



Audit Report

District Inspector General for Audit Northwest/Alaska District

Report: 98-SE-207-1001

Issued: January 30, 1998

TO: Jeanne C. McArthur, Acting Administrator, Northwest Office of Native American Programs, OAPI

FROM: A. George Tilley, District Inspector General for Audit, OAGA

SUBJECT: Congressional Request
Citizen Complaint
Cascade Inter-Tribal Housing Authority
Sedro Woolley, WA

We performed an audit at the Cascade Inter-Tribal Housing Authority (Housing Authority) to evaluate allegations in a complaint received through the office of Congressman Jack Metcalf of the United States House of Representatives. The complainant alleged fraud, waste, and mismanagement at the Housing Authority in the areas of:

- procurement,
- use of Comprehensive Improvement Assistance Program (CIAP) grant funds,
- travel,
- the award of Section 8 Vouchers and Mutual Help homes,
- calculation of payments for Mutual Help homes, and
- maintenance of Mutual Help homes.

We did not substantiate the allegations in the complaint relating to procurement, use of CIAP grant funds, and travel. However, we determined that the allegations relating to the award of a Section 8 Voucher and a Mutual Help home, calculation of payments for Mutual Help homes, and maintenance of Mutual Help homes were valid.

As provided in HUD Handbook 2000.6 REV-2, within 60 days, please provide us, for each recommendation in this report, 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. Also, please furnish us copies of any correspondence or directives issued because of this review.

A copy of this report has been provided to the Housing Authority and the office of Congressman Jack Metcalf.

If you have any questions, please call Robert Woodard or Jerrald Hite at (206) 220-5360.

Executive Summary

We performed an audit at the Cascade Inter-Tribal Housing Authority (Housing Authority). Our audit objective was to evaluate allegations in a complaint received through the office of Congressman Jack Metcalf of the United States House of Representatives. The complainant alleged fraud, waste, and mismanagement at the Housing Authority in the areas of:

- procurement,
- use of Comprehensive Improvement Assistance Program (CIAP) grant funds,
- travel,
- the award of Section 8 Vouchers and Mutual Help homes,
- calculation of payments for Mutual Help homes, and
- maintenance of Mutual Help homes.

We did not substantiate the allegations in the complaint relating to procurement, use of CIAP grant funds, and travel. We did determine that the Housing Authority was not following all of their procedures and lacked some required documentation in these areas. However, the deficiencies identified did not have any negative impact on the Housing Authority's programs.

We found that the allegations relating to the award of one Section 8 Voucher and one Mutual Help home, calculation of payments for Mutual Help homes, and maintenance of Mutual Help homes were valid. We confirmed:

- improper award of a Section 8 Voucher, and a Mutual Help home to the same family member of both the former Executive Director and former Housing Authority Board Chairman;
- underreporting of income, payments lower than required, and profiting from unapproved subleases for Mutual Help homes of the former Executive Director, her family, and a friend; and
- unrepaired health and safety hazards in occupied and vacant Mutual Help homes.

We concluded that the Housing Authority Board of Commissioners (Board), which included the former Executive Director's father, did not adequately carry out their oversight responsibilities over the Housing Authority, and in our opinion this lack of oversight contributed to the deficiencies identified in our audit.

We also concluded that the former Executive Director took advantage of her position to provide favored treatment to herself, her family members, and a friend. The former Executive Director did not ensure that income recertifications and payment calculations were accurate, Mutual Help homes were properly maintained, and vacant Mutual Help homes were repaired and awarded to eligible homebuyers.

On December 5, 1997, we provided a draft of this report to the Interim Board for their comments. The Housing Authority provided us their comments in a letter dated December 12, 1997. We incorporated portions of their comments in this report as we determined appropriate along with our evaluation. The Housing Authority's comments are included in their entirety in Appendix 1.

Our audit scope was limited due to a lack of documentation and unavailability of individuals involved to discuss information obtained and conclusions reached during our audit. In this regard, we presented our draft report to the former Executive Director and former Board Chairman on January 9, 1998. The former Executive Director and former Board Chairman read the draft report and chose not to make any comments or answer any questions about the results of our audit.

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Abbreviations

| | |
|---------|----------------------------------------------------|
| HUD | Department of Housing and Urban Development |
| CIAP | Comprehensive Improvement Assistance Program |
| NAHASDA | Native American Housing and Self Determination Act |
| CFR | Code of Federal Regulations |

Introduction

The Cascade Inter-Tribal Housing Authority (Housing Authority) currently operates federally assisted low income housing for the Upper Skagit Indian Tribe and the Sauk Suiattle Indian Tribe. The Housing Authority currently manages a total of 70 Mutual Help homes and 118 Section 8 Vouchers. In addition, the Housing Authority has received Comprehensive Improvement Assistance Program (CIAP) grants of \$325,000 in 1993; \$1,335,285 in 1995; and \$663,310 in 1996. HUD awarded these grants to make physical improvements to the Mutual Help homes and management improvements for the Housing Authority.

In July 1997, based on information brought to the attention of the Upper Skagit Tribe's General Manager and Controller by Housing Authority staff, the former Executive Director was relieved of her position at the Housing Authority. In addition, after the former Executive Director was relieved of her position, the members of the Board were removed by the Tribes and an Interim Board was put in place made up of members of the Tribal Councils.

The Upper Skagit and Sauk Suiattle Tribes are currently in the process of separating their housing operations due to the new Native American Housing and Self Determination Act (NAHASDA). This will result in the dissolution of the Housing Authority as it currently exists. These changes by the Tribes were taken into consideration when developing the recommendations for this report.

Audit Objectives

We performed audit work at the Housing Authority to evaluate the validity of allegations in a complaint received through the office of Congressman Jack Metcalf of the United States House of Representatives. The complainant alleged fraud, waste, and mismanagement at the Housing Authority in the areas of procurement, use of CIAP grant funds, travel, the award of Section 8 Vouchers and Mutual Help homes, calculation of payments for Mutual Help homes, and maintenance of Mutual Help homes.

Audit Scope

The audit work covered events and transactions at the Housing Authority from January 1, 1993 through August 22, 1997 as we considered necessary to achieve our objectives and address issues in the complaint. The audit work covered the Housing Authority's Section 8 Voucher, Mutual Help Homeownership, and CIAP programs.

Our audit scope was limited as follows:

- The Housing Authority did not have all required documentation to demonstrate compliance with Mutual Help requirements. Files generally lacked information verifying family income used in payment computations. Files also generally lacked documentation supporting decisions for the award of Section 8 Vouchers and Mutual Help homes.
- Section 8 and Mutual Help files did not contain required income release forms which restricted our ability to verify employment and income information necessary to determine compliance. In the absence of this information we relied upon information obtained from the other sources and made certain assumptions in our calculations as described in our findings.
- Homebuyers and a certain former Housing Authority staff member were either unavailable, or declined the opportunity to discuss the information obtained and conclusions we reached in our audit.
- The former Executive Director was unavailable while we were on site. However, she and her father, the former Board Chairman, agreed to meet with us on January 9, 1998. At this meeting the former Executive Director, and the former Board Chairman, read the draft report and then informed us that they did not want to make any specific comments relating to the information in the report and did not want to answer any questions. They stated that they felt their best course of action was to let the audit process take its course.

Audit work was performed at the Housing Authority offices in Sedro Woolley, WA, and both the Upper Skagit and Sauk Suiattle Mutual Help developments. Audit work was performed from August 1997 through November 1997.

Audit Methodology

To achieve our audit objectives we:

- Obtained, reviewed, and summarized legislative, regulatory, and contractual requirements for the programs operated by the Housing Authority.
- Reviewed HUD and Housing Authority documents, and interviewed HUD and Housing Authority staff, and:
 - obtained an understanding of the programs operated by the Housing Authority.
 - gained an understanding of control systems at the Housing Authority and assessed the risk associated with those systems for the purposes of developing audit procedures.
- Interviewed current and former Housing Authority staff, and residents of Mutual Help homes to obtain their perspective, and any additional comments or information relating to events identified in the complaint.
- Reviewed HUD and Housing Authority documents relating to audit objectives.
- Inspected 17 of the Housing Authority's 70 Mutual Help homes. Homes were selected based on information in the complaint.
- Performed other procedures as determined necessary based on information obtained during the audit.

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

Results

THREE OF SIX ALLEGATIONS OF FRAUD, WASTE AND MISMANAGEMENT WERE VALID

We performed our audit to evaluate the validity of allegations citing fraud, waste, and mismanagement at the Housing Authority in the areas of:

- procurement,
- use of Comprehensive Improvement Assistance Program (CIAP) grant funds,
- travel,
- the award of Section 8 Vouchers and Mutual Help homes,
- calculation of payments for Mutual Help homes, and
- maintenance of Mutual Help homes.

We did not substantiate the allegations in the complaint relating to:

- procurement,
- use of CIAP grant funds, and
- travel.

We did determine that the Housing Authority was not following all of their procedures and lacked some required documentation in these areas. However, the deficiencies identified did not have any negative impact on the Housing Authority's programs.

We found that the allegations relating to award of one Section 8 Voucher and one Mutual Help home, calculation of payments for Mutual Help homes, and maintenance of Mutual Help homes were valid. We confirmed:

- improper award of a Section 8 Voucher, and a Mutual Help home to the same family member of both the former Executive Director and former Housing Authority Board Chairman;
- underreporting of income, payments lower than required, and profiting from unapproved subleases for Mutual Help homes of the former Executive Director, her family, and a friend; and
- unrepaired health and safety hazards in occupied and vacant Mutual Help homes.

We concluded that the Board, which included the former Executive Director's father, did not adequately carry out their oversight responsibilities over the Housing Authority, and in our opinion this lack of oversight contributed to the deficiencies identified in our audit.

We also concluded that the former Executive Director took advantage of her position to provide favored treatment to herself, her family members, and a friend. In addition, the former Executive Director did not ensure that income recertifications and payment calculations were accurate, Mutual Help homes were properly maintained, and vacant Mutual Help homes were repaired and awarded to eligible homebuyers.

A. UNSUBSTANTIATED ALLEGATIONS

Unsubstantiated allegation regarding procurement

The complainant alleged that some contracts for construction work procured by the former Executive Director were given to contractors who then gave work to the Executive Director's husband.

What the criteria requires

HUD regulations at 24 CFR 905, Subpart B covered the area of procurement for Indian Housing Authorities until they were replaced on May 10, 1995 by 24 CFR 950, Subpart B.

The Housing Authority has a procurement policy that does comply with procurement regulations. This policy calls for maintaining a record to detail the history of procurements, procurement using full and open competition, and ensuring that a prequalified list of firms is current and includes enough sources for such open competition. The Housing Authority procedures also states that it is the responsibility of the Executive Director or someone assigned the duties of contracting to administer the policies in accordance with the regulations.

What we concluded

We concluded that there is no evidence available to substantiate the allegation that some contracts for construction work were given to contractors who then gave work to the former Executive Director's husband.

We interviewed the complainant as well as current and former Housing Authority employees to obtain information on specific instances where the husband of the former Executive Director may have received work from Housing Authority contracts. None of the individuals were able to provide specific information.

In the absence of specific information on the allegation we interviewed the current Housing Authority employee responsible for procurement and the prior two Housing Authority employees responsible for procurement. One of the prior employees also served as a consultant to the Housing Authority for procurement after leaving his position as Executive Director. In addition, we reviewed current Housing Authority procurement policies and procedures and determined that they do comply with HUD requirements.

According to current and former employees interviewed, they maintained files documenting their procurements by the Housing Authority. A current employee stated that some Housing Authority procurement files cannot be located. Our review of the files available at the Housing Authority confirmed that there was little historical documentation supporting procurement by the Housing Authority.

According to the former employees interviewed, the former Executive Director did not do much procurement. Current employees stated that the former Executive Director did procure work for fixing windows. The Housing Authority's accountant stated that almost all the work done for window repair was completed by Sedro Woolley Glass. In a telephone discussion with a representative from Sedro Woolley Glass, he stated that he completed the work done on the reservation. He stated that someone from the Housing Authority would call, he would measure the window, give a bid, and then he would do all the work if he got the job.

Unsubstantiated allegation regarding the use of CIAP grant funds

The complainant alleged that the Housing Authority had a large amount of money that needed to be spent or they would lose it, and therefore the Housing Authority purchased appliances that were not needed and they were given to friends and relatives of the former Executive Director.

What the criteria requires

Federal regulations at 24 CFR 905 Subpart I and 950 Subpart I implements the Comprehensive Improvement Assistance Program for Indian Housing Authorities. This program provides for grants to Indian Housing Authorities for physical improvements to the Mutual Help homes and management improvements for the Housing Authorities.

Regulations at 24 CFR 950.614 states that all approved funding must be obligated within two years of approval and expended within three years unless HUD approves a longer time period.

According to 24 CFR 950.634, CIAP funds are required to be used for purposes that HUD originally approves or in accordance with a revised CIAP budget.

What we concluded

The audit results do not substantiate the allegation that unneeded appliances were purchased and given to friends and relatives of the former Executive Director.

Housing Authority records show that they prepared lists of homes that needed appliances including ranges, refrigerators, and water heaters. The lists excluded those residents that had recently purchased appliances. The approved CIAP budget included the purchase of these appliances. The Housing Authority drew down \$120,000 on their 1995 CIAP Grant in April 1996 and used \$74,000 of these funds to purchase the appliances according to the lists prepared. Some residents not on the list had already purchased new refrigerators before the CIAP award, and therefore there were some disgruntled families who believed that this was unfair treatment. One of the families that had purchased a refrigerator was the former Executive Director.

A May 1997 HUD review of the Housing Authority's 1995 CIAP grant contains a finding that the Housing Authority's April 1996 \$120,000 drawdown exceeded their immediate needs and that in fact they had only expended \$75,042.50 of the funds. HUD required the Housing Authority to submit a plan to expend the remainder of the drawdown and restricted them from any additional drawdowns until the balance of the \$120,000 was expended.

Unsubstantiated allegation regarding travel

The complainant alleged that the former Executive Director would travel first class when going to training and seminars.

What the criteria requires

The Housing Authority maintains a policy manual which contains a travel section as required by HUD regulations. These policies list the requirements when a staff member or Board member of the Housing Authority is on travel status. These policies state that the Executive Director is responsible for approving travel of staff members. The Executive Director is responsible for authorizing travel expense reimbursement unless it is their own travel expense form. In this case, the Board Chairperson is to authorize expenses. When submitting expense forms, airline and hotel receipts are required.

What we concluded

We concluded that the Housing Authority staff followed policies and guidelines established to regulate the use of travel funds on purchase of tickets at the most economical rate. According to documents maintained in files, the amounts paid by the Housing Authority for airline tickets were consistent with economy class fares.

B. VALID ALLEGATIONS

Valid allegation regarding family favoritism by the former Executive Director when awarding a Section 8 Voucher and Mutual Help home

Allegations stated that the former Executive Director gave favored treatment to her friends and family when awarding Section 8 Vouchers and Mutual Help homes. According to the allegations, family members and friends of the former Executive Director moved ahead of others on the Section 8 and Mutual Help waiting lists and received Section 8 Vouchers and Mutual Help homes when they were not eligible.

What the criteria requires

The regulations for the Section 8 Voucher program at 24 CFR 887.1 state that the Section 8 Voucher program is intended to assist eligible families to pay rent for decent, safe, and sanitary housing. Federal regulations at 24 CFR 813.103 restricts participation in the Section 8 Voucher program to low-income families. Regulations at 24 CFR 887.61 require the

Housing Authority to establish policies for maintaining, closing, and reopening waiting lists.

Regulations governing the operations of Indian Housing programs were published at 24 CFR 905 until they were replaced by 24 CFR 950 in May 1995. Regulations at 24 CFR 905 Subpart E and 950 Subpart E implemented a low income homeownership program called the Mutual Help program. The program requirements at 24 CFR 905.416 and 950.416, limit eligibility for participation in the Mutual Help program to low income families unless special circumstances are met and HUD approval is obtained. Regulations at 24 CFR 905.301 and 950.301 require the Housing Authority admission policies to include requirements for waiting lists.

Both 24 CFR 905 and 950 were eliminated as of September 30, 1997. As of October 1, 1997 the new Native American Housing and Self Determination Act took effect. This new Act is the basis for all HUD Native American Housing programs. Our review covered events that were prior to October 1, 1997 and were therefore governed by 24 CFR 905 and 950.

What we concluded

The former Executive Director awarded a Section 8 Voucher to her sister and her family who made more money than allowed by the Section 8 program and were 16th on the waiting list.

We reviewed four of the seven Section 8 Vouchers and one of the three Mutual Help homes awarded during the former Executive Director's tenure. These awards were selected based on information from Housing Authority staff indicating a relationship between the recipient and the former Executive Director.

Of the four Section 8 Vouchers reviewed, three were properly awarded. However, the former Executive Director awarded a Section 8 Voucher to her sister and her family in November 1996, after the prior Section 8 Coordinator had rejected them as ineligible. At the time of the award, according to income information received from the State of Washington, the sister and her husband were not eligible for the Section 8 program. According to State records they earned \$31,758 in 1996 and continued work into 1997 with income of \$5,915 in the first quarter of 1997.¹ This

¹ The Housing Authority did not have required income releases. The employer for the sister and her husband did provide us with confirmation of employment. However, the employer would not provide any information to us on salary without a release.

projects to an annual income of \$23,660 for 1997. These income levels are in excess of the \$16,900 limit for a family of 3 to participate in the Housing Authority's Section 8 program in Skagit County. In addition, the sister and her family were 16th among Upper Skagit Tribal members on the Section 8 waiting list.

The previous Section 8 Coordinator for the Housing Authority (prior to October 1996) stated that she did not approve the Section 8 Voucher for the sister and her family because the sister stated that her brother would be living in the household and no income information was submitted for the brother. The approved Section 8 housing lease does not include the brother as a member of the household. Documentation in the Section 8 file shows that no current income documentation was obtained for any household member at the time the Voucher was approved. The only support for any of the income calculations was pay stubs for the sister and her husband for the weeks ended December 21, 1995 and January 4, 1996; nearly one year prior to the approval of the Voucher. In addition, there is no justification in the file showing how or why the sister and her family were moved ahead of 15 families on the waiting list to receive their Voucher.

Six months after the former Executive Director's sister and her family (also the daughter of the former Board Chairman) received a Section 8 Voucher, the Board, based on information provided by the former Executive Director, awarded them a Mutual Help home.

In May 1997, the Board awarded a Mutual Help home to the former Executive Director's sister and her family (also the daughter of the former Board Chairman). This family was not the next eligible applicant on the Mutual Help waiting list, and had family income over the limit for the program. According to HUD records and Housing Authority staff, the Housing Authority has never requested or received approval for over-income participation in their Mutual Help program. The award was based on information presented to the Board by the former Executive Director identifying the family as eligible.

Documents in the Housing Authority's Mutual Help file for this home indicate that in May 1997 the sister and her family requested a Mutual Help home because it would be more beneficial due to her family income. At the time of this request the sister and her family were 18th on the Mutual Help waiting list overall, and 11th on the waiting list for those wanting a two bedroom home. According to Board minutes only 5 of the top 11 applicants for two bedroom homes, including the sister and her

Therefore, we used income information received from the State of Washington as the basis for our calculations.

family, were discussed. There was no indication why the other six were not discussed. Also, Board minutes did not explain why one of the other applicants who was higher on the waiting list and met the Board's requirement of having their account with the Housing Authority cleared up, was not awarded the house.

Income information was not submitted to the Board. However, at the time the sister and her family were awarded the home, the family income, according to income information received from the State of Washington, was projected to be \$23,660. At that time the income limits used by the Housing Authority to determine income eligibility limited income to \$16,900. Therefore, based on the State's income information, the sister and her family were not eligible to participate in the Mutual Help program.

In addition to the sister and her family not being eligible for the home, Board approval for this family contradicts previous decisions by the Board for similar cases. Review of Board minutes shows that for several previous Mutual Help applicants that were participating in the Housing Authority's Section 8 program, the Board required the applicants to complete their lease term before being approved for a Mutual Help home. There is no information available to explain why this position was not taken in this case.

Valid allegation regarding the former Executive Director and members of her family not reporting all of their income and paying less than required for their Mutual Help homes

The complainant alleged that the former Executive Director improperly calculated her own payment on her Mutual Help home and also gave favored treatment when calculating payments for members of her family and friends that live in other Mutual Help homes. The complainant also alleged that all income was not reported for the former Executive Director and family members that are also Mutual Help homebuyers.

What the criteria requires

Regulations at 24 CFR 905 and 950 Subpart E implemented a low income homeownership program called the Mutual Help program. The program requirements at 24 CFR 905.416 and 950.416, limit eligibility for participation in the Mutual Help program to low income families unless special circumstances are met and HUD approval is obtained. Mutual Help monthly house payments are based on the income of the participant family with a minimum monthly administrative fee and a maximum monthly payment established by the Housing Authority. Regulations require the Housing Authority to certify participants' income at least annually.

Housing Authority policies require annual recertifications and interim recertifications if the homebuyers income or family composition changes. If a homebuyer does recertify mid year and their payment goes down, they are then required by Housing Authority policy to recertify when any change occurs that would increase their payment. Housing Authority policy also requires retroactive implementation of any payment increase. Any payment increase will be effective on the first day of the second month after the change occurred that caused the increase.

The requirements for reporting income and calculating monthly payments also apply to individuals subleasing Mutual Help homes. Subleases are currently allowed in the Mutual Help program under the terms of the Mutual Help Occupancy Agreement between the homebuyer and the Housing Authority. The terms of this agreement require prior written approval of the sublease by the Housing Authority. In addition, the sublease requirements state that the homebuyer remains responsible for the required monthly payment to the Housing Authority.

What we concluded

We could not determine from Housing Authority records if the former Executive Director improperly calculated Mutual Help payments. However, we did determine that family income for five of the nine Mutual Help homebuyers reviewed, including the former Executive Director, members of her family, and a friend, was either underreported or understated. As a result, these five Mutual Help homebuyers were paying less than required for their Mutual Help homes; and in some cases were receiving inappropriate benefits from subleasing their Mutual Help homes without Housing Authority approval.

We reviewed the payment calculations for 9 of the 63 Mutual Help homebuyers. These homebuyers were selected for review based on

information from Housing Authority staff that indicated a relationship to the former Executive Director.

Improper calculation of Mutual Help payments

According to current Housing Authority staff, all Mutual Help payment calculations required the review of the former Executive Director. However, of the 24 payment calculations we reviewed, only 4 were signed by the former Executive Director, and 13 were not signed by a Housing Authority Representative. Without a signature by a Housing Authority Representative, we could not determine who performed the calculations. Of the 13 calculations that were not signed, 10 were on Housing Authority payment calculation forms that did not require the signature of a Housing Authority Representative.

The 24 payment calculations we reviewed included 7 payment calculations for the former Executive Director. All seven of these payment calculations were signed by the former Executive Director as the homebuyer. Only the three most recent payment calculations for the former Executive Director were signed by a Housing Authority Representative. The former Executive Director did not sign any of her own payment calculations as a Housing Authority Representative.

Family Income

Our review indicates that these Mutual Help homebuyers' income used in the Housing Authority's payment calculations were understated. As a result they received an inappropriate financial benefit because their required monthly payments were lower than they should have been. Of the 24 payment calculations we reviewed to address the allegations, 13 were not signed by a Housing Authority representative and therefore, we could not determine who performed the calculation. However, according to current and former Housing Authority staff, all Mutual Help payment calculations required the review of the former Executive Director.

These lower monthly payments also have a negative financial impact on the Housing Authority. The additional amounts that these homebuyers should have made would be deposited into homebuyer equity accounts. These funds serve as security deposits for the homes. The funds in equity accounts are available to make repairs to the homes by the homebuyer if they cannot

afford to repair certain items. In addition, the Housing Authority may use funds in the equity accounts to repair the home if the home becomes vacant, or the homebuyer does not properly maintain it.

The Former Executive Director underreported her family income

The former Executive Director did not report all family income to the Housing Authority on two occasions. In June 1995 the former Executive Director reported her husband's income at zero when, according to State employment records², he received income during that quarter. This reduced the families Mutual Help payment by \$70.00 per month for 16 months, until their payment was recalculated in October 1996. In July 1997, the former Executive Director reported that her income was zero and her husband's income was zero. The former Executive Director had made an agreement with the Housing Authority where she would receive pay through August 15th. According to her husband's new employer, he had started working three days prior to the Executive Director reporting zero income. This underreporting of income reduced their payment from \$404 per month to the minimum administrative fee of \$110 per month. The payment should not have been reduced until the former Executive Director's pay stopped, and the calculation should have included the husband's income. This underreporting of income resulted in underpayment of approximately \$1,400.

One of the former Executive Director's sister's family income was understated

Income used in the Housing Authority's payment calculations was understated on two occasions. In October 1995 the sister's income was shown as zero while State income records for the period show that she earned income from two employers.³ The understated income lowered

² The Housing Authority did not have required releases in the file. Without the release this employer would not provide information. Since we were unable to confirm specific dates of employment, we made our calculations as if the individuals were employed for the entire period, based on the State's income information.

³ The Housing Authority did not have required releases in the file. Without a release these employers would not provide information. Since we were unable to confirm specific dates of employment, we performed our calculations as if the individuals were employed for the entire period using State income information.

monthly payments from \$314 to \$225 per month for 14 months. The next calculation effective December 1996 was based on an annual income of \$33,370. This amount was included on the Housing Authority's payment calculation form and was taken from six month year to date income statements provided by the sister. The amounts on the calculation form were consistent with the information provided; however, the calculation was in error because the amounts were not annualized. This resulted in annual income used for the payment calculation being one half of the proper amount. This calculation was obviously incorrect; however, the sister signed the calculation as accurate. This resulted in a monthly payment of \$200 rather than \$400 for eight months, until August 1997. The understated income resulted in underpayments of approximately \$4,050.

Another of the former Executive Director's sister's family income was understated

Income used in the Housing Authority's payment calculations was understated several times. An October 1994 payment calculation showed that the sister's husband was the only source of income for the family. State income information shows that both the husband and wife earned income during the final quarter of 1994 and continued to earn income from the same employer during all four quarters of 1995.⁴

The Housing Authority's payment calculation in June 1995 shows that the sister was not working and that the family annual income was \$20,034. The calculated monthly payment was \$142. However, State income information shows that the sister earned income during all four quarters of 1995 and the actual family income was \$43,209 which would have required the family to make a monthly payment of \$432.

⁴ The Housing Authority did not have required income releases on file. Employers prior to December 1995 were not willing to provide information without a release. Since we were unable to confirm specific dates of employment, we assumed the individuals were employed the entire period for purposes of our calculations. In addition, we used future earnings for calculations because payment calculations are based on anticipated earnings. Both the husband and wife worked at the same employer from December 1995 to present. This employer confirmed employment but would not provide information on wages.

In August 1996 a payment calculation took effect increasing the payment to the maximum of \$455. In October 1996, the payment was recalculated using only the sister's income in the calculation because her husband had moved out. There is no documentation in the file to indicate when the husband moved back into the home; however, in May 1997 the husband was apparently back because only his income was used in the calculation.

According to a former employee responsible for income recertifications at the time, the husband moved back into the home about November 1996 and she tried to get information from the sister to do an updated payment calculation. According to the former employee, she could not get the necessary information, and the former Executive Director took no action to complete the payment calculation.

According to their current employer, both the sister and her husband have been employed full time since December 1995. In fact, according to State employment records the family income for 1996 was \$48,830 and for 1997 would be projected at \$46,235 based on first quarter earnings. Given these income amounts the family should have continued to make the maximum payment of \$455 except for the time when the husband was not living in the home.

On October 27, 1997 the husband came to the Housing Authority office and stated that his wife would be going on maternity leave and would therefore not be working and wanted to get his house payment adjusted. This could not be done because according to the prior information provided in May 1997 the wife was shown as not having any income. In addition, the sister's employer informed us that the sister plans to go on maternity leave and will take advantage of a company benefit that will provide her 60 percent of her regular pay for up to three months.

The projected underpayment from the understated income was approximately \$6,500.

Subleases

The Housing Authority did not properly calculate the payments for two sublet homes resulting in an abuse⁵ of the Mutual Help program because one homebuyer profited from the sublease arrangements. In addition, the Housing Authority did not approve the subleases in writing.

A cousin of the former Executive Director profited from subleasing her Mutual Help home

A cousin of the former Executive Director has moved out of her Mutual Help home and sublet her home. According to the interim Executive Director, this person is currently living with her mother, also a Mutual Help homebuyer. Documents in the cousin's Mutual Help file include a memorandum stating that the cousin had moved into her mother's house and is subleasing her home for \$200.00 per month. Documents do not state how long this arrangement has been in effect. Also, the homebuyer did not obtain prior approval or execute a written sublease agreement.

Currently the cousin's payment to the Housing Authority is calculated based on her family income and is set at \$110 per month. According to documents in the Mutual Help file the cousin is charging \$200 per month on her sublease and is therefore receiving \$90 per month more than the required monthly payment on her Mutual Help home. We were unable to calculate a total profit for the cousin because documents in the file do not indicate how long this sublease has been in effect, and our attempts to contact the cousin to get more detailed information were unsuccessful. There are no laws or regulations prohibiting Mutual Help participants from profiting on subleases. In our opinion profiting from subleases is an abuse of the Mutual Help program because taxpayers would not expect a low income home ownership program to provide the program participants the opportunity to earn rental income.

Our review of the cousin's and her mother's payment calculations show that neither are done properly. The cousin's payment calculation should include her income

⁵ According to government auditing standards, abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision, or grant agreement is violated. Rather, the conduct of a government program falls far short of societal expectations for prudent behavior.

from the rent she is receiving on her sublease. While this understated her income, it would have no effect on her monthly payment because of the level of her other income. Since the cousin is reportedly living with her mother, the cousin's family income including rent from the sublease, should be included in the mother's payment calculation. Including the cousin's family income, there would be an increase in the mother's monthly payment by approximately \$165 per month. We were unable to calculate the total underpayment because documents do not indicate how long this arrangement has been going on and our attempts to contact the cousin and her mother to get more information were unsuccessful.

A friend⁶ of the former Executive Director sublet her Mutual Help home without approval and paid less than required for her home

A friend of the former Executive Director signed a Mutual Help Occupancy Agreement in September 1995. The Mutual Help file includes two payment calculations based on the friend's income that were effective December 1, 1995 and June 1, 1996. These payment calculations required monthly payments by the friend of \$547 and \$222 respectively. Housing Authority accounting records show that neither of these charges were input into their accounting system and therefore the friend was never required to make these payments. The highest monthly payment charged, according to Housing Authority accounting records, was \$105 per month.

Documents in the Mutual Help file shows that the friend was renting the home and the renter was making the monthly payments to the Housing Authority. Housing Authority files do not contain any written agreements approving this sublease.

A hand written note in the file indicates that the renter moved out and the friend moved into the home in March 1996. The friend moved out and terminated her contract in May 1997. At the time the friend moved out required repairs

⁶ The relationship between this individual and the former Executive Director was characterized by Housing Authority staff as friends. We were unable to locate the friend and the former Executive Director would not comment on our results. Therefore, we could not confirm the relationship.

were estimated at \$19,500. None of these repairs were charged to the account of the friend, and these repairs were made and paid for by the Housing Authority when converting the home to be handicap accessible. In addition, during the term of the Mutual Help contract the friend was undercharged for monthly payments by approximately \$4,000 since December 1995.

Valid allegation regarding maintenance and vacancies of Mutual Help homes

The complainant alleged that Mutual Help homes were not properly maintained and homes sat vacant for extended periods of time.

What the criteria requires

Requirements for maintaining the physical condition and periodic maintenance of Mutual Help homes during our audit period were included in Federal Regulations at 24 CFR 905.345, 425, and 428 until they were superseded by 24 CFR 950.345, 425, and 428. These regulations require the following:

The Housing Authority is responsible for adopting policies and procedures to assure full performance of the respective maintenance responsibilities of the Housing Authority and homebuyers. In summary, the homebuyer is responsible for all general maintenance of the home including replacement of major systems unless the system is under warranty.

The Housing Authority is responsible for inspecting the homes to determine if maintenance of the home is satisfactory, and if not satisfactory then taking steps necessary to ensure that maintenance is performed.

Specific property standards are not mentioned in the Mutual Help regulations except to state that homes are to be maintained in a decent, safe, and sanitary condition. Housing Authority policies did not adopt specific property standards for maintenance. During our review we performed our inspections using Section 8 Housing Quality Standards. After completing our inspections we reached agreement on items we identified as health and safety violations with the Housing Authority Maintenance official.

What we concluded

Housing Authority staff had not enforced Mutual Help occupancy agreements and had not required homebuyers to maintain their homes in decent, safe, and sanitary condition. Also, Board members did not take an active oversight role to determine why occupied homes were not properly maintained and vacant homes were not repaired and occupied, and ensure that the problems were corrected. In addition, the Board did not ensure that Housing Authority policies met regulatory requirements and included maintenance standards.

During August and September 1997 we inspected a total of 17 Mutual Help homes, 10 occupied and 7 vacant, to determine if the homes were maintained in decent, safe, and sanitary condition as required by the Mutual Help program. The Board did not comply with the regulatory requirement that the Housing Authority adopt maintenance standards for their Mutual Help homes. Due to the lack of adopted standards we used Section 8 Housing Quality Standards as the basis for our inspections. In addition, after our inspections we presented our results to the Housing Authority Maintenance official responsible for inspections to determine if there were any areas of disagreement on what we classified as health and safety hazards. There were no disagreements on our results.

Of the homes inspected, seven occupied homes and four vacant homes had health and/or safety hazards. At the time of our review, vacancy periods for the homes ranged from 3 months to 13 months. Further review of the Mutual Help files for these homes showed that for eight of the homes where we identified health and/or safety hazards, the hazards had been identified by the Housing Authority in previous annual inspections but were not corrected. The following table shows the homes inspected and the number of health and safety violations identified.

| Address | Health and/or Safety Violations |
|-----------------------|---------------------------------|
| OCCUPIED UNITS | |
| 2369 Sidwigwilxe | 9 |
| 2311 Choba Ahbsh | 6 |
| 5332 Chief Brown Lane | 5 |
| 2359 Sabolic | 4 |
| 2329 Sidwigwilxe | 4 |
| 708 Nookwa Chahbsh | 2 |
| 732 Nookwa Chahbsh | 2 |
| 5338 Chief Brown Lane | 0 |
| 5308 Chief Brown Lane | 0 |
| 2331 Sidwigwilxe | 0 |
| | |
| VACANT UNITS | |

| | |
|-----------------------|----|
| 742 Nookwa Chahbsh | 18 |
| 5310 Chief Brown Lane | 12 |
| 5332 Chief Brown Lane | 6 |
| 5312 Chief Brown Lane | 3 |
| 720 Nookwa Chahbsh | 0 |
| 2309 Choba Ahbsh | 0 |
| 2353 Sbalikwh | 0 |

The health and safety violations in **occupied** homes included:

Raw sewage in the crawl space of the home at 2311 Choba Ahbsh. This violation was discussed at the January 1996 Board meeting but was not properly repaired.



A hole in laundry room floor of the home at 2329 Sidwigwilxe. This violation was discussed at the July 1996 Board meeting and identified in the 1996 annual inspection but was never repaired.

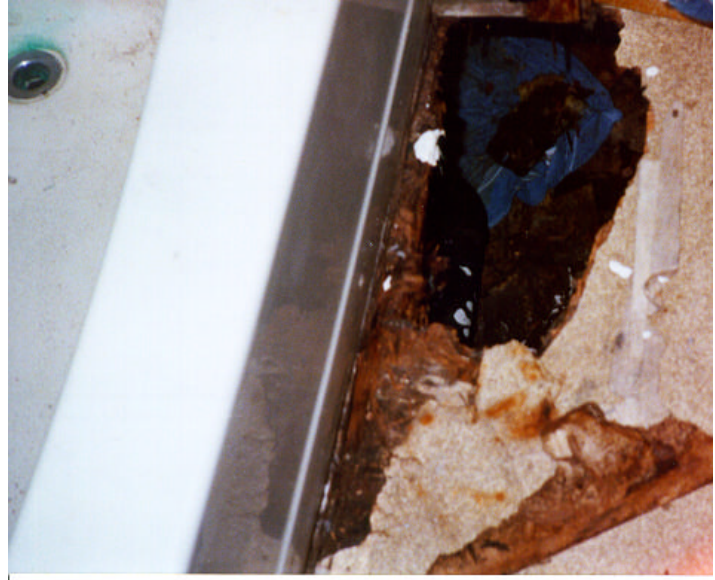


Rotten kitchen cabinets in the home at 2369 Sbalikwa.



The health and safety violations in the **vacant** homes included:

A hole in the bathroom floor of the home at 5310 Chief Brown Lane. This violation was identified in an annual inspection while the home was still occupied.



A rotten floor in the bathroom of the home at 5312 Chief Brown Lane. This violation is causing the toilet to lean.



Also, there is no indication of any definitive effort by the Board to determine why the homes, both occupied and vacant, were not properly maintained and occupied. For example, at least two of the health and safety violations above were discussed at Board meetings but were not repaired or not repaired properly.

C. CONCLUSION

Favored treatment of relatives, underreported and understated income, underpayments, and poor maintenance of homes impact individuals and the organization as a whole

The issues we identified in our audit impact not only the individuals involved but the organization as a whole. By awarding a Section 8 Voucher and a Mutual Help home to ineligible family members, the Board and former Executive Director not only provided an inappropriate benefit to their family, but also denied housing to eligible low income Tribal members. By underreporting and understating income, the former Executive Director and her family members received an inappropriate financial benefit because their monthly payments were lower than required. In addition, equity accounts for the homes are underfunded. These equity accounts serve as security for the homebuyer and the Housing Authority because they can be used to make repairs to the home. By not enforcing maintenance requirements for occupied homes, and not repairing and occupying vacant homes in a timely manner, families are living in unsafe and unhealthy conditions and in some instances for extended periods of time. In addition, other low income families are denied housing because vacant homes sit and deteriorate.

Why the deficiencies occurred

As the audit results above demonstrate, the Board, which included the former Executive Director's father, did not adequately carry out their oversight responsibilities over the Housing Authority, and in our opinion this lack of oversight contributed to the deficiencies we identified in our audit.

According to two former Board members, the former Executive Director was hired by the Board even though they knew she was not qualified for the position. The Board members stated that the former Executive Director did not have any experience in this type of position but she was a Tribal member and was the only applicant with any experience in HUD programs. These Board members' statements that the Executive Director was not qualified for the position are consistent with statements from HUD staff. According to the HUD representative responsible for the Housing Authority she was aware of the former Executive Director prior to her hiring, and knew that her experience did not prepare her for the Executive Director's position. The HUD representative stated that the Executive Director was completely overwhelmed with the position.

In addition, the Board did not take the necessary steps to ensure that Housing Authority policies complied with the regulatory requirements for the Mutual Help program. Housing Authority policies do not include a policy on subleases and also do not adopt maintenance requirements.

Also, there is no indication of any definitive effort by the Board to determine why the homes, both occupied and vacant, were not properly maintained.

Evidence accumulated during our audit also demonstrates that the former Executive Director took advantage of her position to provide favored treatment to herself, her family members, and a friend. In addition, the former Executive Director did not ensure that income recertifications and payment calculations were accurate, Mutual Help homes were properly maintained, and vacant Mutual Help homes were repaired and awarded to eligible homebuyers.

D. ACTIONS TAKEN BY THE TRIBES

In July 1997, based on information brought to the attention of the Upper Skagit Tribe's General Manager and Controller by Housing Authority staff, the former Executive Director identified in the deficiencies in this report was relieved of her position at the Housing Authority.

In addition, after the former Executive Director was relieved of her position, the members of the Board were removed by the Tribes and an Interim Board was put in place made up of members of the Tribal Councils.

The Upper Skagit and Sauk Suiattle Tribes are currently in the process of separating their housing operations due to the new Native American Housing and Self Determination Act. This will result in the dissolution of the Housing Authority as it currently exists.

These actions by the Tribes were taken into consideration when developing the recommendations for this report.

E. AUDITEE COMMENTS AND OIG EVALUATION

Auditee Comments

On December 5, 1997 we provided a draft of this report to the Interim Board for their comments. They provided written comments to the draft report in a letter dated December 12, 1997.

The Housing Authority generally agreed with the results of our audit. However, the Housing Authority commented that without additional time to review all the files and obtain additional information on employment and income, they could not corroborate the specific amounts in our draft report. In addition, the Housing Authority stated that the individual identified in our draft report as a former sister-in-law was not actually a relative of the former Executive Director. The Housing Authority also took exception to recommendation F in our draft report. They see this recommendation as giving sole responsibility for determining the Tribes' capability for future administration of housing programs to a federal agency that failed in its performance of its oversight responsibility. A complete copy of the Housing Authority's comments is included in Appendix 1.

OIG Evaluation

We discussed and agreed on the timeframe for comment on the draft report with the Housing Authority prior to providing the draft report for comment. This agreement was reached recognizing that the amount of time for comment on this draft report was not sufficient for the Housing Authority to review files and obtain information necessary to verify all amounts and calculations in our audit report. In addition, we state in this report that we were unable to determine certain dates of employment and wages. For these reasons our report recommends that the Housing Authority obtain information necessary to determine specific dates of employment and wages prior to making any decisions on the cases cited.

Due to the conflicting information obtained from the Board and staff on the relationship of the individual that we identified as a former sister-in-law, we contacted the Housing Authority staff again to determine if they had any documentation of the relationship. They did not, but stated that their observation of the relationship over the years demonstrated that they were good friends. Because of the conflicting information we changed the report to refer to this person as a friend of the former Executive Director. We did attempt to contact the friend during our audit but could not locate her. As discussed in our audit scope, the former Executive Director would not comment on our audit results or answer any questions.

We acknowledge that HUD does have oversight responsibility for the Housing Authority. However, it was not in the scope of our audit to determine whether or not HUD failed in any of its oversight

responsibilities, and therefore, we have no comment at this time on the auditee position. Our recommendation is based on the fact that under NAHASDA, HUD continues to have oversight responsibility, and given the performance history documented in this report we believe it is prudent for HUD, as the oversight entity, to evaluate the administrative capability of the entity designated by the tribes prior to awarding any funds. Therefore, we made no change to our recommendation.

F. RECOMMENDATIONS

We recommend that HUD:

- A. Require the Housing Authority to obtain the information necessary and calculate the amount of underpayment of Mutual Help payments where income was underreported or understated and make retroactive charges to the homebuyers.
- B. Require the Housing Authority to evaluate the sublease situations in accordance with terms of the Mutual Help Occupancy Agreements, and either reach agreements for approved subleases that do not abuse the program, or terminate the current Mutual Help agreements and award the homes to new, eligible homebuyers.
- C. Determine what action, including Debarment or Limited Denial of Participation, is appropriate for the former Executive Director, and the families with underreported or understated income.
- D. Require the Housing Authority to immediately take all necessary action, including termination and eviction if appropriate, to repair the homes and enforce maintenance provisions of their Mutual Help Occupancy Agreements.
- E. Require the Housing Authority to determine the eligibility of the sister and her family who were awarded the Section 8 Voucher, and if determined ineligible, reimburse the Section 8 program from non-federal funds, for all payments made on the Section 8 Voucher.
- F. Perform an evaluation to determine if these Tribes or their Tribally Designated Housing Entities have the necessary administrative capability to be recipients under the Native American Housing and Self Determination Act.

Internal Controls

In planning and performing our audit, we considered the Housing Authority's management controls relating specifically to our objectives, to determine our auditing procedures and not to provide assurance on management controls.

Management control is the process by which an entity obtains reasonable assurance as to achievement of specified objectives. Management controls consist of interrelated components, including integrity, ethical values, competence, and the control environment which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring.

We determined that the management control categories relevant to our audit objectives were the Housing Authority's policies, procedures, and practices for ensuring that:

- Construction services were procured in accordance with all applicable requirements.
- Comprehensive Improvement Assistance Grant funds were used for eligible purposes.
- Travel by Housing Authority staff was done in accordance with applicable policies and procedures.
- Only eligible applicants receive Section 8 Vouchers and the amount of assistance provided on Section 8 Vouchers is appropriate.
- Only eligible applicants receive Mutual Help homes and that Mutual Help participants pay the proper amount for their homes.
- Mutual Help homes, both occupied and vacant, are maintained in accordance with applicable standards.

We evaluated the relevant controls as necessary to determine appropriate audit procedures for evaluating the allegations in the complaint. Because of the limitations on the scope of our audit, we did not gain a thorough understanding of all management controls, and did not rely on management controls in our audit work.

Appendices

Appendix 1

Auditee Comments

Appendix 2

Distribution

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