

September 28, 2023

Executive Office  
Tribal Council  
The Eastern Band of Cherokee Indians  
Cherokee, NC

We conducted an audit of the Housing Division in accordance with the FY23 annual audit plan. REDW was engaged to conduct the audit.

This review was designed to assess the effectiveness of controls and compliance within the Housing Division. The review is intended to be used as a tool to determine if improvement is needed.

REDW identified 5 observations. The details of these observations along with recommendations can be found in the attached report. Management's response is included as an attachment.

The assistance of the Housing division staff is appreciated. Please do not hesitate to contact our office with questions.

Sincerely,



Sharon Blankenship, CIA, CGAP, CFE, LPEC  
Chief Audit and Ethics Executive

cc: Lori Lambert, Audit and Ethics Committee Chair  
Edwin Taylor, Secretary of Housing Division  
Jonathan Rattler, Executive Director



## **Eastern Band of Cherokee Indians**

Cherokee Indian Housing Division  
Internal Audit

September 8, 2023

**redw**  
Advisors & CPAs

**Eastern Band of Cherokee Indians  
Cherokee Indian Housing Division  
Internal Audit**

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## **Eastern Band of Cherokee Indians Cherokee Indian Housing Division Internal Audit**

### **Report**

#### **Introduction**

We performed the internal audit services described below solely to assist the Eastern Band of Cherokee Indians (EBCI) in assessing the processes and internal controls over the Cherokee Indian Housing Division with a specific focus on participant eligibility, recertification/inspection, and waitlist procedures over rental, lease-to-own, low-income homeownership, and down payment assistance programs, as well as portfolio loans. In addition, we also evaluated procedures over past due accounts and gained an understanding of any quality control procedures in place.

Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services.

#### **Purpose and Objectives**

The Cherokee Indian Housing Division is comprised of the Qualla Housing Authority (QHA) which offers rental, lease-to-own, and low-income homeownership programs as well as the Tribal Housing section which assists enrolled members in obtaining mortgage loans, both on- and off-Boundary, to purchase or construct a home, and down payment assistance. The goal of each is to provide EBCI enrolled members with safe and affordable housing through a variety of methods. The programs are funded through a combination of tribal revenue and grants awarded by the U.S Department of Housing and Urban Development (HUD).

Our internal audit focused on evaluating the controls and processes over determining eligibility for housing assistance programs, performing annual recertifications and inspections, and the maintenance of documentation to support compliance with program requirements. In addition, we evaluated procedures for how eligible participants were pulled off the waitlist and placed into an active program for rental, lease-to-own, and low-income homeownership programs.

In addition, we evaluated controls and processes over eligibility, inspections, loan determinations, and refinancing requirements for down payment assistance and portfolio loan programs. Lastly, we evaluated procedures over past due accounts to ensure procedures were followed and/or money owed was collected timely and we evaluated quality control procedures in place over program administration to prevent and detect errors and ensure compliance with internal policies and relevant grant requirements.

## Observations and Recommendations

As a result of our test work, we identified the following observations:

### 1) *Document Retention*

HUD (24 CFR § 1000.552) requires all financial and programmatic records, supporting documents, and statistical records to be maintained by recipients of the IHBG (Indian Housing Block Grant) for 3 years from the end of the tribal program year during which the funds were expended. Our testing over the various housing assistance programs determined:

- Documentation was not provided for all 5 rehabilitation grants selected for testing therefore, we were unable to determine if grants awarded were in compliance with the rehabilitation grant requirements.
- Documentation was not provided for all 3 loan recipients tested to support refinancing through the Down Payment Assistance program therefore, we were unable to determine compliance with program requirements.
- Documentation was not provided for 9 of 10 participants tested in lease-to-own and homeownership programs to support the satisfactory completion of the Homebuyer's Education Course and housekeeping courses, which is a policy requirement for these programs in order to enter into a Homeownership Agreement.
- Documentation was not provided to support interest rate, amortization, or site inspections for 1 of 5 Down Payment Assistance recipients tested to support compliance with program policy.
- For 12 of 26 participants tested across the various programs, we did not receive documentation to support participants were notified of their annual recertification obligations in 2021 and/or 2022 to ensure they were aware of rent changes as required by policy.
- For 8 of 26 participants tested across the various programs, we did not receive documentation to support home inspections were performed at the required frequency in 2022 to ensure homes remained up to occupancy standards and to assess any damages as is required by the rental policies. While it appears home inspections were suspended in 2021 by regulatory authorities due to the COVID-19 pandemic, there was no documentation provided to support the hold status on certain activities due to the pandemic.
- For 8 of 26 participants tested across the various programs, we did not receive documentation to support annual recertifications being consistently performed in 2021 and/or 2022 to ensure subsidy calculations were performed correctly utilizing current information.
- Computation of Monthly Payments forms were missing from 3 of 5 rental participant files tested; therefore, we were unable to determine if family composition and income was correctly factored into the subsidy calculation.

**Potential Risk – High:** If documents are not retained in accordance with HUD requirements, the Cherokee Indian Housing Division cannot demonstrate compliance with applicable grant rules and regulations, ensure funds are spent properly, and demonstrate funds were spent on allowable activities. Given that a significant amount of documentation was missing for the 26 samples selected for testing, we have escalated this risk to high.

**Recommendation:** The Cherokee Indian Housing Division should ensure compliance with the requirements of 24 CFR § 1000.552 by developing and applying record retention schedules as well as a developing a uniform and standardized filing classification process. A review of the physical files for new admissions as well as annual requirements should be performed by someone other than the preparer to ensure accuracy and completeness of the file prior to scanning the documents into electronic format. It may be beneficial to implement quality control procedures for each program via a standardized checklist to be filled out once a participant is admitted into a program as well as over annual activities, such as recertifications and home inspections, to ensure all required documentation is maintained to support various activities and determinations. The checklist should be filled out completely and consistently and maintained with all documentation to ensure accountability over performance. Lastly, documentation should be maintained in a chronological and consistent manner within each program for each participant.

## **2) Quality Control Procedures**

HUD Housing Choice Voucher Program Guidebook Chapter 22 (Program Integrity) rules provide various methods housing service providers should consider implementing to mitigate the risk of potential fraud and errors when administering housing programs. Our testing determined quality control activities within the Cherokee Indian Housing Division were not documented therefore, we were unable to determine if procedures were in place and performed to address program related risks.

**Potential Risk – High:** If quality control procedures are not performed, the risk is increased that errors, inconsistencies, or abuse in program administration may not be detected. Since most quality control procedures were absent and multiple documents were missing to support compliance with program policies, we have escalated the risk to high.

**Recommendation:** The Cherokee Indian Housing Division should implement quality control procedures that are in alignment with HUD Program Integrity best practices to ensure procedures performed align with the current risk environment and to ensure errors can be detected quickly. HUD encourages the cost-benefit relationship of each method when deciding to what degree each method should be implemented. At minimum, the Cherokee Indian Housing Division should consistently utilize standardized checklists to ensure program administrators have a reference tool of what steps and documentation are required for each milestone or activity, while sufficiently considering overall HUD and The Native American Housing Assistance and Self Determination Act of 1996 (NAHASDA) plan administration requirements and best practices. These checklists should be periodically reviewed by a supervisor to ensure they are being utilized correctly and trends in errors can be flagged and addressed. Some additional recommendations are as follows:

- Spot audits should be performed at least on an annual basis over a mix of participants from each program to ensure documentation is in place to support new admissions, recertifications, inspections, eligibility, etc. and to ensure calculations are reasonable and correct. Audits should be sufficiently documented and performed by someone other than the file preparer/owner.
- An annual training plan should be developed, which should entail identification of relevant training programs provided externally and/or development of internal training programs over programmatic policies and program administration. Training should be tracked along with employee compliance and performance in order to identify knowledge gaps.

- The Cherokee Indian Housing Division should explore ways that communications with tenants and owners can be streamlined, possibly through the use of a tracking log or other mechanism. A log could be created for annual recertification notices, interim recertification notices, inspection notices, and 30- and 90-day delinquency notices in order to more effectively track when certain communications were sent and to track any outstanding action items.
- Internal administrative policies or procedures should be developed that establish roles and responsibilities, as well as standards and expectations to guide employees through the various aspects of program administration. Proper procedure should be trained on at least annually.

### **3) Data Integrity**

The Cherokee Indian Housing Division utilizes two different systems to keep track of tenant and owner information. The first system is an offline legacy system while the second is a more modern property management system. Our testing determined discrepancies between the total number of tenants within each system. As a result, we were unable to determine if the listings we received properly reflected the total number of tenants that were active in the housing programs. Further information regarding the discrepancies in the listings are:

#### Rentals

- Legacy system – 146 total tenants
- Modern system – 99 total tenants

#### Mutual Help (Lease-to-Own)

- Legacy system – 99 total tenants
- Modern system – 109 total tenants

#### Low-Income Homeownership

- Legacy system – 27 total tenants
- Modern system – 20 total tenants

**Potential Risk – High:** The absence of complete tenant listings in the property management software increases the risk that active tenants may not be flagged for compliance with program policies. Since the discrepancies impacted several programs, we have assessed the risk at high.

**Recommendation:** The Cherokee Indian Housing Division should seek to consolidate tracking of program information into one property management system to ensure tenant and owner listing are complete. Once the property management system has been identified, a reconciliation should be performed to ensure all information has been transferred correctly.

### **4) Inconsistent Application of Housing Policies**

The NAHASDA Essentials Participant Notebook and the NAHASDA Indian Housing Block Grant Recipient Self-Monitoring Guidebook both state that the Cherokee Indian Housing Division must have policies and procedures in place over each program offered and that all policies must be implemented thoughtfully, conscientiously, fairly, and consistently. Our testing of 10

participants determined that policies over the down payment assistance program (5 samples), and portfolio loan program (5 samples) were not being applied consistently to all participants. Areas of inconsistency included:

- The Down Payment Assistance Program Policy states that all assistance shall be made in the form of a loan and will be amortized over an 8-year period at a fixed interest rate which will be established at 2%. For 1 recipient tested, documentation provided indicated this loan was amortized over a 30-year period.
- 1 portfolio loan recipient did not meet the eligibility requirement of being continuously employed for 12 months prior to receiving assistance as required by policy. Documentation provided showed the recipient had been employed for 7 months at the time the loan was approved.

**Potential Risk – Moderate:** Not applying established policies and procedures fairly and consistently, as required by NAHASDA guidelines, increases the risk of non-compliance with funding requirements that may result in a loss of funding, therefore, we have assessed the risk at moderate.

**Recommendation:** The Cherokee Indian Housing Division should implement a monitoring program over program managers to ensure consistent application and compliance with policies, rules, and regulations, as well as to ensure documentation is properly maintained to support events and actions performed. It may be necessary to implement the consistent use of standardized checklists and tracking spreadsheets to ensure that required activities are taking place and that relevant information is being maintained. In addition, internal training should be provided on each program regarding program administration at least on an annual basis with an emphasis on applying policies fairly and consistently and to ensure that any updates are communicated. Regular spot audits should be performed over participant files to ensure that the files are complete and recertifications and inspections are occurring at the required frequency per policy.

## **5) Delinquent Accounts**

The Cherokee Indian Housing Division Collections Policy requires delinquency notices to be sent by the 5<sup>th</sup> day of the month if payments are not received, with additional notices being sent at 30-days of non-payment. If payment is not received, payment plans are established or eviction procedures commence. While the Cherokee Indian Housing Division is performing a recoupment of past-due accounts on an annual basis, our testing determined for 15 of 16 samples tested within the rental, lease to own, and homeownership, documentation was not provided to support notifications being sent or of procedures performed for delinquency/collections, evictions, or foreclosure as required by various policies, nor were we able to determine if participants were part of a payment plan agreement despite the 15 being in delinquent status. While it appears that foreclosure and evictions procedures were suspended by regulatory authorities in 2021 due to the COVID-19 pandemic, there was no documentation provided to support the hold status on certain activities due to the pandemic.

Additional analysis over the aging reports for rentals, lease-to-own, and homeownership programs determined there were 48 tenants of a total population of between 228 to 437 tenants (see also Observation #3 – Data Integrity) who collectively had an outstanding balance of \$72,379.43 that was greater than 90 days past due as of April 30, 2023.

In addition, for the portfolio loan program, the EBCI Tribal Code, Section 45 (Recording and Foreclosure of Leasehold Interests) as well as the Portfolio Loan Policy establish the default period as 90-days or three delinquent payments. Our testing over 5 portfolio loan participants

determined 3 had not been foreclosed on despite having payments 17 to 46 months late, with amounts ranging from \$11,602 to \$22,227.48. The Portfolio Loan Aging report also indicated that letters were intended to be sent, but we did not receive evidence that notices had been sent nor had foreclosure procedures commenced.

**Potential Risk – Moderate:** If eviction and foreclosure policies are not adhered to, EBCI may not recoup all revenues owed to them. While there were several participants in delinquency, since it was not a high dollar value and there is an annual attempt to recoup funds, we have assessed the risk at moderate.

**Recommendation:** The Cherokee Indian Housing Division should establish and maintain consistent collections processes, which may include clear payment and delinquency schedules, increased frequency and proactive communication with tenants/owners, effective tracking systems, and when necessary, following appropriate legal action to recover outstanding debts. Although the APR and IHP are only required to be submitted once per year, it is recommended to engage in self-monitoring activities more frequently, for example, assessing the aging of accounts receivable on a more frequent basis, such as quarterly, and seeking ways to improve the frequency of communication with tenants and homeowners. The Cherokee Indian Housing Division should ensure that late payment, collections, and evictions policies are adhered to and applied fairly and consistently across all programs. Collections and Legal Liaisons should receive training on an annual basis over collections, evictions, and foreclosure policies and procedures, as well as EBCI conflict of interest policy.

## Scope and Procedures Performed

**In order to gain an understanding of the process, we interviewed the following personnel:**

- Jonathan Rattler, Executive Director
- Edwin Taylor, Secretary of Housing
- Denny Ensley, Program Manager
- Michelle Stamper, Housing Services Manager
- Sheila Brown, Housing Services Manager
- Sarah Crowe, Administrative Assistant
- Brandy Hicks, Office Administrator
- Joan Bradley, Senior Office Administrator

**We performed the following test work:**

**Rental Programs** – We obtained a listing of all rental participants as of March 14, 2023, including how much the Housing Authority subsidized for each rental monthly and any past due amounts. From a total population of 146 participants, we selected 5 and tested to determine:

- The participant and/or family member(s) of the participant were verified as a member of a federally recognized tribe;
- Participant income was verified and was in compliance with income guidelines according to HUD and NAHASDA;
- Participant family composition was verified and factored correctly in the rental subsidy calculation;

- Participant was notified timely and in writing of the annual recertification examination process in 2021 and 2022;
- The annual reexamination process was performed resulting in updated income and family composition information; and,
- Participant underwent, at a minimum, quarterly home inspections to ensure the home remained up to occupancy standards and any potential damages were assessed.

***Lease-to-Own Programs*** – We obtained a listing of all Lease-to-Own participants as of March 14, 2023 including how much the Housing Authority subsidized for each home monthly and any past due amounts. From a total population of 153 Mutual Help Participants and 111 TSALAGI, we selected 6 (3 from each program type) and tested to determine:

- The participant and/or family member(s) of the participant were verified as a member of a federally recognized tribe;
- Participant income was verified and was in compliance with income guidelines according to HUD and NAHASDA;
- Participant family composition was verified and factored correctly in the rental subsidy calculation;
- Participant satisfactorily completed the Homebuyer's Education Course and entered into a Homebuyer Contribution Agreement and Homeownership Agreement with the Cherokee Indian Housing Division;
- Participant was notified in writing of the annual recertification examination process in 2021 and 2022;
- The annual reexamination process was performed resulting in updated income and family composition information; and,
- Participant underwent an annual home inspection to ensure the home remained up to occupancy standards and any potential damages were assessed.

***Low-Income Homeownership Program*** – We obtained a listing of all Bertha Saunook Heights participants as of March 14, 2023, including how much the Housing Authority subsidized for each home monthly and any past due amounts. From a total population of 27 participants, we selected 5 and tested to determine:

- The participant and/or family member(s) of the participant were verified as a member of a federally recognized tribe;
- Applicant income and family composition was verified and was in compliance with NAHASDA requirements and was factored correctly into the subsidy calculation;
- Applicant satisfactorily completed the counseling program and housekeeping classes which resulted in the applicant entering into a Homeownership Agreement with the Cherokee Indian Housing Division;
- Participant was notified in writing of the annual recertification examination process in 2021 and 2022;
- The annual reexamination process was performed resulting in updated income and family composition information; and

- Participant underwent an annual home inspection to ensure the home remained up to occupancy standards and any potential damages were assessed.

**Down Payment Assistance** – We obtained a listing as of May 12, 2023, of participants who received assistance through the Down Payment Assistance program. From the listing of 72 participants, we selected 5 and tested to determine if:

- Participant met eligibility requirements for the Down Payment Assistance Program;
- Loan awarded was equal to 20% of the sales contract price down payment funds and did not exceed \$50,000;
- Loan was amortized over an 8-year period at a low fixed interest rate;
- The Loan Committee reviewed the loan documentation for completeness and submitted the completed files to the Secretary of Housing for approval;
- Loan approval forms were sent to the Principal Chief for final review and approval;
- A site inspection was performed by the Site Prep Team prior to move-in to ensure compliance with Minimum Property Standards;

**Down Payment Assistance Refinancing** – We obtained a listing of participants as of June 1, 2023 in the Down Payment Assistance program who had refinanced. Of 17 participants, we selected 3 and tested to determine if:

- Participant had paid down at least 20% of original mortgage;
- Refinancing was for a lower fixed interest rate that did not extend the term of the contract of the current mortgage; and
- Mortgage amount did not exceed \$250,000.

**Portfolio Loans** – We obtained a current listing of participants who received assistance through the Portfolio Loans program. From a listing of 30 participants, we selected 5 and tested to determine if:

- Participant met eligibility requirements for the Portfolio Loan Program;
- Loan awarded was amortized over a 30-year period at a fixed rate with an interest rate at (or around) 4%;
- Loan origination costs of 2% were either charged upfront or rolled into the loan;
- The Loan Committee reviewed the loan documentation for completeness and submitted the completed files to the Secretary of Housing for approval;
- Borrower(s) submitted pay stubs and bank statements every 30 days to ensure client was maintaining affordability in accordance with policy; and
- If participant was 90-days past due on payments, foreclosure procedures were commenced.

**Rehabilitation Grants** – We obtained a listing of all rehab grant fund distributions from January 1, 2022 to March 31, 2023. From a total population of 23 assistance awards, we selected a sample of 5 and requested supporting documentation to ensure compliance with program policies however, documentation was not provided by the department to perform testing.

**Annual Recertifications** – We gained an understanding of how the Cherokee Indian Housing Division tracked all required recertifications and communications to ensure notices were sent timely and recertifications were scheduled at least once annually for all applicable programs.

**Waitlist Procedures** – We gained an understanding of the order in which participants were pulled off the waitlist and placed into the active program to ensure fairness and transparency in procedures.

**Past Due Accounts** – For the 4 programs tested (rentals, TSALAGI, Mutual Help, and Home), we selected the account that had the highest outstanding balance owed to EBCI as of April 30, 2023. In addition, we obtained the account summaries detailing all credits and debits within each account for the prior 3 years. For those 90+ days late, we tested to determine if eviction processes were followed or what additional attempts were performed to collect amounts owed. In addition, we determined how much was collected during the annual recoupment process or if amounts were written off and if tenants were allowed to remain in their homes.

**Quality Control** – We inquired of the Cherokee Indian Housing Division as to quality control mechanisms in place over federally funded programs to ensure compliance with best practices recommended by HUD and tested to determine if an effective quality control process was in place.

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We discussed and resolved minor observations with management and received cooperation and assistance from the EBCI Cherokee Indian Housing Division during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

**REDW** LLC

Albuquerque, New Mexico  
September 8, 2023

## MEMORANDUM

**TO:** Executive  
Tribal Council

**FROM:** Sharon Blankenship, Chief Audit and Ethics Executive 

**CC:** Lori Lambert, Audit and Ethics Committee Vice Chair  
Edwin Taylor, Secretary of Housing  
Jonathan Rattler, Executive Director

**DATE:** September 28, 2023

**RE:** Response to Report 23-007 – Housing

The 5 observations and recommendations identified in the Housing audit report 23-007 were distributed to the program and responses prepared. The responses as provided are stated below. The original response forms are on file with this office.

### 1. Document Retention

**Response: Agree, Target implementation: 1/1/2024**

Respondent narrative: Management accepts and will implement the recommendation.

### 2. Quality Control Procedures

**Response: Agree, Target implementation: 1/1/2024**

Respondent narrative: Management accepts and will implement the recommendation.

### 3. Data Integrity

**Response: Agree, Target implementation Date: 1/1/2024**

Respondent narrative: Management accepts and will implement the recommendation.

### 4. Inconsistent Application of Housing Policies

**Response: Agree, Target implementation Date: 1/1/2024**

Respondent narrative: Management accepts and will implement the recommendation.

**5. Delinquent Accounts**

**Response: Agree, Target implementation Date: 1/1/2024**

Respondent narrative: Management accepts and will implement the recommendation.