# 1. Introduction

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) dramatically changed HUD's Office of Native American Programs' (ONAP) relationship with Native American communities. It replaced a myriad of funding programs with a single Indian Housing Block Grant (IHBG) program. IHBG is now HUD's preeminent program in Indian country. IHBG recipients, whether tribal housing divisions, departments, or Tribally Designated Housing Entities (TDHEs), are now responsible for the design and implementation of housing assistance programs for their tribal members. IHBG recipients are also held accountable for their progress in obtaining self-defined housing goals and complying with Natasha’s program requirements. ONAP staff also monitors recipient compliance and progress.

The primary objectives of NAHASDA are:

- To assist and promote affordable housing activities to develop, maintain, and operate housing in a safe and healthy environment on Indian reservations and in other Indian areas for occupancy by low-income families
- To ensure better access to private mortgage markets for Indian tribes and their members and to promote self-sufficiency of Indian tribes and their members
- To coordinate activities to provide housing for Indian tribes and their members and to promote self-sufficiency of Indian tribes and their members
- To plan for and integrate infrastructure resources for Indian tribes with housing development for Indian tribes
- To promote the development of private capital markets in Indian country and to allow such markets to operate and grow, thereby benefiting Indian communities

The IHBG program is formula-driven, and eligible recipients of funding receive an equitable share of annual appropriations made by the Congress. Recipients can then use the IHBG funds to undertake one or more of the six types of eligible activities identified in the statute and in the NAHASDA regulations at 24 CFR Part 1000. IHBG recipients must have the systems of internal control necessary to administer these activities effectively without fraud, waste, or mismanagement.

Under the regulations at 24 CFR 1000.502, recipients are responsible for monitoring their own grant activities to ensure compliance with applicable Federal requirements and performance goals under their Indian Housing Plan (IHP). This process is known as "self-monitoring." Recipients are responsible for preparing, at least annually:

- A performance report providing an assessment of IHGB program progress and goal attainment under IHP

- A compliance assessment with NAHASDA's requirements, including an on-site inspection of assisted housing

- An audit consistent with the provisions of the Single Audit Act and OMB Circular A-133, if applicable

This guidebook provides recipients with guidance on conducting self-monitoring compliance assessments, as required under NAHASDA's implementing regulations. It also includes suggestions and recommended management practices to make the recipient's IHGB assisted activities successful and sustainable. Monitoring how well the recipient's organization operates, how it responds to changing housing needs, and how it assesses and manages risk will increase the recipient's capacity to achieve NAHASDA's objectives with measurable results

## 1.1 How to Use This Guidebook

The Self-Monitoring Guidebook covers the subject of monitoring the recipient's adherence to NAHASDA's programmatic and regulatory requirements from a practical, hands-on perspective. It presents the material so that someone who has never participated in a self-monitoring process will be able to do so with confidence. Even those recipients with internal audit or self-monitoring experience will find a great deal of helpful information.

A top priority in the development of this Self-Monitoring Guidebook was to make it useful and relevant to readers at all levels of organizational management experience. Nevertheless, the organization manager's own professional experience, familiarity with administering Federal block grant programs, and role within the IHBG-recipient organization will determine how this guidance can best be used. To help determine how the organization might use this guidebook, descriptions and suggestions on how recipients in different situations might approach and benefit from the self-monitoring guidance have been included.

This Self-Monitoring Guidebook can be used by all IHBG recipients, whether the recipient is a tribe or a TDHE. In order for it to fit the type of organization the recipient represents, generic language is used throughout the guidebook. The term "Director" may refer to either the head of a Tribal department or the Director of a TDHE. "Governing board" refers to a tribal council or board of directors/commissioners. Only in those instances where it is only one or the other will the specific term be used.

If the IHBG recipient is a relatively small organization, especially one with just one or two programs, this guidebook will be most valuable to senior staff, especially the Director, the senior financial manager, and governing board members. If the IHBG recipient is a larger organization with multiple programs and sources of income, this guidebook will also be useful to senior staff and Directors. Use it to educate governing board members, especially new ones, on their role in overseeing the self-monitoring process. If the housing organization is a TDHE, use it to inform tribal council members of their monitoring responsibilities as required by NAHASDA. Additionally, this guidebook will be an excellent tool for educating newly hired staff on the breadth of NAHASDA's programmatic and regulatory requirements.

This guidebook may be used to establish the IHBG recipient's self-monitoring process from beginning to end. However, the material covered in this guidebook is not intended as a "one size fits all" model.

Rather, IHBG recipients should feel free to emphasize monitoring in one topical area over another depending on the assisted housing activities.

## 1.2 Tools and Templates

This guidebook contains tools and templates intended for the IHBG recipient's use. The templates provide suggested models for crafting documents, policies, or other information.

## 1.3 Topics Covered

This guidebook includes the following chapters:

- Chapter 2 - Creating the Management Control Framework, provides an overview of developing an organizational framework to control and manage risk.
- Chapter 3 - Monitoring Roles and Responsibilities, provides guidance for establishing monitoring roles and responsibilities for tribes, IHBG recipients, subrecipients, and ONAP.
- Chapter 4 - Implementing the Self-Monitoring Process, discusses approaches to conducting self-monitoring, developing a Performance Improvement Plan, and reporting on self-monitoring assessments through the Annual Performance Report (APR).
- Chapter 5 - Organization and Administration of Programs, suggests effective management and organizational control practices.
- Chapter 6 - Eligibility, Admissions, and Occupancy, provides guidance on adhering to NAHASDA-assisted housing program requirements related to resident eligibility and certifications of housing-related standards.
- Chapter 7 - Financial Management and Internal Controls, provides guidance to comply with NAHASDA's financial reporting requirements. This chapter also includes a Financial Health Assessment, which presents six indicators to assess the organization's financial health.
- Chapter 8 - Procurement and Contract Administration, provides guidance on adhering to Federal procurement and contract administration standards. This chapter also includes information regarding the monitoring of construction management activities.

- Chapter 9 - Labor Standards, discusses applicable Federal labor standard requirements and suggested practices.

- Chapter 10 - Inspection and Maintenance of Physical Assets, shows ways to comply with NAHASDA requirements regarding maintaining and improving housing quality.

- Chapter 11 - Environmental Compliance, provides guidance on complying with Federal environmental laws, related authorities, and regulations applicable to NAHASDA-assisted housing programs.

- Chapter 12 - Audit Reports, explains the contents of audit reports and how to use them.

- Chapter 13 - Planning and Reporting, provides guidance on assessing compliance with the recipient's IHP, along with defining the relationship of self-monitoring to the APR.

For detailed information on NAHASDA, view the NAHASDA home page through the Internet at www.hud.gov/offices/pih/ih. Throughout this guidebook, references are made to HUD guidance's and notices. These references can be accessed through the Internet at: http://www.hud.gov/offices/pih/ih/regs/notices.cfm and http://www.hud.gov/offices/pih/ih/codetalk/onap/nahasdaref.cfm. Other HUD forms and publications can be accessed through the Internet at www.hudclips.org.

# 2. Creating The Management Control Framework

This chapter provides an overview of developing an organizational framework to achieve program and financial results, assess and manage risks, and safeguard the integrity of IHBG-assisted programs. This chapter focuses on internal controls.

## 2.1 Overview

Management, or internal, controls are intended to provide reasonable assurance that program goals and objectives are met; resources are adequately safeguarded and efficiently used; reliable data are obtained, maintained, and fairly disclosed in reports; and policies and regulations are complied with. Control activities are the policies and procedures that help ensure that management directives are carried out. These activities occur throughout an IHBG recipient housing entity, at all levels and in all functions.

## 2.2 Internal Controls

The importance of controls is addressed in many statutes and documents. OMB Circular A-133 defines management controls as the organization, policies, and procedures used to reasonably ensure that "(i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported, and used for decision making."

The basic objectives of internal controls fall into the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal controls consist of five interrelated components, which are derived from the way management runs an organization and are integrated with the management process. The components are:

Control Environment: Includes the integrity, ethical values, organization structure, and reporting relationships of the people and the environment in which they operate.

The control environment, as established by the organization's administration, sets the tone of and influences the control awareness of its staff. Similarly, leaders of each department or functional area set up a local control environment. This is the foundation for all other components of internal control, providing discipline and structure. Chapter 5, Organization and Administration of Programs, provides further guidance on effective management and organizational control practices for IHBG recipients.

**Control Activities**: Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to the achievement of the entity's objectives are carried out effectively.

Control activities usually involve two elements: a policy establishing what should be done and procedures to implement the policy. Policies should be established formally, in writing. Required policies under NAHASDA are addressed in Chapter 5. All policies must be implemented thoughtfully, conscientiously, and consistently.

**Information and Communication:** This enables the entity's staff to capture and exchange the information needed to conduct, manage, and control its operations.

Pertinent information must be identified, captured, and communicated to appropriate personnel on a timely basis through both manual and computerized information systems. Information systems produce reports containing operational, financial, and compliance-related information; and the quality of this information influences the quality of management decision-making.

**Self-Monitoring**: The entire process must be monitored and modifications made, as necessary. This ensures that the system can change as conditions warrant.

Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions personnel take in performing their duties. The scope and frequency of self-monitoring depends primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.
An IHBG recipient's environment reflects the organization's philosophy, attitude, and demonstrated commitment to establishing a positive atmosphere for the implementation and execution of well-controlled business operations. A control structure that provides for clear delegation of authority and assignment of responsibility facilitates the execution of Director/governing board relationships, the development of reliable and

relevant feedback, and the ability of outside stakeholders (i.e., tenants, homebuyers) to have faith in the day-to-day operations of the housing entity.

# 3. Monitoring Roles and Responsibilities

This chapter describes monitoring roles and responsibilities for IHBG recipients, subrecipients, and ONAP. It includes the following topics:

- APR and Compliance Assessment Requirements
- Statutory and Regulatory Requirements for Tribes and TDHEs
- Statutory and Regulatory Requirements for Subrecipients
- ONAP Monitoring
- ONAP Review of Self-Monitoring

## 3.1 Overview

IHBG recipients may be tribes or TDHEs. IHBG recipients that are TDHEs are required to report to, and be monitored by, the beneficiary tribe(s). Every recipient of IHBG funding is responsible for monitoring its grant activities, monitoring any subrecipients, ensuring compliance with applicable Federal requirements, and monitoring its 5-year and 1-year goals and objectives under the IHP. Even for programs that do not have self-monitoring requirements, recipient self-monitoring is beneficial and recommended for all organizations to identify and confirm good practices and where improvements can be made.

## 3.2 Self-Monitoring Requirements

IHBG recipients are required to complete a self-monitoring assessment of adherence to IHBG program requirements and applicable statutes and regulations at least once a year. This monitoring requirement includes conducting an on-site inspection of all housing units assisted with IHBG funds. Reporting on self-monitoring assessments is a required element of the APR. IHBG recipients, therefore, should incorporate sufficient time in their business planning cycles to complete the self-monitoring assessment prior to the end of their program year.

### 3.3 IHBG Tribal Recipients

If the tribe is the IHBG recipient, it is responsible for monitoring grant activities to ensure compliance with applicable Federal requirements and monitoring performance goals under the IHP. Under 24 CFR §1000.502, the tribe is responsible for preparing and submitting to HUD:

- An APR within 60 days of the end of the program year

- An OMB Circular A-133 Single Audit Act audit within 9 months after the end of its fiscal year, if applicable

IHBG tribal recipients may request assistance from other tribes and/or TDHEs to help meet their performance goals or self-monitoring requirements under NAHASDA. Timeliness of report submission reflects on the organization's administrative capacity. Monitoring reports submitted on time indicate the tribe has incorporated these assessment processes into its annual business planning cycles. Costs incurred for completing the APR, self-monitoring and audit reports are allowable under the IHBG program.

## 3.4 IHBG Tribally Designated Housing Entity Recipients

Where the recipient is a TDHE, the tribe, as the grant beneficiary, is still responsible for monitoring programmatic and compliance requirements of the IHP and NAHASDA by requiring the TDHE to prepare periodic progress reports, including:

- An APR within 60 days of the end of the program year, which includes a description of its self-monitoring in Part II, Section A - Monitoring of the APR

- An OMB Circular A-133 Single Audit Act audit within 9 months after the end of the TDHE's fiscal year, if applicable

The TDHE must provide the tribe, as the grant beneficiary, with a copy of self-monitoring assessments, APRs, and audits so that the tribe can carry out its oversight responsibilities under NAHASDA. This tribal oversight relationship contemplated under NAHASDA may change the character of prior tribal and housing authority relationships. Often, housing authorities operated with mutually-agreed-to autonomy from the tribal government. In practice, this sometimes led to instances in which housing authorities were not perceived as accountable to the tribe for their management of housing assistance programs.

Tribal councils now have a more affirmative responsibility to exercise their oversight responsibilities over the TDHEs. TDHEs and tribal governments should seek to enhance the flow of information and communication between both bodies to better address IHBG monitoring requirements. One way to accomplish this is to have a member of the tribal council serve on the board of a TDHE as either a voting or an ex-officio member.

## 3.5 Subrecipient Monitoring

Within the IHBG program, subrecipients may be nonprofit or other tribally chartered entities that have a subrecipient agreement (can also be in the form of a contract, memorandum of agreement, or memorandum of understanding) with a recipient to undertake and manage specified projects and activities. IHBG recipients are required to monitor all of their subrecipients to ensure compliance with written subrecipient agreements.

In general, subrecipients must comply with the same statutory and regulatory requirements as IHBG recipients. Tribal beneficiaries and/or TDHEs should seek to institute subrecipient monitoring procedures that would accompany the subrecipient agreement. It is good practice to incorporate these monitoring requirements into subrecipient agreements and require that subrecipients periodically report on their adherence to applicable regulations. Moreover, IHBG recipients should perform on-site visits with their subrecipients to review any issues of apparent noncompliance.

## 3.6 ONAP Monitoring

The APR, self-monitoring, and audit monitoring process is intended to help ONAP fulfill its public trust responsibilities by ensuring that HUD grants are implemented in a timely manner and in compliance with all applicable requirements. Specific objectives of the monitoring process include:

- Collecting data from grant recipients that will help HUD assess recipient risk based on more complete information on performance
- Validating and/or refining technical assistance needs as defined in the risk assessment process
- Identifying additional technical assistance needs
- Identifying and initiating HUD actions that will reinforce, improve, supplement, and correct recipient performance
- Identifying and analyzing patterns of recipient activity that indicate superior, satisfactory, and deficient performance, which then can be used to improve HUD programs and increase overall recipient success rates

These monitoring guidelines are based on and adhere to the monitoring standards and procedures that govern the IHBG program. For additional information on the IHBG monitoring process, consult 24 CFR §1000.522, 1000.526, and 1000.528.

ONAP is responsible for issuing a draft report and a final report for each recipient monitored. The monitoring report is an objective assessment of recipient performance that highlights both the strengths and weaknesses in the recipient's practices and programs. In addition to identifying findings and recommending corrective actions, the report may identify concerns and offer suggestions to improve performance. ONAP may also refer concerns to the grant beneficiary for monitoring and corrective action as part of its monitoring responsibility under NAHASDA.

### 3.7 ONAP Review of Self-Monitoring

As part of its ongoing monitoring process, ONAP Grants Evaluation staff will conduct summary reviews of IHBG recipient self-monitoring practices and results, as reported in the APR. While ONAP does not require IHBG recipients to submit their internal compliance assessment checklists, all checklists and supporting documentation should be maintained for on-site review. Moreover, Area ONAP Offices may require recipients to prepare and submit self-monitoring compliance assessments as part of a more intensive monitoring strategy where performance deficiencies or noncompliance issues have been identified. ONAP staff will assess whether the recipient has:

- Adopted a self-monitoring policy or practices as part of the organization's policies and procedures
- Conducted self-monitoring on a consistent and recurring basis
- Conducted the self-monitoring assessment in an objective, arm's-length relationship with the evaluator
- Submitted self-monitoring summary results with the APRs
- Made the APR available to the public, along with the results of its self-monitoring assessment
- Incorporated corrective actions to address deficiencies identified in the self-monitoring assessment in a Performance Improvement Plan to be completed during the following program year
- Made progress from year to year in addressing control deficiencies identified in the self-monitoring assessments

# 4. Implementing the Self-Monitoring Process

This chapter provides guidance on conducting the self-monitoring process for IHBG recipients. It includes the following topics:

- Identifying Areas for Self-Monitoring Assessments
- Approaches to Conducting a Self-Monitoring Assessment
- Frequency of Conducting Self-Monitoring Assessments
- Developing a Performance Improvement Plan
- Reporting on Self-Monitoring Assessments Through the APR

**Tools and Templates**

- Performance Improvement Plan Template

## 4.1 Overview

Not all areas included in this Self-Monitoring Guidebook will be relevant to each IHBG recipient. In instances where the recipient receives a minimal amount of IHBG funds, resource constraints may inhibit the recipient's ability to undertake the full scope of monitoring activities. Conversely, where recipients receive significant amounts of IHBG funds and undertake many housing assistance program activities, they should consider the full breadth and scope of topical areas covered in this guidebook.

## 4.2 Identifying Areas for Self-Monitoring

Whether the IHBG recipient receives a minimal or large amount of IHBG funds, compliance with IHP monitoring, resident eligibility and service standards, and fiscal and financial management requirements have predominant importance. Regardless of size, all recipients should undertake an assessment of their IHP compliance, resident housing certifications, and financial management controls at least once a year.

If the IHBG recipient engages in a material level of procurement activities in a program year, the recipient should review the topics covered in Chapter 8 - Procurement and Contract Administration, to assess adherence to requirements applicable to procurement regulations. Similarly, if the recipient is undertaking new construction, housing rehabilitation activities, or site acquisition and development projects, the recipient should review the topics provided in Chapter 9 - Labor Standards, and Chapter 11 - Environmental Compliance, to evaluate compliance with applicable practices and standards. In any event, it is recommended that the recipient test a sample of instances or transactions to assess whether a procurement action, for example, adheres to the required procedures provided in these three chapters.

TDHEs and large tribal housing divisions or departments should begin their self-monitoring practices by undertaking a review of their organizational control environment as suggested in Chapter 5 - Organization and Administration of Programs. Additionally, these entities should anticipate using all the topics provided in this guidebook to assess their compliance with applicable statutes and regulations.

## 4.3 Approached to conducting the Self-Monitoring Assessments

It is critical to conduct self-monitoring with an objective and impartial perspective. Assigning individuals within the organization who perform day-to-day housing program activities to perform the assessment may yield subjective or biased responses to compliance questions. This may be especially the case for small IHBG recipients with few staff. Conversely, large IHBG recipients with significant numbers of positions will be able to identify individuals within the organization who could assume an air of impartiality in performing an assessment. Regardless of size, the key is not to review one's own work. For example, an individual whose duties focus on housing development might be a candidate for doing the assessment of financial practices; or a financial manager could assess environmental reviews. All other things equal, it is preferable to establish an arm's-length relationship between the tribal housing division or TDHE and the self-monitoring evaluator.

For TDHE self-monitoring activities, one approach is to engage an individual with the tribal government who has familiarity with internal audit concepts, such as personnel affiliated with the treasurer's office or tribal administrator. TDHE board members such as the treasurer or secretary may be considered for this role by virtue of their knowledge of the organization's objectives. However, they may have less familiarity with day-to-day business practices.

Recipients may also consider retaining the services of an independent auditor or other qualified individuals or firms to conduct self-monitoring activities. Additionally, employing the services of another tribe or intertribal organization would constitute an arm's-length relationship.

Conducting the self-monitoring assessments can be achieved using several methods, including:

- Management interviews

- Standard operating procedure reviews
- Facilitated sessions

**Management Interviews:** An evaluator can complete the self-monitoring assessment by conducting one-on-one interviews with tribal housing program or TDHE managers to obtain their insights into how they adhere to specific compliance questions. Interviews with the organization's director, deputy directors, divisional or departmental managers would provide sufficient corroborating information for the evaluator to exercise his/her judgment in determining the consistency of and degree of adherence to internal controls and applicable regulatory requirements.

**Standard Operating Procedure Review:** Another approach to undertaking a self-monitoring evaluation is to review the organization's standard operating procedures-codes of conduct, personnel policies, financial management, procurement, and construction contract policies and procedures to assess the existence and use of internal controls. To assess how well staff adhere to the established procedures, an evaluator can select a random sample of transaction files and determine whether the cases comply with the housing entity's customary operating practices. If all or most of the case files conform to the standard operating procedures, then the evaluator can reasonably reach a judgment on the entity's consistency in adhering to applicable requirements.

**Facilitated Sessions:** Another approach to undertaking the self-monitoring assessment is to convene a working session of IHBG recipient managers and program and/or administrative staff facilitated by an independent third party to talk through the monitoring topics as a group. Known as a self-assessment workshop, this approach has the added benefit of gaining everyone's input with open and frank communication. Moreover, individuals who perform a specific administrative task understand that task better than anyone else and usually have thoughtful ideas for improving the way "things get done." The role of the facilitator is to lead the group's discussion and bring the group to consensus on the appropriate response to compliance questions. Depending on the situation, this approach can be used in conjunction with other approaches at the beginning or end of the self-monitoring process.

## 4.4 Frequency of Self-Monitoring Activities

NAHASDA's implementing regulations require IHBG recipients to prepare a self-monitoring compliance assessment at least annually. In practice, it may be beneficial for most IHBG recipients to conduct self-monitoring on a more frequent basis. Larger IHBG recipients may consider reviewing specific topical areas on a quarterly basis before proceeding with projected program activities. For example, if a TDHE plans to release construction bids during the second or third quarter of its program year, conducting an evaluation of the entity's labor standard and construction procedures during the first quarter would allow time to remedy any practices not in compliance with self-monitoring standards.

As a starting point, IHBG recipients should attempt to conduct their first self-monitoring assessment at the end of the first 6 months of their program or fiscal year. Compliance shortcomings identified can begin to be addressed throughout the remainder of the year. At the end of the year, a second self-monitoring assessment can be performed to indicate how well progress has been made on fixing procedural deficiencies and what issues are outstanding.

## 4.5 Developing a Performance Improvement Plan

Based on the results of completing the monitoring assessment, IHBG recipients should concentrate on improving operational performance and strengthening management practices in those compliance areas where deficiencies have been identified. Noncompliance issues regarding laws or regulations should be addressed first when developing a Performance Improvement Plan. Other areas indicated by the self-monitoring assessments with the greatest number of negative responses should be addressed next in developing a Performance Improvement Plan.

The point of self-monitoring is to make improvements to the recipient organization. The plan for making improvements is outlined concisely in the recipient's Performance Improvement Plan. A Performance Improvement Plan is a tool by which the IHBG recipient can document compliance problems and plan a course of action to remedy the deficiencies. This plan focuses on a single topical area-procurement, for example. If the self-monitoring assessment indicates a lack of adherence to procurement regulations and procedures, the IHBG recipient should identify the problem(s), the reason(s) or cause(s) for the lack of control, budget implications, and a detailed strategy or plan of action to come into compliance within a specific timeframe.

One possible approach may be to schedule a one-day workshop to make decisions, using the information gathered during self-monitoring, to write the Performance Improvement Plan. The workshop should include the board, senior management, and those individuals who assisted with the self-monitoring assessment. A Performance Improvement Plan Template is provided at the end of this chapter.

## 4.6 Reporting on Self-Monitoring Assessments through the APR

IHBG recipients should report on their self-monitoring activities on Part II, Section A - Monitoring, of their APR. Recipients are required to describe:

- The self-monitoring systems and internal control procedures used and implemented
- The activities that were monitored, the results of each monitoring activity, and any required improvements/corrections to the recipient's operations
- Any monitoring activities conducted of the recipient's subrecipients

If a tribe is the recipient of IHBG funds, the tribe has an affirmative duty to periodically monitor the progress made toward implementing the IHP and its adherence to NAHASDA's implementing regulations.

If a TDHE is the recipient of IHBG funds, in addition to describing its self-monitoring activities, the TDHE is also required to describe the following in the APR:

- The procedures the tribe used to monitor affordable housing activities
- The activities the tribe monitored, the results of that monitoring, and any required corrective action
- Any issues that were referred to the tribe by HUD, an auditor, or other interested party and the TDHE's responses to them

ONAP does not require the submission of self-monitoring compliance assessment results with the APR. Rather, IHBG recipients should provide summary information on:

- How they conducted the self-monitoring assessment
- Their overall adherence to applicable compliance topics, identification of areas of significant compliance deficiencies, and a corresponding Performance Improvement Plan to enhance management practices

# Performance Improvement Plan Template

**Compliance Assessment Area: -------------------------------------**
**For Program (fiscal) Year: ----------------------------------------**

| Compliance Deficiencies | Improvement Target | Action Steps | Responsibilities | Budget Implication(s) | Target Date(s) |
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# 5. Organization and Administration of Programs

This chapter provides guidance on effective management and organizational practices. Management determines the character, direction, and philosophy of an organization. Topics covered include:

- Integrity and Ethical Values
- Organizational Structure and Reporting Relationships
- Organizational Bylaws
- Governing Boards
- Policies and Procedures
- Records Management
- Internal Control Systems

### Tools and Templates

- Model Resolution to adopt a Self-Monitoring Policy
- Model Self-Monitoring Policy Template

## 5.1 Overview

The control environment sets the tone for an organization's adherence to accepted policies, procedures, and practices. This environment provides the foundation for all other components of an internal control system. Key factors that define the control environment are:

- Integrity and ethical values
- Organizational structure and reporting relationships
- Skills, knowledge, and abilities of the organization's staff
- Leadership and management styles

**What are the characteristics of effective management?**

- Appropriate organization structure
- Use of performance standards and goals
- Knowledgeable governing board members
- Objectives of the organization clearly stated and understood
- Policies and procedures in place
- Communication up and down the organization
- Effective and timely reporting of major functions

## 5.2 Integrity and Ethical Values

The most effective way of transmitting a message of ethical behavior is by example. People tend to imitate the behavior of leadership. However, setting a good example is not enough. Codes of conduct or ethics need to be clearly defined in written policy and should include issues such as conflicts of interest (see 24 CFR §1000.30), explicit prohibitions, or otherwise improper activities. Codes of conduct should be reviewed by the governing board and the Director annually to assess whether they reflect the standards of the tribal community, address emerging business issues and potential conflicts, and reflect the values of the organization's leadership.

## 5.3 Organizational Structure and Reporting Relationships

Proper structure is important to the operation of any organization because it defines the relationships, responsibilities, and authorities of the positions in the organization. A TDHE or tribal housing division's structural alignment should correspond to the core housing functions performed by the IHBG recipient. For example, organizational units should be organized around processes related to resident eligibility and service standards, construction management and labor standards, financial management, and procurement and contract administration. IHBG recipients should maintain a published organizational chart that outlines the organization's reporting relationships and the number of employees by position and function.

IHBG recipients, whether tribal divisions or TDHEs, should assess whether their current organization of departments, offices, or subunits is best aligned to manage IHBG requirements.

In general, flatter organizations have better flows of communication than highly compartmental structures with multiple layers of offices, divisions, and departments. Periodically, the IHBG recipient should review the organization structure and unit interrelationships and compare them with the objectives of the organization.

## 5.4 Organizational Bylaws

Bylaws are the organization's primary governing document. They establish the rules by which the organization will conduct business and outline how governing board members will be elected or appointed, how governing board meetings will be conducted, and what responsibilities governing board members and staff must each uphold. Elements of bylaws include:

- Mission of the organization
- Geographic area served by the organization
- Selection of governing board officers, duties and voting privileges
- Delegations of authority to a director and other staff
- Composition of committees
- Rules of order, procedures, and meeting frequency
- Fiscal year of operation, books, and records
- Procedures for amending the bylaws

IHBG recipient bylaws should be reviewed periodically to assess adherence to tribal ordinances regarding the submission of financial documents, procurement, and employment practices. Often, tribal councils require that TDHEs or tribal housing divisions or departments periodically submit reports that indicate the entity's financial position.

## 5.5 Governing Boards

Boards of directors are critical to providing leadership and direction to an organization. The board should bring experience and diversity of background, monitor the progress of the recipient's program objectively, and initiate and approve plans to keep the organization growing and healthy.

No single relationship in the organization is as important as that between the board and its director. The director accomplishes expectations set out by the board in its policies and ensures staff have the direction they need to develop and deliver programs. Ideally, boards should maintain written guidelines for individual board member conduct, clearly stating that no single board member has authority over the director. The board, as a body, should establish explicit criteria by which they assess the performance of the director. Performance evaluations of the director should be conducted annually based on information that directly addresses these criteria.

In addition to many other responsibilities, to uphold their basic monitoring responsibilities, boards should review regular reports on the status of the activities described in the IHP and the APR prior to submission to ONAP. Depending on the size of the organization and the amount of IHBG funds received, the board may want to appoint a self-monitoring committee to oversee the consistent implementation of the self-monitoring processes discussed in Chapter 4 of this guidebook.

## 5.6 Policies and Procedures

Policies and procedures provide for consistent and cohesive action on the part of an organization. Policies generally establish the broad parameters of a particular function of the TDHE or tribal housing division. A procedure establishes the specific manner in which a function is to be performed, assigns responsibility, and describes specific actions, including forms and documents, and report preparation.

Sections 203 and 207 of NAHASDA require that IHBG recipients adopt written policies in the following areas:

1. **Rents and homebuyer payments policy.** A policy regarding rents and homebuyer payments charged for dwelling units assisted with NAHASDA funds, including the methods by which rents and homebuyer payments are determined (Section 203(a) (1)). This policy would also address the tribe/TDHE's procedures for how and when tenants/homebuyers shall make payments, along with the requirements for collection of payments.

2. **Eligibility, admission, and occupancy policies.** Policies addressing the eligibility, admission and occupancy of families for housing assisted with NAHASDA funds (Section 203(d)). Following are subjects that should be addressed in each policy.

**Eligibility** - Address the three types of eligible participants, including low-income Indian families, non low-income Indian families, and non-Indian families.

**Admission** - Ensure fair treatment of all those who apply for housing assistance. The policy should address all programs managed, and provisions for preferences, if any. The policy should also address how conflicting requirements for mixed financing projects will be addressed. For example, funding provided by other Federal programs may prohibit discrimination based on race in accordance with the Fair Housing Act. When these funds are combined with NAHASDA funds, which are exempt from Fair Housing requirements, a conflict occurs.

**Occupancy** - Requirements for continued occupancy and grounds for termination of a housing lease or sales contract.

3. **Management and maintenance policies**. Policies addressing the management and maintenance of housing assisted with NAHASDA funds (Section 203(e)). Although not specifically specified by statute or regulation, management policies could include policies such as Personnel, Grievance, Capitalization, and Disposition.

4. **Tenant and homebuyer selection policy.** This policy must include criteria which:

- Are consistent with the purpose of providing housing for low-income families

- Are reasonably related to program eligibility and the ability of the applicant to perform the obligations of the lease

- Provide for:
  a) the selection of tenants and homebuyers from a written waiting list in accordance with the policies and goals set forward in the IHP for the tribe that is the grant beneficiary of such grant amounts; and
  b) the prompt written notification to any rejected applicant of the rejection and the grounds for the rejection.

In addition to the statutorily required policies listed above, other applicable Federal laws and regulations require the following standards, statements, or policies.

5. **Travel.** The regulations at 24 CFR 1000.26 state that recipients shall comply with the requirements and standards of 0MB Circular No. A-87, "Principles for Determining Costs Applicable to Grants and Contracts with State, Local and Federally recognized Indian Tribal Governments." Section 41 of Attachment B in Circular A-87 indicates that travel is an authorized cost subject to certain requirements. The circular requires that grantees must use Federal travel standards in the absence of a local governmental unit travel policy.

6. **Procurement.** The regulations at §1000.26 require compliance with Section 85.36, Procurement, of Part 85, Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments. The language at §85.36 (b) (1), Procurement Standards, requires grantees and subgrantees to use their own procurement procedures that reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and standards identified in this section. Section 85.36 (b) (3) also requires that grantees and subgrantees maintain a written code of standards of conduct governing the performance of employees engaged in the award and administration of contracts.

7. **Indian preference.** This may be incorporated into the procurement policy, or may be a separate policy. IHBG recipients are subject to section 7(b) of the Indian Self-Determination and Education Assistance Act and Section 3 of the Indian Financing Act of 1974, in accordance with §1000.48. Section 1000.52 (a) (1) requires recipients to have policies

that are consistent with the sections cited above. In addition, §1000.54 on Indian Preference complaint procedures requires tribal policies that meet or exceed the requirements listed under this citation.

8. **Real property acquisition and relocation.** IHBG recipients are subject to real property acquisition and relocation policies at §1000.14 and 49 CFR Part 24, Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally Assisted Programs. The regulations at §24.103 (a) and (d), respectively, require grantees to develop minimum standards for appraisals, as well as criteria for determining the minimum qualifications of appraisers.

9. **Drug-free workplace.** One of the certifications required before a recipient's IHP is determined to be "in compliance" is the Certification for a Drug-Free Workplace. This certification is required by the regulations at 24 CFR §24.600. The required form for certification, form HUD-50070, requires the recipient to certify that it has: 1) published a statement notifying employees of the drug-free workplace requirements, and 2) provided each employee engaged in the performance of work under IHBG a copy of the written statement.

10. **Cash management**. Part 85.20 (b) (7) requires all grant recipients to establish cash management procedures. Cash management is the process of managing the cash flow to optimize the use of funds. NAHASDA recipients are referred to §85.20 and 85.21 for more information on cash management requirements. Information on cash management procedures for 1937 Housing Act program funds is also available at Part 85.

11. **Section 3.** Recipients are required to comply with Section 3 of the Housing and Urban Development Act of 1968. Section 3 addresses job training, employment, and contracting opportunities for low-income individuals. This may be addressed in the personnel and procurement policies. This requirement is found at §1000.42.

Additional policies, procedures, or standards are also required under certain circumstances. These are:
**Investment and internal control.** Recipients that seek approval to invest IHBG funds must comply with Notice PIH 2004-21, which extends Notice PIH 2003-14, which reinstated Notice 2001-21, entitled Administrative Requirements for Investing Indian Housing Block Grants. This Notice requires recipients to have an Internal Control Policy and an Investment Policy. In addition, investment policies and procedures are required by Notice PIH 2001-7, which reinstated Notice PIH 1996-33 for 1937 Housing Act investments from the following programs: Low Rent, Turnkey III, and Mutual Help.

**Housing standards.** NAHASDA regulations regarding Revisions to Cost Limits for Native American Housing at §1000.158 require that grant recipients either "adopt written standards for its affordable housing programs that reflect the requirements of §1000.156", or comply with the Total Development Cost limits published periodically by HUD. More information regarding these requirements can be found in Notice PIH 2003-16, Total Development Costs (TDC) for Affordable Housing under the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA).

ONAP Guidance 2002-11 outlines these policy requirements.

## 5.7 Records Management

24 CFR §1000.552 requires IHBG recipients to maintain financial and programmatic records, supporting documents, and statistical records of assisted families. These records are considered confidential. Records must be retained for 3 years from the date the recipient submits the APR that covers the last expenditure of grant funds under a particular grant. If any litigation, claim, negotiation, or audit involving the records has been started before the expiration of the 3-year period, the records must be retained until the outstanding issues are resolved.

Under these regulations, HUD and the U.S. Government Accountability Office have the right of access to any documents and records pertinent to NAHASDA assistance in order to conduct audits and examinations. Recipient records are not subject to the provisions of the Federal Freedom of Information Act (FOIA) or the Federal Privacy Act. However, there may be other applicable state and tribal access laws or recipient policies that apply.

## 5.8 Internal Control Systems

Internal control systems need to be monitored-a process that assesses the quality of the systems' performance over time. The way controls are applied may evolve. Effective procedures can become less effective due to the arrival of new personnel, varying training and supervision practices, time and resource constraints, or additional pressures. Moreover, circumstances for which the internal control system was originally designed also may change. Because of changing conditions, TDHEs and/or tribal housing subdivisions need to determine whether the internal control system continues to be relevant and able to address new risks. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two.

As noted in Chapter 3, IHBG recipients are required to prepare, at least annually, a compliance assessment in accordance with §403(b) of NAHASDA. This responsibility includes self-monitoring and monitoring of subrecipients. To incorporate this requirement into the control environment, IHBG recipients should affirmatively adopt and make accessible to the public a self-monitoring policy. While this guidebook outlines an annual monitoring strategy for the tribe or TDHE to establish in completing the recommended monitoring evaluations and performance improvement plans, the self-monitoring policy needs to:

- Identify monitoring roles and responsibilities
- State what entity will perform the self-monitoring assessment
- Establish a regular schedule to conduct the self-monitoring evaluations

## Self-Monitoring Policy Template
## Tribal Council or TDHE Board Resolution

**Whereas,** the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) assists and promotes affordable housing activities to develop, maintain, and operate housing in safe and healthy environments on Indian reservations and in other Indian Areas for occupancy by low-income families;

**Whereas,** recipients of NAHASDA Indian Housing Block Grant (IHBG) funds are responsible for monitoring grant activities, ensuring compliance with applicable Federal requirements and monitoring performance goals under the Indian Housing Plan (IHP);

**Whereas,** NAHASDA §403(b) requires IHBG recipients to prepare a compliance assessment at least annually;

**Whereas,** the (Name of Grant Beneficiary if recipients a tribe or Name of TDHE if recipients a tribally designated housing authority) received IHBG funds for the current program year to support the affordable housing goals and objectives of the IHP;

**Therefore,** be it resolved, it is the policy of the (Name of Grant Beneficiary if recipients a tribe or Name of TDHE if recipients a tribally designated housing entity) to conduct an annual assessment of our adherence to NAHASDA's applicable Federal requirements through a self-monitoring process; that the self-monitoring process will be conducted by an impartial reviewer; that results of this assessment will be made accessible to the public; and that recommendations to improve areas of significant compliance deficiencies will be developed and implemented during the next program year.

**In witness whereof,** this Resolution is made as of this __ day of
, 200_.

# Model TDHE or Tribe Self-Monitoring Policies and Procedures Template

**These policies and procedures were adopted by the governing body of the (NAME OF TDHE OR TRIBE) by Resolution #__- on**

***(Note: This is a model policy that may be used by an Indian Housing Block Grant (IHBG) recipient (whether a Tribally Designated Housing Entity [TDHE or tribe) and is intended for the IHBG program and its implementing rules, regulations, and statutes. If a TDHE or tribe administers any programs other than the IHBG program, this model policy may be amended to include any monitoring or compliance assessment requirements specifically applicable to those programs. However, the TDHE/tribe should ensure that the policy remains in compliance with the Native American Housing Assistance and Self-Determination Act (NAHASDA) and any other applicable Federal, state, local, or tribal laws or regulations.)***

**Policy Statement**

The governing body of the (*Name of Tribally Designated Housing Entity (TDHE*) *or tribe*) recognizes the fact that (*Name of Tribally Designated Housing Entity (TDHE*) *or tribe*) are responsible for establishing a self-monitoring policy and conducting compliance assessments as required by Section 403 of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) and 24 CFR 1000 Subpart F entitled 'Recipient Monitoring Oversight, and Accountability.' This policy is to be utilized by the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*) staff to monitor and assess the activities of the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*) to ensure compliance with applicable Federal requirements and monitoring performance goals described in the (*Name of Tribally Designated Housing Entity (TDHE*) *or tribe*)'s Indian Housing Plan (IHP).

(Note: If the recipient is a TDHE, the following paragraph should be included.)

As the NAHASDA beneficiary, the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*) is responsible for monitoring programmatic and compliance requirements of the IHP and NAHASDA. Therefore, the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*) will prepare periodic progress reports to submit to the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*), along with the annual assessment, the Annual Performance Report (APR), and a copy of the fiscal audit conducted.

This policy is intended to establish an easy-to-use compliance assessment system that includes self-monitoring procedures to be used by the (*Name of Tribally Designated Entity (TDHE) or tribe*) as a management tool in operating the (*Name of Tribally Designated Housing Entity (TDHE) or tribe*) as a property management business.

**1. Conducting Compliance Assessments**

**a. Approaches**

The Director/Tribal Chairperson shall determine each year what approach to take in conducting self-monitoring compliance assessments in accordance with this policy. The Director/Tribal Chairperson shall ensure that the assessments are conducted with an objective and impartial perspective and that no one is reviewing their own work. The approaches that may be used to conduct the compliance assessments include, but are not limited to, the following:

1. Develop a Housing Assessment Committee composed of staff, members of the governing body and/or council.
2. Utilize the tribe's Internal Audit Division (if applicable).
3. Procure the services of an outside third party that has technical knowledge and experience in the areas being assessed.

**b. Methods**

The Director/Tribal Chairperson shall work with the compliance assessor(s) to determine the most effective method, or combination of methods, to utilize in conducting the self-monitoring compliance assessments in accordance with this policy. Compliance assessments may be conducted through the following methods:

***(The methods below are samples and are not either/or but may be combined.)***

1. **Management interviews with managers and/or program administrators.** The assessor shall conduct one-on-one interviews with the respective managers or administrative personnel to obtain their insights into how they adhere to specific compliance questions. The assessor shall gather a sufficient amount of corroborating information to exercise his/her judgment in determining the consistency of and degree of adherence to the applicable regulatory requirements.

2. **Facilitated sessions.** An independent third party shall act as a facilitator and conduct self-assessment workshops with the managers and administrative staff to talk through the monitoring issues as a group. The role of the facilitator shall be to lead the

group's discussion and bring the group to consensus on the appropriate response to compliance questions.

3. **Standard Operating Procedures Review.** The assessor shall review the (Name of a Tribally Designated Housing Entity (TDHE or tribe)'s standard operating procedures including all of the policies and governing documents required by NAHASDA, as well as, the (Name of Tribally Designated Housing Entity (TDHE) or tribe)'s contracts and established internal controls. The assessor shall analyze how well the staff adheres to the adopted policies and procedures. The assessor shall also select a random sample of transaction files and determine whether the documentation included and recorded in the files conforms to established operating procedures. The assessor may choose to compile a checklist and analyze the information and answer the compliance questions on the checklist.

**2. <u>Monitoring Strategy and Plan</u>**

1. The (Name of Tribally Designated Housing Entity (TDHE) or tribe) Director/Tribal Chairperson shall develop and complete a Monitoring Strategy and Plan each plan year, encompassing the following items:
   a. Self-monitoring compliance assessments start and completion dates
   b. Approach to take to conduct and complete the different compliance assessments as described in Section 1.a
   c. Frequency of conducting and completing the compliance assessments (annually, semiannually, quarterly)
   d. Procedures to resolve any identified deficiencies or concerns

2. The (Name of Tribally Designated Housing Entity (TDHE) or tribe) Director/Tribal Chairperson shall provide a copy of the Monitoring Strategy and Plan to all staff and to the (Name of Tribally Designated Housing Entity (TDHE) or tribe) governing body. Any amended plans will be distributed to the same individuals.

### 3. <u>Areas to be Monitored for Compliance</u>

***(Note: The TDHE/tribe's Self-Monitoring Policies should include the following list of areas to be evaluated. The TDHE/tribe may include additional areas to be evaluated depending upon its individual needs. Example: If the TDHE/tribe administers other programs in addition to the IHBG Program, such as the BIA Home Improvement Program (HIP) or the HUD Indian Community Development Block Grant Program (ICDBG), the TDHE/TRIBE may add those programs to the list of areas to assess. Each program should be a separate part of the assessment.***

**a. List of Areas**

1. Organization and Administration of Programs
2. Planning and Reporting
3. Eligibility, Admissions, and Occupancy
4. Financial Management and Internal Controls
5. Procurement and Contract Administration
6. Labor Standards and Construction Management
7. Maintenance and Inspection of Physical Assets
8. Environmental Compliance
9. Audit Reports

**b. Additions to List**

The Director/Tribal Chairperson may add any additional areas to the list as recommended by the governing body or any HUD notices, guidances, or guidebooks.

### 4. <u>Resolution of Noncompliance Areas and Issues</u>

**a. Recommendations**

1. If deficiencies are discovered during the assessments performed in accordance with these procedures, the Director/Tribal Chairperson will establish a Performance Improvement Plan with target dates and corrective actions to ensure resolution and to prevent the recurrence of the deficiencies.

2. The Performance Improvement Plan will be submitted to the (Name of Tribally Designated Housing Entity [TDHE] or tribe) governing body within 30 days of completion of the assessments.

**b. Oversight Responsibility**

The Director/Tribal Chairperson will be responsible for providing oversight to ensure that all deficiencies are corrected and for concurring on the closure of each identified deficiency.

**5. Reporting**

***(Note: If the recipient is a TDHE, the following paragraph should be included:)***

The ( *Name of Tribally Designated Housing Authority (TDHE) or tribe*)'s self monitoring compliance assessment activities conducted in accordance with this policy shall be summarized in a report and presented to the (*Name of Tribally Designated Housing Entity [TDHE]or tribe*).

The self-monitoring compliance assessment is not required to be submitted with the APR; however, a summary of the self-monitoring activities should be included, along with the appropriate required responses on the APR form to demonstrate that the (Name of Tribally Designated Housing Authority (TDHE or tribe) is in compliance with 24 CFR §1000.502.

***(Note: If the recipient is a TDHE, the tribal governing body, serving as the grant beneficiary, will determine how often the TDHE should prepare and submit periodic progress reports and the annual compliance assessment in compliance with 24 CFR §1000.502. The TDHE/tribe's governing body may also establish other reporting requirements regarding self-monitoring compliance assessments.)***

# 6. Eligibility, Admissions, and Occupancy

This chapter provides guidance on fulfilling requirements related to resident eligibility and service standards for the provision of affordable housing. It includes the following topics:

- Statutory and Regulatory Requirements
- Eligibility
- Selection
- Rent and Payment Determination
- Occupancy
- Maintenance and Inspections
- Lead-Based Paint
- Temporary Relocation and/or Acquisition
- Public Dissemination and Complaint Review

## 6.1 Overview

As an IHBG recipient, the funds received are for the specific purpose of assisting certain beneficiaries. As such, recipients are required to serve only those residents who are eligible and must follow certain policies on selection of beneficiaries, determination of their rent or payments, occupancy, and maintenance.

## 6.2 Statutory and Regulatory Requirements

NAHASDA and its implementing regulations require recipients of IHBG funds to certify that they have written policies on eligibility, tenant selection, rent or payment determination, admission, occupancy, and maintenance. Further, recipients are required to maintain adequate insurance coverage for housing units that are owned, operated, or assisted with grant funds from NAHASDA. Certifications are required on an annual basis as part of the IHP.

## 6.3 Eligibility

NAHASDA's implementing regulations require recipients to verify that the IHBG-assisted families are income eligible based on anticipated annual income. Recipients are required to maintain documentation on which the determination of eligibility is based. To do so, recipients may require a family to periodically verify its income through the submission of tax returns, W-2 statements, payroll statements, or other required information as described in the recipient's Eligibility, Admission, and Occupancy Policies.

HUD periodically publishes median income limits for various Indian areas, by county. If the income limit for a county within the recipient's Indian area is lower than the United States median, use the United States median income limits. Current median family income and income limits can be found on the Internet at http://www.huduser.org/datasets/il.html.

## 6.4 Selection

NAHASDA's statutory language requires the owner or manager of affordable rental housing assisted with IHBG funds to adopt and utilize written tenant and homebuyer selection policies and criteria that:

- Are consistent with the purpose of providing housing for low-income families

- Are reasonably related to program eligibility and the ability of the applicant to perform the obligations of the lease

- Provide for:

  - The selection of tenants and homebuyers from a written waiting list in accordance with the policies and goals set forth in the IHP
  - The prompt notification in writing to any rejected applicant of that rejection and the grounds for that rejection
  - Any other selection criteria required described in the recipient's Eligibility, Admissions, and Occupancy policies, such as tribal preferences, management of the waiting lists and other selection criteria.

## 6.5 Rent and Payment Determination

NAHASDA requires that each recipient develop written policies governing rents and homebuyer payments charged for dwelling units assisted with IHBG funds. The rent or homebuyer payment for a unit assisted with IHBG funds occupied by a low-income family may not exceed 30 percent of the adjusted income of the household.

A key component of resident service standards pertains to delinquent collections. IHBG recipients need to develop a written collections policy that outlines what steps will be taken to deal with payment delinquencies.

## 6.6 Occupancy

Each recipient must develop a written occupancy policy that establishes requirements for continued occupancy and grounds for termination of a housing lease. This policy must be consistent with the lease requirements from §207 of NAHASDA. In general, the occupancy policy should:

- Not contain unreasonable terms and conditions
- Require the property manager or owner to maintain the housing compliance with applicable housing codes
- Require the property manager or owner to give adequate written notice of lease termination or eviction
- Establish terms and conditions for termination and eviction

## 6.7 Maintenance and Inspection

Recipients are required to develop written policies that define responsibilities of homebuyers, tenants, and the TDHE/tribe for maintenance of units assisted with IHBG funds. Annual on-site inspections of all NAHASDA-assisted units are required by §403(b) of NAHASDA. More information regarding inspections and maintenance is included in Chapter 10.

## 6.8 Lead-based Paint

In 1978, lead-based paint was banned nationwide for consumer use. Housing built prior to this year, however, may contain lead-based paint, which can be detrimental to residents, particularly children. IHBG recipients must follow regulations on treatment of housing with lead-based paint, as set forth in 24 CFR §1000.40.

If IHBG funds are being used for rehabilitation, acquisition, tenant-based rental assistance, or the provision of assistance to households to acquire existing housing and the housing to be assisted or occupied was built before January 1, 1978, there are certain actions specified in 24 CFR Part 35 that must be taken. The nature of the actions required depends upon the type of assistance being provided.

## 6.9 Temporary Relocation/Acquisition

There are certain relocation and real property acquisition policies that apply to housing developed or operated under NAHASDA. These are contained in 24 CFR §1000.14 and 49 CFR Part 24.

If the recipient does not have the authority to acquire the real property through condemnation, before discussing the purchase price the recipient must inform the owner of the amount believed to be the fair market value of the property. This amount must be based on at least one appraisal prepared by a qualified appraiser. The recipient must also tell the owner that the recipient will be unable to acquire the property if negotiations do not result in an amicable agreement. The recipient must request HUD approval of the proposed acquisition price before executing a firm commitment to purchase the property if the proposed acquisition payment exceeds the fair market value.

The recipient must take all reasonable steps to minimize displacement of persons (households, businesses, nonprofit organizations, and farms) as a result of a project assisted by IHBG funds. If temporary relocation is necessary, the recipient must provide residential tenants and homebuyers with:

- Reimbursement for all reasonable out-of-pocket expenses incurred in connection with the temporary relocation, including the cost of moving to and from the temporarily occupied housing and any increase in monthly housing costs (e.g., rent utility costs)

- Appropriate advisory services, including reasonable advance written notice of:

  - The date and approximate duration of the temporary relocation
  - The location of the suitable, decent, safe, and sanitary dwelling to be made available for the temporary period
  - The terms and conditions under which the tenant may occupy a suitable, decent, safe, and sanitary dwelling in the building/complex following completion of the repairs
  - The provisions for reimbursement

If relocation is necessary, the recipient must provide relocation assistance for displaced persons at the levels described in the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA) (42 U.S.C. 4601-4655) and implementing regulations at 49 CFR Part 24.
The recipient must certify that it will comply with the URA, the regulations at 49 CFR Part 24, and the requirements of 24 CFR §1000.14. The

recipient must maintain records in sufficient detail to demonstrate compliance with these regulations.

### 6.10 Public Dissemination and Complaint Review

To ensure accountability to tribal members, written policies should be readily available to the public for review. Although not statutorily required, it is good management practice to have an established written grievance policy. Providing families receiving housing assistance a formal process of lodging complaints also protects the recipient because there is a fair mechanism in place to hear both sides of the issue to resolve the dispute.

# 7. Financial Management and Internal Controls

This chapter provides the recipient with guidance on setting up sound fiscal and financial management policies and procedures, not only to comply with NAHASDA regulations and requirements but also to ensure that the organization functions as smoothly as possible. It includes the following topics:

- Statutory and Regulatory Requirements
- Reporting
- Audits
- Budget Execution
- Drawdowns
- Accounting Records
- Internal Controls
- Cash Management
- Investments and Banking
- Insurance
- Allowable Costs
- Financial Health Assessment
- Timely Use of Funds
- Current Ratio
- Tenant Receivables Outstanding
- Occupancy Loss
- Management Expense Per Unit
- Net Operating Income

## 7.1 Overview

Sound fiscal and financial management systems are extremely important to the success of the housing organization and to the provision of high-quality housing to its customers. A good financial management system will help keep track of funds, which will help make business decisions based on sound financial information. The scope of financial and fiscal management includes reporting, funding drawdown, accounting records, internal controls and cash management, budget control, investments, and audits.

**What are the characteristics of an effective fiscal and financial management system?**

- Financial reporting is conducted frequently and in a timely manner, with sufficient depth and clarity.
- Roles and responsibilities related to fiscal and financial management and accounting are clearly defined. Backup personnel are trained and available for use when needed.
- Budget comparisons are conducted for the current year and current quarter.
- Capital expenditures are reviewed and analyzed.
- Through good records, timely processing, and effective procedures, the system provides for controls over cash, working capital, and organizational assets.
- Where possible, the fiscal and financial management and accounting functions are automated to reduce the clerical burden.

## 7.2 Statutory and Regulatory Requirements

NAHASDA and its implementing regulations set forth certain administrative requirements that provide for the review of the recipient's fiscal and financial management systems and procedures. These requirements are found in NAHASDA's statutory language, as well as in 24 CFR §1000.26; applicable provisions of 24 CFR Part 85, Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Federally Recognized Indian Tribal Governments; and OMB requirements set forth in Circulars A-87 and A-133.

## 7.3 Reporting

NAHASDA's regulations require that "accurate, current, and complete disclosure of the financial results of financially-assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant" (24 CFR §85.20(b)(1)). The IHBG recipient is required to submit the HUD Form 272-I, Federal Cash Transactions Report to ONAP. This report will be used by ONAP to monitor cash advanced and to obtain disbursement information for each grant.

The recipient must submit the HUD-272-I report no later than 15 working days following the end of each quarter. However, if the recipient receives an advance either by letter of credit or electronic transfer of funds at an annualized rate of one million dollars or more, HUD may require the report to be submitted within 15 working days following the end of each month.

If the recipient has subrecipients, the financial monitoring and reporting requirements and responsibilities of both the recipient and subrecipient shall be described in the subrecipient agreement.

There are also other financial reports that, while not statutorily required, the recipient will want to generate to make intelligent and informed management decisions. Financial reports and statements present a clear picture of financial results and condition, which is valuable information. For example, the recipient may want to prepare reports that compare:

- Current month and year-to-date activity expenditures versus budget projections
- Current month versus same month prior year actual expenditures
- Current year-to-date versus prior year-to-date expenditures
- Exception reporting of variances in expenditures in excess of predefined percentages or dollar amounts
- Progress made on closing monitoring or audit findings versus prior reporting period

## 7.4 Audits

If the recipient spends $500,000 or more in Federal funds in any given year, the recipient must obtain an annual audit, called an A-133 audit (under 0MB Circular A-133) or a single audit (under the Single Audit Act). The A-133 audit looks for compliance with general and specific government audit requirements, which cover both financial and nonfinancial factors, such as program effectiveness, client eligibility, and the efficiency with which resources are used. Another key element of the audit is a rigorous test of internal control procedures, to make sure that adequate systems are in place for complying with the requirements of the grant money. The auditor may meet with staff members or ask that they fill out a questionnaire to document the procedures related to spending and receiving money and other resources, complying with laws, donor restrictions and regulations, maintaining property and equipment, and recording financial information in the books.

While the following is not a complete list, it is representative of the information the auditor will likely request:

- **Assets:**
  - Accounts Receivable - Who owes money, how much, when it is due, collection efforts, and approximate realizable value of the account
  - Property and Equipment (fixed assets) - When acquired, how much the recipient paid, how long they are expected to last,

how much they are depreciated each year, and how much has been depreciated to date, where located, responsible staff member, and latest inventory

- **Liabilities, such as Accounts Payable** - To whom the recipient owes money, how much is owed to each individual/organization, when it is due, whether the recipient is current with the debt, copies of invoices or loan agreements

- **Revenue:**

  - Grants and Contributions - Grantor/donor names and addresses, grant period, grant amount, when received, restrictions, and copies of the grant letters and grant applications
  - Donated Services and Materials - Estimated dollar value of contributions of certain services and materials
  - Special Events and Benefits - Income and expenses, documentation for the value of goods or services which donors received.
  - Documentation - e.g., contracts and invoices, names and addresses, registrations, etc. for fees from memberships, tuition, performances, and other services

- Expenses- such as payroll records, including Federal and state tax returns related to payroll, vacation records

Additional Information may include:

- Board minutes
- Leases and other contracts
- Bank statements, bank reconciliations, checkbooks, and canceled checks
- Financial files for paid bills and deposits
- Components of the accounting system - chart of accounts, journals and ledgers, printouts if the system is computerized, trial balance, etc.
- Budget for the fiscal year being examined

There is a great deal of financial data required for an audit. It is helpful to assign one person to be the audit coordinator, such as the bookkeeper or director. This person should have access to all information the auditors may need and should plan to be available to the auditors while they are on site.

Timeliness of audit submission to ONAP is critical to adhere to monitoring requirements. Depending on the size of the IHBG recipient and number of housing assistance activities, completion of an A-133 audit may take anywhere from 3 to 6 months. Based on the auditor's opinion and findings of material weaknesses, the IHBG recipient may have to prepare a Corrective Action Plan describing in detail the necessary steps to remedy audit identified management deficiencies.

## 7.5 Budget Execution

Federal regulations require that actual expenditures or outlays be compared with budgeted amounts for each grant or subgrant. In accordance with 24 CFR 85.20(b)(4), financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

**What is a budget?**

A budget is a realistic estimate of the operating revenue and expenditures to be incurred in connection with the prudent operation of any project during the specified period, broken down according to a classification of accounts. Put more simply, it is a plan for getting and spending money to reach specific goals by a certain time. The budget should be prepared on a program basis; each program should have a separate internal budget.

A good budget is a road map that shows how the recipient will attain goals with the resources available. It is also an important tool to ensure accountability and make sure the organization is following its priorities, as established in the mission statement or IHP goals. In short, a budget is the best way to stay solvent, which should be the goal of the organization.

By developing a clear and accurate budget, the organization will be better able to:

- Make decisions and guide the organization
- Adjust plans, activities, and spending
- Spend money cost-effectively
- Attain the goals it has set
- Receive "clean" audits
- Avoid incurring disallowed costs or cost overruns

Budgets allow the recipient to measure and guide its immediate and long-term financial health and operational effectiveness. They anticipate operational expense and identify income to pay for these, and help control spending and avoid deficits.

An important thing to remember is that a budget is only as good as the time, effort, and information that have been put into it. Managers of all the various affected functions of the organization should participate in the development of the budget, collaborating and exchanging information as needed. Also keep in mind that budgets are not static, done once and forgotten; they must be monitored and changed as time goes on. By monitoring actual income and expenses against what was budgeted, the recipient can assess its overall financial situation, and adjust plans as needed.

**Budget Control**

Someone in the organization, usually the Director, is responsible for the efficient and effective use of budget appropriations and the control of costs in relation to each program budget. Obligations should not be made that exceed the amount appropriated for the major spending category of a program budget, except in emergency situations as determined by the director. The director should present to the governing board budget reports, comparing the budgeted revenue and the actual expenditures.

A budget is most telling when the budgeted amounts are compared to actual expenditures. This will help ascertain where the recipient may have problems and where funds may need to be reallocated, or where activities need to be redirected. The information provided in the IHP tables, while a type of budget, may not be adequate to function as a tool for managing housing operations. Detailed budgets for each planned activity and overall budget of all activities are considered essential for planning and control of the housing organization.

## 7.6 Drawdowns

Appropriate control procedures for drawdowns are necessary to ensure that:

1. Program income funds are expended before funds are drawn down from the Treasury.
2. Funds are available to pay for expenses actually incurred.
3. Payments are issued within 3 days of receipt of deposit of funds.
4. Amounts requested are supported by receipts and other documentation.
5. Drawdowns are approved prior to execution.
6. Drawdowns are recorded properly in the general ledger.

## 7.7 Accounting Records

Regulations require recipients and subrecipients to maintain records that adequately identify the source and application of IHBG funds. These records must contain information on the grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. (24 CFR §85.21(b)(2))

Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents.

Not only is it a regulatory requirement to maintain accurate records, it is also a good management practice. Having accurate accounting records will help keep track of activities, hold the staff accountable, and help the recipient develop new budgets or other financial reports.

## 7.8 Internal Controls

The objective of internal controls for cash disbursements is to ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded. The following practices increase the likelihood that this will be accomplished:

**Segregation of Duties**

Segregation of duties keeps a financial transaction from being handled from beginning to end by only one person. For cash disbursements, this might mean that different people authorize payments, sign checks, record payments in the books, and reconcile the bank statements. If the organization is small, the recipient may want to involve a member of the board to review disbursements, bank statements, and canceled checks on a monthly basis. Also, the organization should refrain from employing relatives in positions that have a reporting relationship to avoid the appearance or actual instances of conflicts of interests.

**Authorization and Processing of Disbursements**

The recipient should develop policies on who in the organization can authorize payments, such as the director or department heads. Usually, once the board approves the budget, it does not need to authorize individual purchases within that budget. However, unbudgeted purchases would require additional governing board approval. In some organizations, the governing board must authorize significant expenditures, such as purchases for computers or other long-lived assets. In these cases, it is important to formally define what constitutes a significant expenditure and how these purchases will be handled in the recipient's internal financial management policies dealing with capitalization procedures.

All disbursements should be accompanied by adequate documentation, in the form of receipts or an invoice. Cash withdrawals should never be made via Automatic Teller Machine (ATM) cards.

### Managing Restricted Funds

IHBG funds are restricted funds; as the funder, HUD has restricted them for a specific use-affordable housing activities. By having a separate budget and separate accounts for IHBG funds, the recipient will be able to manage them and comply with their restrictions by using them only for allowable costs.

### Check Signing

It is useful to require two signatures on checks, especially for purchases over a certain amount. This amount should be defined by the organization. Even though checks require two signatures, three or four people might have check signing authority to ensure that two signers are available to make disbursements. The number of authorized signers should be kept to a minimum, while ensuring that daily business is not unnecessarily constrained. Also, avoid using signature stamps or machines.

The purpose of this internal control is to make sure that there are deliberate decisions made about who to pay, how much to pay, and when to pay bills. Authorized check signers should never sign blank checks.

## 7.9 Cash Management

It is important to manage cash receipts and cash disbursements in order to have a careful accounting of the organization's income and expenditures.

Whenever advance payment procedures are used, the recipient must follow procedures for minimizing the time elapsing between the transfer of funds and disbursement. When advances are made by letter-of-credit or electronic transfer of funds methods, the recipient must make disbursement within 3 days of making a drawdown.

If the recipient has subrecipients, the recipient must establish reasonable procedures to ensure the receipt of reports on subrecipient's cash balances and cash disbursements in sufficient time to enable the recipient to prepare complete and accurate HUD-272-Is to HUD. The recipient must monitor cash drawdowns by subrecipients to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the recipient.

**Cash Receipts Guidelines**

- There should be adequate separation of responsibility in the receipt, recording, and deposit of cash receipts-the same person should not conduct all of these activities.
- Cash funds should be secured.
- All funds should be deposited at least weekly.
- Pre-numbered cash receipts in numerical order should be used.
- All cash receipts should be accounted for.
- Deposit slips should be free of erasures or alterations.
- If staff is replaced, appropriate security measures should be taken regarding former employee(s) handling cash transactions (e.g., LOCOS authority, safe combinations).
- There should be no employee IOU notes or personal checks other than cash receipts for legitimate housing payments

**Cash Disbursements Guidelines**

- All disbursements, except those from petty cash, should be made by pre-numbered checks.
- If program income is received, this income should be disbursed on affordable housing activities.
- All expenditures should be supported by invoices, contracts, purchase orders, etc.
- All direct salaries and wages of employees should be supported by time records.
- Direct salaries that are prorated should be supported by time distribution records.
- If the cash disbursements system is computerized, the system security should be adequate.

- No checks should be missing, voided, or altered.
- Any authorized petty cash and/or change fund(s) should reflect what is on the general ledger.
- Cash counts should be done randomly, with documented regularity.
- There should be a written prohibition against signing checks in advance.
- Larger checks should require two signatures.
- All expenditures should be approved in advance by authorized persons.
- Unpaid invoices should be maintained in an unpaid invoice file.
- Invoices from unfamiliar or unusual vendors should be reviewed and approved for payment by authorized personnel who are independent of the invoice processing function.
- If the organization keeps an accounts payable register, payments should be promptly recorded in the register to avoid double payment.
- A cash disbursement voucher should be prepared for each invoice or request for reimbursement that details the date of check, check number, payee, amount of check, description of expense account (and restricted fund) to be charged, authorization signature, and accompanying receipts.
- A cash disbursement journal should be prepared monthly that details the date of check, check number, payee, amount of check, and columnar description of expense account (and restricted fund) to be charged.
- Advance payments to vendors and/or employees should be recorded as receivables and controlled in a manner which assures that they will be offset against invoices or expense vouchers.

## 7.10 Investments Banking

Recipients have the option of investing cash in excess of immediate need with prior ONAP approval. IHBG funds may be invested in investment securities and other obligations as long as the two following basic requirements are met:

- The most recent annual audit (under the Single Audit Act) must have been free of significant and material audit findings or exceptions.

- The recipient has developed and adopted the applicable policies and procedures and can demonstrate that they have the administrative capacity and controls to responsibly manage the investment.

IHBG funds may only be invested in:

- Obligations of the United States; obligations issued by Government sponsored agencies; securities that are guaranteed or insured by the United States; mutual (or other) funds registered with the Securities and Exchange Commission and which invest only in obligations of the United States or securities that are guaranteed or insured by the United States

- Accounts that are insured by an agency or instrumentality of the United States or fully collateralized to ensure protection of the funds, even in the event of bank failure

The recipient must keep IHBG funds in one or more accounts separate from other funds. Accounts must be insured by an agency or instrumentality of the U.S. or fully collateralized to ensure protection of the funds even in the event of bank failure. Accounts are subject to an agreement in a form prescribed by HUD sufficient to allow HUD to exercise its rights of suspending funds disbursed in cases of substantial noncompliance. HUD Notice PIH 2004-21 extends PIH Notice 1999-4 that provides additional guidance on investing IHBG funds.

## 7.11 Insurance

NAHASDA requires recipients to provide adequate insurance against loss from fire, weather, and liability claims for all housing units owned by the recipient. Insurance is considered adequate if it is a purchased insurance policy from an insurance provider or a plan of self-insurance in an amount that will protect the recipient's financial stability.

There is no insurance required on units of privately owned housing if there is no risk of loss or exposure to the recipient, or if the assistance the recipient is providing is less than $5,000. The recipient must also require contractors and subcontractors to either provide insurance covering their activities or negotiate adequate indemnification coverage to be provided in their contract.

The recipient may want to develop and use an Insurance Register to track all insurance activity, including (1) the name of the insurer, (2) the insurance type (e.g., automotive), (3) the period of coverage, (4) the total amount of the premium, and (5) the insurance payment date.

## 7.12 Allowable Costs

IHBG funds are only to be used to pay for certain allowable expenses. The regulations cited in 24 CFR Part 1000.26 refer to OMB Circular A-87 and 24 CFR §85.22 for information as to what items and services a recipient may pay for using IHBG funds.

## 7.13 Financial Health Assessment Overview

This section of this chapter will present six financial indicators that can help assess the tribe's housing department or TDHE's financial health. Financial health is important because it allows the organization to achieve the housing goals it has established for itself. When an organization is "unhealthy" financially, every unexpected event puts it into crisis: project cost overruns, late rent payments from tenants or employee turnover. When organizations have frequent crises, it is difficult to achieve goals; the "goal" often is simply to resolve the crisis. To be successful, NAHASDA recipients need tools to help them anticipate problems and prevent them from becoming emergencies.

The recipient can use these six indicators as part of its annual or ongoing self-monitoring process. The results obtained are especially useful when comparing them to the previous year's results. The recipient can use the data from audited financial statements to calculate the indicators. Also, the recipient's auditor may be able to provide assistance in the calculation of these indicators using the financial statements of the organization. However, checking them only once a year might not be frequently enough. Producing these indicators quarterly or every six months will allow the recipient to identify trends, foresee growing problems, and react before they become crises. These indicators are an excellent way for a Director to communicate results to the governing board and to show progress on goals.

The following six indicators each tell a different part of the recipient's financial story:

**Timely Use of Funds** is a basic indicator which shows whether the recipient is obligating and expending NAHASDA grants without long delays.

**Current Ratio** measures the liquidity of the organization and its ability to cover current liabilities.

**Tenant Receivables Outstanding** shows the average number of days it takes the organization to collect payments from tenants and the amount of receivables.

**Occupancy Loss** shows whether the organization is making the most of its units through high occupancy.

**Management Expense Per Unit** shows how much overhead expense the organization incurs in the delivery of housing.

**Net Operating Income** reflects the relationship between operating expenses and operating income- it is "what's left over."

## 7.14 Timely Use of Funds

### What It Shows

This indicator measures whether the recipient is obligating and expending NAHASDA funds without long delays. Some grantees find themselves in the position of having a lot of funds but few expenditures on housing. This indicator will help alert the recipient as to whether they are beginning to have a backlog and what to do about it.

This indicator uses two ratios:

- Percentage of Funds Over Three Years Old Unexpended
- Percentage of Funds Over Two Years Old Unobligated

An obligation is a firm commitment or encumbrance placed against funds, in the form of purchase orders, contracts, or agreements, to cover a later expenditure required when goods are delivered or services rendered. Expenditure is the cost of goods delivered, or services rendered, which are recorded as charges to the accounts of an activity or department.

The data to calculate these ratios should come from the systems and documents that are used to track the grants. HUD grantees should follow the regulation at 24 CFR §85.20(b)(2), which requires grant recipients and subrecipients to maintain financial records that show award, subaward authorizations, obligations, unobligated balance, assets, liabilities, outlays or expenditures, and income.

**How to Calculate It**

To calculate the Percentage of Funds Over Three Years Old Unexpended, take the following steps:

1. Find all open NAHASDA and 1937 Housing Act grant awards, their original amounts, and their grant years; list them with the most recent first. Open grants are those which have a positive balance.

2. Research and add to the list the amount the organization has expended on each grant; add this number in a separate column beside each grant on the list. Sources to find this information includes financial grant records, Financial Cash Transaction Reports (HUD-272-I), and the APR.

3. Find amount remaining on each grant from financial grant records and verify for each by subtracting the expended amount (Step 2) from total grant award (Step 1).

4. Divide grant amount remaining (Step 3) by total grant award (Step 1) and convert to a percentage by multiplying by 100. Do this for each grant on the list.

**For all open grants more than 3 years old:**

$$\text{\% Funds Over 3 Yrs Unexpended} = \frac{\text{Amount Remaining}}{\text{Original Grant Amount}} \times 100$$

To calculate the Percentage of Funds Over Two Years Old Unobligated, take the following steps:

1. Find all open NAHASDA and 1937 Housing Act grant awards, their original amounts, and their grant years; list them with the most recent first. Open grants are those which have a positive balance.

2. Research through the financial records the amount the organization has obligated on each grant; add this number in a separate column beside each grant on the list.

3. Find unobligated amount on each grant and verify for each by subtracting obligated amount (Step 2) from open grant award amount (Step 1).

4. Divide unobligated amount (Step 3) by open grant amount (Step 1) and multiply by 100 to convert to a percentage. Do this for each grant on the list.

**For all open grants more than 2 years old:**

$$\text{\% Funds Over 2 Yrs Unobligated} = \frac{\text{Amount Unobligated}}{\text{Original Grant Amount}} \times 100$$

The recipient may develop and use a spreadsheet, such as the one provided below, to help in the calculation of both numbers. Organizing the information in this way will make it easier to analyze the results.

| Grant # | Year | Original Amount | Amount Expended | Amount Unexpended | % Un-expended | Amount Obligated | Amount Unobligated | % Un-Obligated |
|---|---|---|---|---|---|---|---|---|
| 041H44444444 | 2004 | 689,529 | 124,128 | 565,401 | 82% | 351,659 | 337,869 | 49% |
| 051H55555555 | 2005 | 424,477 | 287,578 | 136,899 | 32% | 390,518 | 33,958 | 8% |
| 061H66666666 | 2006 | 379,880 | 361,189 | 18691 | 5% | 379,880 | 379,880 | 0% |

**H**

**How to Use the Number**

In general, it is better to have a lower percentage for each of these indicators for the grants that are over three years old. NAHASDA regulations state that no less than 90% of a NAHASDA grant must be obligated within two years (24 CFR §1000.524(a)) after the grant agreement is signed. It is important to remember that this is a fairly rough measure of the organization's financial health; that is, expending funds without long delays does not always mean success at turning money into safe, decent, occupied housing. However, organizations with problems, such as staff turnover or procurement problems, often tend to have difficulty in spending their grant money.
There are a variety of comparisons the recipient might do to understand the results better:

• Compare the Percentages Unexpended for each grant and the Percentages Unobligated for each grant. Each of these percentages should get smaller-from the most recent to oldest grant. That is, the recipient should be using the oldest grants first.

- Look at the Percentage Expended or Obligated by grant year. Is the recipient on track to expend and obligate funds on schedule? That is, has the recipient expended at least 67% of a two-year-old grant? Has the recipient obligated at least 50% of a one-year-old grant? Looking at the numbers in this way can alert the recipient to potential future problems.

- Compare the results just calculated to the results calculated previously (last year, last quarter, or six months ago). Is the percentage of unexpended grant amounts and unobligated amounts steadily decreasing?

- Speak with colleagues at other organizations that have NAHASDA grants. Find out whether they are obligating and spending their funds in a timely way and how they avoid falling behind.

**Analysis: Key Questions and How to Improve Results**

If there is currently a high percentage of unobligated amounts in either the percentage of funds over three years old unexpended or the percentage of funds over two years unobligated (over 20%) or if the recipient can foresee problems unless action is taken, consider the following suggestions:

- Analyze what is causing slow obligation and/or expenditure. Some common problems are:

  - Lack of staff with the right skills to manage large special projects, such as the development of new housing
  - Slow response in hiring staff to fill vacated positions
  - Lack of administrative capacity to manage both existing housing and take on the additional work of a new project (e.g., procurement tasks, environmental review, project cost estimation, etc.)
  - Uncertainty or confusion over grant usage and requirements (e.g., invoicing procedures, procurement procedures, drawdowns, etc.)
  - Weak project or program planning such as lack of implementation schedule and budget

- If money is being expended and/or obligated slowly because of a future large project, is that project on schedule? Consider taking actions to make sure that the project stays on schedule and will not have an impact on the recipient's finances. Draw up realistic implementation schedules and budgets and use these on an ongoing basis to manage the project.

- Is the number of activities planned appropriate to the grant size?
  - Consider planning more projects (using the IHP as a guide) if planned projects will not adequately spend the grant.
  - On the other hand, if the recipient has more projects planned than funds, consider focusing on the most important projects and making sure they stay on schedule.

These suggestions are intended to point the way toward identifying areas of the organization's operations which may cause delays in obligating and spending funds. How the recipient deals with what causes the delays will depend on specific circumstances. It may involve confirming requirements and procedures, requesting technical assistance, training staff, hiring new staff, reorganizing staff duties, or planning new projects.

## 7.15 Current Ratio

### What It Shows

Current Ratio measures the liquidity of the organization and its ability to cover current liabilities. It is calculated by dividing current assets by current liabilities.

In less technical language, the word "liquidity" refers to assets which can be easily converted into cash. For instance, a car is an asset but cannot be used to pay a debt without selling it first, so it is much less liquid than money in a checking account. The organization's assets are what it owns or is owed (i.e., the housing, offices, computers, tenant rents, funds in the bank, etc.). Current assets are those assets that are most liquid or easily converted into cash: cash on hand, accounts receivable and short-term investments. The organization's liabilities are claims against its resources. Current liabilities are those which are payable in a year, such as accounts payable, employee salaries, and loan payments.

By dividing current assets by current liabilities, the recipient may determine the number of times which current assets, those which are easily converted into cash, can cover the liabilities which need to be paid in the near future. This information is often needed by lenders before extending a loan to a business; and so the Current Ratio often goes by the name, "banker's ratio." The higher the ratio, the more assurance the lender has that current liability, like loan payments, can be paid.

### How to Calculate It

Calculating Current Ratio is easy; simply divide the dollar amount for current assets by the dollar amount for current liabilities. Take care to include all the appropriate fund categories for current assets. These include:

- Cash (includes petty cash and checking account balances)
- Investments (includes CDs payable in a year or less, money market accounts, and other interest-bearing accounts)
- Accounts Receivable (includes tenant rent payments and other bills which are due the organization)

Make sure to exclude from the calculation the fixed assets, like office furniture and equipment, land, structures, and other equipment. These are not current assets because they cannot be easily converted into cash to pay debt.

Similarly, take care to include all the appropriate fund categories for current liabilities. These include:

- Accounts Payable (bills for goods and services that the organization will pay)
- Accrued Expenses
- Deposits (includes tenant security deposits)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

### How to Use the Number

In general, a higher Current Ratio is better because it means the organization is more solvent. If the Current Ratio is one or less, that is usually too low: if bills come due or tenants move out and need their security deposits, the recipient will have a cash flow problem. On the other hand, a Current Ratio of 10 or greater might be too high. Some of these resources might better be moved to longer-term investments, where the return is greater. The best ratio for the organization will depend partly on the size; larger organizations can get by with a smaller Current Ratio than smaller organizations.

Current Ratio is in constant flux as the recipient goes about the normal business of organizing, consuming goods and services and billing tenants. Calculating Current Ratio only once a year during the self-monitoring process might not be frequent enough for it to be a good management tool. The recipient might start calculating Current Ratio on a monthly or quarterly basis to get a feel for the Current Ratio now and to see how it varies and what sorts of events affect it. Doing so will allow the recipient to foresee potential cash flow difficulties in the future and plan ahead.

Colleagues at other NAHASDA-funded organizations might provide some insight on what they consider to be a good Current Ratio. Because recipients are dealing with a ratio and not the actual dollar amounts, the exact services that colleague organizations provide and their size are less important. Those serving on the governing board of an organization receiving NAHASDA funds might consider looking at the Current Ratio as part of their oversight responsibilities.

To get a better sense of the Current Ratio for organizations similar to IHBG recipients, consider the following Current Ratios from Public Housing Authorities. Organizations with Current Ratios in these ranges get the highest score in the Public Housing Assessment System (PHAS).

| PHA Size | # of Units | Current Ratio (CR) Range |
|---|---|---|
| Very Small | 0-49 | 4.9<CR<14.0 |
| Small | 50-249 | 2.8<CR<8.0 |
| Low Medium | 250-499 | 2.5<CR<5.9 |
| High Medium | 500-1,249 | 2.1<CR<4.9 |
| Large | 1,250-9,999 | 1.8<CR<3.9 |

**Analysis: Key Questions and How to Improve Results**

If the recipient finds that they have a low Current Ratio and/or occasional cash flow problems, consider the following suggestions:

- Some immediate actions can be taken to convert long-term assets to current assets, for example, by cashing out investments. The recipient can also try to convert short-term liabilities to long-term liabilities, which would involve making arrangements with creditors or service providers.

- Look at the organization's Tenant Receivables Outstanding (see next topic). Accounts receivables are considered current assets for the purpose of calculating Current Ratio; however, billing a tenant is not the same as having cash in hand to pay liabilities. If the Current Ratio seems fine, but the recipient is still having cash flow problems, dig deeper into Tenant Receivables Outstanding to see if this is the source of the cash flow problems.

• Calculate the Current Ratio for a series of periods (months or quarters). Chart Current Ratio over time on a line graph and remember what was happening during the periods where the Current Ratio gets lower. Once the recipient links events with an effect on the Current Ratio, it can begin to manage cash in such a way as to maintain an acceptable Current Ratio as predicted and foresee the events that will affect it.

### 7.16 Tenant Receivables Outstanding (TRO)

For most NAHASDA grantees, property management is the "business" at the heart of their activities. Most of the tasks the organization performs-tenant selection and admission, contracting for capital improvements, work-order response, rent collection, and so on-are the same as the recipients counterparts in private-sector property management companies. As in the private sector, tenant receivables are where the rubber meets the road and where the recipient takes in revenue to pay for the expenditures. This indicator shows the average number of days it takes the organization to collect rent from tenants and is a good test of the organization's capacity as a property manager.

The organization's financial viability depends on the ability to collect the revenue owed. Above, in the discussion of current ratio, it was mentioned how high TROs can hide within a respectable current ratio and cause cash flow problems. When this happens, organizations avoid cash flow problems by tying up resources in current assets rather than investing them. That is, an organization which has a TROs figure of 30 days will need much more working capital (current assets minus current liabilities) than one which has a figure of 4 or 5 days. We all understand this concept from our own personal finances: if the recipient cannot count on getting paid, it needs a good "cushion" in its checking account or it won't be able to pay its own bills. This section will show how to calculate a recipient's TRO figure and how to use it to monitor financial management.

#### How to Calculate It

To calculate TRO for the previous year, take the following steps:

1. Find total tenant revenue for the year; this information should be readily available from the rent roll or billing system.

2. Divide total tenant revenue (Step 1) by 365 to calculate average daily total tenant revenue.

3. Find gross tenant accounts receivable. For the first year that this figure is being calculated, use the actual year-end balance. For subsequent years, find the average between the balance at the beginning of the year and the year-end balance.

4. Divide gross tenant accounts receivable (Step 3) by average daily total tenant revenue (Step 2).

**FIRST STEP:**

$$\text{Daily Total Tenant Revenue} = \frac{\text{Total Tenant Revenue for Year}}{365}$$

**SECOND STEP:**

$$\text{Tenant Receivables Outstanding} = \frac{\text{Gross Tenant Accounts Receivable}}{\text{Daily Total Tenant Revenue}}$$

**How to Use the Number**

In general, a lower number for this indicator is better. The advantage of this indicator is that it is easy to understand quickly: it tells the recipient the average number of days the organization takes to collect rent payments from tenants. If the recipient calculates 30 for this indicator, it would mean that it takes a month, on average, to collect tenant receivables. This is not a very good performance.

It is important to remember that this indicator calculates an average. If, for example, at one organization most tenants pay their rent on time but there are a few "bad apples" that have not been evicted and are months behind, the TRO might be 15. At another organization where almost all tenants pay but are consistently one to three weeks late, their TRO might also be 15. Even though these two organizations have the same average, they have different payment problems and would go about solving their problems in different ways. It is important to understand the problems causing the recipient's TRO result to determine what to do about it.

This indicator should react fairly quickly to changes in late payment policies which are clearly communicated to tenants. The effectiveness of the adopted policy can be tracked by calculating the figure for each quarter. To calculate this indicator for a quarter rather than a year, follow the instructions above, but:

- Determine total tenant revenue for the quarter rather than the year.
- Divide by the number of days in the quarter rather than 365 to find average daily total tenant revenue.
- Use the average between gross tenant accounts receivable at the beginning of the quarter and at the end of the quarter for gross tenant accounts receivable.

This indicator is an excellent tool for Directors to use to communicate the results of initiatives and new payment procedures to governing board members. Similar to other indicators, comparing notes with colleagues in other NAHASDA-funded organizations may help generate ideas for the organization.

As a reference, consider the following TRO results from Public Housing Authorities. Organizations with averages below these thresholds get the highest score in the PHAS.

| PHA Size | # of Units | TRO |
|---|---|---|
| Very Small | 0-49 | TRO<1 |
| Small | 50-249 | TRO<2 |
| Low Medium | 250-499 | TRO<4 |
| High Medium | 500-1,249 | TRO<5 |
| Large | 1,250-9,999 | TRO<7 |

**Analysis: Key Questions and How to Improve Results**

If the recipient's TRO result is too high (over 5), consider the following questions and suggestions:

- What are the late payment policies? Are they being enforced?
- Does the recipient have a waiting list? If enforcement of eviction policies is lacking, consider whether "deadbeat" tenants are taking the place of families who would happily pay rent on time for the chance to receive subsidized housing.
- Is the billing system capable of incorporating payment penalties and generating reports quickly? If not, improvements in this area may

help the recipient understand the problem better and implement new policies.

- Calculate the percentage of charges collected in the last month by dividing last month's collections by last month's billed amount. This percentage can give a quick indication of whether a high TRO is due to long-past-due charges or whether it is a current problem which is accumulating.

Generate ideas to improve payment performance; some examples are:

- Hire additional housing counseling staff
- Give an incentive to management by tying a bonus for the Director to improvement of TRO results
- Deduct the rent for tenants who are also tribal or housing entity employees directly from their paycheck
- Hire deadbeat tenants for the recipient's force account crew and deduct rent directly from their paychecks
- Investigate ways to create more urgency among tenants to pay bills on time such as charging interest on bills or flat late payment penalties

## 7.17 Occupancy Loss

**What It Shows**

This indicator shows whether the organization is making the most of its units through high occupancy. In private-sector property management organizations, Occupancy Loss is a key measure to see if the managers have done a good job marketing the properties and handling the transition from one tenant to the next. It measures whether the managers have used the property to generate as much revenue as possible. While NAHASDA recipients operate as not-for-profit ventures, it is also important that they make the best use of their housing to house tribal members in safe and decent environments.

Occupancy Loss is calculated by dividing the number of leased unit-months by the number of potential unit-months and multiplying by 100 to get a percentage. Vacant units and slow transition times between tenants result in higher occupancy loss percentages.

### How to Calculate It

It would be fair to ask at this point, "What is a unit-month?" A unit-month is the number of months during a period which a unit is leased or available for lease. For instance, a unit available for lease over a whole year would have 12 potential unit-months. It would be possible to calculate Occupancy Loss by simply dividing the number of rented units during a year by the total number of units. However, some units are only rented for 11 months, some for 7 months, and so on. The unit-month measure allows the recipient to be more precise about the amount of time units are leased or available for lease.

To calculate Occupancy Loss, first find the number of leased unit-months. Use the rent roll or billing system to determine the number of monthly rental charges the recipient has billed during the year. Next, find the total number of potential unit-months. Start by multiplying the number of units that the organization operates by 12. Then subtract units that were demolished or under renovation; subtract the number of months each unit was offline for either reason from the total.

Then,

1. Divide the number of leased unit-months by the number of potential unit-months.

2. Multiply the number calculated in Step 1 by 100.

3. Subtract the number arrived at in Step 2 from 100.

$$\text{Occupancy Loss} = 100 - \frac{\text{Leased Unit-Months}}{\text{Potential Unit-Months}} \times 100$$

### How to Use the Number

In general, a lower percentage is better. An Occupancy Loss of 0% would mean that all units not under renovation were always occupied. Occupancy Loss is a good test of the organization's capacity as property managers because it reflects several factors such as:

- The accuracy of the waiting list

- The recipient's adherence to its admissions policies and procedures and whether they are practical, streamlined, and efficient

- The efficiency of the maintenance department and whether it is well integrated with the rest of the organization

Organizations which require tenants to give sufficient notice before moving out and act quickly on that information to prepare to admit the next tenant on the waiting list, tend to have lower Occupancy Loss percentages. There are several ways to understand the results better:

- Track Occupancy Loss over several periods (quarters or six-month periods). If the recipient has made changes to admission policies and procedures, trained staff, or worked to improve the maintenance department's performance, Occupancy Loss is one area where the recipient should begin to see results and improvement.

- Speak with colleagues at other organizations that have NAHASDA grants. Ask them about their Occupancy Loss percentages and, if low, find out about their waiting list practices, admissions policies and procedures, and maintenance department to see if there are ideas the recipient can adopt.

To better understand the Occupancy Loss percentage, especially the first time it is calculated, consider the following percentages from Public Housing Authorities. Organizations with Occupancy Loss percentages below these thresholds get the highest score in the PHAS.

| PHA Size | # of Units | OL |
|---|---|---|
| Very Small | 0-49 | OL<1% |
| Small | 50-249 | OL<3% |
| Low Medium | 250-499 | OL<5% |
| High Medium | 500-1,249 | OL<5% |
| Large | 1,250-9,999 | OL<6% |

**Analysis: Key Questions and How to Improve Results**

If the Occupancy Loss is high (over 10%), consider the following suggestions:
Calculate the average turnaround time. Turnaround time is the number of days between the last day for which the departing tenant pays rent and the first day the new tenant begins to pay rent for the same unit. If this figure cannot be calculated from the rent roll with ease, take a few examples during the past year and calculate the average.

- Talk to staff about their experiences:
- Contacting names on the waiting list and its accuracy
- Checking tenants out and the process to return security deposits
- Admitting new tenants and the paperwork requirements
- Doing routine maintenance (painting, sheetrock repairs, cleaning) between tenants

These conversations may help pinpoint one area which is mostly responsible for slow turnaround times.

- Calculate the average amount of time a family spends on the waiting list. To do this, look at all (or a sample) of families admitted over the past year and calculate the difference between the date admitted to the waiting list and the date offered housing. Then find the average. Many organizations make adjustments to the documents they require to get on the waiting list and the documents they require to be admitted based on the average wait on the waiting list. Changing these requirements can help speed the admission process.

  If the average wait is short (less than 6 months), then much of the documentation can be processed up front when the family is put on the waiting list. If the average wait is long (over 6 months), then it makes sense to do most of the documentation during the admission process; this might imply having policies which require departing tenants to notify the organization of their departure earlier.

- If the recipient does not have a waiting list, marketing housing availability (for example, through posters, tribal newspapers, and direct mail), can help reduce the recipient's Occupancy Loss from vacant housing.

### 7.18 Management Expense Per Unit

#### What It Shows

This indicator shows how much overhead expense the organization incurs in the delivery of housing. It goes without saying that it costs money to properly manage housing. Offices, computers, and copiers, as well as tools, materials, and vehicles, all are needed and cost money. The recipient also needs people to administer the housing and, of course, people are paid salaries.

Unlike many of the other indicators, it is probably just as bad to spend too little on managing housing, as it is to spend too much. NAHASDA grants are meant to help provide housing to low-income people and with the grant comes a variety of control and reporting requirements. Successfully administering NAHASDA funds requires Management Expense. If by lowering Management Expense, the recipient risks not successfully completing grant requirements, then the cost-cutting strategy should be reevaluated. However, it is clear that some organizations are less efficient in their delivery of housing than others.

This indicator measures the Management Expense per unit. It is calculated by dividing the total Management Expenses by the number of leased units. The amount of expense is highly dependent on the size of the organization and location. For instance, large organizations may be able to invest in an excellent computerized accounting system that can provide all sorts of timely reports. In contrast, a smaller organization may use a fee accountant sparingly. Even though the large organization has a much more convenient system, the Management Expense due to their accounting system is probably lower than that of the small organization. Fixed costs, such as accounting services, are spread over many more units for large organizations than for small ones. Location plays a part because salaries vary a good deal from region to region.

**How to Calculate It**

Operating expenses generally include the categories administration, general expenses, tenant service expense, maintenance and operations expense, and utilities. This measure will only consider administration and general expenses, as these are the areas most prone to becoming "top-heavy." The process for calculating Management Expense Per Unit is:

1. Find the amounts for the past year for administration and general expenses. If these expenses are broken out on the recipient's audited financial statements, they are generally on the Statement of Activities.

2. Sum the administration and general expense amounts. If the recipient also administered special projects (e.g., developing new housing), the recipient will need to subtract the administration and general expense amounts attributable to special projects from the totals. If staff work is spent exclusively on special projects, this should be fairly straightforward; if not, get staff to estimate the percentage of time they dedicate to special projects.

3. Find the total number of leased unit-months for the past year from the rent roll or billings system (see above for more detail). This is the total number of monthly charges that the recipient billed tenants.

4. Divide the total number of leased unit-months (Step 3) by 12 to get the total number of leased units.

5. Divide the administration and general expense sum (Step 2) by the total number of leased units (Step 4).

$$\text{Management Expense Per Unit} = \frac{\text{Admin + General Expenses}}{\text{Total \# of Leased Units}}$$

**How to Use the Number**

As was pointed out above, lower Management Expense is generally better, but only if the quality of housing and grant administration can be maintained at acceptable levels. However, on its own this indicator cannot tell anything about the quality of housing and grant administration.

For instance, consider an organization where an administrative staff person leaves her position during the year and a replacement is not quickly found. There is a salary expense savings while the position is open, and this fact is reflected in a lower Management Expense per unit for the year. But what if this staff person had years of experience and was the one that new staff turned to with questions. After he or she leaves, forms are filed incorrectly and procedures are not followed. While Management Expense has improved, other indicators may tell a different story.

Therefore, it is important to view this indicator alongside the other indicators presented here. It is definitely possible to make improvements in other areas and, at the same time, in Management Expense. Sometimes the best solutions result not only in better housing and grant administration results, but also lower costs.

Consider the following suggestions to understand the results better:

- Calculate this indicator every year using financial statement results; compare year-to-year results and try to understand the factors that influenced Management Expense over the past year:

- Are increases tied to improvements in another area?

- Are decreases tied to greater efficiencies, new processes, and better staff?

- Has the recipient subtracted from total costs a realistic amount for the administration of special projects?

Use Management Expense as a tool to put staff salary discussion and hiring strategies in perspective: sometimes better trained staff cost more but their work requires less supervision and they are more productive. Management Expense Per Unit can help the recipient make sense of the tradeoff between higher salaries and better performance when staffing. Can the recipient show sustained improvement in other indicators and at the same time reduce Management Expense? If so, these are the sorts of results which can highlight the success of a Director in front of the governing board.

### Analysis: Key Questions and How to Improve Results

If the recipient finds that Management Expense is high or is increasing, these questions should be asked:

- If Management Expense has increased, are there good reasons for the increase?
- Has the recipient hired new staff to administer special projects?
- Has the recipient hired more qualified staff at higher salaries?

Most businesses today recognize that inefficiency often is not about employee productivity but about the processes that employees are instructed to use:

- Talk to staff to find out how they carry out certain tasks.
- Redesign processes to make these tasks take less time, freeing staff to handle more or different tasks.
- Consider whether technology can be added to the process to make it more efficient.

7.19 Net Operating Income

### What It Shows

This indicator is calculated by subtracting operating expenses from operating income. When the result is negative, it is called a loss; when positive, it is income. Private-sector property management firms live and die by their Net Operating Income (NOI) performance. Pursuit of the highest N01 possible is behind most of their management decisions. N01 summarizes their performance on a variety of factors. A few of their major concerns which are reflected in NOI are:

- Keeping vacancies low through marketing and improvements to retain tenants
- Control of maintenance costs
- Determination of rents

The use of NOI as an indicator for NAHASDA grantees is relevant because it also summarizes the organization's performance on some of the indicators discussed above: TRO, Occupancy Loss, and Management Expense Per Unit. To use NOI for NAHASDA grantees, however, requires some significant adjustments in its calculation.

**How to Calculate It**

A recipient's audited financial statements will often contain a number which reflects the relationship between operating revenues and operating expense on the Statement of Activities or Income Statement. In some cases, it may actually be called "Net Operating Income." Unfortunately, there are many reasons why this number may be misleading as an indicator of performance.

In this section, a method that can be used to calculate a number that can be use as a management tool to track performance over time will be described. It should be noted from the start, that the first year a recipient calculates this NOI, the recipient will not be able to make any judgments about their performance. This NOI calculation will be useful only as compared to a first-year, or baseline, calculation.

The basic formula used to calculate NOI is as follows.

**Potential Gross Rental Income (PGRI) -**
**Vacancy Loss (VL)**
**- Collection Loss (CL)**
**= Effective Gross Income (EGI)**
**Operating Expenses (OE)**
**= Net Operating Income (NOI)**

**Potential Gross Rental Income (PGRI)**

The first step is to calculate PGRI. The basic problem is that in NAHASDA-funded housing, tenants do not usually pay a fixed rent based on the unit but pay rent based on their individual income. This is a significant difference from the private sector and causes havoc in calculating a useful NOI. To get around this problem, we need a stand-in rent as if this were a private sector unit. Stand-in rents should be the same for all units of the same type and are unrelated to what the tenant actually pays. The same stand-in rent can be used to calculate NOI from year to year, so that changes in NOI can be compared. Choose a reasonable value for each type of unit under operation; if possible, use a rough estimation of what the unit would go for in the private market. In the end, any reasonable round number will do.

1. Make a list of unit types and the number of each type of unit the recipient operates.
2. In the next column, record the stand-in rent for each unit type.
3. Multiply the stand-in rent by the number of units of each type and record that figure in a fourth column.
4. Total the figures recorded in Step 3.

A spreadsheet can assist in this calculation; a finished spreadsheet for a small fictitious organization might look like this:

**Western Tribe TDHE: Calculation of PGRI**

| Unit Type | # of Units | Stand-In Rent | PGRI |
|---|---|---|---|
| Scattered Site 3BR | 45 | $550 | $24,750 |
| Duplex 2BR | 32 | $400 | $12,800 |
| **Totals** | **77** | | **$37,550** |

**Vacancy Losses (VL)** The next step, Vacancy Losses, is easy because the recipient has already calculated what is needed under the Occupancy Loss indicator. Simply multiply the percentage calculated for Occupancy Loss by PGRI. That is,

**PGRI X OL VL**

| | | |
|---|---|---|
| **PGRI** | • | **Potential Gross Income** |
| **OL** | • | **Occupancy Loss** |
| **VL** | • | **Vacancy Loss** |

for instance, continuing with the example, if Western Tribe's Occupancy Loss was 6%, the calculation would look like: $37,550 X .06 = $2253

**Collection Losses (CL)**

Now Collection Losses need to be calculated. To do so, the recipient can reuse some of the figures collected under TRO.

1. Find total tenant revenue for the year; this information should be readily available from the rent roll or billing system.
2. Determine the total of all monthly rent charges during the past year from the rent roll or billing system.
3. Divide total tenant revenue by the total of all monthly rent charges.
4. Multiply the number from Step 3 by 100.
5. Subtract the number from Step 4 from 100.
6. Multiply the number from Step 5 by PGRI; the result is Collection Losses.

Continuing with the Western Tribe example from above, if the result calculated in Step 5 was 10%, the result would be a CL of $3755 ($37,550 X .10 = $3755).

**Operating Expenses**

Operating expenses can usually be pulled directly from the audited financial statements. Operating Expenses are normally found on the Statement of Activities. If a significant portion of the recipient's operating expenses is due to special projects, subtract that portion as described above under Management Expense Per Unit.

**Calculate NOI**

The last step is to put all of the pieces together per the original formula. To complete the Western Tribe example, assume Western Tribe's Operating Expenses were $55,000 for the past year.

| | |
|---|---|
| Potential Gross Rental Income (PGRI) | $37,550 |
| Vacancy Losses (VL) | -$2253 |
| Collection Losses (CL) | -$3755 |
| Effective Gross Income (EGI) | $31,542 |
| Operating Expenses | -$55,000 |
| Net Operating Income (NOI) | -$23,458 |

**How to Use the Number**

The number calculated for the fictitious Western Tribe TDHE shows a loss. Does that mean they are managing their housing poorly? Not necessarily. Different stand-in rents could have been used in the first step, which would have had a big impact on the final NOI calculation.

This initial calculation of NOI sets a starting place from which an organization can begin to measure the effect of their management decisions in the future. NOI is a tool to combine three indicators, Occupancy Loss, TRO, and Management Expense in a rough way to measure how well an organization is managing its housing overall. If in the next year, this fictitious organization controls its expenses more and reins in collection losses, it may find that its NO1 loss has decreased to $15,000. The fact that it is still a "loss" does not matter; what matters is that the organization is managing its housing better than the previous year.

- Calculate NO1 using financial statement data on a yearly basis.

- View changes in NO1 over time in conjunction with Occupancy Loss, TRO, and Management Expense. These other indicators can help explain why NO1 has increased or decreased.

**Analysis: Key Questions and How to Improve Results**

If the recipient finds a trend of less and less NO1 or greater and greater losses, the recipient might make small adjustments to its stand-in rent assumption. Most expenses increase from year to year from inflation so the recipient might make similar increases to the stand-in rents. However, it is critical to not create completely new stand-in rents each year or the NO1 calculation will not be comparable from year to year.

NO1 is a product of the stand-in rents the recipient chooses (described above) and Occupancy Loss, TRO, and Management Expense. For ideas on how to improve in these areas, please review the "Analysis" sections under each of these indicators.

# 8. Procurement and Contract Administration

This chapter provides IHBG recipients with guidance on complying with procurement and contract administration requirements. It includes the following topics:

- Conflicts of Interest
- Procurement Types
- Contractor Qualifications
- General Provisions and Procedures
- Bonding and Insurance
- Procurement Preferences
- Contract Administration
- Construction Management

## 8.1 Overview

As an affordable housing entity, the recipient will periodically need to procure goods and services. Procurement rules cover the purchase, lease, or rental of supplies, materials, equipment, and services necessary for economical operation, maintenance, development, and rehabilitation of IHBG-assisted housing. The procurement procedures to be followed by IHBG recipients encompass a wide range of activities, from simplified small purchases to complex, multimillion dollar construction projects. Smaller IHBG recipients may be able to rely on small purchase procedures for most of their needs, while larger IHBG recipients will likely need to use most of the procedures covered in this guidebook. The regulations governing procurement can be found in 24 CFR §85.36. The standard for IHBG recipient procurement is to conduct all procurement by fair and open competition to allow all responsible sources to compete.

It should be noted that HUD procurement regulations require IHBG recipients to maintain records in sufficient detail to document the history of each procurement. Such documentation is particularly important in the event a protest is lodged against the IHBG recipient. It will also be helpful in speeding up future similar procurements since the IHBG recipient has cost estimates, sample RFPs, and other documents that do not have to be re-created.

## 8.2 Conflicts of Interest

As a recipient or subrecipient, the recipient should maintain a written code of standards of conduct governing the performance of employees engaged in the award and administration of contracts. This code prohibits anyone with a conflict of interest from participating in the selection, award or administration of a contract supported by Federal funds.

A conflict of interest would arise when the employee, officer, or agent (or any member of his or her immediate family, or his or her partner, or any organization which employs or is about to employ any of the above) has a financial or other interest in the firm selected for award.

The recipient's officers, employees, or agents may not solicit or accept gratuities, favors, or anything of monetary value. As the awarding agency, HUD may provide additional prohibitions relative to real, apparent, or potential conflicts of interest.

## 8.3 Procurement Types

An essential part of managing the procurement function is to plan for upcoming contract needs. For a small IHBG recipient with no major repair projects, this may be as simple as examining the inventory of maintenance supplies, estimating the upcoming year's requirements, budgeting the amount needed to purchase supplies, and selecting the appropriate method of procurement.

The procurement method used will depend on the expected dollar value of the procurement. Before starting a procurement, it is recommended that the IHBG recipient make an independent cost estimate of what it expects the required item(s) to cost. For small purchases, this process may be as straightforward as reviewing the price paid for the same or similar item(s) or calling potential vendors for cost estimates of commercial off-the-shelf items. For larger contracts, this process may be more complex, involving a written analysis of the estimated labor categories and hours required and materials needed.

**Small Purchases**

Small purchases are those services, supplies, or other property that do not cost more than $100,000 (the current "simplified acquisition threshold" fixed by law) or whatever amount the governing body has adopted and established within that legal threshold. Small purchase procedures are relatively simple and informal. Typically, this involves obtaining oral or written quotations from an adequate number of qualified sources. After evaluating the quotations, the IHBG recipient normally awards a purchase order to the source with the lowest acceptable quote.

**Competitive Sealed Bids (Formal Advertising)**

For construction contracts and routine supplies above the small purchase limitations, the IHBG recipient should prepare an independent cost estimate and specifications and publicize the upcoming procurement. Under the sealed bids or formal advertising method of procurement, bids are publicly solicited; and a firm-fixed-price contract is awarded to the responsible bidder whose bid is the lowest in price (conforming to all the material terms and conditions for the invitation for bids). This is the preferred method for procuring construction goods and services.

In order for sealed bidding to be effective, the following conditions should be present:

- A complete, adequate, and realistic specification or purchase description is available.
- Two or more responsible bidders are willing and able to compete effectively for the business.
- The procurement lends itself to a firm-fixed-price contract; and the selection of the successful bidder can be made principally on the basis of price.

If sealed bids are used, the recipient must adhere to the following requirements:

- The Invitation for Bids (IFB) must be publicly advertised and bids must be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids.
- The IFB must include any specifications and pertinent attachments and must clearly define the items or services in order for the bidder to properly respond.
- All bids must be publicly opened at the time and place prescribed in the IFB.
- All bids should be assessed against the same award evaluation criteria.
- A firm fixed-price contract award must be made in writing to the lowest responsive and responsible bidder.
- Any or all bids may be rejected if there is a sound, documented reason.

### Competitive Proposals

Sealed bidding is the preferred method for conventional construction contracting. Sealed bidding should not be used for some other procurements, such as contracting for professional services (i.e., architectural and engineering (A/E), audit, consulting services). Under the competitive proposals method, both technical and price factors are considered in awarding the contract. The process is usually conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded.

If this method is used, the recipient must adhere to the following requirements:

- A Statement of Work must be prepared describing the procurement needs.
- Requests for Proposals (RFP) must be publicized and identify all technical and price evaluation factors and their relative importance. The recipient must honor, to the maximum extent practical, any response to publicized RFPs.
- Proposals must be solicited from an adequate number of qualified sources.
- The recipient must have a method for conducting technical evaluations of the proposals received and documenting the selection of awardees.
- Awards must be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered.
- The recipient may use competitive proposal procedures for qualifications-based procurement of A/E professional services in which the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. Remember to document the basis for this negotiation. This method can be used only in procurement of A/E professional services. In all other instances, price must be used as a selection factor.

### Noncompetitive Proposals

The standard for IHBG recipient procurement is to conduct all procurement by fair and open competition to allow all responsible sources to compete. In exceptional cases, the noncompetitive proposals method may be used provided a written justification is prepared and HUD regulations are followed.

This method may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals, and one of the following circumstances applies:

- The item is available only from a single source.
- The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation.
- HUD authorizes noncompetitive proposals.
- Proposals must be solicited after solicitation of a number of sources, competition is determined inadequate.

If this method is used, a cost analysis must be conducted, which involves verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits.

HUD may require the recipient to submit pre-award review procurement documents, such as RFPs or IFBs and independent cost estimates.

## 8.4 Contractor Qualifications

Obtaining quality workmanship and products from contractors is critical given limited NAHASDA resources. It is essential that IHBG recipients do business only with contractors that are considered responsible. Responsible contractors are those that have the ability to perform the required work, both financially and technically, and that have a satisfactory record of integrity, past performance, and compliance with applicable rules and regulations. An IHBG recipient is not required to do business with a nonresponsible firm, even if that firm is the lowest bidder. If a firm has been suspended or debarred, IHBG recipients may not do business with that contractor.

## 8.5 General Provisions and Procedures

The following are some general provisions and procedures related to procurement that the recipient should keep in mind:

- There should be a rationale in the file for:

    1. The selection of the method of procurement
    2. The selection of contract type
    3. The contractor selection or rejection
    4. The basis for the cost or price of the contract

- Contract pricing should never be based on the "cost-plus-a - percentage-of-cost" method.
- Purchase orders and contracts should be signed by an authorized program official.
- When items are delivered and paid for, the recipient should check to ensure that they are consistent with the items contained in the corresponding purchase order and/or contract.
- Vendors should be paid in a timely manner once requested orders have been delivered, inspected, and accepted and payment of the vendor has been approved.
- A cost or price analysis should be performed in connection with every procurement action, including contract modifications.
- The contract provisions listed in 24 CFR §85.36(i) should be included in the grant-assisted contracts.
- Staff should be able to document a system of contract administration for determining the adequacy of contractors' performance.
- If applicable, the staff should be able to show that the subrecipients are required to follow applicable procurement policies and procedures in the administration of their contracts and purchase orders.

## 8.6 Bonding and Insurance

In accordance with 24 CFR §85.36(h), the recipient may develop and adopt its own bonding policies and requirements for construction or facility improvement contracts or subcontracts greater than $100,000. HUD may accept the bonding policies and requirements of the recipient or subrecipient provided HUD has made a determination that its interest is adequately protected.

If the recipient hasn't adopted its own bonding policies and had HUD accept them, the following minimum requirements shall be followed:

(1) A bid guarantee from each bidder equivalent to 5 percent of the bid price. This is a firm commitment such as a bid bond, certified check, or other negotiable instrument accompanying a bid as assurance that the bidder will, upon acceptance of his or her bid, execute such contractual documents as may be required within the time specified.

(2) A performance bond on the part of the contractor for 100 percent of the contract price. This is executed in connection with a contract to secure fulfillment of all the contractor's obligations under the contract.

(3) A payment bond on the part of the contractor for 100 percent of the contract price. This assures payment as required by law of all persons supplying labor and materials in the execution of the work provided for in the contract.

24 CFR §1000.26 (a) (11) states that there may be circumstances under which the bonding requirements above are inconsistent with other responsibilities and obligations of the recipient. In such circumstances, acceptable methods to provide performance and payment assurance may include:

(1) Deposit with the recipient of a cash escrow of at least 20 percent of the total contract price, subject to reduction during the warranty period, commensurate with potential risk.

(2) Letter of credit for 25 percent of the total contract price, unconditionally payable upon demand of the recipient, subject to reduction during any warranty period commensurate with potential risk.

(3) Letter of credit for 10 percent of the total contract price unconditionally payable upon demand of the recipient subject to reduction during any warranty period commensurate with potential risk, and compliance with the procedures for monitoring of disbursements by the contractor.

## 8.7 Procurement Preferences

### Indian Preference

To the greatest extent feasible, IHBG recipients should give preference in the award of contracts for NAHASDA-assisted projects to Indian organizations and Indian-owned economic enterprises. As an IHBG recipient, the recipient must certify to HUD that adopted policies and procedures will provide preference in procurement activities consistent with the requirements of section 7(b) of the Indian Self-Determination and Education Assistance Act. If the recipient has an Indian preference policy previously approved by HUD, it will meet this requirement. Additionally, the recipient may want to consider using a two-stage preference procedure where bids or proposals are first limited to qualified Indian organizations or Indian-owned enterprises and are only then opened up to non-Indian contractors if the initial submissions are deemed noncompetitive or nonresponsive to technical requirements.

**Contracting With Small and Minority Firms, Women's Business Enterprises and Labor Surplus Area Firms**

In accordance with 24 CFR 85.36(e), the recipient is required to take all the necessary affirmative steps to assure that minority firms, women's business enterprises, and labor surplus area firms are used when possible. This includes:

- Placing qualified small and minority businesses and women's business enterprises on solicitation lists whenever they are potential sources
- Ensuring that such businesses, when identified, are solicited whenever they are potential sources
- Dividing procurement requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by such businesses
- Establishing delivery schedules, where the requirement permits, which encourage participation by such businesses
- Using the services and assistance of the Small Business Administration and the Minority Business Development Agency of the Department of Commerce

## 8.8 Contract Administration

The primary function of an IHBG recipient in administering contracts is to monitor the contractor's work-ensuring proper receipts of the work being performed, inspecting the work, and accepting or rejecting the work, as appropriate. Once the contract is awarded, the IHBG recipient needs to ensure that supplies, services, or construction under contract are performed in an acceptable manner. Failure to closely monitor progress and work performance can result in unnecessary additional costs and time delays. IHBG recipients should only pay for acceptable work and should notify the contractor promptly whenever unacceptable work is done.

Since most recipient responsibilities for contract administration deal with contracts for construction, including modernization and rehabilitation activities, the remainder of this chapter relates to monitoring construction management activities.

## 8.9 Construction Management

The recipient is responsible for assuring that any construction contracts are managed and administered properly to make sure that both the recipient and contractor are meeting their respective contractual obligations. Depending upon the method of procurement used to obtain a contractor along with the dollar amount of the contract, the management of the construction contract may be relatively simple or very complex. With regard to monitoring the management of a construction contract, here are several areas the recipient should closely monitor to assure that a construction project is completed in a timely manner and within budget.

**Obtaining Required Reports -** The recipient shall obtain all reports and construction documents required by the contract from its architect and the contractor.

**Performing Inspections -** The recipient shall coordinate adequate and competent supervisory and inspection personnel for the duration of the contract.

**Coordinating Construction Meetings -** The recipient shall meet with the architect and the contractor on a regular basis to discuss work progress, any problems or deficiencies noted during inspection visits, overdue reports, and the construction schedule.

**Informing the Contractor of its Subcontractor Responsibilities -** All contracts between the contractor and any subcontractors shall contain Indian preference requirements and the prevailing wage rate requirements. The recipient shall remind the contractor that it is responsible for determining that potential subcontractors meet the recipient's and/or the funding agency's requirements. The recipient shall obtain a copy of all applicable subcontracts. This documentation will be kept in the contract file.

**Informing the Contractor of its Contractor Payroll Responsibilities -** The contractor is responsible for paying not less than the applicable wage rates to all employees engaged in work under the contract and ensuring that any subcontractors also pay not less than the applicable wage rates per the contract. The recipient shall remind the contractor of these responsibilities.

**Obtaining and Reviewing Payroll Reports and Forms -** The contractor shall submit a certified payroll report and compliance statement to the recipient each week during the contract period (i.e., from execution of the contract to contract completion and acceptance by the recipient). A separate payroll report shall be submitted for the contractor and each subcontractor. In the event of no payroll for the week, the contractor is required to submit a "No Payroll" report. The contractor's report may be submitted on the Payroll Form (DOL WH-347), which includes on its reverse side the required Statement of Compliance (DOL WH-348). The contractor may substitute other forms instead of the Payroll Form (DOL WH-347) as long as all of the required information is included. The recipient is responsible for obtaining and reviewing the contractor's reports to ensure that the correct wage rates are being paid and for resolving any discrepancies. Note: Refer to the Labor Standards Handbook 1344.1 REV. I CHG 1 for further guidance.

**Conducting Field Interviews -** The recipient will be responsible for conducting interviews with the contractor's employees for purposes of obtaining collaborating evidence to support the wages reported on the contractor's payroll reports. Completed interviews will be documented in a memo, which is filed in the contract file.

**Obtaining a Contractor Schedule -** When progress payments are necessary, the recipient shall require the contractor to prepare a construction progress schedule and a schedule of amounts for contract payments for each project within 5 days after the notice to proceed has been issued. The recipient may require use of HUD Form 5372, "Construction Progress Schedule," and HUD Form 51000, "Schedule of Amounts for Contract Payments." The Contracts/Procurement Officer and the architect shall review the contractor's schedules to determine that the scheduled dates and amount of work to be completed are reasonable and consistent with the contract. If acceptable, the architect shall sign the schedule and forward it to the recipient for approval. Upon approval by the recipient, the approved schedules shall be returned to the contractor.

**Monitoring of Insurance -** The recipient shall approve and monitor the insurance policies obtained by all contractors and subcontractors to ensure that the coverage required by the contract meets the recipient's requirements and is kept in force until the contractor's work is accepted.

**Contract Payments -** The recipient is responsible for processing progress payments to the contractor based on the approved schedule of amounts for contract payments. Generally, progress payments for acceptable work and materials are made at 30-day intervals. Funding agency authorization of progress payments, based on the approved payment schedule, is not required.

**Contractor Request for Payment -** The Contractor shall submit a request for payment for each project on a HUD Form 51001, "Periodical Estimate for Partial Payment." The request shall be accompanied by the contractor's written designation of a certifying officer.

**Review and Approval -** The recipient shall review each contractor request and shall approve the payment if the following conditions have been met:

1. The contractor request is consistent with the approved schedule of amounts for contract payments.
2. The architect has approved the request for payment.
3. The request does not include the amount to be retained under the contract.
4. The work covered by the payment has been performed in accordance with the construction documents.
5. The periodic estimate for partial payment has been properly executed and all applicable supporting documentation submitted.
6. The contractor has submitted all required reports (e.g., payroll reports).

**Distribution of Documents -** The recipient shall retain the original periodic estimate for partial payment and any applicable supporting documentation for its file and return a copy of the approved forms to the contractor.

**Contract Change Orders -** Changes to contract work shall be documented by a written agreement, executed by all parties to the contract, describing the change orders to be performed. Contract change orders shall be prepared in the form prescribed by the recipient and approved according to the appropriate authorization levels.

**Time Extensions -** The contractor is responsible for completing the work within the time established in the contract. However, the recipient may authorize any justifiable time extensions without prior funding agency review completing the project within the time established in the construction contract unless time extensions are authorized. If the work is not completed by the contract date, the contractor and approval.

**Liquidated Damages -** The contractor is responsible for shall be liable for liquidated damages resulting from such unjustifiable delays as specified in the General Conditions of the contract.

**Final Inspection -** The contractor shall provide prompt written notification to the architect and recipient when all work is completed. A final project inspection shall be made when all work is completed. Until the final inspection has been made, the recipient shall not approve final payment to the contractor.

**Inspection Date -** Upon receipt of the contractor's notification of the date when the work has been completed, the architect and recipient shall conduct a final inspection.

**Inspection Participants -** The final inspection shall be conducted by the recipient, the architect (when applicable), the funding agency (when required by the magnitude of the work or other conditions), and a contractor representative.

**Inspection Conference -** The inspection team shall meet after completing the final inspection to determine whether:

1. The work has been completed in accordance with the construction documents.
2. There are any minor items of incomplete or unsatisfactory work or seasonal work such as planting of shrubs and lawns, where all parties agree on the items included on the punch list.
3. There are any major deficiencies, which must be corrected by the contractor so that another final inspection can be made before contract settlement.

**Settlement Documents -** Following final inspection, the recipient shall notify the contractor to submit the following documentation:

1. One notarized original and two copies of the contractor's release and certification which indicates:
   - The work was completed in accordance with the construction documents, including change orders, except any minor items identified;
   - The total amount due the contractor and a separate stated amount for each unsettled claim against recipient;
   - The recipient is released of all claims other than those stated in the contractor's release; and

• Wages paid to laborers or mechanics were consistent with the wage rate requirements of the contract and there are no outstanding claims for unpaid wages;

2. Final payroll reports marked "Final";
3. Assignment of all guarantees and warranties to the recipient;
4. "Final" periodic estimate for partial payment.

**Contract Payment -** The recipient payment to the contractor shall be in the amount specified in the certificate of completion and shall not include any amount to be retained for disputed items and incomplete work, such as punch list or seasonal items.

**Final Payment -** When punch list or seasonal work items are completed, the recipient shall prepare a revised certificate of completion and make the final payment to the contractor.

**Warranty Inspections -** The architect and recipient are responsible for performing required warranty inspections during the warranty period and promptly notifying the contractor in writing to remedy any defects relating to manufacturer or contractor warranties on equipment and systems and contractor warranties on materials and workmanship (as applicable).

**Contractor Responsibility -** Upon receipt of the recipient's notice, the contractor shall promptly remedy any defects due to the use of faulty equipment or materials or poor workmanship. The contractor also is responsible for paying for any damage to other work resulting from such defects. The recipient shall monitor the contractor's responsibility to remedy the deficiencies.

When monitoring contract files for a construction project, the recipient's files should include some of the following information for each construction contract:

- Construction start dates
- Contract award dates
- Contract bid specifications with labor standards provisions
- Pre-construction conference minutes
- Records pertaining to violations and wage restitution (if applicable)
- Apprentice/Trainee registration records (as needed)
- Records of employee interviews
- Certified payrolls maintained by project
- Evidence of certified payroll review

Additionally, the contract file should contain:

- Proper wage decision in contract/specifications
- Labor standards provisions in the contract/specifications
- Evidence of contractor eligibility verification
- Additional classifications and wage rates processed as needed
- The contract, including:
- Project number designation
- Name of contractor
- Description of work
- Bid opening date
- Contract award date
- Contract amount
- Start of construction date

**Force Account**

Force account is an alternative to conventional construction management with its built-in checks and balances. In force account work, an IHBG recipient acts as the general contractor and assumes the risks of executing the following tasks:

- Engaging A/E services
- Retaining subcontractors
- Financing the project
- Coordinating the contractors
- Inspecting the work

The benefit of using force account will be the recipient's ability to control local hiring, the budget, time, and to some extent, cost. The recipient may save money and build skills for future projects. However, there are also risks associated with force account-the recipient will have responsibility for time, budget, and the quality of work. There will be no "fixed" price, and no performance bond or other security. Managing a construction project requires a certain level of knowledge and sophistication to handle problems that will invariably emerge. There may be cost overruns, work may not be completed on time, or there may be conflicts with contractors. Be sure that the organization is prepared and equipped to deal with these contingencies.

Although the force account method does not need specific HUD approval, the IHBG recipient using this method should demonstrate to itself that it has the technical and administrative capabilities to complete the project within the projected time and budget. It should make sure that:

- It has carried out or can carry out successfully a project of the size and scope of the proposal.
- It has obtained or can obtain adequate supervision for the workers to be used.
- It has information showing that the workers to be used are, or will be, listed on the tribal payroll and are employed directly by a unit, department, or other governmental instrumentality of the tribe or village.
- Insurance coverage for force account workers and activities shall, where applicable, include worker's compensation, public liability, property damage, builder's risk, and vehicular liability.
- It has specified and applied reasonable labor performance, construction, or renovation standards to work performed under the force account.
- It has applied the contracting and procurement standards set forth in 24 CFR §85.36 to material, equipment, and supply procurement from outside vendors.

# 9. Labor Standards

This chapter provides guidance on Federal labor standard requirements that apply to IHBG recipients and suggests management practices for NAHASDA-supported construction activities. This chapter includes the following topics:

- Labor Standards: Statutory and Regulatory Requirements
- Investigations and Enforcement

## 9.1 Introductory Overview

Many IHBG recipients engage contractors and subcontractors to perform construction and rehabilitation projects in support of their affordable housing activities. In general, IHBG recipients must ensure that their general contractor and associated subcontractors adhere to applicable Federal labor standards.

## 9.2 Labor Standards

**Statutory and Regulatory Requirements**

Section 104(b) of NAHASDA requires IHBG recipients and any contractors or subcontractors hired by them to abide by certain labor standards requirements. If an IHBG recipient acts as prime or general contractor, it is responsible for the full compliance of all employers (contractor, subcontractors, and any lower-tier relationships) with the labor standards provisions applicable to the project.

**Tribally-Determined Wages (TDW)**

In 2000, NAHASDA was amended, in part, by the omnibus Indian Advancement Act (P.L. 106-568) by adding paragraph (3) to section 104(b), which allows for Indian tribes to determine and apply their own prevailing wage rates in their contracts or agreement for the development and operation of affordable housing in place of federally-determined prevailing wage rates.

In general, with this amendment, NAHASDA now provides that Davis-Bacon (for development) and HUD-determined (for operation) wage rates shall not apply to a contract or agreement if the contract/agreement is otherwise covered by a law or regulation adopted by an Indian tribe that provides for the payment of not less than prevailing wages as determined by the tribe. The application and use of TDW can be found in ONAP Program Guidance No. 2003-04. As noted in the guidance, a tribe may choose to adopt and use TDW for none, for all, or for just some of its

IHBG-assisted development (construction or modernization) activities. The same applies to IHBG-assisted operation (maintenance and non-routine maintenance) activities.

**Davis-Bacon Act (DBA) Prevailing Wage Rates**

If a tribe has not adopted their own prevailing wage rates, then the Davis-Bacon Act (DBA) prevailing wage rates shall apply. Contracts and agreements for assistance, sale, or lease under NAHASDA must require that prevailing wage rates be paid to laborers and mechanics employed in the development of affordable housing. An exception to this general rule is if prime contracts are less than $2,000. Prevailing wage rates are determined by the U.S. Department of Labor (DOL) and can be found in Title 29 CFR Parts 1, 3, 5, 6, and 7. Part 1 explains how the DOL establishes and publishes prevailing wage determinations and provides instructions on how to use the determinations. DBA regulations are available online at www.dol.gov/compliance/laws/comp-dbra.htm.

When NAHASDA assistance is only used to assist homebuyers to acquire single-family housing, DBA wage rates apply to the construction of the housing only if there is a written agreement with the owner or developer of the housing that NAHASDA assistance will be used to assist homebuyers to buy the housing.

Each contract subject to DBA labor standards requirements must contain contract provisions containing labor standards clauses and a DBA wage decision. These documents are normally bound into contract specifications.

The labor standards clauses describe the responsibilities of the contractor concerning DBA wages and obligate the contractor to comply with the labor requirements. The labor standards clauses also provide for remedies in the event of violations, including withholding payments due to the contractor to ensure the payment of wages or liquidated damages.

The DBA wage decision is a listing of various construction work classifications such as Carpenter, Plumber, and Electrician and the minimum wage rates (and fringe benefits, where prevailing) that people performing work in those classifications must be paid. The prime contractor will be responsible for posting a copy of the wage decision (of the Project Wage Rate Sheet) and a copy of the DOL poster called Notice to Employees at the job site.

**HUD-determined Prevailing Wage Rates**

Contracts and agreements for assistance, sale, or lease under NAHASDA must require prevailing wages determined or adopted by HUD. This applies to maintenance laborers and mechanics employed in the operation of affordable housing and architects, technical engineers, draftsmen, and technicians employed in the development of affordable housing.

**Contract Work Hours and Safety Standards Act (CWHSSA)**

According to the CWHSSA, contracts greater than $100,000 to which DBA or HUD-determined wage rates apply must provide that all overtime hours must be compensated at a rate not less than one and one half times the regular basic rate of pay. Overtime is defined as hours worked in excess of 40 during any workweek. In the event of overtime violations, the CWHSSA renders the contractor liable to the underpaid workers for wage restitution.

**Exemptions for Volunteers**

Wage exemptions for the use of volunteers on projects subject to DBA and HUD-determined wage rates must be obtained from HUD in accordance with 24 CFR Part 70.

Other Laws and Issuances

Recipients, contractors, subcontractors, and other participants must comply with HUD Handbook 1344.1 ("Federal Labor Standards Compliance in Housing and Community Development").

### 9.3 Investigations and Enforcement

From time to time, conflicts and complaints may arise. Worker complaints should be handled and resolved in a timely manner, and investigations conducted where appropriate. When using contractors who will hire additional subcontractors, it is good practice to establish escrow accounts or to withhold funds to cover labor standards violations. In cases of underpayments of employees by a contractor or subcontractor totaling $1,000 or more, the recipient must submit an enforcement report to HUD. Note that the $1,000 threshold refers to the underpayments of a single employer to his/her entire workforce and not to individual employees.

# 10. Inspection and Maintenance of Physical Assets

This chapter includes the following topics:

- System Components
- Inspection Policy and Procedures
- Tracking Mechanism and Inspection Schedule

## 10.1 Overview

The on-site inspection of the housing the recipient operates is a requirement of NAHASDA under Section 403(b): "Not less frequently than annually, each recipient shall review the activities conducted and housing assisted under this Act to assess compliance. Such review shall include on-site inspection of housing to determine compliance with applicable requirements." The Code of Federal Regulations repeats the requirement in 24 CFR§§1000.502(a) and 1000.512(a) where it states that the result of the assessment must be sent to HUD. These requirements include the inspection of 1937 Act units.

HUD Notice PIH 2004-17 further clarifies the requirements for recipient inspection of housing assisted under NAHASDA and those assisted under the 1937 Housing Act. Initial inspections must be performed by the recipient on all units constructed, acquired, and/or rehabilitated with IHBG funds; and recurring inspections may be conducted more or less frequently than annually, as determined by the recipient.

While following laws and regulations is often a good enough reason to do something, in this case there are some other good reasons as well. In the business world, businesses own assets that help them produce a product or service. A construction contractor owns tools and equipment and a store might own the building it sells its goods from. Businesses are constantly "assessing" their assets to determine maintenance needs and when to replace components. If a business were to ignore this assessment, the tools, equipment, or buildings needed to produce revenue would soon fail and the business would lose the ability to make money.

The same applies, for the most part, to the housing operated by NAHASDA grantees. Inspections or physical assessments are tools that the organization can use to identify maintenance needs and determine when to replace components. Frequent inspection allows ongoing and preventative maintenance, which extends the life of the housing and its components. Failure to assess its housing units affects the recipient's ability to generate revenue through rents and increases the cost to maintain the organization's housing assets.

There is another reason why inspections are important. This reason gets to the heart of the mission of most NAHASDA grantee organizations. NAHASDA's objective is to assist and promote housing in "safe and healthy environments." When housing is in good condition, tenants avoid injury and disease, but also tend to feel better about where they live and about themselves. While there are good business reasons to assess the housing units, it is hard to put a number to tenants' dignity. The only way to make sure that the housing units remain in good condition is to inspect them.

## 10.2 System Components

Most physical assessment systems have four basic components. This chapter will explain how to design or improve each of these components:

- Inspection Policy and Procedures makes physical assessment an integral part of the organization's management.
- Inspection Standards help inspectors to judge deficiencies along the same scale for each inspection, which helps the recipient make decisions about maintenance priorities.
- Tracking Mechanism and Inspection Schedule allows the recipient to complete the inspection of all units annually in an efficient way.
- Maintenance Follow-up helps make sure that the deficiencies found through inspections don't "gather dust" but result in improved housing.

## 10.3 Inspection Policy and Procedures

When the management of an organization introduces a new initiative, the first step is to "write it up," formalize it, and put it into written policy. Most NAHASDA grantees are likely to have done this for their on-site inspection policy. They carry out the NAHASDA §403(b) inspection requirements and include their results with their APR submission to HUD.

The most difficult part of a new initiative is to actually integrate it with the normal operation of the organization. To be successful, procedures must be written which say exactly how the staff will carry out the policy. Many recipients include their inspection procedures in the preventive maintenance practices portion of their maintenance policies. Typically, there are several types of inspections a recipient performs on the units they own and manage. Some of the types of inspections and when they are performed may include:

- Move-in inspections shall be performed before the unit is occupied with the future resident present.

- Regular periodic inspections shall be conducted for rental and homeownership units owned and managed by the recipient. The purpose of regular periodic inspections is to detect any deficiencies that may exist in the units.

- Special and emergency inspections will be performed any time when necessary as determined by the recipient.

- Move-out inspections shall be conducted as soon as possible after a unit has been vacated and, whenever possible, the resident should be given the opportunity to be present during the inspection.

- Warranty inspections shall be performed on new or renovated units until all warranties on the units and/or equipment has expired in accordance with the recipient's contract with the contractor.

The recipient's inspection procedures should, at a minimum, also include other procedures. For example, inspection procedures might state:

- How often units are to be inspected.

- Who is responsible for administering the inspection procedures and performing inspections to determine if the dwelling units and equipment are in good working condition.

- Inspections will be scheduled in such a manner as to allow the residents the opportunity to be present during any inspection of the respective unit.

- All residents will be given notice prior to the recipient entering the unit for inspection. The recipient shall determine the form of notice and advance time of notification.

- The resident will always be given a written report of the inspection findings.

- The condition of the units and grounds will be noted on the recipient's inspection forms. The forms shall be at least two-part with space for signatures of the resident and the recipient's employee conducting the inspection, along with the date of the inspection. The form will identify each item in and outside the unit that should be checked for wear, damage, or cleaning. Upon the completion of any inspection, the resident shall receive a copy of the signed inspection form.

- The recipient shall video record move-in and move-out inspections to visually display the condition of the unit and grounds. Video recordings shall be kept on file at the recipient's offices.

- Where minor deficiencies are noted during the inspection of homeownership units, the recipient's employees conducting the inspections shall confer with the homebuyer family and provide the necessary instruction and advice as to how to correct the deficiency.

## 10.4 Inspection Standards

Inspection standards are guidelines that help the people who carry out the inspections classify their results in the same way each time. There are important benefits for the maintenance manager when he/she can look at a series of inspection results and compare them, even though different people conducted the inspections or they were conducted at different times.

Inspection standards help the manager to:

- Prioritize maintenance needs across all inspections
- Look across time to see if there is any improvement in inspection results

Being able to look for improvement is key when evaluating whether the latest idea to improve maintenance is working.

Usually organizations do not design their own standards but adopt ones already developed by experts. One common set of standards used by some NAHASDA grantees is the Housing Quality Standards (HQS) from HUD's Housing Choice Voucher program (see http://www.hud.gov/offices/pih/programs/hcv/forms/guidebook.cfm and download Chapter 10 for the complete standards).

Whatever set of inspection standards the organization adopts or modifies for use, it is important that the standards do three things:

- Divide the property into separate components to help organize and analyze inspection results. For example, these components might be yards, unit interior, unit exterior, HVAC systems, plumbing, etc.

- Rate the severity of the deficiency along a standard scale.

- Designate whether a deficiency is a health and safety problem (which would need to be resolved more quickly).

The forms used by inspectors should be designed with these three guidelines in mind to help analyze the information and perform follow-up.

## 10.5 Tracking Mechanism and Inspection Schedule

The recipient's written policy should state how often owned and managed units will be inspected. The procedures provide guidelines as to how to administer the policy; but ultimately the recipient needs a tool to make sure that all the inspections get done. A tracking mechanism and inspection schedule has just such a purpose.

The tracking mechanism is basically a list of all of the units, which allows the recipient to "check off" and date when inspections are performed.
The recipient can add to the basic list a variety of information to help track results. The list could contain columns for each component of the owned and managed properties (unit interiors, exteriors, yards, etc.) to record the condition of each. Organizing this information well will help the recipient prepare the APR. The list could also contain columns to record follow-up actions to fix the deficiencies found during the inspections. While a paper list could function well for a small organization, larger organizations should use a computerized list in a spreadsheet or create a small database.

The tracking mechanism helps the recipient know, at any point in the year, how many inspections have been performed to date. An inspection schedule, on the other hand, is the plan for when the inspections will be done and by whom. The inspection schedule should plan inspections efficiently-for example, inspecting all units located near each other at the same time.

The mechanism should also be flexible. Inspectors often have other maintenance duties, so setting a general timeframe (a month or a week) with a target number of inspections may be the most practical. This way the inspectors can fit inspections in around higher priority work. Lastly, sometimes inspections are done between tenants, and because move-outs are hard to predict, this may throw off the schedule. A flexible schedule should make sure the recipient does not fall behind during the year, but allows inspectors the flexibility to work around other tasks and take advantage of vacated units.

**Maintenance Follow-up**

The key to making inspection results count is to make inspection follow-up part of the day-to-day maintenance work rather than just a HUD requirement. Copies of inspection results should be directed to the maintenance department. The repairs identified in the inspection may be entered as work orders to help the department simplify its daily task assignment process. Health and safety problems should be identified as emergency work orders, other repairs as non-emergency work orders.

The inspection process gives the recipient an opportunity to get an understanding of the "on-the-ground" reality. Here are four ways in which managers can use inspection results:

- Evaluate how tenants are treating the property. Usually leases spell out consequences for abuse of the property, including eviction. Inspection results are the primary tool for enforcing those provisions in the lease. The judgment of whether a deficiency is the result of abuse or normal wear and tear may be obvious (holes in the wall) or may be more of a judgment call (broken linoleum tiles). A comments section on the inspection form should be used to gather inspector input on the cause of the deficiencies.

- Evaluate the recipient's preventative maintenance plan. It may be determined that gutters should be cleaned more frequently or that Brand X of paint does not last as long as intended.

- Focus on priorities identified in the capital improvements budget. The inspection results may reveal that the units built 15 years ago should have their roofs replaced soon, as the condition of most of these units' roofs is "poor," according to the latest inspection.

- Do a spot-check on the work-order responses. There may be deficiencies in the inspections that were called-in as work orders by the tenant. The inspection gives a good spot-check on the recipient's work-order performance.

# 11. Environmental Compliance

This chapter deals with the recipient's environmental review responsibilities. The law requires that the environmental effects of activities carried out with NAHASDA assistance must be evaluated before the recipient may acquire, rehabilitate, convert, lease, repair, or construct property, or commit HUD or local funds in conjunction with NAHASDA-assisted activities. Environmental review responsibilities may be assumed by the tribe or retained by HUD, at the tribe's request as designated in the IHP.

This chapter includes the following topics:

- Statutory and Regulatory Requirements
- Assuming Environmental Review Responsibilities
- Declining Environmental Review Responsibilities

## 11.1 Overview

NAHASDA allows tribes to assume environmental review and decision-making responsibilities. The entity that assumes HUD's environmental responsibility for the project under 24 CFR Part 58 is called the Responsible Entity (RE). Environmental responsibility includes responsibility for environmental reviews, decision-making, and action. Because the RE will be responsible for the project's environmental consequences (if necessary) in Federal court, an entity must have general governmental capabilities in order to be legally qualified to be an RE. Please note that whether the recipient is a tribe or a TDHE receiving IHBG funds, only an Indian tribe can assume the environmental responsibilities.

For tribes that assume responsibility as RE, there is a number of requirements. This chapter will give an overview of these requirements, as well as those that apply to tribes that decline environmental review and decision-making responsibilities. As an overview, this chapter does not provide the level of detail that can be found in the National Environmental Policy Act of 1969 or its implementing regulation, 24 CFR Part 58 or HUD Notice PIH 2002-25, which extended Notice PIH 99-37. Knowledge of this statute and the regulations is still necessary. In addition, ONAP Guidance 2003-13 is a valuable tool that provides tribes and tribally designated housing entities with a summary of changes to HUD's environmental review requirements that may affect the preparation and completion of environmental reviews.

## 11.2 Statutory and Regulatory Requirements

As stated earlier, the law requires that the environmental effects of activities carried out with NAHASDA assistance be evaluated before a recipient may acquire, rehabilitate, convert, lease, repair, or construct property, or commit HUD or local funds in conjunction with NAHASDA-assisted activities.

Activities Subject to Environmental Review Activities subject to environmental review include:

- Any activity that may have a significant impact to the human environment, including (a) new construction; (b) conversion of land use (including demolition) from nonresidential to residential or from residential to nonresidential use; and (c) acquisition of undeveloped land, including acquisition for future development
- Major rehabilitation and improvement of existing structures
- Minor rehabilitation and repair of existing structures
- Acquisition of existing structures
- Leasing or rental assistance involving existing structures

Activities Not Subject to Environmental Review

Certain activities do not require environmental review, but do require documentation/written determination of exemption. These activities include, among others:

- Information and financial advisory services
- Administrative and management expenses
- Public and supportive services that will not have a physical impact or result in any physical changes
- Inspections and testing of properties for hazards or defects
- Engineering or design costs
- Technical assistance and training

- Tenant-based rental assistance

- Operating costs, including maintenance, security, operation, utilities, furnishings, supplies, staff training and recruitment, and other incidental costs

- Housing pre-development costs, including legal, consulting, developer, and other costs related to site options, project financing, administrative costs and fees for loan commitments, zoning approvals, and other related activities which do not have a physical impact

## 11.3 Assuming Environmental Review Responsibilities

If the tribe assumes environmental review responsibilities, it must have a Certifying Officer who will be legally responsible for the content of the environmental review, for implementation of the subsequent action, and who, if necessary, will represent the RE in Federal court. The Certifying Officer should be the tribal chairperson (Chief Executive Officer of the jurisdiction) or a person delegated environmental responsibilities by the tribe.

The RE must follow the requirements of 24 CFR Part 58. If the recipient assumes environmental review responsibilities, it is imperative that they become familiar with and understand 24 CFR Part 58.

One important requirement is that no funds, either HUD or non-HUD, may be obligated to a grant activity or project before the completion of the relevant required environmental review and/or approval by HUD of the request for release of funds (RROF) and related certification. Any project or grant activity where HUD funds will be used, no matter the amount of HUD funds or the stage that the HUD funds will be used in the project or activity, will be subject to this requirement. The purpose of these limitations is to avoid biasing the environmental review through the amount of work completed in a desired direction or the potential loss of funds and labor by disapproving an in-process project.

The recipient must maintain a written environmental review record (ERR). The ERR contains all of the documentation which was produced during the review and which has been used as evidence for compliance and decision-making. This should include:

- Project description and the activities that have been determined to be part of the project, including, when applicable, geographic boundaries and all related HUD or non-HUD funded activities proposed

- Evaluation of the effects of the project or the activities on the human environment

- Document compliance with applicable statutes and authorities, in particular those cited in 24 CFR §§58.5 and 58.6

- Written determinations in those cases in which the recipient claims that projects or activities are "exempt" under 24 CFR §58.34 or "categorically excluded" under 24 CFR §58.35

The ERR should also contain verifiable source documents and relevant base data used or cited in environmental assessments, environmental impact statements, or other project review documents.

Once the recipient completes the requirements in 24 CFR Part 58, it must:

- Certify the completion

- Submit the responsible entities' certification of completion, if applicable

- Submit a RROF, if required. The Certifying Officer attests to the performance of the environmental assessment by a qualified person and its compliance with the National Environmental Policy Act (NEPA) and HUD requirements. (This submission is not required in cases in which the applicant determines, in accordance with Part 58, that its program components are exempt.)

HUD will not release grant funds if the recipient (or any other party) commits grant funds (i.e., incurs any costs or expenditures to be paid or reimbursed with such funds) before the recipient submits and HUD approves the RROF.

## 11.4 Declining Environmental Review Responsibilities

If HUD is selected to fulfill the environmental review responsibilities, the recipient must meet fewer requirements, but must still follow regulations. If the recipient declines environmental responsibilities, it must submit an environmental assurance, in accordance with 24 CFR §50.3(h).

The environmental assurance records a guarantee that the recipient will:

- Not enter into a contract for, or otherwise commit HUD or local funds for, acquisition, rehabilitation, conversion, lease, repair, or

construction of property to provide housing under the program, prior to HUD's completion of the review and approval of the project
- Supply HUD with information necessary for HUD to perform any applicable environmental review when requested under 24 CFR Part 50
- Carry out mitigating measures required by HUD or ensure that alternate sites are utilized

Separate data must be provided for each property or community area. If available, the recipient may also provide HUD with previously issued environmental reviews prepared by other local, state, or Federal agencies for the subject property. The recipient is encouraged to obtain outside information at the earliest possible stage, because late submission of information may delay the environmental review process and thereby the implementation of affordable housing activities.

For further information, please consult "Indian Housing Block Grant Program: Guidance and Procedures If Tribes Do Not Assume Environmental Review Responsibilities under 24 CFR Part 58," Notice PIH 99-37 (extended by Notice PIH 2002-25).

# 12. Audit Reports

This chapter will help the recipient understand the requirements, terms, organization, and message of the annual audit so that the recipient can use it to improve its operations.

This chapter includes the following topics:

- Audit Requirements
- Opinion
- Financial Statements
- Footnotes
- Supplementary Information
- Finding and Recommendations

## 12.1 Overview

The annual audit is more than a requirement for NAHASDA funding; it can be a great basis from which to understand the status of the organization. Audits are important because they provide:

- Reliable figures to use to assess the recipient's financial situation, such as through the tools presented in the Chapter 7 - Financial Management and Internal Controls;

- The basis for outside organizations to assess the risk of doing business with the recipient (e.g. grants, loans, or partnerships)

- An outsider's professional opinion of how the organization's management practices stack up and what the recipient may need to do to improve

There are five major parts to the organization's audit report.

1. The auditor's opinion comes first and summarizes whether the auditor believes that the financial statements fairly present the organization's financial situation.
2. The auditor will also present an opinion on the Schedule of Federal Award Expenditures regarding whether it is a fair presentation, considering the financial statement as a whole.
3. Next are the actual financial statements, which give the recipient specific figures regarding revenues, expenses, cash flow, and overall financial position for the past fiscal year.
4. The financial statements are followed by footnotes, which give a summary of the recipient's organization, the accounting system, and

other relevant information. Supplementary information provides some additional financial analysis not covered in the financial statements.

5. Lastly, the audit provides findings and recommendations regarding how the recipient manages the programs and finances.

This module will first review NAHASDA audit requirements. Secondly, it will discuss the five major sections to an audit and help the recipient understand what to look for in each.

## 12.2 Audit Requirements

Any nonfederal entity that expends $500,000 or more in a fiscal year in Federal funds must submit an annual audit that complies with Office of Management and Budget (OMB) Circular A-133. These are referred to as independent public accountant (IPA) audits.

The grant recipient is responsible for contracting for the required audits and submitting the audits to the appropriate agency for compliance review. In general, HUD requires that recipients obtain a single audit that covers all grant funds, in compliance with the Single Audit Act (SAA). If the recipient elects to have multiple program-specific audits, then the recipient may not use grant funds to pay for the additional audits.

**Agency Roles and Responsibilities**

Recipients expending more than $25 million in Federal awards a year will have a cognizant audit agency. The cognizant agency will be the Federal agency providing the largest amount of funds unless the Office of Management and Budget makes a specific assignment. Among other things, the cognizant agency is responsible for obtaining or conducting quality control reviews and coordinating management decisions for audit findings. Recipients expending less than $25 million in Federal awards will have an oversight agency. The oversight agency will be the Federal awarding agency that provides the largest amount of funding. The oversight Federal agency will assume all or some of the responsibilities of the cognizant audit agency.

For tribes, any of the various Federal agencies could be the cognizant or oversight agency responsible for conducting the A-133 compliance review and ensuring that the tribe addresses the audit findings. In most cases, ONAP will assume all of the cognizant audit agency responsibilities for TDHEs.

Audit Report Submission Requirements

The NAHASDA regulations at 24 CFR §1000.548 require that IHBG recipients submit a copy of their latest audit to the Area ONAP with their APR. Also, if the recipient is a TDHE, §1000.550 requires that a copy of the audit must be submitted to the tribe so that it can carry out its oversight responsibilities, as required by NAHASDA.

In addition, the recipient must submit the audit report and OMB data collection form SF-SAC to the Federal Audit Clearinghouse. The Clearinghouse will:

- Distribute audit reports
- Maintain a database of completed audits
- Provide appropriate information to Federal agencies
- Follow up with recipients that have not submitted the required data collection forms and reporting packages

The Federal Audit Clearinghouse's address is:
Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

Until the Federal Audit Clearinghouse receives an acceptable audit report and SF-SAC Form (Data Collection Form for Reporting on Audits of States, Local Governments) the recipient does not receive credit for meeting the audit requirement.

**Audit Due Date**

The recipient must submit a complete audit report and data collection form within 30 days after receipt of the auditor's report or 9 months after the end of the audit period, whichever is earlier. The agency responsible for compliance review may agree in advance to extend the submission period.

**Sanctions for Noncompliance with Audit Requirements**

In cases of continued inability or unwillingness to complete an A-133 audit, HUD may impose sanctions as authorized at 24 CFR §§1000.532 and 538. Any sanctions will be implemented following the requirements in Subpart F of NAHASDA.

## 12.3 Opinion

The purpose of an audit is to have an unbiased outsider express his/her opinion about whether an organization's financial statements may be considered accurate. The audit is the investigative process the auditor goes through to be able to form an opinion on whether the financial statements fairly present the organization's financial situation. For example, private corporations need audits so that investors feel comfortable investing their money. Organizations that deal with the Federal government need audits so that the government feels comfortable providing funds. The auditor stakes his/her professional reputation (and livelihood) on being able to support his opinion.

Because this is such a delicate matter (both for the auditor and for the recipient's organization), the letter expressing the audit opinion is usually very formal. However, within the letter, the auditor will clearly state his/her opinion and, briefly, why.

There are four opinions that an auditor might express in this letter. From best to worst, these are:

- **Unqualified**: An unqualified opinion states that the financial statements are presented fairly in conformity with Generally Accepted Accounting Principles (GAAP). However, in some instances, the standard unqualified report may be modified without affecting the unqualified opinion issued on the financial statements.

- **Qualified**: A qualified opinion is issued when the financial statements present the entity's financial position, results of operations, and cash flows in conformity with GAAP except for the matter of the qualification. Qualified opinions are issued, in some cases, when: (1) a scope limitation, or (2) a departure from GAAP exists.

- **Adverse**: When issuing an adverse opinion, the auditor concludes that the financial position, results of operations, and cash flows in conformity with GAAP. This type of opinion is only issued when the financial statements contain very material departures from GAAP.

- **Disclaimer**: A disclaimer of opinion if issued when the auditor is unable to form an opinion on an entity's financial statements. A disclaimer may be issued in cases, when: (1) the auditor is not independent with respect to the entity under audit, (2) a material scope limitation exists, or (3) a significant uncertainty exists.

The terms used by auditors in the letter may need some explanation:

- **"free from material misstatement":** In audit language, "material" means something that has a significant enough impact to affect evaluations or decisions by users of financial statements. This phrase is a way of saying that something, such as a financial statement, is accurate.

- **"generally accepted accounting principles":** These are standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements. Often this phrase is shortened to the abbreviation, GAAP. Recipients are required to follow GAAP. Refer to Notice PIH 2003-6, which instructs recipients on the conversion to GAAP accounting.

## 12.4 Financial Statements

There are three separate financial statements that are most commonly used: Statement of Financial Position, Statement of Activities, and Statement of Cash Flows. Although some of the same figures are used on each statement, each really shows a different perspective on the recipient's finances.

**Statement of Financial Position**

This statement reports the assets, liabilities, and equity of an organization at a particular point in time, usually the end of an accounting period. It is like a "snapshot" of the organization's finances, in this case, taken on the last day of the fiscal year. The statement is organized around the basic accounting equation:

**Assets = Liabilities + Equities**

This statement is also commonly known as a balance sheet because the two sides of this equation must equal each other or balance. We may be familiar with this equation from our personal finances. While we may own a house and a car, we probably took out loans or mortgages to purchase these assets. If we subtract the liabilities (the loan's outstanding principal) from the asset's value, we obtain the amount we really own, that is, our equity. The balance sheet is useful to financial statement users because it indicates the resources the entity has and what it owes.

Assets are presented first, at the top of the statement. Assets will include the following categories at a minimum: Cash, Investments, Accounts Receivable (Tenant Receivables may be broken out under this figure), Deferred Charges, and Land, Structure, and Equipment (also known as Fixed Assets). The dollar value of each category is listed and their sum is presented at the bottom of the Assets section (usually as Total Assets).

Liabilities are presented next. Liabilities are amounts payable in dollars (e.g., accounts payable) or future services to be rendered (e.g., warranties payable). Liabilities will usually include: Cash Overdraft, Accounts Payable, Loans, Trust and Deposit Liabilities, and Deferred Credits. Again, all of the individual figures are summed at the bottom of the Liabilities section, as Total Liabilities.

Last, the Equity portion is presented. Equity sometimes goes by the name Surplus or Net Assets. The final line of the Statement is the sum of Equity and Total Liabilities. This figure always equals the Total Assets figure. The auditor usually puts both the Equity and Total Liabilities figure and the Total Assets figure in bold with a double underline. The auditor is emphasizing the accounting equation to the reader-Total Assets equals Total Liabilities plus Equity.

### Sample Statement of Financial Position

| Assets | |
|---|---|
| Cash | $ 301,452 |
| Investments | 427,903 |
| Accounts Receivable | 1,152,469 |
| Deferred Charges | 225,503 |
| Land, Structures, and Equipment | 61,625,828 |
| **TOTAL ASSETS** | **$63,733,155** |
| Liabilities and Equity | |
| Cash overdraft | 16,438 |
| Accounts payable | 273,679 |
| Loan | 51,600 |
| Trust and Deposit Liabilities | 1,075,414 |
| Deferred Credits | 44,934 |
| TOTAL LIABILITIES | 1,462,065 |
| EQUITY | $62,271,090 |
| **TOTAL LIABILITIES AND EQUITY** | **$63,733,155** |

### Statement of Activities

As the name implies, this statement shows what happened financially over the past year through the recipient's housing operations or "activities." While the Statement of Financial Position looks at the status on the last day of the fiscal year, this statement sums up what happened over the whole fiscal year. It goes by some other names: Income Statement, Statement of Income and Expenses, or, in the private sector, Profit-and-Loss Statement. Just like on the Statement of Financial Position, this statement is organized around a key equation:

**Operating Income - Operating Expenses** = **Net Income Loss**

This statement first presents the recipient's operating income. Usually, Operating Income includes the following categories:

- Tenant Rental Income

- Interest on Investments
- Program Income

Here, Tenant Rental Income is the cumulative amount billed to tenants (but not necessarily received) during the past fiscal year. In contrast, the Tenant Accounts Receivable amount on the Statement of Financial Position shows the cumulative amount billed to tenants, which is not yet paid and may include amounts billed previous to the fiscal year in question. A third Tenant Rental Income figure is shown on the Statement of Cash Flows, which we present below. That figure represents the tenant rental amounts actually collected.

Next, the statement presents operating expenses incurred. Operating Expenses usually includes the following categories:

- Administration
- Tenant Services
- Operation and Maintenance
- Utilities
- General Expenses

The breakdown here can vary some depending on how the organization has organized its accounts. Some other categories might be: Inspections, Non-ordinary Maintenance, and a separate category for Capital Expenses. Capital Expenses refers to new construction, equipment purchases, or major replacements which occur at irregular intervals (e.g., roof replacement).

The next section subtracts Total Operating Expenses from Total Operating Income to calculate Operating Income or, if negative, Loss. Because NAHASDA grantees are subject to strict limits regarding tenant incomes and how much rent they can charge, it should come as no surprise that most grantees operate their housing at a loss. Most statements then include a final category, Other Credits. This is where the portion of the NAHASDA grant dedicated to operating subsidy is listed. The subsidy is what balances out the operating income/loss calculation so that the organization does not go bankrupt. When the Other Credits figure is added to the Operating Income (Loss) figure, the result is Net Income (Loss).

The last part of the statement helps to put the operating results that it presented in some perspective. It shows the Net Assets (or Equity) at the beginning of the fiscal year and Net Assets at the end of the fiscal year. The difference between these two figures equals the Net Income or Loss figure that the statement has just calculated. This makes sense: businesses that incur losses year after year eventually go bankrupt. This last section shows how a loss basically eats into the organization's equity; and when the equity is all used up, an organization must declare bankruptcy.

### Sample Statement of Activities

| Operating Income | |
|---|---|
| Tenant Rental Income | $ 501,116 |
| Interest on Investments | 22,858 |
| Other Income | 3,540 |
| TOTAL OPERATING INCOME | 527,514 |
| Operating Expenses | |
| Administration | 416,785 |
| Tenant Services | 894 |
| Operation and Maintenance | 82,257 |
| Utilities | 99,984 |
| General Expenses | 24,152 |
| TOTAL OPERATING EXPENSES | 624,072 |
| OPERATING INCOME (LOSS) | (96,558) |
| Other Credits (Charges) | |
| NAHASDA Grant | 354,179 |
| NET INCOME (LOSS) | 257,621 |
| NET ASSETS AT BEGINNING OF YEAR | 62,013,469 |
| **NET ASSETS AT END OF YEAR** | **62,271,090** |

### Statement of Cash Flows

The Statement of Cash Flows is similar to a look at the organization's checkbook register: it shows uses of cash (what would be the checks written in a checkbook) and sources of cash (what would be deposits in a checkbook). The most important difference between this Statement and the Statement of Activities is that, if there is no cash transaction, it is not measured by this Statement. Additionally, this Statement is organized differently; it relies on the idea that there are three major sources of cash for an organization: ongoing operations, financing activities, and investment activities. The Statement of Cash Flows then examines the organization's cash flows in each of these three categories.

Cash Flows from Ongoing Activities are normally listed first. This category includes a combination of the operating expenses and income categories described previously, such as, Dwelling Rental, Administrative Expense, Maintenance and Operations, etc. Because expense and revenue categories are mixed together, it is important to pay attention to whether the figure is positive or negative. The sum of all these figures is listed as Net Cash Provided (Used) By Operating Activities.

Cash Flows from Financing Activities are often listed as the next category. The recipient's NAHASDA grant and any other grants, loans, or insurance proceeds would be listed here. This category is often associated with major capital improvements, such as new construction, major replacements, as well as losses (e.g., of a vehicle or building). The sum of all these figures is listed as Net Cash Provided (Used) by Financing Activities.

The last category is Cash Flows from Investing Activities. Often this category is not significant for most NAHASDA grantees, as they tend to have low-risk, short-term investments, which accumulate only modest interest.

The sum of the Net Cash figures for all three categories is listed at the bottom of the Statement as Net Increase (Decrease) in Cash. Then, similar to the Statement of Activities, the Cash Balance for the first day of the fiscal year is listed and the Cash Balance for the last day of the fiscal year is listed. The difference between these two figures is, of course, the Net Increase (Decrease) figure that the Statement has just calculated. Interestingly, the Net Cash for the last day of the fiscal year is the sum of the Cash and Investment figures under the Assets category on Statement of Financial Position.

| |
|---|
| Cash Balance for the 1st day of the fiscal year<br>Minus the Cash Balance for the last day of the fiscal year<br>Equals the Difference in Net Increase or Decrease in Cash |

**Sample Statement of Cash Flows**

Cash Flows from Operating Activities

| | |
|---|---|
| Tenant Rental Income | $ 214.748 |
| Administration | (416,785) |
| Tenant Services | (894) |
| Operation and Maintenance | (82,257) |
| Utilities | (99,984) |
| General Expenses | (24,152) |
| Other Income | 3,540 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (405,784) |

Cash Flows from Financing Activities

| | |
|---|---|
| NAHASDA Grant | 354,179 |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 354,179 |

Cash Flows from Investing Activities

| | |
|---|---|
| Interest on Investments | 22,858 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 22,858 |
| NET INCREASE (DECREASE) IN CASH | (28,747) |
| CASH BALANCE AT BEGINNING OF YEAR | 758,102 |
| CASH BALANCE AT END OF YEAR | 729,355 |

## 12.5 Footnotes

As a financial statement is reviewed, the recipient may notice a note at the bottom of the page, which says something like, "The accompanying notes are an integral part of these financial statements." Financial statements are concise, usually one page, documents which get right to the point; however, they often will raise more specific questions in the reader's mind. As the financial statement is read, one may wonder:

- What kinds of investments are in the Investment category?
- How many units do they operate?
- Who owes the organization so much money?

The notes are the auditor's opportunity to go into detail about the organization and its financial statements. Answers to questions like these, as well as much other information, can be found in the notes.

The notes are organized as a series of numbered topics, each about a different aspect of the organization, their operations, and accounting. Typically, the first note is a Summary of Significant Accounting Policies. Here the auditor will explain whether the entity uses GAAP accounting or another system and some major points about how their accounting system works. The rest of the notes vary by organization and auditor; however, they tend to deal with these major issues:

Cash and Investments explains what types of deposits are considered cash and what types are considered investments. The auditor may give a breakdown of amounts by each type of cash and investment category.

Land, Structures, Improvements is also called Fixed Assets. The auditor will explain any details of how these assets have been valued and any change in value over the past year through depreciation, sale, loss, or new construction.

Accounts Receivables may give a breakdown by type of receivable, including tenant receivables from homebuyers, tenants still occupying their unit, and tenants that have since vacated their unit. As many organizations have high tenant receivables, this note can be a key way to understand the problem.

Accounts Payables may give a breakdown by type of payable (e.g., vendors/contractors, HUD, tenant security deposits).

Contingencies give information about pending lawsuits, investigations, and other threats to the organization.

Risk Management includes information about the risks the organization is exposed to and insurance coverage, in particular.

Retirement Plans/Compensated Absences: Because costs associated with employing staff is a significant portion of grantees' budgets, the Notes often discuss specific non-salary costs, such as retirement plans, medical insurance, and compensated absences.

Related Parties: Audits of NAHASDA grantees will often discuss the entity's relationship with HUD in one way or another. Details on the amounts of grants may be given and the fact that the entity depends on HUD funding in large part. A note on Related Parties may also deal with the entity's relationship with the tribe and any partnerships that the entity may have formed.

## 12.6 Supplementary Information

While the financial statements and their footnotes tell a lot about an organization, often the reader has questions which still are not answered by these documents. The Supplementary Information section follows the footnotes and gives an opportunity for the auditor to provide a different kind of analysis of the organization's numbers, which is often more custom-fitted to the organization's particular accounting system or situation. Some of the common analyses which are seen in this section are:

Schedule of Federal Expenditures: This chart shows the grantee's outstanding Federal grants, their identification numbers, their original amount, the amount expended during the accounting period, and the cumulative amount expended. This page is useful for assessing whether the grants are being spent within HUD's prescribed time limits and assist in closing completed grants (see also its use in the Financial Assessment module in Chapter 7).

Budget Comparison: This chart shows the amounts the grantee budgeted for various operation categories, the actual amounts, and the difference between the two. This type of analysis is an extremely useful one for planning at the organization-it should be one which is already used internally. To outsiders, this analysis is a way to see some basic information about the organization's management and planning.

Analysis of Surplus: This analysis breaks down the organization's surplus funds into a variety of categories such as, Unreserved, Operating Reserve, Cumulative HUD Contributions, Donations, Interest, and Conveyance of Properties. These categories can help make sense of where money came from and where it went, similar to a Cash Flow Statement.

## 12.7 Findings and Recommendations

As noted in the Overview, audits are a requirement of the NAHASDA regulations. Those regulations make reference to government wide requirements for how audits are to be conducted, which are stated formally in two documents, the Single Audit Act and a document called, OMB Circular A-133. They require two reports from the auditor, in addition to all of the components we have already discussed. Officially, and in the audit's Table of Contents, these reports are known as:

- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Similar to the Opinion component discussed earlier, these reports are formal letters, which present the auditor's opinion regarding each of these subjects. They often make reference to a list or "schedule" of findings and recommendations. The findings and recommendations deal with weaknesses in management practices that the auditor came across while conducting the audit.

These reports put the findings into two different contexts. The first report deals with accounting and general management practices and whether these may have an impact on the numbers in the financial statements. It will classify findings as "reportable conditions" if the practice is weak but probably does not have a "material" or significant impact. However, findings that might have a material impact are classified as "material weaknesses" and are more serious. The second report has a different focus; it looks at whether the recipient's practices are in compliance with HUD's program requirements. It classifies the findings as reportable conditions or material weaknesses based on the impact the practice has on program compliance.

The Schedule of Findings is great information to use as a manager of a NAHASDA grantee organization. It gives an unbiased outsider's opinion of "how you are doing" and what can be done to make improvements. The format for each finding is similar:

**Condition**: A brief, factual description of what the finding is about.

**Questioned Costs:** Where applicable, a numerical estimate of the financial impact of the finding.

**Effect:** Explains how this finding affects or could affect the organization.

**Cause:** The auditor's estimation of the cause, where one is known.

**Auditor's Recommendation:** The auditor gives a simple, factual recommendation of how to resolve this finding.

Because of the importance of this section of the audit report, it is important to be a savvy reader. Small issues as well as major issues that threaten the organization's viability and credibility can both be findings and may take up the same amount of space in the audit. Dealing with the minor issues might be accomplished in a day, while truly dealing with major ones may take many months.

For instance, a finding may deal with the fact the same staff member opens the mail and makes deposits. Although this appears to be a small fact that most people would not take notice of, it makes a difference in terms of internal control. The resolution often is straightforward and involves adjusting or rotating duties.

In contrast, a common finding deals with poor collections and its impact on tenant receivables. This is an issue that can take a major toll on an organization, constraining cash flow and rippling through maintenance, plans for new projects, and harming the organization's relationship with HUD. Often, this is the sort of problem that takes years to develop and will take some serious effort to make changes to collection practices and turn around tenant expectations.

Ultimately, the audit can be as useful as the recipient wishes to make it. Because it is a NAHASDA requirement, the recipient can count on it taking up some of management's time. If the recipient looks at the audit as a valuable management and monitoring tool, the time taken to carefully review the audit report can be time well spent.

# 13. Planning and Reporting

This chapter provides IHBG recipients with guidelines to assess their compliance with their 5-year IHPs. It includes the following topics:

- Statutory and Regulatory Requirements
- ONAP Review Process
- APR Development Process
- Components of the APR

## 13.1 Overview

Assessing progress on the IHP is one of the self-monitoring components required by NAHASDA. Monitoring how well the recipient is doing in meeting its goals and objectives also helps determine where the organization is headed and how to redirect it in order to achieve its stated mission. The recipient is responsible for preparing and submitting an APR that contains most of the information necessary to assess the progress made on accomplishing the goals and objectives described in the recipient's IHP.

## 13.2 Statutory and Regulatory Requirements

NAHASDA §404 and its implementing regulations require recipients of IHBG funds to review progress made in carrying out the activities described in their IHPs. APRs must be submitted within 60 days of the end of the recipient's program year. Submittal of the APR is a condition for compliance under NAHASDA.

## 13.3 ONAP Review Process

The objectives of the ONAP's APR review are to:

- Fulfill public trust responsibilities by ensuring that IHBG programs are implemented in a timely manner and in compliance with all applicable requirements

- Identify individual examples of superior, satisfactory, or deficient performance among HUD grant recipients

- Recommend actions to reinforce, improve, and/or correct performance

Once the recipient submits the APR, ONAP will review it for completeness and accuracy. After the review is complete, ONAP will send the recipient a letter that will include any performance deficiencies identified in the APR and/or recommendations for improvement. ONAP should provide this letter within 60 days from receipt of the APR. ONAP may request additional information from the recipient during that period.

**What is HUD looking for?**

HUD has the authority to develop performance measures, which the recipient must meet as a condition for compliance with NAHASDA. These performance measures, found at 24 CFR §1000.524 are:

1. Within 2 years of grant award under NAHASDA, at least 90 percent of the grant must be obligated.

2. The recipient has complied with the required certifications in its IHP and all policies, and the IHP has been made available to the public.

3. Fiscal audits have been conducted on a timely basis and in accordance with the requirements of the Single Audit Act, as applicable. Any deficiencies identified in audit reports have been addressed within the prescribed time period.

4. Accurate APRs were submitted to HUD within 60 days after the completion of the recipient's program year.

5. The recipient has met the IHP goals and objectives in the 1-year plan and demonstrated progress on the 5-year plan goals and objectives.

6. The recipient has substantially complied with the requirements of 24 CFR §1000 and all other applicable Federal statutes and regulations.

## 13.4 APR Development Process

It takes a significant amount of time to prepare and develop a comprehensive APR. Since timely submission is essential and the APR takes a substantial commitment of time and effort, it is important to begin preparing this report before the end of the program or plan year. Waiting to start just before the deadline will not allow enough time to fully assess progress. Characteristics of responsive APRs include:

- Internal consistency among all data

- Accurate reporting of accomplishments and performance barriers

- Detailed information to allow a reviewer to draw the same conclusions as those stated in the APR

Submission of the APR serves several purposes:

- As a recipient of IHBG funds, the recipient is required to monitor grant activities. The preparation of the APR is the final step in monitoring the implementation of the grant

- The APR is one of HUD's primary resources for achieving its mandate to review the recipient's performance under NAHASDA

- The information contained in the APR is used to respond to inquiries from Congress, other Federal agencies and the public regarding the economic impact of the IHBG program. For this reason, it is critical that all requested data and information is entered into the APR, where applicable, and is reported accurately

Although the APR is required to be submitted once a year, it is helpful to engage in some of the self-monitoring activities more frequently. For example, if progress is monitored quarterly, recipients will be able to see where they are falling behind and devise a plan to correct this before the end of the program year. This substantially increases chances of achieving the objectives described in the IHP.

In the event the recipient does not submit an APR within the required timeframe, the Area ONAP will send a letter of warning notifying the recipient that the APR is past due and that future payment requests through the Line of Credit Control System (LOCCS) will require the recipient to submit the LOCCS Payment Voucher, Form HUD-50080-IHBG, with detailed supporting documentation each time a payment request is made. This documentation may include copies of billing documents, contract register, project expenditure register, staffing documentation, etc. In other words, the recipient will be required to submit information to substantiate that the IHBG funds being requested will be used to implement the goals and objectives described in the IHP and that the activities being conducted are in compliance with statutory and regulatory requirements. This letter will also advise the recipient that if the APR is not received within 30 days of the date of the letter, HUD will consider taking necessary actions to enforce the statutory submission requirement.

## 13.5 Components of the APR

The APR has the following components:

| |
|---|
| Cover Sheet - General Information on the Tribe or TDHE |
| Grant |
| PART I - Reporting on the One Year IHP |
| TABLE I - Sources of Funds |
| TABLE II - Uses of Funds |
| Not Grant Specific |
| PART II - Reporting on Program Year Accomplishments |
| SECTION A - Monitoring |
| TABLE III - Inspection of Assisted Housing |
| SECTION B - Audits |
| SECTION C - Public Accountability |
| SECTION D - Jobs Created by NAHASDA |
| TABLE IV - Jobs Created by NAHASDA |

The essential components of the APR are: Part I detailing progress on the goals, objectives, and performance objectives of each open grant; Tables I, II, and III; and Part II Section A - Monitoring.

Part I (including Tables I and II) is grant specific; and therefore, a separate part must be submitted for each open grant.

There is one optional section of the APR, Section D: Jobs Created by NAHASDA, which is an important component to understand the economic impact of NAHASDA resources on the local community.

The NAHASDA website allows the recipient to download a copy of the MS Word template in order to fill out the APR. The APR form is HUD-52735AS and is available at www.hudclips.org.

**Part I - Reporting on the IHP**

Part I provides space to list the goals, objectives, and performance objectives stated in the IHP's 1-year plan for all IHBG activities during the program year, to describe accomplishments made in attaining these goals and objectives as they relate to the performance objectives, to explain why the goals and objectives were not met, and to explain what will be done to ensure completion of the activities.

It is most helpful to be as specific as possible in assessing what kind of measurable progress has been made. Stating that an "ongoing year-round effort" is under way is too vague; the recipient should describe some of these specific efforts and with what frequency they occur. Stating that "work was started" does not give a complete picture; write what specifically has taken place, as well as what remains to be done, and in what timeframe proposed to accomplish it.

Identifying the reasons why progress was not made toward meeting the goals and objectives is an essential step toward success. If the reasons for not making progress on an objective are identified every quarter, the recipient can also identify ways to address them within the current program year. With proper monitoring, when the recipient completes the final APR for an IHBG, there will likely be fewer unmet goals.

It is impossible to attain goals without a plan of action. When the recipient establishes goals for the 1-year plan, the recipient should design an implementation plan for meeting those goals. The implementation plan would include the interim steps that must be taken in order to meet the overall goal, who will be responsible for them, and the timeframe in which they will be accomplished.

Also in Part I, the recipient is asked if it is on schedule to meet its IHP's 5-year goals or, if not, to explain the causes for the delays and if there are plans to modify the IHP in order to meet those 5-year objectives. The recipient is also asked to describe how it might change any programs based on its experience in implementing NAHASDA.

**Table I - Sources of Funds**

Table I asks for a listing of funds planned or expected to receive from any source for NAHASDA eligible activities, which is taken from the IHP for that grant, as well as the actual amounts awarded from those sources. "Actual amount awarded" means the funds committed to all housing activities in the IHP rather than the funds specifically received by the recipient during the year. For example, the recipient planned to receive a $100,000 grant from the Indian Health Service to develop a water system to support its planned housing development. This amount would be reported as the actual amount awarded if the grant is approved, even though it may not be in the recipient's bank account during the reporting period. If, however, the planned funds were not realized, the recipient is asked to explain in Table I the reasons why the funds were not received.

**Table II - Uses of Funds**

Table II contains a description of the uses of IHBG funds received and information on activities involving housing units and family assistance. It asks the recipient for the number of units constructed, rehabilitated, or acquired, and the number of families assisted. 24 CFR Section 85.20(b)(2) requires recipients to maintain financial records showing the obligated and unobligated balances. The recipient also calculates and enters the percentage of obligated IHBG funds for each activity under each open grant on Table II. Also, the recipient is asked to identify and explain any unexpected cost overruns associated with the IHBG funds; and specific information if the organization is investing any of its IHBG funds.

This part is not grant-specific. A single Part II consisting of Sections A through D (including Table III) is to be prepared and submitted at the end of each program year and will cover all open grants.

**Section A - Monitoring**

This section is divided into two sets of questions, I. Self-Monitoring and II. Inspection of Units (including Table III - Inspection of Assisted Housing).

In Section I: Self-Monitoring, the recipient describes:

- The self-monitoring systems and internal control procedures the recipient used and implemented during the program year
- The results of monitoring, including any improvements/corrections to the organization to comply with §403(b)
- If the recipient is a TDHE, the procedures the tribe used to monitor affordable housing activities, the activities monitored, and the results of the tribe's monitoring, including any corrective action required
- Any issues that were referred to the tribe by HUD, an auditor, etc. and the recipient's response
- Any monitoring activities conducted of subrecipients

This guidebook will help the recipient respond to these questions. If the recipient has developed a monitoring checklist, this should be indicated in Section A of the APR.

Section II focuses on the recipient's unit inspection system. Section 403(b) of NAHASDA states that a monitoring program must include an on-site inspection of all housing units owned and managed by the recipient. In Table III, include the results of periodic inspection of assisted units.

Notice PIH 2004-17 describes the recipient's responsibilities regarding housing units assisted under NAHASDA and those assisted under the 1937 Housing Act. The Notice also describes the information recipients are required to include in the APR form regarding inspections.

The recipient is asked to describe its plan of action for complying with its adopted inspection policy, to explain why all units were not inspected ( if applicable), and to describe the process for inspecting units assisted with IHBG funds that they do not own or manage.

**Section B - Audits**

NAHASDA (§1000.544) requires that IHBG recipients comply with the requirements of the Single Audit Act and 0MB Circular A-133. Recipients that expend $500,000 or more in a fiscal year in Federal funds must submit an annual audit to HUD within 30 days after receipt or 9 months after the end of the audit period (whichever is earlier). If the recipient has not submitted the audit prior to APR submission, it must accompany the APR. This section of the APR asks questions related to recipient compliance with the audit requirements and seeks to determine whether or not audits are being performed, as required.
Guidance for preparing for an audit is included in Chapter 12 of this guidebook.

**Section C - Public Accountability**

NAHASDA requires that the APR be made available to all citizens in the Indian area in sufficient time to permit comments prior to APR submission to HUD, and that a summary of any comments received be included in the report.

Suggested methods of dissemination include local radio stations, local newspapers and newsletters, community meetings, presentations to local groups, etc. Citizens should be given an easy way to comment on the APR. If there is an open forum or time for questions or comments, appoint someone to take minutes to be transcribed or summarized later. Some citizens will be more hesitant to speak in public; they should be provided with blank forms on which to make written comments.

**Section D - Jobs Created by NAHASDA**

This section of the APR, which is optional, includes Table IV - Jobs Created by NAHASDA. The recipient is asked to indicate the number of permanent and temporary positions created by IHBG assistance and the number of positions needed to implement NAHASDA.