




WHITE EARTH RESERVATION

CHAIRMAN Michael Fairbanks **SECRETARY-TREASURER** Leonard Alan Roy
DISTRICT I Raymond Auginaush, Sr. **DISTRICT II** Kathy Goodwin **DISTRICT III** Eugene "Umsy" Tibbetts

December 20, 2019

MEMORANDUM

TO: White Earth Reservation Business Committee

FROM: Alan Roy, Secretary/Treasurer 

SUBJECT: Secretary/Treasurer Report

White Earth Reservation Business Committee (RBC),

A report on the Band's finances is discussed in Section I. Fiscal violations and recommendations can be found in Section II.

In accordance with Ordinance Number 1-65 (Revised), audits are mandated by Band law and the Secretary/Treasurer shall procure an independent audit of the accounting records of the Band at least once a year unless explicitly waived by the RBC.

The responsibility and authority to conduct audits remains delegated to the Secretary/Treasurer under Ordinance Number 1-65 (Revised). General Counsel, Internal Affairs, and associated audits are budgetarily supported by Other Professional Services in the Legal Department.

If there are any questions or feedback, I can be reached at alan.roy@whiteearth-nsn.gov or 218-983-3285. The Administration is directed to publish a copy of this Memorandum to the website, the Anishinaabeg Today, and at the Administration front desk.

cc: Executive Director
Chief Financial Officer
Tribal Attorney
Minnesota Chippewa Tribe

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Section I – Financial Report

Overview

The RBC's finances are reported annually through a Statement of Net Position and Statement of Activities. The most recent available statements are found in the RBC's Audit Report. These statements provide information about the activities of the Band as a whole and present a longer-term view of the Band's finances.

The Statement of Net Position presents information on all of the Band's assets and liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Band is improving or deteriorating. The Statement of Activities presents information showing how the Tribe's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned vacation leave).

In the Statement of Net Position and the Statement of Activities there are two kinds of activities:

- **Governmental Activities** – Most of the Band's governmental activities are reported here, which include general government, health services, education, human services, public safety, conservation of natural resources, transportation, economic development, culture and recreation, and community services. Shared taxes, charges for services, interest on investments, governmental contracts and grants, and transfers from the business-type activities finance most of the governmental activities.
- **Business-Type Activities** – The Band's gaming and retail sales are reported here. Fees charged to customers is what primarily finance these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Tribe as a whole. The RBC establishes funds by resolution to help it control and manage money for a particular purpose, or in order to demonstrate that it is meeting legal responsibilities for using certain grants and other money. The two fund types – governmental and proprietary – use different accounting approaches.

- **Governmental Funds** – Most of the Band's basic services are reported in governmental funds. Governmental fund presentation focuses on how money flows into and out of those funds and the balances that are left at year-end and are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the Tribe's programs. We describe and reconcile the relationship (or differences) between governmental and business-type activities and balances reported in the Statement of Net Position and the Statement of Activities and governmental funds and proprietary funds financial statements.
- **Proprietary Funds** – When the Band charges customers for the services it provides – whether to outside customers, members of the Band or to other units of the Band – these services are

generally reported in proprietary funds, which are reported the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the enterprise funds (a component of proprietary funds) present the same information as the business-type activities reported in the Tribe-wide statements but provide more detail and additional information, such as cash flows. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies or services for the Band's other programs and activities – the cost of the Band's general, medical, and workers compensation insurance – which are then allocated to the various tribal units and funds.

The governmental fund financial statements report the Band's operations in more detail, showing how these services were financed in the short term as well as what remains for future spending. Governmental fund financial statements also report the Band's operations in more detail than the Band-wide statement by providing information about the Band's significant funds.

General Fund

The General Fund includes departments that operate more for the good of the Band members than to make a profit. Departments such as education and public safety are directly involved with the Band members. Other departments are indirectly involved with the Band members but perform functions for the Band's overall good.

As reported through audits, Special Revenue Funds were administered through: General Government, Health Services, Education, Human Services, Public Safety, Conservation of natural resources, Transportation, Economic development, Culture and recreation, Interest, and Public works.

Reporting the revenues and expenditures for the Band's most recent finances will be generated quarterly as substantial changes occur between reporting periods. For example, revenue and expenses arrive infrequently on a monthly reporting basis. This standard applies to all funds and activities. Moving forward, the Band will report the Band's finances with significant changes highlighted at Regular Meetings. To better reflect the actual finances of the Band, Quarterly Financials will be provided for the Quarter ending in December, March, June, and September of each year. The unaudited preliminary numbers are subject to change as the numbers are finalized.

As there is a financial inquiry related to General Funds, the following section has been added to help answer associated questions.

Financial Inquiry: General Funds

Question 1 (Kristi Rachor): Where is the money for the gas/cigarette taxes?

At the November 2019 Regular Meeting the Finance Department reported that these funds are dispersed directly to the Band. Upon receipt the funds are deposited into the General Fund where they are utilized to support General Fund programs such as elders, homelessness, law enforcement, cultural programming, etc. The Minnesota Department of Revenue issues letters to the Band related to Tribal Population Data directly related to these funds. In the attached file, the Department of Revenue stated:

Tribal Population Data:

As you know, some of the payments under our tax agreement are based on the number of enrolled Tribal members living on or adjacent to the reservation. For example, refund amounts for sales tax, fuel excise tax,

use tax, liquor tax, and cigarette and tobacco excise taxes are calculated based on per capita information. To ensure the appropriate amount of payments, we want to ensure we have the correct per capita number for your Band. Under the agreement, the per capita number is the number of members living on or adjacent to your reservation.

The number we have on file for your Band is 10,039. This was last updated on November 14, 2011. We would like to update this number annually in October based on information received from each Tribal Nation...

On November 18, 2019, the Finance Department reported that the Band received \$5.2 million in tax revenue for fiscal year 2019 as of quarter ending September 2019, which is subject to change as the Band was still receiving funds. The Finance Department budgeted \$5.5 million in tax revenue for fiscal year 2020. The unaudited preliminary numbers are subject to change as the numbers are finalized.



December 4, 2019

Chairman Michael Fairbanks
White Earth Reservation Tribal Council
35500 Eagle View Rd.
Ogema, Minnesota 56569

Secretary/Treasurer Leonard Alan Roy
White Earth Reservation Tribal Council
35500 Eagle View Rd.
Ogema, Minnesota 56569

Dear Chairman Fairbanks and Treasurer Roy:

The relationship between our co-equal governments is of utmost importance to the Department of Revenue and to me. One of the ways I hope to continue to build this relationship is through information sharing to promote transparency and open communication to ensure that your government and your members have information about state tax laws, some of which are covered by our tax agreement.

I am writing today about new taxes and fees enacted during the 2019 regular and special sessions of the Minnesota Legislature. By providing this information, I hope to continue an open forum for communication with you.

Update from Legislative Session

There were significant changes made to Minnesota individual and business tax laws. The new laws are of general applicability and may apply to Tribal members and corporations differently, depending on their circumstance. The changes were largely in response to the modifications made by Congress to the Internal Revenue Code in December 2017. More information is available on our website under 2019 Minnesota Tax Law Changes.

Individual Taxes

- **Working Family Credit Expansion:**
The 2019 law expanded the Minnesota Working Family Credit. It is a refundable credit for working individuals based on increased income levels. The expansion now includes a larger credit for families with three or more qualifying children. Because of a 2017 law change, tribal members who live and work on their reservations can receive the credit for their on-reservation earned income.
- We take our role in ensuring all Minnesotans have the information they need to file their taxes and receive any refund seriously. To that end, we are developing communication and outreach materials unique to tribal governments and their members. We plan to share

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drafts of those documents with you before the end of the year for your feedback. We would then distribute for use in January as the individual income tax filing season opens.

Business Taxes

- **Accelerated Depreciation:**
Minnesota adopted the Internal Revenue Code provisions allowing accelerated depreciation of reservation business property for property placed in service in 2017. There were additional business tax changes that largely mirrored the changes at the federal level.

Items Covered by the Tax Agreement

- **Tobacco Tax Laws:**
The legislative sessions brought one minor change to tobacco tax laws. Under the new law, vapor products made from sources other than tobacco plants are now subject to tax. Legislators designed the law primarily to include a laboratory-made nicotine solution that has recently entered the Minnesota market. These non-tobacco-based nicotine products are chemically indistinguishable from vapor products containing nicotine derived from tobacco. We believe these products are subject to all of the tax collection provisions of our agreement, and we will share any tax revenues generated from the sale of these non-tobacco-based products collected on your reservation. We do not believe it is necessary to adjust the tobacco per capita refund amount to account for this law change because the state projects that new revenue from this law change will be minimal.
- **Local Sales Taxes:**
The legislature did not enact new sales or excise taxes or fees administered by the Department of Revenue this year. The state did authorize new or increased local sales taxes for the cities of Avon, Blue Earth, Cambridge, Detroit Lakes, Duluth, Elk River, Excelsior, Glenwood, International Falls, Perham, Rogers, Sauk Centre, Scanlon, Two Harbors, Virginia, West St. Paul, Willmar, and Worthington. Please contact me if any of these local taxes will affect your Band so we can discuss how to administer the law appropriately.
- **Liquor or Gasoline Taxes:**
There were no significant law changes related to liquor or gasoline taxes.

Other Important Legislation

- **Opioids:**
Another new law enacted during the legislative sessions increased license fees on wholesalers and manufacturers of opiate products. These higher fees are projected to raise an additional \$20 million per year. These additional funds have been allocated to assist in addressing the opioid abuse crisis. The Department of Revenue is not involved in the administration or collection of these fees; instead, the Minnesota Pharmacy Board will collect them. The new law also creates a 19-member Opiate Epidemic Response Advisory Council that will help determine how portions of the revenues are used. The Commissioner of Human Services is required to appoint one person representing the Ojibwe Tribes and

another person representing the Dakota Tribes to the Council. We wanted you to have this information about this important issue.

Tax Agreement Update

- **Tribal Population Data:**

As you know, some of the payments under our tax agreement are based on the number of enrolled Tribal members living on or adjacent to the reservation. For example, refund amounts for sales tax, fuel excise tax, use tax, liquor tax, and cigarette and tobacco excise taxes are calculated based on per capita information. To ensure the appropriate amount of payments, we want to ensure we have the correct per capita number for your Band. Under the agreement, the per capita number is the number of members living on or adjacent to your reservation.

The number we have on file for your Band is 10,039. This was last updated on November 14, 2011. We would like to update this number annually in October based on information received from each Tribal Nation. If you have new information about the appropriate per capita number, please send by regular mail or email to our Department Staff Attorney Mark Pederson (contact information listed below). I encourage you to update your Band's population data as often as you believe necessary. We will then be able to ensure quarterly refund payments reflect on-going population changes.

If you have any questions, please feel free to contact me directly at (651) 556-6003, our Tribal Liaison Robert Doty at (651) 556-6213 or by email at robert.doty@state.mn.us, or our Department Staff Attorney Mark Pederson at (651) 556-4078 or by email at mark.pederson@state.mn.us.

I look forward to our continued partnership.

Sincerely,



Cynthia Bauerly
Commissioner

CC: Randy Goodwin, Scott Omlid

Question 2 (Pamela Fairbanks): Who signed checks from March through May when the Chairman passed away?

In March 2019 the White Earth Chairman Terrence Tibbetts passed away and Vice-Chairman Eugene Tibbetts assumed the duties of the Chairman upon his passing. During this period, the Vice-Chairman lost several members of his immediate family, and there were other notable losses in the community that affected the frequency of RBC meetings. With the Chairman vacancy, and out of profound respect for the former Chairman, Finance Staff worked on removing the former Chairman's signature from check stock, providing notification to financial institutions of the changes, and preparing the Vice-Chairman's signature for bank signature authorization, and preparing appropriate legal documentation for RBC authorization in May 2019. Generally, this work was completed in less than 60 days.

Another period of Chairman turnover occurred in fiscal year 2019 that affected the countersignature of warrants. The election of the current Chairman Michael Fairbanks was effective in August 2019, but official bank signature authorization didn't occur until a few weeks later due to an ongoing criminal investigation related to Check #748137. Current check stock is being continually updated with the Chairman's countersignature. Furthermore, the establishment of countersignature of warrants occurs every election cycle or during a vacancy related to the Chairman or Secretary/Treasurer until official bank signatory authority is authorized and RBC action occurs—this takes time. To prevent misuse, the RBC makes financial decisions in legal session and by Resolution. Moreover, all transactions are still subject to going through the approval process required by the RBC purchasing department and other payroll activities. The Secretary/Treasurer's signature is affixed to financial documents electronically through the period in question and at other times as hand-written signatures are rarely executed. This process was established many years prior to facilitate the timeliness of financial transactions. The Band processes hundreds of financial transactions each day and a physical signature for each transaction is not feasible. Accountability is facilitated through established policies and procedures.

Special Revenue Funds

The Special Revenue funds are used to account for the activities of various federal, state and other grant programs. This has been reported as *Other Governmental Funds* synonymously. The expenditure of grant funds is legally restricted to specified purposes. Program expenditures are budgeted on a basis of each respective program's fiscal year, which varies by program, and generally may or may not coincide with the Band's fiscal year.

As reported through audits, Special Revenue Funds were administered through: General Government, Health Services, Education, Human Services, Public Safety, Conservation of natural resources, Transportation, Economic development, Culture and recreation, Interest, and Public works.

As there is a financial inquiry related to Behavioral Health Funds, the following section has been added to help answer associated questions

Financial Inquiry: Behavioral Health Funds

Question 1 (Kristi Rachor): I was just wondering about the \$40 million dollars in the Behavioral Health program. Does that include the \$17 million that was put into a separate account?

The *Behavioral Health Fiduciary Responsibility Reserve Fund* summary has been included in this report as it was reported in November 2019. The \$17 million was reserved from the \$41.2 million Behavioral Health Other Governmental Funds and shall remain in the *Behavioral Health Fiduciary Responsibility*

Reserve Fund until further notice.

Behavioral Health Fiduciary Responsibility Reserve Fund

The Minnesota Office of the Legislative Auditor (OLA) produced a report related to overpayments provided to White Earth Nation and Leech Lake Nation. Generally, the OLA report was focused on DHS issues and did not address the Band's role in the alleged overpayments except that the Bands administered programs at DHS' direction. The OLA has also stated that they lack the jurisdiction to compel the Bands to cooperate in their audit, which has led them to contact Federal Officials. The Minnesota Governor and other State Officials have openly stated that the Bands should be held harmless for the alleged overpayments. However, the DHS Commissioner has stated that they are statutorily required to recuperate the alleged overpayment provided to the Bands.

The RBC has consistently stated that the Band will protect its resources and that the Band is not liable for the alleged overpayments. However, because the State of Minnesota is statutorily required to recuperate the alleged overpayment from the Band and the OLA has requested federal assistance, which causes great financial uncertainty for the Band, the RBC established a *Behavioral Health Fiduciary Responsibility Reserve Fund* in the amount of \$17 million from the \$41.2 million Behavioral Health Other Governmental Funds. The \$17 million fund covers the \$15 million alleged overpayment and an estimated \$2 million Mental Health program takeback. Furthermore, the Behavioral Health Fiduciary Responsibility Reserve Fund was established to prevent the appearance of fraud if the Band expended an exorbitant amount of funds from the Behavioral Health Other Governmental Funds that would leave the Band unable to fulfill a judgement or an order related to the alleged DHS overpayment.

Question 2 (Kristi Racher): Is it possible to see the bank account statements to actually see the account transactions?

There is no bank account as there is an internal fund designated for the *Behavioral Health Fiduciary Responsibility Reserve Fund*.

Financial Inquiry: Personnel status

Questions related to status of employment. *Referred to Human Resources and Tribal Attorney.*

Section II – Fiscal Violations and Recommendations

Audits

In accordance with Ordinance Number 1-65 (Revised), audits are mandated by Band law and the Secretary/Treasurer shall procure an independent audit of the accounting records of the Band at least once a year unless explicitly waived by the RBC.

The responsibility and authority to conduct audits remains delegated to the Secretary/Treasurer under Ordinance Number 1-65 (Revised). General Counsel, Internal Affairs, and associated audits are budgetarily supported by Other Professional Services in the Legal Department.

2019 Audits

A final report is scheduled for delivery to the RBC before January 1, 2020.

Fiscal Violation and Inquiry: HUD Application NAHBG19000077

Question 1 (Pamela Fairbanks): May I have a copy of the audits [related to HUD denying White Earth Housing Authority \$5 million]?

White Earth Housing Authority (WEHA) has informed the RBC that the U.S. Department of Housing and Urban Development (HUD) reports are publicly available online on the HUD website. A request for the “bad audit” reports have been requested from the WEHA and included in this report. An investigation is being requested of the WEHA for years 2014 through 2019 due to delinquent audits as they relate to HUD Application NAHBG19000077 and other ongoing issues. Upon further examination, it has been found that the requestor for information, Ms. Pamela Fairbanks, was a Director for WEHA during the period in question for “bad audits.” There is specific concern surrounding a Procurement Officer and a mold remediation grant.

WEHA Audits



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of White Earth Reservation Housing Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 20, 2016. We did not audit the financial statements of White Earth Limited Partnership, White Earth Limited Partnership #2, White Earth Limited Partnership #3, White Earth Limited Partnership #4, and White Earth Limited Partnership #5, which collectively represents 100% of the assets, 100% of the net position, and 100% of the revenues of the aggregate discretely presented component units as of and for the year ended December 31, 2014. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of White Earth Limited Partnership, White Earth Limited Partnership #2, White Earth Limited Partnership #3, and White Earth Limited Partnership #4 were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-A and 2015-B described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bismarck, North Dakota
June 20, 2016



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

Report on Compliance for Each Major Federal Program

We have audited White Earth Reservation Housing Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal program for the year ended September 30, 2015. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination on the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of its major Federal program for the year ended September 30, 2015.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with *OMB Circular A-133* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001. Our opinion on each federal program is not modified with respect to these matters.

White Earth Reservation Housing Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and White Earth Reservation Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
June 20, 2016

FINANCIAL STATEMENTS

| | |
|------------------------------------------------------------------------------|---------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | None Reported |
| Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

| | |
|---------------------------------------------------------------------------------------------------------------|------------|
| Internal control over major program: | |
| Material weaknesses identified | No |
| Significant deficiencies identified not considered to be material weaknesses | Yes |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a): | Yes |

Identification of major programs:

| <u>Name of Federal Program</u> | <u>CFDA Number</u> |
|--------------------------------------------------------------------------|--------------------|
| Indian Housing Block Grant | 14.867 |
| Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

**2015-A Preparation of Financial Statements
Material Weakness**

Criteria: A complete system of internal control contemplates an adequate system for reporting and processing the financial statements.

Condition: The Authority has elected not to have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.

Cause: Due to cost and other considerations, the Authority does not have an internal control system designed to provide for the preparation of the financial statements being audited and did not identify material misstatements in the financial statements.

Effect: The control deficiency could increase the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the entity's internal controls.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of the cost of other considerations.

*Views of Responsible
Officials:* Due to turnover of personnel during the year we did not have the capacity or time to prepare the financials. We agree with the finding and we will be contracting a CPA to prepare quarterly financial statements.

**2015-B Material Adjusting Journal Entries
Material Weakness**

Criteria: A complete system of internal control contemplates an adequate system for recording and processing adjusting journal entries significant to the financial statements.

Condition: As part of our audit we proposed material audit adjustments to the financial statements that were not detected by management.

Cause: Due to oversight by management and turnover of personnel during the year, not all adjustments or transactions were recorded to the financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: We recommend that all necessary adjustments and transactions are recorded by management prior to our audit.

*Views of Responsible
Officials:* We agree with the finding and will ensure all significant adjustments and transactions are recorded in the system prior to the audit. Our current staff has received training on adjusting entries and will make sure such entries are recorded prior to next audit.

Section III – Federal Award Findings and Questioned Costs

2015-001 U.S. Department of Housing and Urban Development - CFDA # 14.867
Indian Housing Block Grants

Eligibility

Significant Deficiency in Internal Control over Compliance and Compliance

Criteria: The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Condition: During our testing, we noted several instances of the Authority not following their written policies.

Questioned Costs: N/A

Context: We noted the following during our testing: 1) two of the sixty files tested were for temporary tenants who were temporarily placed in low-income housing while their housing was being rehabbed. The two files did not have a separate file completed as required by the written policies; 2) five of the sixty files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) one of the sixty files reviewed was missing the most recent certification papers and no certification was in process even though the tenant was well over the annual certification date.

Effect: The Authority is not following their written policies and that could cause errors during review of eligibility.

Cause: Lack of controls and oversight during the year as well as staff turnover during the fiscal year.

Recommendation: The Authority should implement internal controls to ensure all written policies are being implemented and followed.

Management's Response and Corrective Action Plan:

Actions Planned in Response to Finding: Management agrees with this finding and is fully committed to its immediate resolution.

Explanation of Disagreement: None

Official Responsible for Ensuring Corrective Action Plan: Pam Fairbanks, Executive Director

Planned Completion for Correction Action: Training will be provided on admissions, eligibility and occupancy for all resident services staff to include current policies. We also will be hiring a compliance officer.

Plan to Monitor Completion of Corrective Action: Pam Fairbanks will continue to monitor the tenant files and once the compliance officer is hired, they will continue to monitor the tenant files.

White Earth Reservation Housing Authority
Schedule of Prior Year Findings and Questioned Costs
September 30, 2015

No prior year federal findings.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the White Earth Reservation Housing Authority, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the White Earth Reservation Housing Authority's basic financial statements, and have issued our report thereon dated June 2, 2017. Our report includes a reference to other auditors who audit the financial statements of the aggregate discretely presented component units, as described in our report on the White Earth Reservation Housing Authority's financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standard*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the White Earth Reservation Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the White Earth Reservation Housing Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 2, 2017



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the White Earth Reservation Housing Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on White Earth Reservation Housing Authority's major federal program for the year ended September 30, 2016. The White Earth Reservation Housing Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for White Earth Reservation Housing Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the White Earth Reservation Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the White Earth Reservation Housing Authority's compliance.

Basis for Qualified Opinion on Indian Housing Block Grant (14.867)

As described in the accompanying schedule of findings and questioned costs, White Earth Reservation Housing Authority did not comply with requirements regarding CFDA 14.867 Indian Housing Block Grant as described in finding 2016-003 for Eligibility. Compliance with such requirements is necessary, in our opinion, for White Earth Reservation Housing Authority to comply with the requirements applicable to that program.

Qualified Opinion on Indian Housing Block Grant (14.867)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the White Earth Reservation Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Authority's Response to Finding

White Earth Reservation Housing Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. White Earth Reservation Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the White Earth Reservation Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the White Earth Reservation Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003 that we consider to be a material weakness.

White Earth Reservation Housing Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. White Earth Reservation Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

June 2, 2017

**WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? yes x no

Noncompliance material to financial
 statements noted? x yes no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? yes x no

Type of auditor's report issued on compliance
 for major programs: Qualified

Any audit findings disclosed that are
 required to be reported in accordance with
 2 CFR 200.516(a)? x yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program of Cluster

Indian Housing Block Grants Cluster:

14.867 Indian Housing Block Grant

Dollar threshold used to distinguish
 between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Section II - Financial Statement Findings

2016-001 Finding – Preparation of Financial Statements and Material Adjusting Journal Entries – Material Weakness

Criteria

The Authority does not have internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The Authority's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Authority does not have internal resources to prepare full-disclosure financial statements, including adjusting journal entries, required by GAAP for external reporting. The Authority is aware of this deficiency and obtains our assistance in the preparation of the Authority's annual financial statements.

Cause

The Authority does not have the internal expertise needed to handle all aspects of external financial reporting.

Effect

The Authority's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Recommendation

For entities of the Authority's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities given the size of the Authority.

2016-002 Finding – Payroll Reporting – Material Weakness

Criteria

The Authority is required to follow all IRS regulations when payroll reporting.

Condition

The Authority inadvertently made bi-weekly EFTPS deposits based upon a report that was missing 2 employees.

Cause

The Authority did not reconcile the EFTPS deposits to the payroll system.

Effect

The Authority is subject to underpayment and late payment penalties.

Recommendation

We recommend amended 941 reports be filed and communication with IRS to correct the error. Controls should be implemented to reconcile the EFTPS deposits to the payroll system.

Views of Responsible Officials and Planned Corrective Actions

Management recognizes the deficiency and has taken steps to rectify the situation and prevent similar errors in the future. Each item has been corrected and filed with the agency.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Section III - Federal Award Findings and Questioned Costs

2016-003 U.S. Department of Housing and Urban Development – CFDA #14.867 Indian Housing Block Grants - Eligibility

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Condition

During our testing, we noted several instances of the Authority not following their written policies.

Questioned Costs

N/A

Context

We noted the following during our testing: 1) six of the forty files tested were missing documentation of tribal enrollment; 2) ten of the forty files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) four of the forty files did not have a current recertification; 4) five of the forty files were missing the annual signed application; 5) four of the forty files did not have documentation of an inspection performed during the fiscal year; 6) nine of the forty files did not have all income verified annually.

Effect

Non-compliance with eligibility requirements and NAHASDA regulations.

Cause

Lack of controls and oversight during the year as well as staff turnover during the fiscal year.

Repeat Finding

This finding is a repeat of finding 2015-003.

Recommendation

We recommend that the Authority should implement internal controls to ensure all written policies are being implemented and followed. An example of a control would be a checklist that is included in the front of every file and includes all required forms of documentation. This checklist should be signed off on for each specific item as the requirements are met.

Views of Responsible Officials and Planned Corrective Actions

A checklist has been compiled that will include required documentation, these are then periodically reviewed by staff for completeness.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2016

2015-001 Finding – Preparation of Financial Statements - Material Weakness

Criteria

A complete system of internal control contemplates an adequate system for reporting and processing the financial statements

Condition

The Authority has elected not to have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes.

Current Year Status

See current year finding 2016-001

2015-002 Finding – Material Adjusting Journal Entries - Material Weakness

Criteria

A complete system of internal control contemplates an adequate system for recording and processing adjusting journal entries significant to the financial statements.

Condition

As part of our audit we proposed material audit adjustments to the financial statements that were not detected by management.

Current Year Status

See current year finding 2016-001

2015-003 Finding – U.S. Department of Housing and Urban Development - CFDA # 14.867 Indian Housing Block Grants – Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Context

We noted the following during our testing: 1) two of the sixty files tested were for temporary tenants who were temporarily placed in low-income housing while their housing was being rehabbed. The two files did not have a separate file completed as required by the written policies; 2) five of the sixty files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) one of the sixty files reviewed was missing the most recent certification papers and no certification was in process even though the tenant was well over the annual certification date.

Current Year Status

See current year finding 2016-003

WHITE EARTH RESERVATION HOUSING AUTHORITY
CORRECTIVE ACTION PLAN
SEPTEMBER 30, 2016

2016-001

Contact Person

Steven Howard, Executive Director

Corrective Action Plan

No action is planned on the finding. The Authority feels that the additional costs to the Authority would not be significantly beneficial. The Authority does mitigate this situation through the review of the draft financial statements, accompanying notes to the financial statements and the schedule of expenditures of federal awards by management.

Planned Completion Date for CAP

None. See above

2016-002

Contact Person

Steven Howard, Executive Director

Corrective Action Plan

Steps have occurred to rectify the situation with the IRS and controls will be implemented to prevent future errors of this nature.

Planned Completion Date for CAP

Immediately

2016-003

Contact Person

Steven Howard, Executive Director

Corrective Action Plan

Has been implemented with checklist in each file.

Planned Completion Date for CAP

Immediately



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the White Earth Reservation Housing Authority, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the White Earth Reservation Housing Authority's basic financial statements, and have issued our report thereon dated May 14, 2018. Our report includes a reference to other auditors who audit the financial statements of the aggregate discretely presented component units, as described in our report on the White Earth Reservation Housing Authority's financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standard*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the White Earth Reservation Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the White Earth Reservation Housing Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

May 14, 2018



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

The Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the White Earth Reservation Housing Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on White Earth Reservation Housing Authority's major federal program for the year ended September 30, 2017. The White Earth Reservation Housing Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for White Earth Reservation Housing Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the White Earth Reservation Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the White Earth Reservation Housing Authority's compliance.

Basis for Qualified Opinion on Indian Housing Block Grant (14.867)

As described in the accompanying schedule of findings and questioned costs, White Earth Reservation Housing Authority did not comply with requirements regarding CFDA 14.867 Indian Housing Block Grant as described in finding 2017-002 for Eligibility, and 2017-003 for Cash Management. Compliance with such requirements is necessary, in our opinion, for White Earth Reservation Housing Authority to comply with the requirements applicable to that program.

Qualified Opinion on Indian Housing Block Grant (14.867)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the White Earth Reservation Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Other Matters

White Earth Reservation Housing Authority's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. White Earth Reservation Housing Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the White Earth Reservation Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the White Earth Reservation Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 that we consider to be material weaknesses.

White Earth Reservation Housing Authority's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. White Earth Reservation Housing Authority's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

May 14, 2018

**WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? x yes no
Significant deficiency(ies) identified that are
not considered to be material weaknesses? yes x no
Noncompliance material to financial
statements noted? yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? x yes no
Significant deficiency(ies) identified that are
not considered to be material weaknesses? yes x no
Type of auditor's report issued on compliance
for major programs: Qualified
Any audit findings disclosed that are
required to be reported in accordance with
2 CFR 200.516(a)? x yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program of Cluster

Indian Housing Block Grants Cluster:

14.867 Indian Housing Block Grant

Dollar threshold used to distinguish
between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Section II - Financial Statement Findings

2017-001 Finding – Preparation of Financial Statements and Material Adjusting Journal Entries – Material Weakness

Criteria

The Authority does not have internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The Authority's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Authority does not have internal resources to prepare full-disclosure financial statements, including adjusting journal entries, required by GAAP for external reporting. The Authority is aware of this deficiency and obtains our assistance in the preparation of the Authority's annual financial statements.

Cause

The Authority does not have the internal expertise needed to handle all aspects of external financial reporting.

Effect

The Authority's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Repeat Finding

This finding is a repeat of finding 2016-001.

Recommendation

For entities of the Authority's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials

Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities given the size of the Authority.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Section III - Federal Award Findings and Questioned Costs

2017-002 U.S. Department of Housing and Urban Development – CFDA #14.867 Indian Housing Block Grants - Eligibility

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Condition

During our testing, we noted several instances of the Authority not following their written policies.

Questioned Costs

N/A

Context

We noted the following during our testing selection of forty files: 1) six of the thirty-eight files tested were missing documentation of tribal enrollment; 2) five of the thirty-eight files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) one of the thirty-eight files did not have a current recertification or income verified annually; 4) nine of the thirty-eight files did not have documentation of an inspection performed during the fiscal year; 5) two of the forty files were missing and not able to be tested.

Effect

Non-compliance with eligibility requirements and NAHASDA regulations.

Cause

Lack of controls and oversight during the year.

Repeat Finding

This finding is a repeat of finding 2016-003.

Recommendation

We recommend that the Authority should implement internal controls to ensure all written policies are being implemented and followed. An example of a control would be a checklist that is included in the front of every file and includes all required forms of documentation. This checklist should be signed off on for each specific item as the requirements are met.

Views of Responsible Officials

A checklist has been compiled that will include required documentation, these are then periodically reviewed by staff for completeness.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2017

2017-003 U.S. Department of Housing and Urban Development – CFDA #14.867
Indian Housing Block Grants – Cash Management

Criteria

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition

During our testing, we noted that on April 26, 2017, the remaining balance of \$911,045 for the 2016 grant award was drawn down without supporting documentation.

Questioned Costs

N/A

Context

During testing of cash management requirements, we noted that one of the three drawdowns tested was not requested on a reimbursement basis.

Effect

Non-compliance with cash management requirements and NAHASDA regulations.

Cause

The Authority was concerned on the availability of their prior year funds during a potential governmental shutdown and the possibility that their award could be recaptured and drew down their remaining funds.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the Authority monitor and document expenditures for each draw down request. They should also request approval directly from HUD before doing something that would normally be out of compliance.

Views of Responsible Officials

The Authority requires accounts payable and payroll ledgers to document each drawdown and ensure the expenses are all incurred before being drawn down. The Authority will continue to follow these procedures on future drawdowns to ensure compliance.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SEPTEMBER 30, 2017

2016-001 Finding – Preparation of Financial Statements and Material Adjusting Journal Entries - Material Weakness

Criteria

The Authority does not have internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The Authority's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Authority does not have internal resources to prepare full-disclosure financial statements, including adjusting journal entries, required by GAAP for external reporting. The Authority is aware of this deficiency and obtains our assistance in the preparation of the Authority's annual financial statements.

Current Year Status

See current year finding 2017-001

2016-002 Finding – Payroll Reporting - Material Weakness

Criteria

The Authority is required to follow all IRS regulations when payroll reporting.

Condition

The Authority inadvertently made bi-weekly EFTPS deposits based upon a report that was missing 2 employees.

Current Year Status

Corrective action taken. There is no current year finding.

2016-003 Finding – U.S. Department of Housing and Urban Development - CFDA # 14.867 Indian Housing Block Grants – Eligibility – Material Weakness in Internal Control over Compliance

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Context

We noted the following during our testing: 1) six of the forty files tested were missing documentation of tribal enrollment; 2) ten of the forty files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) four of the forty files did not have a current recertification; 4) five of the forty files were missing the annual signed application; 5) four of the forty files did not have documentation of an inspection performed during the fiscal year; 6) nine of the forty files did not have all income verified annually.

Current Year Status

See current year finding 2017-002



*WHITE EARTH RESERVATION
HOUSING AUTHORITY*

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Corrective Action Plan – September 30, 2017

2017-001

Contact Person
Steven Howard, Executive Director

Corrective Action Plan
The Authority will be attending a HUD technical assistance program on May 24, 2018 with the goal after attending to then be able to provide financial information to the Board.

Planned Completion Date for
CAP May 25, 2018

2017-002

Contact Person
Steven Howard, Executive Director

Corrective Action Plan
Has been implemented with checklist in each file.

Planned Completion Date for
CAP Immediately

2017-003

Contact Person
Steven Howard, Executive Director

Corrective Action Plan
The Authority requires accounts payable and payroll ledgers to document each drawdown and ensure the expenses are all incurred before being drawn down.

Planned Completion Date for
CAP Immediately

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the White Earth Reservation Housing Authority, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the White Earth Reservation Housing Authority's basic financial statements, and have issued our report thereon dated January 28, 2019. Our report includes a reference to other auditors who audit the financial statements of the aggregate discretely presented component units, as described in our report on the White Earth Reservation Housing Authority's financial statements. The financial statements of the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standard*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the White Earth Reservation Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the White Earth Reservation Housing Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

January 28, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Commissioners
White Earth Reservation Housing Authority
Waubun, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the White Earth Reservation Housing Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on White Earth Reservation Housing Authority's major federal program for the year ended September 30, 2018. The White Earth Reservation Housing Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for White Earth Reservation Housing Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the White Earth Reservation Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the White Earth Reservation Housing Authority's compliance.

Basis for Qualified Opinion on Indian Housing Block Grant (14.867)

As described in the accompanying schedule of findings and questioned costs, White Earth Reservation Housing Authority did not comply with requirements regarding CFDA 14.867 Indian Housing Block Grant as described in finding 2018-002 for Eligibility. Compliance with such requirements is necessary, in our opinion, for White Earth Reservation Housing Authority to comply with the requirements applicable to that program.

Qualified Opinion on Indian Housing Block Grant (14.867)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the White Earth Reservation Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Other Matters

White Earth Reservation Housing Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. White Earth Reservation Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the White Earth Reservation Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the White Earth Reservation Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the White Earth Reservation Housing Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-002 that we consider to be a material weakness.

White Earth Reservation Housing Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. White Earth Reservation Housing Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA

January 28, 2019

**WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? yes x no

Noncompliance material to financial
 statements noted? yes x no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? x yes no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? yes x no

Type of auditor's report issued on compliance
 for major programs: Qualified

Any audit findings disclosed that are
 required to be reported in accordance with
 2 CFR 200.516(a)? x yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program of Cluster

14.867 Indian Housing Block Grant

Dollar threshold used to distinguish
 between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Section II - Financial Statement Findings

2018-001 Finding – Preparation of Financial Statements and Material Adjusting Journal Entries – Material Weakness

Criteria

The Authority does not have internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The Authority's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Authority does not have internal resources to prepare full-disclosure financial statements, including adjusting journal entries, required by GAAP for external reporting. The Authority is aware of this deficiency and obtains the auditor's assistance in the preparation of the Authority's annual financial statements.

Cause

The Authority does not have the internal expertise needed to handle all aspects of external financial reporting.

Effect

The Authority's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to end users.

Repeat Finding

This finding is a repeat of finding 2017-001.

Recommendation

For entities of the Authority's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials

Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities given the size of the Authority.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Section III - Federal Award Findings and Questioned Costs

2018-002 U.S. Department of Housing and Urban Development – CFDA #14.867 Indian Housing Block Grants - Eligibility

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Condition

During our testing, we noted several instances of the Authority not following their written policies.

Questioned Costs

N/A

Context

We noted the following during our testing selection of forty files: 1) three of the forty files tested were missing documentation of tribal enrollment; 2) three of the forty files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) seven of the forty files did not have a current recertification or income verified annually; 4) thirty-three of the forty files did not have documentation of an inspection performed during the fiscal year; 5) three of the forty files used an incorrect utility allowance in the rent calculation; 6) three of the forty files had recertifications completed after the annual recertification due date; 7) three of the forty files were missing support for dependent deduction or adult zero income; 8) thirty-six of the forty files were missing or contained incomplete checklists used to monitor the required file documentation; 9) one of the forty files indicated the tenant was deceased while still being charged an administrative fee; 10) one of the forty files contained in improper use of an allowance; and 11) two of the forty files did not contain supporting documentation for dependents.

Effect

Non-compliance with eligibility requirements and NAHASDA regulations.

Cause

Lack of controls and oversight during the year.

Repeat Finding

This finding is a repeat of finding 2017-002.

Recommendation

We recommend that the Authority should implement internal controls to ensure all written policies are being implemented and followed. An example of a control would be a checklist that is included in the front of every file and includes all required forms of documentation. This checklist should be signed off on for each specific item as the requirements are met.

Views of Responsible Officials

A checklist has been compiled that will include required documentation; these are then periodically reviewed by staff for completeness.

WHITE EARTH RESERVATION HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
SEPTEMBER 30, 2018

2017-001 Finding – Preparation of Financial Statements and Material Adjusting Journal Entries - Material Weakness

Criteria

The Authority does not have internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The Authority's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Directors. However, the Authority does not have internal resources to prepare full-disclosure financial statements, including adjusting journal entries, required by GAAP for external reporting. The Authority is aware of this deficiency and obtains our assistance in the preparation of the Authority's annual financial statements.

Current Year Status

See current year finding 2018-001

2017-002 Finding – U.S. Department of Housing and Urban Development - CFDA # 14.867 Indian Housing Block Grants – Eligibility – Material Weakness in Internal Control over Compliance

Criteria

The Program requires the Authority to develop written policies governing the eligibility, admission and occupancy of families for housing assisted with grant funds.

Condition

We noted the following during our testing selection of forty files: 1) six of the thirty-eight files tested were missing documentation of tribal enrollment; 2) five of the thirty-eight files reviewed were either missing the most current signed lease by the tenant and/or missing the signature by the Executive Director supporting the review of the file; 3) one of the thirty-eight files did not have a current recertification or income verified annually; 4) nine of the thirty-eight files did not have documentation of an inspection performed during the fiscal year; 5) two of the forty files were missing and not able to be tested.

Current Year Status

See current year finding 2018-002

2017-003 U.S. Department of Housing and Urban Development – CFDA #14.867 Indian Housing Block Grants – Cash Management

Criteria

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government.

Condition

During testing of cash management requirements, we noted that one of the three drawdowns tested was not requested on a reimbursement basis.

Current Year Status

Corrective action taken. There is no current year finding.



WHITE EARTH RESERVATION HOUSING AUTHORITY

3303 US Hwy 59, Waubun, MN 56589
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Corrective Action Plan – September 30, 2018

2018-001

Contact Person

Steven Howard, Executive Director

Corrective Action Plan

Management and Authority will prepare financial statements when it becomes cost effective.

Planned Completion Date for CAP

When it becomes cost effective.

2018-002

Contact Person

Steven Howard, Executive Director

Corrective Action Plan

Has been implemented with checklist in each file.

Planned Completion Date for CAP

Immediately

Other Housing Issues

On December 19, 2019, the WEHA received a response from HUD related to HUD Application NAHBG19000077 (Fiscal Years 2018/2019 Indian Housing Block Grant Competitive Program). According to the letter, WEHA was informed that the application did not meet the requirements referenced in the Notice of Funding Availability (NOFA). The reason was listed as Threshold Eligibility Requirements, that the “applicant had delinquent open audit findings pertaining to financial management, accounting, and internal controls during the one-year period immediately preceding the date that the NOFA was published.”

Based upon recent conversations with the current WEHA Director, the RBC was informed that there have been several years of delinquent open audit findings since 2014 that have affected current or future projects. In a memo written from the WEHA to the RBC related to a 2019 Affordable Housing Application, the WEHA:

applied for funding in the amount of \$708,739 from the Affordable Housing Program (AHP).

This application was completed by former WEHA Director Steven Howard.

The application was denied due to low priority scores. It was discovered that the former WEHA Director failed to score points in the “Promotion of Empowerment” category, which would have easily increased the scoring totals for the application. It is unknown why he did not score in this category...

A request for the funding difference to the project has been submitted to the RBC for approval.

Other issues have affected HUD applications and Tribal housing tenants from 2014 to present. These issues include:

- Former WEHA Directors’ failure to execute a mold remediation grant in a timely manner that affected Tribal homes in Pine Point and Strawberry Lake
- Former WEHA Procurement Officer acquisition of furnaces that are out of compliance with regulations; status of relationship to WEHA Director
- Former WEHA Tribal home evictions and employment terminations
- Former WEHA Director, Steve Howard, was listed as a General Contractor on a HUD Application
- Other issues as identified in a memo from the RBC Internal Auditor dated December 17, 2019



WHITE EARTH RESERVATION

CHAIRMAN Michael Fairbanks SECRETARY-TREASURER Leonard Alan Roy
DISTRICT I Raymond Auginaush, Sr. DISTRICT II Kathy Goodwin DISTRICT III Eugene "Umsy" Tibbetts

The denial of the 5 million-dollar HUD grant was due to repeat audit findings, late submissions of required reports, and the inaccuracy of required reports.

The "bad audits" you are alluding to pertain to the Single audits conducted from fiscal year 2015 to fiscal year 2018. These audits found material weaknesses regarding internal control over financial reporting and material weaknesses over major program's internal controls. These deficiencies in internal controls led to a qualified audit opinion in fiscal years 2016, 2017, and 2018.

Regarding the financial reporting weakness: prior to 2015, Housing had staffed a full time Certified Public Accountant. When this individual resigned from their position in 2015, there was an internal transfer of an employee to become the Accounting Manager. This individual did not have the education or financial background to properly complete the annual audits nor the required quarterly reporting. This deficiency led to the following audit finding in every fiscal year since 2015:

The Authority does not have the internal resources to prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Under current administration, the Housing Authority has relieved that individual from their position and will be posting for a replacement. They have also collaborated with the White Earth Reservation Business Committee to receive assistance from myself, a Certified Public Accountant who is on staff at White Earth Finance to help compile the GAAP compliant financial statements in order to refrain from receiving this finding. I will also assist the Housing Authority with completing the proper quarterly reports to submit to HUD.

The second finding related internal controls over major programs is due to the non-compliance by the Housing Authority's personnel to administer their internal policies and procedures. The Housing Authority has the proper policies and procedures in place as required by HUD and NAHASDA regulations. They were lacking the proper personnel to provide oversight and were not sufficiently conducting internal audits on program files. During fiscal year 2019, the Housing Authority has terminated their Executive Director and hired a replacement. They have also hired an Assistant Executive Director to assist with their oversight duties.

In fiscal year 2020, with the for mentioned key personnel changes and additions, we expect the Housing Authority to have a clean audit which will provide an opportunity for more grant funding.

Tracy Lhotka, CPA
Internal Auditor
White Earth Reservation Business Committee

Recommendations

Based upon the information presented, it is requested that WIPFLI audit these issues by adding them to their current scope of work related to the Procurement Officer.

As related to the delayed execution of the mold remediation grant for Pine Point and Strawberry Lake, it is recommended that the auditor identify homes affected by the untimely execution of the grant as tenants may have encountered health complications from mold in the homes. It is also recommended that the RBC retain an attorney to see if an insurance claim can be made to assist individuals affected by mold and that current and/or former staff be identified for liability, and/or tribal official errors or omissions.

It is recommended that the issues identified above be placed with investigative status until further notice and be added to the audit.

Motion to adopt the Secretary/Treasurer Report