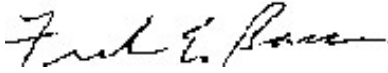




Issue Date	October 21, 2004
Audit Case Number	2005 SE 1001

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

FROM: 
Frank E. Baca, Regional Inspector General for Audit, Northwest Region, OAGA

SUBJECT: Tulalip Tribes Housing Authority Cannot Account for Grant Funds
Marysville, WA

HIGHLIGHTS

What We Audited and Why

To address Office of Inspector General concerns regarding regulatory and administrative violations in the Tulalip Tribes Housing Authority's (Authority) accounting records, we audited the Authority's Indian Housing Block Grant program to determine whether the Authority established and operated its program in accordance with HUD requirements for financial management systems.

What We Found

We found the Authority cannot account for more than \$5.1 million in Indian Housing Block Grant funds. The Authority's financial management system is unauditible because the financial statements, general ledger, and subsidiary ledgers for fiscal years 1999 through 2001 are not complete and accurate as required. Further, the Authority did not obtain the necessary financial statement audits for fiscal years 2002 and 2003. As a result, the Authority cannot provide reasonable assurance that its Indian Housing Block Grant funds helped the intended beneficiaries. In our opinion, this occurred because the Board of

Commissioners and the Authority's management did not have effective control of Authority accounting operations.

What We Recommend

We recommend you take administrative action to ensure the Authority complies with program requirements and require the Authority to return any Indian Housing Block Grant funds not used for authorized purposes.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

The draft audit report requested that the Tulalip Tribes provide their comments by October 4, 2004. The Tulalip Tribes requested and received an extension until October 12, 2004. We received the Tulalip Tribes' response on October 12, 2004.

While not specifically agreeing or disagreeing with the draft report, the Tulalip Tribes made several comments to which we responded.

The complete text of the Tulalip Tribes' response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Tulalip Tribes

The Tulalip Tribes is a federally recognized Indian Tribe with more than 3,600 members living on the Tulalip Reservation in the Puget Sound area of Washington State. The Tulalip Tribes Board of Directors oversees the seven-member Board of Commissioners that governs the Authority. The Authority provides nearly 300 housing units for qualified tribal members.

Native American Housing Assistance and Self-Determination Act of 1996

The Native American Housing Assistance and Self-Determination Act of 1996 enabled the block grant approach to housing for Native Americans. The Indian Housing Block Grant is a formula grant that provides for a range of affordable housing activities on Indian reservations and areas. These activities include housing development, assistance to housing developed under the Indian Housing Program, housing services to eligible families and individuals, crime prevention and safety, and model activities that provide creative approaches to solving affordable housing problems.

Our objective was to determine whether the Authority established and operated a financial management system that ensured

- Program costs were reasonable, accurate, and supportable;
- Its general and subsidiary ledgers were accurate, complete, and reliable;
- Its financial reporting was accurate, complete, and timely; and
- Housing Authority Board members and Tribal commissioners promoted program performance, maintained accountability, and took action to address significant deficiencies.

RESULTS OF AUDIT

Finding 1: The Tulalip Tribes Housing Authority Cannot Account for More Than \$5.1 Million in Grant Funds

The Authority cannot provide reasonable assurance that the Indian Housing Block Grant funds helped the intended beneficiaries. In our opinion, this occurred because the Board of Commissioners and the Authority's management did not have effective control of accounting operations.

Authority Records Are Inaccurate, Incomplete, and Untimely

We found the Authority could not properly account for more than \$5.1 million in Indian Housing Block Grant funds. The Authority's financial management system is unauditible because the Authority did not have accurate, complete, or timely financial statements and accounting records as required by HUD regulations.

Financial management system requirements for the Native American Housing Assistance and Self-Determination Act of 1996 are contained in the Code of Federal Regulations at 24 CFR 85.20. These regulations require that Indian Housing Block Grant recipients

- Provide financial reports that are accurate, current, and complete and disclose the financial results of assisted activities;
- Maintain accounting records that adequately identify the source and application of funds provided for financially assisted activities;
- Have accounting records supported by source documentation; and
- Have an internal control system that effectively controls and accounts for all assets and assures that they are used solely for authorized purposes.

Regulations in the Act also require grantees to submit an audited financial statement annually.

We found the Authority

- Posted journal entries to the wrong accounts;
- Entered charges to accounts as credits and vice versa;
- Deleted fiscal year 1999 journal entries in the general ledger without reversing entries;
- Delayed making fiscal year 1999 adjusting and correcting entries until 2001 and 2002, resulting in erroneous accounting records for this period;

- Commingled program and non-program funds, making it impossible to determine how the Authority spent its program funds;
- Changed the recording of routine expense charges to assets inappropriately. The understated expenses and overstated assets result in an inaccurate picture of the Authority's financial position;
- Neglected to get audited financial statements for fiscal years 2002 and 2003, so that the Tribe, the Board of Commissioners, and management did not have an accurate picture of the Authority's financial position; and
- Made significant unexplained and undocumented adjustments. Adequate explanation and documentation of adjustments are essential because adjustments can hide defalcations, losses, and errors.

Also, our review of the Authority's financial statements, general ledger, and trial balances for fiscal years 1999 through 2001 found that the

- Operating expenses in the financial statements were overstated compared with the general ledger balances (see appendix C, table 1);
- Trial balance, general ledger, and financial statements did not agree (see appendix C, table 2); and
- Ending balances for fiscal year 1999 and beginning balances for fiscal 2000 did not agree for several accounts (see appendix C, table 3).

During fiscal years 1999 through 2003, the Authority's accounting records were inadequate to properly account for all grant funds received. Consequently, the Authority's financial management system cannot provide reasonable assurance that the Authority used \$5,178,314¹ on eligible activities to help the intended beneficiaries.

Recommendations

We recommend you

- 1A. Take administrative action to ensure the Authority complies with program requirements.
- 1B. Require the Authority to return any Indian Housing Block Grant funds for fiscal years 1999 through 2003 not used for authorized purposes.

¹ This amount represents Indian Housing Block Grant funds disbursed for fiscal years 1999 through 2003 as of August 12, 2004.

SCOPE AND METHODOLOGY

Our review covered the period of July 1, 1997, through June 30, 2003 (fiscal years 1998 through 2003).

To accomplish our objectives, we reviewed the Authority's internal controls and financial management system records, including the Authority's audited financial statements. To address issues raised by an independent public accountant concerning specific journal entries and wire transfers, we also reviewed Authority account journal entries, cash transactions over \$7,000 from July 1998 through July 2000, and wire transfers in October 1999 and March 2000. We did not look at travel, stipends, or credit card expenditures because those areas are being reviewed by other entities. We performed our fieldwork at the Authority's office in Marysville, WA, from April through July 2004. We conducted the audit in accordance with generally accepted government auditing standards.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined the following internal controls were relevant to our audit objective:

- The Authority's process for reporting its financial position and maintaining its accounting records.

We assessed the relevant controls identified above.

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

Significant Weaknesses

Based on our review, we believe the following item (as reported in the finding) is a significant weakness:

The Authority does not have adequate internal control processes for

- Overseeing accounting system changes,
- Entering and adjusting transactions in its accounting system, and
- Correcting identified errors in its accounting records.

APPENDIXES

Appendix A

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

Recommendation Number	Ineligible 1/	Unsupported 2/	Unreasonable or Unnecessary 3/	Funds To Be Put to Better Use 4/
1B		\$5,178,314		

- 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 those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.
- 3/ Unreasonable/unnecessary costs are those costs not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices. Unreasonable costs exceed the costs that would be incurred by a prudent person in conducting a competitive business.
- 4/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

THE TULALIP TRIBES

Board of Directors:
Stanley G. Jones Sr. - Scho Hallen - Chairman
Marie Zackuse - Vice Chairman
Mel She don - Secretary
Marlin Fryberg Jr. - Sxwilus - Treasurer
Donald Hatch Jr. - Spat-ub-kud - Board Member
Herman Williams Jr. - Leib Sil Toed - Board Member
Lee Parke - Board Member
Linda L. Jones - General Manager

6700 TOTEM BEACH ROAD
TJLALIP, WA 98271-6694
(360) 651-4000
FAX (360) 651-4332

The Tulalip Tribes are the successors
in interest to the Snohomish,
Snoqualmie and Skykomish Tribes
and other tribes and band signatory
to the Treaty of Point Elliott.

October 12, 2004

Frank F. Baca
Regional Inspector General for Audits
U.S. Department of Housing and Urban Development
Office of Inspector General-Audit
Region 10
Federal Office Building, 909 First Avenue, Suite 126 (ØAGA)
Seattle, WA 98104-1000

OIG Audit Report Response

Statements in italics are drawn from the OIG Report of October 12, 2004

The Authority's financial management system is unauditible because the financial statements, general ledger and subsidiary ledgers for fiscal years 1999 through 2001 are not complete and accurate as required.

An audit was performed for 1999 by an independent Certified Public Accounting firm, and the Housing Authority received a clean audit – with no findings. An audit was performed for 2000 by the same auditor. That audit resulted in one finding for a relatively minor \$51,000 in unsupported costs. Both of these audits were submitted to HUD as required. Therefore, two of the three years in question were audited by an independent audit firm and received a total of only one relatively minor finding.

The Tulalip Tribes is in the process of review and/or re-constructing all financial records since 1999. A request for Proposals has been mailed out to a number of independent audit firms, and within the next thirty days an auditor will be selected to perform an independent audit of all grants monies received by the Tulalip Housing Authority for the period 2001 – 2004. In the future, all housing program audits will be performed annually in conjunction with the audits of the Tulalip Tribes.

We found the Authority

- *Posted journal entries to the wrong accounts;*

During the exit interview the auditors were asked to provide an example of an entry to a "wrong" account. Because it is often a matter of opinion as to what is a "right" or

1

Comment 1

Comment 2

"wrong" account, it would be beneficial to have an example. Unfortunately the auditors were unable to provide an example, but said these "wrong" entries were not a major concern, meaning they were of an inconsequential amount.

However, the Tulalip Tribes' position is that any errors made by the housing staff are serious. For that reason, financial responsibilities for the Tulalip Housing program have been permanently shifted away from the Housing program to the Tribal Finance office. The Tribal Finance office has been consistently able to produce clean audits. Efforts are underway to immediately ensure that all staff dealing with the financial affairs of housing has the training and experience to perform their jobs effectively, with minimal errors.

- *Delayed making fiscal year 1999 adjusting and correcting entries until 2001 and 2002, resulting in erroneous accounting records for this period;*

According to OIG Auditors, the errors were a result of the failure of the Housing Authority staff to adequately document their adjustments. Currently all accounting is being performed by accounting staff in the tribal finance department who have the education, experience and credentials to perform their duties in the proper recording of adjustments. This will further ensure that anyone reviewing the records will have a clear understanding as to the intent and purpose of all entries.

- *Commingled program and non-program funds, making it impossible to determine how the Authority spent its program funds.*

During the exit conference, when asked what was meant by "non-program" funds, the OIG auditors had some difficulty providing an example. They did (incorrectly) specify a "requirement" to keep separate rental and homeownership receipts, which is actually not a requirement. Without a specific example, it is difficult to respond to this finding; however the Tulalip Tribes will review the recording of all receipts to determine if there are any errors in this area. We agree that all IHBG records should be kept separate from all other grants, as is required by the program.

- *Neglected to get audited financial statements for the fiscal years 2002 and 2003, so that the Tribe, the Board of Commissioners, and management did not have an accurate picture of the Authority's financial position;*

The Tulalip Tribes is in the process of reviewing and/or re-constructing all financial records since 1999. A Request for Proposals has been mailed out to a number of independent audit firms, and within the next thirty days an auditor will be selected to perform an independent audit of all grants monies received by the Tulalip Housing Authority for the period 2001 – 2004. In the future, all housing program audits will be performed annually in conjunction with the audits of the Tulalip Tribes.

During the period from 1999 through 2003, the Authority's accounting records were inadequate to properly account for all grant funds received. Consequently, the Authority's financial management system cannot provide reasonable assurance that the Authority used \$5,178,314 on eligible activities to help the intended beneficiaries.

During the period in question (1999-2003), the Tulalip Tribes Housing Authority received \$5.1 million in funding through the Indian Housing Block Grant Program. These funds were used as follows:

Comment 3

Comment 4

Management and maintenance of 270 homeownership and rental homes	\$ 2,775,000
Construction of new housing units	\$ 957,000
Down payment assistance helping first-time homebuyers purchase a home	\$ 82,000
Housing counseling activities – helping families with budgeting and other skills	\$ 264,000
Crime prevention activities	\$ 37,000
Planning and other activities	\$ 965,000
TOTAL	\$5,080,000

Special projects completed included the following:

- Implementation of preventive maintenance program on all units owned and managed by the TIHA;
- Special rental housing maintenance program including cleaning of all chimneys and pump out of all septic tanks;
- Painting exteriors of many rental units;
- Replacing many of the roofs of rental units;
- Replacing the siding of the senior apartment building;
- Implementation of a down payment assistance program helping over twenty families achieve homeownership;
- Implementation of a home repair loan program, helping many homeowner families bring their homes up to a livable standard;
- Development of additional senior housing;
- Development of a transitional housing facility for homeless tribal members; and
- Begin development of additional housing projects.

The Tulalip Tribes is taking steps to account for all grants received by hiring a special auditor and providing her with staff to make a complete accounting.

The Authority does not have adequate internal control processes for:

- *Overseeing accounting system changes,*
- *Entering and adjusting transactions in its accounting system, and*

- *Correcting identified errors in its accounting records.*

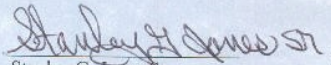
Prior to July 1st, all accounting for the Housing Authority was performed by the staff of the Tulalip Tribes Housing Authority. This is no longer the case - since July 1st, all accounting functions with respect to the Tulalip Tribes Housing Authority have been assumed by the Tulalip Tribes Finance Department. The Tulalip Tribes have internal controls in place that will satisfy the requirements of its housing programs, as evidenced by the recently completed annual financial audit, which resulted in no findings.

Comment 5

OIG informed the Tulalip Tribes orally during the exit conference on the 30th of September 2004, that during the OIG review of the Tulalip Housing Authority records, the OIG tested the accounts in question for theft and embezzlement and found no evidence of theft or embezzlement, in any of the years reviewed.

Comment 6

The 1999 and 2000 grant years were audited for the Tulalip Housing Authority by an outside auditing firm. These audits resulted in unqualified audit opinions involving approximately 2.7 million dollars in Housing Authority expenditures, or fifty-five percent of the total amount mentioned in the OIG report. These audits were timely submitted to the Departments of Housing and Urban Development.



Stanley G. Jones Sr.
Chairman
Tulalip Tribes

OIG Evaluation of Auditee Comments

Comment 1 HUD regulations require the Authority to accurately, completely, and timely disclose the results of financially assisted activities. The annual audits done by an Independent Certified Public Accountant are meant to satisfy this requirement. HUD regulations also require the Authority to maintain records that adequately identify the source and application of funds provided for the financially assisted activities. The financial information in the audited financial statements is taken from these accounting records. As noted in the report, we found that the audited financial statements for 1999 and 2000 do not agree with the corresponding accounting records from which the information in the statements was drawn.

In October 2002, the Northwest Office of Native American Programs found the Authority's financial and fiscal management systems and the related systems of internal control were not adequate to ensure the financial records were current, accurate, and complete. Also, a Certified Public Accountant hired by the Tulalip Tribes Board of Directors also found significant accuracy and completeness issues regarding the Authority's financial records for 1999 and 2000 and recommended that the accounting for 1999 and 2000 be corrected, completed, and audited.

During our audit, the Authority's Chief Financial Officer was well into the process of reconstructing the 1999, 2000, and 2001 financial records. Finally, the Authority's Housing Co-Manager said the accounting records were unauditible.

Comment 2 The Authority uses a Journal Voucher to document the adjusting entries. The Journal Voucher shows the Journal Entry Number, the fund (Mutual Help, Low Rent, or Proceeds), the account number, the account description, and the debit and credit amounts. The Authority's 1999 Journal Voucher shows the Authority posted entries totaling over \$500,000 to various accounts. However, the general ledger shows the Authority posted those entries to different accounts than those listed in the Journal Voucher.

We did not provide the Tulalip Tribes with specific examples of wrong entries we found because we did not have the working papers at the exit conference. Our intent in reporting the discrepancies was not to list specific accounting transactions the Authority must fix, but to explain our basis for determining the accounting records were unauditible.

Comment 3 The Authority commingled funds in 1999 when changing from a manual to a computerized accounting system. Our analysis found that during the transition, about \$1,200,000 of Proceeds funds were combined with Low Rent funds. According to Authority accounting staff, Low Rent accounts are HUD funds and Proceeds accounts are non-HUD funds.

We did not provide the Tulalip Tribes the details of the commingling of funds because we did not have the working papers at the exit conference. As stated

above, the intent in reporting the discrepancies was not to list specific accounting transactions the Authority must fix. Our intent was to show the types of accounting errors we found that call into question the accuracy of the financial records and hence the ability to properly account for Indian Housing Block Grant funds.

Comment 4 At the exit conference, we told the Tulalip Tribes that they need to get Northwest Office of Native American Programs (NwONAP) concurrence with whatever they decide to do. As they stated in their response, the Tulalip Tribes is taking steps to account for all grants received. The NwONAP will decide if the Authority has adequate documentation for its grant expenditures.

Comment 5 We performed limited testing of Authority bank account transactions and found no evidence of wrongdoing. Also as discussed in the Scope and Methodology section, we did not review areas reviewed by other entities.

Comment 6 See our response to Comment 1 above.

Appendix C

ACCOUNTING SYSTEM DISCREPANCIES

TABLE 1			
Operating Expense Differences Between General Ledger and Financial Statement Balances			
	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001
General ledger	\$ 521,168	\$ 365,348	\$ 302,003
Financial statements	\$ 1,068,301	\$ 1,554,085	\$ 1,350,391
Difference	\$ 547,133	\$ 1,188,737	\$ 1,048,388

TABLE 2			
Differences Between the Trial Balance, General Ledger, and Financial Statements			
Category	Trial Balance	General Ledger	Financial Statements
Fiscal Year 1999			
Assets	\$ 31,360,547	\$ 31,426,048	\$ 30,735,388
Liabilities/surplus	\$ 31,360,547	\$ 31,426,024	\$ 30,735,388
Income	\$ 685,535	\$ 685,596	\$ 685,596
Expenses	\$ 1,067,974	\$ 521,168	\$ 1,068,301
Fiscal Year 2000			
Assets	\$ 31,560,087	\$ 31,560,087	\$ 31,560,847
Liabilities/surplus	\$ 30,867,275	\$ 30,867,275	\$ 31,560,847
Income	\$ -	\$ 1,659,768	\$ 1,909,103
Expenses	\$ 23,560	\$ 365,348	\$ 1,554,085
Fiscal Year 2001			
Assets	\$ 31,231,345	\$ 31,231,345	\$ 31,545,506
Liabilities/surplus	\$ 31,234,859	\$ 31,234,859	\$ 31,545,506
Income	\$ -	\$ 1,333,291	\$ 1,114,153
Expenses	\$ -	\$ 302,002	\$ 1,350,391

Appendix C

TABLE 3				
Differences Between Fiscal Year 1999 Ending Account Balances and Fiscal Year 2000 Beginning Account Balances				
Fiscal Year 1999 Account (1)	Fiscal Year 2000 Account (1)	Fiscal Year 1999 Ending Balance	Fiscal Year 2000 Beginning Balance	Difference
LR - Land, Structures, & Equipment (2)	Land, Structures, & Equipment - LR	\$ 5,542,851	\$ 4,852,191	\$ (690,660)
LR - HUD Cumulative Contribution	LR Cumulative Contribution 2840	\$ 3,613,204	\$ 4,710,313	\$ 1,097,109
PRO – Cumulative Tribal Funds	PRO Cumulative Tribal Funds	\$ 1,222,109	\$ -	\$ (1,222,109)
MH – Cumulative HUD Grant	MH Cumulative HUD Grant 2845	\$ 11,906,202	\$11,645,690	\$ (260,512)
MH – Unreserved Surplus	MH Unreserved Surplus 2810	\$ (775,618)	\$ (717,118)	\$ (58,500)
MH Unrefundable MH Reserve	MH Unrefundable Reserve	\$ 58,500	\$ 546,204	\$ 487,704
LR – Unreserved Surplus	LR Unreserved Surplus	\$ (3,263,588)	\$ (3,222,939)	\$ (40,649)
PRO – Operating Reserve	PRO Retained Earnings	\$ 695,775	\$ -	\$ (695,775)
(No corresponding account in FY 1999)	Operating Reserve	\$ -	\$ 892,001	\$ 892,001

(1) The Authority changed account names in fiscal year 2000 when it changed accounting systems. Note that LR = Low Rent, PRO = Proceeds, and MH = Mutual Help.

(2) This item includes balances from nine different accounts. For fiscal year 2000, the Authority combined the nine fiscal year 1999 accounts into the Land Structures, & Equipment – LR account. The sum of the amounts before conversion differed from the amount after conversion.