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TO: Maria Cremer, Acting Director, Community and Planning Development Division, 9AD

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

SUBJECT: Washoe County HOME Consortium, Reno, Nevada, Neighborhood Stabilization Program

HIGHLIGHTS

What We Audited and Why

We performed a limited review of the Washoe County HOME Consortium (Consortium) because it received an allocation of more than \$4.6 million in Neighborhood Stabilization Program (NSP) funding as a subgrantee of the State of Nevada. Our objective was to determine whether the Washoe County HOME Consortium (Consortium) had sufficient capacity and had established adequate methodologies to implement the NSP requirements in accordance with U.S. Department of Housing and Urban Development (HUD) rules and regulations.

What We Found

The Consortium, with the City of Reno (City) as the lead agency, subcontracted with the Reno Housing Authority (Authority) to manage the majority of the funds received. All entities generally had sufficient capacity and adequate methodologies in place to implement the NSP requirements in accordance with HUD rules and regulations.

We provided the Consortium a discussion draft report on August 11, 2009, and held an exit conference with appropriate officials on August 13, 2009.

We provided the auditee the final report on August 17, 2009.

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BACKGROUND AND OBJECTIVE

The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The stabilization is to be achieved through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. The NSP funds provide grants to all states and selected local governments. Grantees were selected on the basis of statutory objectives and a greatest need formula developed by the U.S. Department of Housing and Urban Development (HUD).

The State of Nevada was allocated more than \$24 million in NSP funds for distribution throughout the state. The Washoe County HOME Consortium (Consortium), as a state subrecipient, received a distribution of more than \$4.6 million. The Consortium is comprised of the City of Reno, the City of Sparks, and Washoe County and has designated the City of Reno (City) as its lead agency. Additionally, the Consortium has collaborated with the Reno Housing Authority (Authority), as a subcontractor, to manage \$4.2 million to operate the acquisition/resale and acquisition/rental portions of the Consortium's NSP activities. The City will administer the remainder of the funds for downpayment assistance program activities.

The Consortium makes loans available from various funding sources for predevelopment, development, construction, acquisition, preservation, and substantial rehabilitation of affordable, permanent, or transitional housing units. Its primary goal is to assist lower income families and individuals, including homeless and special needs groups, to obtain affordable housing. The Consortium also allocates funds to housing assistance programs, including downpayment assistance to first-time home buyers, monthly rental assistance, rental and utility deposit assistance, and homeowner rehabilitation assistance.

The Authority, since its founding in 1943, has been appointed as the public housing authority for the City of Sparks and Washoe County. It currently owns and manages 764 units of public housing (475 for families) in seven different locations in Reno and Sparks under the public housing programs. In February of 2009, HUD awarded the Authority the title "Large Public Housing Authority of the Year" for 2008 in Nevada and Northern California, and it has consistently excelled as a "high performer."

The Authority applied for an additional \$21 million in NSP-2 funding under the American Recovery and Reinvestment Act of 2009. Based on the positive results found during our review of the NSP-1 funding, we believe that it will be able to manage any additional funds, if awarded, in accordance with HUD, federal, state, and local requirements of the program.

Our objective was to determine whether the Consortium had sufficient capacity and adequate methodology to implement the NSP requirements in accordance with HUD rules and regulations.

RESULTS OF AUDIT

The Consortium Generally Had Sufficient Capacity and Adequate Methodologies to Implement NSP Requirements

Based on a limited review, the Consortium generally had sufficient capacity and adequate methodologies in place to implement the NSP requirements in accordance with HUD rules and regulations. Specifically, (1) it had structured its policies and procedures to conform to NSP requirements; (2) the homeownership, rental, and downpayment assistance activities were underway; and (3) it had established adequate monitoring to track progress.

Policies and Procedures Conformed to NSP Requirements Contracts

The Authority's experience in providing homeownership and rental assistance to low-income households is a key factor in NSP. At the onset of the program, the Authority established policies and procedures to implement the acquisition/resale and acquisition/rental activities using applicable NSP requirements.

Homeownership

The Authority had established criteria for homeownership. Minimum qualifications for households interested in the NSP homeownership program include

- Applicant must be a first-time home buyer.
- Income must fall between 60 and 120 percent of area median income.
- Applicant must be eligible to qualify for a standard fixed-rate 15-30 year mortgage to purchase a home.
- Downpayment from personal funds must be at least 3.5 percent of purchase price.
- Applicant must have a stable or increasing income history for the past 24 months.
- Applicant must have a FICO credit score of either 650 or higher or acceptable nontraditional credit, with an overall debt-to-income ratio after purchase no higher than 38 percent.
- Applicant must successfully complete eight-hour HUD-certified homeowners' training.

Rental

Under the rental activity, the Authority ensured that rental homes were affordable to low-income families. It used HOME Investment Partnerships Program (HOME) standards in setting fair market rents in which tenants are only required to pay 30 percent of their

adjusted net income less utility allowance. The Authority also ensured tenant eligibility by using the same procedures used for the Section 8 and public housing programs. Because of the added workload for income verification, the Authority hired a temporary part-time person to assist. The position may be converted to full time as the workload increases.

Homeownership, Rental, and Downpayment Assistance Activities Were Underway

Five Homes Purchased for Homeownership and Rental Activities

Five foreclosed homes had been purchased at a discounted price based on the fair market value. An additional six homes were in the negotiation stage. The Authority partnered with the National Community Stabilization Trust for the purchase of homes. The trust was established to facilitate the transfer of foreclosed and abandoned properties from financial institutions nationwide to local housing organizations to promote productive property reuse and neighborhood stability.

One of the five homes purchased was pending resale to a first-time home buyer, and the four other properties were to be rented to low-income households.

City's Downpayment Assistance Program Activity Underway

The Redevelopment Agency of the City will implement the NSP downpayment assistance activity. The City had begun structuring the process to implement this new program. It will use HOME program guidelines at 24 CFR (*Code of Federal Regulations*) Part 92. The City had established the terms of assistance to first-time home buyers and decided that the program would provide downpayment and closing cost assistance of up to 20 percent of the home's appraised value or \$20,000, whichever is less and based upon client need. The program will be able to assist 25-30 first-time home buyers.

The City plans to advertise the program beginning in August 2009 and begin processing applications from first-time home buyers to determine eligibility. One additional staff member will be hired to help with the added workload of income and employment verification.

Adequate Monitoring Was Established

A housing subcommittee was established to monitor the progress of the implementation of the NSP activities. It meets on a regular basis and as necessary.

Conclusion

Based on our limited review, the Consortium generally had sufficient capacity and adequate methodologies in place to implement the NSP requirements in accordance with HUD rules and regulations. As of June 30, 2009, there had been three drawdowns totaling \$811,319.

The Authority applied for an additional \$21 million in NSP-2 funding under the American Recovery and Reinvestment Act of 2009. Based on the positive results found during our review of the NSP-1, we believe that it will be able to manage these additional funds, if awarded, in accordance with HUD, federal, state, and local requirements of the program.

SCOPE AND METHODOLOGY

The period covered by the audit was July 1, 2006, through June 30, 2008. Our review was performed at the City and Authority offices, both located in Reno, Nevada. We performed our audit work from May 11 through July 24, 2009.

To perform our audit, we

- Reviewed applicable laws, regulations, and guidance issued by HUD.
- Reviewed pertinent financial records maintained on administration and procurement by the City and the Authority.
- Interviewed staff of the City and the Authority regarding the implementation of NSP.
- Reviewed HUD monitoring reports and interviewed HUD officials in the San Francisco office.
- Physically inspected the foreclosed properties acquired for resale and rental by the Authority.

Specifically, our review included the City's and Authority's financial records and accounting systems, policies, and procedures. We reviewed procurement and disbursement transactions from 2006 through 2008 and tested a total of 19, 17 from the Authority and two from the City, for compliance with HUD, federal, state, and local requirements.

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 stated objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

INTERNAL CONTROLS

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.

Relevant Internal Controls

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

- Administering the program's operations in compliance with applicable laws and regulations,
- Maintaining complete and accurate records, and
- Safeguarding the program's resources.

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

We did not find any weaknesses in the internal controls.