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TO: Karen Garner-Wing, Acting Deputy Assistant Secretary, Office of the Assistant Deputy Secretary for Native American Programs, 8APIN

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

SUBJECT: Muckleshoot Housing Authority  
Traditional Indian Housing Development Program  
Auburn, Washington

We completed a review of the Traditional Indian Housing Development Grants for the Muckleshoot Housing Authority in Auburn, Washington. The objectives of our review were to: evaluate the activities and management relating to the construction work for the two Traditional Indian Housing Development Grants and determine if program abuse or mismanagement has occurred; and determine appropriateness of the administrative costs associated with the Grants.

The Housing Authority initiated the development of two HUD-funded housing projects and implemented its own independent housing programs. However, at least \$575,549 of funding for its independent housing programs were made with HUD program monies, which was contrary to the provisions of the HUD Annual Contributions Contracts and regulations. Accordingly, the Authority reduced monies available to administer its HUD-funded development projects. In addition, the Authority had limited controls over its administrative and operating expenditures. As a result, excessive, unsupported, and questionable costs were incurred by the HUD projects.

Within 60 days, please furnish this office, for each recommendation cited in the report, a status report on: (a) the corrective action taken; (b) the proposed corrective action and the date to be completed; or (c) why action is not considered necessary. Also please furnish us copies of any correspondence or directives issued because of the audit.

We appreciate the courtesies and assistance extended by the personnel of the Northwest Office of Native American Programs and of the Muckleshoot Housing Authority. We are furnishing a copy of this report to the Muckleshoot Housing Authority Executive Director. Should you have any questions, please contact Ernest Kite, Assistant District Inspector General for Audit, at (303) 672-5452.

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# Executive Summary

We completed a review of the Muckleshoot Housing Authority in Auburn, Washington. The review was conducted as part of Operation Safe Home, based on information provided to the Office of Inspector General. We reviewed the Housing Authority and HUD records for the period from October 1, 1994, through January 31, 1997, with the main focus on the Traditional Indian Housing Development projects WA97B040003 and WA97B040004.

The Muckleshoot Housing Authority initiated two HUD-funded development projects: WA97B040003 for 25 Low Rent units; and WA97B040004 for 40 Mutual Help units. In addition, the Housing Authority pursued the design and development of its own separate housing program and projects. However, the funding for the Housing Authority's own independent housing programs was from HUD monies designated for the development of the HUD projects. For example, the Authority:

- Used \$433,488 of HUD development monies to purchase four existing houses which were subsequently sold to Tribal members at discounted prices; and
- Spent HUD project funds totaling at least \$142,061 for costs associated with a model home, which was intended to be a marketing tool for the Authority's own independent housing construction program.

The use of such monies was contrary to the provisions of the HUD Annual Contributions Contracts and HUD regulations. Furthermore, it reduced the amount of funds available for the construction of the Low Rent and Mutual Help houses, which were crucially needed by Tribal members.

The Housing Authority failed to establish proper controls over its administrative expenses relating primarily to travel, payroll, and sundry expenses. As a result, excessive, unsupported and/or questionable costs were incurred and charged to the HUD-funded programs.

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Deficient implementation of the HUD development projects

The Housing Authority failed to effectively and efficiently develop the 25 Low Rent houses and 40 Mutual Help homes for projects WA97B040003 and WA97B040004, respectively. Instead, the Authority elected to use HUD development funds from these two projects to help finance the design and development of its own independent housing programs. Housing Authority management did not comply with the HUD requirements during the initial development of the projects.

Development funds used to finance independent housing program

The Housing Authority diverted \$433,488 from its HUD-funded Mutual Help Homeownership Opportunity Program, project WA97B040004, to fund an independent housing program. The monies were used to acquire four existing houses which were then sold to Tribal members at reduced prices. The Authority's acquisition and sales program, which

was established by a former Executive Director, was intended to be an on-going self-sustaining program.

Housing Authority management violated the Consolidated Annual Contributions Contract and related regulations by improperly using HUD monies to fund the Authority's own independent housing program. This improper use of HUD funds also reduced the amount of monies available for the development of its 40 Mutual Help Program homes.

Development funds used to finance a model home

The Housing Authority also diverted at least \$142,061 from its HUD-funded Mutual Help Homeownership Opportunity Program, project WA97B040004, to fund the development of a model home and associated costs, such as a ground breaking ceremony, furnishings, and an open house. The model home was to be used as part of the Housing Authority's independent new construction and sales program. This non-HUD program was intended to provide at least 120 new houses by constructing the dwelling units, selling them, and then using the proceeds to build additional homes.

Housing Authority management violated the Consolidated Annual Contributions Contract and related regulations through the improper use of HUD monies for the Housing Authority's construction and sales program. This improper use of HUD funds reduced the amount of monies available for the proper development of its 40 Mutual Help Program units. Furthermore, the model home, even though basically complete, was uninhabitable because utilities were not provided to the site.

Inadequate controls over Housing Authority administrative expenditures

The Housing Authority failed to establish proper controls over its administrative expenses relating primarily to travel, payroll, and sundry expenses. As a result, excessive, unsupported and/or questionable costs were incurred and charged to HUD-funded programs. More specifically, these included:

- Personal travel costs, unsupported travel expenses and duplicate travel payments;
- Excessive, unsupported and questionable overtime and holiday pay; and

- Unsupported and ineligible payments made for personal items consisting of clothing, gifts, donations, food and entertainment, employee car repairs, and used employee equipment.

These improper expenses resulted primarily from vesting in the Executive Director all functions for incurring costs and making payments. Under a September 30, 1993, Executive Employment Agreement, the Board granted a prior Executive Director extensive control and latitude over the operations of the Housing Authority. Limited oversight was exercised by the Authority's governing Board of Commissioners.

Change of regulations applicable to the Authority

On October 1, 1997, the legislation governing Indian Housing entities changed from the United States Housing Act of 1937 to the Native American Housing Assistance and Self-Determination Act of 1996. Title 24 of the Code of Federal Regulations, Part 950 was also terminated. A memorandum dated September 30, 1997, discusses the impact of this change. This memorandum states that Title 24 of the Code of Federal Regulations, Part 85, is still applicable. In addition, findings relating to activities prior to October 1, 1997 are to be resolved between the Housing Authority and HUD.

Finding 1 of this audit report includes violations of Part 85. All of the findings address ineligible program activities involving the inappropriate use of Federal funds which occurred prior to October 1, 1997. Therefore, the findings and recommendations are valid and must be properly resolved by the Authority and HUD.

Corrective action has been initiated by the Authority

At the time of our review, the Board functions of the Housing Authority had been transferred to the Tribal Council and various internal control procedures were being initiated. In addition, an independent contract administrator was hired to oversee the Authority's construction activities.

The HUD Northwest Office of Native American Programs had conducted several reviews of the Housing Authority's operation and had restricted access to the remaining development project funds and required an accounting of expenditures. A management agent was contracted to evaluate the status of the HUD development grants and assist in corrective action.

Additional corrective  
action is needed

However, further corrective action is needed. Corrective action is needed by the Housing Authority to focus on completing the contracted construction of houses obligated under the Annual Contributions Contracts within the prescribed HUD requirements. HUD development monies used by the Authority for non-HUD housing activities need to be repaid. These include the \$433,488 used to fund the Authority's independent acquisitions and sales project and the \$142,061 used to design and construct the Authority's model home.

In addition, the Authority will need to establish adequate controls over its expenditures to ensure compliance with the requirements established in Title 24 of the Code of Federal Regulations, Part 85.

HUD officials will need to work with Authority officials to implement the necessary corrective actions and to ensure that proper procedures and controls are in place over HUD's programs and related costs.

Auditee's Comments

An exit conference was held with Housing Authority officials on December 15, 1997 who basically agreed with the report findings and recommendations. The officials apprised us that they have initiated corrective action on the findings. Such action includes implementing various management controls over Housing Authority monies and assets as well as taking steps to complete the project developments set out in the HUD Annual Contributions Contracts.

Housing Authority officials elected to provide HUD with written responses to the audit findings and recommendations when the audit report is issued.

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# Introduction

The Muckleshoot Housing Authority was established July 21, 1978, to provide housing for members of the Muckleshoot Indian Tribe. The Muckleshoot Indian Tribal Council was responsible for appointing the Board of Commissioners to manage the Housing Authority.

The Housing Authority entered into Annual Contributions Contract Number S-71 on July 21, 1978, for the construction and operation of 40 Low Rent Units. Amendment Number 14, dated March 10, 1995, to this Contract, established Project Number WA97B040003-G, which provided development grant funds of \$2,632,800 for the construction of 25 Low Rent Program units. Annual Contributions Contract Number S-141 was entered into on April 3, 1995. This Contract established Project Number WA97B040004-N, which provided grant funds of \$4,403,160 for the construction of 40 Mutual Help Homeownership Opportunity Program houses. Both grants were awarded under the Traditional Indian Housing Development Program.

The Housing Authority maintained the computer system and did the data entry for their accounting records. The Fee Accountant, Melchor Financial Services, provided accounting services and finalized the accounting reports. The accounting books and records were maintained at the Housing Authority office in Auburn, Washington.

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## Objectives

The objectives of our review were to:

- evaluate the activities and management relating to the construction work for the two Traditional Indian Housing Development Grants and determine if program abuse or mismanagement has occurred; and
- determine appropriateness of the administrative costs associated with the Development Grants.

During our review we identified significant problems with the management of the two Grants and with the administrative costs incurred. The four findings contained in this report describe these problems:

- Finding 1, Deficient Implementation of HUD Development Projects, discusses mismanagement of both Grants and the inappropriate use of HUD funds for activities which were not included in the contracts.
- Finding 2, Development Funds Used to Finance Independent Housing Program, details the inappropriate

use of HUD funds to finance a non-HUD housing program.

- Finding 3, Development Funds Used to Finance a Model Home, details the use of HUD funds to finance the construction of a model home that was to be used to generate interest in another non-HUD housing program.
- Finding 4, Inadequate Controls Over Housing Authority Administrative Expenditures, discusses examples of mismanagement of Grant funds and abuse of funds for the purchases of questionable or ineligible items.

### Scope and Methodology

Our audit period covered transactions and activities related to the two Grants from October 1, 1994 through January 31, 1997. To accomplish our objectives we reviewed accounting records and other documents at HUD's Northwest Office of Native American Programs and at the Muckleshoot Housing Authority. We also conducted interviews with employees of these organizations and with the HUD contracted management consultant. We conducted the audit work from January through August, 1997.

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

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# Deficient Implementation of HUD Development Projects

The Housing Authority failed to effectively and efficiently develop the 25 Low Rent houses and 40 Mutual Help homes for projects WA97B040003 and WA97B040004, respectively. The Authority combined the design and development of its HUD projects with its own independent housing activities and programs. Housing Authority management did not comply with the various HUD requirements for the HUD-funded projects. Because of the noncompliance, the Northwest Office of Native American Programs issued a Corrective Action Order to the Authority on July 18, 1996, detailing actions to be taken to correct numerous procedural and contracting discrepancies. This involved terminating all construction contracts and re-advertising for the two HUD projects.

At the time of our review, the Housing Authority had elected to use modular or prefabricated houses for its two HUD projects rather than using the housing plans and specifications that had been designed by the Authority's contract architect. This decision will further delay the development of homes which are crucially needed by the Tribal members. The Housing Authority paid substantial amounts for architectural and engineering services that will now be of very limited value. As of March, 1997, the only unit built was a model home, which was uninhabitable since it did not have the necessary water and sewer line connections.

While the Authority actively pursued its own independent housing program and projects, the Authority lacked the funds with which to carry out these activities. Therefore, the Authority used funds from the two HUD development projects to help finance the design and development of its own independent housing programs. For example, the Authority:

- Used \$433,488 of HUD development monies to purchase four existing houses that were subsequently sold to Tribal members at discounted prices; and
- Spent HUD project funds totaling at least \$142,061 for costs associated with a model home, which was intended to be a marketing tool for the Authority's own independent housing construction program.

The Housing Authority did not comply with the provisions of the Annual Contributions Contracts which resulted in the improper use of HUD development funds. The Board of Commissioners did not provide sufficient oversight to ensure compliance with the requirements. Therefore, the amount of monies available for the development of the two HUD-funded projects was significantly reduced.

## Finding 1

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Corrective action is needed by the Housing Authority to focus on completing the contracted construction houses obligated under the Annual Contributions Contracts within the prescribed HUD requirements. HUD development monies used by the Authority for its own independent housing activities will need to be repaid.

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Compliance with HUD program requirements required

Under the provisions of the Consolidated Annual Contributions Contracts, as amended, the Housing Authority is to carry out its housing program in an economic and efficient manner. Development of projects is to be conducted in conformity with the Annual Contributions Contracts and with the applicable rules and regulations, which are contained primarily in Title 24 of the Code of Federal Regulations, Part 85 and Part 950. Under these provisions, the Authority is to adopt and follow administrative and operating policies and procedures to administer its HUD-funded housing programs.

HUD grants provided for 25 Low Rent and 40 Mutual Help houses

On August 30, 1994, HUD awarded two development grants to the Muckleshoot Housing Authority. These were for the development of 25 Low Rent houses under project number WA97B040003 with a Maximum Total Development Cost of \$2,632,800 and for 40 Mutual Help Homeownership Opportunity Program houses under project WA97B040004 with a Maximum Total Development Cost of \$4,403,160.

Authority administering both HUD and non-HUD housing programs

During our review period, the Housing Authority started the development of its HUD-funded Low Rent and Mutual Help Housing Projects and also initiated its own independent housing program. The Authority's independent housing program consisted of two basic components. The first was a housing acquisitions and sales program and the second was a new housing construction program.

Normally, both HUD and non-HUD housing programs could be administrated effectively and efficiently at the same time. However, since the Housing Authority lacked separate funds for its independent housing program, the Authority utilized monies from its HUD-funded Low Rent and Mutual Help housing development projects to finance its own independent housing activities. The Housing Authority did not comply with the provisions of the Consolidated Annual Contributions Contracts and used HUD monies to finance non-HUD program activities. The Board of Commissioners was

involved in some aspects of the implementation of the development projects, but did not provide adequate oversight to ensure compliance with the requirements.

HUD funds used for Authority's acquisition and sales project

The Housing Authority diverted \$433,488 from its HUD-funded Mutual Help Homeownership Opportunity Program for Project WA97B040004 to fund its independent acquisition and sales program. The monies were used to acquire four existing houses and then sell them to Tribal members at reduced prices. This program was intended to be an on-going, self-sustaining program. Details of the program and fund diversion are discussed in Finding number 2.

HUD funds used for Authority's separate new construction program

Under the Authority's independent new housing construction program, the Authority designed and constructed a model home to be used to market its new housing construction program. The Authority diverted at least \$142,061 from the HUD-funded Mutual Help program to finance the construction of the model home. Details of the model home and associated fund diversions are discussed in Finding number 3.

Authority combined HUD and non-HUD projects and activities

The Housing Authority combined its HUD and own independent housing programs in requesting various proposals and bids and executing contracts. In so doing, the Authority was not adhering to the HUD development program requirements. The HUD projects were for the development of 25 Low Rent units and 40 Mutual Help houses. The Authority expanded its HUD project proposals and bids to encompass its own independent housing programs. The number of units in the proposal and bid requests were for more dwelling units than specified in the HUD development grants. The following are examples:

- The Request for Proposals for the Low Rent project was for up to 60 units, which exceeded the HUD Development project by 35 houses.
- Architect contracts were for 60 "Multifamily" and 80 "Single Family" units, rather than the 25 Low Rent and 40 Mutual Help units specified in the HUD development grants.

- The Low Rent construction contract was for the building of 60 units and site development at an anticipated total cost of \$4.15 million. This exceeded the HUD awarded maximum total development cost by about \$1.5 million.
- Invitations for Bid were also issued for building:
  - 40 Mutual Help and 210 Lease to Own units with Housing Authority contribution of \$5.84 million and funds from other sources, including contractor contribution, of \$9.64 million;
  - 40 Mutual Help and 260 Lease to Own units with Housing Authority Contribution of \$6.34 million and funds from other sources of \$11.85 million; and
  - 40 Mutual Help and 60 Low Rent units with Housing Authority Contributions of \$5.85 million and funds from other sources of \$2.37 million.

None of these conformed to the terms of the HUD development programs. In addition, they illustrated the Authority's lack of focus, which led to continual changes to its housing development needs and forecasts.

HUD issued a Corrective Action Order to the Authority

On July 18, 1996, the Northwest Office of Native American Programs issued a Corrective Action Order to the Housing Authority for failing to implement its HUD development program in conformity with HUD requirements. The Corrective Action Order detailed eight deficiencies relating to the procurement and development procedures. These included inappropriate percentages for Indian Preference; noncompliance with Government-wide contract requirements; problems with the rating and ranking criteria and procedures; and the execution of contracts for separate services.

The Corrective Action Order contained five recommendations related to the HUD project development. These included:

- Submission to HUD for review of the final plans and specifications, design and construction contracts, and supporting documentation for all requests for funding draws on the Low Rent and Mutual Help projects;

- Termination of the original construction contracts; and
- Re-advertisement of both projects using the request for bid method of procurement.

At the time of our review, the Housing Authority was in the process of taking corrective action. The Authority was re-advertising for proposals for the construction of both projects. In addition, the Authority had executed a contract for construction management services for both projects.

Deficiencies stem from three basic problems

These deficiencies relating to the development of the two HUD-funded projects stem from three basic problems:

- Implementation of the HUD development projects, which was the direct responsibility of the Executive Director, was not conducted in accordance with the HUD requirements and regulations. Additionally, the Board of Commissioners provided only limited oversight.
- The Authority did not have non-HUD funding to carry out its own independent housing program; therefore, HUD development monies were utilized. The intention was for the Authority's own housing program to become self-sustaining.
- The HUD and non-HUD housing programs of the Authority were not administered separately. Instead, the Authority combined many of the programs' design and construction processes in order to expedite and fund them. The Executive Director further exacerbated the delays by constantly changing housing designs, unit quantities, and construction procedures. The end result was often delayed processes and higher costs.

These deficiencies can be easily illustrated by the following two examples relating to housing franchise opportunity fees and to the extra services and costs incurred by the Authority's contract architect.

HUD funds expended for a housing franchise opportunity

The Housing Authority used HUD funds of at least \$7,206 in connection with the purchase of a franchise opportunity. Housing Authority officials, consisting of a Board of

Commissioners member and the Executive Director, who was accompanied by a spouse, went to Atlanta, Georgia, to evaluate a modular home manufacturer.

The Housing Authority paid a "franchise fee" of \$5,000 and purchased \$197 in associated merchandise and business cards. The fee provided the Housing Authority the opportunity to represent the manufacturer and to purchase modular homes at discounted prices. However, the Housing Authority did not use their franchise authority prior to the expiration date, so no benefit was realized.

HUD program monies totaling \$2,009 were used to fund the total travel costs for the two Housing Authority officials to travel to Atlanta. This cost also included personal travel costs of the Executive Director's spouse.

The logic of going all the way to Atlanta, Georgia, to get a modular home housing franchise escapes us. At the time, the Authority was already involved in conventional housing development, which exceeded its HUD funding. Also, there were several modular home manufacturers within a reasonable proximity of the Housing Authority.

HUD funds expended on excessive architect costs

Originally, the Housing Authority budgeted architectural and engineering fees of \$60,000 for its 25 unit Low Rent project and \$80,000 for its 40 unit Mutual Help project. On December 6, 1995, the budgeted amounts were increased to \$184,500 and \$244,000, respectively. The revised budgets, which had a combined total of \$428,500, were not approved by HUD and did not represent any increase in the number of units being built under the HUD development projects.

The contracts executed with the architect were for services relating to the planning and development of 30 Multifamily and 80 Single Family dwellings. The total compensation stipulated in the contracts was \$435,184. The architect was to provide services for more units than set out in the HUD projects and was under contract for an amount \$6,684 more than the Authority had budgeted. Meeting minutes, prepared by the architect, indicated that the architect was subsequently asked to provide architectural services for 64 Low Rent housing units.



More simply, HUD approved the development of 25 Low Rent units and 40 Mutual Help homes. The Authority executed architect contracts and subsequently required architectural services to provide 64 Multifamily units and 80 Single Family homes.

The architect was also required to perform numerous other services not related to the development of the HUD projects. For example:

- Tribal cultural studies were performed by the architect. This involved developing and using a questionnaire to gather and summarize cultural preference data. The architect held meetings with Tribal members to gather this cultural information. The study results were to be used in designing Authority housing.
- Architectural services were performed for designing 10 houses which, when completed by the Authority, were to be given to ten veterans.
- The model home was built out of sequence and required special design and construction plans. The model home was to serve as a marketing tool for the Authority's non-HUD housing program. Further details are discussed in Finding number 3.

All of these extra architectural services were funded with HUD development monies. As of February 11, 1997, the Authority had paid the architect a total of \$433,229, which was just short of the contract maximums of \$435,184. Even though the Authority had paid 99.5 percent of the contract amounts for architectural services, the services relating to the actual HUD housing construction had not begun. Only the model home had been built, which was not habitable since water and sewer utility lines had not been connected to the site.

Subsequent to our field work, the Authority decided to not build the architecturally designed units. Accordingly, the contracts with the architect were being terminated. The impact was that the benefit of the services of the architect and related costs have been lost.

## Finding 1

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HUD development projects had been significantly delayed

In conclusion, the Housing Authority had not carried out the development of its HUD-funded Low Rent and Mutual Help projects in an expeditious manner. Instead, HUD development monies were used to finance other unrelated Housing Authority activities. As a result, the Authority had significantly reduced monies available to build the HUD-approved Low Rent and Mutual Help houses.

Corrective action has been initiated

Housing Authority officials told us that they have decided not to use the type of houses designed by the architect. Other types and styles for the projects are currently being evaluated. As of October, 1997, the Muckleshoot Tribe had reimbursed the Housing Authority \$298,282 for expenses incurred for its various housing programs. A contract administrator had been hired to oversee the development of the houses.

Authority needs to focus on development of needed housing

The fact that the Authority decided to discontinue construction of the architecturally designed houses and to pursue the use of other types and styles of houses further affects the development of the houses that were approved and funded by HUD. Correcting the problems in housing development will require the Authority to: focus on the houses to be built; develop the land with the appropriate supporting utility services; and build houses that will meet the needs of the eligible Tribal members. HUD will need to work closely with the Authority to ensure the dwelling units are built in compliance with the applicable HUD regulations. Any short fall in obligated funds to complete the contracted development activities will need to be provided by the Authority from non-Federal funds.

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## Auditee Comments

Items presented above were discussed with Housing Authority officials during the course of the audit and during an exit conference held on December 15, 1997. Housing Authority officials basically agreed with the results of our review. They stated that corrective action has been initiated. As a result, the restrictions imposed by the HUD Corrective Action Order have been lifted. Actions are being taken to complete the HUD projects. The Housing Authority plans to use the model home as a Mutual Help Homeownership house and has made reimbursements of some funds that were used for other housing activities.

Housing Authority officials elected to provide formal written responses to this finding and related recommendations directly to HUD when the audit report is issued.

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Recommendations

We recommend that the Office of Native American programs:

- 1A Require the Housing Authority to take the necessary actions to ensure that the grant funds that have been obligated be used for the intended development activities in compliance with the applicable HUD requirements and regulations.
- 1B Require the Housing Authority to pay any short fall in funding, for the completion of the contracted development activities, from non-Federal funds.
- 1C Provide the necessary assistance to the Housing Authority to ensure that the remaining funds be properly used in providing the needed housing.

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## Development Funds Used to Finance Independent Housing Program

The Housing Authority diverted \$433,488 from its HUD-funded Mutual Help Homeownership Opportunity Program for project WA97B040004 to fund its own independent non-HUD housing program. The monies were used to acquire four existing houses and subsequently sell them to Tribal members at reduced prices. The Authority's acquisitions and sales program, established by a former Executive Director, was intended to be an on-going, self-sustaining program. The Housing Authority violated of the Consolidated Annual Contributions Contract and related regulations by improperly using HUD monies for the Authority's independent housing program. The Board of Commissioners did not provide adequate oversight to ensure compliance with the requirements. This improper use of HUD funds reduced the amount of monies available for the development of its 40 Mutual Help Program homes. While Housing Authority officials have apprised us that their acquisitions and sales program has been discontinued, the Authority needs to repay, from non-Federal sources, the \$433,488 which was obligated to the HUD-financed Mutual Help project.

HUD monies granted for development of 40 Mutual Help Homes

Under the provisions of the Consolidated Annual Contributions Contract S-141, the Muckleshoot Housing Authority was authorized \$4,403,160 to built 40 Mutual Help Homeownership Opportunity Program dwelling units under project number WA97B040004. Part A of the Annual Contributions Contract, as revised July 1995, states the projects under the contract are to be developed and operated in accordance with all the provisions of the contract and all applicable statutes and regulations issued by HUD. Part A also stipulates that development funds are to be used only for projects authorized by HUD.

The Development Program for project WA97B040004 specified the 40 Mutual Help houses were to be new construction. This same provision was set out in the Housing Authority Board Resolution 94-04, dated May 18, 1997.

HUD monies used to fund independent non-HUD housing program

Contrary to the HUD Contract, the Housing Authority improperly used HUD funds authorized for the development of project WA97B040004 to finance an independent non-HUD housing program created by the Housing Authority. During the period of December 1995 through July 1996, the Authority diverted HUD monies, totaling \$433,488, to finance

the acquisition of four existing houses. Subsequently, the Authority sold the four units to Tribal members for \$323,606, an amount substantially less than the purchase price paid by the Authority. The difference of \$109,882 represents a Housing Authority write-down of the sales price for the four properties. This amount is comprised of the closing costs for both the acquisition and sale of each property and Promissory Notes, executed for each property, which include a debt forgiveness clause.

The following chart summarizes the transactions for the four properties:

PROPERTY	AUTHORITY PAID	PROCEEDS RECEIVED	TOTAL WRITE-DOWN COST
House #1	\$115,484	\$ 87,259	\$ 28,225
House #2	108,785	76,149	32,636
House #3	95,433	73,150	22,283
House #4	113,786	87,048	26,738
Totals	433,488	323,606	109,882

The Housing Authority had established a money market account and a certificate of deposit to hold the sales proceeds. As of March, 1997, the total funds in these two accounts were \$256,223. Housing Authority officials apprised us that some of the monies were used for various other housing activities. However, since March 1997, the reimbursements have increased to \$398,000.

Property buyers granted purchase write-downs

The Housing Authority negotiated loans with each of the four individuals who purchased a property. The closing statements listed these loans as either a "grant" or a "seller carryback." However, a Promissory Note was executed for each transaction establishing a loan. Each Promissory Note stated, "Potential repayment of the Grant would not be imposed until you resell the residence. No repayment will be imposed if you own your home for more than ten years." The amount on the Promissory Note did not always correspond with the amount shown on the Closing Statements, as shown in the following chart:

PROPERTY	PROMISSORY NOTE	CLOSING STATEMENT
House #1	\$25,000	\$25,000
House #2	25,000	25,000
House #3	16,150	19,000
House #4	21,250	25,000

No explanations were given for the fifteen percent discounts given on the Promissory Notes for the last two properties.

These Promissory Notes made up the majority of the difference between the amounts the Housing Authority paid for the properties and the amounts received as proceeds from the subsequent sales. The remaining difference was the closing costs which the Housing Authority paid on both the acquisition and sale of each property.

Authority's independent housing program was improperly started with HUD monies

Housing Authority officials told us that the acquisition and sale of the four properties was a housing program that was created by a former Executive Director. The new program was envisioned as being an on-going, self-sustaining activity.

The transactions were not processed in compliance with HUD requirements. The required Mutual Help and Occupancy Agreements were not negotiated for two of the properties and the other two were not executed in compliance with the requirements. None of the required Mutual Help contributions were made. The required application and selection procedures were not followed. Housing Authority officials told us that to participate in the Housing Authority's program, the individual had to find a house and secure financing. The Housing Authority set the initial purchase price for each property, but then discounted the price when the homeowner purchased the unit. The discounted amount was money provided by the Housing Authority for down payment on the homeowner's personally obtained mortgage. None of these procedures comply with the Mutual Help requirements.

While the design of a separate non-HUD program by the Authority is commendable, the funding for such an activity cannot be at the expense of its Mutual Help development project. The Housing Authority violated the provisions of the Annual Contributions Contract and related HUD regulations

by the improper use of the HUD funds of \$433,488. The Board of Commissioners did not provide adequate oversight to ensure compliance with the requirements. This improper use of HUD funds seriously limited the monies the Authority had available to fully fund and develop its 40 Mutual Help houses.

Corrective action has been initiated

Housing Authority officials stated that the practice of acquiring and selling houses had been discontinued and HUD requirements would be followed during the ensuing development of the Mutual Help project. Sales proceeds totaling \$256,223 as of March 1997, were segregated and would be used for the new construction of Mutual Help units. Housing Authority officials apprised us at the exit conference that additional reimbursements have been deposited into the fund which currently has a total of \$398,000. Even so, the Authority needs to reimburse the entire \$433,488 from non-Federal sources to the HUD Mutual Help program, since the funds were obligated and then improperly used for transactions that did not comply with the Mutual Help requirements.

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### Auditee Comments

This finding was discussed with Housing Authority officials during the audit and at an exit conference on December 15, 1997. Housing Authority officials were in basic agreement with the finding and related recommendation. They stated that the Housing Authority has paid back a total of \$398,000 that was used to fund other housing authority activities. A formal written reply to the finding will be provided to HUD when the report is issued.

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### Recommendations

We recommend the Office of Native American Programs:

2A Require the Authority to pay back, from non-HUD funds, \$433,488 which was obligated under the HUD-funded project WA97B040004 and ensure the funds are properly used for the development of homes.



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## Development Funds Used to Finance a Model Home

The Housing Authority diverted at least \$142,061 from its HUD-funded Mutual Help Homeownership Opportunity Program, project WA97B040004, to fund the development of a model home and associated costs, such as a ground breaking ceremony, furnishings, and an open house. The model home was to be used as part of the Housing Authority's own independent new construction sales program. This non-HUD program was intended to provide at least 120 new houses by constructing houses, selling them, and using the proceeds to construct additional units. The Housing Authority did not comply with the Consolidated Annual Contributions Contract and related regulations by the improper use of the HUD monies for the Housing Authority's independent housing program. The Board of Commissioners did not ensure compliance with the requirements. This improper use of HUD funds also reduced the amount of monies available for the proper development of its 40 Mutual Help Program units. Furthermore, the model home, even though completed, was uninhabitable because water and sewer utility lines were never provided to the site. Therefore, the Housing Authority needs to repay, from non-Federal sources, the costs associated with the model home which were obligated from the HUD-financed Mutual Help project. The following is a photograph of the model home and the detached carport.

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HUD monies granted for development of 40 Mutual Help Homes

Under the provisions of the Consolidated Annual Contributions Contract S-141, the Muckleshoot Housing Authority was authorized \$4,403,160 to built 40 Mutual Help Homeownership Opportunity Program dwelling units under project number WA97B040004. Part A of the Annual

Contributions Contract, as revised July 1995, states the projects under the contract are to be developed and operated in accordance with all the provisions of the contract and all applicable statutes and regulations issued by HUD. Part A also stipulates that development funds are to be used only for projects authorized by HUD. The Code of Federal Regulations requires that the Housing Authority select a moderate design standard and that the project be constructed within the amount of funds reserved for the development.

HUD monies used to fund activities associated with an independent non-HUD program

Contrary to the HUD Contract, the Housing Authority improperly used HUD funds, authorized for the development of project WA97B040004, to finance activities associated with its independent non-HUD new construction housing program. The Housing Authority's independent new construction sales program was intended to provide at least 120 units by constructing new houses, selling them, and then using the proceeds to construct more houses.

A key component of the Housing Authority's own independent housing program was the design and construction of a model home which was to provide a marketing tool for their independent housing program. The model home was "to generate enthusiasm among Tribal members" and to serve as the springboard for the Housing Authority in promoting its own independent housing program.

HUD monies improperly used to finance model home

The Housing Authority did not comply with the provisions of the Annual Contributions Contract and related HUD regulations when HUD program monies were used to finance the design and construction of the model home. The Board of Commissioners did not ensure compliance with the requirements. Development of a model home was totally unnecessary for carrying out the HUD-funded development program and was not needed to "generate enthusiasm." According to the application for the Mutual Help development program, the Housing Authority had 69 families on its program waiting list. This is more than enough to occupy the 40 Mutual Help homes that were to be built under the HUD-funded program. Therefore, the use of HUD monies to design and build a model home as a marketing tool was an unwarranted use of limited project monies.

HUD funds of at least \$142,061 used in connection with the model home

The model home was not a part of the Authority's 40 unit Mutual Help Program application. The use of HUD funds to construct the model home was never requested and never approved by HUD.

Contrary to the HUD contract, the Housing Authority diverted HUD Mutual Help Development Program monies, totaling at least \$142,061, to finance the model home costs as part of its independent non-HUD housing program. The costs associated with the model home included:

- Model home construction - \$136,087
- Ground breaking ceremony - \$2,374
- Model home furnishings - \$3,000
- Open house ceremony - \$600

Model home construction The model home construction contract, dated March 14, 1996, established a price for the model home of \$119,000. During the construction, four change orders totaling \$17,087 were approved; therefore, the total construction cost for the model home was \$136,087.

The model home was intended to be a showcase of "options" available to potential buyers; therefore, it did not comply with the requirement for a moderate housing design. For example, the decision was made to use cedar for the exposed beams even though it was \$3.50 more a linear foot than another type of lumber. In addition, several other extravagances in design or material occurred to accommodate for cultural considerations.

The model home was designed to incorporate the characteristics of the "long house," which was culturally significant to the Muckleshoot Tribe. The exterior was cedar planking. Cedar also had cultural significance. A detached carport was also constructed, which included an enclosed storage area. The door was on the back side of the storage area and was accessed through a chain link fence which surrounded a concrete pad. A steel post was extended from the back of the storage area, so that game could be hung in a secured place.

The following photographs show the front view of the model home and the side view of the detached carport, including the enclosed storage area, the fenced area and the steel post:

Ground breaking ceremony HUD funds totaling at least \$2,374 were spent for a ground breaking ceremony for the model home. This ceremony was held prior to the commencement of the model home construction. The Housing Authority purchased eight silver plated shovels for the ceremony totaling \$1,974. These shovels were given to the participants after the ceremony. Two petty cash checks totaling \$400 were issued for ground breaking supplies which were described as food purchases and balloons.

Model home furnishings The project architect was given \$3,000 to purchase furnishings for the model home prior to the open house. The original idea was to rent an entire household of furniture including an artificial television and stereo. This was subsequently changed to the purchase of furnishings that would be the property of the Housing Authority.

Open house ceremony The Housing Authority intended to use the model home as a marketing tool to sell houses; therefore, Authority officials decided to have an open house when the model home construction was completed. HUD funds of at least \$600 were identified as being affiliated with this open house. One \$400 petty cash check was designated for the open house. Another petty cash receipt for \$200 was shown to hire an Indian Drum Group to perform at the open house.

Architect costs were incurred for the model home

In addition to these costs discussed above, the Housing Authority incurred architectural fees and costs for the design of the model home. The specific fees and costs associated with the model home could not be readily determined since the Housing Authority's and architect's records did not segregate such costs.

The architect stated that extra design work was required because the model home was to be built out of sequence from any other homes being designed for the HUD-funded projects. He had to develop a special set of documents and other plans specifically for the model home construction. Additional design costs were incurred because of the location of the model home and the timing for actual construction. The Housing Authority required that construction begin in the early spring. Since the ground where the model home was to be built was very wet, more design work was required for the

Funds need to be repaid to the Mutual Help project

additional soil work and special materials and construction of the model home's foundation.

As of March, 1997, the model home was the only dwelling unit that had been built. Even then, it was not habitable because the supporting water and sewer utilities had not been constructed to the model home site. Housing Authority officials stated that, due to problems with the contractor hired by the Indian Health Service, completion of the utility lines will be significantly delayed.

Since the dwelling unit was not part of the HUD approved Mutual Help development program and the unit was designed as part of the Housing Authority's independent housing program, the HUD program monies totaling \$142,061 used to construct the model home need to be repaid from non-Federal funds.

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### Auditee Comments

At the exit conference held on December 15, 1997, Housing Authority officials stated basic agreement with the finding. However, they stated the Housing Authority intends to use the model home as a Mutual Help Homeownership house and is in the process of providing the necessary supporting utility facilities to the house. The officials elected to provide formal written response to the finding directly to HUD when the report is issued.

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### Recommendations

We recommend that the Office of Native American Programs:

3A Require the Housing Authority to pay back, from non-Federal funds, the \$142,061 which was obligated under the HUD-funded Mutual Help program and ensure the obligated funds are properly used for the development of homes in compliance with the applicable regulations.

## Inadequate Controls Over Housing Authority Administrative Expenditures

The Housing Authority failed to establish proper controls over its administrative expenses relating primarily to travel, payroll, and sundry expenses. As a result, excessive, unsupported and/or questionable costs were incurred and charged to the HUD-funded programs by a prior Executive Director. More specifically, these included:

- Personal travel costs, unsupported travel expenses and duplicate travel payments;
- Excessive, unsupported and questionable overtime and holiday pay; and
- Unsupported and ineligible payments made for personal items which included clothing, gifts, donations, food and entertainment, employee car repairs, and used employee equipment.

These improper expenses resulted primarily because all functions for incurring costs and making payments were vested in the Executive Director. Under a September 30, 1993, Executive Employment Agreement, the Board granted this prior Executive Director extensive control and latitude over the operations of the Housing Authority. Limited oversight was exercised by the Board of Commissioners.

At the time of our review, the Board functions of the Housing Authority had been transferred to the Tribal Council and various internal control procedures were being initiated.

HUD funds to be used  
only for eligible supported  
program costs

Under the provisions of the Consolidated Annual Contributions Contracts, the Muckleshoot Housing Authority is obligated to carry out its HUD-funded housing program in an economic and efficient manner, for only HUD authorized activities, and in compliance with the various requirements specified by HUD. Administrative requirements are further delineated in Title 24 of the Code of Federal Regulations, Part 85. Provisions of Part 85 obligate the Housing Authority to have:

- Accurate, current, and complete disclosure of program financial activities;

- Accounting records, as specified by HUD, to adequately identify the source and application of HUD program monies;
- Effective internal control and accountability of all program cash and other assets that must be safeguarded to ensure that they are used solely for authorized program purposes;
- Budget control over actual expenditures; and
- Procedures to ensure only HUD allowable costs are charged to the HUD housing programs and are properly supported. The applicable cost principles are categorized in the Office of Management and Budget Circular A-87.

The Housing Authority is further obligated to establish written policies and procedures governing the administration of its housing program.

Simply, the Housing Authority is to ensure that costs charged to its HUD programs are for eligible, adequately supported, and properly recorded expenses.

Excessive, unsupported and/or questionable HUD program costs were incurred

We found that during the audit period, the Housing Authority failed to exercise adequate controls over its HUD program funds. As a result, excessive, unsupported and/or questionable costs were charged to the HUD housing programs. More specifically, we found that the Housing Authority had:

- Excessive, unauthorized and/or undocumented travel expenses;
- Excessive and/or inappropriate payroll costs; and
- Unsupported, unnecessary and/or ineligible sundry administrative costs.

These deficiencies are discussed in detail in the following sections.

Inadequate control over travel and related costs

The Housing Authority failed to exercise adequate control over its travel and travel related costs. This related to both out-of-town and local travel.



Excessive, unauthorized  
and undocumented out-of-  
town travel costs

For out-of-town travel, extended personal travel was often included with official Housing Authority travel, with the Housing Authority funding the additional personal travel costs. Travel advances were paid to the individual travelers without the travelers submitting travel vouchers detailing actual costs. As a result, the Housing Authority was unable to identify the exact amount of its out-of-town travel expenses and whether its travelers had been properly compensated for their travel costs. The purpose of the travel and how the travel related to the Housing Authority's programs was often vague or undocumented. More importantly, the Housing Authority allowed unsupported, excessive and/or questionable travel costs to be charged to its HUD-funded housing programs. We identified, in a few instances, duplicate payments for some travel expenses.

Deficiencies relating to out-of-town travel are illustrated in the following examples:

Hawaii - April 10 through 12, 1995 A Housing Authority Board Member and the Executive Director attended a National American Indian Housing Council Conference in Hawaii from April 10 through 12, 1995. However, the Housing Authority paid for travel that began on April 8, 1995, two days before the conference started, and ended on April 14, 1995, two days after the conference was over. These additional days are considered to be, in part, personal travel and should not have been paid by the Housing Authority. Specifically:

Saturday (April 8) - Travel day  
 Sunday (April 9) - Non-conference personal day  
 Monday (April 10) - Conference  
 Tuesday (April 11) - Conference  
 Wednesday (April 12) - Conference  
 Thursday (April 13) - Non-conference personal day  
 Friday (April 14) - Travel day

The two non-conference days, April 9 and 13, 1995, are considered to be personal days and the travelers should not be entitled to reimbursement for lodging, meals, and car rental expenses.

The Authority paid the round trip air fare of \$382 to Hawaii for the Executive Director's spouse. This cost is also considered a personal travel expenditure and should not have been paid and charged by the Authority as a HUD program expense.

The Executive Director received a \$70 advance for private automobile parking at the airport, but the Director charged the parking cost to the Housing Authority's Visa credit card. As a result, duplicate payment for parking was made.

The travelers were paid travel advances for the trip, but did not submit actual travel vouchers detailing the actual travel costs incurred. Therefore, the Housing Authority could not readily identify what travel costs were actually incurred and what reimbursement to, or collection from, the travelers was needed. While some costs were not adequately supported, we estimated that the HUD Housing Program overpaid \$1,291 in travel costs for the Hawaii Conference because some of the costs were personal expenses and some represented duplicate charges.

Denver, Colorado - April 23 through 28, 1995 The Housing Authority incurred costs of \$1,162 for the Executive Director to travel to Denver during the period from April 23 through 28, 1995. The documentation supporting the trip was very limited and a travel voucher was not submitted detailing the exact travel costs of the trip. Thus, we were unable to identify exactly what expenses were legitimately incurred for the trip. With limited documentation, we could not determine the purpose of the trip and how it related to the operation of the Authority's housing programs. As a result, the cost of \$1,162 paid by the Housing Authority is questionable as a valid housing program expense.

Washington, D.C. - December 3 through 10, 1994 The Housing Authority paid \$1,010 for the Executive Director to travel to Washington, D.C. during December 3 through 10, 1994, to attend a National American Indian Housing Council conference. No travel voucher was submitted by the traveler to detail the actual costs incurred. Also, no

documentation was provided to evidence attendance at a conference. As a result, the Housing Authority was unable to determine the total travel costs incurred and how such travel benefitted the housing program.

In addition, the traveler was advanced \$45 for parking at the Airport, but the actual parking costs were charged to the Housing Authority's Visa credit card. This resulted in a duplicate payment for parking.

Washington, D.C. - November 27 through December 3, 1995 For travel to Washington, D.C. from November 27 through December 3, 1995, the Housing Authority paid \$1,037 as advances to the Executive Director or for Housing Authority credit card charges. No travel voucher was submitted by the Director after the trip to detail the actual costs incurred. In addition, no documentation was provided to evidence attendance at a conference. As a result, the Housing Authority could not readily identify the total travel costs incurred, and how such travel benefitted its housing program.

The traveler was advanced \$56 for parking at the airport, but the actual parking fee was charged to the Housing Authority's credit card. Therefore, duplicate parking fees were paid. In addition to these costs for the traveler, the Housing Authority paid the \$414 airline fare to Washington, D.C. for the traveler's spouse. Certainly, travel costs of a spouse are personal expenses and not eligible under the HUD program.

These illustrations clearly show that the Housing Authority allowed its out-of-town travelers to incur excessive, unsupported and questionable travel costs that were charged to its HUD-funded housing program.

Unsupported and/or  
questionable local travel  
costs

We found similar deficiencies in the Housing Authority's local travel and mileage reimbursements. Most of the travel vouchers for local mileage were incomplete and did not contain sufficient detail to determine the validity of the travel.

We reviewed eighteen claims for local mileage and certain related costs for the period from January, 1995, through May, 1996. These claims, totaling \$948.46, were often unsupported

or lacked sufficient documentation to clearly identify whether such claims were applicable to the Housing Authority's housing program and/or were in conformity with the Housing Authority's Travel Policy. Some examples are:

Check 5100, dated January 10, 1996 The travel voucher included a \$12.50 charge by the Executive Director relating to a meeting with HUD in Seattle. However, the voucher did not detail the nature of the \$12.50 expense. Consequently, the eligibility of the payment as a program cost could not be readily identified.

Check 5398, dated May 31, 1995 The description on the travel voucher indicated this \$28.50 claim was for 82 miles at 35 cents per mile for "Misc. day for shopping and trips to Admin." The payment was unsupported since the dates of travel and nature of the shopping and trips were not provided. Further, the voucher failed to justify using a personal vehicle instead of a Housing Authority vehicle as required by the Housing Authority's travel policy.

Check 50147, dated October 13, 1995 The description for the \$130.14 payment was a "trip to Yakima and Toppenish" on October 11, 1995. The payment consisted of 345 miles at 31 cents per mile for a total of \$120.45 plus per diem of \$10.34. The nature and extent of the travel was not identified and therefore could not be determined.

The eligibility of the payment was further questionable because of the fact that for the travel date, the Housing Authority's Visa credit card was charged with the following costs:

Sea Galley, Yakima	\$ 30.61
Bar 14, Ellensburg	16.62
Butler AM PM, Yakima	20.45

These costs appeared to be for restaurant and service station charges. If so, the reimbursement to the traveler for mileage and per diem was questionable.

Travel discrepancies stem from three basic causes

These examples of out-of-town and local mileage cost discrepancies indicate significant weaknesses in the Housing

Authority's travel and payment procedures. From our review, we attribute these to three basic causes:

First, the travelers usually did not submit actual travel vouchers at the completion of each trip detailing all travel costs that were incurred. Furthermore, even when a travel voucher was submitted, it was not reconciled to the travel advances and charges and any discrepancies resolved with the traveler.

Second, the Housing Authority allowed the travel costs to be paid by various means and be charged as an expense without any funding control or accountability. The Housing Authority followed the practice of paying lodging costs directly to the hotel or motel and purchasing airline tickets through a travel agency. Other travel payments were made as an advance to one traveler who also had a Housing Authority credit card with which to charge the same travel costs. Often these payments were made with limited documentation detailing the nature and extent of the cost. As a result, the total cost incurred for a particular trip could not be readily identified, much less reviewed for program eligibility.

Third, the primary responsibility for determining travel needs and paying travel costs was vested with the Executive Director. This practice was permitted by the Housing Authority's Travel Policy as adopted by the Board of Commissioners. Prior to May, 1995, the Authority did not have a formal travel policy. In May, 1995, the Authority adopted a travel policy that was developed and written by the Executive Director. This policy allowed most controls over travel to be directed and/or administered by the Executive Director.

No system was implemented to account for and monitor travel activities and related costs for compliance with the Housing Authority's Travel Policy and HUD requirements. Any controls that were in place were reduced or not followed.

Inadequate control over payroll charges and payments

The Housing Authority did not exercise adequate control over staff hours, special holiday pay, and overtime pay. Consequently, excessive and inappropriate expenditures

occurred. Staff hours and overtime were not administered in accordance with the Housing Authority's Policy Manual.

Policy Manual established procedures for payroll functions

The Housing Authority's Policy Manual established the working hours and pay days, but not the procedures for recording and approving the time worked. The Policy Manual stated that overtime work was to be avoided as far as possible, but could be required by the Executive Director in the interest of efficient operations. The Manual established eleven recognized paid holidays. All disbursements to the Executive Director were to be signed by two Board of Commissioner members.

The initial time keeping practice of the Housing Authority was for each employee to prepare a Time Sheet for each pay period which showed the total number of hours worked each day for each pay category. In May 1995, the Housing Authority purchased a time clock and the procedure changed, whereby weekly time cards were added as support for the Time Sheets.

Time Records basically accurate and reasonable except for Executive Director

The time keeping records for most of the employees were found to be substantially accurate and reasonable. The primary exception was for payroll charges for a former Executive Director.

During our audit period, a prior Executive Director claimed excessive hours, with the time keeping records often being inaccurate. The prior Executive Director claimed very little overtime through August, 1994. The overtime claims started to increase in September, 1994, but the total overtime for the year was minimal. In 1995, the overtime claims increased significantly including overtime for weekends. The amount of overtime, in 1995 and 1996, ranged from 40 to 60 hours a pay period. The highest was 70.75 hours during the period April 10 through 23, 1996.

Overtime was also claimed for holidays and for days in travel status. Under the provisions of a September 30, 1993, Executive Employment Agreement between the prior Executive Director and the Housing Authority, the Executive Director was to be paid time and a half for overtime and double time for recognized holidays.

For some pay periods, the amount of hours claimed on the Time Sheet did not agree with the hours recorded by the time clock. Numerous pen changes were made to the Executive Director's Time Sheets and/or time cards.

These deficiencies can be easily illustrated in the following two examples:

- The Executive Director claimed 10 hours of overtime and 8 hours of holiday pay for April 14, 1995. On this day, which was Good Friday, the Director returned from Hawaii after attending a conference that ended on April 12, 1995. Normally, the traveler would have returned on Thursday, April 13, 1995. Since the Executive Director spent an extra day in Hawaii, the Director would only have been entitled to annual leave for Thursday, April 13, 1995. The Director should not have received holiday pay, since Good Friday is not specified by the Housing Authority as a recognized holiday. The overtime pay and holiday pay, totaling \$502.50, for April 14, 1995, were questionable project costs.
- The Executive Director's Time Sheet showed 8 hours holiday pay and 18 hours overtime pay for Good Friday, April 12, 1996. The combined time claimed for payroll purposes was 26 hours, which was 2 more than the 24 hours available for this date. However, the time card for this date showed a start time of 6:48 a.m. and an end time of 6:47 p.m. for a total of 12 hours. As a result, the amount of overtime and holiday pay were questionable as eligible project costs. The costs were further questionable since Good Friday was not recognized as a legal holiday by the Housing Authority and thus the holiday pay differential was not authorized.

This Executive Director was employed on August 23, 1993, and earned \$12,019 for 1993. For 1994, the total wages were \$40,041, with minimal overtime. For 1995, the total wages were \$82,840, including \$36,364 overtime. The Executive Director retired on April 30, 1996. For the four months of 1996, the total wages were \$50,463, which included \$18,151 overtime and \$11,074 vacation pay. The following chart illustrates the compensation by year:

Budget for Executive Director salary greatly exceeded

Without an effective system to control and monitor its staff hours and costs, the Housing Authority had no means with which to determine what overtime hours were actually needed and that employee compensation was valid and eligible for project funding. The real impact was that the Housing Authority significantly exceeded the budget for its Executive Director position. During 1995, the Housing Authority budgeted approximately \$45,500 for its Executive Director position. However, the amount actually paid was about \$82,800 which represented a 81 percent budget overrun. By comparison, other Indian housing authorities of comparable size within the northwest part of the country budgeted the salary for the Executive Director position in the range from \$29,000 to \$36,000.

The following chart shows the comparison of the budgeted Executive Director salary of four comparable sized Housing Authorities with Muckleshoot's budgeted and actual salary for 1995:



Payroll functions vested primarily with Executive Director

These deficiencies stem from two basic causes:

First, all responsibility for determining needed hours worked and validating all hours claimed for pay was vested primarily with the Executive Director. Consequently, no system was in place to monitor and control hours worked and claimed by the Executive Director. Oversight by the Housing Authority Board of Commissioners was virtually non-existent.

Second, a prior Executive Director entered into a September 30, 1993, agreement with the Housing Authority Board whereby the Director basically had authority to establish his own employment terms and conditions. The Director established his compensation to be based on an hourly rate rather than on a monthly salary. The agreement stated: "Further, the Executive Director shall have sole discretion as to the number of hours worked but should observe them on an as needed basis." As a result, the more hours worked and claimed, the more compensation received.

Ineligible personal items purchased with Housing Program funds

During the audit period, the Housing Authority followed the practice of using HUD program monies to purchase various personal items and services which were not related to the

Housing Authority's housing program. While many of the purchases could be considered "goodwill", such disbursements are ineligible for Federal funding. The purchases included: clothing, gifts, donations, food and entertainment, personal car repairs, and used employee equipment.

Clothing During the audit period, the Housing Authority purchased directly or through its Visa credit card questionable clothing items totaling at least \$3,764.66. Some purchases were not adequately supported to identify the exact nature of the items. Purchases noted were:

- Children's clothing - \$58.90
- Charges to a clothing company with no receipts - \$845.72
- Jackets for an employee - \$179.38
- Jackets for a Board member and family - \$627.83
- Payments to Winter Ware - \$755.48
- Jacket for a Board member - \$99.69
- Jackets for Board members and employees - \$496.73
- Jacket for Tribal Chairperson - \$47.06
- 15 baseball caps with logo - \$367.70
- Snow hiker boots, 3-season jacket, and coveralls for Executive Director - \$286.17

Gifts During 1994, the Housing Authority paid \$597.10 for Christmas gifts of 48 turkeys for the Board members, tenants and employees. In 1995, the Housing Authority paid \$648.99 to purchase 53 turkeys. In 1996, the Housing Authority paid \$99.68 to buy 50 Christmas cards imprinted with "Muckleshoot Housing Authority".

In 1995, the Housing Authority paid \$203.00 to purchase items that were described as "gifts for Arbor day/tenants". The gifts included key chains, medallions, necklaces, coin purses, and pens.

Donations The Housing Authority issued a \$250 check as a donation to help send the son of a tenant to Japan for a track and field sporting event.

Food and Entertainment The Housing Authority issued a petty cash check for \$500 to purchase barbecue supplies. This was for a party for the residents in the Low-Rent housing project. We also noted that numerous other purchases from

petty cash were made for food items such as meat platters, vegetable platters, meals, cakes, donuts and groceries.

The Authority failed to exercise administrative control over its petty cash fund. Excessive disbursements were made through the Authority's petty cash fund with limited documentation to identify the nature and amount of the petty cash payments.

The Authority was authorized to have a single \$100 petty cash fund; however, the fund was reimbursed in many instances for amounts that significantly exceeded the \$100 fund limit. The highest reimbursement check was for \$775. Other excessive reimbursements to the \$100 petty cash fund ranged from \$191 to \$500. Thirteen checks, each in the amount of \$200, were issued during the review period to reimburse the \$100 fund.

The petty cash reimbursement checks were made out to either "petty cash" or "cash," but they did not contain documentation to identify the details for the reimbursement. Supporting documentation usually was not kept with each petty cash payment. For fiscal year 1995, the receipts were filed loose in a envelope. Each receipt could not be reconciled with a specific reimbursement payment.

Included in the receipts were two charge slips for the Authority's Visa credit card. Additionally, there were seven gasoline charge slips in the petty cash receipts. These charges did appear on the Housing Authority's credit card and gasoline charge statements. We could not determine if the credit card and gasoline charges were actually included as reimbursable items in petty cash. If this were the situation, then duplicate payments would have occurred.

The Housing Authority's Visa credit card was used on a Saturday to charge \$25.45 at a restaurant located some distance from the Housing Authority office. No documentation could be located to identify why the charge occurred or how it benefitted the Housing Authority's housing program.

Personal Car Repair The Housing Authority paid for two repair bills, totaling \$970.86, for a prior Executive Director's private vehicle. One check for \$318.47 listed a description of car repair due to damage received at the Housing Authority,

but there was no supporting documentation or detail of the nature of the damage or how it occurred. The other repair, for \$652.39, was for tow charges and replacement of 4 tires, including wheel balance, road hazard warranty, and lifetime alignment. The reason given for this repair was that the tires were slashed at the Housing Authority and Authority officials decided to pay rather than have the employee file a personal insurance claim.

Used Personal Equipment A prior Executive Director sold his own personal property to the Housing Authority, for a total of \$455.20. The three items were a weed eater for \$201.50, a gas edger for \$179.00 and a shop vacuum for \$75.00.

The purchases discussed above point out that the Housing Authority followed the practice of using its housing program monies to buy numerous items of a personal nature or for questionable items that are not necessary for administering its HUD housing program. Such purchases are not eligible under the provisions of the Office of Management and Budget Circular A-87.

Sundry purchases controlled by Executive Director without any independent reviews for program eligibility

The Housing Authority had not established proper procedures and controls over its disbursements to ensure that only eligible and necessary program purchases were made with its HUD program monies. The responsibility for making purchases or charges, receiving goods and services, and recording such transactions on the Housing Authority's records was vested primarily with the Executive Director. Without these functions being separately controlled, the Housing Authority significantly reduced its ability to ensure that program funds were used only for necessary expenses and services and were properly supported. The Housing Authority's Board of Commissioners exercised little or no control over the Authority's administrative expenditures or purchases.

The Housing Authority needed to improve the policies and procedures

The deficiencies detailed above relating to travel, payroll, and sundry administrative expenses were caused primarily because the functions of procuring goods and services and the functions of controlling payments and records were vested with the same Housing Authority official, the Executive Director. The Housing Authority Board granted this employee

control over most administrative functions under a September 30, 1993, Executive Employment Agreement. Furthermore, the Board exercised very limited oversight over the Housing Authority's operations.

The Board had minimal information about program operations. Therefore, the Board was hampered in carrying out its responsibilities of ensuring that the housing program was being administered in compliance with its own established policies and procedures and with the HUD program requirements. In addition, the procedures being followed by the Housing Authority's staff often differed from the personnel and administrative policies that were adopted by the Board. All independent agreements between the Board and any staff members need to contain provisions that are in harmony with previously established Board policies and procedures.

Corrective action has been initiated

At the time of our review, corrective action had been initiated. The Tribal Council had dismissed the Board of Commissioners and had taken over the general oversight of the Housing Authority's operations. Housing Authority officials had initiated controls to stop the practice of incurring unnecessary and/or excessive expenditures. The Housing Authority's Visa credit card had been cancelled. In addition, better controls over the Housing Authority's petty cash fund had been initiated. The Housing Authority hired a contract administrator to provide better control over Housing Authority disbursements.

The HUD Northwest Office of Native American Programs had conducted several reviews of the Housing Authority's operation and had restricted access to the remaining development project funds and required an accounting of expenditures. A management agent was contracted to evaluate the status of the HUD development grants and assist in corrective action.

#### Auditee Comments

This finding was discussed with Housing Authority officials during the audit and at an exit conference held on December 15, 1997. Housing Authority officials stated that corrective action has been initiated. Proper management controls have

been implemented that will provide better controls over Authority expenditures.

Housing Authority officials elected to provide formal written responses to the finding directly to HUD when the audit report is issued.

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## Recommendations

We recommend that the Office of Native American Programs:

4A Assist the Housing Authority in establishing and implementing effective controls over disbursements. These should include:

- Proper separation of the functions of buying, paying, and recording the procurement of goods and services;
- Adequate separation of the functions of utilizing, recording, and paying regular work hours, overtime, and holidays; and
- Adequate supervision and oversight by the Housing Authority's governing Board over the Housing Authority's disbursements.

4B Determine if any of the costs discussed in this finding are ineligible HUD program costs and, if so, require the Authority to repay the expenses from non-Federal funds. Evidence of payment should be provided to HUD.

4C Review the Housing Authority's revised internal control procedures after they are implemented to verify that adequate safeguards are in place to ensure that only eligible and documented expenses are being charged to HUD-funded programs.

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# Management Controls

In planning and performing our review, we considered the management controls of the Housing Authority to determine review procedures and not to provide assurance on management controls.

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We reviewed records, held interviews, and evaluated information obtained. The results of our review indicated that the Housing Authority's controls over the administration of the HUD development projects did not meet the desired goals of a management control system.

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## Management Controls Assessed

We determined that the following controls were relevant to our objectives and were assessed during our review:

- Controls to promote compliance with the Federal procurement requirements for the contracts associated with the construction of the Low Rent Housing Program and Mutual Help Homeownership Opportunity Program units.
- Controls to ensure compliance with the requirements for the property qualification and acceptance, and the requirements for purchasing a home under the Mutual Help Homeownership Opportunity Program.
- Controls to ensure compliance with the established HUD program budgets and the disbursements requirements for HUD development project funds.

## Assessment Procedures

The following audit procedures were used to evaluate the management controls:

- Interviews with Housing Authority and Northwest Office of Native American Programs employees and contractors;
- Review of the accounting records and other records maintained by those entities; and
- Evaluation of the Housing Authority's established policies and the actual procedures for administering the activities and funds of the HUD funded development projects.

Management controls  
could be improved

Our review identified the following management control weaknesses:

- Inadequate controls to ensure that the HUD development projects were properly administered and that HUD funds were used for only eligible program expenditures;
- Improper use of HUD Mutual Help Homeownership Opportunity Program project funds to finance the Authority's own independent housing activities, including its acquisition and sales program and the design and construction of a model home; and
- Insufficient controls to ensure that HUD program funds were used only for necessary, supported and eligible administrative costs.



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# Follow Up On Prior Audits

This is the first Office of Inspector General audit of the Muckleshoot Housing Authority located in Auburn, Washington.

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