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Audit Related Memorandum
98-SE-107-0801

February 23, 1998

To: Jacqueline Johnson, Deputy Assistant Secretary for Office of Native American Programs, PI

FROM: Robert H. Woodard, Acting District Inspector General for Audit,
OAGA

SUBJECT: Secretarial Request
Office of Native American Programs
Oversight of Indian Housing Authorities
Eastern Woodlands Office of Native American Programs
Chicago, Illinois

On November 29, 1996, OIG received a request from the Secretary of HUD to thoroughly review allegations of various improprieties in the use of HUD funds by tribal governments and/or Indian housing authorities (IHAs) and inadequate monitoring by HUD's Office of Native American Programs (ONAP). Program abuse at IHAs across the country was alleged in *The Seattle Times*' December 1996 series of articles entitled "From deregulation to disgrace" which identified 29 instances.

Audit Objective, Scope and Methodology

As part of our review to address the Secretary's request, we wanted to know if ONAP's field offices (excluding Alaska) provided effective oversight to ensure IHAs provided housing consistent with program intent and rules. Our review included eight IHAs identified in *The Seattle Times* series which were in Eastern Woodlands ONAP's (EWONAP) servicing area. To accomplish this, we:

- reviewed *The Seattle Times* series to identify issues and locations.
- contacted the EWONAP Administrator to obtain:

- * a perspective and position on the issues reported in *The Seattle Times* series for each IHA in the EWONAP servicing area,
 - * a description of the program requirements applicable to each of the IHAs, and
 - * a description of actions taken by the office in relation to the issues reported in the series.
- obtained and reviewed applicable program requirements including statutes, regulations, handbooks, guidebooks, memorandums, and other directives.
 - interviewed appropriate staff, and reviewed available documentation related to oversight. The review included testing of the management information and control systems to obtain an understanding of how those systems functioned.
 - compared the oversight and actions taken by the office to the applicable requirements.

We performed our field work during April and May 1997, and extended our work as necessary to accomplish our objective.

Audit Results

Our review disclosed that EWONAP did not fulfill its oversight responsibilities to ensure that IHAs provided housing consistent with program intent and rules for six of the eight IHAs in EWONAP's servicing area. (See Attachment 1 for individual IHA summaries.) EWONAP:

- did not act or put off taking action to identify and resolve problems which allowed problems to reach crisis stages at the:
 - * Mashantucket Pequot Housing Authority (page 7),
 - * Pleasant Point Passamaquoddy Housing Authority (page 11),
 - * Narragansett Housing Authority (page 18),
 - * White Earth Reservation Housing Authority (page 22), and
 - * Bois Forte Housing Authority (page 27).
- assumed new IHAs had the administrative capability to develop and manage housing programs without determining if the IHA had the resources, capacity, and systems necessary to do so at the:
 - * MOWA Choctaw Housing Authority (page 30),
 - * Narragansett Housing Authority (page 18), and

- * Bois Forte Housing Authority (page 27).
- did not always document decisions and actions to show their efforts to help IHAs develop and manage housing at the:
 - * MOWA Choctaw Housing Authority (page 30), and
 - * Narragansett Housing Authority (page 18),

As a result, EWONAP's ineffective oversight contributed to the IHAs' misuse of housing funds intended for low-income Native American families. A total of approximately \$11,600,000 for six IHAs was either wasted or spent on ineligible or unsupported expenses. Also, EWONAP did not hold IHA officials accountable when evidence existed of poor performance in administering their housing programs; and ONAP has been the subject of negative publicity which has eroded public confidence and caused Congressional scrutiny of HUD's Indian housing programs. Ineffective oversight occurred, in part, because:

- EWONAP staff whose monitoring efforts are intended to ensure program compliance either misinterpreted, misunderstood, or misused guidelines and Headquarters instructions,
- EWONAP staff relied on Housing Authority certifications of compliance with requirements and on personal working relationships with IHA officials without follow up, and
- the Department's initiative to develop partnerships with tribes/IHAs resulted in emphasizing technical assistance rather than taking appropriate enforcement actions and holding IHA officials accountable for poor performance.

Although ONAP has oversight responsibility, it was IHA officials, not EWONAP officials, who had responsibility for housing authority operations including the misuse of housing funds or the abuse of their housing programs. For example:

- executive directors and board members, who are expected to promote economical and effective operations, misused scarce resources and abused their positions for personal gain, and
- contracting practices were so poor that scarce federal housing funds have been wasted and/or are unaccounted for.

Available evidence suggests that these conditions occurred because IHAs were either administratively unable or unwilling to follow program rules. IHAs were:

- administratively incapable of developing their housing programs because of:
 - * difficulty in hiring, developing, and retaining a staff with the skills, abilities, and knowledge needed to adequately operate an Indian housing program in compliance with program rules.
 - * management information systems that lacked basic operational, financial, and compliance related information to make it possible to effectively manage and control a housing operation.

- unwilling to follow the program rules because:
 - * Executive Directors and/or Board members allowed tribal politics or family relationships to unduly influence their decision-making which directly benefited either themselves, family members, relatives, or friends.
 - * IHA officials followed tribal philosophies and perspectives on how federal housing funds should be used which were contrary to program rules.

Auditee Comments

We provided our draft results to EWONAP's Administrator and management staff for review and comment. EWONAP's Administrator and management staff generally agreed with our results. EWONAP's written responses are included in Attachment 2. EWONAP's comments were considered in finalizing our results and were incorporated, as appropriate.

EWONAP's Administrator commented that OIG's draft results were accurate in that EWONAP did not provide effective oversight. He added that since he became Administrator in September 1996, he has implemented steps to correct deficiencies in the Office's oversight of IHAs.

EWONAP's Administrator added that enforcement and oversight initiatives would be tremendously enhanced if HUD became the client of the Independent Public Accountants (IPA) who perform the annual audits of the tribes/IHAs. Presently, the process is ineffective and does not provide the necessary safeguards. For example, the IPA work at the White Earth Reservation Housing Authority and Pleasant Point Passamaquoddy Housing Authority failed to identify the serious problems that existed at both IHAs.

This memorandum does not contain specific recommendations. However, you may determine that specific personnel actions may be warranted. We are

including recommendations for programmatic issues in our national audit report on HUD's Native American Programs number 98-SE-107-0002.

Should you or your staff have any questions please contact me at 206-220-5360.

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Summary of OIG Internal Review by Housing Authority

Mashantucket Pequot Housing Authority—Ledyard, Connecticut

The Seattle Times: (December 1 and 4, 1996) The tribe with a casino reputed to clear \$1 million a day is finishing work on the last of 15 large homes financed with a \$1.5 million, low-income-housing grant, even though it no longer has any low-income families.

The Eastern Woodlands ONAP (EWONAP) did not provide the needed oversight to ensure that the Mashantucket Pequot Housing Authority (Housing Authority) used its development funds to provide appropriate housing assistance to low-income Tribal members. In addition, EWONAP executed an Annual Contributions Contract (ACC) amendment for the increase of the grant to \$1.5 million and disbursed the funds without determining whether they were still needed.

As a result, the Housing Authority and the Tribe used the \$1.5 million grant for 15 units which exceeded moderate design standards with an average unit cost of \$428,000. (The Tribe provided the other funding.) The Housing Authority then placed 14 families into these units, 12 of which were either over-income or whose incomes were not determined at the time of occupancy. In addition, the adverse publicity has caused the public to question ONAP's ability to fulfill their stewardship and manage their programs. According to EWONAP, this occurred because ONAP did not foresee the possibility that a tribe would become so wealthy that they would not need a previously awarded grant. Further, EWONAP's Director of Development stated he understood that little could be done to recapture funds once an ACC is signed just because a tribe is economically successful. In addition, EWONAP did not enforce requirements which would have allowed them to cancel the grant.

EWONAP did not provide the needed oversight to ensure that the Housing Authority used its development funds to provide appropriate housing assistance to low-income Tribal members.

EWONAP awarded the Housing Authority a \$1.2 million grant to build 15 Mutual Help units in August 1991 and increased it to \$1.5 million in June 1993. EWONAP approved the Housing Authority's development program in August 1993, executed an ACC amendment in June of 1994, and disbursed the funds in November 1994.

Travel records show that EWONAP development staff visited the Housing Authority twice during construction, in September 1993 and October 1994. These visits were made before the funds were drawn down. The Facilities and Planning

Development Specialist said he visited the Housing Authority and prepared trip reports for these visits. However, the reports were not in EWONAP's files and he did not know where the reports were. Also, the Specialist stated that he had not seen the house plans and did not know if the Housing Authority was constructing homes in accordance with its plans.

EWONAP staff received an Independent Public Accountant's audit report in October 1995 questioning the entire \$1.5 million grant because the Housing Authority had not documented income eligibility. Also, the Housing Authority knew that the financial position of several residents of the project had improved significantly due to incentive payments from the Tribe. EWONAP took no action other than to write a letter to the Housing Authority stating that the Housing Authority "may wish to revisit the questioned costs."

In addition, EWONAP executed an ACC amendment for the increase of the development grant to \$1.5 million and disbursed the funds, without determining whether they were still needed.

The Housing Authority misused the development funds by developing units for over-income families and families for which they did not verify incomes. As stated in 24 CFR 905.416, the Housing Authority is required to admit families that meet the eligibility requirements for Mutual Help. In accordance with the US Housing Act of 1937 (42 U.S.C. Section 1437bb. (d)(2)(A) and (B)), the Housing Authority can use an over-income exception for up to the greater of 5 over-income families or 10 percent of the units. However, EWONAP must review and approve the Housing Authority's demonstration that the over-income families cannot be housed without federal assistance. This did not happen at this Housing Authority. EWONAP became aware of the success of the Tribe's casino in 1993 and that Tribal members received incentive payments. Although aware of changes in the Tribal economy, EWONAP processed the ACC amendment and disbursed the funds without determining whether they were still needed. EWONAP staff stated they did not attempt to recover the funds. The Director of Development said he did contact an Office of General Counsel attorney who verbally told him that EWONAP could not take back grant funds just because a tribe is economically successful.

As a result, the Housing Authority and the Tribe used the \$1.5 million grant for 15 units which exceeded design standards with an average unit cost of \$428,000. (The Tribe provided the other funding.)

The Housing Authority and the Tribe were limited by the approved cost budget to build 15 units with an average unit cost of \$177,817. Instead they built 15 units at an average cost of \$428,000, which exceeded the approved average unit cost

limit by \$250,183. The additional costs of about \$4.9 million were paid by the Tribe. The Housing Authority's development exceeded the development cost limits agreed to in the ACC and resulted in the construction of units which are excessive for the Mutual Help program, both in cost and design.

The Housing Authority then placed 14 families into these units, 12 of which were either over-income or whose incomes were not determined at the time of occupancy.

In October 1994 the EWONAP Administrator left HUD and became the Executive Director of this Housing Authority. While he was Executive Director, 14 of the 15 units were completed and occupied. Of the 14 families admitted, at least 7 were over income when they occupied their units. The Housing Authority did not receive an exception from EWONAP for these families. Although required to verify that applicants are low income at the time of occupancy by 24 CFR 905.315, the Housing Authority did not verify the incomes of five more families even though their income information in the files was more than a year old. The last two families were determined to be income eligible when they moved in, but their incomes did not include any Tribal incentive payments. The Housing Authority did not have records showing if they had received incentive payments. The last family was over income, but had not occupied the unit as of March 1997, because the unit was still under construction.

According to EWONAP, this occurred because ONAP did not foresee the possibility that a tribe would become so wealthy that they would not need a previously awarded grant.

The Housing Authority was allowed to use the grant for expensive homes for mostly over-income families because ONAP never anticipated that a tribe would become so successful between the time the grant was awarded and when the homes were constructed. However, the Housing Authority must still use the funds for eligible purposes, and when the funds are misused, ONAP should recover them. EWONAP did not enforce requirements which would have allowed EWONAP

to cancel the grant and allowed the Housing Authority to draw down the funds when they knew that the casino could make Tribal members over-income.

Further, EWONAP's Director of Development stated he understood that little could be done to recapture funds once an ACC is signed just because a tribe is economically successful.

When it became apparent that the Housing Authority did not need assistance, the Director of Development said he contacted an Office of General Counsel attorney. The attorney verbally told him that EWONAP could not take back grant funds just because a tribe is economically successful. EWONAP has since recovered some funds from the Housing Authority for a previous Low Rent project where members income exceeded the low-income limits. EWONAP is still discussing whether to recover the funds from the Housing Authority for the \$1.5 million Mutual Help development. In January 1995, the Deputy Assistant Secretary for Native American Programs recommended that EWONAP recover the funds. According to EWONAP management, the Housing Authority has agreed to return the funds if an examination of their records show that families were over income at the time of occupancy.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for ensuring that, once the Tribal members' financial situation changed due to the casino, the Housing Authority would still use a previously awarded grant for eligible low-income families. If funds are misused, EWONAP is responsible for recovering the misused funds from the Housing Authority. EWONAP was responsible for reviewing the Housing Authority's construction project design. However, EWONAP did not document that they did these reviews, and the evidence indicates EWONAP staff did not reevaluate the need when indications arose that the Tribe was becoming economically successful.

IHA Responsibility: The Housing Authority was responsible for housing eligible low-income families, for building housing within development costs, and for informing EWONAP of changes which would affect their use of the awarded development grant. The Housing Authority did not do this, building 15 large houses and placing over-income families (and families whose incomes were not determined) in these houses.

Pleasant Point Passamaquoddy Housing Authority—Perry, Maine

The Seattle Times: (December 1, 1996 and January 9, 1997) The housing authority's executive director sold her agency a home for \$85,000, collected \$15,000 for “horse relocation” and moved into her father's low-income house - using the profits to renovate and expand it into a structure commonly referred to as “the mansion.”

The Eastern Woodlands ONAP's (EWONAP) oversight was not effective in promptly identifying most of the ways the Executive Director of the Pleasant Point Passamaquoddy Housing Authority repeatedly misused her position to enrich herself and her family between 1991 and 1996. Once the Administrator and EWONAP team became aware of the misuses in October 1996, they took prompt action to evaluate and correct the problems except for the Housing Authority charging rents that were too low. The actions, as stated by EWONAP, included an OIG referral, site visits, a Corrective Action Order, suspending the Housing Authority's access to federal funds, and issuing a Limited Denial of Participation to the Executive Director. EWONAP has known that the Housing Authority was charging rents that were too low since 1985 and is only now taking adequate action to ensure the rents are correct.

As a result of the Executive Director's misuses:

- Housing Authority assets were used to secure a loan for a family member,
- low-income families were denied housing and needed modernization funding,
- the adverse publicity has caused the public to question ONAP's ability to fulfill their stewardship and manage the programs, and
- ONAP has paid excessive operating subsidy since 1985 because the charged rents were too low.

The inadequate oversight occurred because EWONAP did not adequately address general complaints about the Executive Director or question the funding for excessive office space, and EWONAP did not have a process to follow up on its findings.

EWONAP's oversight was not effective in promptly identifying most of the ways the Executive Director of the Housing Authority misused her position.

EWONAP was not aware of the Executive Director's misuses of her position until October 1996. In October, the new EWONAP Administrator said he received telephone calls from new Housing Authority Commissioners and their attorneys alleging fraud and mismanagement at the Housing Authority. The Administrator stated that he contacted the OIG Special Agent-in-Charge for New England to let him know about the allegations. In the same month, other EWONAP staff became aware of the misuses when *The Seattle Times* contacted the office as part of their work. EWONAP records show they had not performed onsite monitoring of the Housing Authority from at least 1992 to October 1996 when it was considered a high performing IHA. In addition, the Deputy Assistant Secretary for Native American Programs informed the Housing Authority Board in August 1995 that ONAP held the Board and the Executive Director in high regard and the Executive Director has long been recognized as a national voice and advocate for Indian housing.

The Executive Director repeatedly misused her position and she and her family benefited from her decisions.

The Executive Director's misuses are listed below:

- Housing her father and herself when neither one was eligible for the Turnkey III housing:

Our review indicated that the Executive Director's father was admitted to a two bedroom unit on September 1, 1991 without evidence that he qualified for the program or was on a waiting list. On August 1, 1992, the Executive Director's father moved into a four bedroom Turnkey III unit, without evidence that he qualified for the program (especially as a sole occupant) or was on a waiting list.

When her father died in 1995, the Executive Director assumed ownership of the Turnkey III unit. The Executive Director and her husband's income far exceeded the income limit established for eligible low-income families.

- Charging rents lower than required for all residents of the Housing Authority:

EWONAP records show that, since at least 1985, the Housing Authority has had in place "ceiling rents" (or maximum rents paid by residents). Their most recent ceiling rent was \$133 a month, which the Executive Director

and her family benefited from. The Executive Director's father paid \$133 for his four bedroom house (when the total tenant payment should have been \$306) and the Executive Director continued to pay \$133 (about 2 percent of her family's monthly income) after her father died.

- Violating the conflict of interest prohibition in the procurement regulations by having the Housing Authority purchase homes, goods, and services from herself and two members of her family:

Our review showed that the Executive Director received a free home from her son on July 7, 1994, which she sold to the Housing Authority on January 6, 1995 for \$84,019. The sales price was set by an appraisal performed by an insurance estimator, which was not meant to be a fair market value appraisal. There was no evidence that the real fair market value of the home was determined in order to ensure an arms-length transaction. In a January 6, 1995 letter, the Housing Authority asked EWONAP for a written opinion on the acquisition stating it was from a Housing Authority employee. EWONAP approved this purchase with development funds three days later, without knowing the house was to be purchased from the Executive Director. In his approval, EWONAP's Acting Administrator stated that the IHA employee must dismiss themselves from any Board approval of the purchase. This had not been done, since the Executive Director and her husband were present at the Board meeting. Also, according to the Board Chairperson, the meeting was called on "the spur of the moment" and the Executive Director actually controlled who could vote for the approval, allowing a non-Board member to vote.

The Housing Authority purchased 29 modular homes with HUD development funds through the Executive Director's brother-in-law's firm. The supplier's price for the modular homes was \$10,000 per home less than the Housing Authority paid for them. The Executive Director's brother-in-law's firm acted as an agent for the purchase. Our review found that payments of at least \$1,662,756 to his firm were not adequately supported by invoices, with numerous invoices missing.

The Housing Authority's Executive Director and Board arranged \$71,789 worth of travel through the Executive Director's sister's travel agency. The Housing Authority did not have a travel policy (as required by their Annual Contributions Contract), did not perform any price comparisons for this travel and was unable to show the purpose for some travel. This raises questions on whether these transactions were arms-length. The Executive Director was present at the Board meetings approving much of the travel.

- Requesting and receiving an ineligible payment of \$15,588 from the Housing Authority for “horse relocation”:

Housing Authority Board minutes indicate that in September 1993 the Executive Director requested and received \$15,588 from the Housing Authority for “horse relocation”. The current Board Chairperson stated that the Executive Director told at least one displaced family (due to a Housing Authority development project) that no relocation funds were available, and that she asked for and received reimbursement for relocation of her horses and the horses’ barns (two small, dilapidated, wooden structures).

- Pledging Housing Authority assets to secure a construction loan for her brother-in-law:

Housing Authority Board minutes show that in violation of the Annual Contributions Contract, the Housing Authority pledged Certificates of Deposit to start a HUD Section 184 loan guarantee program on June 29, 1995. A week before the Housing Authority received a Line of Credit from its pledged assets, the Board approved a request from another brother-in-law of the Executive Director to utilize its new loan guarantee program and purchase a home. The brother-in-law was the one and only participant in the program. According to the current Board Chairperson, others had requested a Section 184 loan and were told by the Executive Director they could not participate.

The Housing Authority transferred homebuyer accounts totaling more than \$100,000 to another bank to secure a loan for the Executive Director’s brother-in-law. This action put the homebuyer accounts at risk and a restriction on the assets. The Housing Authority has since received reimbursement of the \$100,000 loan.

- Abusing the tax exempt status of the Housing Authority by purchasing personal items for herself through the Housing Authority:

The Housing Authority had a practice, according to the Board Chairperson, where it acted as a tax-free store by purchasing items using its tax-exempt status and then reselling the items to its residents and non-residents. As a resident, the Executive Director benefited from this policy by purchasing \$26,331 in materials to remodel her father’s home. This policy was eliminated in September 1996 (when the Executive Director left), after EWONAP notified the Housing Authority that the purchase and resale of items was considered a loan to residents and an abuse of the tax exemption status enjoyed by the Housing Authority.

- Using Housing Authority force account labor to construct a home for her brother-in-law and counting it as training:

The Housing Authority used HUD funds to subsidize a pilot technical training program in 1993 for trainees to learn the latest construction skills and techniques. Through this program the trainees, who were Housing Authority employees, helped build a new home for the Executive Director's brother-in-law, using the brother-in-law's company. The training program was a joint venture between the Housing Authority, the Executive Director, and her brother-in-law's company.

- Using about \$700,000 in development and CIAP funds to expand the Housing Authority office in excess of its needs:

Housing Authority records show that the Housing Authority used about \$700,000 in funds from development and modernization to expand its office. The Housing Authority Development Specialist believes the office cost more than this, but did not provide support for this statement because funding came from many sources. The Housing Authority did not have a separate budget for the office expansion, but EWONAP approved \$621,481 for the office construction through five different budgets for five different projects. EWONAP's former Administrator stated he visited the Housing Authority in 1995 and viewed the office as extravagant and excessive, but took no action.

Funding for development and modernization of low-income housing was reduced when the Executive Director used about \$700,000 to expand the Housing Authority's office in excess of its needs. On one of the development projects, the Housing Authority used its allotment of funds, but only built three-fourths (15 of 20) of the units planned.

Once the Administrator and EWONAP team became aware of the misuses in October 1996, they took prompt action to evaluate and correct the problems except for the Housing Authority charging rents that were too low.

The EWONAP Administrator became aware of the misuses in October 1996, and he:

- referred the information to the New England OIG shortly thereafter,
- sent his staff on a site visit on November 5th through 7th, 1996,
- suspended the Housing Authority's access to funds on November 26, 1996,
- issued a Corrective Action Order on December 19, 1996, and
- issued a Limited Denial of Participation to the Executive Director in May 1997.

EWONAP has known that the Housing Authority was charging rents that were too low since 1985 and is only now taking adequate action to ensure the rents are correct.

EWONAP identified the problem of rents that were too low in management reviews in 1985, 1987 and 1988. EWONAP does not have records to show if any of those findings were closed, but the Housing Authority notified EWONAP on January 12, 1988 it would no longer charge ceiling rents. As of May 1997, the issue on ceiling rents was still open and EWONAP was still waiting for documentation that homebuyers were being charged the proper amounts. Also, due to the Housing Authority charging rents that were too low, HUD has paid excessive operating subsidy since 1985.

The inadequate oversight occurred because EWONAP did not adequately address general complaints about the Executive Director or question the funding to expand the Housing Authority's office in excess of its needs, and EWONAP did not have a process to follow up on its findings.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for following up on indications of misuses to independently determine if the allegations were correct. When they became aware of problems, EWONAP was responsible for taking prompt action to resolve the problems and to refer the allegations to the appropriate authorities. EWONAP did not follow up promptly on indications of misuse, and held the Executive Director in high esteem. However,

when the new EWONAP Administrator heard of possible problems, he promptly took action and notified the OIG of possible criminal or civil violations.

IHA Responsibility: The Housing Authority was responsible for ensuring funds were spent for eligible purposes, that HUD's and their own procurement and conflict of interest requirements were followed, and that development and modernization funds were spent for the approved purposes. The Housing Authority did not fulfill their responsibilities in these areas, primarily because the Executive Director controlled most of the operations and was viewed positively by ONAP in any conflicts with the Board of Commissioners.

Narragansett Housing Authority—Charlestown, Rhode Island.

The Seattle Times: (December 1, 1996) A dozen homes sit empty a year and a half after they were built because HUD released a \$3.8 million grant for the housing authority to buy and build on nonreservation land without getting the proper local, state, and federal clearances.

The Eastern Woodlands ONAP's (EWONAP) oversight and monitoring of the Narragansett Housing Authority (Housing Authority) was not effective in identifying and taking action on land use problems which allowed the Housing Authority to draw down over 75 percent (\$2,875,000) of its grant and build only 12 houses which sit vacant. As a result:

- there are not sufficient funds available to complete the 50 unit low-income housing development,
- low-income families were denied housing, and
- the program received adverse media attention.

This occurred because EWONAP did not ensure the Housing Authority met preliminary development requirements. EWONAP relied on verbal assurances from the Housing Authority rather than requiring the Housing Authority to correct problems before releasing funds.

EWONAP's oversight and monitoring of the Narragansett Housing Authority was not effective in identifying and taking action on land use problems.

On September 29, 1988, HUD agreed to provide development funding to the Housing Authority to purchase land and construct 50 Low Rent units. On December 16, 1994, HUD amended the amount of the grant for the fourth time, resulting in a total grant of \$4,144,999. This was the Housing Authority's first development grant from HUD. At final site approval in August 1993, EWONAP staff believed the land was in trust based on a recommendation letter from the Bureau of Indian Affairs (BIA) and a lease between the Housing Authority and the Tribe that BIA indicated it would approve. Although EWONAP was not required to verify the site was acceptable, the Housing Authority is required to certify (24 CFR 905.245) that actions necessary to satisfy the conditions of tentative and final site approval have been completed.

Correspondence in EWONAP's files for the Housing Authority showed that EWONAP was aware that the land was not in trust in late October 1993. According to a BIA Real Estate Specialist, as of May 1997, the property was still

not in trust. EWONAP's development files did not contain written certification from the Housing Authority that the actions necessary to satisfy the conditions of tentative and final site approval had been completed and that the site was acceptable.

The Housing Authority was not able to place the land in trust in part because of litigation with the local township, Charlestown, over a radio tower. Before building the Low Rent housing, the Housing Authority (who leased the land from the Tribe) subleased a portion of the property to a private company for a radio tower. A dispute arose between the Housing Authority and Charlestown because the land was not zoned for a radio tower. In addition, the Housing Authority interfered with a drainage easement previously conveyed to Charlestown and did not comply with applicable requirements of the State's Coastal Resources Management Program when constructing 12 units on the property. Through litigation arising from this dispute, the US Court of Appeals ruled that the Housing Authority must comply with all applicable zoning requirements before anyone occupies the housing units constructed.

Due to these land use issues, EWONAP's Administrator informed the Housing Authority in an August 23, 1994 letter that no further construction on the development project should occur until such time as the property purchased for the units was either placed in trust or the radio tower was removed, and a cooperation agreement was obtained with Charlestown (the local governing body). However, according to HUD's draw down records, the Housing Authority continued to draw down funds after the letter was issued. The Housing Authority did make progress and obtain a Letter of Intent from Charlestown in August 1994. EWONAP accepted this as the initial step toward acquiring a cooperation agreement. However, the property is not in trust, the radio tower is still on the property, and no cooperation agreement has been executed. As of May 1997, the Housing Authority is still attempting to work out an agreement with Charlestown to obtain needed local services and was still drawing down development funds to pay for administrative and legal costs.

EWONAP allowed the Housing Authority to draw down over 75 percent (\$2,875,000) of its grant and build only 12 houses which sit vacant.

EWONAP rated the Housing Authority as Substantial Risk (meaning that EWONAP should monitor the Housing Authority closely) under its annual risk assessments for fiscal years (October 1 to September 30) 1995, 1996, and

1997. EWONAP continued to provide technical assistance but did not stop the Housing Authority from drawing down development funds even though the identified problems were not corrected.

For the past three years, EWONAP could produce no evidence that closer monitoring occurred as needed according to EWONAP's risk assessment. EWONAP allowed the Housing Authority to draw down over 75 percent or \$2,875,000 (not including land cost of \$525,000) of its Low Rent development grant even though the Housing Authority did not obtain the required cooperation agreement or comply with the local zoning requirements. Only 12 of 50 houses planned for the project have been constructed, at an average cost of \$239,583 per unit (\$2,875,000/12 units) and these remain vacant because hookups to utilities have been banned by the Coastal Resource Management Council, in conjunction with the litigation filed by Charlestown.

As a result, there are not sufficient funds available to complete the 50 unit low-income housing development, low-income families were denied housing, and the program received adverse media attention.

Due to cost overruns associated with the development of only 12 houses, the remaining grant funds are not sufficient to complete the construction of all 50 units. On December 19, 1996, EWONAP determined that the Housing Authority lacked administrative capability in its development program, so they declared the Housing Authority High Risk. In response, the Housing Authority submitted a corrective action plan showing where remaining funds would be allocated. The Housing Authority's plan provided for completion of 26 units instead of the 50 originally funded. EWONAP's Administrator told the Housing Authority that 26 units was not acceptable and asked for an action plan that would construct more units. EWONAP's lack of action to correct known problems has contributed to the negative media attention given Narragansett Housing Authority in *The Seattle Times* articles. These articles continued to fuel the perception that Indian housing authorities and HUD cannot manage their housing programs.

This occurred because EWONAP did not ensure the Housing Authority met preliminary development requirements. EWONAP relied on verbal assurances from the Housing Authority rather than requiring documentation showing the Housing Authority corrected problems before releasing funds.

EWONAP development officials stated that they relied on verbal assurances from the Housing Authority that a cooperation agreement with Charlestown had been obtained and problems were being resolved. Although regulations require site control (which includes obtaining a cooperation agreement with the local governing

body), the EWONAP Development Specialist could only provide the Letter of Intent from Charlestown that a cooperation agreement would be obtained.

As a prerequisite to providing financial assistance, HUD requires, per the US Housing Act of 1937, an agreement between an IHA and local governing body evidencing local cooperation with respect to the development and operation of low-income housing. The Housing Authority was allowed to draw down funds (as recently as May 1997) even though statutory and regulatory violations (the lack of a cooperation agreement) were identified and remained unresolved because, according to EWONAP development and management officials, it had been the office's policy to give IHAs the opportunity to work through problems. To deny the IHAs funding would limit their ability to resolve these problems.

It was not until December 19, 1996 that EWONAP notified the Housing Authority that it lacked administrative capability, declared it ineligible for additional development funding, and required the Housing Authority to submit an acceptable corrective action plan showing how the remainder of the development grant would be used. According to EWONAP's current Administrator (who became Administrator in October 1996), this action was finally taken because his policy was to take a more aggressive approach against non-performing housing authorities.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for ensuring that the required certifications and agreements relative to site control were obtained. When problems arose with the site, EWONAP was responsible for providing technical assistance and monitoring to help the Housing Authority work through the site issues and develop the housing. EWONAP did not take effective or timely action and allowed the Housing Authority to draw down over 75 percent of the grant to construct only 12 houses. Only recently has EWONAP taken a more aggressive approach.

IHA Responsibility: The Housing Authority was responsible for obtaining a cooperation agreement with Charlestown and for getting the acquired land put into trust. The Housing Authority is also responsible for spending development funds in accordance with an approved budget and for eligible items. It did not obtain a cooperation agreement and as a result of its sublease of land, Charlestown filed litigation which has prevented the Housing Authority from occupying the 12 completed units.

White Earth Reservation Housing Authority—White Earth, Minnesota.

The Seattle Times: (December 1 and 4, 1996) The tribal chairman and two aides were convicted in federal court in June of conspiracy, theft, embezzlement, bribery and money-laundering involving casino operations. Now HUD is discovering that housing money is missing and homes are in disrepair.

The EWONAP monitoring efforts were not thorough enough to properly evaluate the White Earth Reservation Housing Authority's (Housing Authority) administration of its development projects. As a result,

- the Housing Authority drew down over 89 percent of two development grants totaling \$4.4 million to build 8 livable and 42 partially completed houses,
- low-income families have been denied the housing yet to be completed,
- funds from a subsequent development grant must be used to complete the partially completed houses resulting in an estimated \$1,992,600 wasted, and
- adverse media attention has caused Congressional scrutiny of Indian housing programs.

This occurred because EWONAP interpreted Headquarters instructions to mean they were not to do onsite monitoring, and an environment at the Housing Authority hostile to EWONAP onsite visits. This prevented EWONAP from confirming the accuracy of the information provided by the Housing Authority in terms of the Housing Authority's performance in developing its housing units. Since September 1996, EWONAP has taken over the Housing Authority and has issued Limited Denials of Participation against the previous Executive Director and all former Board members.

EWONAP's monitoring efforts were not thorough enough to properly evaluate the White Earth Reservation Housing Authority's administration of its development projects.

Through their ongoing monitoring, EWONAP staff accumulated and documented the following information:

- EWONAP received complaints in April and May 1992, concerning preferential treatment in the selection of participants for housing. According to EWONAP staff, an onsite visit was made in 1992, to look into the complaints and the Regional Administrator wrote a letter to the Housing Authority stressing selection procedures.
- The 1993 and 1995 audit reports indicated that the Housing Authority Board was not meeting regularly, which suggests a lack of control and oversight over the Executive Director and Housing Authority operations.
- The 1993, 1994, and 1995 audit reports identified a problem with increasing Tenant Accounts Receivable.
- The 1995 audit report had a finding of cash shortages due to theft by a Housing Authority employee.
- In November 1995, EWONAP received a hotline complaint involving one of the Tribal Chairman's aides alleging problems with the waiting list. EWONAP handled the complaint by contacting the Housing Authority and asking them about the waiting list status of the complainant. EWONAP then wrote a letter to the complainant explaining when she was scheduled to receive a house.
- EWONAP received a written complaint dated February 14, 1996 about preferential treatment in the selection of participants for housing. EWONAP staff commented that the 1996 complaint was handled in the same manner as the October 1995 complaint, by contacting the Housing Authority and determining the waiting list status of the complainant.
- In November 1996, the Tribal Chairman and two of his aides were sentenced in federal court for conspiracy, theft, and willful misapplication of Tribal funds. In 1994, EWONAP staff were aware of the investigation of the Tribal Chairman and his aides. However, EWONAP staff were not aware that the Tribal Chairman's activities involved the Housing Authority and they had no specific information that indicated contracting problems. EWONAP management staff relied on verbal assurances from White Earth's Executive Director, the required certifications from the Housing Authority, and independent audit reports which did not disclose procurement problems at the Housing Authority.

These issues were ancillary to the problems subsequently identified at the Housing Authority. Specific problems included:

- The Housing Authority completed a total of 8 units (out of the 50 planned for 2 developments) and spent over 89 percent of funds designated as of September 1996. According to EWONAP management, the Housing Authority failed to effectively manage its development program, in part because the Tribal Chairman asserted control over the Housing Authority's Executive Director which led to illegal contract awards and incomplete work.
- Sixty-one of 198 tenants were not placed in accordance with the waiting list, and complaints show that the Tribal Council has interfered with the Housing Authority's waiting list process.

EWONAP rated the Housing Authority as a Substantial Risk in Fiscal Year 1995 and as a Moderate Risk in Fiscal Year 1996, after the Housing Authority scored 51.4 percent and 67.8 percent respectively on its Administrative Capability Assessments (ACA). Although EWONAP should have targeted the Housing Authority for technical assistance since its ACA scores were below 70 percent since 1993, travel records show that EWONAP staff only made 2 onsite visits (1 in May 1994 for Comprehensive Improvements Assistance Program/Comprehensive Grant monitoring and 1 in July 1996 for Community Relations), before discovering major problems in September 1996. An EWONAP Director stated that EWONAP accepted the Housing Authority's certifications and responses to questions and concerns because no other information came to its attention that indicated serious problems.

As a result, the Housing Authority drew down over 89 percent of 2 development grants totaling \$4.4 million to build 8 livable and 42 partially completed houses.

As of September 13, 1996, the Housing Authority had drawn down a total of \$3,924,421 or over 89 percent of its 2 development grants and completed only 8 livable houses. Based on an onsite visit, we concluded that the remaining 42 partially completed units were subject to deterioration due to severe weather conditions, were in various stages of completion, were not available to low-income families needing housing, and would not be completed unless additional funds are obtained.

Low-income families have been denied the housing yet to be completed and funds from a subsequent development grant must be used to complete the partially completed houses.

In May 1996, EWONAP awarded the Housing Authority a \$2.7 million Low Rent development grant. If EWONAP had known about the serious deficiencies at the Housing Authority, the grant would not have been awarded. According to

EWONAP's Director of Facilities Planning & Development, this grant was being reformulated to finish construction of 35 of the Housing Authority's 42 partially completed houses. The result of the reformulation will be a total of 54 units completed, though HUD provided development funds for a total of 75 units, at an average cost of \$131,821 per unit. The increase in the per unit cost averages \$36,900 or a total of \$1,992,600.

This occurred because EWONAP interpreted Headquarters instructions to mean they were not to do onsite monitoring. This prevented EWONAP from confirming information provided by the Housing Authority.

EWONAP received complaints and annual audit reports which indicated preferential selection of participants in the housing program and a lack of Board oversight at the Housing Authority, but did not perform onsite monitoring visits. An EWONAP Director explained that it was the Office's general perception that a November 1993 memorandum from the Assistant Secretary for Public and Indian Housing waived all onsite monitoring requirements for Fiscal Year 1994 and remained in effect indefinitely. The Director was not aware of any instructions countermanning the Assistant Secretary's memorandum. The Director added that it had been the EWONAP staff's understanding that ONAP's national policy was not to do onsite monitoring and travel only to Partners in Progress IHAs (since Partners in Progress started in 1995). In addition, the regulations require that EWONAP accept certifications from IHAs unless there is information to the contrary. However, without EWONAP staff going onsite to independently and objectively confirm how the Housing Authority is spending its development funds, EWONAP has no way of confirming what a Housing Authority is doing or achieving. Because of the long standing relationship with the Housing Authority's former Executive Director (who had been the Executive Director for over 15 years), the staff relied on verbal assurances from the Housing Authority that there were no problems. In addition, EWONAP staff told us that the environment on the Reservation was hostile.

After an onsite visit in September 1996 prompted by a telephone call from the newly elected Tribal Chairman, HUD assumed operation of the Housing Authority in November 1996.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for assuring programs are managed with integrity and in compliance with applicable law. EWONAP did not do so, and performed an onsite review after the new EWONAP Administrator became aware of problems on his first day in his position.

IHA Responsibility: The Housing Authority was responsible for following program requirements and safeguarding assets, for properly procuring contracts, and for using funds in accordance with an approved plan and budget. They did none of these.

Bois Forte Housing Authority—Nett Lake, Minnesota.

The Seattle Times: (December 1, 1996) HUD declared the housing authority a “high risk” 18 months ago, because tenants owed more than \$100,000 in back rent on 94 housing units and a \$438,370 rehabilitation project sat idle for years. But instead of getting more attention from HUD, the executive director said she has rarely seen anyone from the agency since.

The Eastern Woodlands ONAP’s (EWONAP) monitoring, technical assistance, and corrective actions were not effective in solving severe management deficiencies and establishing continuing administrative capability at the Bois Forte Housing Authority (Housing Authority). Specifically, the EWONAP identified and documented reoccurring management deficiencies from 1990 through 1996, and, despite the lack of administrative capability, continued to provide development and Comprehensive Improvement Assistance Program (CIAP) funds totaling \$3,524,523 to the Housing Authority. As a result:

- EWONAP provided the Housing Authority \$847,000 to replace 8 vacant and destroyed units;
- needed repairs were delayed for three years or more due to a lack of site control; and
- HUD and the Housing Authority experienced adverse media attention questioning their ability to manage federal programs.

The evidence suggests that this occurred because the practice of prior EWONAP administrators and staff was to work with IHAs which included providing funding rather than taking stronger action. Also, the Executive Director turnover at the Housing Authority contributed to an unstable management and leadership environment.

EWONAP identified and documented reoccurring management deficiencies from 1990 through 1996, and continued to provide funding totaling \$3,524,523.

From 1990 through 1996, EWONAP and the Housing Authority’s Independent Public Accountant identified and documented reoccurring management deficiencies. These included excessive tenant accounts receivable, weak accounting systems, out of date policies and procedures, lack of reexaminations of tenants, no Board of Commissioners meetings, no leases or Homebuyer agreements for tenants, a 20 percent vacancy rate (about 18 of 94 units), and poorly maintained units. In February 1993 EWONAP issued a Corrective Action

Order to the Housing Authority to address these problems. The Housing Authority did not respond with a required management improvement plan until November 1995. According to the records, the delay was due to a change in Executive Directors. EWONAP provided technical assistance and performed site visits during this time, but the progress of the Housing Authority was not sufficient for EWONAP to lift the Corrective Action Order.

Despite this demonstrated lack of administrative capability, EWONAP continued to provide \$3,524,523 in CIAP, Development, and Drug Elimination funding from 1992 through 1996. In February 1996 EWONAP declared the Housing Authority high risk and ineligible for new development funding.

EWONAP's lack of enforcement action allowed problems.

Due to EWONAP's lack of enforcement action, EWONAP provided \$847,000 in January 1995 to replace eight units that the Housing Authority did not maintain or adequately protect from damage. These units were vacant and heavily damaged by vandalism.

Needed repairs were delayed for about three years or more due to a lack of site control. Since the Housing Authority did not execute ground leases for 10 units, needed CIAP repairs were delayed for about 3 years. Without support that the Housing Authority had adequate site control over project land, EWONAP would not sign the Annual Contributions Contract to fund a fiscal year 1993 CIAP grant until April 12, 1996.

The practice of the prior EWONAP administrators and staff was to work with IHAs which included providing funding rather than taking stronger action.

According to EWONAP management, they continued to provide funds to the Housing Authority because units needed repairs, and not funding the repairs would penalize the tenants. EWONAP's philosophy was to work with an IHA to address problems and never take an IHA over.

Also, the executive director turnover at the Housing Authority contributed to an unstable management and leadership environment.

EWONAP management also attributed ongoing problems to the turnover in executive directors at the Housing Authority which contributed to an unstable management and leadership environment. As issues were being addressed, executive directors left and the process started over again.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for taking action to address reoccurring and systemic deficiencies once identified,

and taking appropriate enforcement action. EWONAP is only now taking more aggressive action to help the Housing Authority become administratively capable to operate its housing programs.

IHA Responsibility: The Housing Authority was responsible for maintaining administrative capability and taking action to correct deficiencies once identified. Instead, the Housing Authority has been late in responding to EWONAP requests and has had frequent turnover of executive directors.

MOWA Choctaw Housing Authority—Mount Vernon, Alabama

The Seattle Times: (December 1 and 4, 1996) The housing authority for the new, state-chartered tribe, which requires just 1 percent Indian blood, had money woes and management problems since its inception, yet HUD gave it large development grants three years running. The authority covered cost overruns on the first project with money for the second, then covered that shortfall with the third grant. By the time HUD turned off the spigot, it had poured \$5.6 million into the poorly run authority.

The Eastern Woodlands ONAP (EWONAP) did not determine if the newly formed MOWA Choctaw Housing Authority (Housing Authority) had the administrative capability to develop and operate Indian housing in compliance with program requirements. Subsequent reviews by EWONAP, an Independent Public Accountant, and the Southeast/Caribbean OIG found the Housing Authority lacked the administrative capability to develop and operate Indian housing.

EWONAP's remote monitoring did not reveal indications that the Housing Authority lacked administrative capability and allowed the Housing Authority to continue to receive HUD development funds. As a result, needy low-income Indian families were denied housing because EWONAP rescinded parts of two new development grants, and the Housing Authority and HUD experienced adverse media attention, questioning their ability to oversee federal programs. EWONAP also incurred additional management costs in providing over two years of intensive technical assistance to correct deficiencies, including \$50,000 for on site consulting services which the consultant concluded was successful. This occurred because the prior EWONAP Administrator, in his attempts to reduce his staff's onsite reviews, improperly used his discretion over travel to limit travel to IHAs to himself. Following this same travel policy, EWONAP interpreted Headquarters guidance in 1994 to restrict monitoring reviews.

EWONAP did not determine if the newly formed Housing Authority had the administrative capability to develop and operate Indian housing in compliance with program requirements.

Federal regulations require HUD to review each IHA as necessary and appropriate (and at least annually) to determine if it possesses the administrative capability to administer its housing programs. In addition, HUD Handbook 7440.3 also required the first determination of administrative capability to be performed onsite. Contrary to the above requirements, EWONAP did not determine if the newly formed Housing Authority was administratively capable. Instead, the Office

practice was to assume administrative capability for new housing authorities, unless information indicated to the contrary. Based on this practice, the EWONAP assumed the Housing Authority had administrative capability when they awarded them their first development grant in August 1991, and two additional development grants in 1994. EWONAP did assess the Housing Authority's development administrative capability in 1994, but did the assessment through remote monitoring.

Subsequent reviews by EWONAP, an Independent Public Accountant, and the Southeast/Caribbean OIG found the Housing Authority lacked the administrative capability to develop and operate Indian housing.

The deficiencies at the Housing Authority were first identified by an Independent Public Accountant (IPA) during the Housing Authority's first annual audit in November 1993. EWONAP was not aware that the audit report existed because they lacked a system to identify when a report was due or received. In January 1995, due to a letter from the Board Chairman in December 1994 on possible criminal conflicts of interest, EWONAP decided to perform an onsite review at the Housing Authority. EWONAP also brought the issues to the attention of the Special Agent In Charge for the Midwest OIG. The subsequent January and March 1995 reviews identified severe problems in six functional areas. The Southeast/Caribbean OIG issued an audit-related memorandum on May 12, 1997, which identified problems in the Housing Authority's accounting for development costs and management of their Mutual Help program. The specific deficiencies included:

- the Housing Authority's use of funds from a subsequent development grant to cover cost overruns of a previous development program. The amount of cost overruns were not determinable because the Housing Authority lacked supporting documents for \$1,820,403, almost a third of the HUD development costs.
- payments of \$36,000 to identity of interest companies that could not be supported with invoices or work products.
- defaulted mortgages on already paid for project lands, resulting in claims by others for these lands.
- lack of adequate documentation to support homebuyer selection, required homebuyer contributions, and other required payments.

Since EWONAP did not perform onsite monitoring reviews from 1992 to 1994, EWONAP was not aware that the Housing Authority was using funds from one development grant to cover cost overruns of a previous development grant, and

lacked records to determine the amount of the cost overruns. Instead, EWONAP had relied on information provided by the Housing Authority to conclude that the Housing Authority was administratively capable during this period.

EWONAP's monitoring did not reveal indications that the Housing Authority lacked administrative capability and allowed the Housing Authority to continue to receive HUD development funds.

After the first 1991 development grant of \$2,687,853, EWONAP awarded two more grants in January and May 1994, totaling \$3,039,344. According to EWONAP staff, they did not receive the IPA's 1993 audit report and were not aware of the deficiencies identified in the report. Also, EWONAP did not perform an onsite review until a letter was received from the Housing Authority Chairman in December 1994. Because of the deficiencies identified during the onsite review in January 1995 EWONAP:

- suspended the Housing Authority's access to federal funds,
- placed the Housing Authority in Operation Recovery,
- declared the Housing Authority High Risk,
- stopped the Housing Authority's new development,
- rescinded parts of the two 1994 development grants (total rescinded \$1,733,907), and
- made the Housing Authority ineligible for funding in fiscal year 1996.

Due to the recision of \$1.7 million in development funds, fewer low-income housing units will be constructed. Also, the poor management of the Housing Authority was spotlighted in a *Seattle Times* article on mismanagement. These articles questioned HUD's and the Housing Authority's ability to oversee and administer federal programs and stated that HUD's practice is to send good money after bad.

EWONAP also incurred additional management costs in providing over two years of intensive technical assistance to correct deficiencies, including \$50,000 for onsite consulting services.

After declaring the Housing Authority High Risk, the EWONAP provided over two years of intensive technical assistance to correct the identified deficiencies. EWONAP also contracted with Price Waterhouse for \$50,000 to provide technical assistance to the Housing Authority. In April 1997, Price Waterhouse and the Housing Authority notified EWONAP that they no longer needed onsite technical assistance, and Price Waterhouse termed the results of its assistance as successful.

This occurred because the prior EWONAP Administrator used his discretion to limit travel to IHAs to himself. Also, EWONAP interpreted Headquarters guidance in 1994 to restrict monitoring reviews.

The EWONAP staff did not perform onsite visits because the prior EWONAP Administrator used his discretion to save travel funds by limiting onsite reviews. Then, the former Administrator used travel funds for his own travel to IHAs, but did not perform any reviews or administrative capability assessments while on site. Therefore, the required 1992 and 1993 reviews were not performed. Also, EWONAP did not perform an onsite review in 1994 to verify reported information, due to their interpretation of Headquarters instructions to perform no monitoring reviews in fiscal year 1994.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for determining if the Housing Authority was administratively capable before awarding funds and annually thereafter. EWONAP did not do sufficient annual assessments of administrative capability for over three years after the first development grant was awarded. However, when indications of criminal conflicts of interest became apparent, EWONAP performed an onsite review and involved the OIG almost immediately.

IHA Responsibility: The Housing Authority was responsible for maintaining administrative capability, for developing housing in accordance with an approved plan and budget, and to select and document their selection of eligible homebuyers. The Housing Authority did none of these.

Keweenaw Bay Ojibwa Housing Authority—Chocolay Township, Michigan

The Seattle Times: (December 1 and 5, 1996) A tribe won trust status for a new piece of property by telling federal regulators it was only for low-income HUD housing, then built a casino and bingo hall on subdivision land that was designated for a playground. Meanwhile, it has received \$464,324 for home repairs with little to show for the money.

Once Eastern Woodlands ONAP (EWONAP) staff identified severe problems, they took the necessary action to address the Keweenaw Bay Ojibwa Housing Authority's (Housing Authority) land use issues and administrative deficiencies. The sublease and subsequent use of the property for a casino and bingo hall is the subject of litigation started by the Bureau of Indian Affairs. The Housing Authority has been required by HUD to:

- establish a functioning Board of Commissioners,
- submit timely and accurate reports to HUD,
- computerize operations and obtain computer training,
- obtain training in developing projects,
- perform required tenant recertifications, and
- establish internal controls to identify errors in their processes.

EWONAP's monitoring identified a potentially ineligible sublease.

In October 1990, the Tribe leased a 22-acre site to the Housing Authority for construction of 40 units of low-income housing. The Housing Authority received a grant of \$3,982,249 from HUD for that purpose. The Housing Authority began construction in April 1992 and the 40 units of housing were completed and ready for occupancy in October 1993.

EWONAP's monitoring in August 1992 identified a potentially ineligible July 1992 sublease of Housing Authority property to the Keweenaw Bay Indian Community for a recreation hall and gaming activity. The Department of Justice, on behalf of the Bureau of Indian Affairs, filed suit against the Keweenaw Bay Indian Community to force the Tribe to obtain the required approval from the Secretary of Interior and concurrence by the governor before conducting gaming activities. For this subleased portion, there is an unresolved dispute between the Bureau of

Indian Affairs and the Tribe. At question is whether the property is being used in compliance with the Indian Gaming Regulatory Act. Until a legal determination is made, EWONAP is unable to conclude whether the sublease violates the Housing Authority's Annual Contributions Contract. However, the sublease has no impact on the Housing Authority's management of the housing project constructed on the property.

Once EWONAP staff identified problems, they took the necessary action to address the Housing Authority's administrative deficiencies.

EWONAP interpreted a November 22, 1993 memorandum from the Assistant Secretary for Public and Indian Housing to mean they were not to perform monitoring reviews of IHAs in fiscal year 1994, even though the Housing Authority's Annual Capability Assessment scores indicated a lack of administrative capability in three of the six functional areas.

- EWONAP did make monitoring trips in September 1995 and December 1995 and identified severe deficiencies related to the six functional areas. Based on the results of their onsite monitoring, EWONAP restricted the Housing Authority's access to funds and declared the Housing Authority high risk and ineligible for further funding in February 1996. The deficiencies that EWONAP identified included the following:
 - * The Board of Commissioners had been unable to obtain a quorum and had not had a Board meeting since March 1994.
 - * The Housing Authority had three modernization grants open totaling \$464,324. The 1992 grants were not closed out and the Housing Authority had not spent any of the 1994 and 1995 grant funds. (Since the 1995 monitoring trips, the Housing Authority had utilized about \$148,000 of its modernization funds to make repairs.)
 - * The tenant file for the Board of Commissioners Chairperson could not be located and the files showed the Chairperson as an inactive tenant.
 - * The Housing Authority lacked an Occupancy specialist and Modernization specialist.
 - * The Housing Authority lost a development project because it did not process the development within the required 30 months.
 - * The Housing Authority had not submitted required reports.
 - * Accounting records were not posted from March 1995 through

September 1995.

Therefore, EWONAP required the Housing Authority to establish a functioning Board of Commissioners, submit timely and accurate reports to HUD, perform required tenant recertifications, computerize operations and obtain computer training, obtain training in developing projects, and establish internal controls to identify errors in their processes.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for providing technical assistance necessary to increase the Housing Authority's administrative capability. They are responsible for ensuring that the Housing Authority's sublease of land to the Tribe for a recreation hall and gaming activity does not violate the Annual Contributions Contract. EWONAP did take the necessary actions to correct Housing Authority administrative deficiencies when identified, and is still waiting for a determination on the gaming activity issue.

IHA Responsibility: The Housing Authority was responsible for maintaining administrative capability and for using project land for purposes allowed by the Annual Contributions Contract. The Housing Authority has had a history of internal control problems and a lack of administrative capability. Whether their sublease to the Tribe is an eligible use of the land is dependent on the outcome of litigation.

St. Croix Chippewa Housing Authority—Hertel, Wisconsin

The Seattle Times: (December 1, 1996) The housing authority received \$5.6 million over five years, despite lacking basic financial controls. Using HUD's automated telephone-withdrawal system, the authority took nearly half a million dollars more than it needed and kept the money in a non-interest-bearing account insured for just \$100,000. Development money was misspent on a variety of things, from restaurant meals to apartment buildings. The tribe also is lax in collecting monthly payments from tenants and homebuyers.

The Eastern Woodlands ONAP's (EWONAP) oversight and monitoring of the St. Croix Chippewa Housing Authority (Housing Authority) had identified deficiencies in the Housing Authority's programs. As a result, EWONAP

- issued a corrective action order in 1993,
- asked the Midwest OIG to perform an audit based on possible fraudulent activities discovered in September 1994,
- declared the Housing Authority High Risk and put the Housing Authority in Operation Recovery in 1996, and
- denied the Housing Authority future funding in 1996 until corrective action was taken.

The requested OIG audit report, issued on November 1, 1995, showed the Housing Authority lacked basic internal controls, misspent development funds, and had problems with properly accounting for funds. The report contained 27 recommendations for corrective action and the last recommendation was closed on November 22, 1996. However, in a March 10, 1997 memorandum OIG informed EWONAP that two recommendations that were previously closed (February 1996) had not been fully implemented and were reopened.

EWONAP's oversight and monitoring of the Housing Authority identified serious deficiencies in the Housing Authority's programs.

EWONAP's assessment of the Housing Authority's administrative capability indicated serious problems when the Housing Authority's Administrative Capability Assessment score dropped nearly 30 percent, from 82.6 percent in fiscal year 1992 to 53.7 percent in fiscal year 1993. EWONAP staff then performed a full financial review and limited administrative review during March 1993 which found

that the Housing Authority's Low Rent program was not financially solvent, that Tenant Accounts Receivable were excessive, and that voided checks were destroyed contrary to HUD requirements.

Although regulations allow for a notice of deficiency as a first step, EWONAP staff decided that the seriousness of the problems deserved a Corrective Action Order, which they issued in May 1993. This Corrective Action Order was designed to correct the deficiencies found in March 1993. In November 1994, based on allegations of fraud concerning the Executive Director, EWONAP asked the Midwest OIG to perform a complete audit. During the course of this audit which started in March 1995, EWONAP declared the Housing Authority High Risk (on April 14, 1995) and included it in Operation Recovery (in August 1995). Operation Recovery was designed to provide technical assistance to IHAs, and provided funding for outside consultants. As a High Risk IHA, the Housing Authority was required to accompany all draw down requests with supporting documentation. In addition, EWONAP notified the Housing Authority that it was ineligible for development and CIAP funding in fiscal year 1996 based on its poor performance.

The requested OIG audit, issued on November 1, 1995, showed the Housing Authority lacked basic internal controls, misspent development funds, and had problems with properly accounting for funds.

The Midwest OIG issued an audit report on November 1, 1995, which identified:

- inadequate internal control procedures, (e.g. segregation of functions, safeguarding checks, and maintaining accounting records),
- a loan from the St. Croix Tribe to meet Mutual Help Program administrative costs without HUD approval,
- funds spent on construction where the Housing Authority was not party to the contract, and parcels of land purchased without HUD approval,
- funds improperly transferred without documentation, and commingling of HUD Youth Sports Program funds with other funds,
- draws of HUD funds in excess of needs, and
- deposits of excess draws in an account with a balance exceeding the Federal Deposit Insurance Corporation's insurance limits.

The Midwest OIG listed 27 recommendations to address the six findings. With a new Executive Director, the Housing Authority took corrective action and HUD considered all 27 recommendations closed in November 1996.

In March 1997, OIG informed EWONAP that two previously closed recommendations had not been implemented. These recommendations have been reopened.

Based on the articles printed in *The Seattle Times*, the Midwest OIG followed up on the audit report and the actions taken by the EWONAP and the Housing Authority. The survey report demonstrated that 2 of the 27 recommendations were not implemented. Specifically, the Housing Authority did not establish and implement written collection and eviction policies and procedures, and did not develop procedures requiring the execution of formal repayment agreements with all delinquent tenants. The Midwest OIG reopened these recommendations through a Corrective Action Verification Memorandum on March 10, 1997.

EWONAP Responsibility: At this Housing Authority, EWONAP was responsible for following up on problems identified and to achieve corrective action. EWONAP did this, through a Corrective Action Order in May 1993 and later asked the Midwest OIG to perform an audit. Through the audit and with a new Executive Director, corrective actions were taken on all but two recommendations.

IHA Responsibility: The Housing Authority was responsible for continuing administrative capability and taking corrective actions to improve such capability when required to by EWONAP. The Housing Authority took sufficient corrective action on all but two recommendations.

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