



Issue Date March 7, 2003

Audit Case Number 2003-FW-1002

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

6IPI
FROM: 
D. Michael Beard
Regional Inspector General for Audit, 6AGA

SUBJECT: Indian Housing Block Grant
Caddo Nation of Oklahoma
Binger, Oklahoma

INTRODUCTION

In response to a citizen's complaint, we have completed a limited audit of the Caddo Nation of Oklahoma (Nation), located in Binger, Oklahoma. The objective of the audit was to determine whether Indian Housing Block Grant (Grant) funds were used for eligible activities. Specifically, we determined whether the Nation followed sound procurement policy and expended funds on eligible housing activities.

To accomplish our objectives, we interviewed HUD and Nation officials. We reviewed Indian Housing Plans, Grant drawdown data, and independent audit reports. We also analyzed financial data and reviewed consultant and contractor records. The audit covered Grant transactions from October 1998 through July 2002. During the survey stage, 14 contractors were identified as receiving substantial payments. Two were chosen for review due to the size and frequency of payments.¹ In addition, we reviewed all payments to a Washington, D.C. law firm for ineligible lobbying activities. We performed the fieldwork at the Caddo Nation office complex, at State Highway 152 and State

¹ The two contractors chosen represented 12 percent of total Grant expenditures. Grant expenditures total \$736,810 from October 1998 through July 2002.

Highway 281, the Binger Y, in Binger, Oklahoma, during August 2002 through December 2002. We conducted our audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Jerry Thompson, Assistant Regional Inspector General, at (817) 978-9309.

SUMMARY

We received a citizen's complaint alleging the Caddo Nation (Nation) received \$487,000 of Indian Housing Block Grant (Grant) funds as the result of misstatements on the 1998, 1999, and 2000 Indian Housing Plans (Plans). The complaint alleged the Nation knowingly included 97 homes in Nation Plans that were no longer in inventory.

In response to the complaint, we performed a limited audit of the Nation. The objective of the audit was to determine whether Grant funds were used for eligible activities. Specifically, we determined whether the Nation followed sound procurement policy and expended funds on eligible housing activities.

Initially, we surveyed to determine whether the Nation met HUD requirements in obtaining and using the \$487,000 referenced in the complaint. During the survey stage, the objective of the audit changed. From HUD officials, we discovered that HUD had over-funded the Nation \$439,038 based on an overstated housing inventory. Once the correct inventory was determined, HUD required the Nation to enter into a repayment agreement, which was over 7 years. After receiving notification of our intent to audit the Nation, the Nation elected to immediately repay HUD \$439,038 from current and prior year unused Grant funds.² Additionally, the Nation chose to discontinue their receipt of Grant funding beginning in fiscal year 2002.³ This occurred because the Nation and the Caddo Housing Authority failed to negotiate a maintenance agreement for the housing inventory. After speaking with the Nation Chairperson and reviewing HUD's May 2002 Monitoring Report, we focused on \$736,810 of Grant expenditures from October 1998 through July 2002.

We concluded the Nation had a sound procurement policy and generally used funds for eligible activities. However, the former Director of Housing at times bypassed the controls. As a result, the

² Over-funding in projects 98IT4004280 & 99IT4004280 was due to an overstated inventory of 1937 Housing Act units. HUD's Denver office calculated the Caddo Nation was over-funded \$439,038. The Denver office negotiated a settlement with the Nation's attorney to repay HUD over a 7-year period.

³ The Nation was scheduled to obtain a \$122,564 Grant for fiscal year 2002.

Nation made \$4,795 in ineligible and unsupported payments to one contractor. We have recommended the Nation reimburse the Grant for payments that are ineligible or unsupported.

We received auditee comments orally on December 31, 2002, at the Caddo Nation office complex. The auditee was receptive to the recommendations. A summary of these comments is included in this report.

BACKGROUND

The Nation provides housing and housing services to low-income tribal members through Grant funds authorized by the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). Since 1998, the Nation has received \$1.2 million in Grants under NAHASDA. The Nation received \$462,982⁴ in fiscal year 1998, \$492,136⁵ in fiscal year 1999, \$120,492⁶ in fiscal year 2000, and \$127,341⁷ in fiscal year 2001. The Nation has provided rehabilitation, closing cost, foreclosure, and emergency shelter assistance to low-income families.

The Nation's Tribal Administrator served as the Director of Housing, without the benefit of a housing staff. The Tribal Administrator reported to the Nation's Chairperson and could sign for the Office Manager. The Office Manager supervised the Finance and Procurement Office.

Since 1995, the Nation and Caddo Housing Authority, a state-chartered Indian housing authority, have been in a legal battle over the control of Current Assisted Stock (Stock). Due to an Oklahoma State Court restraining order in 1995, which later became a permanent injunction, the Nation was required to relinquish any and all control of the Stock to the Caddo Housing Authority. Because a portion of Grant funds must be used to maintain the Stock, the Caddo Nation discontinued their receipt of NAHASDA funding beginning in fiscal year 2002.

FINDING

Former Director of Housing Overrode Controls Causing \$4,795 in Questioned Costs

The Nation made duplicate and unsupported payments to one contractor. This occurred because the former Director of Housing overrode Nation procurement policy and procedures. As a result, the Nation misspent \$4,795.

While performing a bank proof during our survey, we flagged 14 contractors who received multiple payments over \$1,000. We reviewed all payments and supporting documentation to two contractors. We created a matrix to analyze the payments for each project. Our review of 68 payments revealed one duplicate payment and five potential duplicate payments to one contractor. The contractor

⁴ Project number: 98IT4004280.

⁵ Project number: 99IT4004280.

⁶ Project number: 00IT4004280.

⁷ Project number: 01IT4004280.

coordinated rehabilitation activities for the Nation. In addition, all six payments lacked substantive supporting documentation and/or were not properly authorized.

Nation financial management policy requires multi-level approval and supporting documentation for purchases of goods and services. Because the former Director of Housing also had the higher position of Tribal Administrator, it allowed her to bypass controls easily. She bypassed the Procurement Officer who should have verified the receipt of merchandise or services. She also directed the Finance Office to make payments: (1) without approved invoices and (2) without payment vouchers with all required signatures: Preparer, Director of Housing, Office Manager, and Finance Officer.

As a result, the Nation had \$4,795 in duplicate and unsupported payments to one contractor. The Nation overpaid \$1,000, because the officials accepted and paid a duplicate invoice. The Nation paid another five invoices totaling \$3,795. The five invoices may have been duplicate payments to the contractor. However, the Nation did not have necessary documentation to allow one to know what services the contractor had rendered and ensure the invoices were not duplicates.

AUDITEE COMMENTS

Tribal officials stated they read the entire audit report and believed it was accurate and well written. The finding and recommendations were understood and no discrepancies were noted. Officials further stated the person that caused the finding no longer works for the Nation. Collection of monies is unlikely due to legal and financial distress of the contractor. Therefore, the Caddo Nation is prepared to reimburse the Grant \$4,795.

OIG EVALUATION OF AUDITEE COMMENTS

The auditee comments are receptive to the recommendations.

RECOMMENDATIONS

We recommend HUD require the Caddo Nation to:

- 1A. Instruct staff to follow Tribal procedures requiring an approved invoice and a completed payment voucher before payment from federal funds.
- 1B. Repay \$1,000 to the Nation's Grant from non-federal funds, as repayment by the contractor is not likely to occur.
- 1C. Provide adequate documentation supporting \$3,795 in expenditures or reimburse the Nation's Grant from non-federal funds.

MANAGEMENT CONTROLS

In planning and performing our survey, we considered the management controls relevant to the audit objectives, not to provide assurance on the controls. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls were relevant to our survey objectives:

- Procurement
- Disbursement

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the following items are significant weaknesses, which are covered in our finding:

- Management bypassed the established procurement policy.
- Management did not require supporting documentation for expenditures.

SCHEDULE OF QUESTIONED COSTS

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1B	\$1,000	
1C		\$3,795

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

DISTRIBUTION OUTSIDE OF HUD

Caddo Nation of Oklahoma, Binger, Oklahoma

Chairman, Committee on Government Affairs

Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources

House Committee on Financial Services

Senior Counsel, Committee on Financial Services

Committee on Financial Services

Managing Director, Financial Markets and Community Investments, U.S. GAO

Chief Housing Branch, Office of Management and Budget

Department of Veterans Affairs, Office of Inspector General

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172 Russell Senate Office Building, Washington, D.C. 20510

Chairman, Committee on Government Reform

2348 Rayburn Building, House of Representatives, Washington, D.C. 20515-4611

Ranking Member, Committee on Government Reform

2204 Rayburn Building, House of Representatives, Washington, DC 20515