



**White Mountain Apache Housing Authority
Whiteriver, AZ**

Indian Housing Block Grant



Issue Date: July 8, 2014

Audit Report Number: 2014-LA- 1004

TO: Carolyn J. O'Neil
Administrator, Southwest Office of Native American Programs, 9EPI

//SIGNED//

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SUBJECT: The White Mountain Apache Housing Authority Did Not Always Comply With
Its Indian Housing Block Grant 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 White Mountain Apache Housing Authority's Indian Housing Block Grant funds.

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 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 213-534-2471.



July 8, 2014

The White Mountain Apache Housing Authority Did Not Always Comply With Its Indian Housing Block Grant Requirements

Highlights

Audit Report 2014-LA-1004

What We Audited and Why

We audited the White Mountain Apache Housing Authority's Indian Housing Block Grant (IHBG). We conducted the audit primarily due to concerns raised by the U.S. Department of Housing and Urban Development's (HUD) Southwest Office of Native American Programs regarding the Authority's financial management practices. The objective of the audit was to determine whether the Authority used its IHBG funds in accordance with HUD requirements.

What We Recommend

We recommend that the Administrator of the Southwest Office of Native American Programs require the Authority to (1) reimburse its grant \$2.3 million (findings 1 and 2) for duplicate, ineligible, and unsupported costs; (2) support the miscategorization of \$8.2 million in nonprogram funds or reclassify it to program income; (3) reclassify \$1 million in nonprogram income funds to program income funds; and (4) develop and implement policies and procedures to ensure IHBG requirements are met. We also recommend that the Administrator consider receivership until it has demonstrated sufficient capacity and exhibits a strong IHBG control environment.

What We Found

The Authority failed to use its IHBG funds in accordance with HUD requirements. It (1) charged its IHBG more than \$2.2 million for ineligible charges and \$48,065 for unsupported charges; (2) did not adequately procure vendors, ensure that it safeguarded grant assets, and support the categorization of \$8.2 million as nonprogram income; and (3) incorrectly categorized \$1 million in program income as nonprogram income. These problems occurred primarily because the Authority's procedures and financial controls for administering its IHBG were not adequate to ensure that charges complied with HUD's requirements and its staff was not sufficiently familiar with grant requirements.

Although it had a waiting list of more than 2,000 families, the Authority housed ineligible tenants whose incomes exceeded HUD limits. This condition occurred because the Authority disregarded its policies and HUD regulations. As a result, it charged an estimated \$84,900 (finding 2) to house eight ineligible families. Additionally, it charged an estimated \$11,578 to house two families whose income eligibility was not supported.

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BACKGROUND AND OBJECTIVE

The White Mountain Apache Housing Authority is the White Mountain Apache Tribe's tribally designated housing authority, headquartered in Whiteriver, AZ. The White Mountain Apache Reservation population endures high unemployment rates, remoteness, and a lack of available affordable housing. According to the Authority, approximately 2,000 families were on its waiting list for affordable housing.

The Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA) reorganized the system of housing assistance provided to Native Americans through the U.S. Department of Housing and Urban Development (HUD) by eliminating several separate programs of assistance and replacing them with a block grant program. The Indian Housing Block Grant (IHBG), a formula-based grant program, is authorized for Indian tribes under NAHASDA. IHBG funds provide a formula grant for housing and housing-related assistance directly to eligible tribes or through their tribally designated housing entities. For grant year 2011, HUD awarded the Authority more than \$6.8 million in IHBG funds¹ and more than \$7.6 million the following year. According to the Authority, it receives the majority of the funds used for housing projects from HUD.

Due to the Authority's recent history of late submission of its audited financial statements, HUD and the Authority agreed to a voluntary compliance agreement² whereby HUD began reviewing all Line of Credit Control System (LOCCS) requests before the disbursement of additional funds. At the time of our audit, the Authority was required to send detailed supporting documentation with each payment request to the Southwest Office of Native American Programs.

The tribal council appoints the Authority's board of commissioners to 4-year terms. Over the past several years, the Authority has had several changes in administration. The Authority's administration repeatedly indicated that it was trying to correct prior administration errors. In June 2014, the newly elected Tribal Council appointed a new Authority board of commissioners.

The objective of the audit was to determine whether the Authority used its IHBG funds in accordance with grant requirements.

¹ In 2011, HUD combined the IHBGs for each grantee into one grant for tracking purposes. For 2012 and forward, all grant years are "55." Therefore, although the Authority's IHBG activity covers several grant years, we refer to all years as "the grant."

² Effective November 2012 and amended in July 2013, the parties also agreed that audit-related submission deadlines would not be extended.

RESULTS OF AUDIT

Finding 1: The Authority Failed To Use Indian Housing Block Grant Funds in Accordance With HUD Requirements

The Authority failed to use its IHBG funds in accordance with HUD requirements. It (1) charged its IHBG more than \$2.2 million for duplicate, ineligible, and unsupported charges; (2) did not adequately procure vendors; (3) did not ensure that it safeguarded grant assets; (4) did not support the categorization of \$8.2 million as nonprogram income; and (5) incorrectly categorized \$1 million in restricted program income. These problems occurred primarily because the Authority's financial controls and procedures for administering its IHBG were not adequate to ensure that charges complied with HUD's requirements and its staff was not sufficiently familiar with grant requirements. As a result, the Authority placed grant assets at an increased risk for misappropriation and allowed for a poor control environment, and more than \$2.2 million in misspent funds was not available to maximize the Authority's IHBG program. Additionally, program income was not restricted.

The Authority Charged Its IHBG for Duplicate, Ineligible, and Unsupported Costs

The Authority charged its IHBG more than \$2.2 million for questionable costs, including

- Duplicate costs,
- Ineligible nonexpense items,
- Costs not related to its IHBG,
- Inappropriate entertainment costs,
- Specifically disallowed costs, and
- Costs that it did not adequately support.

The Authority Charged for Duplicate Costs

The Authority did not implement sufficient controls to ensure that it requested reimbursement for each cost only once. During our audit period, the Authority charged the grant more than \$1.5 million for duplicate transactions. Although the Authority incurred the expenses only once, it charged the grant more than once for the costs. Some charges were included on multiple vouchers, and in other instances, the Authority included duplicate charges in the same voucher to

different grant segments.³ For example, the grant reimbursed the Authority for a contractor payment of \$94,801 on two separate vouchers, a year apart.

The table below summarizes the duplicate charges identified.

Costs charged to the grant more than once (identified on previous vouchers)	
Voucher	Amount
079-113566	\$ 1,326,379
079-115911	182,223
Total	\$ 1,508,602

These duplicate charges were primarily caused because the Authority’s mostly manual draw process did not specify which costs were being reimbursed or whether the Authority included the cost in previous vouchers. Rather, it itemized costs on a perpetual basis for each grant segment, subtracted previous draw totals, and submitted the remaining amount for reimbursement without verifying whether it already received grant reimbursement for the specific costs. The draw excerpt below demonstrates how the Authority determined amounts it drew down from its IHBG.

Grant segment 2009 5⁴	
Total charges allocated to grant segment 2009 5	\$ 315,000
Less previous draw	226,001
Remaining amount that can be drawn down	\$ 88,999

Generally, the information used for draws did not identify the costs related to each voucher, making managerial, audit, or HUD review challenging. After manually eliminating the duplicate transactions among the vouchers, we found three additional transactions reimbursed through the same voucher under a different grant segment.⁵ The Authority could not have obtained the grant segment information directly from its accounting system for both segments, indicating manual manipulation of the information.

The Authority’s manual draw process was inefficient, allowed for manipulation, and contributed to a high-risk control environment in which errors could easily occur. In one voucher alone, we identified more than 600 items, containing activity from 2010, 2011, and 2012, that the grant reimbursed more than once.

³ The Authority attached grant costs to segments. The segments related to that year’s Indian housing plan goals. For example, segment 2009 5 related to crime and prevention charges for the 2009 grant.

⁴ Excerpt from LOCCS voucher 079-113566.

⁵ Segment 2010 5.

The Authority Inappropriately Charged Nonexpense Items

The Authority inappropriately charged items to the grant that did not result in a cost to the Authority.

- The Authority inappropriately charged for payroll tax withholding payments and payments from individual tenant savings accounts that did not result in a cost to the Authority. The payroll tax transactions were withheld from wages and submitted to the appropriate authorities and did not result in a cost to the Authority.
- The Authority paid \$71 for lodging already paid for by the individual and then requested grant reimbursement for the charge. Therefore, the lodging did not result in a grant cost.
- The Authority recorded \$77,581 as receivables that were due from Authority affiliates. Because it recorded the transactions as a receivable, it expected reimbursement from its affiliates. However, it requested reimbursement from the grant as if the transactions were an expense. Charging for these receivables would result in double reimbursement, once by the grant and once by the Authority affiliates.
- The Authority charged the grant \$3,122 for a seminar and building materials it did not receive. Because it did not receive the goods and services, the Authority should not have incurred the cost.

The Authority's lack of distinction between costs and noncost items was indicative of the overall lack of financial oversight and staff capacity to administer the grant funds. The nonexpense items totaling \$92,693, summarized below, were not eligible⁶ grant charges.

Nonexpense items	
Payroll tax withholdings	\$ 8,751
Tenant savings account payments	3,168
Lodging previously paid	71
Receivables (due from affiliate)	77,581
Items not received	3,122
Total nonexpense items	\$ 92,693

The Authority Charged for Items Not Related to Its IHBG

The Authority inappropriately used IHBG funds for legal fees of \$41,179 that were not program expenses. In some cases, the supporting documentation clearly

⁶ See appendix C, 2 CFR (Code of Federal Regulations) Part 225, appendix A C(1)(b).

identified the charges as “Non-IHBG.” In other cases, the Authority specifically broke out charges for legal activity related to nonhousing activity. Additionally, the Authority paid costs of \$3,910 that were allocable to other grants with IHBG funds. In total, non-IHBG charges of \$45,089 were not an allowable cost and were improperly paid from IHBG funds.⁷

The Authority Charged for Inappropriate Entertainment Costs

The Authority charged the grant for unallowable entertainment expenses. Boys and Girls Club field trips accounted for the majority of the expenses. The field trips for members and employees included meals, hotels, event tickets, and related expenses such as parking or travel. The events often required travel to Phoenix and included movies, professional baseball and basketball games, a circus, and a haunted maze. Meals alone for one spring break trip totaled \$2,814. The Authority inappropriately charged \$26,495 for unallowable entertainment expenses.⁸

The Authority Charged for Specifically Disallowed Costs

The Authority charged the grant \$6,587 for several items specifically prohibited by Federal regulations. It used grant funds for prohibited items including goods for the personal use of employees.⁹ For example, in October 2012, the Authority purchased grocery store gift certificates for its staff totaling \$5,052 and then requested grant reimbursement for the cost.

The Authority Did Not Adequately Support Charges

The Authority did not support charges of \$44,403 with adequate documentation. A majority of the charges were for seminars such as “How to Recruit, Interview & Hire People” and “Making Change Work.” However, the Authority’s documentation did not support the number of people attended, whether those who attended were Authority-assisted housing stock residents, the purpose of the seminar and its relation to the program, or whether the cost was reasonable. The Authority also failed to maintain adequate support such as receipts, invoices, etc., for other unsupported charges, including travel and miscellaneous items, to ensure cost eligibility.

The Authority also did not ensure that travel costs complied with its policies. Its policies required that the Authority use its vehicles for travel when available.¹⁰ However, on several occasions, the Authority allowed employees to use private vehicles for travel and obtain mileage reimbursement without documenting a

⁷ See appendix C, 2 CFR Part 225, appendix A C(1)(b).

⁸ See appendix C, 2 CFR Part 225, appendix B 14.

⁹ See Appendix C, 2 CFR Part 225, appendix B 20.

¹⁰ See appendix C, Authority Policies and Procedures, 2000 version, section 15 2C; Authority Policies and Procedures, 2009 version, section 15 2C; and Authority Policies and Procedures, 2012 version, Travel Policy G2.

valid policy exception. It did not support \$3,662 in out of policy mileage charges.¹¹

The Authority Inadequately Procured Vendors

The Authority did not consistently follow HUD’s procurement regulations.¹² For example, although it was not eligible for noncompetitive procurement, the Authority did not competitively procure its health insurance broker, as required. Additionally, the Authority did not perform a cost or price analysis for the insurance. Thus, HUD had no assurance that the insurance cost was reasonable. Further, the Authority could not provide documentation showing the history of the procurement.

Because of the Authority’s disregard for procurement requirements, it inappropriately charged \$569,037 to the grant¹³ for vendors not procured in compliance with HUD regulations. The table below summarizes the deficiencies identified.

Procurement deficiencies					
Type of vendor	Insufficient records ¹⁴	Lacked full and open competition ¹⁵	No cost or price analysis ¹⁶	Incorrect method of procurement ¹⁷	Amount
Accountant		X	X	X	\$ 1,962
Automobiles				X	111,788
Information technology	X	X	X	X	29,982
Insurance	X	X	X	X	321,802
Legal	X	X	X	X	30,425
Propane	X	X	X	X	73,078
Total					\$ 569,037

Further, contrary to HUD procurement regulations,¹⁸ the Authority’s Boys and Girls Club inappropriately sought and received contributions totaling \$1,200 from the Authority’s vendors. Additionally, Authority vendors repaired the Club’s computer room and helped paint the interior of the Club’s building at no cost.

¹¹ See appendix C, 24 CFR Part 225, appendix A C(1)(e).

¹² See appendix C, 24 CFR 85.36.

¹³ See appendix C, 24 CFR Part 225, appendix A C(1)(d).

¹⁴ See appendix C, 24 CFR 85.36(b)(9).

¹⁵ See appendix C, 24 CFR 85.36(c)(1).

¹⁶ See appendix C, 24 CFR 85.36(d)(4)(ii) and (f)(1).

¹⁷ See appendix C, 24 CFR 85.36(d).

¹⁸ See appendix C, 24 CFR 85.36(b)(3)(iv).

The Authority's employees operated the Boys and Girls Club. Therefore, regulations prohibit solicitation of anything of monetary value from vendors.

Authority Assets Were Not Always Safeguarded

The Authority's internal controls did not sufficiently safeguard grant assets and did not ensure that grant assets were used only for their intended purposes, as the grant requires.¹⁹ The Authority assigned various departments one or more of its 62 vehicles to use at will without requiring mileage logs or other forms of monitoring. Following our questioning regarding mileage logs, the Authority purchased several mileage logs. However, it did not ensure consistent application and use of mileage logs. Because the majority of the Authority's funding came from IHBGs, it was likely that grant funds paid for the vehicles, although the Authority could not be sure. The lack of monitoring increased the risk of inappropriate vehicle use. Further, several vehicles' titles were held in a name that included the word "Tribe" or "Tb." However, "Tribe" is not part of the Authority's legal name, and the wording of the titles allowed for misinterpretation or manipulation to indicate that the vehicles may have been the property of the tribe. The tribe had financial difficulty in recent years, including the inability to pay its suppliers. The status of the vehicle titles subjected the vehicles to misappropriation by the tribe.

The Authority Did Not Support the Categorization of Nonprogram Income

The Authority also did not support categorizing proceeds of pre-NAHASDA housing unit sales as nonprogram income. Although HUD requires that a system be in place to identify the source and application of grant funds,²⁰ the Authority lacked the ability to determine whether conveyed units received IHBG funding. The system used to identify per-unit funding described by Authority officials was not adequate to ensure that it tracked all IHBG activity. Additionally, we identified two instances in which the Authority performed extensive rehabilitation in 2011 on Mutual Help (pre-NAHASDA) units,²¹ but the Authority did not identify the source of funding. Because the majority of the Authority's funding was from IHBG and the tenants did not pay for the rehabilitation, the Authority likely used IHBG funds on the pre-NAHASDA units.

The Authority did not support that the conveyed units did not receive IHBG funding or that it had an adequate system in place to identify the funding, as

¹⁹ See appendix C, 24 CFR 85.20(b)(3).

²⁰ See appendix C, 24 CFR 85.20(b)(2).

²¹ Tenant account NM-039-0014-01 (conveyed) and NM-037-0055-04

required.²² Therefore, it did not support its recording of proceeds of pre-NAHASDA unit sales totaling more than \$8.2 million as nonprogram income.

Additionally, the Authority inappropriately classified \$64,935 in proceeds of sale on NAHASDA units, at least partially funded by IHBG, as 100 percent nonprogram income. Because the IHBG funded a portion of the units, HUD requires the Authority to record a proportional amount as program income.²³

The Authority also inappropriately classified excess developer fees as nonprogram income. Grant rules²⁴ allow the Authority to record developer fees approved by the State as nonprogram income. However, the Authority inappropriately classified more than \$1 million of excess developer fees as nonprogram income that exceeded the State approved amounts.

Conclusion

The Authority failed to use its IHBG funds in accordance with HUD requirements. These problems occurred primarily because the Authority's financial controls and procedures for administering its IHBG were not adequate to ensure that charges complied with HUD's requirements and its staff was not sufficiently familiar with grant requirements. Without proper managerial review of financial activity, grant funds were at risk. Based on the above, it was apparent the Authority did not have sufficient capacity, adequately trained staff, and controls to administer its IHBG funds. As a result, it placed grant assets at an increased risk for misappropriation and allowed for a poor control environment, and more than \$2.2 million in misspent and unsupported funds was not available to maximize the IHBG program. Additionally, program income was not restricted.

Recommendations

We recommend that the Administrator of the Southwest Office of Native American Programs require the Authority to

- 1A. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$1,508,602 for ineligible duplicate charges.
- 1B. Develop and maintain a process for grant reimbursement that readily identifies the specific charges represented by the total requested and ensures that charges are reimbursed only once.

²² See appendix C, Public and Indian Housing Notice 2002-12.

²³ See appendix C, 24 CFR 1000.62(a) (before December 3, 2012, and December 3, 2012, changes).

²⁴ See appendix C, NAHASDA section 104(a)(4).

- 1C. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$92,693 for nonexpense grant charges.
- 1D. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$45,089 for nonallocable non-IHBG grant charges.
- 1E. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$26,495 for unallowable entertainment.
- 1F. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$6,587 for unallowable charges that did not meet Federal cost principles.
- 1G. Provide support or reimburse its IHBG from non-Federal funds \$44,403 for inadequately documented charges.
- 1H. Provide support or reimburse its IHBG from non-Federal funds \$3,662 for out of policy mileage reimbursements.
- 1I. Reimburse its IHBG from non-Federal funds or reduce undisbursed grant funds by \$569,037 for improperly procured charges.
- 1J. Ensure that all Authority-owned automobiles have titles with the Authority's legal name. When the title is deficient, the Authority should change the automobile titles to the grantee's legal name and implement policies and procedures to ensure that future automobiles purchased are registered and titled in the grantee's legal name.
- 1K. Support that IHBG funds were not used for the units conveyed or reclassify \$8,280,221 (\$8,215,286 + \$64,935) in proceeds of sale funds, when an IHBG supplement cannot be determined, from nonprogram income funds to program income funds subject to HUD restrictions.
- 1L. Implement policies and procedures that would allow the grantee to identify IHBG subsidies for each of its projects by unit at any time.
- 1M. Reclassify \$1,065,780 in excess developer fees from nonprogram income funds to program income funds subject to HUD restrictions.
- 1N. Train its employees regarding the grantee's policies and procedures, train its managerial and financial staff on HUD rules and regulations, and ensure that employees have sufficient access to HUD's rules and regulations.
- 1O. Develop and implement policies and procedures to ensure that its staff members have sufficient minimal education or experience relevant to their position to adequately manage the Authority's IHBG financial operations.

- 1P. Develop and implement policies and procedures to ensure adequate managerial and board review of IHBG financial operations.
- 1Q. Develop and implement policies and procedures to ensure periodic IHBG compliance evaluations.
- 1R. Continue submitting the LOCCS Payment Voucher, form HUD-50080-IHBG, with supporting documentation, and obtain the Southwest Office of Native American Programs' approval before requesting funds from LOCCS until the Authority implements the recommendations in this audit report and the Authority has demonstrated that it has sufficient capacity and financial controls in place.

In addition, we recommend that the Administrator of the Southwest Office of Native American Programs

- 1S. Consider placing the Authority under receivership until it has demonstrated sufficient capacity and exhibits a strong IHBG control environment.

Finding 2: The Authority Inappropriately Housed Ineligible Tenants

Although the Authority had a waiting list of more than 2,000 families, it housed ineligible tenants whose incomes exceeded HUD limits. In some instances, this condition occurred at the request of tribal leadership. The deficiencies occurred because the Authority disregarded its policies and HUD regulations. As a result, it charged an estimated \$84,900 for ineligible housing assistance to inappropriately house eight ineligible families. Additionally, it charged an estimated \$11,578 to house two families whose income eligibility was not supported.

The Authority Inappropriately Provided Assisted Housing to Ineligible Families

At the request of tribal leadership, the Authority housed a tribal councilperson as a benefit of the position. Tribal leadership requested that a councilperson obtain housing in an Authority-assisted unit during the elected term. However, the councilperson's family income exceeded HUD income eligibility limits.²⁵ In another instance, also at the request of tribal leadership, a tribal employee received housing in an Authority-assisted unit. The tribal employee was heavily involved in tribal economic development. However, the tribal employee's family did not meet income restriction requirements²⁶ and owned a home in another city. Both families paid rent during their occupancy. Contrary to HUD requirements,²⁷ the Authority did not maintain support to show that either family's presence on the reservation was essential to the community or that the families' housing needs could have been satisfied without assistance.

In addition to the two families above, the Authority inappropriately provided assisted housing to six ineligible families. The ineligible families' income exceeded the allowable limits at the time of their lease. Two other tenant files reviewed did not contain income details to determine the families' eligibility. HUD rules regarding when a non-low-income Indian family may participate in the program state that a family that is purchasing housing under a lease purchase agreement and is low income at the time of lease signing is eligible without further conditions.²⁸ Therefore, a family that was not low income at lease signing was not eligible to receive assisted housing, including conveyance of the property. The Authority housed several ineligible families in home ownership units. Those families expected to own the property at some future date. However, the property conveyance would not be eligible because of the families' ineligibility during lease signing.

²⁵ See appendix C, 24 CFR 1000.104 (before December 3, 2012).

²⁶ See appendix C, 24 CFR 1000.104 (before December 3, 2012).

²⁷ See appendix C, 24 CFR 1000.106(b) and 24 CFR 1000.110(c) (before December 3, 2012).

²⁸ See appendix C, 24 CFR 1000.110(a) (before December 3, 2012, and December 3, 2012, changes).

For the two tribal-related families, six families whose income exceeded allowable limits, and the two families whose income eligibility was not supported, the Authority could not determine the IHBG funds used to provide the housing. Therefore, we were unable to determine the amount of ineligible IHBG funds it received. Instead, we identified the amount paid for rent as the ineligible or unsupported cost, accordingly. However, HUD should determine the actual IHBG subsidies received. We estimate that the Authority charged its IHBG \$84,900 for the eight ineligible families and \$11,578 to house the two families whose income eligibility was not supported. Additionally, when the Authority provided housing for the ineligible tenants, those units were unavailable to house eligible families on the waiting list.

Conclusion

The Authority disregarded its policies and HUD rules when it allowed families whose incomes exceeded the qualifying limits to obtain assisted housing. The deficiencies occurred because the Authority disregarded its policies and HUD regulations. Additionally, the Authority did not have controls in place such as scheduled periodic review of its assisted housing stock tenant list to ensure that it complied with its policies. It charged an estimated \$84,900²⁹ to its IHBG to house ineligible families and an additional \$11,578³⁰ to house families whose income eligibility it could not support.

Recommendations

We recommend that the Administrator of the Southwest Office of Native American Programs require the Authority to

- 2A. Reimburse its IHBG \$84,900 from non-Federal funds for the subsidies used to house ineligible tenants. HUD should determine the actual IHBG subsidies received for the affected properties and adjust the ineligible amount accordingly.
- 2B. Support the income eligibility for the two families identified in the report in accordance with program and HUD regulations or reimburse its IHBG \$11,578 from non-Federal funds for the subsidies used to house the tenants. HUD should determine the actual IHBG subsidy received for the affected properties and adjust the unsupported or ineligible amount accordingly.
- 2C. Terminate the participation of all ineligible tenants to allow for eligible participants on the waiting list to obtain housing and ensure that the

²⁹ HUD should determine the actual IHBG funds used to house the families and adjust the ineligible amount accordingly.

³⁰ HUD should determine the actual IHBG funds used to house the families and adjust the unsupported amount accordingly.

Authority does not convey properties to the eight tenants identified as ineligible.

- 2D. Develop and implement policies and procedures to ensure periodic review of tenant eligibility and compliance with HUD requirements.

SCOPE AND METHODOLOGY

We conducted the audit primarily due to concerns raised by HUD's Southwest Office of Native American Programs regarding the Authority's financial management practices. We conducted our onsite audit work from September 2013 to April 2014 at the Authority's offices in Whiteriver, AZ, and our office in Phoenix, AZ. The audit covered the period July 2011 through June 2013.

During our audit period, the Authority drew down more than \$12.5 million of its IHBG funds through 12 LOCCS draws. We reviewed a sample³¹ of 7 of the 12 draws totaling more than \$10.7 million, evaluating the draws for grant eligibility. We selected the sample draws based on the total amount requested and the date of the request as it related to the change in the Authority's administration.

We also selected a sample of 16 tenant files from a universe of 1,773 assisted properties to review for family income eligibility. Sample selection criteria included tenant list indicators of (1) essential to the community status, (2) nonqualified status, and (3) high incomes relative to other tenants. Additionally, we selected the sample for review partially based on tenants that were employees, tribal councilmembers, and board members.

To accomplish our objective, we

- Reviewed relevant HUD regulations and guidance;
- Reviewed the Authority's policies and procedures, available board minutes, Indian housing plans, and IHBG agreements;
- Analyzed the Authority's financial records;
- Interviewed Authority and HUD staff;
- Reviewed procurement documentation for material vendors relative to the sampled draws described above;
- Reviewed various files provided onsite, including vendor, tenant, project, bank, credit card, development, maintenance, and asset files; and
- Reviewed the Authority's vehicle inventory.

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

³¹ The results from the sample selections and review apply only to the items selected and are not intended to be projected to the universe or population.

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 objectives:

- Controls to ensure that IHBG reimbursements adequately detail specific transactions for reimbursement.
- Controls to ensure that grant reimbursements comply with HUD requirements.
- Controls to ensure that grant assets are adequately safeguarded.
- Controls to ensure that Authority employees are adequately trained and have the capacity to administer the grant's activities.

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 Authority lacked adequate financial and administrative controls to ensure that grant expenditures complied with grant requirements and it adequately safeguarded grant assets (see finding 1).
- The Authority did not have adequate controls in place to ensure that its staff was adequately qualified and trained regarding HUD rules and regulations or had the capacity to administer grant activities properly (see finding 1).
- The Authority did not have adequate controls in place to ensure that only eligible families were assisted with grant funds (see finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS TO BE PUT TO BETTER USE

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	\$1,508,602		
1C	92,693		
1D	45,089		
1E	26,495		
1F	6,587		
1G		\$44,403	
1H		3,662	
1I	569,037		
1K		8,280,221	
1M			\$1,065,780
2A	84,900		
2B		11,578	
Total	<u>\$2,333,403</u>	<u>\$8,339,864</u>	<u>\$1,065,780</u>

- 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 totaling \$2,333,403 were for expenditures charged to the Authority's IHBG that were for duplicate charges, inadequate procurement, items that did not result in a cost, items that were not related to its IHBG activity, inappropriate entertainment costs, items that were specifically disallowed, items that were not adequately documented, and items that did not comply with its policies.
- 2/ 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. In this instance, the unsupported cost is the \$8,339,864 for miscellaneous, mileage, rent charges, and categorization of proceeds of sale as nonprogram income that the Authority did not adequately support.
- 3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (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, implementation of recommendation 1J to reclassify nonprogram funds to IHBG program funds will result in \$1,065,780 that is subject to HUD restrictions and can be put to better use.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1



White Mountain Apache Housing Authority

P.O. BOX 1270 • WHITERIVER, AZ 85941 • PHONE 928.338.4631 • FAX 928.338.4635

June 25, 2014

Regional Inspector General for Audit
ATTN: Ms. Tanya E. Schulze
Los Angeles Region, 9DGA, CA

Subject: Response to findings

Dear Ms. Tanya E. Schulze,

The White Mountain Apache Housing Authority acknowledges we have received the Draft OIG Audit Report. We do not agree with the findings however, we will work with the Southwest Office of Native American Programs in compiling our final response.

Sincerely,

A handwritten signature in black ink, appearing to read "Victor Velasquez".

Victor Velasquez, Executive Director

Comment 1 The Authority stated they disagreed with the audit findings. However, it did not provide any additional details or supporting documents. During the exit conference, the Authority did not specifically dispute the audit findings, but explained that it had begun correcting deficiencies identified in the audit report such as correcting the vehicle titles and evicting ineligible tenants. However, the Authority did not provide additional supporting documentation and we, therefore, did not verify the corrections. We confirmed with the Authority that its reference to a “final response” refers to the audit resolution process and not additional comments to this audit report.

Appendix C

CRITERIA

Authority Policies and Procedures (2000 Version)

Section 15, Travel Policies and Procedures

2.C Methods of Travel

Methods of travel such as common carrier, WMAHA [Authority] vehicles, rental or privately owned and operated vehicles will be at the discretion of the Executive Director. Private vehicle usage will be utilized only if a WMAHA vehicle is not available. In each case, the most cost effective method to the White Mountain Apache Housing Authority will be selected.

Authority Policies and Procedures (2009 Version)

Section 3 Eligibility,

1C. Income limitations

1. Maximum income – The applicant must qualify as a low-income family, defined as a family whose income does not exceed 80% of the medium income for the area or the United States, whichever is greater.
6. Exception to Maximum Income limits (See 24 CFR [Code of Federal Regulations] Part 100.106, 108, and 110) – The White Mountain Apache Housing Authority may waive the maximum income limit requirement under the following circumstances:
 - a. The applicant demonstrates to the satisfaction of the White Mountain Apache Housing Authority that their housing need cannot be met without assistance.
 - b. The income waiver is consistent with HUD requirements.
 - c. The White Mountain Apache Housing Authority may waive the income limits for a model program, subject to HUD approval.

Section 15 Travel Policies and Procedures

2C Methods of Travel

Methods of travel will be at the discretion of the Executive Director. Private vehicle usage will be utilized only if a WMAHA vehicle is not available. The most cost effective method of travel will be selected.

Authority Policies and Procedures (2012 Version)

Travel Policy

III G. Automobile Expenses and Use of WMAHA Vehicles

2. In conducting official business, employees and Commissioners shall use WMAHA vehicles whenever reasonably practicable. Personal vehicles may only be used when use of WMAHA vehicles is not reasonably practicable and prior written consent of the Executive Director is obtained.

2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (Office of Management and Budget (OMB) Circular A-87)

Appendix A C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
 - b. Be allocable to Federal awards under the provisions of 2 CFR part 225.
 - c. Be authorized or not prohibited under State or local laws or regulations.
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
 - i. Be the net of all applicable credits.
 - j. Be adequately documented.
2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Appendix B

14. Entertainment.

Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

20 Goods or services for personal use.

Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

24 CFR Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments

§ 85.20 Standards for financial management systems.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (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.
- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees

must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

(4) Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.

§ 85.36 Procurement.

(b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations provided that the procurements conform to applicable Federal Law and the standards identified in this section.

(3) Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:

(i) The employee, officer or agent,

(ii) Any member of his immediate family,

(iii) His or her partner, or

(iv) An organization which employs, or is about to employ, any of the above, has a financial or other interest in the firm selected for award. The grantee's or subgrantee's officers, employees or agents will neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to subagreements. Grantee and subgrantees may set minimum rules where the financial interest is not substantial or the gift is an unsolicited item of nominal intrinsic value. To the extent permitted by State or local law or regulations, such standards or conduct will provide for penalties, sanctions, or other disciplinary actions for violations of such standards by the grantee's and subgrantee's officers, employees, or agents, or by contractors or their agents. The awarding agency may in regulation provide additional prohibitions relative to real, apparent, or potential conflicts of interest.

(9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) Competition.

(1) All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of §85.36.

(d) Methods of procurement to be followed.

(1) Procurement by *small purchase procedures*. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(2) Procurement by *sealed bids* (formal advertising). Bids are publicly solicited and a firm-fixed price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in § 85.36(d)(2)(i) apply....

(3) Procurement by *competitive proposals*. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids...

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

(B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

(C) The awarding agency authorizes noncompetitive proposals; or

(D) After solicitation of a number of sources, competition is determined inadequate.

(ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

(f) Contract cost and price.

(1) Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

24 CFR Part 1000, Native American Housing Activities

Before December 3, 2012

§ 1000.62 What is considered program income and what restrictions are there on its use?

(a) Program income is defined as any income that is realized from the disbursement of grant amounts. Program income does not include any amounts generated from the operation of 1937 Act units unless the units are assisted with grant amounts and the income is attributable to such assistance. Program income includes income from fees for services performed from the use of real or rental of real or personal property acquired with grant funds, from the sale of commodities or items developed, acquired, etc. with grant funds, and from payments of principal and interest earned on grant funds prior to disbursement.

§ 1000.104 What families are eligible for affordable housing activities?

The following families are eligible for affordable housing activities:

- (a) Low income Indian families on a reservation or Indian area.
- (b) A non-low-income family may receive housing assistance in accordance with § 1000.110....
- (c) A non-Indian family may receive housing assistance on a reservation or Indian area if the non-Indian family's housing needs cannot be reasonably met without such assistance and the recipient determines that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families, except that non-Indian families residing in housing assisted under the 1937 Act do not have to meet these requirements for continued occupancy.

§ 1000.106 What families receiving assistance under title II of NAHASDA require HUD approval?

(b) Assistance under section 201(b)(3) of NAHASDA for non-Indian families does not require HUD approval but only requires that the recipient determine that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families and the non-Indian family's housing needs cannot be reasonably met without such assistance.

§ 1000.110 Under what conditions may non low-income Indian families participate in the program?

- (a) A family who is purchasing housing under a lease purchase agreement and who was low income at the time the lease was signed is eligible without further conditions.
- (b) A recipient may provide the following types of assistance to non low-income Indian families under the conditions specified in paragraphs (c), (d) and (e) of this section:
 - (1) Homeownership activities under section 202(2) of NAHASDA, which may include assistance in conjunction with loan guarantees under the Section 184 program (see 24 CFR part 1005);
- (c) A recipient must determine and document that there is a need for housing for each family which cannot reasonably be met without such assistance.

24 CFR Part 1000, Native American Housing Activities

December 3, 2012 Changes

§ 1000.62 What is considered program income?

- (a) Program income is defined as any income that is realized from the disbursement of grant amounts. Program income does not include any amounts generated from the operation of 1937 Act units unless the units are assisted with grant amounts and the income is attributable to such assistance. Program income includes income from fees for services performed from the use of real or rental of real or personal property acquired with grant funds, from the sale of commodities or items developed, acquired, etc. with grant funds, and from payments of principal and interest earned on grant funds prior to disbursement.

§1000.64 What are the permissible uses of program income?

Program income may be used for any housing or housing related activity and is not subject to other federal requirements.

§ 1000.104 What families are eligible for affordable housing activities?

The following families are eligible for affordable housing activities:

- (a) Low income Indian families on a reservation or Indian area.
- (b) A non-low-income family may receive housing assistance in accordance with § 1000.110.
- (c) A family may receive housing assistance on a reservation or Indian area if the family's housing needs cannot be reasonably met without such assistance and the recipient determines that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families.

§ 1000.106 What families receiving assistance under title II of NAHASDA require HUD approval?

- (b) Assistance for essential families under section 201(b)(3) of NAHASDA does not require HUD approval but only requires that the recipient determine that the presence of that family on the reservation or Indian area is essential to the well-being of Indian families and that the family's housing needs cannot be reasonably met without such assistance.

§ 1000.110 Under what conditions may non low-income Indian families participate in the program?

- (a) A family who is purchasing housing under a lease purchase agreement and who was low income at the time the lease was signed is eligible without further conditions.
- (b) A recipient may provide the following types of assistance to non low-income Indian families under the conditions specified in paragraphs (c), (d) and (e) of this section:
 - (1) Homeownership activities under section 202(2) of NAHASDA, which may include assistance in conjunction with loan guarantees under the Section 184 program (see 24 CFR part 1005);
- (c) A recipient must determine and document that there is a need for housing for each family which cannot reasonably be met without such assistance.
- (f) The requirements set forth in paragraph (e) of this section do not apply to non low-income Indian families which the recipient has determined to be essential to the well-being of the Indian families residing in the housing area.

Public and Indian Housing Notice 2002-12

In the absence of an accounting system to allocate income attributable to the 1937 Act and the IHBG Program, all income (net costs paid for by income and subject to \$25,000 exclusion) would be program income and must be used for NAHASDA eligible affordable housing in accordance with section 202 of NAHASDA.

NAHASDA, Section 104(a)(4)

EXCLUSION FROM PROGRAM INCOME OF REGULAR DEVELOPER'S FEES FOR LOW-INCOME HOUSING TAX CREDIT PROJECTS - Notwithstanding any other provision of this Act, any income derived from a regular and customary developer's fee for any project that receives a low-income housing tax credit under section 42 of the Internal Revenue Code of 1986, and that is initially funded using a grant provided under this Act, shall not be considered to be program income if the developer's fee is approved by the State housing credit agency.