



U.S. Department of Housing and Urban Development
Office of Inspector General
Region VIII Office of Audit
UMB Plaza - 24th floor
1670 Broadway
Denver, CO 80202-4801

MEMORANDUM NO:
2010-DE-1801

April 23, 2010

MEMORANDUM FOR: Randall Akers, Administrator, Northern Plains Office of Native American Programs, 8API

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, Denver, 8AGA

SUBJECT: The Fort Belknap Indian Community in Harlem, MT, Had Weaknesses That Could Significantly Affect Its Capacity To Administer Its Recovery Act Funding

INTRODUCTION

In accordance with our goal to review funds provided under the American Recovery and Reinvestment Act of 2009 (Recovery Act), we conducted a capacity review of the Fort Belknap Indian Community's (Fort Belknap) operations. Our objective was to determine whether there was evidence indicating that Fort Belknap lacked the capacity to adequately administer Recovery Act funding.

METHODOLOGY AND SCOPE

Our review was based on information reviewed and conclusions made about Fort Belknap's controls and compliance with U.S. Department of Housing and Urban Development (HUD) regulations during our review of Fort Belknap's Indian Housing Block Grant (block grant) program. We issued our report on the block grant program to Fort Belknap on March 7, 2010. In addition, we obtained an understanding of Recovery Act legislation and program guidance, reviewed Fort Belknap's Recovery Act grant, and interviewed HUD staff.

We used the Internal Control – Integrated Framework, generally referred to as the Committee of Sponsoring Organizations report, as a framework to evaluate Fort Belknap's capacity to administer its Recovery Act funding. The report was published in September 1992 and was a joint project of five organizations which formed the Committee of Sponsoring Organizations of the Treadway Commission. The report describes the five interrelated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring.

BACKGROUND

Under the Recovery Act, HUD allocated more than \$1 million in funding to Fort Belknap. Fort Belknap administers its HUD funding through its Housing Department.

Fort Belknap received more than \$7.1 million in block grant funding for fiscal years 2006 to 2008. The chart below shows the allocations per fiscal year.

Fiscal year	Total
2006	\$2,159,860
2007	\$2,463,851
2008	\$2,504,204
	<u>\$7,127,915</u>

HUD's Northern Plains Office of Native American Programs conducted an on-site monitoring review of Fort Belknap's block grant program in June 2007. It identified findings related to late submission of audited financial statements, and the monthly equity payments account balances could not be verified. We identified similar deficiencies during our audit.

RESULTS OF REVIEW

We found weaknesses in Fort Belknap's administration of its block grant program that could significantly affect its capacity to administer its Recovery Act funding. Based on our review of Fort Belknap's block grant program, Fort Belknap

- Completed renovation work in violation of its Indian housing plans,
- Completed purchases in violation of cost principles for Federal awards,
- Did not submit its audited financial statements when required,
- Did not pursue collection of its past-due tenant accounts receivable, and
- Did not maintain equity accounts on its home buyers.

Fort Belknap used block grant funds for renovation work on homes that were not in its 2006, 2007, and 2008 block grant plans. It spent more than \$182,000 for renovation work on 23 mutual help, conveyed mutual help, and other non-HUD homes that were not listed in the block grant plans that it submitted to HUD.

Fort Belknap used block grant funds for unallowable expenses. The expenses were not necessary and reasonable for proper and efficient performance and administration of its block grant as stipulated in Office of Management and Budget (OMB) Circular A-87. As a result, participants in the mutual help and low-rent programs lost the benefit of at least \$31,000 in program funding.

Fort Belknap did not submit its Housing Department's 2006, 2007, and 2008 audited financial statements within 9 months after the end of each audit period as required by OMB Circular A-133. It submitted the 2006 financial statements more than 2 years late, the 2007 statements more than a

year late, and the 2008 statements more than 5 months late. The independent auditor was unable to express an opinion for all three years due to the lack of adequate accounting records.

Fort Belknap did not pursue collection of its past-due tenant accounts receivable because it did not have written policies and procedures for collecting them. The outstanding tenant accounts receivable balance exceeded \$1 million as of September 30, 2008.

Fort Belknap did not maintain monthly equity payment accounts on its mutual help program home buyers as required by HUD. In addition, it inappropriately withdrew \$300,000 in restricted home-buyer funds to meet the Housing Department's daily operating expenses.

AUDITEE RESPONSE

We provided Fort Belknap the draft memorandum on March 19, 2010, and requested its comments by March 26, 2010. On April 2, 2010 we had not received comments from Fort Belknap, so we sent a letter to Fort Belknap stating if we did not receive a response by April 7, 2010, we would issue the memorandum in final. In an email dated April 7, 2010, Fort Belknap informed our office that it chose not to provide written comments to the memorandum. However, in its email, Fort Belknap stated it fully understands HUD OIG's concern over the financial capacity of its Housing Department and it shares those concerns. Fort Belknap also stated it is taking proactive steps to strengthen its capacity.

RECOMMENDATION

We recommend that the Administrator of the HUD Northern Plains Office of Native American Programs

- 1A. Increase monitoring and oversight of Fort Belknap's administration and disbursement of Recovery Act funds, to include increased on-site monitoring if deemed necessary, to ensure compliance with program rules and regulations.