



Audit Report

**District Inspector General for Audit
Northwest/Alaska District**

***HOUSING ACTIVITIES
ADMINISTERED BY
LUMMI INDIAN BUSINESS COUNCIL
BELLINGHAM, WASHINGTON***

*2000-SE-207-1001
September 29, 2000*

U.S. Department of Housing and Urban Development
District Inspector General for Audit
Federal Office Building, Suite 125
909 First Avenue
Seattle, WA 98104-1000



Issue Date	September 29, 2000
Audit Case Number	2000-SE-207-1001

MEMORANDUM FOR: Ken Bowring, Administrator
Northwest Office of Native American Programs, OAPI

Frank E. Baca

FROM: Frank E. Baca, District Inspector General for Audit, OAGA

SUBJECT: Final report of housing activities administered by
Lummi Indian Business Council
Bellingham, WA

In response to numerous complaints, we audited the HUD-funded activities of Lummi Indian Business Council (LIBC) and its Housing Division. Our overall objective was to determine if LIBC has the administrative capacity to manage federal grants. The audit resulted in 11 findings and concluded that LIBC lacks the administrative capacity to manage federal grants.

Within 60 days, please provide us for each recommendation in this report, a status on:
(1) corrective action taken; (2) the proposed corrective action and expected completion date;
or (3) why action is not considered necessary. Also, please furnish us with copies of any issued correspondence or directives related to the audit.

Should your staff have any questions, please contact me or Patricia Boydston, Senior Auditor,
at (206) 220-5360.

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Executive Summary

In response to complaints from Lummi tribal members, we performed an audit of the Lummi Nation's housing program operation in which we addressed some of the many tribal members' allegations of program mismanagement, misuse and abuse at the Lummi Indian Business Council (LIBC). LIBC is the management organization of the Lummi Nation. The overall objective of the audit was to determine if LIBC has the administrative capacity to carry out eligible housing activities in accordance with the requirements and objectives of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) and other applicable laws.

LIBC has not demonstrated the managerial expertise, knowledge of program requirements, or administrative capacity to properly administer affordable housing activities effectively, making LIBC vulnerable to waste, fraud, and mismanagement. LIBC does not have an adequate internal control system to provide reasonable assurance regarding (a) the reliability of financial reporting, (b) the effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Therefore, LIBC must take immediate and effective measures to become administratively capable as defined in NAHASDA regulations, including implementing an adequate system of internal control.

Additionally, although a Lummi Nation resolution indicates the tribe will operate its housing program as a separate Tribally Designated Housing Entity (TDHE), in practice the tribe operates the housing program as a division of LIBC and not as a TDHE. The Lummi Nation should decide whether to operate its housing program as a TDHE or as a division of LIBC, and fully implement its decision. (See Finding 1)

As a result of its lack of administrative capacity Lummi Indian Business Council:

- did not ensure that low-income Lummi families live in safe and healthy housing conditions. LIBC needs to maintain its housing stock, including abandoned houses, in a safe and healthy environment. (See Finding 2)
- overstated its housing stock, resulting in overfunding of its NAHASDA grants. HUD should require LIBC to remove 95 units from its formula current assisted stock and repay \$1,279,768 of HUD overfunding. (See Finding 3)
- misspent, mischarged, and wasted federal funds when it:
 - improperly charged other federal programs \$14,606 for use of equipment purchased with HUD funds. LIBC should repay from non federal sources \$4,669 to the Bureau of Indian Affairs and \$9,937 to Health and Human Services for fees it inappropriately charged for rental of equipment purchased with HUD funds. (See Finding 4)

- did not properly account for program income generated by equipment purchased with HUD funds. LIBC should reimburse its housing program, from non-federal sources, \$5,964 for program income generated by renting equipment purchased with HUD funds. (See Finding 4)
- did not maintain adequate documentation to support expenses charged to its grants. LIBC needs to provide adequate documentation or repay, from non-federal sources, \$25,382 for unsupported costs charged to the Indian Community Development Block Grant. (See Finding 5) and
- did not accurately record, adequately support or correctly charge labor costs to federal grants. We recommend HUD require LIBC to immediately implement an adequate time keeping system that ensures accurate labor charging and repay \$18,814 for labor unrelated to its HOPE I grant. (See Finding 7)
- did not adequately safeguard assets by not tracking materials inventory. LIBC must immediately implement an inventory system that accounts for materials received, used, and stored and provides for periodic monitoring and reconciliation. (See Finding 6)
- did not maintain adequate procurement records. LIBC should implement procedures and a system of internal controls that ensures that procurements are made in accordance with federal regulations. (See Finding 8)
- may have admitted ineligible families into its housing program because it does not always verify family income. LIBC needs to implement an adequate system of internal control ensuring that it verifies all sources of an applicant's family income. (See Finding 9)
- excluded eligible applicants when it combined its waiting lists. LIBC should review all open applications and ensure the waiting list is complete and appropriately ranks all applicants. It should also implement controls and procedures to ensure that the application process is complete and accurate. (See Finding 10)
- thwarted the purpose of the Mutual Help Homeownership program by allowing improper subleases. LIBC should terminate two improperly approved subleases, review the three unapproved subleases, and recertify and begin receiving payments from the homebuyers for all existing subleases. (see Finding 11)

We discussed the findings with Lummi Indian Business Council officials during the course of our audit and at an exit conference on September 11, 2000. On September 1, 2000, we provided LIBC with draft findings, and received LIBC's written response to the draft findings on September 22, 2000. The Findings section of this report summarizes and evaluates LIBC's comments. LIBC agreed with several of the findings, but disagreed with our overall conclusion that it lacks the administrative capacity to manage federal grants. A copy of LIBC's full response, without attachments, is included in Appendix B. The attachments included with the written comments are available upon request. In addition, the HUD Northwest Office of Native American Programs (NwONAP) also provided written comments on the draft findings. NwONAP generally agreed with the findings (see Appendix C).

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Abbreviations

CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CIAP	Comprehensive Improvement Assistance Program
FY	Fiscal Year
HOPE	Home Ownership for People Everywhere
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IHBG	Indian Housing Block Grant
LIBC	Lummi Indian Business Council
MEPA	Monthly Equity Payments Accounts
MHOA	Mutual Help and Occupancy Agreement
NAHASDA	Native American Housing Assistance and Self-Determination Act of 1996
NWIC	Northwest Indian College
NwONAP	HUD Northwest Office of Native American Programs
OIG	Office of Inspector General
TDHE	Tribally Designated Housing Entity

Introduction

Background

Congress enacted Public Law 104-330, The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) to provide federal assistance for Indian tribes in a manner that recognizes the right of tribal self-governance. An objective of NAHASDA is to develop, maintain, and operate affordable housing in safe and healthy environments on Indian reservations and other Indian areas for occupancy by low-income Indian families.

The Lummi Nation

The Lummi Indian reservation, where we conducted our audit field work, is located seven miles northwest of Bellingham, Washington and encompasses approximately 12,000 acres. The Lummi Indian Business Council (LIBC) is the governing body of the Lummi tribe. It is comprised of eleven elected members who approve laws and policies and coordinate the overall direction of the Lummi Nation. The seven-member Lummi Nation Housing Board is an appointed body that advises LIBC on housing matters. Prior to NAHASDA, the Lummi Indian Housing Authority operated the Lummi Nation's housing program. Since the enactment of NAHASDA, the Lummi Nation has not decided if it will structure its housing program as a separate Tribally Designated Housing Entity (TDHE) or as a division of the tribe. Since the Lummi Nation currently operates its housing program as a division of the Lummi Planning Department, in conducting our audit we treated the housing function as a division of the tribe. This organizational issue is discussed in Finding 1.

The mission of the Lummi Nation Housing Program is to provide safe, sanitary, and affordable housing for members of the Lummi Nation who are not financially capable of providing for their housing needs without assistance. It is the policy of the Lummi Nation to provide appropriate housing assistance services to all members consistent with their income level and their need for housing.

LIBC maintains grant documents, accounting and housing-related records in its offices on Kwina Road in Bellingham, Washington.

Lummi Nation's pre-1997 financial records are not available in electronic format.

At the time of the audit, LIBC reported that its housing stock consisted of 309 units, including:

- 95 older Turnkey III and older Mutual Help houses where low-income tribal members entered into lease-purchase agreements with LIBC. The audit disclosed that LIBC conveyed these units and should have removed them from the housing stock. This issue is discussed further in Finding 2.
- 119 newer Mutual Help houses where low-income tribal members entered into lease-purchase agreements with LIBC.
- 95 rental units, 60 of which have been or are being converted to home ownership houses under the HOPE I program.

HUD funding

For fiscal years 1993 to 1999, HUD approved grants totaling \$14,441,158 to the Lummi Nation through Home Ownership for People Everywhere (HOPE) grants, Community Development Block Grants (CDBG), Indian Housing Block Grants (IHBG) under NAHASDA, Operating Subsidy grants, Comprehensive Improvement Assistance Program (CIAP) grants, and Project Development grants. Table 1 summarizes the grants.

TABLE 1

HUD GRANTS TO THE LUMMI NATION			
GRANT NUMBER	FISCAL YEAR	GRANT TYPE	AMOUNT
WA02800494S	1993	Operating Subsidy	\$ 131,729
WA97B028909	1993	CIAP	\$ 474,000
WA97HI10280194	1994	HOPE 1	\$ 1,228,800
B94SR530011	1994	CDBG	\$ 270,000
WA02800495S	1994	Operating Subsidy	\$ 130,883
WA97B028910	1994	CIAP	\$ 500,000
WA02800496S	1995	Operating Subsidy	\$ 159,660
WA02801196S	1995	Operating Subsidy	\$ 81,044
WA97B028912	1995	CIAP	\$ 226,970
WA97B028911	1995	CIAP	\$ 16,030
B96SR530020	1996	CDBG	\$ 155,117
WA02800497S	1996	Operating Subsidy	\$ 201,266
WA02801197S	1996	Operating Subsidy	\$ 65,780
WA97B028914	1996	CIAP	\$ 695,102
WA97B028913	1996	CIAP	\$ 144,000
B97SR530001	1997	CDBG	\$ 107,883
WA02800498S	1997	Operating Subsidy	\$ 188,164
WA02801198S	1997	Operating Subsidy	\$ 54,270
WA97B028915	1997	CIAP	\$ 398,420
WA97B028023	1997	Development Project	\$ 655,325
98IH5308420	1998	IHBG	\$ 4,316,547
99IH5308420	1999	IHBG	\$ 4,240,168
TOTAL			\$14,441,158

Audit Objectives, Scope, and Methodology

In response to complaints from Lummi tribal members, we audited HUD grants made to the Lummi Nation. The complaints alleged that the Lummi Nation (1) misused HUD funds, and (2) violated federal and housing authority requirements concerning occupancy, title conveyance, maintenance, and procurement.

Based on our preliminary review of the Lummi Nation Housing Program and interviews with confidential complainants, we set as our overall audit objective an assessment of LIBC's administrative capacity and its system of internal control over operations and financial systems. The number of complaints we received made it impractical to specifically address each

complaint. Therefore, we performed an audit of LIBC's operations to determine whether LIBC:

- (1) had adequate financial, operational, and management systems to ensure grant costs were allocable, allowable, and reasonable;
- (2) had a clearly defined organizational structure for its housing program;
- (3) maintained its housing units in safe and healthy environments;
- (4) conveyed titles to homeowners in accordance with program requirements;
- (5) properly used government-purchased equipment;
- (6) maintained adequate records for its grant expenditures;
- (7) safeguarded its assets;
- (8) had adequate labor and timekeeping systems; and
- (9) followed its policies and procedures, and/or program requirements when (a) procuring goods and services, (b) verifying family income; (c) managing housing program waiting lists; and (d) allowing homebuyers to sublease their homes.

In conducting the audit, we:

- interviewed complainants to obtain the details of their allegations.
- reviewed applicable laws to gain an understanding of program requirements.
- inspected 90 of the 309 housing units at the Lummi Nation to determine the validity of complaints regarding maintenance of housing units.
- interviewed appropriate LIBC officials, management, and staff (previous and current) to obtain an understanding of LIBC's operation and management of the housing program and HUD grant activities.
- reviewed available LIBC documents and other records for testing.
- interviewed HUD officials to obtain an understanding of their processes for review and approval of the Lummi Nation's HUD grants.
- reviewed HUD's records related to Lummi including grant documents and waiting lists.

Generally, the audit covered the period January 1, 1993 through December 31, 1999. We modified our review period as

necessary to fully respond to the audit objectives. We performed audit fieldwork at LIBC and the Housing Division's offices from October 1999 to February 2000.

We conducted the audit in accordance with generally accepted government auditing standards.

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Lummi Indian Business Council Lacks Administrative Capacity to Manage Federal Grants

Lummi Indian Business Council (LIBC) does not have the administrative capacity to manage federal grants. LIBC does not have financial management or managerial and operational systems that meet the standards of the Indian Housing Block Grant (IHBG) program. In addition, LIBC has no clearly defined organizational structure for its housing activities, which contributes to its internal control weaknesses. As a result, LIBC subjected its HUD grants and activities to potential fraud, waste, and mismanagement.

NAHASDA requires grantees to have administrative capacity

Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) regulations (24 CFR 1000.6) require Indian Housing Block Grant recipients to "have the administrative capacity to undertake the affordable housing activities proposed. This capacity includes the existence of adequate systems of internal control necessary to administer these activities effectively without waste, fraud, or mismanagement."

Audit results show that LIBC does not have administrative capacity

LIBC does not have the ability to effectively undertake the affordable housing activities in its Indian Housing Plan in accordance with NAHASDA requirements. The audit disclosed evidence of waste, mismanagement, and related internal control weaknesses as discussed in our findings and summarized below:

Families live in unsafe housing and unhealthy environments (Finding 2)

Mismanagement and a lack of adequate internal control and monitoring of the maintenance program contributed to:

- unsafe and unhealthy housing conditions;
- inadequate inspections;
- extensive and costly rework; and
- waste of valuable HUD resources.

Housing stock overstatement results in \$1.2 million in HUD overfunding (Finding 3)

Mismanagement of the title conveyance process resulted in a significant misallocation of NAHASDA funds.

Misuse of government-purchased equipment (Finding 4)

Mismanagement of and a lack of internal control over equipment purchased with HUD funds resulted in:

- increased cost to federal programs;
- loss of revenue due to diversion of program income; and
- unfair competition with the local business community.

Inadequate records to support grant expenditures (Finding 5)

Inadequate grant records resulted in unsupported costs and provided no assurance funds were used for intended purposes.

Lack of material inventory system (Finding 6)

Mismanagement of assets and a lack of inventory controls caused waste and possible theft of construction materials intended for use in building and improving low-income housing.

Inadequate labor and timekeeping systems (Finding 7)

Mismanagement and inadequate internal control of labor resources provided no assurance that grant expenditures benefited low-income families.

Inadequate procurement records (Finding 8)

LIBC's internal control system provided no assurance funds were expended for goods and services and not subjected to waste.

Lack of income verification (Finding 9)

Inadequate documentation and monitoring provided no assurance that only eligible families received housing assistance.

Inadequate waiting list procedures (Finding 10)

Inadequate internal control and monitoring provided no assurance that selection of occupants was fair.

Improper sublease procedures (Finding 11)

Program mismanagement resulted in owners subletting units for ineligible reasons, such as a felon subletting during his incarceration.

Organizational structure not clearly defined

In addition to the above findings disclosing a lack of administrative capability, LIBC has no clearly defined organizational structure. Proper structure is important to the operation of any organization because it defines the relationships, responsibilities, and authorities of the positions in the organization. The Lummi Nation has not decided if it will structure its housing program as a Tribally Designated Housing Entity (TDHE) or as a division of the tribe. According to NAHASDA, a TDHE "is not an Indian tribe for the purposes of this act." A TDHE is a separate organization from the tribe, whose executive director reports to the housing entities board of directors. A Housing Division of a tribe is part of the organizational structure of the tribe and its executive director reports to tribal management.

The Lummi Nation's current housing program has elements of both structures.

Elements that indicate LIBC's housing program is a division of the tribe:

- On the organizational chart, Housing is a division of the tribe under the Planning Department of the tribe.
- The Housing Board of Directors has only advisory power.
- The Executive Director reports to the Director of the Planning Department.

Elements that indicate LIBC's housing program is a TDHE:

- The Lummi Nation passed a resolution declaring that Housing would operate as a TDHE.
- LIBC and Housing policies and procedures indicate Housing is a separate Housing Authority.
- Housing accounting year-end is September 30, while LIBC's is December 31.

In our opinion, LIBC's practices indicate more that the housing program is a division of the tribe. Therefore, in this report we refer to the housing program management as the "Housing Division" of LIBC.

Auditee Comments and OIG Evaluation

LIBC claims it has administrative capacity

Lummi Indian Business Council disagrees with the draft report's assertion that LIBC lacks administrative capacity:

- The Lummi Nation has demonstrated its capacity to administer federal grants to other federal agencies. During the past year, LIBC has had extensive program reviews by other federal agencies. The judgement reflected in HUD-OIG's draft report is not supported by reviews from other agencies.
- The results of independent audits have not identified a lack of administrative capacity, although reportable conditions have been identified that were not considered to be material weaknesses.
- The accounting issues reported exist in large part due to the unique relationship between the Housing and Administrative Divisions of LIBC. No other program area maintains separate accounting, purchasing, or payroll systems separate from LIBC as does Housing. Therefore, it is inappropriate to generalize from this unique situation to non-HUD grants.

OIG evaluation

During the audit, OIG staff requested copies of reviews completed by other agencies; however, LIBC did not provide copies of any prior reviews. Also, discussions with Department of Interior, Health and Human Services, and Environmental

Protection Agency auditors indicate these agencies had not performed administrative capacity reviews at the Lummi Nation. If LIBC now contends that in the past year other agencies reviewed its financial systems and/or administrative capacity, it should provide copies of those audits to the program staff at HUD for further review. However, the audit results detailed in this report clearly show that LIBC does not have the administrative capacity to properly manage federal grants.

The auditors disagree with the independent public auditor's determination that none of the weaknesses identified were material. The audit findings related to financial systems, accuracy and completeness of transactions, and monitoring and compliance with federal regulations indicate a lack of adequate systems of internal control. Several audit findings have been outstanding for multiple years. Due to the significance of its audit findings, LIBC currently is not authorized to invest HUD funds.

LIBC indicates its administrative problems are due to the unique relationship between its Housing Division and its Administrative Division. However, it is LIBC's, not its Housing Division's, lack adequate financial systems including adequate systems of internal control that gave rise to this finding. The audit found the Housing Division's accounting system to be adequate. The procurement, labor, and inventory systems controlled by LIBC are not adequate for recording costs on any government grant. This is not unique to housing projects and should be a concern to all agencies.

Lummi will decide soon whether it will have Housing separate or as part of LIBC

Lummi Indian Business Council agrees that Housing currently operates as a division of the LIBC, not as a separate Tribally Designated Housing Entity (TDHE). Many months ago, the Business Council initiated a comprehensive evaluation of the benefits and detriments of establishing a more independent TDHE for housing purposes. That evaluation is nearing completion and it is anticipated that the Council will make a decision in the near future whether to maintain housing as a division of the LIBC or to create a TDHE. In either case, the LIBC recognizes the Tribe is ultimately responsible for compliance with the requirements of NAHASDA.

OIG evaluation

LIBC's determination of its organizational structure is an important step in attaining administrative capacity. HUD program staff should monitor this process to ensure that LIBC fully implements its decision.

Recommendations:

We recommend that HUD:

- 1A. Require LIBC to take immediate and effective measures to become administratively capable as defined in NAHASDA regulations. As part of these measures, LIBC should implement the recommendations in the 11 findings of this audit report.
- 1B. Require LIBC to decide whether it will operate its housing program as a division of the tribe or as a separate Tribally Designated Housing Entity and to fully implement this decision.
- 1C. Conduct a follow-up review within one year to ensure that LIBC and the Housing Division have taken the necessary measures to become administratively capable.

Low-Income Lummi Families Live in Unsafe and Unhealthy Housing Conditions

Lummi Indian Business Council (LIBC) does not adequately maintain its housing stock. Audit inspections, interviews, and reviews of records found that LIBC did not:

- **require homebuyers to adequately maintain their houses;**
- **adequately supervise and train its construction and maintenance workers;**
- **have a maintenance work order system that tracks requests or correctly charges tenants for repair costs;**
- **conduct adequate annual inspections of housing units;**
- **have accounting records to support why Comprehensive Improvement Assistance Program (CIAP) funds for asbestos removal were not spent as planned; and**
- **provide adequate home maintenance training to homeowners.**

As a result, LIBC does not provide low-income Lummi families with affordable housing in a safe and healthy environment. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

NAHASDA and LIBC policies and procedures require safe and healthy environments

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) requires assistance recipients to maintain and operate affordable housing in safe and healthy environments.

LIBC's Indian Housing Plan objectives include the preservation and improvement of the physical condition of existing units and maintenance of the tribal housing stock in decent, safe, and sanitary condition. LIBC planned to (1) perform regular inspections of rental and homeownership units to determine maintenance needs; (2) conduct regular maintenance, repair, and major rehabilitation of current housing stock; (3) ensure adequate staffing to carry out the operations of the housing program; and (4) provide training and educational opportunities for staff at all levels.

LIBC's policies and procedures specify that the Housing Division:

- will operate its maintenance program under HUD "Section 8 Program Housing Quality Standards."

- will assume the ultimate responsibility for maintenance of all units in its HUD-assisted programs. However, specific responsibilities of LIBC and unit occupants are outlined in agreements signed by the two parties.
 - Rental leases hold the Housing Division responsible for regular inspections, and making improvements and repairs. The tenant is obligated to maintain the dwelling unit in good condition and appearance through proper housekeeping and ensuring continuous service of utilities.
 - Homeownership agreements hold homeowners responsible for all routine and non-routine maintenance. Failure to maintain a unit is grounds for termination of the agreement. LIBC must conduct annual inspections and notify homebuyers of maintenance items that require their attention.
- is responsible for developing and providing a training course in home maintenance for current and prospective residents to ensure that the tenant/homebuyer maintains house and grounds.
- will monitor its "maintenance progress in order to develop empirical data, which can be used to monitor the effectiveness of the entire maintenance effort."

LIBC does not maintain its housing units in a safe and healthy environment

Between September and December 1999, a HUD Office of Inspector General Appraiser/Construction Analyst (OIG Inspector) inspected 90 of LIBC's 309 housing units, including 70 homeownership and 20 rental units, for compliance with Section 8 Housing Quality Standards.

The OIG Inspector found that Housing Quality Standards (HQS) violations were:

Frequent:

- 97% of the units had at least one violation;
- 59% had five or more violations; and
- 16% had twenty or more violations.

Related to a safe and healthy environment:

- 91% had electrical hazards;
- 66% had security violations; and
- 60% had general health and safety violations.

(See Appendix D for a complete table of HQS violations.)

During our inspections, we interviewed unit occupants and observed:

- exposed electrical wires;
- deteriorating and damaged flooring;
- holes in walls;
- broken appliances;
- broken lighting fixtures;
- missing smoke detectors;
- broken windows;
- missing and damaged cabinets;
- mounds of trash with reports of rodent infestations, and abandoned vehicles often used as trash containers;
- a house design that does not provide for heat in the bathrooms;
- severely damaged units where LIBC had not taken action to remove the occupant or repair the unit;
- units where LIBC installed electric baseboard heaters that residents report are so expensive to operate they often leave their units unheated or use wood as their only heat source; and
- units where LIBC workers did not repair or removed and did not replace existing heating units, leaving the occupants with wood as their only heat source. The OIG Inspector stated wood heat is not adequate as an exclusive heat source.

Additionally, LIBC does not adequately maintain abandoned houses. Audit staff inspected an abandoned unit on which LIBC recently expended significant CIAP funds. There was food on the ceilings and walls, the entrance door was standing open, and the house had trash inside and out. LIBC personnel said workers refuse to enter the house because of rats. LIBC personnel also stated they were afraid to repossess the property because of the violent nature of the family involved. The Health Department would not condemn the property for the same reason. LIBC personnel reported that despite repeated requests the Tribal Police would not take action.

Illustrations of deficiencies at the units inspected that are representative of conditions of the housing stock and the neighborhood.



Hole in wall creates safety and electrical hazards.



Gap between wall and ceiling creates health hazard.



Cars and trash in the yard create an unsafe and unhealthy environment.



Greasy range hood is a fire hazard. The exposed fan and wiring are electrical hazards.

LIBC does not require homebuyers to maintain their units

LIBC does not require homebuyers to adequately maintain their units. LIBC could, but has not, enforced the terms of its Mutual Help and Occupancy Agreement by terminating agreements and evicting homebuyers who fail to perform maintenance obligations. By not requiring maintenance of its housing units, LIBC has allowed its housing stock to deteriorate, resulting in low-income Lummi families living in unsafe and unhealthy environments.

LIBC does not adequately supervise and train its construction and maintenance workers

The OIG Inspector stated LIBC's supervisors do not have the necessary qualifications and its workers lack adequate training and supervision to ensure acceptable construction and rehabilitation of units. He said LIBC's projects require extensive rework as a result of inferior work and deficient supervision, significantly increasing costs and wasting HUD funds.

Residents reported many instances of poor quality work done by LIBC personnel. Also, during the inspections, OIG staff observed evidence of deficient workmanship, such as:

- a home where the faucet was incorrectly installed, preventing the hot water from being turned off;
- improperly installed appliances;
- heating systems located in closets because of poor design;
- missing exterior siding;
- improperly sealed bathtubs;
- cracks in newly built or repaired ceilings and walls;
- missing closet rods and closet shelves;
- closet rods installed only 30 inches from the floor;
- thermostats installed without a corresponding heating unit;
- improperly installed doors allowing heat to escape and weather elements to enter the home;
- inadequate foundations;
- recently completed HOPE units needing extensive rework; and
- landscaping with 2 to 4 foot swells where LIBC has located elderly and handicapped residents including a blind woman. The CIAP supervisor indicated that he could not grade the yards because of the expense of renting equipment from LIBC. LIBC purchased the equipment with HUD funds,

which precludes charging any federal program a fee for its use (see additional discussion of this issue in Finding 4 of this report).

LIBC's Indian Housing Plan states that it will "provide training and educational opportunities for staff at all levels." LIBC has not met this goal or implemented a plan to attain it.

The Housing Division needs to improve its maintenance work order system

The Housing Division needs a better work order system for maintenance of rental units to ensure that (1) requests for maintenance are tracked, to ensure prompt and efficient response, and (2) tenants are correctly charged for maintenance costs.

The Housing Division does not track work order requests to ensure maintenance services are provided in a timely and efficient manner

The Housing Division's work order system does not track requests for maintenance, respond timely to maintenance requests, or adequately supervise its maintenance personnel. As a result, the system does not correct deficiencies in a timely manner, potentially causing collateral damage, additional expense, and allowing units to become substandard.

According to its policies and procedures, the Housing Division shall perform all required maintenance by an approved work order. Tenants shall request a work order either in person or by phone. The Resident Counselor will write up the work order, route it to the Housing Director for approval, and then give it to the maintenance staff for action. However, upon the return of the work order documents from the maintenance technician, the Housing Division simply records tenant charges and files the work orders. It does not maintain a work order log, track requests, or review the quality and completeness of maintenance work.

A review of 17 work order requests found 6 cases where maintenance was not performed timely, or possibly not performed at all. In 3 of the 6 cases, it took maintenance staff 6, 17, and 22 days to respond to the request. The request that took 6 days involved a toilet that would not flush. For 3 other cases, there is no evidence that any action was ever taken.

These work order requests, dated November 1997, April 1999, and July 1999, were simply filed in the resident folders, with no indication that any action was ever taken. Other tenants called repeatedly before LIBC responded to their requests.

The maintenance technician has neither an assistant to help him nor a supervisor to oversee his work. He stated LIBC assigned him to maintain 59 rental units, which is more work than he can accomplish and causes maintenance delays.

The Housing Division does not always correctly charge tenants for maintenance costs

The Housing Division's policies and procedures indicate it will charge for all work orders that are determined to be the fault of the tenants of rental units. However, the maintenance technician, who admits to being overworked and unsupervised, solely determines whether or not to charge tenants. This procedure is subject to abuse and relies entirely on one employee to correctly calculate the cost of repair and fill out the corresponding paperwork.

A review of 17 randomly selected work order requests showed 8 requests where the maintenance technician indicated the Housing Division should charge tenants for maintenance repairs. However, accounting records show that the Housing Division charged only two tenants and did not charge five tenants. The Housing Division could not provide us with the eighth tenant's accounting records. The Housing Division's inconsistent charging practices do not hold tenants accountable for negligent or intentional damage, and result in loss of program income.

The maintenance technician did not adequately complete the work orders we reviewed. He did not specify labor, materials, or other costs on seven of the eight requests where he thought tenants should be charged. None of the requests showed how labor costs were calculated, nor included a list of materials used. Further, five of eight requests did not describe the details of work performed, and none of the requests included a reason for charging the tenants.

The maintenance technician routes work orders with tenant charges to the Housing Division accounting department for processing. Maintenance gives work orders without tenant charges to a Resident Counselor for filing. The Housing Division does not have procedures (1) to review the reasons for repair charges or (2) to verify that charges are accurately computed and recorded.

We discussed the maintenance and work order system with the Housing Division Director. She agreed to develop a better work order system by requiring maintenance of a work order log and procedures to track requests and review the quality and completeness of maintenance work. She will redesign the work order form to allow documentation of hours worked, a description of the repair service, and reasons for any charges to the occupant. She indicated she would develop a review process to ensure that the Housing Division accurately records repair charges in the accounting system. However, the new system does not provide for supervision of the maintenance staff, which would be needed for the system to be adequate.

LIBC does not conduct adequate annual inspections

Section 8 Housing Program Quality Standards provide guidelines for thorough inspections that serve as a basic record to corroborate decisions and recommendations regarding each unit. The Housing Division's lack of adequate annual inspections is a control deficiency and a contributing factor in many of the units not meeting NAHASDA requirements for a safe and healthy environment.

We reviewed records of 23 out of the 186 inspections the Housing Division completed within the last 12 months (although its policies and procedures require annual inspections, we found the Housing Division conducted inspections 13 to 20 months from previous inspection dates). The Housing Division personnel did not conduct thorough and accurate inspections of these 23 units. Inspection forms did not show the inspector's assessment of deficiencies as required by the Section 8 Housing Program Quality Standards. Resident Counselors/Inspectors were not familiar with the required inspection standards, and instead used personal judgment to evaluate the condition of each unit. The OIG Appraiser/Construction Analyst determined the Housing Division had not adequately trained its inspection personnel. Because the Housing Division lacks an

adequate inspection system, its does not identify all deficiencies during its inspections and they remain uncorrected, resulting in low-income families living in unsafe and unhealthy environments.

In January 2000, the Housing Division responded to this finding regarding inspector training by sending its inspectors to the Housing and Building Inspection program at the University of Wisconsin. If as discussed, LIBC's Housing Division implements a training plan that provides initial training for new inspectors and ongoing training for all inspectors, its actions would resolve the training issue.

Comprehensive
Improvement Assistance
Program (CIAP) funds not
expended as planned

In a Fiscal Year (FY) 1994 CIAP grant, LIBC received \$500,000 for asbestos removal from units in projects 28-2, and 28-3. While LIBC expended all of the funds, it has not removed asbestos from 23 of the 75 units. LIBC contends that asbestos removal costs significantly exceeded its estimate but did not provide accounting records to support that claim. According to the Housing Division Director, some of the families who were relocated during the asbestos work did extensive damage to the motel rooms where they were staying. Payment for these damages was billed to the Housing Division and significantly increased grant expenses.

LIBC does not provide
adequate training to
homeowners

Homeowners and tenants reported they had little or no home maintenance training before and none subsequent to moving into their units. Occupants had no knowledge of the proper operation and maintenance of: (1) smoke detectors, (2) appliances, (3) heating systems, and (4) non-standard lighting fixtures. The Housing Division has not coordinated with the Northwest Indian College to develop a program for homebuyers and tenants, as planned. In response to discussions on this issue, the Housing Division management agreed to begin training homeowners in home maintenance, and provided a course outline of its proposed class. If fully implemented with homeowner participation, the Housing Division's plan should resolve this finding.

Conclusion

Based on the results of inspections, interviews, and reviews of tenant records, in our opinion LIBC does not adequately maintain its housing units in accordance with its Maintenance Policies and Procedures, HUD Section 8 Housing Program Quality Standards, and NAHASDA requirements. As a result, low-income Lummi families are living in unsafe and unhealthy housing conditions.

Auditee Comments and OIG Evaluation**Auditee comments**

LIBC has applied for and dedicated HUD CIAP funds to address problems with its housing stock. A backlog of problems developed until the Tribe was able to secure such funding. Since 1996, CIAP funds have been used to address the kinds of problems noted by the OIG inspectors. Prior to 1996, CIAP funds were primarily used for asbestos removal. LIBC needs additional funding to address the maintenance problems identified in the draft report.

The Housing Division:

1. has hired three additional full time maintenance workers,
2. has hired a Project Administrator with required experience in cost accounting and construction management to provide high quality supervision of construction, rehabilitation, and maintenance work.
3. will develop a training plan for maintenance staff,
4. has revised its work order procedures,
5. will provide additional staff training to ensure quality annual inspections,
6. will develop and provide on-going home maintenance training and require attendance of tenants and homebuyers based on their annual inspections,
7. has developed due process procedures for evictions and termination of homebuyer agreements for appropriate cause.

OIG evaluation

LIBC's statement that it needs additional funds to bring these homes up to standards is not reasonable. LIBC has received an average of \$16,653 for each of the 95 older units over the past few years to bring the older homes into compliance. The OIG Inspector stated that this amount should have rehabilitated all 95 of LIBC's older units, including asbestos removal. The

primary problem was that LIBC did not require homebuyers to maintain their homes. We observed homes where occupants had adequately maintained the units and these older homes were in standard condition.

The Housing Division's corrective actions regarding its maintenance and work order systems, if adequately implemented, should resolve the maintenance systems issues. However, since HUD has already provided adequate funding for rehabilitation of the older units, LIBC should use non federal funds to bring these units up to standard condition.

Recommendations:

We recommend you require LIBC to:

- 2A. Take appropriate measures, including (but not limited to) the recommendations below, to bring its housing stock, to safe and healthy conditions.
- 2B. Institute a process requiring homeowners to correct all deficiencies, including due dates for corrections and provisions for re-inspection. As required by its policies and procedures, LIBC should terminate the homeowner agreements of homeowners not correcting deficiencies in a timely manner.
- 2C. Hire qualified supervisors to oversee its construction and rehabilitation projects, and ensure that construction and maintenance workers receive adequate training and supervision to perform acceptable construction and rehabilitation of housing units.
- 2D. Implement a work order system that effectively tracks work requests, ensures repair work is timely completed, and provides for reviews of the quality and completeness of the maintenance work.
- 2E. Implement a work order system that ensures tenants are correctly and equitably charged for maintenance work.
- 2F. Conduct timely and adequate annual inspections of housing units in accordance with Section 8 Housing Program Quality Standards and NAHASDA requirements.

- 2G. Provide documentation supporting their claims that asbestos costs paid with FY 1994 Comprehensive Improvement Assistance Program (CIAP) funds significantly exceeded their estimate. Repay from non-federal funds any unallowable and unsupported grant expenditures.
- 2H. Provide written evidence that its plans for providing homeowners with adequate home maintenance training has been fully implemented.

Lummi's Overstated Housing Stock Results in \$1.2 Million in HUD Overfunding

The Housing Division incorrectly included in housing formula calculations up to 95 homeownership units that had been paid off and/or conveyed. Under Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) regulations, these units should no longer have been considered Formula Current Assisted Stock. As a result, HUD overfunded the Lummi Nation's Indian Housing Block Grants by as much as \$1,279,768. This occurred because LIBC is not administratively capable of managing its federal grants (see Finding 1).

Regulations require removal of conveyed and paid off units

NAHASDA regulations (24 CFR 1000.318) state:

"Mutual Help and Turnkey III units shall no longer be considered Formula Current Assisted Stock when the Indian Tribe, TDHE, or IHA no longer has the legal right to own, operate, or maintain the unit, whether such right is lost by conveyance, demolition, or otherwise, provided that:

- (1) Conveyance of each Mutual Help or Turnkey III units occurs as soon as practicable after the unit becomes eligible for conveyance by the terms of the MHOA; and
- (2) The Indian Tribe, TDHE, or IHA actively enforce strict compliance by the homebuyer with the terms and conditions of the MHOA, including the requirements for full and timely payment."

The Mutual Help and Occupancy Agreement (MHOA), Article X, states:

- "...in accordance with this agreement, the IHA shall convey title to the homebuyer when the balance of the purchase price can be covered from the two equity accounts....The homebuyer may supplement

the amount in the equity accounts with reserves or other funds of the homebuyer.

- ...a home shall not be conveyed until the homebuyer has met all the obligations under this Agreement, except as agreed upon by parties. On the settlement date, the homebuyer shall receive the documents necessary to convey to the homebuyer the IHA's right, title and interest to the home....
- ...when a home has been conveyed to the homebuyer, whether or not with IHA financing, the unit is removed from the IHA's Mutual Help project.
- ...if a homebuyer has delinquency at the end of the amortization period, the unit is no longer available for assistance from HUD or the IHA, even though unit has not been conveyed."

Housing Division executes Bills of Sale

To determine whether the Housing Division has followed program requirements for conveyance, we interviewed the Housing Division staff and reviewed the 95 homeowner files of projects 28-1 (20 units), 28-2 (40 units), and 28-3 (35 units).

The Housing Division Director and a Resident Counselor said that the 20 project 28-1 homeowners paid off their units in the early 90's and are no longer making monthly payments. A review of the project 28-1 homebuyer files confirms this. All 20 files had a Bill of Sale and Assignment document that released both parties from further obligations under the Mutual Help and Occupancy Agreement:

"...in consideration of the payment in full of all monies and other obligations required to be paid by (homebuyer's name here) as the participant, under the terms of the Mutual Help and Occupancy Agreement between the Authority and the participant, which is hereby acknowledged, ...does hereby grant, sell, convey and assign to (homebuyer's name here) all the rights, titles and interest of the Authority..." in which the Housing Authority

"granted, sold, conveyed and assigned to homeowners all of its rights, titles and interest."

In the early 1990s, when HUD forgave the debt of all its Indian Housing Authorities, the Housing Board decided to forgive the debts of the 75 homeowners in projects 28-2 and 28-3. In 1993, LIBC stopped charging these homebuyers monthly payments even though the amortization periods had not yet ended. LIBC conveyed titles to the 75 homeowners by executing Bills of Sale and Assignment.

LIBC contends that it did not properly convey the units because the former Housing Director signed the agreements without the authority to do so. However, LIBC's Planning Department Director said that the former management made a decision to keep the units on the Housing Division's books in order to increase HUD funding. Regardless, the 95 units, should have been removed from the current housing stock because the units were paid off, as evidenced by the homebuyers ceasing to make monthly payments.

Lummi's overstated housing stock results in significant HUD overfunding

For Fiscal Years (FY) 1998 to 2000, HUD allocated \$12,415,279 to the Lummi Nation Indian Housing Block Grants (IHBG) under NAHASDA. As a result of including the 95 paid off and/or conveyed units in the current assisted stock figures, HUD over-funded the Lummi Nation's IHBGs by \$1,279,748 for FYs 1998 through 2000:

Fiscal Year	Original IHBG Allocation	Adjusted IHBG Allocation	Overfunding
1998	\$ 4,316,547	\$ 3,912,176	\$ 404,371
1999	\$ 4,240,168	\$ 3,808,445	\$ 431,723
2000	\$ 3,858,564	\$ 3,414,910	\$ 443,654
Totals	\$12,415,279	\$11,135,531	\$1,279,748

Auditee and HUD Comments and OIG Evaluation**Auditee comments**

The LIBC disagrees with Finding #3 and believes that maintaining the old Turnkey III and Mutual Help homes as part of Lummi's housing stock will allow Lummi to complete its goal of bringing these 95 homes up to HUD standards prior to conveyance. A substantial number of the housing deficiencies noted in Finding #2 relate to conditions in these older homes that this finding says have been or should have been conveyed. Review of the "Bill of Sale" documents referenced in this finding revealed discrepancies with the way they were drawn up and executed. Prior to correcting these conveyance problems, Lummi Housing believed it appropriate, indeed believed it was their duty, to bring these houses up to HUD standards before final conveyance. In 1996, CIAP funding began to be used to do the needed work on these homes. In prior years, CIAP funding was primarily used for asbestos removal, which consumed a far greater portion of the available funding than originally estimated. Removal of these homes from Lummi housing stock and a reduction of funding for addressing housing stock problems will only exacerbate the unsafe and unhealthy conditions noted by the OIG Inspector in Finding #2.

Most of the 95 homes at issue were built on individually owned trust lands leased to the former Lummi Housing Authority. The leases provide that when they are terminated, the improvements will revert to the landowners. Approximately 20 of these homes involve individual homebuyers who appear to own the underlying land. This means that when the leases expire on the individual trust lands where at least 75 of these homes were built, the ownership of the homes will revert to the underlying landowners. Litigation has already been initiated regarding several of these homes, with the landowners claiming ownership and attempting to evict the homebuyer.

Lummi is doing its best to disentangle these complex problems inherited from HUD-designed housing programs that were not particularly well suited to Indian country. Lummi Housing believes that properly authorized and executed conveyances to the correct parties will best protect the diverse interests of both homebuyers and trust landowners and will help to avoid unnecessary and divisive litigation.

OIG evaluation

LIBD contends its duty is to bring the 95 units up to standard. The OIG believes it was their duty to maintain the units in standard condition. Nevertheless, from 1994 through 1996, HUD provided \$1,582,102 for rehabilitation of LIBC's 95 older homes, including asbestos removal. Therefore, each of the 95 units had \$16,654 available for rehabilitation and asbestos removal. The condition of these units does not support LIBC's expenditure of these funds, but instead indicates waste of government funds and a lack of administrative capacity at LIBC.

It is not reasonable for LIBC to expect HUD to provide additional rehabilitation funds or to continue to provide funding for houses that have been paid for in full by the home owners.

Because the homeowners had no further financial obligation on the homes, LIBC should have removed the units from its formula current assisted stock regardless of its understanding of the status of the title conveyance.

HUD comments

HUD's Northwest Office of Native American Programs (NwONAP) stated that Lummi may be able to provide adequate information and documentation that could result in an adjustment to the unit count and dollar amount associated with this finding (see Appendix C).

OIG evaluation

The recommendations were revised to allow for adjustment in the number of houses and the amount of questioned costs.

Recommendations:

We recommend that you:

- 3A. Require LIBC to remove houses that have been conveyed to homeowners (up to 95 units) from its formula current assisted stock.
- 3B. Recover, due to Lummi including in its Formula Current Assisted Stock houses that had been conveyed to home owners, up to \$1,279,748 in overfunding by making the necessary adjustments to the Lummi Nation's future Indian Housing Block Grants.

Lummi Indian Business Council Misused Equipment Purchased with HUD Funds

Lummi Indian Business Council (LIBC) did not follow federal requirements for the use of equipment purchased with HUD funds. Specifically, LIBC: (1) inappropriately charged federally funded programs for the use of equipment purchased with federal funds; (2) did not return program income, generated by renting the equipment, to the Housing Division programs, as required; and (3) charged equipment rental fees that unfairly competed with private local companies. As a result, federal funds were not used for their intended purpose, program income was not used for affordable housing activities, and local firms may have been deprived of income. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

HUD requirements regarding equipment use, safeguarding of assets, and program income

Section 1000.26(a)(8) of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) regulations requires NAHASDA assistance recipients to comply with the following sections of grantee administrative requirements (24 CFR 85):

24 CFR 85.32(c) (Equipment) states:

- "Equipment shall be used by the grantee or subgrantee in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by federal funds."
- "The grantee or subgrantee shall also make equipment available for use on projects or programs currently or previously supported by the Federal Government, providing such use will not interfere with work on the projects or program for which it was originally acquired."
- "User fees should be considered if appropriate."
- "Notwithstanding the encouragement in Sec. 85.25(a) to earn program income, the grantee or subgrantee must not use the equipment acquired with grant funds to provide services for a fee to compete unfairly with private companies that provide equivalent services...."

Section 1000.62 of the NAHASDA regulations states:

“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 ...” and “Any program income can be retained by a recipient provided it is used for affordable housing activities....”

Lummi purchases construction equipment using federal funds

In September 1995, the LIBC entered into rental purchase agreements to buy an excavator and a backhoe. Using funds provided by HUD, the Housing Division made payments on the excavator until February 1998 and on the backhoe until March 1998. LIBC made the final payment on the (1) excavator by obtaining a loan using the excavator as collateral and (2) backhoe using Indian Health Services (IHS) funds provided by the Department of Health and Human Services (HHS).

In May 1997, LIBC entered into a lease/purchase agreement to buy a dump truck. Lummi Housing paid for the truck using HUD funds. The following discussion refers to the excavator, backhoe, and dump truck collectively as "equipment."

LIBC charged rental fees for use of equipment paid for with federal funds

Invoices show that from January through December 1999 LIBC collected rental fees (program income) of \$28,238 for the use of the equipment, including \$20,050 from federally funded projects and \$8,187 from non-federal sources:

Fund Code	Fund Source	Rental Invoice Amount	Project Name
200.2960	Bureau of Indian Affairs	\$ 200.00	Habitat Restoration
200.9201	Bureau of Indian Affairs	\$ 1,075.00	Water Rights
200.9715	Bureau of Indian Affairs	\$ 1,308.60	Emergency Repairs
282.1551	Bureau of Indian Affairs	\$ 300.00	Lummi Shore Road
282.1556	Bureau of Indian Affairs	\$ 3,525.80	Lummi Shore Road
385.5830	Health & Human Services	\$ 1,007.00	Exercise Building
404.5810	Health & Human Services	\$ 12,633.80	Assisted Living Facility
Federal		\$ 20,050.20	
	Northwest Indian College	\$ 5,725.00	
	Individuals	\$ 2,462.35	
Non-federal		\$ 8,187.35	
Total		<u>\$ 28,237.55</u>	

LIBC inappropriately charged federal programs for equipment use

LIBC did not follow federal requirements for the use of equipment purchased with federal funds. It inappropriately charged federally funded programs for the use of an excavator, backhoe, and dump truck purchased primarily with HUD and other federal funds.

HUD allows grantees to charge user fees (fees to cover operating expenses) for projects or programs supported by the federal government. However, LIBC charged federal agencies rental fees that exceeded equipment operating costs by \$20,571 (discussed below).

LIBC did not properly use program income

LIBC did not provide the Housing Division with the program income generated by renting that equipment, to use for affordable housing activities.

LIBC has a Lease Revenue account, which it uses to account for rental income. LIBC increases (credits) the account when it receives income, such as equipment rental fees, and decreases the account when it uses the income.

According to its accounting records, LIBC paid \$32,264.69 from the Lease Revenue account for the following expenditures:

Expenditure	Amount
Supplies	\$ 481.00
Repairs and Maintenance	3,614.56
Fuel	1,773.18
In House Labor/Equipment	1,797.79
Salaries and Wages	6,314.49
Accrued Annual Leave	110.70
Fringe Benefits	1,007.25
Professional Fees	35.42
Dues, Subscriptions, & Fees	2,884.25
Principal Payment – Equipment Loan	10,118.46
Operating Interest	2,823.59
Cleanup/Trash Removal	714.00
Equipment Rental	590.00
Total	<u>\$32,264.69</u>

Of the \$32,264.69, \$7,666.53 are valid equipment operating costs that could be charged as user fees (\$481.00 supplies; \$3,614.56 repairs & maintenance; \$1,773.18 fuel; and

\$1,797.79 in-house labor/equipment). However, the Housing Division records do not show that any of the remaining \$24,598.16 expenditures relate to affordable housing activities.

Also, note that the \$32,264.69 in expenditures exceeds the \$28,237.55 in program income generated by equipment rental fees (per the previous table). Apparently, LIBC simply charged the account \$4,027.14 more than the revenues it credited to the account.

Lummi should repay federal programs for the inappropriate rental fees and program income usage

LIBC should repay projects funded by the Bureau of Indian Affairs and Health & Human Services for the improperly charged equipment rental fees. LIBC should also reimburse the Housing Division programs for program income it did not use for affordable housing activities.

Fund Source	Rental Fees (program income)	Less: Operating Costs (user fees)	Refund Amount
Bureau of Indian Affairs	\$ 6,409.40	\$ 1,740.16	\$ 4,669.24
Health & Human Services	\$13,640.80	\$ 3,703.49	\$ 9,937.31
Non-federal	\$ 8,187.35	\$ 2,222.88	\$ 5,964.47
Totals	\$28,237.55	\$ 7,666.53	\$20,571.02

We calculated each account's pro-rated share of the user fees by multiplying each account's percentage of the total rental charges (\$28,237.55) by the allowable user fees (\$7,666.53). We subtracted the pro-rated share from each account's rental charges to determine the appropriate refund amount for each federal agency.

Example: Bureau of Indian Affairs:

- (1) \$6,409.40 rental fees
 $\$28,237.55 \text{ total rental fees} = 22.69814\%$
- (2) $22.69814\% \times \$7,666.53 \text{ total user fees} =$
 $\$1,740.16 \text{ pro-rata share of user fees}$
- (3) $\$6,409.40 \text{ rental fees less } \$1,740.16 \text{ user fees} =$
 $\$4,669.24 \text{ excess charges (refund amount)}$

As a result of its equipment rental practices, LIBC inappropriately charged Bureau of Indian Affairs and Indian Health Services projects \$4,669.24 and \$9,937.31, respectively, for use of equipment purchased with federal funds (nor did LIBC use these program income funds for affordable housing activities). Additionally, LIBC did not properly use for affordable housing activities \$5,964.47 of program income generated renting HUD purchased equipment to non-federal entities.

LIBC unfairly competed with local firms

LIBC unfairly competed with local companies by renting equipment purchased with federal funds at a rate lower than the local rate. According to HUD requirements: "Equipment acquired with grant funds may not be used to provide services for a fee to compete unfairly with private companies that provide equivalent services, unless specifically permitted or contemplated by Federal statute." (24 CFR 85.32(c)(3)) A comparison of LIBC's schedule for equipment rental per interviews with LIBC Planning Department personnel, and a review of invoices and quotes on rental charges for similar equipment obtained from rental firms in the local reservation area, showed some significant differences:

	Excavator	Backhoe	Truck
Company 1	\$390/day	\$190/day	
Company 2	\$375/day	\$190/day	
Company 3	\$360/day	\$180/day	
Company 4			\$95/day + .34/mile
Average Local Price	\$375/day	\$187/day	
LIBC	\$300/day	\$175/day	\$100/day

While the LIBC charges comparable rates for the truck, the LIBC excavator rate is \$75/day below the average local price and the backhoe is \$12/day below the average local price. As a result, LIBC unfairly competed in the local marketplace and may have unfairly deprived local companies of business income.

Auditee Comments and OIG Evaluation**Auditee comments**

The usage of the equipment in question did not interfere with HUD programs or projects. The primary issues raised by this finding are the classification of costs to determine operating income, the use of this operating income, and the setting of charge-out rates. Lummi Accounting believes the following classifications are the appropriate way to resolve this matter.

- Reimburse LIBC for the cost of the loan (\$37,000) to acquire the equipment and transfer administrative control to the Housing Division pending liquidation of the equipment and crediting of the Housing Division as per federal guidelines.
- Record all legitimate operating costs in the determination of program income on the rental of equipment and, after repayment of the loan, use this income for affordable housing activities only. This results in the calculation of program income presented in the finding to be restated as follows:

Revenue and Costs	Actual	HUD Finding
Rental Revenue	\$32,119	\$28,238
Operating Costs Shown in Finding:		
Supplies	481	481
Repairs and Maintenance	3,615	3,615
Fuel	1,773	1,773
In House Labor/Equipment	1,798	1,798
Additional Valid Operating Costs:		
Maintenance Salaries	456	
Systems Development Salaries	2,400	
Fringe Benefits	463	
Licensing	644	
Transportation/Maintenance	590	
Depreciation	7,439	
Interest	2,824	
Costs incurred during NWIC House Removal:		
Salaries	1,058	
Benefits	251	
Disposal of debris	2,954	
[subtotal - costs]	\$26,746	\$ 7,667
Amount to be Applied to Debt Service	\$ 5,373	\$20,571

OIG evaluation

LIBC did restrict the use of the equipment on housing projects. The Comprehensive Improvement Assistance Program (CIAP) foreman stated that he did not grade the yards of several elderly and handicapped individuals, including a blind woman, because the CIAP program could not afford to rent the equipment from LIBC. The photo below shows the very uneven and dangerous terrain where these individuals reside. Additionally, when asked about grading for drainage because of standing water in crawl spaces, the construction foreman gave the same response. LIBC's practices interfered in quality completion of housing projects.



LIBC did not pay \$37,000 for the equipment. It obtained a loan using the equipment as collateral. LIBC used housing program income to make the loan payments. LIBC should not request reimbursement for funds it did not expend. This would constitute a false claim.

In LIBC's list of additional operating costs, it appears the only additional expense that might be allowable is the cost of licensing. However, LIBC did not provide support for this figure so we were unable to determine the validity of the expense. LIBC did not provide any support for the costs in its response. Loan payments are a cost of ownership not an operating cost. Program income could be used to pay valid loan payments.

Office of Management and Budget (OMB) Circular A-87 states depreciation will exclude any portion of the cost of equipment borne by or donated by the federal government irrespective of where title was originally vested or where it presently resides. Therefore, since LIBC did not contribute to the cost of the equipment it cannot charge for depreciation. The equipment was the collateral for the loan and program income was used to make the loan payments.

The costs incurred during NWIC House removal were invoiced to Northwest Indian College (NWIC) and are not a part of affordable housing activities.

Recommendations:

We recommend you require LIBC to:

- 4A. Repay, from non-federal sources, \$4,669 and \$9,937 to Bureau of Indian Affairs and Health & Human Services projects, respectively, for fees that LIBC inappropriately charged to federal programs for rental of equipment purchased with federal funds, and did not use the program income for affordable housing activities.
- 4B. Reimburse the Housing Division's program income account \$5,964 from non-federal sources, for the program income generated by renting equipment purchased with HUD funds that the Housing Division did not use for affordable housing activities.
- 4C. Adjust its equipment rental rates to preclude unfair competition with local companies.

Lummi Indian Business Council Does Not Maintain Adequate Records to Support Grant Expenditures

Lummi Indian Business Council (LIBC) does not keep adequate records to support its grant expenditures. LIBC could not provide documentation to support \$25,382 of \$263,000 in Imminent Threat grants awarded under the Indian Community Development Block Grant program. As a result, HUD has no assurance that LIBC used these funds for the intended purpose. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

HUD requires grantees to maintain adequate records

The Imminent Threat Grant section of the regulations for Community Development Block Grants (CDBG) for Indian Tribes and Alaska Native Villages (24 CFR 953.501), requires grantees to comply with Standards for Financial Management Systems at 24 CFR 85.20.

The Standards for Financial Management Systems, Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Federally Recognized Indian Tribal Governments (24 CFR 85.20(b)(2)), states:

“Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.”

HUD awards Lummi grants to alleviate severe drainage problems

The exceptionally heavy rain and snow experienced during the winter of 1996-1997 caused three sewage pumping stations on the Lummi reservation to fail. Raw sewage was pumped onto the ground and into drainage ditches, contaminating surface and ground water. In January 1997, in order to obtain funds to undertake action to correct this "imminent threat to the health and safety of the Lummi Indian Nation," LIBC requested an Imminent Threat Grant under the Indian CDBG program.

The purpose of the grant was to (1) retrofit the pump stations to increase operational capacity to current load demands, and (2) construct storm water drains to divert storm water run-off from the pump stations, reducing the strain on these facilities.

HUD awarded the Lummi Tribe a total of \$263,000 under grants B97SR530001 (\$107,883) and B96SR530020 (\$155,117).

LIBC unable to support all Imminent Threat grant expenditures

LIBC stated in its Final Performance and Evaluation Report for the Imminent Threat grants, that the project goals had been achieved and that \$263,000 of costs "...have been incurred and paid out. Responsibilities of the Lummi Nation under the grant agreement and applicable laws and regulations appeared to have been carried out satisfactorily."

The audit disclosed that HUD disbursed \$263,000 to LIBC under the two Imminent Threat grants. However, LIBC was only able to provide invoices to support total grant expenditures of \$237,618. Because LIBC did not maintain adequate records for the Imminent Threat grants, it was unable to provide documentation for the remaining \$25,382 of grant expenditures. As a result, these grant funds may have been wasted or misused.

Auditee Comments and OIG Evaluation

Auditee comments

The LIBC disagrees with Finding #5. With regard to the "missing" documents referenced in this finding, the LIBC has, and always had, access to them simply by requesting copies from the sub-grantee of the Imminent Threat Grant funds. Enclosed is complete documentation to support the expenditures for the entire \$263,000 Imminent Threat Block Grant, including the \$25,382 questioned costs.

LIBC acknowledges that in some instances backup documents have been mis-filed and therefore are not immediately available. Given the volume of transactions processed by the Accounting Department, the number of mis-filed documents is not inordinately high and is not indicative of a lack of administrative capacity.

OIG evaluation

During the audit OIG staff repeatedly requested supporting documentation for the missing documents. LIBC staff did not provide the documentation, nor mention that the documentation was available. LIBC does not maintain adequate records of its procurement, labor, inventory, or accounting transactions.

Relative to comparable organizations, the lack of documentation is inordinately high. LIBC perception of the situation's severity indicates a lack of understanding of the necessity and value of maintaining adequate documentation and is a contributing factor to LIBC's lack of administrative capability.

The OIG is currently reviewing the information provided by LIBC and will assist the program staff in resolving this issue.

Recommendations:

We recommend you require LIBC to:

- 5A. Provide adequate documentation for the unsupported costs or repay the Indian Community Development Block Grant program \$25,382 from non-federal funds.
- 5B. Implement procedures to maintain adequate documentation for costs incurred on all grants.

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Lummi Indian Business Council Does Not Keep Track of Materials Inventory

Lummi Indian Business Council's (LIBC's) Planning Department does not adequately record, track, or conduct inventory verifications of the purchased and stored materials used in its construction and renovation projects. Without an adequate inventory system for construction materials, LIBC cannot ensure it safeguards assets purchased with federal funds by protecting them from theft and waste. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

Regulations require tribes to account for and safeguard assets

HUD regulations (24 CFR 85.20(b)(3)) state:

“effective control and accountability must be maintained for...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.”

Inventory controls lacking

LIBC's Planning Department is responsible for overseeing housing activities on the Lummi reservation, including new construction, routine maintenance of rental units, and substantial rehabilitation. These activities require a significant amount of material to accomplish program goals. Comprehensive Improvement Assistance Program (CIAP) rehabilitation grants from Fiscal Years 1995 through 1997 total \$1,480,522. According to Housing Division records, a rough estimate of the cost of materials for these grants is over \$536,000.

We requested information on LIBC's materials inventory system. LIBC Planning Department supervisors reported that LIBC does not record, track, or reconcile its materials inventory. As a result, LIBC cannot identify materials delivered, used, missing, or wasted. To illustrate, the audit found one case where someone removed an installed window from a home that was under construction. There is no record of the theft in LIBC's accounting records.

A review of Housing Division records revealed two invoices for roofing materials delivered to the same address. The Housing Division paid two invoices, each totaling exactly \$1,071.72. A

notation on one of the invoices said that the vendor delivered the original load to the wrong house. In an interview, an LIBC supervisor stated that usually when a vendor delivers materials to the wrong address, LIBC's crew moves the material to the correct address. The supervisor confirmed that there are no records showing if or where LIBC used the two loads of roofing materials.

As a result of its inadequate inventory system, LIBC cannot accurately track its material use to ensure that materials are not subject to waste, fraud and abuse. Additionally, the system does not provide sufficient cost data for management to make informed material acquisition decisions. LIBC cannot confirm it used all the material for authorized purposes and that it safeguards assets purchased with HUD funds.

Auditee Comments and OIG Evaluation

Auditee comments

The Lummi Indian Business Council maintains a property and inventory control system for its general operations. However, an inventory control system for construction materials was not maintained. That problem is being addressed and implementation of an inventory control system is underway.

OIG evaluation

The OIG reviewed LIBC's construction inventory system only. However, LIBC's independent public auditor reported that LIBC had not conducted a review of its fixed asset inventory in the past two years. If properly implemented LIBC's corrective action plan should resolve this issue for its construction inventory.

Recommendations:

We recommend that you require LIBC to:

- 6A. Implement an inventory system that accounts for materials received, used, and stored and provides for periodic monitoring and reconciliation of its materials inventory.

Lummi's Inadequate Labor and Timekeeping Systems Result in Inequitable Charges to HUD-Funded Activities

Lummi Indian Business Council (LIBC) does not have an adequate labor timekeeping system and related internal control policies and procedures. LIBC does not accurately record, adequately support, or correctly charge labor costs to federal grants. As a result, LIBC:

- **improperly charged the HOPE I grant \$18,814 for labor unrelated to the grant;**
- **does not have accurate accounting records that tie to source documents;**
- **charged budgeted labor hours rather than actual hours worked; and**
- **mischarged fringe benefits.**

This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

Regulations require grantees to implement standards for timekeeping systems

Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) regulations (24 CFR 1000.26(a)) require recipients to comply with certain sections of 24 CFR Part 85 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," and with the standards of Office of Management and Budget (OMB) Circular No. A-87, "Principles for Determining Costs Applicable to Grants and Contracts with State, Local and Federally recognized Indian Tribal Governments."

- 24 CFR 85.20(b) Standards for Financial Management Systems, states:
 - (1) "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."
 - (6) "accounting records must be supported by such source documentation as canceled checks, paid bills, time and attendance records, contract and subgrant award documents, etc."

- Per OMB Circular A-87:
 - Attachment A,C.3. states:

“A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”
 - Attachment B,11.h.(5) states:

"Personnel activity reports or equivalent documentation must meet the following standards:

 - They must reflect an after-the-fact distribution of the actual activity of each employee,
 - They must account for the total activity for which each employee is compensated,
 - They must be prepared at least monthly and must coincide with one or more pay periods,
 - They must be signed by the employee, and
 - Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards...."

HOPE I grant mischarged
\$18,814

LIBC used HOPE I funds to pay an employee for work done on activities unrelated to the grant. Accounting records show LIBC charged the HOPE I Implementation grant \$47,035 for the salary and fringe benefits of the Gaming Policy Coordinator between January 1997 and January 1998. A LIBC Financial Administration Form indicated the Coordinator's entire salary was to be paid from HOPE I funds.

The Coordinator is no longer an employee of LIBC; however, the HOPE I Director and the Coordinator's former supervisor jointly estimated the Coordinator spent about 60 percent of his time on HOPE I projects. As a result, LIBC charged the

Lummi's method for recording and charging labor

HOPE I grant approximately \$18,814 (40% of \$47,035) of the Coordinator's salary for time worked on other projects.

LIBC accounting personnel and the Housing Division bookkeeper explained LIBC's method of charging labor to housing projects as follows:

LIBC's Planning Division employees submit timecards to the Planning Secretary every two weeks. The Construction Department employees submit timecards to the Housing Division every two weeks. Personnel in the Planning and Housing Divisions:

- prepare a Payroll Detail Report from the employee timecards, showing each employee's total labor by project; and
- retain copies and send the original Payroll Detail Report and timecards to LIBC's Accounting Department for payroll processing. Planning provides a copy of its Payroll Detail Report to the Housing Department.

LIBC's Accounting Department:

- charges *all* of an employee's hours to the Housing Division if the employee worked on a housing activity for any hours during the two weeks;
- sends a labor distribution report showing all current project hours to the Housing Division for payment; and
- shows the total Housing Department labor amount as a receivable.

The Housing Division Accounting Department:

- reconciles the labor distribution report to the Payroll Detail Report and identifies all labor not related to housing activities;
- prepares a voucher for the adjusted payroll, including only the wages spent on housing activities;
- prepares adjusting journal entries for LIBC's accounting department to remove non-housing related labor from LIBC's receivable records;
- prepares a separate Housing Division labor distribution report including only the housing related labor; and

- records the labor cost in the Housing Division's accounting system.

LIBC's labor system allows the recording of inaccurate labor data, does not identify and correct labor errors, and its labor accounting records do not tie to its source documents. As a result, labor charges on government grants are not accurate.

LIBC's labor system does not ensure accurate labor recording.

According to the Housing Division personnel, LIBC's Accounting Department does not record the adjusting entries on a timely basis. As a result, LIBC's accounting system labor records do not reconcile to the Housing Division labor records. The Housing Division bookkeeper and an LIBC accounting employee each spent six months reconciling the records for 1998. The 1999 records do not agree and they are currently working on reconciliation. As of March 2000, the Fiscal Year (FY) 2000 accounts are out of balance.

Additionally, any labor not identified by the Housing Division personnel as unrelated to housing remains on HUD grants. Since the Housing Division does not supervise LIBC's workforce and because the timecards are not reliable (see next section), there is no assurance that the Housing Division correctly identifies labor related to housing.

The labor reports and supporting documentation do not reconcile

A review of the pay period ending June 12, 1999, disclosed discrepancies among the timecards, LIBC's Payroll and the Housing Division accounting records. We multiplied hours by the employee's rate of pay to determine the labor cost for the timecards and the Payroll Detail Report and compared the figures to the Housing Division accounting records. The following illustrates the discrepancies the comparison disclosed:

Project	Timecard (Hrs x Rate)	LIBC Report (Hrs x Rate)	Housing Records
HOPE I		\$ 482	\$642
28-4		\$ 160	\$0
Employee 1		\$ 642	\$642
CIAP 403		\$ 476	\$0
28-916A		\$0	\$532
Employee 2		\$ 476	\$532
28-15	\$570	\$ 608	\$973
CIAP 403	\$342	\$ 342	\$0
Other	\$0	\$ 532	\$0
419	\$ 38	\$0	\$0
Employee 3	\$950	\$1,482	\$973

The timecard boxes for employees 1 and 2 are blank because Lummi staff could not locate the timecards.

These three examples illustrate the potential for error in a system without reliable controls. Labor reports are not consistent and do not tie to source documents and therefore, cannot be relied upon:

- Employee 1 - LIBC's Payroll Detail Report does not tie to Housing Division' accounting records. The total wage ties but charges to individual projects do not tie.
- Employee 2 - LIBC's Payroll Detail Report does not tie to Housing Division' accounting records. The wage total and the individual project amounts do not tie.
- LIBC's Payroll Detail Report, the timecards, and the Housing Division' accounting records are all different. The wage totals and individual project amounts are all different.

Labor charged by budget rather than actual hours worked

LIBC charged labor costs to Housing Division programs using budget estimates. OMB Circular A-87 (Attachment B, 11.h.(5)) states that (1) personnel activities reports must reflect an after-the-fact distribution of the actual activity of each employee, and (2) budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards.

A review of timecards for seven LIBC employees from three different pay periods showed that the seven employees charged the same number of hours to the same activities every day during the pay period. As an illustration of the potential for mischarging to grants, LIBC charged 88 percent of one Planning Department employee's hours to the Housing Division. However, the employee's work documentation showed only 36 percent of the employee's time was spent on housing activities. LIBC provided no documentation justifying the hours charged.

As a result of the practice of charging labor by budget, LIBC charged HUD for work unrelated to its grants. Additionally, LIBC cannot accurately compare its budget estimates with its actual costs as required by 24 CFR 85.20, Standards for Financial Management Systems, which states:

"Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant."

Employee (fringe) benefits
mischarged

LIBC does not allocate employee benefits equitably. federal regulations require that goods and services be charged to benefiting projects according to the relative benefits received. LIBC charged one (of seven reviewed) employee's annual leave solely to housing projects instead of being equitably allocated to all the projects the employee worked during the pay period. As a result, HUD grants were overcharged for the employee's benefits.

We concluded that grant labor
costs are not reliable

The audit found that LIBC's original source documents (timecards), its accounting records, and the associated labor reports are not reliable. LIBC's Independent Public Auditor concurred in our opinion, in the audit report for FY 1998 that noted "the potential exists for employees to be paid the incorrect wage or to be paid for hours not worked. Also, lack of supporting documentation could result in expenditures being charged to the incorrect program or department." LIBC's labor system does not have the fundamental requirements of an adequate labor system, such as reliable source documents and the necessary internal control to ensure that labor charges are accurately recorded to cost objectives. Therefore, it should not be relied upon to correctly charge labor costs to federal grants.

Because LIBC's source documents and its accounting records are not reliable, we were unable to determine what the correct labor expenditures on HUD grants should have been. However, HUD paid for approximately \$1.5 million of LIBC's labor costs from 1997 to 1999. Therefore, it is imperative that LIBC implement a labor system that accurately records, adequately supports, and correctly charges labor costs to HUD grants.

Labor system not adequate for charging to government grants

We concluded that LIBC's labor system does not accurately identify and record all valid transactions. The audit disclosed:

1. Labor accounting record discrepancies;
2. Timecard (source documentation) discrepancies; and
3. Internal control weaknesses.

(See Appendix E for a complete list of discrepancies and weaknesses.)

As a result, LIBC does not have an adequate labor system for recording costs on federal grants.

Auditee Comments and OIG Evaluation

Auditee comments

LIBC recognized many of the points raised in this finding prior to receiving the draft report, and in the past two years has taken steps to address problems within the Payroll Department. Since January 1999, a new financial software package has been installed, the staff of the Payroll Department has been replaced with more competent personnel, and procedures have been reviewed for internal control weaknesses and are in the process of being revised where necessary. While this has led to substantial improvements in the operations of the Payroll Department, further action is also planned.

In response to the finding that in 1997 HOPE I funding compensated a Gaming Policy Coordinator, LIBC personnel records document that the employee in question has not been a Gaming Policy Coordinator since 1995. In 1997, his job title was Logistics and Operations Coordinator for the Economic Development Department.

A review of the employment activities of this employee will be made. Any of his job activities not belonging to HOPE I will be adjusted accordingly.

OIG evaluation

The OIG conducted its labor system review in February and March 2000. LIBC's records and interviews with its accounting personnel do not support LIBC's claim that the labor system improved in January 1999.

LIBC's corrective action plan includes many positive measures; however, it is unclear whether the measures address all the points included in the recommendations (for example, charging actual rather than budgeted hours). LIBC and HUD should ensure that the corrective measures address all items included in the recommendations.

Recommendations:

We recommend you:

- 7A. Require the Lummi Nation to repay from non-federal funds, the \$18,814, charged to HOPE I for the Coordinator's salary, and for time spent on other projects in 1997 and 1998, unless Lummi can provide documentation to support the charges.
- 7B. Disallow payment for all labor costs until LIBC implements an adequate time keeping system that ensures accurate labor charging, including:
 - adequate written and implemented policies and procedures;
 - records of actual hours as they are worked;
 - time cards that for each pay period accurately record project numbers, dates, job descriptions, and total hours;
 - records that identify the number of hours worked by job;
 - supervisory review and certification for all hours worked;
 - accurate computation and charging of labor costs, including employee benefits, to projects;
 - on-going formal training for all employees in timekeeping practices; and
 - monitoring of the overall integrity of the timekeeping system, including testing labor charges for accuracy and performance of unannounced floorchecks.
- 7C. Require the Lummi Nation to reconcile the labor between LIBC and its Housing Division and implement procedures to ensure the two systems balance on a monthly basis.

Lummi Indian Business Council Does Not Maintain Adequate Procurement Records

Lummi Indian Business Council (LIBC) does not maintain adequate records to show that it complies with HUD procurement requirements. As a result, HUD has no assurance LIBC purchased goods and services that were the most advantageous to its housing programs or that free and open competition exists in its procurement process. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

HUD procurement regulations

HUD procurement requirements at 24 CFR 85.36 state:

- “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.” (para (b)(9))
- “Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations: ... (i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured.” (para (c)(3))
- “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 for procurement by non-competitive proposal.” (para (d)(4)(ii))
- “Requests for proposals will be publicized and identify all evaluation factors and their relative importance” for competitive proposal procurements. (para (d)(3)(i))

LIBC does not maintain adequate or complete records of procurement actions

We reviewed 16 of LIBC's procurement files to determine if they contain the required supporting documentation. The procurement files contained documents related to 12 small purchase procurements, 3 non-competitive procurements, and 1 procurement by competitive proposal.

The review disclosed that:

- seven (58%) of the twelve small purchase procurements had no document stating which firm was awarded the contract.
- nine (75%) of the twelve small purchase procurements had no technical specifications for the material or service.
- None of the three non-competitive procurements had the required cost analysis.
- The procurement by competitive proposal did not have a copy of the Request for Proposal. Also, the file did not contain the rationale for the method of procurement.

LIBC procurement files do not tie to the Housing Division accounting records

LIBC performs the procurement function for housing programs, and then invoices the Housing Division for purchases made. A comparison of LIBC's procurement file records to the Housing Division's accounting payment records for three contractors showed significant unaccounted for differences:

Project	Contractor	LIBC	Housing	Difference
28-15	Solomon Drywall	None	\$ 85,843	(\$ 85,843)
CIAP 915	Solomon Drywall	None	\$ 24,180	(\$ 24,180)
Not Identified	Solomon Drywall	\$ 4,603	None	\$ 4,603
	Solomon Drywall	\$ 4,603	\$110,023	(\$105,420)
28-15	Sherwin Williams	\$ 38,588	\$ 59,310	(\$ 20,722)
28-13	JK Leppala & Sons	\$151,708	\$ 22,398	\$ 129,310
28-15	JK Leppala & Sons	\$ 49,333	\$ 70,658	(\$ 21,325)
28-23	JK Leppala & Sons	\$ 17,619	\$ 25,884	(\$ 8,265)
CIAP 913	JK Leppala & Sons	\$ 95,000	\$ 6,267	\$ 88,733
	JK Leppala & Sons	\$313,660	\$125,207	\$188,453

LIBC's procurement files do not contain records of the amounts actually paid on specific contracts and the Housing Division accounting system does not identify payments to a specific contract award. From the available information, we could not determine if: (1) the contractors were paid correctly; (2) there were change orders; (3) the scope of work was complete; or

(4) the amounts in the accounting records relate to the contract award.

LIBC's written policies and procedures do not ensure procurements conform to federal standards

LIBC has incomplete written procurement policies and procedures that do not include important HUD regulatory requirements. The incomplete policies and procedures are a contributing factor to its inadequate procurement documentation.

LIBC's written contracting procedures:

- Contain no provision for obtaining price or rate quotations from an adequate number of sources when purchasing material as required by 24 CFR 85.36(d).
- Do not include the non-competitive procurement procedures requirement of 24 CFR 85.36(d)(4)(B) that "the public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation."
- Have no written code of standards of conduct governing the performance of the employees engaged in the award and administration of contracts as required by 24 CFR 85.36(b)(3).

LIBC's procurement procedures and practices do not comply with HUD procurement regulations at 24 CFR 85.36. The procurement files are incomplete, and do not contain contracts that approximate the project amounts recorded by the Housing Division. Also, its written policies and procedures do not comply with HUD regulations. As a result, there is no assurance that LIBC bought the goods and services that were the most advantageous to HUD programs or that free and open competition exists in the procurement process.

Auditee Comments and OIG Evaluation

Auditee comments

The Lummi Indian Business Council has established policies and procedures for procurement which we are currently reviewing for compliance with federal regulations. The 16 procurement

files reviewed by the OIG Inspector were Housing and Construction files, not LIBC Accounting Department files. This finding highlights the need for improved coordination and application of consistent procurement policies throughout the LIBC organization.

OIG evaluation

The OIG review addresses only LIBC's construction department procurement files. LIBC's corrective action plan substantially addresses the concerns reported in this finding. However, the corrective action plan should also ensure that LIBC's procurement files reconcile to the Housing Division's accounting records.

Recommendations:

We recommend you require LIBC to:

- 8A. Incorporate written procedures and implement a system of internal control that will ensure procurements are made in accordance with federal regulations.
- 8B. Track its contracts and change orders to ensure that (1) it pays contractors correctly; (2) the contract scope of work is complete, and (3) LIBC procurement records reconcile to the Housing Division's accounting records.

Housing Division Did Not Always Verify Family Income

Lummi Indian Business Council's (LIBC's) Housing Division did not always verify family income as required by its policies and procedures and program requirements. As a result, HUD has no assurance that the Housing Division only admitted eligible families into its housing programs. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

NAHASDA and Lummi guidance require adequate documentation of eligibility

Section 1000.128 of the Final Rule of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) requires recipients of NAHASDA grants to:

“...verify that the family is income eligible based on anticipated annual income...maintain the documentation on which the determination of eligibility is based.”

The Housing Division Admissions and Occupancy Policies and Procedures state “income is the most important factor in determining a family’s eligibility for housing and among the most likely to be subject to misrepresentation or error.” It also states “all verification forms utilized for third party verification should permit accurate determination of eligibility and placement...” It requires that the Housing Division:

- “establish adequate methods of verifying income which include third-party written verification through an employer or public agency; or review of documentation provided by the family such as benefits checks, canceled checks, etc.
- staff determine the annual family income for admission on the basis of verification of income at the time of initial application;
- staff verify and certify a selected family’s composition, income and earnings prior to initial occupancy;

- staff verify and certify a selected family's composition, income and earnings prior to initial occupancy;
- shall require execution of appropriate release and consent form which will authorize the verification of applicant/resident information by any depository, private source of income, and Federal, State or local agency;
- resident file should include a memorandum issued by the counselor where third party verification is not available."

Family income was not always verified

Audit staff selected and reviewed (1) 28 of 75 applicant files listed in the combined waiting list to determine if the Housing Division verified their income at initial admission, and (2) all 76 current resident files, selected for housing from February 11, 1998 to August 30, 1999, to determine if the Housing Division verified their income prior to occupancy.

The review found that the Housing Division did not verify the income of:

- six out of 28 applicants at initial admission
- six out of 76 residents prior to occupancy

These applicant and resident files contained no documentation from applicants or third parties to support the income disclosed on their application or memoranda issued by Resident Counselors that third party verification was not available. Additionally, the Housing Division was not able to provide documentation of any review or monitoring of its income verification process. As a result, HUD has no assurance that the Housing Division only admitted eligible families into its housing programs.

Auditee Comments and OIG Evaluation**Auditee comments**

The Lummi Housing Division has always obtained family income information to assure the eligibility of its housing occupants. Lummi Housing will focus more staff resources to assure that third party verification is obtained where possible and that all files are fully documented.

OIG evaluation

As part of its focusing additional staff resources on income verification, the Housing Division also needs management controls over this process to ensure compliance with its plan. If properly implemented with adequate controls, these changes should resolve the finding.

Recommendations:

We recommend you require LIBC's Housing Division to:

- 9A. Implement a system of internal control, including adequate supporting documentation and management oversight, to ensure that it properly verifies family income for all applications.

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Revised Waiting List Excludes Applicants

Lummi Indian Business Council's (LIBC's) Housing Division did not follow its waiting list policies and procedures or the program requirements. Specifically, the Housing Division (1) excluded eligible applicants when it combined its waiting lists, (2) did not retain waiting lists used when selecting applicants, so that we could not determine if it appropriately selected homebuyers and tenants, and (3) did not maintain adequate applicant documentation. As a result, the Housing Division did not provide all eligible applicants an equal opportunity to receive HUD-assisted housing. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

NAHASDA regulations and Lummi policies require adequate selection procedures

According to Section 207 Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) requirements:

“The owners or manager of affordable rental housing assisted with grant amounts under this Act shall adopt and utilize written tenant selection policies and criteria that...provide for...the selection of tenants from a waiting list in accordance with the policies and goals set forth in the Indian housing plan for the tribe...”

The Housing Division's 1996 Admissions and Occupancy policies and procedures state:

“It is the policy of the Lummi Nation Housing program to review all applications received for potential eligibility on all housing programs offered by the program, regardless of the housing program identified by the applicant...It is the intention of the Housing program to fully and accurately identify all Lummi Nation members who are in need of housing.”

"A waiting list will be maintained for each of the Housing Programs offered by the Lummi Nation Housing program. Waiting Lists will be reviewed every six months by staff. Applicants who no longer need housing for whatever reason will be

removed. Each applicant who has not already updated his/her file will be contacted and asked to supply current information about their income, family size and housing needs."

"Failure to provide the information requested will not result in the removal of the family from the waiting list. Failure to provide the information requested will result in an appropriate notation being made on their application and the family will not be selected for participation in any housing program ... until all the requested information is provided."

"After determining eligibility, a waiting list of potential renters and another for homebuyer applicants will be maintained according to the time and date of application and other pertinent factors.... These waiting lists will be used by staff in selecting tenants and homebuyers."

Applicants excluded from combined waiting list

In January 1999, a Housing Division Resident Counselor decided to combine the Mutual Help and the Rental waiting lists. She included on the combined list only those applicants who had updated their applications within the last six months. The Counselor excluded all other applicants, placing their applications in an inactive status file. According to its waiting list policies and procedures, the Housing Division is required to make an appropriate notation on applications when the applicant does not provide the information requested, but should not remove the family from the waiting lists. The Housing Division Resident Counselor told us that she did not notify the applicants of their exclusions from the new waiting list.

When the Housing Division decided to combine its two separate waiting lists, it did not ensure that all eligible applicants were included on the new list. The process for combining the waiting lists excluded potentially eligible applicants, who might have been ranked higher than applicants that were not excluded. As a result, the Housing Division may have denied eligible low-income families affordable housing assistance.

Selection documentation not adequate

The Housing Division does not retain the waiting lists used when selecting applicants for housing. Audit staff requested copies of the two lists used to develop the new combined list. The Resident Counselor was unable to provide these lists or any lists from the relevant time frame.

The Resident Counselor provided a list of 512 applicants whose applications she placed in an inactive file and excluded from the new list. However, since the Resident Counselor did not retain a copy of the original waiting lists used in the combination, we could not validate the accuracy of her selection process. Also, the Housing Division Director did not review the new list or approve removal of the inactive applicants.

The Housing Division does not retain the waiting lists used when selecting applicants for housing. Therefore, it cannot provide HUD with assurance that it selected homebuyers and renters in accordance with program requirements and its policies and procedures. As a result, the Housing Division may not have provided all applicants an equitable opportunity for housing assistance.

Application documentation not adequate

The Housing Division does not maintain adequate application documentation. Our review disclosed applications without all required signatures, and without evidence that it verified annual income. As a result, the Housing Division may have provided housing assistance to ineligible applicants.

Auditee Comments and OIG Evaluation

Auditee comments

Lummi disagrees that it has excluded anyone from its waiting list. In an attempt to update its waiting list, Lummi Housing created a list of applicants who had provided updated information within the past six months. However, no one on the old waiting lists was excluded from any list. Notices were posted and letters sent requesting updated information. When updated information was received, the individual's name was transferred to the updated list. No list was destroyed and no one was removed.

OIG evaluation

The Lummi Housing Division provided the OIG with the names of 512 applicants who were on the two original waiting lists but not on the combined lists. Lummi states it sent letters requesting updated information. However, the counselor said she only sent letters to applicants who had provided information within the past six months. Also, the counselor stated she did not keep the two waiting lists she used to develop the new combined list. Because the original lists were not maintained, there is no way to determine for certain if an eligible applicant was eliminated; however, the number of applicants eliminated raises serious concerns about the process used to combine the lists. LIBC and HUD should ensure that the corrective measures adequately address concerns regarding removal of eligible applicants from the waiting lists (Recommendation 10B.) and maintaining waiting list documentation (Recommendation 10C.).

Recommendations:

We recommend you require LIBC's Housing Division to:

- 10A. Review all open applications and ensure the waiting list is complete and appropriately ranks all applicants.
- 10B. Implement controls to prevent the removal of eligible applicants from the waiting lists.
- 10C. Maintain documentation of the waiting list used for each selection.
- 10D. Implement controls and procedures to ensure that application documentation is complete and accurate, including required signatures and evidence of income verification.

Improper Subleases Thwart the Purpose of Homeownership Program

By not enforcing its own sublease policies and allowing improper subleases, Lummi Indian Business Council's (LIBC's) Housing Division thwarts the intent of the Mutual Help Homeownership Opportunity Program to provide homes for homebuyers who will occupy and maintain their own homes. The Housing Division actively participated in the improper subleases by receiving monthly payments from and re-certifying income of tenants who subleased the homes, instead of the homebuyers. Basing monthly payments on the tenant's income results in the Housing Division misstating the homebuyer's Monthly Equity Payments Accounts. This occurred because LIBC lacks the administrative capacity to manage its federal grants (see Finding 1).

The purpose of the Mutual Help program is to help Native Americans achieve home ownership

According to the Mutual Help and Occupancy Agreement (MHOA), the Mutual Help Homeownership Opportunity Program "...will give the homebuyer an opportunity to achieve ownership of a home in the project in return for fulfilling the homebuyer's obligations to make a contribution to the development of the project, to make monthly payments based on income, to provide all maintenance of the home, and to satisfy all other requirements including an annual certification of income and family composition."

The Mutual Help and Occupancy Agreement also states that:

- each homebuyer is required to make a monthly payment.
- after the initial determination of the homebuyer's monthly payment, the Indian Housing Authority shall increase or decrease the homebuyer's monthly payment in accordance with HUD regulations and reflect changes in adjusted income pursuant to a reexamination or re-verification by the Housing Division.
- the homebuyer shall not, without the approval of the Indian Housing Authority and HUD, assign or pledge any right in this Agreement.

LIBC's policies allow Mutual Help participants to sublease their homes under special circumstances

- the Indian Housing Authority is responsible for taking appropriate action with respect to any noncompliance with this Agreement by the homebuyer.

The Housing Division's Mutual Help sublease policy enables homebuyers to temporarily sublease their homes in the following situations:

1. Education: When the homebuyer wants to attend school to obtain a degree or certification.
2. Employment: Seasonal employment, or a homebuyer who takes a full time job out of the geographic area of his/her home, not-to-exceed one year of four years within any five year period.
3. Medical care: The homebuyer needs to leave the unit for medical reasons.
4. Military: Temporary duty assignment.

The Housing Division's sublease policies also require:

- the homebuyer to obtain prior written approval from the Housing Division.
- that tenants make rental payments directly to the homebuyer. The homebuyer is still responsible for making required monthly payments under the Mutual Help program to the Lummi Nation Housing program.
- the homebuyer to be re-certified for continued occupancy on an annual basis. All of the rental income will be taken into account during re-certification, which may result in a change to the required monthly payments.

The Housing Division does not enforce its sublease requirements

According to the Housing Division Director, five Mutual Help homebuyers are subleasing their units to third parties. A review of the files of these five homebuyers found that the Housing Division did not enforce its sublease policies and the Mutual Help and Occupancy Agreement's sublease provisions when it:

- did not require three of the five homebuyers to obtain the Housing Division's approval to sublease their homes, nor did the Housing Division maintain any documentation of the reasons for allowing the three homebuyers to sublease their homes.

- allowed two homebuyers who did submit requests to sublet for ineligible reasons:
 - I. One homebuyer was allowed to sublease because the homebuyer was unable to make the monthly payments.
 - II. One homebuyer was a convicted felon who was incarcerated.
- required the tenants and not the homebuyers to make monthly payments.
- recertified the income and expenses of the five tenants instead of the homebuyers, and used those calculations to determine the monthly payment on the unit.

Improper subleases thwart the intent of the Mutual Help program

The Mutual Help program is intended to provide homeownership opportunities to Native American families who will reside in and maintain their homes. By approving improper subleases and allowing homebuyers to sublease their homes without obtaining prior approval, LIBC's Housing Division thwarts the purpose of the Mutual Help program.

Housing Division compounds improper subleases by dealing with tenants instead of homebuyers

The Housing Division lends credibility to, and becomes an active participant in these improper subleases by collecting monthly payments from tenants instead of homebuyers, and by annually recertifying tenants instead of homebuyers. By using the tenant's income to determine the monthly payment, the Housing Division may have misstated the associated Monthly Equity Payments Accounts (MEPA) of the homebuyers. However, since the Housing Division did not obtain from the homebuyers the income and expense information that would be necessary to calculate the correct monthly payments, we were not able to determine any misstated amounts.

Auditee Comments and OIG Evaluation

Auditee comments

Currently, there are approximately 116 homes in the new Mutual Help Homeownership Program. Only 5 have subleases. These subleases generally complied with Lummi Housing

Policies at their inception, although file documentation may not have been complete. In the case of the lease alleged to have been improperly approved on the basis that the homebuyer could not make the monthly payments, the homebuyer was entering a health institution deemed eligible as medical care.

OIG evaluation

The OIG believes the Lummi Housing Division's corrective action plan, if properly implemented, will resolve this deficiency.

Recommendations:

We recommend you require LIBC's Housing Division to:

- 11A. Comply with its policies and procedures and Mutual Help and Occupancy Agreement provisions regarding subleases to ensure they are properly executed and enforced.
- 11B. Terminate the two improperly approved subleases.
- 11C. Review the three unapproved subleases for legitimacy and approve or terminate as appropriate. Maintain complete documentation.
- 11D. For existing subleases, immediately begin recertifying and receiving payments from the homebuyers. Also, determine misstatements to Monthly Equity Payments Accounts and make appropriate adjustments.

Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Significant Controls

We determined controls over the following were relevant to our audit objectives:

- Accounting system
- Construction and maintenance
- Equipment management system
- Labor system
- Inventory system
- Procurement system
- Estimating system
- Screening, admission, and selection of residents

We assessed the relevant controls identified above.

Significant Weaknesses

It is a significant weakness if internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Based on our review, we believe the following items are significant weaknesses.

LIBC lacks the internal controls necessary to ensure that it:

- manages federal grants effectively without waste, fraud, or mismanagement. (Finding 1)
- provides safe and healthy housing conditions, adequate inspections, quality work products and safeguarding of valuable HUD resources. (Finding 2)
- carries out grant requirements. (Finding 3)
- properly records and uses program income, and makes federally purchased equipment available for use on federal projects. (Finding 4)
- accurately records and maintains records to support grant expenditures. (Finding 5)
- accurately tracks, records and verifies materials to ensure proper accounting of grant costs and the safeguarding of assets. (Finding 6)

- accurately and completely identifies and records all valid labor transactions. (Finding 7)
- complies with procurement regulations, properly accounts for contract costs, and purchases goods and services that are the most advantageous to the government. (Finding 8)
- properly screens applicants and admits only eligible families into its housing program. (Finding 9)
- does not exclude eligible applicants from its housing program. (Finding 10)
- implements sublease practices that do not thwart the purpose of federal programs. (Finding 11)

Issues Needing Further Consideration

In addition to the findings, the audit identified issues needing further consideration. Although important, we did not think these issues warranted being reported as audit findings. However, these issues could become significant if not timely addressed.

LIBC should use a modular home for the benefit of tribal members

In 1996, the Housing Division sold a 5-bedroom modular home that was purchased with HUD funds to LIBC's Family Services Division. LIBC intended to use the unit as temporary shelter for children whom the Tribal Court removed from their homes. However, at the time of our field work, LIBC had never used the home as a shelter. Consequently, since 1996 LIBC in effect has denied housing to a low-income family housing with no benefit to its Family Services clients. LIBC should take action to use the modular home for the benefit of low income tribal members.

LIBC cannot apply its indirect cost rate to housing grants

LIBC currently does not apply its indirect cost rate to HUD grants. However, during the audit LIBC indicated it intended to apply its rate to the FY1999 and all future grants. We reviewed the indirect cost rate proposal and determined that LIBC's rate calculation did not include housing grants in the base and therefore LIBC cannot apply the rate to housing grants. Also, LIBC does not (1) have an accounting system with adequate internal controls to ensure that it excludes unallowable costs from the pool, or (2) provide training or guidance on allowability, allocability, or reasonableness of costs to employees responsible for classifying costs.

Lummi Housing could save money by not screening applicants so frequently

LIBC's Housing Division screens applicants during initial application, every six months thereafter, and prior to occupancy. The Housing Division could save resources by only screening applicants during initial application and again prior to occupancy.

Home ownership houses built on leased land causes problems

LIBC's Housing Division built Mutual Help and Turnkey III homes on leased land, so that the owners of these homes do not own the land. Succession problems arise when the leases expire. In two cases we reviewed, landowners took the issue of home ownership to Tribal Court. The Tribal Court found that the houses belonged to the owners of the land. Lummi Housing should determine the home ownership status of the Turnkey III and Mutual Help houses that were built on leased land, and should not build any other home ownership houses on leased land.

Lummi Housing needs to improve its admission and selection processes

Lummi Housing did not always adequately document its basis for admitting applicants into the housing program. In addition, Lummi Housing did not always select from its waiting list the most eligible applicants to receive housing assistance. Lummi Housing should maintain adequate documentation and follow its policies and procedures as well as program requirements when admitting and selecting prospective residents.

Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Ineligible Costs</u>	<u>Unsupported</u>
3B		\$1,279,748
4A	\$ 4,669	
4A	\$ 9,937	
4B	\$ 5,964	
5A		\$ 25,382
7A	_____	<u>\$ 18,814</u>
Total	<u>\$20,570</u>	<u>\$1,323,944</u>

Ineligible costs are costs that are clearly not allowed by law, contract, or HUD regulations or requirements.

Unsupported amounts are not clearly eligible or ineligible, but warrant being contested for various reasons, such as the lack of satisfactory documentation to support eligibility.

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LUMMI INDIAN BUSINESS COUNCIL
2616 Kwina Road
Bellingham, Washington 98226-9298 (360) 384-1489

September 22, 2000

Frank E. Baca
District Inspector General for Audit
U.S. Dept. of Housing and Urban Development
909 First Avenue, Suite 125
Seattle, WA 98104-1000

Re: Lummi Response to HUD IG Draft Report

Dear Mr. Baca:

Enclosed you will find the Lummi Indian Business Council (LIBC) response to the HUD Inspector General Draft Report received by the Lummi Nation on September 8, 2000. I welcome this opportunity to work with your office and HUD program staff to improve the delivery of housing services to our people. I hope the LIBC staff extended to you and your staff complete cooperation throughout the investigative process. It is the LIBC's goal to provide the best housing services in Indian Country. I believe your constructive recommendations will help us accomplish this lofty goal.

I understand our response is due in your office within 10 working days of receipt of the Draft Report. After the exit interview, held at our offices on September 11, 2000, the Council has made it a top priority to prepare an in-depth response to your Draft Report. We are also making it a priority to develop a responsive housing complaint resolution process to handle future complaints from our members as they arise.

We understand the next step in your audit process is that your office will issue a final report by the first week of October 2000. At that time, the final report and the Lummi response to the Draft Report will become public information and will be available on-line. After that date, HUD program staff will be responsible for meeting with our staff to prepare a Management Letter, due to your office 120 days after release of the final report, addressing resolution of the problems identified in the final report. Please clarify this process if we are in error.

I am looking forward to guiding our Nation through the completion of this process. We will work diligently and cooperatively with HUD program staff towards a favorable Management Letter. In the future, please feel free to contact me directly on issues regarding our delivery of housing services to the Lummi Nation.

Sincerely
/s/
William Jones, Chairman

LUMMI INDIAN BUSINESS COUNCIL
2616 Kwina Road
Bellingham, Washington 98226-9298 (360) 384-1489

RESPONSE TO HUD INSPECTOR GENERAL DRAFT REPORT
September 22, 2000

FINDING 1: Lummi Indian Business Council Lacks Administrative Capacity to Manage Federal Grants

Lummi Response to Finding #1

The Lummi Indian Business Council does not agree with Finding #1. The Lummi Nation, a leader in Tribal Self-Governance, has consistently demonstrated its capacity to administer federal grants from numerous federal agencies. Problems unique to the administration and delivery of HUD housing services should not be generalized to non-HUD grants. We do not believe Finding #1 is a fair evaluation of the LIBC's administrative capacity to manage federal grants and it should be removed from the report.

The Lummi Indian Business Council (LIBC) is dedicated to providing safe, healthy, and affordable housing for Lummi Tribal Members. The Business Council and its Housing Division have worked cooperatively with HUD over a number of years to meet this goal. Relationships between Lummi and HUD have been constructive and positive. In this context, it is important to note that the Lummi Nation has been endeavoring to address many complex problems and issues that historically derive from HUD designed housing programs that have failed in many parts of the country, and were never well suited to Indian country. In light of this history and our mutual goals to provide the best quality affordable housing to Tribal Members, the LIBC and the Lummi Housing Division welcome the constructive recommendations provided during the HUD IG audit process, many of which have been implemented or are in the process of being implemented.

The Lummi Indian Business Council does not agree with every finding in the HUD IG Draft Report. Specifically, the LIBC does not agree that it lacks the administrative capacity to manage federal grants. LIBC has demonstrated its administrative capacity as a Self-Governance Tribe to manage federal programs with the following agencies:

Department of the Interior
Department of Transportation
Department of Health and Human Services
Department of Justice
Federal Emergency Management Agency
Department of Labor
Department of Agriculture
Environmental Protection Agency
Department of Education
Department of Commerce

As a recipient of major federal grants, LIBC has undergone numerous audits by grantors over the past years to ensure program integrity, administrative capacity, financial accountability and appropriate internal controls. During the past year, LIBC has had extensive program reviews by HUD, USDA, DOL and DOJ which included review of financial records, systems, and program compliance. The USDA, DOL, and DOJ did not reach the same conclusion as Finding #1 in the HUD IG Draft Report regarding the LIBC's administrative capacity to manage federal grants. The determination of administrative capacity is based upon judgment. The judgment reflected in the Draft Report is not supported by other independent professional auditors.

In addition, the activities of LIBC have been audited by independent certified public accountants in accordance with generally accepted auditing standards, Government Auditing Standards as issued by the Comptroller General of the United States, and as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The results of independent audits have not identified a lack of administrative capacity or material weaknesses in internal controls over financial reporting or over major programs. However, reportable conditions have been identified as "findings" that were not considered to be material weaknesses. As a demonstration of our administrative capacity, LIBC has evaluated the condition and cause of each finding and developed and implemented corrective action plans to improve our internal controls and delivery of program services.

The accounting issues referred to by the HUD IG Draft Report as a basis for asserting that LIBC lacks administrative capacity exist in large part due to the unique relationship between the Housing and Administrative Divisions of LIBC. The problems caused by this relationship do not extend to other grants managed by LIBC. No other program area maintains a separate accounting system requiring reconciliation. No other program area produces its own purchase orders requiring a procurement system separate from LIBC. No other program maintains separate payroll data requiring a reconciliation process prior to reimbursement. It is inappropriate, therefore, to generalize from this unique situation to all federal grants.

Our more detailed responses to Findings 2-11 illustrate that some of the problems noted in the draft report do not exist, or do not exist to the extent reported. In some instances, LIBC and/or Lummi Housing had adequate policies but lacked certain internal controls or staff training to implement them consistently. The HUD IG audit has been helpful in highlighting these problems and Lummi staff members have already put into place controls or training plans to address the concerns raised. We are confident that we can demonstrate to HUD program staff that the recommendations following each finding will have been implemented prior to the time the HUD Management Letter is completed.

The Lummi Indian Business Council agrees that Housing currently operates as a division of the LIBC, not as a separate TDHE. Many months ago, the Business Council initiated a comprehensive evaluation of the benefits and detriments of establishing a more independent TDHE for housing purposes. That evaluation is nearing completion and it is anticipated that the Council will make a decision in the near

future whether to maintain housing as a division of the LIBC or to create a TDHE. In either case, the LIBC recognizes the Tribe is ultimately responsible for compliance with the requirements of NAHASDA.

FINDING 2: Low-Income Lummi Families Live in Unsafe and Unhealthy Housing Conditions

Lummi Response to Finding #2

LIBC has recognized the importance of providing safe and healthy housing to its members and has applied for and dedicated HUD CIAP funds to address problems with its housing stock. A backlog of problems developed until the Tribe was able to secure such funding. Since 1996, CIAP funds have been used to address the kinds of problems noted by the IG inspectors. (Prior to 1996, CIAP funds were primarily used for asbestos removal.) A substantial number of the problems noted in the draft report affect older homes, built in the 1970's as part of Turnkey III and old Mutual Help programs. Unfortunately, these are the very homes that the IG concludes should be removed from the Lummi housing stock. See Finding #3. With adequate funding, LIBC and Lummi Housing desire to address the problems identified in the Draft Report, but the impact of Finding #3 will result in the reduction of funds available to bring these older homes up to a safe and healthy standard.

Demonstrating its commitment to provide safe and healthy housing for Tribal members, the Housing Division has already hired three additional full time maintenance workers and an experienced Project Administrator to oversee their work.

Documentation supporting asbestos removal costs paid with FY 1994 CIAP funds is enclosed as Appendix A.

Specific Improvement Actions

- 2-1. The Housing Division has hired a Project Administrator with required experience in cost accounting and construction management to provide high quality supervision of construction, rehabilitation, and maintenance work. The Project Administrator will be responsible for assuring that workers have adequate training; complicated high-end construction will be sub-contracted. Currently inspections are being conducted to address past problems.
- 2-2. A training plan for staff is under development. Lummi Housing is currently working with the National American Indian Housing Council (NAIHC) to develop a training plan that will be targeting areas of concern, including procurement and contract administration, Davis-Bacon requirements, and housing inspection requirements.

- 2-3. The Project Administrator oversees all work orders. Work orders are prepared following annual inspections or when a tenant reports a problem. Work orders are assigned to maintenance staff and are turned in at the end of each day for evaluation by the Administrator. Additional maintenance staff has been hired to deal with the backlog of work orders. The Administrator determines whether a tenant will be charged for a needed repair. The Administrator and the Housing Director determine the amount to be charged a tenant, in accordance with the work order report which documents labor, materials, and other costs. The Housing Accountant will oversee collection and the record will be kept in the tenant file.
- 2-4. Annual inspections have been done regularly at Lummi, with occasional inspections occurring beyond the annual inspection date. Lummi Housing will be hiring additional resident counselors to ensure that house inspections are completed in a timely manner. Scheduled staff training will ensure quality inspection reports. The Project Administrator will review all inspection reports to ensure that appropriate work orders are prepared and the necessary work done in a timely manner.
- 2-5. New Homebuyers and rental tenants have always been provided home maintenance training. Additional on-going home maintenance training will be developed and required of tenants and Homebuyers based on their annual inspections. Deficiencies in home maintenance will be identified in the annual inspection report. Housing Counselors will set due dates for correcting problems and schedule timely re-inspections. The Lummi staff attorney recently hired to work with the Housing Division has developed due process procedures for evictions and termination of homebuyer agreements for appropriate cause. Unless the eviction or termination is mutually agreed upon, the staff attorney will pursue the appropriate action in the Lummi Tribal Court.

FINDING 3: Lummi's Overstated Housing Stock Results in \$1.2 Million in HUD Overfunding

Lummi Response to Finding #3

The LIBC disagrees with Finding #3 and believes that maintaining the old Turnkey III and Mutual Help homes as part of Lummi's housing stock will allow Lummi to complete its goal of bringing these 95 homes up to HUD standards prior to conveyance. A substantial number of the housing deficiencies noted in Finding #2 relate to conditions in these older homes that this finding says have been or should have been conveyed. Review of the "Bill of Sale" documents referenced in this finding revealed discrepancies with the way they were drawn up and executed. Prior to correcting these conveyance problems, Lummi Housing believed it appropriate, indeed believed it was their duty, to bring these houses up to HUD standards before final conveyance. In 1996, CIAP funding began to be used to do the needed work on these homes. In prior years, CIAP funding was primarily used for asbestos removal, which consumed a far greater portion of the available funding than originally estimated. Removal of these homes from Lummi housing stock and a reduction of funding for addressing housing stock problems will only exacerbate the unsafe and unhealthy conditions noted by the OIG Inspector in Finding #2.

Most of the 95 homes at issue were built on individually owned trust lands leased to the former Lummi Housing Authority. The leases provide that when they are terminated, the improvements will revert to the landowners. Approximately 20 of these homes involve individual homebuyers who appear to own the underlying land. This means that when the leases expire on the individual trust lands where at least 75 of these homes were built, the ownership of the homes will revert to the underlying landowners. Litigation has already been initiated regarding several of these homes, with the landowners claiming ownership and attempting to evict the homebuyer. The Lummi Housing Division has had to step in to inform the Lummi Tribal Court or the BIA Administrative Law Probate Judge about the terms of the leases and homebuyer agreements, in order to protect the legal rights of all involved. In one case, the lease expired after 25 years and was not renewed. In that case, proper conveyance of the home is to the landowners. This case illustrated that the Lummi Housing Division cannot rely on the presumption that all of the 25/25 year leases run for the full 50 years.

A proper conveyance of Lummi's interest in these homes and these leases to the homebuyers, many of whom are not the original homebuyer, requires accurate up-to-date information about the current homebuyers, landowners, and the status of the 25/25 year leases. Title Status Reports have been requested of all these leased properties from the Portland Title Plant of the Bureau of Indian Affairs (BIA). Due to a back-log in up-dating their records, the BIA has not been able to issue the Reports as requested. Thus, the Housing Division has not been able to accurately determine who the current owners of the property are, whether the leases are still in effect, and when they are due to terminate. Lummi is doing its best to disentangle these complex problems inherited from HUD-designed housing programs that were not particularly well suited to Indian country. Lummi Housing believes that properly authorized and executed conveyances to the correct parties will best protect the diverse interests of both homebuyers and trust landowners and will help to avoid unnecessary and divisive litigation.

FINDING 4: Lummi Indian Business Council Misused Equipment Purchased with HUD Funds

Lummi Response to Finding #4

The usage of the equipment in question did not interfere with HUD programs or projects. The primary issues raised by this finding are the classification of costs to determine operating income, the use of this operating income, and the setting of charge-out rates. Lummi Accounting believes the following classifications are the appropriate way to resolve this matter.

- Reimburse LIBC for the cost of the loan (\$37,000) to acquire the equipment and transfer administrative control to the Housing Division pending liquidation of the equipment and crediting of the Housing Division as per Federal Guidelines.
- Record all legitimate operating costs in the determination of program income on the rental of equipment and, after repayment of the loan, use this income for affordable housing activities only. This results in the calculation of program income presented in the finding to be restated as follows:

	<u>Actual</u>	<u>HUD Finding</u>
Rental Revenue	\$ 32,119	28,238
Operating Costs Shown in Finding:		
Supplies	481	481
Repairs and Maintenance	3,615	3,615
Fuel	1,773	1,773
In House Labor/Equipment	1,798	1,798
Additional Valid Operating Costs:		
Maintenance Salaries	456	
Systems Development Salaries	2,400	
Fringe Benefits	463	
Licensing	644	
Transportation/Maintenance	590	
Depreciation	7,439	
Interest	2,824	
Costs incurred during NWIC House Removal:		
Salaries	1,058	
Benefits	251	
Disposal of debris	2,954	
Amount to be Applied to Debt Service	<u>\$5,373</u>	<u>\$20,571</u>

FINDING 5: Lummi Indian Business Council Does Not Maintain Adequate Records to Support Grant Expenditures

Lummi Response to Finding #5

The LIBC disagrees with Finding #5. With regard to the "missing" documents referenced in this finding, the LIBC has, and always had, access to them simply by requesting copies from the sub-grantee of the Imminent Threat Block Grant funds. Complete documentation to support the expenditures for the entire \$263,000 Imminent Threat Block Grant, including the \$25,382 questioned costs, is enclosed as Appendix B.

LIBC acknowledges that in some instances backup documents have been mis-filed and therefore are not immediately available. Given the volume of transactions processed by the Accounting Department, the number of mis-filed documents is not inordinately high and is not indicative of a lack of administrative capacity.

Specific Improvement Action

- 5-1. LIBC's Archivist will review filing procedures within the Accounting Department and will develop and implement any necessary improvements to ensure that supporting documents for grant expenditures are readily available.

FINDING 6: Lummi Indian Business Council Does Not Keep Track of Materials Inventory**Lummi Response to Finding #6**

The Lummi Indian Business Council maintains a property and inventory control system for its general operations. However, an inventory control system for construction materials was not maintained. That problem is being addressed and implementation of an inventory control system is underway.

Specific Improvement Actions

- 6-1. The Lummi Housing Division Staff Accountant will implement and maintain a FIFO inventory control system for maintenance and construction projects. The Project Administrator initiates all purchases, with review by the Lummi Housing Director. The Staff Accountant will sign off and cross-reference bills of lading of delivered items. This will be done on a per project basis for construction with reconciliation at the end of each project. Maintenance will be reconciled at the end of each year.
- 6-2. This system will account for materials ordered, delivered, stored, and used with periodic monitoring and quarterly reconciliation of the materials inventory.

FINDING 7: Lummi's Inadequate Labor and Timekeeping Systems Result in Inequitable Charges to HUD-Funded Activities**Lummi Response to Finding #7**

LIBC recognized many of the points raised in this finding prior to receiving the Draft Report and in the past two years has taken steps to address problems within the Payroll Department. Since January 1999, a new financial software package has been installed, the staff of the Payroll Department has been replaced with more competent personnel, and procedures have been reviewed for internal control weaknesses and are in the process of being revised where necessary. While this has led to substantial improvements in the operations of the Payroll Department, further action is also planned.

In response to the finding that in 1997 HOPE I funding compensated a Gaming Policy Coordinator, LIBC personnel records document that the employee in question has not been a Gaming Policy Coordinator since 1995. In 1997, his job title was Logistics and Operations Coordinator for the Economic Development Department. A review of the employment activities of this employee will be made. Any of his job activities not belonging to HOPE I will be adjusted accordingly.

Specific Improvement Actions**7-1. Payroll procedures identified as deficient will be strengthened and should be formally adopted by LIBC**

Many of the points raised in this finding with regards to payroll procedures were previously identified by the LIBC and have been addressed. Improved payroll procedures are currently being developed and will correct the remaining weaknesses brought forth in this finding. These new procedures will be written and recommended for formal adoption into the LIBC policy manual.

7-2. A training program for departmental timekeeping personnel will be developed and provided

Training will be provided to the departmental timekeepers and signing authorities. This training will reflect the new procedures described above. Written documentation will be developed and distributed to support the training program.

7-3. An adequate staffing level in the Payroll Department must be maintained

In response to clearly apparent procedural problems within the Payroll Department, a second payroll clerk was added in July of 1999. This additional clerical support will continue to be necessary to provide the on-going scrutiny of timecards, record-keeping, and reconciliation activities required to ensure compliance with NAHASDA's administrative requirements.

7-4. Training for Payroll Department personnel must be funded

In order to comply with regulations, Payroll Department staff must be aware of them and receive training. It will be proposed during the 2001 budget process that funding for training of Payroll Department staff be provided.

7-5. Reconciliation between LIBC and Housing Division

The Housing Division currently receives payroll reports within two weeks of the completion of the payroll process. This allows a timely reconciliation to occur between LIBC and the Housing Division. LIBC is committed to the continuation of this process.

7-6. Charging of Fringe Benefits

The issue with regards to fringe benefits referenced in this finding relates to the charging of accrued annual leave to projects. The LIBC payroll financial software automatically charges benefits to the program where the employee's hours are recorded. The situation in this finding occurred because the Housing Division currently records annual leave on a cash basis. The

method for recording accrued annual leave for the Housing Division will be changed to an accrual basis and will result in an equitable allocation of this cost to HUD grants.

FINDING 8: Lummi Indian Business Council Does Not Maintain Adequate Procurement Records

Lummi Response to Finding #8

The Lummi Indian Business Council has established policies and procedures for procurement which we are currently reviewing for compliance with federal regulations. The 16 procurement files reviewed by the IG inspector were Housing and Construction files, not LIBC Accounting Department files. This finding highlights the need for improved coordination and application of consistent procurement policies throughout the LIBC organization.

Specific Improvement Actions

- 8-1.** LIBC procurement policies will be up-dated to the extent required to satisfy federal regulations, and appropriate training will be provided to staff involved in procurement activities.
- 8-2.** As stated in our response to Finding #2, the Lummi Housing Division has hired a Project Administrator who, in coordination with the Housing Accountant, will verify that proper procurement policies are followed, contractors are paid correctly, the contract scope of work is complete, and procurement files are properly maintained.
- 8-3.** LIBC and Housing staff attended procurement training on September 19, 2000.

FINDING 9: Housing Division Did Not Always Verify Family Income

Lummi Response to Finding #9

The Lummi Housing Division has always obtained family income information to assure the eligibility of its housing occupants. Lummi Housing will focus more staff resources to assure that third party verification is obtained where possible and that all files are fully documented.

Specific Improvement Action

- 9-1.** To enhance third party verification, where possible, and to assure that all documentation is in every file, Lummi Housing has hired an Intake Specialist whose primary job will be to ensure that all necessary documentation is provided prior to evaluating an applicant's eligibility at initial admission and prior to occupancy. All documentation will be maintained in each applicant's file.

FINDING 10: Revised Waiting List Excludes Applicants

Lummi Response to Finding #10

Lummi disagrees that it has excluded anyone from its waiting list. In an attempt to up-date its waiting list, Lummi Housing created a list of applicants who had provided up-dated information within the past six months. However, no one on the old waiting lists was excluded from any list. Notices were posted and letters sent requesting up-dated information. When up-dated information was received, the individual's name was transferred to the up-dated list. No list was destroyed and no one was removed.

Specific Improvement Action

- 10-1.** Lummi Housing Division is adopting a new waiting list policy that will clarify how up-dating of the waiting list occurs. The Intake Specialist will review all open applications and ensure that the waiting list is complete and appropriately ranks all applicants. All application documentation and evidence of income verification will be reviewed by the Intake Specialist and maintained in each applicant's file. See Response to Finding #9 above.

FINDING 11: Improper Subleases Thwart the Purpose of Homeownership Program

Lummi Response to Finding #11

Currently, there are approximately 116 homes in the new Mutual Help Homeownership Program. Only 5 have subleases. These subleases generally complied with Lummi Housing Policies at their inception, although file documentation may not have been complete. In the case of the lease alleged to have been improperly approved on the basis that the homebuyer could not make the monthly payments, the homebuyer was entering a health institution deemed eligible as medical care.

Specific Improvement Actions

- 11-1.** A review is underway to determine which subleases satisfy Lummi Housing sublease policies. Subleases that are out of compliance will be terminated. These homebuyers will be given the option of returning to their homes or terminating their homebuyer agreements. If there is good cause to terminate a homebuyer agreement, that action will be pursued. All subleases will be reviewed and approved by the Lummi Housing Board to assure compliance with Lummi Housing sublease policies.
- 11-2.** All homebuyers have been informed that they are responsible for the monthly payments that are based on the homebuyer's family income. All re-certifications are complete at this time. Staff members are reviewing Monthly Equity Payments Accounts for possible misstatements and will make appropriate adjustments.

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U.S. Department of Housing and Urban Development
Federal Office Building
Northwest Office of Native American Programs
909 First Avenue, Suite 300, OAPI
Seattle, WA 98104-1000

September 22, 2000

MEMORANDUM FOR: Frank E. Baca, District Inspector General for Audit, OAGA

ORIGINAL SIGNED

FROM: Ken Bowring, Administrator
Northwest office of Native American Programs, OAPI

SUBJECT: Draft findings
Lummi Indian Business Council and
Lummi Indian Housing Authority

This memorandum is in response to the September 1, 2000, request to review the draft findings contained in the subject report on the Lummi Indian Business Council and Lummi Indian Housing Authority. In response to the request, the Northwest Office of Native American Programs (NwONAP) has reviewed the draft findings and related recommendations. Based on this evaluation, no comments or recommendations are being provided. The subject findings are well written, thoroughly documented, and consistent with the regulations and outstanding guidance in the Indian Housing Block Grant (IHBG) program. In addition, the recommendations provide a useful framework within which NwONAP can develop specific corrective actions with the Tribe to address the identified deficiencies. However, the following clarification is provided for your information and use in preparing the final report:

Recommendations 3A and 3B – The National Program Office of ONAP has already been in contact with the Tribe regarding finding number 3 on the overstatement of the Tribe's formula current assisted stock (FCAS). During the process of evaluating this issue, the Tribe may be able to provide adequate information and documentation that could result in an adjustment to the unit count and dollar amount associated with this finding.

If there are any questions or if any additional information is desired, please contact Dan Gough, Acting Director, Grants Evaluation Division, at (206) 220-5270.

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Percentages of Housing Quality Standards (HQS) violations, based on inspections of 90 homeownership and rental units (see Finding 2)

Frequency	HQS Violations
12%	Living room electrical hazards (1.3)
32%	Living room security (1.4)
6%	Living room window condition (1.5)
3%	Living room wall condition (1.7)
14%	Living room floor condition (1.8)
6%	Living room smoke detector (1.10)
32%	Kitchen electrical hazards (2.3)
4%	Kitchen wall condition (2.7)
20%	Kitchen floor condition (2.8)
3%	Kitchen lead paint (2.9)
11%	Stove or range with oven (2.10)
9%	Refrigerator (2.11)
6%	Kitchen sink (2.12)
36%	Food storage, preparation, and serving space (2.13)
21%	Bathroom electrical hazards (3.3)
19%	Bathroom security (3.4)
3%	Bathroom ceiling condition (3.6)
3%	Bathroom wall condition (3.7)
19%	Bathroom floor condition (3.8)
3%	Bathroom lead paint (3.9)
3%	Flush toilet in enclosed room (3.10)
4%	Fixed wash basin in lavatory (3.11)
2%	Tub or shower (3.12)
7%	Ventilation (3.13)
83%	Electrical hazards in other rooms used for living and halls (4.3)
48%	Security in other rooms used for living and halls (4.4)
2%	Window condition in other rooms used for living and halls (4.5)
8%	Ceiling condition in other rooms for living and halls (4.6)
16%	Wall condition in other rooms used for living and halls (4.7)
21%	Floor condition in other rooms used for living and halls (4.8)
43%	Smoke detector in other rooms used for living and halls (4.10)
1%	Security in rooms not used for living (5.2)
3%	Electrical hazards in rooms not used for living (5.3)
9%	Foundation (6.1)
4%	Stairs, rails, and porches (6.2)
18%	Roof and gutter (6.3)
28%	Exterior surface condition (6.4)
1%	Chimney (6.5)
1%	Exterior lead paint (6.6)
3%	Adequacy of heating equipment (7.1)
6%	Safety of heating equipment (7.2)
4%	Water heater (7.4)
2%	Plumbing (7.6)
19%	Garbage and debris (8.4)
24%	Refuse disposal (8.5)
1%	Interior stairs and common halls (8.6)
14%	Other interior hazards (8.7)
16%	Site and neighborhood conditions (8.10)

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Labor and Timekeeping Discrepancies and Weaknesses (see Finding 7)

1. Labor accounting record discrepancies:
 - Labor mischarged.
 - Time recorded by budget rather than actual hours worked.
 - Fringe benefits not allocated equitably.
 - Documentation inadequate. LIBC could not provide all labor distribution forms or timecards requested.
 - LIBC labor records do not tie to the Housing Division labor records.

2. Timecard (source documentation) discrepancies:
 - Altered without evidence of authorization or approval.
 - Missing employee and supervisor signatures.
 - Undated.
 - Incorrect total hours.
 - Pen and ink completed timecards in an electronic time clock system without evidence of approval.
 - No employee number.
 - No job description or inadequate job descriptions.
 - Signed by the employee before the end of the pay period.
 - Completed prior to the start of the workday.
 - Safety training charged to projects worked the day of training.

3. Internal control weaknesses:
 - Changes to timecards with no evidence of appropriate authorization or approval.
 - Supervisors approved employee timecards prior to completion of the workweek.
 - LIBC does not distribute its labor distribution form to its supervisors on a timely basis.
 - Supervisors do not review labor hours charged to their projects on a regular basis.
 - LIBC does not conduct floor checks or other reviews of its labor system.
 - LIBC employees were not aware of written procedures for completing timecards.
 - LIBC employees do know their employee numbers.
 - LIBC does not provide adequate training in timekeeping procedures.

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Director, Office of Budget
Acquisitions Librarian, Library
The Honorable William Jones, Chairman, Lummi Indian Business Council, 2616 Kwina
Bellingham, WA 98226
Armando Falcon, Director, Office of Federal Housing Enterprise Oversight, 1700 G Street
NW, Room 4011, Washington, DC 20552
Frank Edrington, Deputy Staff, Director, Counsel, Subcommittee on Criminal Justice, Drug Policy
& Human Resources, B373 Rayburn House Office Building, Washington, DC 20515
Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office
Building, Washington, DC 20515
Judy England-Joseph, Director, Housing and Community Development Issue Area, United States
General Accounting Office, 441 G Street, NW, Room 2474, Washington, DC 20548
Steve Redburn, Chief Housing Branch, Office of Management and Budget, 725 17th Street, NW,
Room 9226, New Executive Office Building, Washington, DC 20503
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340 Dirksen
Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Joseph Lieberman, Ranking Member, Committee on Government Affairs,
706 Hart Senate Office Building, United States Senate, Washington, DC 20510
The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn
Building, House of Representatives, Washington, DC 20515
The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform,
2204 Rayburn Building, House of Representatives, Washington, DC 20515
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Director, Audit Coordination and Management Division
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CFO Audit Liaison Officer
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Office of Government National Mortgage Association
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