$12,275 in potential closing cost overpayments, which could be avoided if the City develops and implements written procedures to accurately document and track all NSP3 activities (appendix D).

# Appendix B

## Auditee Comments and OIG's Evaluation

### Ref to OIG Evaluation

### Auditee Comments



Las Vegas  
City Council  
Carolyn G. Goodman  
Mayor  
Lois Tarkanian  
Mayor Pro Tem  
Ricki Y. Barlow  
Stavros S. Anthony  
Bob Coffin  
Steven G. Seroka  
Michele Fiore

Office of the  
City Manager  
Scott D. Adams  
City Manager

September 5, 2017

Ms. Tanya E. Schulze, Regional Inspector General for Audit  
U.S. Department of Housing and Urban Development  
Office Audit (Region 9)  
300 N. Los Angeles Street, Suite 4070  
Los Angeles, CA 90012

Re: Response to City of Las Vegas Neighborhood Stabilization Program 3 (NSP3)

Dear Ms. Schulze:

We are in receipt of your August 21, 2017 letter regarding the Department of Housing and Urban Development's (HUD) review and assessment of the City of Las Vegas Neighborhood Stabilization Program 3 (NSP3). In this letter, HUD identified the following:

*The City did not administer its NSP3 home-buyer assistance agreements and payments in accordance with HUD requirements. Specifically, the City included language in its agreements that did not meet HUD's recapture requirements, and it did not adequately track or document NSP3 payments and activities. As a result, the City's agreements may require 35 recipients who received \$488,519 in assistance to repay more than required. In addition, the City's inadequate tracking and documentation for overpayment of closing costs resulted in (1) recipients' overpaying \$95, (2) inadequate tracking of \$12,275 in potential overpayments from recipients, and (3) the City's improperly receiving \$1,495 in NSP3 funds for closing costs not incurred.*

The City of Las Vegas Office of Community Services will comply with HUD's recommendations and would like to submit the following comments to be added under Appendix B, "Auditee Comments and OIG's Evaluation" Page 13 of NSP3 Audit:

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City Hall | 495 S. Main St. | Las Vegas, NV 89101 | 702.229.6011 | TTY 7-1-1  
LASVEGASNEVADA.GOV



Auditee Comments and OIG's Evaluation

Comment 1

*Overall, the city of Las Vegas has operated a successful Neighborhood Stabilization Program 3 (NSP3). Despite changing regulations at the federal level and staffing changes here at the local level, the work with HUD and the city of Las Vegas has achieved significant outcomes, and the repayments identified represent less than 1% of the total NSP 3 program fund allocation. The city of Las Vegas notes that the language included in 35 agreements did not model the language required by HUD. We will work with the city attorney to amend those 35 agreements to include the language specified by the OIG. The audit noted the potential for higher repayments exists in the amount of \$488,519.00; but the potential has not actually occurred. For the record, none of the 35 sub-recipients have been disadvantaged by the perceived potential to repay more to the city than required.*

Comment 2

*The city of Las Vegas also notes that several of the tracking tools put into place at the initialization of the NSP 3 program operations were not maintained after all original staff members retired and were no longer employed by the city.*

Comment 3

*The city of Las Vegas acknowledges that two sub-recipients will need to be paid a total of \$95.00 for funds received that should have gone to the homebuyer. One homebuyer will be refunded \$35.00 and the other homebuyer will receive \$65.00.*

*The city of Las Vegas acknowledges \$1,495.00 in closing costs that should not have been billed to HUD and will return the \$1,495.00 to the program fund account.*

Should you have further questions or require clarification regarding our response or corrective action steps, feel free to contact me at (702) 229-4960.

Sincerely,



Stephen K. Harsin, Director  
Office of Community Services

cc: Karen Duddlesten, Chief Community Services Officer, City of Las Vegas  
Kathi Thomas-Gibson, Manager, Community Services, City of Las Vegas  
Lawrence Wuerstle, Director, Office of Community Planning and Development, 9ADS  
Kimberley Johnson, CPD Representative, 9ADS  
Tamara Thomas, Las Vegas Field Office Director, 9KM

[Redacted contact information]

Names were redacted for privacy reasons.

## OIG Evaluation of Auditee Comments

- Comment 1 We acknowledge the City's commitment in taking the steps necessary to address the issues identified in the report. We further agree that none of the 35 recipients have paid more than the assistance provided. If the City does not amend the agreements, the concern is that recipients could potentially pay more than the assistance provided.
- Comment 2 We agree that the City did not maintain tracking tools put into place at the start of the program; we reviewed the tracking tools that City staff were currently utilizing.
- Comment 3 We acknowledge the City's commitment in taking the steps necessary to address the issues identified in the report and repay recipients \$95 and the program \$1,495. The City can work with HUD during the audit resolution process to resolve the audit recommendations.

## Appendix C

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### Criteria

#### 24 CFR 92.254

##### **Qualifications as affordable housing: Homeownership provides, in pertinent part, in paragraphs (a)(5)(i) (resale) and (ii) (recapture):**

(5) Resale and recapture. The participating jurisdiction must establish the resale or recapture requirements that comply with the standards of this section and set forth the requirements that comply with the standards of this section and set forth the requirements in its consolidated plan. HUD must determine that they are appropriate and must specifically approve them in writing.

(ii) Recapture. Recapture provisions must ensure that the participating jurisdiction recoups all or a portion of the HOME assistance to the homebuyers, if the housing does not continue to be the principal residence of the family for the duration of the period of affordability.

(A) The following options for recapture requirements are acceptable to HUD . . . . . In establishing its recapture requirements, the participating jurisdiction is subject to the limitation that when the recapture requirement is triggered by a sale (voluntary or involuntary) of the housing unit, the amount recaptured cannot exceed the net proceeds, if any. The net proceeds are the sales price minus superior loan repayment (other than HOME funds) and any closing costs.

(5) Amount subject to recapture. The HOME investment subject to recapture is based on the HOME assistance that enabled the homebuyer to buy the dwelling unit. This includes any HOME assistance that reduced the purchase price from fair market value to an affordable price, but excludes the amount between the cost of producing the unit and the market value of the property (i.e., the development subsidy).

#### 24 CFR 85.20

##### **(2) Accounting records.**

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

#### 2 CFR 200.302

##### **(b) Accounting records.**

The financial management system of each non-Federal entity must provide for the following (see also §§200.333 Retention requirements for records, 200.334 Requests for transfer of records, 200.335 Methods for collection, transmission and storage of

information, 200.336 Access to records, and 200.337 Restrictions on public access to records):

(3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §200.303 Internal controls.

## Appendix D

### Adjusted Loan Amounts

Agreements that did not meet HUD requirements				
Property	Original loan amount	Refunds from escrow to City (recommendation 2A)	Subrecipient fee <sup>10</sup>	Adjusted loan amount (recommendation 1A)
1	\$12,833	\$539	\$2,690	\$9,604
2	14,819		2,690	12,129
3	14,343	696	2,690	10,957
4	12,772	150	2,690	9,932
5	14,856	257	2,690	11,909
6	14,549		2,690	11,859
7	14,451	71	2,690	11,690
8	13,597	421	2,690	10,486
9	14,998	1,748	2,690	10,560
10	13,857	846	2,690	10,321
11	14,218	107	2,690	11,421
12	14,395		2,690	11,705
13	14,078	545	2,690	10,843
14	14,999	435	2,690	11,874
15	14,953	1,080	2,690	11,183
16	13,707	58	2,690	10,959
17	15,769	610	2,690	12,469
18	18,136	926	2,690	14,520
19	21,856	234	2,690	18,932
20	22,530	376	2,690	19,464
21	17,650	766	2,690	14,194
22	15,546	330	2,690	12,526
23	16,893	689	2,690	13,514
24	25,000		2,690	22,310
25	25,000		2,690	22,310

<sup>10</sup> During a monitoring review, HUD determined that the City incorrectly included the \$2,690 fee in its home-buyer assistance agreement, which it pays to its subrecipient to operate the Homebuyer Assistance Program. The City has developed procedures to ensure that it deducts the fee when recapturing funds from the recipient. We deducted this fee from the loan amount when calculating the adjusted loan amounts for recommendation 1A.

<b>Agreements that did not meet HUD requirements</b>				
<b>Property</b>	<b>Original loan amount</b>	<b>Refunds from escrow to City (recommendation 2A)</b>	<b>Subrecipient fee<sup>10</sup></b>	<b>Adjusted loan amount (recommendation 1A)</b>
<b>26</b>	16,740	34	2,690	14,016
<b>27</b>	19,525		2,690	16,835
<b>28</b>	18,447	840	2,690	14,917
<b>29</b>	23,927		2,690	21,237
<b>30</b>	18,916	299	2,690	15,927
<b>31</b>	17,510		2,690	14,820
<b>32</b>	17,080		2,690	14,390
<b>33</b>	17,379		2,690	14,689
<b>34</b>	19,128	218	2,690	16,220
<b>35</b>	20,487	-	2,690	17,797
<b>Total amount</b>	<b>594,944</b>	<b>12,275</b>	<b>94,150</b>	<b>488,519</b>

## Appendix E

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### Overpayment of Loan for Properties Sold or Refinanced

Overpayment of loans for properties sold or refinanced					
Property	Original loan amount	Refunds from escrow to City	OIG calculated repayment amount <sup>11</sup>	Actual repayment amount	Overpayment amount
<b>36</b>	16,015	279	13,046	13,076	30
<b>37<sup>12</sup></b>	12,453	65	12,388	12,453	65
<b>38</b>	24,673		21,983	21,983	0
<b>Total amount</b>	<b>53,141</b>	<b>344</b>	<b>47,417</b>	<b>47,512</b>	<b>95</b>

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<sup>11</sup> The calculated repayment amount is the original loan amount less subrecipient fee and escrow refunds (if applicable).

<sup>12</sup> For property 37, the City attempted to repay the recipient the \$2,690 subrecipient fee, but the recipient did not respond to the City to claim the funds.