



# Office of Native American Programs, Washington, DC

## Indian Housing Block Grant Program Investments

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

**Audit Report Number: 2018-LA-0004  
August 13, 2018**





**To:** Heidi J. Frechette, Deputy Assistant Secretary, Office of Native American Programs, PN

**//SIGNED//**

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

**Subject:** HUD Did Not Always Ensure That Grantees Maintained the Required Depository Agreements for Investing Program Funds

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of HUD's Office of Native American Programs' Indian Housing Block Grant 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: 2018-LA-0004**

**Date: August 13, 2018**

**HUD Did Not Always Ensure That Grantees Maintained the Required Depository Agreements for Investing Program Funds**

## Highlights

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### What We Audited and Why

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We audited the U.S. Department of Housing and Urban Development's (HUD) Office of Native American Programs' Indian Housing Block Grant program. We selected the program based on concerns as to whether grantees invested, obligated, and spent program funds within the required period. Our audit objective was to determine whether HUD's Office of Native American Programs ensured that grantees invested, obligated, and spent program funds within HUD's required time limits.

### What We Found

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HUD generally ensured that grantees obligated, spent, and invested program funds within HUD's required time limits in fiscal years 2015, 2016, and 2017. However, for two of six grantees reviewed, HUD did not always ensure that the grantees maintained the required depository agreements to invest program funds in investment securities for use in carrying out affordable housing activities. We attributed this condition to a weakness in HUD's internal control, which included relying on the grantees to maintain the required depository agreements. In addition, its Indian Housing Block Grant Recipient Self-Monitoring Guidebook included an expired requirement for investing program funds. As a result, HUD did not fully ensure that all grantees maintained the required depository agreements to allow them to invest program funds for affordable housing activities, and the expired guidance in the Guidebook put grantees at risk of not complying with current requirements to meet program objectives.

### What We Recommend

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We recommend that the Deputy Assistant Secretary of the Office of Native American Programs (1) obtain the required depository agreements for two grantees to ensure that they invest program funds in investment securities for use in carrying out affordable housing activities, (2) strengthen monitoring controls to ensure that current and future grantees maintain the required depository agreements before allowing them to invest program funds, and (3) update HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook to replace the expired requirements with the latest requirements to ensure that grantees remain compliant with requirements for investing program funds.

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# Background and Objective

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The U.S. Department of Housing and Urban Development (HUD), Office of Native American Programs, administers housing and community development programs that benefit American Indian and Alaska Native tribal governments, tribal members, the Department of Hawaiian Home Lands, Native Hawaiians, and other Native American organizations. The role of the Office of Native American Programs is to ensure that safe, decent, and affordable housing is available to Native American families; create economic opportunities for tribes and Indian housing residents; assist tribes in forming plans and strategies for community development; and assure fiscal integrity in the operation of the programs.

The Indian Housing Block Grant is a formula grant, which provides a range of affordable housing activities on Indian reservations and areas. The block grant approach to housing for Native Americans was enabled by the Native American Housing Assistance and Self-Determination Act of 1996. To receive funding, eligible grantees must submit to HUD an Indian housing plan each year. At the end of each year, grantees must submit to HUD an annual performance report on their progress in meeting the goals and objectives in their plans.

In addition, grantees may use program funds for the purposes of carrying out affordable housing activities in the form of investment securities and other obligations. The grantees must be approved by HUD to invest and may continue to invest program funds as long as they continue to demonstrate their administrative capacity to HUD. For fiscal years 2015 through 2017, HUD awarded more than \$408 million in program funds to 37<sup>1</sup> grantees. The table below shows the amount of program funds obligated, spent, and invested by these grantees during the fiscal years reviewed.

Fiscal year	Program funds obligated	Program funds spent <sup>2</sup>	Program funds invested <sup>3</sup>
2015	\$23,361,583	\$37,447,951	\$44,159,243
2016	198,304,850	115,161,630	319,669,515
2017	186,666,329	365,790,075	493,530,441

Grantees must use HUD's required depository agreement to begin investing program funds for bank accounts or for brokers and dealers. These agreements ensure that grantees' invested program funds are held in one or more accounts separate from other funds of the grantees. Also, these agreements provide assurance that grantees may invest program funds only in the following: obligations of the United States; obligations issued by United States Government-

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<sup>1</sup> HUD stated that some field offices did not officially store investment data until fiscal year 2016. However, some field offices entered data for fiscal year 2015.

<sup>2</sup> The amount spent includes program funds carried over from previous fiscal years outside our review period. As a result, this amount is greater than the amounts obligated in fiscal years 2015 through 2017.

<sup>3</sup> The amount invested includes program funds carried over from previous fiscal years outside our review period. As a result, this amount is greater than the amounts obligated in fiscal years 2015 through 2017.

sponsored agencies; securities that are guaranteed or insured by the United States; mutual funds registered with the Securities and Exchange Commission, which invest only in obligations of the United States; or securities that are guaranteed or insured by the United States.

Our audit objective was to determine whether HUD's Office of Native American Programs ensured that grantees invested, obligated, and spent program funds within HUD's required time limits.

# Results of Audit

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## **Finding: HUD Did Not Always Ensure That Grantees Maintained the Required Depository Agreement for Investing Program Funds**

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HUD generally ensured that grantees obligated, spent, and invested program funds within HUD's required time limits in fiscal years 2015, 2016, and 2017. However, for three of six grantees reviewed, HUD did not always ensure that the grantees maintained the required depository agreements to invest program funds in investment securities for use in carrying out affordable housing activities. We attributed this condition to a weakness in HUD's internal control, which included relying on the grantees to maintain the required depository agreements. In addition, HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook included an expired requirement for investing program funds. As a result, HUD did not fully ensure that all grantees maintained the required depository agreements to allow them to invest program funds for affordable housing activities while complying with current program requirements.

### **HUD Generally Ensured That Grantees Obligated, Spent, and Invested Program Funds Within the Required Time Limits**

HUD generally ensured that the six sampled grantees obligated, spent, and invested program funds within HUD's required time limits. HUD had written investment regulations. Office of Public and Indian Housing (PIH) Notice 2015-08 (appendix B) allows grantees to invest program funds for a period of up to 5 years. HUD did not have written regulations requiring grantees to obligate and spend program funds within a certain period. Instead, HUD relied on the grantees to provide Indian housing plans; quarterly Standard Form (SF)-425 reports; and annual performance reports, which were required to be submitted within the designated period, to monitor obligated, spent, and invested program funds each year.

Grantees are required to identify their planned activities with the intended outcomes in the housing plans and submit these plans to HUD for approval at least 75 days before the beginning of each program year in accordance with 24 CFR (Code of Federal Regulations) 1000.216 (appendix B). In addition, grantees must show the disbursements made for all activities in the quarterly SF-425 reports, including investment activities, and submit these reports to HUD within 30 days after the end of each quarter as required by PIH Notice 2012-23, paragraph 6(a) (appendix B). Also, grantees are required to submit their performance reports to HUD to show accomplishments in meeting the planned activities within 90 days after the end of each program year in accordance with 24 CFR 1000.514 (appendix B). Overall, HUD provided the housing plans, quarterly SF-425 reports, and performance reports for the six sampled grantees, which generally met the time requirements for submitting required documents to ensure that program funds were obligated, spent, and invested during fiscal years 2015, 2016, and 2017.

## HUD Did Not Always Ensure That Grantees Maintained the Required Depository Agreements

HUD did not ensure that three of the six sampled grantees maintained the required depository agreements used to invest program funds as required by PIH Notice 2014-21, section 4 (appendix B), and PIH Notice 2015-08, section 7 (appendix B). Specifically, HUD did not ensure that the three sampled grantees had executed and maintained the required depository agreements before investing program funds. The table below shows the results of the six sampled grantees.

Name of grantee	Did HUD ensure the grantee maintained the depository agreement?
Kenaitze Salamatof Tribally Designated Housing Entity	No
Akwesasne Housing Authority	Yes
Fort Peck Housing Authority	No <sup>4</sup>
Yakama Nation Housing Authority	Yes
Wyandotte Nation	No
Northern Circle Housing Authority	Yes

After we completed our fieldwork, HUD took corrective actions by providing two retroactively approved depository agreements for Fort Peck Housing Authority to show compliance. This action occurred after we brought this issue to HUD's attention. As a result, HUD did not ensure that the two grantees maintained the required depository agreements, which allowed them to invest program funds in investment securities for use toward affordable housing activities.

Also, HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook investment section included an expired requirement. Specifically, the Guidebook referenced the use of PIH Notice 99-4 for administrative requirements for investing program funds. However, this HUD notice expired on February 28, 2000. The current administrative requirements for investing program funds are in PIH Notice 2015-08 and should be included in the Guidebook. Without the updated requirement, grantees are at risk of not complying with current program requirements for investing program funds for affordable housing activities.

We attributed this condition to a weakness in HUD's internal control related to depository agreements. Specifically, HUD relied on the grantees to maintain the required depository agreements without ensuring that such documents were in place. In addition, HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook included an expired requirement, which grantees followed. As a result, HUD did not fully ensure that the grantees maintained the required depository agreements to allow them to invest program funds for affordable housing activities.

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<sup>4</sup> On May 15, 2018, HUD executed two depository agreements for Fort Peck Housing Authority to invest program funds.

## Conclusion

HUD generally ensured that grantees obligated, spent, and invested program funds within HUD's required time limits for fiscal years 2015, 2016, and 2017. However, HUD did not always ensure that the grantees maintained the required depository agreements to invest program funds in investment securities for use in carrying out affordable housing activities. We attributed this condition to a weakness in HUD's internal control, which included relying on the grantees to maintain the required depository agreements. In addition, HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook included an expired requirement for investing program funds. As a result, HUD did not fully ensure that all grantees maintained the required agreements to allow them to invest program funds for affordable housing activities while complying with current program requirements.

## Recommendations

We recommend that the Deputy Assistant Secretary of the Office of Native American Programs

- 1A. Obtain the required depository agreements for two<sup>5</sup> grantees to ensure that they invest program funds in investment securities for use in carrying out affordable housing activities in accordance with PIH Notices 2014-21, section 4, and 2015-08, section 7.
- 1B. Strengthen monitoring controls to ensure that current and future grantees maintain the required depository agreements before allowing them to invest program funds in investment securities for use toward affordable housing activities.
- 1C. Update HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook to replace the expired requirement for investing program funds with PIH Notice 2015-08 and ensure that the Guidebook is updated with the latest requirements to ensure that grantees remain compliant with program requirements.

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<sup>5</sup> On July 24, 2018, HUD provided depository agreements for one of two grantees identified in the report. Specifically, HUD provided us the agreement for Wyandotte Nation after our July 20<sup>th</sup> exit conference. We determined the agreement was complete and in compliance with HUD requirements. As a result, there is still one grantee, Kenaitze Salamatof Tribally Designated Housing Entity, who did not maintain the required depository agreement. HUD can provide the document for the grantee during the audit resolution process.

# Scope and Methodology

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We performed our audit work from our office in Los Angeles, CA, between March and May 2018. Our audit covered the period October 1, 2014, through September 30, 2017.

To accomplish our objective, we

- Reviewed applicable laws and regulations, including Federal regulations and HUD notices, guidebooks, and forms.
- Reviewed HUD's program policies and procedures related to monitoring obligated, spent, and invested program funds.
- Conducted interviews with relevant HUD officials.
- Reviewed grant agreements, Indian housing plans, annual performance reports, quarterly SF-425 reports, investment policies, depository agreements, and annual single audit reports for the selected sample grantees.

The universe consisted of 37 grantees that invested Indian Housing Block Grant program funds, for which they obligated more than \$408 million, spent between \$37 and \$365 million, and invested between \$44 and \$493 million during the fiscal years beginning October 1, 2014, and ending September 30, 2017. We selected a nonstatistical<sup>6</sup> random sample of six grantees representing 16 percent of the universe.

We randomly selected one grantee from each of the six Office of Native American Programs field offices, which resulted in more than \$39 million in program funds obligated, between \$3 and \$38 million in funds spent, and between \$3 and \$40 million in funds invested for fiscal years 2015 through 2017. The range of amounts spent and invested included program funds carried over from previous fiscal years outside our review period. This sampling method did not allow us to project to the universe, but it was sufficient to meet the audit objective.

We relied on computer-processed data provided by HUD in the form of Microsoft Excel funding logs primarily for determining the audit universe and selecting a sample of grantees for testing. We performed a minimal level of testing and found the data to be sufficiently reliable to meet the audit objective and for the intended use of the data.

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<sup>6</sup> A nonstatistical sample is appropriate when the auditor knows enough about the population to identify a relatively small number of items of interest. The results of procedures applied to items selected under this method apply only to the selected items and must not be projected to the portion of the population that was not tested.

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:

- Effectiveness and efficiency of 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.
- Validity and reliability of data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.

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 Deficiency**

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

- HUD did not have adequate controls in place to ensure that all grantees maintained the required depository agreements to allow them to invest program funds for affordable housing activities (finding).


# Appendixes

## Appendix A

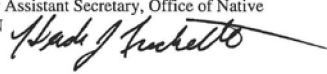
### Auditee Comments and OIG's Evaluation

#### Ref to OIG Evaluation

#### Auditee Comments

  
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-5000  
OFFICE OF PUBLIC AND INDIAN HOUSING

MEMORANDUM FOR: Tanya E. Schulze, Regional Inspector General for Audit, Los Angeles Region, 9DGA

FROM: Heidi Frechette, Deputy Assistant Secretary, Office of Native American Programs, PN 

DATE: July 24, 2018

SUBJECT: Response to July 3, 2018, Discussion Draft HUD OIG Report — HUD Did Not Always Ensure That Grantees Maintained the Required Depository Agreements for Investing Program Funds

Thank you for conducting a review of the Office of Native American Programs' (ONAP) administration of Section 204 of the Native American Housing Assistance and Self-Determination Act of 1996, 25 U.S.C. § 4134 (NAHASDA). That section authorizes Indian Housing Block Grant (IHBG) recipients to "invest grant amounts for the purposes of carrying out affordable housing activities in investment securities and other obligations as approved by the Secretary." 25 U.S.C. § 4134(b).

Thank you also for the opportunity to review and comment on the draft Audit Report Number 2018-LA-000X, dated July 3, 2018. Our suggestions for the findings and recommendations are outlined below.

Pursuant to Section 204 of NAHASDA, ONAP has established, with Tribal Nations through the Negotiated Rulemaking process, regulations, implementing the authority to invest IHBG funds at 24 C.F.R. § 1000.58.<sup>1</sup> In addition, ONAP provides guidance on investments in PIH Notice 2015-08 (May 8, 2015) and PIH Notice 2014-21 (Sept. 15, 2014). ONAP has also developed internal guidance on monitoring investments in its "Financial and Fiscal Management Monitoring Plan, Appendix 7: Investments." We are pleased to see that the Office of Inspector General (OIG) concluded that ONAP has "generally ensured that grantees obligated, spent, and invested program funds within HUD's required time limits in [the fiscal years reviewed] 2015, 2016, and 2017." While we cannot dispute OIG's conclusion that ONAP "did not always ensure that the grantees maintained the required depository agreements....," we do dispute the conclusion that ONAP "had no assurance that grantees maintained the required agreements..." Audit Report, p.8.

<sup>1</sup> The Draft Audit Report, on page 5, incorrectly states that "HUD did not have written regulations requiring grantees to obligate and spend program funds within a certain period." 24 C.F.R. § 1000.58(g) limits investments to "a period no longer than 5 years."

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Comment 1

Comment 2

## Comment 3

Congress has mandated that assistance under NAHASDA shall be provided in a manner that recognizes the right of Indian self-determination and tribal self-governance. The IHBG regulations at 24 C.F.R. § 1000.552(b) follow this mandate but require that the grantee maintain program records for at least three years from the end of the tribal program year during which the funds were expended. In recognition of tribal self-determination and self-governance, ONAP cannot ensure that IHBG grantees “always” maintain the required depository agreements. That would be an unrealistic expectation and would be contrary to the statutory language which recognizes this program as a self-governance program.<sup>2</sup>

## Comment 4

The draft audit report identified two depository agreements that were unavailable from sampled IHBG recipients at the time of this audit. ONAP acknowledges this modest noncompliance rate. However, the conclusion that ONAP cannot ensure 100 per cent record retention compliance, in no way supports a conclusion that ONAP had zero per cent assurance (“no assurance”) that grantees maintained the required agreements.

## Comment 5

The draft report is generally accurate regarding how ONAP manages and oversees the investment of IHBG funds. However, it neglects to include all the measures ONAP implements to assure compliance with investment requirements, including maintaining depository agreements. The regulations at 24 C.F.R. § 1000.58(d) require each of the investment accounts “shall be subject to an agreement in a form prescribed by HUD.” This regulatory requirement is reemphasized in PIH Notice 2014-21 and PIH Notice 2015-08. Indeed, Section 5.c.1 of PIH Notice 2015-08 requires the IHBG recipient to demonstrate it has administrative capacity for investment approval by, among other things, providing a copy of its financial management policy that is to require each investment account be subject to the prescribed depository agreement. This is reiterated in Section 7 of the Notice. ONAP has made clear to IHBG recipients depository agreements are required records and 24 C.F.R. § 1000.552(b) directs that they be maintained by the recipient for at least three years after the expenses are incurred.

## Comment 6

ONAP further assures that IHBG recipients approved to invest IHBG funds have the required depository agreements by establishing at least two checks to monitor compliance. First, HUD’s IHBG program supplement, CFDA 14.867, to the 2018 OMB Audit Requirements, Appendix XI—Compliance Supplement (2018 Supplement), HUD sets, as an Audit Objective, that the auditor “[d]etermine whether the investment of IHBG funds by the recipient meets the requirements of 24 CFR section 1000.58.” 4-14.867-10, Compliance Supplement (April 2017). This includes the requirement that each investment account be subject to a depository agreement. Thus, the independent auditor is to check that each account is matched to a required depository agreement. If an account fails to have a requisite agreement, the auditor notes it in the audit report and ONAP is alerted when it reviews the annual financial audit submitted to the Federal Audit Clearinghouse. Area ONAP Grants Evaluation staff (GE staff) are responsible for downloading and

<sup>2</sup> In fact, to be approved for investment of IHBG funding, under 24 C.F.R. § 1000.58(b)(2), the grantee must be a self-governance Indian tribe or have the administrative capacity and controls to responsibly manage the investment.

examining the audits and for tracking HUD-related findings until closure, including audit findings pertaining to investments.

Second, GE staff routinely monitor IHBG recipients onsite and remotely and this monitoring can include the examination of investment documentation and activities. To guide the GES in their review and data collection, ONAP provides Monitoring Plans on its Sharepoint site. Among those plans is the Financial and Fiscal Management Monitoring Plan that includes an Appendix 7, entitled "Investments." A copy of Appendix 7 will be provided to the OIG separately. Section III of that appendix, entitled "On-Site Review," requires that the GES conducting the on-site monitoring visit to "[o]btain copies of the applicable depository agreements...(HUD-52736-A) for banking accounts and (HUD-52736-B) for brokers/dealers." It goes on to provide that "[i]f there are no agreements, or the agreements are outdated or inaccurate, a finding should result."

These checks, through annual audits and periodic monitoring, while not guaranteeing 100 per cent compliance, help assure that IHBG recipients approved to invest retain updated copies of the required depository agreements. Indeed, the draft audit showed that half of the recipients reviewed had the requisite depository agreements. Accordingly, given the mandate that assistance under NAHASDA be provided in a manner that recognizes the right of Indian self-determination and tribal self-governance, ONAP has worked to make sure depository agreements are in place and the audit shows the efforts have succeeded. This approach strikes the correct balance between upholding the statutory mandate to administer the program under the principals of Tribal self-governance and the need to ensure integrity regarding investments. Therefore, ONAP requests that the last sentence in the Conclusion of the Audit Report stating that "HUD had no assurance that the grantees maintained the required agreements" be removed.

With respect to OIG's helpful recommendations, the updates to ONAP's policies in the following responses will further improve the likelihood that more recipients retain the required agreements:

**Recommendation 1A**

Obtain the required depository agreements for two grantees to ensure that they invest program funds in investment securities for use in carrying out affordable housing activities in accordance with PIH Notices 2014-21, Section 4, and 2015-08, Section 7.

**ONAP Response**

The required depository agreements for one of two grantees have been obtained by ONAP and will be provided to the OIG separately, along with this response. ONAP has requested the depository agreement(s) for the other grantee. When the depository agreement(s) has been obtained, it will be immediately provided to the OIG.

Comment 7

## Comment 8

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### **Recommendation 1B**

Strengthen monitoring controls to ensure that current and future grantees maintain the required depository agreements before allowing them to invest program funds in investment securities for use toward affordable housing activities.

### **ONAP Response**

Chapter 5 of the Grants Evaluation Guidebook describes the monitoring process and explains what data should be collected and reviewed by the GES conducting the review. To emphasize the data collection guidance for Area ONAP GE staff, ONAP has amended Section 5.4.5, page 75, in the Grants Evaluation Guidebook to include the following language as highlighted in bold italics:

#### **Data Collection**

The GE Specialist conducts interviews, examines documents, and observes activities. Those methods are used to collect data that answer the questions selected from the Monitoring Plans. As the data are collected, the GE Specialist notes in the relevant Monitoring Plans any observations, findings and recommended corrective actions, questioned costs, concerns and suggestions for improvement, and documents copied for review. The GE Specialist should provide as much detail as possible because the Monitoring Plans serve as primary documentation of the on-site visit.

The IHP includes certifications whereby the recipient attests that IHBG requirements are in place; and the on-site visit enables the GE Specialist to verify the existence of these requirements. The certifications require insurance coverage and policies describing rent and homebuyer payments, eligibility, admissions, occupancy, and management and maintenance. For further information on reviewing the certification requirements, see Monitoring IHP Certifications.

***If a recipient being monitored is approved for investments, request and examine the depository agreement(s) to ensure they are fully executed and on HUD-52736-A (bank accounts) or HUD-52736-B (brokers and dealers). Make copies of the agreements. If an approved investor does not have a compliant depository agreement(s), this is a finding and should result in the termination of investment authority.***

In addition, ONAP will provide training to Area ONAP GE staff on the importance of depository agreements and making certain that fully executed HUD-52736-A or HUD-52736-B, as appropriate, are maintained in the records of the recipients.

## Comment 9

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### **Recommendation 1C**

Update HUD's Indian Housing Block Grant Recipient Self-Monitoring Guidebook to replace the expired requirement for investing program fund with PIH Notice 2015-08 and ensure that the Guidebook is updated with the latest requirements to ensure that grantees remain compliant with program requirements.

### **ONAP Response**

ONAP has updated the Self-Monitoring Guidebook by substituting PIH Notice 2015-08 for PIH Notice 99-4, as highlighted in bold italics below.

#### **5.6 Policies and Procedures**

Investment and internal control. Recipients that seek approval to invest IHBG funds must comply with the regulations at 24 CFR 1000.58 and *PIH Notice 2015-08*. The Notice requires recipients to have an Internal Control Policy and an Investment Policy. In addition, investment policies and procedures are required by Notice PIH 1996-33 for 1937 Housing Act investments from the following programs: Low Rent, Turnkey III, and Mutual Help.

#### **7.10 Investments Banking**

Recipients have the option of investing cash in excess of immediate need with prior ONAP approval. IHBG funds may be invested in investment securities and other obligations as long as the two following basic requirements are met:

- The most recent annual audit (under the Single Audit Act) must have been free of significant and material audit findings or exceptions.
- The recipient has developed and adopted the applicable policies and procedures and can demonstrate that they have the administrative capacity and controls to responsibly manage the investment.

IHBG funds may only be invested in:

- Obligations of the United States; obligations issued by Government sponsored agencies; securities that are guaranteed or insured by the United States; mutual (or other) funds registered with the Securities and Exchange Commission and which invest only in obligations of the United States or securities that are guaranteed or insured by the United States.
- Accounts that are insured by an agency or instrumentality of the United States or fully collateralized to ensure protection of the funds, even in the event of bank failure.

- The recipient must keep IHBG funds in one or more accounts separate from other funds. Accounts must be insured by an agency or instrumentality of the U.S. or fully collateralized to ensure protection of the funds even in the event of bank failure. Accounts are subject to an agreement in a form prescribed by HUD sufficient to allow HUD to exercise its rights of suspending funds disbursed in cases of substantial noncompliance. *PIH Notice 2015-08* provides additional guidance on investing IHBG funds.

## Comment 10

Again, thank you for reviewing the IHBG program and the opportunity to review and comment on the draft Audit Report Number 2018-LA-000X, dated July 3, 2018. The recommendations will be helpful in enhancing ONAP's administration of grantee investments. If you have any questions, please contact Gary A. Nemeec, Director of the Office of Grants Evaluation at 202.402.2988.

## OIG Evaluation of Auditee Comments

- Comment 1 We appreciate that HUD provided comments on the draft audit report. We have taken HUD's comments into consideration.
- Comment 2 We agree with HUD that investments may be for a period of no longer than five years in accordance with HUD regulations 24 CFR 1000.58(g). However, during a meeting with HUD on April 10, 2018, HUD stated that there were no written regulations to require grantees to obligate and spend program funds within a certain period. In addition, we acknowledge HUD's concerns about the conclusion that HUD had no assurance that grantees maintained the required agreements. As a result, we revised our conclusion in the audit report from "HUD had no assurance" to "HUD did not fully ensure..."
- Comment 3 We agree with HUD that grantees must be a self-governance Indian tribe or have the administrative capacity and controls to responsibly manage the investment in accordance with HUD regulations 24 CFR 1000.58(b)(2). However, we disagree with HUD that it would be an unrealistic expectation to ensure grantees always maintain the required depository agreements and would be contrary to the statutory language which recognizes this program as a self-governance program. According to PIH Notice 2014-21, Section 4, if a recipient is approved to invest program funds in accordance with 24 CFR 1000.58, a depository agreement form HUD-52736-A for banking accounts or form HUD-52736-B when using brokers and dealers is required. Therefore, the grantees must execute and maintain the required forms prescribed by HUD before allowing them to invest in program funds. During fiscal years 2015 through 2017, only 37 grantees invested program funds for which HUD could have ensured that all grantees executed and maintained the required depository agreements. As a result, these grantees must comply with HUD requirements when administering Federal program funds. In addition, HUD must ensure that all grantees are complying with HUD requirements, meeting program objectives, and safeguarding Federal program funds.
- Comment 4 We acknowledge HUD's concerns about the conclusion. As a result, we revised the conclusion in the audit report from "HUD had no assurance" to "HUD did not fully ensure..."
- Comment 5 We appreciate that HUD is ensuring that grantees maintain the required records of depository agreements in accordance with HUD regulations 24 CFR 1000.552(b). However, we disagree that our review neglects to include all the measures HUD implements to ensure compliance with investments requirements. During a meeting on May 10, 2018, HUD stated that they were not able to provide some documents, such as investment ledgers and records. HUD also emphasized that some of the documents were not readily available and grantees would charge program funds for time spent to collect the documents for our review. As a result,

we adjusted our review based on the documents that HUD made available to us during our review.

- Comment 6 We acknowledge HUD's ensuring that grantees approved to invest program funds have the required depository agreements by establishing at least two checks to monitor for compliance. Even though HUD established two checks to monitor for compliance, it does not ensure all 37 grantees maintained the required depository agreements. Since there were only 37 grantees that invested program funds, HUD could have ensure that all grantees executed and maintained the required depository agreements. We also acknowledge HUD's concern about the last sentence in the conclusion of the draft audit report. However, we disagree with HUD's request to remove the last sentence in the conclusion. Instead, we revised the last sentence in the conclusion of the audit report from "HUD had no assurance that grantees maintained the required agreements" to "HUD did not fully ensure that all grantees maintained the required agreements."
- Comment 7 We appreciate that HUD provided the required depository agreements for one of two grantees. We acknowledge HUD's effort in taking corrective actions in addressing recommendation 1A. HUD can provide the remaining depository agreement to us during the audit resolution process.
- Comment 8 We appreciate that HUD has agreed to for revise the Grants Evaluation Guidebook to strengthen its monitoring controls to ensure that current and future grantees meet program requirements to invest program funds and address recommendation 1B. HUD can provide evidence of its actions during the audit resolution process.
- Comment 9 We appreciate that HUD has agreed to take corrective action to update its Self-Monitoring Guidebook with the current PIH Notice 2015-08 to address recommendation 1C. HUD can provide evidence of its actions during the audit resolution process.
- Comment 10 We appreciate that HUD provided comments on the draft audit report. We look forward to the continued cooperation during the audit resolution process.

## Appendix B

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### Criteria

The following sections of PIH Notices 2012-23, 2014-21, and 2015-08 and 24 CFR Part 1000 were relevant to our audit of HUD's Indian Housing Block Grant program.

#### PIH Notice 2012-23, Paragraph 6(a)

Federal Financial Report, SF-425:

An IHBG [Indian Housing Block Grant] recipient must submit the SF-425 to the Area Office of Native American Programs (ONAP) within 30 calendar days of the end of each quarter. Line of Credit Control Systems (LOCCS) will automatically generate a letter 15 days before the end of each quarter, to remind the grant recipient to submit the SF-425. The Area ONAP is responsible for entering into LOCCS the receipt date of the form, using the "Receipt of Outstanding Document" screen. If the Area ONAP does not acknowledge receipt of the SF-425 in LOCCS within 30 calendar days after the end of the quarter, LOCCS will automatically notify the grant recipient that the report is overdue.

#### PIH Notice 2014-21, Section 4, Indian Housing Block Grant (IHBG) Investments

If a recipient is approved to invest IHBG funds in accordance with 24 CFR 1000.58 a Depository Agreement form HUD-52736-A for banking accounts or form HUD-52736-B when using brokers and dealers is required.

#### PIH Notice 2015-08

This notice establishes the basis upon which the Department [HUD] will determine if a recipient of IHBG funds has the administrative capacity to drawdown program funds for investment purposes as authorized under Section 204(b) of the Native American Housing Assistance and Self-Determination Act. The IHBG regulations were amended December 3, 2012 and effective January 2, 2013 in 2013 to allow for a 5-year investment period.

#### PIH Notice 2015-08, Section 7, Depository Agreement

Invested IHBG funds must be held in one or more accounts separate from other funds of the recipient. Each of these accounts must be subject to a Depository Agreement approved by HUD. PIH Notice 2014-21 *Depository Agreements for Investing and Administering IHBG Funds*, includes the current Depository Agreement forms to be used when investing IHBG funds (Form HUD-52736-A for investment held in bank accounts and Form HUD-52736-B for investment managed by brokers and dealers). The notice also clarifies investment options available under 24 CFR 1000.58 and special requirements applicable to reserve accounts.

#### 24 CFR 1000.216

If the Indian Housing Plan (IHP) is not initially sent by at least 75 days before the beginning of the tribal program year, the recipient will not be eligible for IHBG funds for that fiscal year.

Any funds not obligated because an IHP was not received before this deadline has passed shall be distributed by formula in the following year.

24 CFR 1000.514

The Annual Performance Report (APR) must be submitted within 90 days of the end of the recipient's program year. If a justified request is submitted by the recipient, the Area ONAP may extend the due date for submission of the APR.