



**Cherokee Nation
Tahlequah, OK**

**Native American Housing Block Grant,
American Recovery and Reinvestment Act**



Issue Date: March 12, 2013

Audit Report Number: 2013-FW-1001

TO: Wayne Sims, Administrator, Southern Plains Office of Native American Programs, 6IPI

//signed//

FROM: Gerald R. Kirkland, Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The Cherokee Nation Generally Administered Its Recovery Act Funds According to 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 Cherokee Nation's administration of its formula Native American Housing Block Grant awarded under the American Recovery and Reinvestment Act of 2009.

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 8L, requires that OIG post its publicly available reports on the OIG Web site. 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 817-978-9309.



March 12, 2013

The Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements

Highlights

Audit Report 2013-FW-1001

What We Audited and Why

We audited the Cherokee Nation in accordance with the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's goal to review funds provided under the American Recovery and Reinvestment Act of 2009. Our objective was to determine whether the Nation complied with Recovery Act requirements for procuring, expending, and reporting its formula Native American Housing Block Grant funds received under the Recovery Act.

What We Recommend

We recommend that HUD require the Nation to (1) implement policies and procedures that are consistent with HUD requirements when obligating funds to subrecipients, (2) support that a vehicle was used as required or repay \$16,902 to the U.S. Department of the Treasury from non-Federal tribal funds and (3) ensure that its staff and management fully comply with its procedures for completing trip log reports.

What We Found

The Nation generally administered its \$11.8 million grant according to Recovery Act requirements. However, it did not obligate \$215,000 of the grant award by the obligation date because Nation officials did not completely understand the obligation requirements. As a result, it incorrectly certified that it had obligated its funds. Additionally, the Nation did not keep adequate trip log reports to support that it used 8 of 17 vehicles as required. This condition occurred because staff and management did not comply with the Nation's policies and procedures. As a result, management could not support that \$16,902 spent on one vehicle was an eligible cost.

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BACKGROUND AND OBJECTIVE

Under the American Recovery and Reinvestment Act of 2009, the U.S. Department of Housing and Urban Development (HUD) awarded \$255 million in formula Native American Housing Block Grants. These grants were authorized under Title I of the Native American Housing Assistance and Self-Determination Act of 1996.

HUD awarded \$11.8 million to the Cherokee Nation, the second largest recipient of these Recovery Act funds, on March 16, 2009. The Nation's jurisdiction is comprised of 14 counties in northeast Oklahoma covering about 7,000 square miles. HUD provided the Recovery Act funds as a supplement to the 2008 Indian Housing Block Grant allocation, which required the Nation to amend its 2008 Indian housing plan.

The Nation used its Recovery Act funding to rehabilitate and replace homes for low-income families, modernize its low-rent units, and purchase vehicles used for those activities. Further, it entered into an agreement with the Housing Authority of the Delaware Tribe of Oklahoma to use \$215,000, about 2 percent of the \$11.8 million awarded to the Nation, to modernize the Tribe's low-rent units.

HUD required the Nation to obligate all of the funds by April 21, 2010, 1 year after the funds were available. The Nation had to expend at least 50 percent of the funds by April 21, 2011 (within 2 years) and 100 percent of the funds by April 21, 2012 (within 3 years).

Our objective was to determine whether the Nation complied with Recovery Act requirements for procuring, expending, and reporting its formula Native American Housing Block Grant funds received under the Recovery Act.

RESULTS OF AUDIT

Finding: The Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements

The Nation generally administered its Recovery Act formula grant according to applicable rules and regulations. However, it did not obligate \$215,000, about 2 percent of the \$11.8 million awarded to the Nation, by the obligation date and did not keep adequate mileage records to support that it used vehicles for eligible activities. This condition occurred because the Nation's staff and management did not fully understand HUD requirements and fully comply with its vehicle use procedures. Accordingly, the Nation incorrectly certified that it had obligated all of its funds and could not fully support \$16,902 spent on 1 of 17 vehicles purchased with Recovery Act funds.

The Nation Did Not Obligate \$215,000 by the Obligation Deadline

The Housing Authority of the Delaware Tribe, the only subrecipient, did not obligate \$215,000 that it received in Recovery Act funding from the Nation by the obligation date of April 21, 2010. The Nation entered into an agreement with the Tribe to use the \$215,000 on the Tribe's own project. Nation officials incorrectly used the agreement to support the Nation's certification that it had obligated its Recovery Act funds. HUD's Notice PIH 2000-26 (TDHEs)¹ specifically stated that an obligation did not exist for a subrecipient when the agreement was signed. Rather, the obligation was created when the subrecipient began work on an eligible activity. The Nation's management apparently did not understand this HUD requirement. However, the Nation did recognize that the Tribe would not be able to spend the funds by the deadline. The Nation recaptured the Recovery Act funds and spent them by the required date on eligible activities.

Since the audit, Nation officials have approved a formal subrecipient monitoring policy, which identifies requirements for subrecipients to comply with grant requirements. The Nation plans to provide a copy of HUD Notice PIH 2000-26 to all programs that administer HUD funds that it sub-grants to other organizations.²

¹ PIH is an acronym for Public and Indian Housing. TDHEs are tribally designated housing entities.

² We did not review the new policy, as the Nation had not implemented it during the audit.

The Nation Did Not Fully Support That It Used One Vehicle for Eligible Activities

Under 24 Code of Federal Regulations 85.32, HUD required the Nation to use vehicles purchased with Recovery Act funds for its Native American Block Grant program. When no longer needed for its program, the Nation was required to use the vehicles for activities currently or previously supported by a Federal agency, with first priority to HUD programs. The Nation developed a trip log report that showed the programs that benefited from the mileage. When completed correctly, the reports showed whether the drivers used the vehicles for eligible activities. Contrary to the Nation's procedures for tracking mileage, management did not ensure that its trip log reports supported that the Nation used vehicles as required. For 8 of the 17 vehicles purchased with Recovery Act funds, staff did not report for which program activities vehicle mileage was incurred. The program activity information was missing on 27 (48 percent) of 56 trip log reports reviewed. As a result, the trip log reports did not support that staff used the vehicles for eligible activities.

Management provided additional information to support that the Nation used seven of the eight vehicles for HUD grant programs as required. However, the information provided by management showed that the employees who drove the remaining vehicle³ worked for both Federal and non-Federal programs. As a result, the \$16,902 cost of the vehicle is unsupported.

For consistent tracking of vehicle use, the Nation's policies and procedures required the driver's supervisor, before approving and signing each report, to ensure that staff used the vehicle according to the department's objectives. Further, the Nation's General Services Administration custodian⁴ was required to ensure that the driver completed all sections of the report. However, the responsible staff members did not fully comply with the written procedures. As a result, 43 (77 percent) of 56 trip log reports reviewed were missing information. The incomplete reports could make it difficult for the Nation's management to oversee vehicle use. For example, no information on the time, activity, location, or mileage would make it difficult for management to summarize vehicle use for planning future activities and estimating needed vehicle purchases.

As a result of the audit, the Nation plans to discuss and emphasize the importance of following its procedures for completing trip log reports during each of its annual financial trainings. Further, it plans to review a sample of trip logs on a quarterly basis to ensure compliance with Federal regulations. The quarterly sample will include trip logs for vehicles purchased with HUD funds.⁵

³ A 2010 Ford Fusion, tag number 35347C

⁴ The custodian is responsible for coordinating activities for obtaining and maintaining a Nation vehicle.

⁵ We did not audit the Nation's new procedures as they had not been implemented during the audit period.

Conclusion

The Nation generally managed its Recovery Act funds as required. However, it incorrectly certified to HUD that it obligated its \$11.8 million in funds by the obligation date when its subrecipient had not obligated \$215,000. The Nation needs to ensure that applicable staff and management understand the obligation requirements for subrecipients. Additionally, the Nation's staff did not follow its written procedures regarding documenting the use of 8 of the 17 vehicles purchased with Recovery Act funds. The Nation provided additional documentation supporting the eligible use of seven vehicles and provided documentation showing that the remaining vehicle, purchased for \$16,902, could have been used for ineligible uses.

Recommendation

We recommend that the Administrator of the Southern Plains Office of Native American Programs require the Nation to

- 1A. Implement policies and procedures to ensure that applicable staff and management are aware of the requirements of HUD Notice PIH 2000-26.
- 1B. Support or repay the \$16,902 that it used to purchase one vehicle.
- 1C. Ensure that staff fully complies with the Nation's procedures for completing trip log reports.

SCOPE AND METHODOLOGY

We performed our fieldwork from September 17 through December 4, 2012, at the Nation's office located in Tahlequah, OK, and at our office located in Oklahoma City, OK. Our audit scope was from March 16, 2009, through September 30, 2012. To achieve our audit objective, we relied in part on computer-processed data from the Nation's accounting system. We used the computer-processed data to select the procurement and expenditure samples for our audit. Although we did not perform a detailed assessment of the data reliability, we performed a minimal level of testing and found the data to be adequate for our purposes.

To accomplish our objective, we performed the following related to the Nation's Recovery Act formula grant funds:

- Reviewed
 - Relevant background information;
 - Recovery Act requirements;
 - The Nation's internal monitoring report, single audit reports, and comprehensive annual financial report for the fiscal year ending September 30, 2011;
 - HUD's September 15, 2011, report from its monitoring of the Nation's Indian Housing Block Grant, Native American Housing Block Grant, and Indian Community Development Block Grant;
 - The Nation's grant agreement, subrecipient agreement, policies and procedures, accounting records, and trip log reports; and
 - The Nation's Recovery Act Web site report for the quarter ending June 30, 2012.
- Interviewed the Nation's staff and officials from HUD's Southern Plains Office of Native American Programs.
- Selected a nonstatistical sample⁶ of procurements from the Nation's purchase order list. Total procurements reviewed were \$781,330, which was 8 percent of the \$9.7 million purchase orders. We initially assessed a low risk for procurements and considered high dollar amounts as high risk. Thus, we selected the largest purchase orders for 3 of 86 vendors that had the largest dollar amount of business with the Cherokee Nation for the Recovery Act formula grant. We also reviewed 100 percent of the vehicle procurements that used Recovery Act formula grant funds. We used a nonstatistical sample because we evaluated whether the Nation kept documentation that supported its procurements.
- Selected a nonstatistical sample of expenditures. The expenditures selected totaled \$502,826, which was 4 percent of the \$12 million total expenditures.⁷ The sample consisted of the purchase orders for 11 (13 percent) of 86 vendors, which were the largest

⁶ We did not project the results of any of the sample reviews to the population.

⁷ The Nation spent more than \$12 million, which included the more than \$11.8 million grant and \$151,766 in program income.

purchase orders for each vendor selected. We initially assessed a low risk for expenditures. We used the purchase order list obtained from the Nation to select the expenditure sample because it included names of vendors compared to the expenditure list, which did not show all vendor names. Also, the expenditure list included indirect costs and salaries, which we did not consider high risks. We reviewed the vendor names that appeared questionable, such as names that included “consulting” in them and those that included the names of individuals in the company name. We used a nonstatistical sample because we evaluated whether the Nation maintained documentation supporting its expenditures.

- Selected and reviewed 56 (23 percent) of 242 trip log reports for 17 vehicles purchased with Recovery Act funds. We selected this nonstatistical sample to evaluate whether the Nation kept adequate documentation supporting the eligible use of vehicles.
- Selected and performed site visits to seven single-family homes rehabilitated or replaced using Recovery Act funds. We also reviewed the Nation’s participant files on these households. We made a targeted selection, which was a nonstatistical sample, of the Nation’s list of single-family homes that the Nation either rehabilitated or replaced. Since the Nation included 14 counties, we selected homes located in the counties near Tahlequah (Nation headquarters), which were Adair, Cherokee, and Muskogee. We determined that the higher dollar amounts for the rehabilitation or replacement costs were the high-risk factors. We also considered homes in which either the elderly or disabled dwelled as a contributing high-risk factor due to the HUD housing requirements for those individuals. As a result, we made the selection based on the highest dollar amounts of funds spent on the homes in which elderly or disabled families lived. We also considered in the selection whether the homeowners were available for our site visits. The sample consisted of \$395,285 (7 percent) of the total population of more than \$5.4 million spent on the rehabilitation or replacement of single-family homes. During the site visits to the single-family homes, we performed site visits to four low-income housing apartment complexes that the Nation modernized near the homes. We selected the apartment complexes for which the Nation used Recovery Act funds and which were in close proximity to the seven single-family homes. The sample consisted of \$1,261,595 (27 percent) of the total population of \$4,627,886. The modernization included installing windows and doors at 16 of 24 sites, replacing the roofs at 11 sites, adding attic insulation at 11 sites, and replacing kitchen cabinets, vanities, appliances, carpet, and hot water tanks at 10 sites.

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

INTERNAL CONTROLS

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:

- Policies and procedures in place to reasonably ensure that the Nation's program met its objectives.
- Policies and procedures in place to reasonably ensure that the Nation and its subrecipients complied with laws and regulations.
- Policies and procedures in place to reasonably ensure that the Nation's resource use was consistent with laws and regulations and that its resources were safeguarded against waste, loss, and misuse.
- Policies and procedures in place to reasonably ensure that the Nation properly reported its program progress in a timely manner.

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.

We evaluated internal controls related to the audit objective in accordance with generally accepted government auditing standards. We did not design our evaluation of internal controls to provide assurance regarding the effectiveness of the internal control structure as a whole. Accordingly, we do not express an opinion on the effectiveness of the Nation's internal control.

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1B.	\$16,902

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments



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March 01, 2013

Mr. William Nixon
Assistant Regional Inspector General
U. S. Department of Housing and Urban Development
Office of Inspector General
Office of Audit (Region 6)
819 Taylor Street, Suite 13A09
Ft. Worth, TX 76102

Subject: Information Requested in relation to finding that the Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements.

Dear Mr. Nixon:

In response to the request for information in relation to Finding that Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements and the following is the information requested:

1A.) Implement Policies and Procedures consistent with HUD requirements when obligating funds to sub-recipients:

Comment 1

RESPONSE: A formal sub-recipient monitoring policy has now been approved which identifies the requirement for sub-recipients to comply with grant requirements. Regarding specifically HUD funding, all Cherokee Nation programs administering HUD funds and sub-granting any part of those fund to another organization will be provided a copy of HUD Notice PIH 2000-26.

1B.) Support that a vehicle was used as required or repay \$16,902 to the Indian Housing Block Grant from non-Federal Tribal Funds:

Comment 2

RESPONSE: Cherokee Nation will repay a portion of the purchase price (a portion of the \$16,902) of the 2010 Ford Fusion vehicle with tag number 353-47C to the Indian Housing Block Grant from non-Federal Tribal Funds. Support will be provided to substantiate the portion of that vehicle which remains as a direct cost to the Indian Housing Block Grant, and the portion that will no longer be allocated to the Indian Housing Block Grant will be refunded to the U.S. Treasury.

1C.) Ensure that staff and management fully comply with procedures for completing trip log reports:

Comment 3

RESPONSE: To fully comply with the procedures for completing trip log reports, during annual Cherokee Nation financial training, the necessity for this compliance will be discussed and emphasized. In addition, on a quarterly basis, a sample of Trip Logs (with that sample containing at least some portion of vehicles used by HUD Programs) will be reviewed to ensure compliance.

Thank you for allowing Cherokee Nation to respond to this finding.

Should you have any additional questions or need any further assistance, please contact Lacey Horn, Treasurer 918-207-3902 or by email at lacey-horn@cherokee.org.

Sincerely,

[\\signed\\](#).

Bill John Baker, Principal Chief

Cc: Lacey Horn, Treasurer
Jamie Cole, Controller
Diane S. Kelley, Executive Director, Career Services
Vickie Hanvey, Government Resources
Gary Cooper, Executive Director, Housing Authority
Ron Qualls, Executive Director, Community Services

OIG Evaluation of Auditee Comments

- Comment 1** We acknowledge that the Nation agreed that errors occurred, and stated that it had implemented a subrecipient monitoring policy to comply with the requirements of HUD Notice PIH 2000-26. We have included the information in the audit report.
- Comment 2** We agree that the Nation should repay from non-Federal funds any amount of the vehicle purchase price that it cannot support.
- Comment 3** We agree with the Nation's plans to take actions to remedy the conditions identified in the finding. We have included information on its training and monitoring plans in the audit report.