



and

U. S. Department of Housing

Urban Development

Office of Inspector General,
Rocky Mountain
First Interstate Tower North
633 17th Street, 14th Floor
Denver, Colorado 80202-3607
Phone (303) 672-5452

OFFICE OF INSPECTOR GENERAL FOR AUDIT

Audit Related Memorandum
No. 97-DE-241-1801

October 3, 1996

MEMORANDUM FOR: Vernon Haragara, Administrator, Northern Plains
Office of Native American Programs, 8API

FROM: W. D. Anderson, District Inspector General for Audit, 8AGA

SUBJECT: Operation Safe Home Community Development Block Grant
Probe
Southern Ute Indian Tribe
Ignacio, Colorado

We have completed a limited Operation Safe Home fraud review of Indian Community Development Block Grants received by the Southern Ute Indian Tribe in Ignacio, Colorado. This review was conducted as part of a national, proactive initiative. Our objectives were to detect possible fraud and program abuse.

SUMMARY

In conducting our review we examined the records of HUD's Office of Native American Programs and the Southern Ute Indian Tribe's Economic Development Office and Finance Department. Our review also included interviews with officials at these organizations and site tours of four grant project locations.

During our limited review we did not find any fraudulent activities. However, three items concern us which may warrant further Office of Native American Programs attention:

1. The Southern Ute Indian Tribe failed to notify HUD of significant changes in the scope of work during the Sky Ute Lodge renovation project.
2. The rating of the multi-family housing construction project

under the Economic Development category.

3. The Southern Ute Indian Tribe shows a pattern of delay in the completion of Community Development Block Grant funded projects. Thus they appear to be getting more grants than they have the capacity to manage and execute.

BACKGROUND

The Southern Ute Indian Tribe is located in Ignacio, Colorado. With the second largest dollar amount of open Community Development Block Grant funds in the Rocky Mountain Region, the Southern Ute Indian Tribe oversees funds totaling over \$2.1 million.

Specifically, records were reviewed for the following grants:

B-92-SR-08-0001, Sky Ute Lodge renovation: \$400,000 economic development grant originally designated for the addition of rooms to the Sky Ute Lodge in Ignacio.

B-93-SR-08-0005, multi-family housing construction: \$800,000 economic development grant designated for the new construction of rental housing units in Ignacio.

B-94-SR-08-0003, sewer system upgrade: \$800,000 infrastructure improvement grant designated for repair and partial replacement of sewer lines.

B-95-SR-08-0001, high pressure water line construction: \$564,000 infrastructure improvement grant designated for the construction of a high pressure water line.

INTERNAL CONTROLS

The internal control review was limited to the controls over Community Development Block Grant funds at the Southern Ute Indian Tribe. We evaluated the organizational, administrative and disbursing controls through interviews, observation and records review. The internal control procedures in place at the Southern Ute Indian tribe to control the Community Development Block Grant funds provide reasonable safeguarding of the funds.

RESULTS OF REVIEW

To accomplish our objectives, we reviewed the records for Community Development Block Grants received by the Southern Ute Indian Tribe. Individual grant files of both the Southern Ute Tribe and HUD were

examined as well as the Southern Ute Tribe's accounting and grant records. These records were examined to verify the validity of expenditures and to verify the eligibility of Community Development Block Grant projects.

Specifically, we found that:

- Grant funds drawn down were properly accounted for and agreed with Office of Native American Programs drawn down amounts.
- Original receipt documentation supported grant expenditures.
- Expenditures were properly authorized and approved for payment.
- Project progression, site tours and planning documents indicate viable projects.

Based on our review, we did not identify any fraudulent activities.

However, the following three concerns were identified:

Significant Change in Project Scope Without Prior HUD Approval

A January 6, 1995 tribal letter to HUD concerning grant B-92-SR-08-0001, included the cost summary, implementation schedule and project description. The letter indicated that \$350,000 of the approved funds would be applied for lodge and restaurant expansion and that \$50,000 would be used for courtyard/pool renovation. The Southern Ute Tribe subsequently renovated the conference facilities and expanded the casino located at the Sky Ute Lodge. This work was completed with Tribal funds. In September, 1995 the courtyard/pool area was renovated for \$467,040.34. Of this amount, \$397,401.39 were HUD Community Development Block Grant funds.

The Southern Ute Tribe's failure to provide HUD with revised cost summaries, implementation schedules and project descriptions caused HUD to be misinformed about the use of approved funds. This misinformation decreases HUD's oversight of the program and increases the potential for program abuse.

The Northern Plains Office of Native American Programs needs to stress to the Southern Ute Tribe that prior HUD approval must be obtained for revisions which significantly change the scope, timing or objective of an approved project.

New Housing Construction Rated Under Economic Development

For project B-93-SR-08-0005, the Southern Ute Tribe planned to build a multi-family rental housing project. The Tribe's application to HUD identified this project under the Community Development Block Grant program criteria as an Economic Development activity. However, in our opinion, this project would have been better classified under the New Housing Construction criteria. How a project is classified as a Block Grant activity could impact upon the ranking of the application and possibly upon the selection of grant recipients. This would be particularly true when there are more applications received than Federal funds available.

We suggest that the Northern Plains Office of Native American Programs take sufficient steps to ensure that future project applications are properly classified under the Block Grant eligibility criteria.

Delay in Completion of Projects

The Southern Ute Indian Tribe has encountered delays in completing its projects which have caused it to exceed its projected timetables and the generally accepted two year period for grant completion. During our review it was apparent that the Southern Ute Tribe was getting more grants than it had the capacity to manage and execute in a timely manner. There are generally good reasons for the delays and proper approval for the extensions were granted by the Office of Native American Programs.

The Sky Ute Lodge renovation was completed in October 1995 approximately 21 months behind original schedule.

The multi-family housing construction project was originally scheduled to be completed in June, 1995. As of July, 1996 site preparation had just started.

The sewer system upgrade project was expected to be completed in April, 1996. As of July, 1996 construction had not yet started.

At the time site work was completed in July 1996, the high pressure water line project was not yet behind schedule but was placed on hold because the tribe's Economic Development Office was too busy with other projects to work on the water line project.

We believe that the capacity of the Southern Ute Tribe to manage

grant projects should be taken into consideration in future applications until the tribe can demonstrate the capacity to manage additional projects.

These concerns are not being controlled under the Department's Automated Audit Management System. Please provide us with copies of any correspondence relating to this memorandum.

We appreciate the courtesies extended by the Northern Plains Office of Native American Programs and the Southern Ute Indian Tribe during our review. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

DISTRIBUTION

Secretary's Representative, 8AS
Administrator, Northern Plains Office of Native American Programs,
8API (5)
Director, OFC, Field Accounting Division, 8AF
Director, Office of Administration, 8AA
Assistant to the Deputy Secretary for Field Management, SDF (Room
7106)
Chief Financial Officer, F (Room 10164) (2)
Deputy Chief Financial Officer for Finance, FF (Room 10166) (2)
Louis S. Carmisciano, Regional Comptroller, 77 West Jackson Blvd.,
Chicago, Illinois 60604-3507
Assistant Director in Charge, US GAO, 820 1st Street, NE, Union
Plaza, Building 2, Suite 150, Washington, DC 20002
Attn: Mr. Cliff Fowler (2)

