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Audit Case Number	96-CH-202-1006

TO: Kevin Fitzgibbons, Acting Administrator, Eastern Woodlands Office of Native American Programs

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: St. Croix Chippewa Housing Authority
Comprehensive Review
Hertel, Wisconsin

We completed an audit of the St. Croix Chippewa Housing Authority. We selected the St. Croix Chippewa Housing Authority for an audit based on input from HUD program staff. Our audit objectives were to: determine whether the Housing Authority administered its housing programs in an efficient, effective, and economical manner; identify the causes that contributed to any financial difficulties; and develop recommendations to correct the deficiencies disclosed.

The Housing Authority needs to improve the administration of its programs and ensure compliance with the Annual Contributions Contract and other HUD requirements. This report addresses issues related to: (1) inadequate internal control procedures; (2) the receipt of unauthorized loans; (3) improperly disbursed program funds; (4) funds not properly accounted for; (5) excessive funds drawn down from HUD; and (6) uncollateralized deposits exceeding Federal Deposit Insurance Corporation limits.

Within 60 days, please give us, for each recommendation made in the report, a status report on: (1) the corrective action taken; (2) 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 audit.

Should your staff have any questions, please have them contact me at (312) 353-7832.

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Executive Summary

We completed an audit of the St. Croix Chippewa Housing Authority. We selected the St. Croix Chippewa Housing Authority for an audit based on input from HUD program staff. Our objectives were to determine whether the Housing Authority administered its housing programs in an efficient, effective, and economical manner; identify the causes that have contributed to any financial difficulties; and develop recommendations to correct the deficiencies disclosed.

Improvements by the Housing Authority are needed to assure compliance with the Annual Contribution Contract and HUD requirements and to increase the efficiency and economy of its operations. To comply with the Annual Contributions Contract, HUD requirements, and improve operations, the Housing Authority needs to correct the following problems.

Internal Control procedures were inadequate

The Housing Authority failed to maintain an adequate system of internal controls. The Housing Authority did not ensure that: (1) accounting functions were adequately segregated; (2) unused checks were adequately safeguarded; (3) adequate controls were maintained over the disbursement functions; (4) accounting records were properly maintained; and (5) Housing Authority resources were effectively used.

The Housing Authority received unauthorized loans

The Housing Authority obtained loans from the St. Croix Chippewa Tribe for assistance in administering the Mutual Help Program without obtaining HUD approval. The loans were used to help pay for program expenses and were not formally recorded on the Housing Authority's books and records.

The Housing Authority improperly disbursed program funds

The Housing Authority improperly disbursed its development program funds. The Housing Authority: (1) spent \$657,410 of the development program funds for the construction of an apartment project when the Authority was not a party to the construction contract; (2) incurred a \$15,100 finance charge to complete the project; and (3) used \$206,333 of development funds to purchase parcels of land without obtaining HUD approval.

Housing Authority funds were not properly accounted for

The Housing Authority failed to maintain adequate controls for the accountability of its program accounts. The Housing Authority: (1) transferred account funds without adequate documentation, and (2) commingled the Youth Sports Program funds with other program funds.

The Housing Authority drew down excess funds from HUD

The Housing Authority drew down \$482,340 of development program funds in excess of its actual needs. Top management at the Housing Authority did not implement effective disbursement controls over the development funds.

The Housing Authority did not collateralize deposits exceeding Federal Deposit Insurance Corporation limits

Collateralization was not maintained for Housing Authority's bank deposits that exceeded the \$100,000 Federal Deposit Insurance Corporation coverage. The Housing Authority's Finance Officer said she did not understand the Federal Deposit Insurance Corporation limitations or the bank collateralization process and she was unaware the funds were at risk.

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assures that the Housing Authority takes actions to correct the weaknesses cited in this report.

We gave our draft findings to the Executive Director and the Eastern Woodlands Office of Native American Program officials during the audit. We held an exit conference with the Executive Director on August 29, 1995. The Executive Director provided written comments to our findings and recommendations. Excerpts from the comments are included in each finding and Appendix A contains the complete comments.

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Introduction

The St. Croix Chippewa Housing Authority was formally organized pursuant to the authority of the Constitution and Bylaws of the St. Croix Chippewa Tribe under Tribal Ordinance number one on July 20, 1967. The Housing Authority received its Annual Contribution Contract in 1972. The Housing Authority is governed by a Board of Commissioners consisting of five unpaid members who direct the Housing Authority's policies. The Chairman of the Board is Lewis Taylor. The Executive Director, Monica Butler, is responsible for the day to day operations.

The Housing Authority manages a total of 200 units, of which 168 are Low-Rent with 12 units designated for the elderly. The Mutual Help Homeownership Program has seven units with an additional 25 under acquisition. In addition to its Low-Rent and Mutual Help programs, the Housing Authority operates a: (1) Development Grant Program with funding of \$3,917,455 for Fiscal Years 1990-1995; (2) Comprehensive Improvement Assistance Program with funding of \$1,745,759 for Fiscal Years 1990-1995; and (3) Youth Sport Grant Program with funding of \$94,781 between May 1, 1992 to July 20, 1994.

The Housing Authority's official books and records are located at 4456 Highway 70, Hertel, Wisconsin.

Audit Objectives

The audit objectives were to determine whether the Housing Authority administered its housing programs in an efficient, effective, and economical manner; identify the causes that contributed to any financial difficulties; and develop recommendations to correct the deficiencies disclosed.

Audit Scope and Methodology

To achieve these objectives, we interviewed HUD and Housing Authority staff to obtain information relating to the Housing Authority's operations. We reviewed the following Housing Authority records: the Development Grant, Low-Rent, and Mutual Help Programs' general ledgers and cash disbursements to verify the accuracy of receipts and disbursements; bank statements, related reconciliations, and cancelled checks to assure all sources of cash were properly accounted for; vendors invoices and vouchers for proper controls and payments; and the Development Grant and Mutual Help Programs' contracts and expenditures for proper execution and support for payments. We confirmed the Housing Authority's bank balances with its depositories to evaluate cash controls and procedures.

The audit covered the period January 1, 1990 to February 28, 1995. We expanded the coverage as necessary. We

performed the audit between March and July 1995 at the Housing Authority.

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

We provided a copy of our report to the Housing Authority's Executive Director.

The Housing Authority's Internal Control Procedures Were Inadequate

The St. Croix Chippewa Housing Authority failed to maintain an adequate system of internal controls. The Authority did not ensure that: (1) disbursement functions were adequately segregated; (2) unused checks were adequately safeguarded; (3) adequate controls were maintained over the disbursement functions; (4) accounting records were properly maintained; and (5) resources were effectively used. The Board of Commissioners did not effectively carry out its responsibility to review and verify the supporting documentation for cash disbursements. As a result, the Authority increased the risk that cash and other assets could be diverted without prompt detection, and its resources were not effectively and efficiently used.

Internal Control Requirements

Internal controls comprise the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Important features of an adequate system of internal controls include:

- Control should be established early in a transaction and carried through to its completion.
- No person should have complete control over all phases of any function.
- Work should flow from one employee to another without ever returning to an employee.
- Specific policies and procedures should be in place that outline departmental goals, plans of organization, and physical arrangements to provide a high degree of assurance that the internal control objectives are efficient and effective.
- Record keeping should be kept separate from operations or the handling and custody of assets. For example, the bookkeeping functions should be separate from the disbursement function including check preparation and distribution of checks after signature. Additionally,

periodic verification and reconciliations of disbursements and bank statements should be made by an employee who does not handle cash, record vouchers and disbursements, or sign checks.

- Accountability for the custody and use of resources should be assigned and maintained.
- Access to resources and records should be limited to authorized individuals.

Board of Commissioner's responsibilities

Authority Commissioners have a responsibility to HUD to ensure national housing policies are carried out, and to the Executive Director and staff to provide sound and manageable directives. The Commissioners are accountable to their locality and best serve it by monitoring operations to be certain that housing programs are carried out in an efficient and economical manner.

The Authority did not adequately segregate employee duties

The Authority did not properly segregate employee duties related to its cash disbursement function. An Authority employee performed various activities without adequate internal checks and balances. Therefore, the Authority unnecessarily increased its susceptibility to program abuses.

The Finance Officer was responsible for functions that should have been separated. She prepared the bank deposit slips, made deposits, and obtained the bank validated deposit slips. She also prepared disbursement checks, received the canceled checks and bank statements directly from the bank, and prepared the bank reconciliations before sending them to the fee accountant. She had signatory rights for the Youth Sports Program's checking account and signed several checks she prepared for payment to the vendors. She transferred funds from the Authority's savings account to the various Authority program accounts without the need for any approval. Proper internal controls should preclude the Finance Officer from having access to disbursements, deposits, and bank statements.

The Authority lacked adequate safeguards for

The Authority lacked adequate safeguards for its blank checks. Blank checks were stored in an unlocked file cabinet at the Authority. The file cabinet was located in an area at the Authority frequented by non-Authority personnel. Although

the Authority required checks to have two signatures by the Authority's Commissioners, the Commissioners usually pre-signed the checks before the checks had amounts or payees on them. Officials said the pre-signed checks were used because it was difficult to locate the signatory's when needed.

The Authority had inadequate controls over disbursements

The Low-Rent Housing Accounting Guide, Handbook 7511.1, Chapter 3, Section 2, Part 5(c) states that the signing or countersigning of checks in advance is prohibited.

The Authority did not maintain adequate controls over its cash disbursements. The Board of Commissioners did not effectively carry out its responsibility to review and verify the supporting documentation for cash disbursements.

The Low-rent Housing Accounting Guide, Handbook 7511.1, Chapter 3, Section 2, Part 2 (c) states that voucher checks in payment of services rendered or materials furnished should not be issued until all supporting documentation has been verified and approved for payment.

The Authority disbursed \$31,405 for services without appropriate documentation. The services included \$24,711 for construction expenses and \$6,694 for purchases at a local general store for groceries, gasoline, and miscellaneous sundries.

The Authority did not have invoices that supported \$24,711 of construction expenses paid. The construction expenses included payments to two contractors as well as payments made directly to the owners of one of the construction companies. The Authority did not have executed contracts with the construction companies. The Special Project Coordinator said the work paid for was often not completed. The invoices did not detail the services provided or the project the payments were billed to.

The Authority was billed monthly for groceries, gasoline, and miscellaneous sundries from a local general store. Most of the items purchased would not be allowable Authority related expenses. The Authority did not have documentation to show the purchases were reasonable and necessary to its operations. The store owner said that general grocery items such as soda pop, donuts, rolls, and coffee were purchased on a regular basis by the Authority staff. He also stated that the gasoline

purchases were normally made by the maintenance staff of the Authority.

There was not adequate documentation to determine which expenditures were for gasoline and which were for general grocery items. The gasoline for Authority maintenance vehicles would be considered an eligible program expense, but there was no documentation showing that the expenses were in fact for Authority maintenance vehicles.

The Authority disbursed program funds totalling \$6,993 for ineligible expenses. Section 406 of the Annual Contributions Contract states in part that in an Authority's "Operating Expenditures" with respect to each Project shall mean all costs incurred by the Local Authority for administration and maintenance which are necessary for the operation of each Project.

The following is a breakdown of the ineligible expenses:

- \$2,947 in home mortgage payments for an applicant whose residence was not approved for the Authority's Acquisition Program.
- \$3,100 for holiday bonuses and gift certificates given to Authority employees and board members.
- \$281 for meals at local restaurants.
- \$665 for repairs to non-Authority vehicles.

These were not program related expenses. The expenditures were not necessary for the daily operations of the Authority.

The Authority's top management did not review and verify the supporting documentation before authorizing the disbursement of funds. The former Executive Director had control over the disbursements made by the Authority.

The Authority continuously prepaid a vendor credit card in excess of the total balance owed. The Authority made a standard monthly payment to a gas/convenience store regardless of the balance owed on the account. As a result, the account would have a credit balance in some months and

a past due balance in other months. For example, the Authority made a March, 1994 payment for \$400 when only \$241 was owed, resulting in a \$159 credit balance.

The Finance Officer said she made standard payments because the previous Finance Officer made the same payment amount every month to the convenience store regardless of the balance owed. Therefore, she simply continued the practice.

The Finance Officer paid the former Executive Director and former Resident Service Coordinator for their accrued vacation time without proper approval. The Finance Officer utilized the pre-signed checks to make the disbursements. She said the former Executive Director asked her to make the disbursements because the former Authority employees were entitled to be paid for their accrued vacation time. She took it upon herself to pay the individuals without the consent or knowledge of the Acting Executive Director. The Authority's personnel policy does not provide for payment of accrued vacation time. As a result, the Authority failed to adequately protect funds from misuse.

The Authority used program funds for a personal loan

The Authority made an ineligible loan that was not adequately supported. The loan has not been repaid in full. Section 401 of the Annual Contributions Contract states in part that the Authority may withdraw monies from the general fund only for (1) the payments of development costs, (2) the payment of operating expenditures, (3) the purchase of investment securities as approved by HUD, (4) other purposes specified in this contract, and (5) other proposes specifically approved by HUD.

The Authority improperly used \$2,000 of its development funds to make an interest free loan to a St. Croix Chippewa Tribal Center employee. The Authority's former Executive Director authorized the loan in May 1994 and the Chairman of the Board signed the loan check payable to the Tribal employee. The loan transaction was not recorded on the Authority's books. The Authority maintained a ledger sheet showing the loan amount and two \$300 loan payments made in June and July 1994. Both loan payments were reflected in the Authority's bank deposits.

The Authority's Board Chairman said he signed the check without reviewing any supporting documentation and did not realize that the funds were development funds. He thought the funds were from a State account.

The Tribal employee acknowledged he received the funds and made two payments during 1994 totalling \$600. He said he did not make further payments because he forgot about the money owed to the Authority. He did not specify the purpose of the loan, but said he would start repayments immediately.

The Authority failed to adequately safeguard or maintain its accounting records

The Authority failed to properly safeguard access to, or maintain its financial records. Section 309 of the Annual Contribution Contract states in part, that the Authority will maintain complete and accurate books of account and records, as may be prescribed by HUD, in connection with the development and operation of the projects, including records which permits a speedy and effective audit.

The Authority maintained cancelled checks, contracts, bank statements, and personnel records in banker boxes in a spare unlocked room. Access to the room was not restricted to non-authorized personnel. The Authority maintained other accounting records in banker boxes throughout the Authority.

The safeguarding of the Authority's records and documents was the responsibility of the Financial Officer based on the position descriptions. The Financial Officer said she was not aware that it was her responsibility.

In addition, the Authority lacked a systematic filing system or the ability to develop an audit trail for reviewing the records. For example, the Authority did not always file the voided checks with the bank statements. As a result, locating canceled checks was a difficult task.

Public and Indian Housing Notice 95-27, requires the Authority to execute General Depository Agreement with the depository institutions.

The Authority did not maintain a General Depository Agreement with its financial institution. The Executive

Director said the Authority had not executed a General Depository Agreement with its bank. The Depository Agreement is an effective control for adequate cash management to protect against unauthorized use.

Written policies were not established for tenant collections

The Authority did not have written policies and procedures in place for tenant rent collections or evictions to assure delinquent accounts were pursued and the risk of collection losses were decreased.

24 CFR Section 905.335 states in part that each Indian Housing Authority shall establish, adopt, and use its best efforts to obtain compliance with written policies sufficient to assure the prompt payment and collection of rent payments.

The Authority's records showed that many residents have gone one year or more without making rent payments. An Authority board member has gone two years without making rent payments. As of February 1995, 88 of the Authority's 161 tenants, or 54 percent, were delinquent in making rent payments for over one month, representing an account balance of \$51,394. As of July 1995, the delinquency rate had increased to 124 of the 164 tenants, or 75 percent, representing an account balance totalling \$103,412.

HUD performed a management review of the Authority in March 1993 and instructed the Authority to reduce its accounts receivables balance through payroll deductions, payback agreements, and evictions. However, the Authority has not taken the recommended corrective actions. The employees responsible for responding to the HUD review were no longer employed at the Authority; thus, it could not be determined why the recommended corrective actions were not taken.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comments is included in Appendix A.

The Authority agrees with this finding. The Authority will make changes that are necessary to adequately safeguard all funds and to make sure a good paper trail is prepared, including back-up for any payments to anyone or transactions

of funds with the banks. With the staffing as it is, the Executive Director should have the responsibility of handling all money transactions and then take the needed document to the bookkeeper for proper recording.

The Authority had unsupported expenses that it realizes must be paid back.

The Authority intends to get a plan with the Holiday Gas Company for its housing vehicles that will give it a better accountability of gas used and better control its fuel costs and track expenditures.

The Authority is implementing purchase orders with various businesses in the area so that it pays for nothing that does not have a purchase order.

The check signers will always see supporting documentation for each check they sign.

The Authority submitted a letter to the Tribal Center employee to repay per payment plan and will accept a payroll deduction plan. The Authority gave the employee one week to make arrangements and if he does not, the Authority will pursue tribal court garnishment of wages.

Also, there will be changes in the way rent collections are handled. Eviction and collection policies will be established immediately.

OIG Evaluation of
Auditee Comments

The Authority indicated it will take action to adequately safeguard all funds and to correct the issue regarding the loan reimbursement by the Tribal employee. However, the duties of handling the money transactions should be segregated to the extent practical. The Authority did not address the implementation of procedures for the Board to maintain an adequate oversight of the Authority's disbursements and procedures requiring the Board to establish formal repayment agreements with all delinquent tenants.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 1A. Segregates the duties of its employees to the extent practical. No employee should have complete control over a program area. The duties should be segregated to provide checks and balances on all work.
- 1B. Restricts access to blank checks to those employees involved in check preparation.
- 1C. Establishes and implements procedures and controls for the Board to maintain adequate oversight of the Authority's disbursements. At a minimum, the procedures and controls should assure (1) disbursement checks are not pre-signed by anyone, (2) disbursements are supported by invoices, and (3) supporting documentation are reviewed and disbursements are approved by two members of the Board of Commissioners prior to payment.
- 1D. Provides documentation to support the \$31,405 of expenditures or reimburses HUD for the amounts that cannot be substantiated.
- 1E. Reimburses HUD \$6,993 for the ineligible expenditures.
- 1F. Requires the St. Croix Chippewa Tribal Center employee to reimburse the Authority \$1,400 for the loan balance owed plus interest.
- 1G. Establishes and implements procedures to safeguard, control, and maintain all accounting records to allow efficient access to them.
- 1H. Establishes and implements written collection and eviction policies and procedures.
- 1I. Establishes and implements policies and controls to maintain Depository Agreements.

- 1J. Develops procedures that require the execution of formal repayment agreements with all delinquent tenants, or documents the reasons for not executing repayment agreements on a case by case basis.

The Housing Authority Received Unauthorized Loans From The St. Croix Chippewa Tribe

The St. Croix Chippewa Housing Authority received unauthorized loans from the St. Croix Chippewa Tribe for assistance in administering its Mutual Help Program. The Authority used the loans to pay its expenses and did not formally record the loans on its books and records. The former Executive Director had extensive control over the administration of the Authority and was able to receive loans as needed from the Tribe during periods of cash flow problems. As a result, the Authority was encumbered with outside loans contrary to Annual Contributions Contract requirements.

HUD Requirements

Section 422 of the Annual Contributions Contract states that the Local Authority cannot, without the approval of HUD, obtain, from any source whatsoever, any loan in connection with the Projects other than those specifically provided for under this Contract.

Section 12.3 of the Mutual Help Homeownership Program Annual Contributions Contract states in part that the Authority must maintain complete and adequate books and records which outline the operations of the Authority.

The Authority obtained loans from the Tribe

The Authority received several loans from the St. Croix Chippewa Tribe to assist in the purchase of homes and to pay operating costs prior to HUD funds becoming available. The Authority did not obtain HUD's approval to receive the loans.

Neither the Authority nor the Tribe had an accurate record of the outstanding loan amount. For example, the minutes from the Authority's May 3, 1995 board meeting, reported that the Authority owed the Tribe \$637,822. The Authority's books did not document the amounts owed to the Tribe; but the Finance Officer maintained informal ledger sheets which documented the Tribe loan payable amount as \$452,407. The Tribe's Accounting Office staff said that they did not know the exact amount owed by the Authority, but were in the process of determining the amount.

The Authority's Board's meeting minutes stated that the Authority used funds from the Mutual Help Acquisition Grant to purchase 620 acres of land and several homes. It appears

that the Tribal loans were used to fund the Acquisition Program prior to the drawdown of HUD funds as well as pay for past due vendor invoices.

The Authority also used \$151,280 of the funds borrowed from the Tribe in April 1995 to pay for past due vendor invoices. The Authority suspended several employees and terminated the Executive Director in March 1995 which caused the vendor payments to be late.

The former Executive Director was responsible for obtaining the majority of the Tribal loans during 1994; thus, the reasons for the loans could not be determined. While there are no formal documents outlining the amount owed by the Authority, Authority and Tribal Officials acknowledged that funds were borrowed from the Tribe to fund the Authority's daily activities.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comments is included in Appendix A.

The loans we received from the Tribe will be discussed with the Tribal Council to see if the loans can be given to the Authority as other income which will not effect our subsidy. We can work with HUD on monies owed or whatever we need to get projects in order as they should be.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 2A. Provides documentation supporting the amount owed to the St. Croix Chippewa Tribe as well as other non-HUD sources.
- 2B. Maintains an adequate subsidiary record for all monies borrowed, loaned, and repaid.

- 2C. Obtains prior HUD approval for the repayment of amounts owed to the St. Croix Chippewa Tribe or any other outside entities.
- 2D. Discontinues the practice of receiving loans from outside sources without prior HUD approval.
- 2E. Works with the Authority to encourage the St. Croix Chippewa Tribe to donate the loaned amount.

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The Housing Authority Improperly Used Development Program Funds

The St. Croix Chippewa Housing Authority improperly used \$878,843 of its development program funds to: (1) construct an apartment project in which it was not a party to the construction contract; and (2) purchase land without obtaining HUD's approval. The Authority wanted the apartments completed prior to the winter of 1994. The Authority used development funds from another project to construct the apartment complex. The land was purchased for speculative purposes. As a result, HUD funds were not available to achieve the development grant objectives.

HUD Requirements

The August 10, 1993, Mutual Help Annual Contributions Contract Amendment for development projects 62-13 and 62-14, states in part that the grant funds for the projects were to be used for force labor and for the acquisition of 25 housing units. The Housing Authority agreed to carry out the development activities in accordance with the approved proposal and at the lowest possible development cost.

The Authority's Annual Contributions Contract, Section 101 states in part that the Authority will administer and develop each project to promote efficiency and economy. Section 102 states that each project will be developed in accordance with the applicable Development Program. Section 103 states in part that the Authority will not undertake to acquire real property unless HUD has approved that acquisition.

The Authority used program funds for unauthorized activities

The Authority disbursed \$672,510 of program funds designated for the acquisition of 25 single family homes for unauthorized development activities.

The Authority spent the funds between August 1994 and May 1995 for the construction of three apartment buildings. The Authority was not a party to the construction contract and HUD had not granted them authorization to build the three apartment buildings. During that period, the Authority was authorized a planning grant for the costs associated with the planning of the apartment project, but it did not receive HUD's approval for any construction until March 1995. The construction of the apartments was completed in January 1995.

The Authority wanted the apartment project completed prior to the winter of 1994 because tribal members had expressed a desire to live in the apartments. However, the Authority had not completed the necessary HUD requirements which would have authorized the construction and funding for the project.

In order to facilitate the construction of the project for the Authority, the St. Croix Chippewa Tribe entered into a contract with a builder to begin construction of the apartments. The contract was signed by the Tribe and the builder in August, 1994 for \$657,410. In August, 1994 the Authority paid \$65,000 for the initial deposit to the builder. The Authority made four additional payments for the remaining \$592,410 in December 1994, January 1995, and February 1995. Since the Authority could not be a party to the contract without an approved Annual Contributions Contract from HUD and a secure funding source, the builder initially required an additional 16 percent finance charge or \$20,107. The Authority re-negotiated the finance charge from the original \$20,107 down to \$15,100 and paid the \$15,100 in May, 1995.

Authority officials said the former Executive Director had control over all of the internal control functions at the Authority. This control gave the former Executive Director the ability to use project monies of one project to finance another project, as well as, allowing payments to a builder that the Authority did not have a contract with.

The Authority improperly used development funds to

The Authority improperly purchased \$206,333 of vacant land between March 1994 and February 1995 without obtaining HUD's approval. The Authority used project development funds that HUD awarded for the acquisition of 25 housing units to purchase the vacant land.

During an Authority board meeting, the former Executive Director said the Authority could purchase the land if homes were eventually built on it. However, HUD's Eastern Woodland Office of Native American Program officials said the project development funds were program specific, indicating the funds drawn from the development project account were to be used for the acquisition of houses only.

At a May 3, 1995 meeting between HUD's Eastern Woodland Office of Native American Programs, the Authority, and the St. Croix Chippewa Tribal Council, HUD informed the Authority that it can not own vacant land; therefore, it should not have purchased the land parcels. It was suggested that the Tribe reimburse the Authority for the land purchases. The Tribal Council Chairman said the vacant land was purchased for the development of future housing for tribal members. It was agreed that the Tribe would reimburse the Authority for the land purchases and lease the land back to the Authority when housing needs arose. At the time of our audit, the Tribe had not reimbursed the Authority for the land purchases.

As a result of the Authority using the development funds to purchase vacant land, sufficient funds were not available to close on approximately three of the 25 homes under contract to purchase.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comments is included in Appendix A.

The Authority agrees with this finding. Improperly disbursed funds totalling \$672,510 will be put into the correct project and if necessary any balances owed the Government will be taken up with the St. Croix Chippewa Tribal Government for pay back. The Authority understands that it can not purchase land and the Tribe will pay the Authority back funds for the land purchase but then will lease the land when needed for future housing.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 3A. Establishes and implements proper controls to segregate the duties over the development program fund activities and expenditures. At a minimum, the procedures and controls should assure that: (1) no employee has complete control over the program, and

(2) the duties provide checks and balances of the work.

- 3B. Reimburses the development project account \$15,100 for the unauthorized construction contract finance charges.
- 3C. Reimburses the development project account for \$657,410, unless: (1) HUD approves a request for a waiver to apply the funds against the March 1995 approved construction contract and (2) the property title is transferred to the Authority's name.
- 3D. Reimburses the development project account for the \$206,333 used to purchase vacant land.

The Housing Authority Did Not Maintain Adequate Accountability Over Its Program Funds

The St. Croix Chippewa Housing Authority did not maintain an adequate accountability for its program accounts. The Authority: (1) transferred account funds without adequate documentation, and (2) commingled the Youth Sports Program funds with other program funds. The Authority's top management did not implement effective accounting controls over its funds. As a result, HUD program funds were used for purposes other than intended and balances are outstanding between the program accounts.

HUD Requirements

Section 309 of the Annual Contributions Contract states in part that the Authority shall maintain complete and accurate books of account and records. This includes records which permit a speedy and effective audit.

24 CFR Section 960.229 paragraph (3) states in part that use of development funds of projects under the Annual Contribution Contract to covers costs for another project are strictly prohibited.

24 CFR Section 950.635 states in part that the Housing Authority shall undertake the modernization activities and expenditures set forth in its approved Comprehensive Improvement Assistance Program budget in a timely, efficient, and economical manner subject to the following requirement. The Housing Authority shall ensure that there is no duplication between the activities carried out with Comprehensive Improvement Assistance Program funds and the activities carried out with other funds.

The Authority's Public and Indian Housing Youth Sports Program Grant Agreement, Article I, paragraph H states in part that the accounting systems of the grantee must ensure that HUD funds are not commingled with funds from other Federal agencies or other HUD program funds. Funds specifically budgeted and/or received for one program may not be used to support another.

Account funds were
improperly transferred

The Authority wire transferred its HUD program funds for the Operating Program, Development Program, Youth Sports Program, and Comprehensive Improvement Assistant Program accounts into one savings account. The Finance Officer transferred funds from the savings account into the respective programs' checking account as the Authority needed funds to pay the program expenses. The Authority did not reconcile the account balances when the transfers were made in order to account for the money owed between the accounts.

The Authority also made interfund transfers between the four program accounts and it did not maintain the wire transfer authorization slips or record the transactions to its general ledger and cash journal to support the wire transfers between the accounts. As a result of interfund transfers made between May 1992 and March 1995, the following balances were outstanding between the different accounts:

- The Development Program owes Comprehensive Program \$17,000.
- The Development Program owes Operations Program \$78.
- The Development Program owes the Youth Sports Program \$60,000.
- The Operating Program owes the Youth Sports Program \$15,375.

The Authority transferred funds to pay the expenses from one program with the funds of another program. This was especially true for Youth Sports Program funds. Generally, HUD regulations do not prohibit the transfer and commingling of program funds. They only require that the Authority maintain accurate records supporting the transfer of funds. However, HUD's Youth Sports Program Grant Agreement specifically requires that Youth Sports Program funds cannot be commingled with any other program funds. The Authority transferred Youth Sports Program funds into other program accounts where they were commingled. It appears the Authority used Youth Sports Program funds to pay Development Program expenses and its daily operating expenses. Due to inadequate recordkeeping, an exact

accounting of the funds could not be performed in order to determine how the funds were spent. It could only be determined which program account the funds were transferred into and what expenses were paid from that account.

The Chief Financial Officer said she relied on the former Executive Director to monitor the transactions. We did not locate any Authority records which documented the transfer of the program funds. Due to inadequate record keeping regarding the transfer of funds, the balances of the program accounts were not adequately determinable.

As a result, HUD is not assured that the Authority used the program funds for the purposes awarded.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comments is included in Appendix A.

The Authority was scheduled for a HUD review August 29, 1995 at which time new procedures would be set forth to properly handle and maintain control over program funds. Any payments made will have all necessary documentation for back-up of payments made with program funds.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 4A. Maintains adequate documentation to support the wire transfers from HUD in the program accounts.
- 4B. Establishes policies and procedures to properly account for and document interfund transactions.
- 4C. Reimburses the program accounts the amounts owed based on the interfund transfers.
- 4D. Establishes procedures and controls which will assure compliance with the grant agreements.

- 4E. Establishes procedures to discontinue the commingling of the Youth Sports funds.

The Housing Authority Drew Down Excess Development Funds

The St. Croix Chippewa Housing Authority drew down \$482,340 of development program funds in excess of actual needs for acquisition costs and development payments. The Authority's top management did not implement effective disbursement controls over the development funds. As a result, HUD funds were not efficiently used.

HUD Requirements

Public and Indian Housing Notice Number 94-73 issued October 5, 1994, Line of Credit Control System - Voice Response System for Traditional Indian Housing Development, paragraph 3-5, C, states the Indian Housing Authority may requisition funds only when payment is due and after inspection and acceptance of the work. It also must distribute the funds within three working days of receipt of the funds.

The Authority drew down excess funds

The Authority drew down \$482,340 in excess funds from its development account. In May 1995, the Authority drew down \$756,548 of development funds for acquisition costs and development payments, but it only disbursed \$274,208 of the funds for development activities. The excess funds were maintained in a non-interest bearing account.

The Resident Services Coordinator said the majority of the funds were drawn to acquire houses for the Authority's development program. The Authority had not yet acquired the houses at the time the draw was made. As a result, the Authority drew down \$482,340 in excess funds from its development account.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comments is included in Appendix A.

The Authority understands that this cannot happen in the future and will follow the procedures that it set to draw down on funds only as needed.

OIG Evaluation of
Auditee Comments

The Authority's comments indicate action will be taken to improve the controls over funds being drawn, but did not address remitting the excessive funds to HUD.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 5A. Establishes and implements procedures and controls to assure funds are drawn only when payments are due.
- 5B. Remits \$482,340 to HUD.

Deposits Exceeding Federal Insurance Were Not Collateralized

The St. Croix Chippewa Housing Authority failed to obtain collateralization for its bank deposits that exceeded the \$100,000 Federal Deposit Insurance Corporation coverage. The Authority's Finance Officer said she did not understand the Federal Deposit Insurance Corporation limitations or the bank collateralization process, and was unaware the funds were at risk.

HUD Requirements

Public and Indian Housing Notice 95-27 states the Housing Authority shall require its depositories to continuously and fully (100 percent) secure all deposits in excess of the \$100,000 (Federal Deposit Insurance Corporation) insured amount. This may be accomplished by the pledging or setting aside collateral of identifiable U.S. Government securities as prescribed by HUD. Such securities shall be owned by the depository and the manner of collateralization shall provide the Authority with a continuing perfected security interest for the full term of the deposit in the collateral in accordance with applicable laws and Federal regulations. Such collateral shall, at all times, have a market value at least equal to the amount of the secured deposits.

The Federal Deposit Insurance Corporation coverage rules states that all single ownership accounts are subject to a \$100,000 standard limit for deposit insurance. Joint accounts cannot be insured for over \$100,000 and multiple joint accounts with identical ownership cannot be insured for over \$100,000 in the aggregate.

The Authority failed to obtain collateralization for

The Authority did not obtain any type of collateralization for its bank deposits when they exceeded the \$100,000 Federal Insurance coverage. As of May 31, 1995, the Authority had the following funds on deposit at its depository:

<u>Account Number</u>	<u>Balance</u>
32600	\$633,360
28732	3,354
1201728	3,477
35430	4,180
39754	9,381
9265523	100
	<u>\$653,852</u>

According to the Branch Manager at the Depository, the Authority is the common account holder for the six accounts listed above and no collateralization agreement existed between the Authority and the bank. All six accounts are viewed as a single account according to the \$100,000 Federal Deposit Insurance Corporation coverage.

The former Executive Director responsible for ensuring the proper administration of the project funds was not available for comment. The Finance Officer said she was not aware of the Federal Deposit Insurance Corporation limitations, the need for collateralization of funds, or that HUD required the funds to be safeguarded beyond ordinary Federal Deposit Insurance Corporation coverage.

As a result, if the depository failed, the Authority risked losing the \$553,852 of funds on deposit which were in excess of the insurance limitations.

Auditee Comments

Excerpts from the Executive Director's comments on our draft findings follows. The complete text of her comment is included in Appendix A.

The Authority agrees with this finding. The Authority contacted HUD and is in the process of obtaining the necessary form that is needed and correcting the issue.

Recommendations

We recommend that the Acting Administrator, Eastern Woodlands Office of Native American Programs, assure that the St. Croix Chippewa Housing Authority:

- 6A. Obtains adequate collateral for its aggregate bank deposits at one bank that exceeds the \$100,000 Federal Deposit Insurance coverage.

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Internal Controls

In planning and performing our audit, we considered the internal controls of the St. Croix Chippewa Housing Authority to determine our auditing procedures and not to provide assurance on internal controls. Internal controls consist of the plan of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Relevant Internal Controls

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

- Management philosophy and operating style
 - Oversight body
 - Methods of assigning authority
 - Management monitoring methods
 - Proper authorizations
 - Completeness of accounting system
 - Segregation of duties
 - Safeguards over access to and use of assets and records
 - Policies and procedures
 - Independent verifications and reconciliations

We assessed all relevant controls identified above.

Significant Weaknesses

It is a significant weakness if the internal controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Based on our review, the following are significant weaknesses:

- Management monitoring methods. Taken as a whole, the six findings in this report show that the Authority needs to increase its managerial oversight to assure HUD's requirements are met, and supervisory control to assure compliance with its own policies and procedures.
- Policies and procedures. The Authority did not establish clear concise policies and procedures to ensure Federal programs were effectively managed and costs controlled (see Findings 1, 2, 3, 4, 5, and 6).
- Completeness of accounting system. The Housing Authority did not properly account for development funds on its books and properly report program funds (see Finding 4).
- Segregation of duties. The Housing Authority did not adequately segregate staff duties over its cash disbursements function (see Findings 1 and 3).
- Safeguards over access to and use of assets. The Housing Authority did not maintain effective controls over its assets or disbursements and it did not restrict access to blank checks and financial records (see Findings 1, 2, 3, 4, and 5).

Follow Up On Prior Audits

This is the first OIG audit of the St. Croix Chippewa Housing Authority. The Authority's last Single Audit Report was for Fiscal Year ending March 31, 1994, dated June 23, 1994, contained two findings that were unrelated to this report.

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Auditee Comments

Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1D		\$ 31,405
1E	\$ 6,993	
1F	1,400	
3B	15,100	
3C		657,410
3D	206,333	
5B	<u>482,340</u>	<u> </u>
Total	<u>\$712,166</u>	<u>\$688,815</u>

1/ Ineligible costs are costs are amounts that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds.

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

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Office of the Special Assistant to the Secretary for Indian and Alaska Native Programs,
SV (Room 10222)
Assistant Director in Charge, U.S. GAO, 820 1st NE, Union Plaza Bldg. 2, Suite 150,
Washington D.C. 20002