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United States Department of Agriculture

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Office of the Secretary
Washington, D.C. 20250

JAN -5 2012

The Honorable Carolyn N. Lerner
Special Counsel
U.S. Office of Special Counsel
1730 M Street, NW, Suite 300
Washington, D.C. 20036-4505

Dear Ms. Lerner:

Thank you for your letter of September 30, 2011, regarding OSC File Number DI-11-3709 and the investigation by the Office of Special Counsel (OSC) into whistleblower allegations of gross mismanagement by an employee of Rural Development (RD). Specifically, it was alleged that the employee failed to require an audit of a borrower who engaged in questionable transactions.

Enclosed is the Report of Investigation concerning the pertinent allegations, which was completed on November 15, 2011, by a certified personnel misconduct investigator of the U.S. Department of Agriculture, Forest Service. A subject matter expert experienced in financial servicing files dealing with multifamily housing programs assisted the investigator in this investigation.

The investigation found no evidence to substantiate the allegations. It did, however, reveal that RD employees identified several discrepancies in the financial information of the borrower. Initially, the RD staff noted discrepancies for fiscal year 2009. As a result of the inconsistencies, RD went back to review information for years 2007 to 2010. A complete audit was not pursued for these years because RD regulations, specifically at 7 C.F.R. §3560.308(a)(2), do not require that properties with fewer than 16 units obtain a full financial audit. Furthermore, according to the RD investigative report, a complete audit was not ordered, partly because of the large cost that would have been charged to the project's account. Charging such a significant cost to the project may have been detrimental to the project's financial feasibility and repayment of the RD loan.

In addition, because a complete audit does not require the cross-checking of invoices to checks and records, a complete audit may not have accurately identified the source of the financial discrepancies. The borrower did engage a certified public accounting firm to conduct such a review on the operations of both properties. This review was conducted pursuant to RD requirements under 7 C.F.R. §3560.308 and identified the source of financial discrepancies crucial to subsequent corrective actions. Thus, while RD did not require a complete audit of the borrower's financial information, the investigation shows that information for 2007 to 2010 was reviewed and that RD employees took the steps necessary to correct all discrepancies found, in accordance with RD regulations for the Section 515 Direct Loan Program.

The Honorable Carolyn N. Lerner
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It is important to reiterate that RD did in fact review the borrower's 2010 transactions. As reflected in the investigative report, a copy of an auditor's report for the borrower's fiscal year 2010 transactions was forwarded to RD and reviewed in October 2011. Though the auditor's report showed several discrepancies, the discrepancies had already been identified during the RD staff's initial analysis and repaid. As a result of that initial review, the property manager resigned and was required to repay certain funds that were removed from the project's account.

Because RD determined that only the project manager had improperly removed money from the project's account, and because the money was repaid, and the property manager resigned from her position, RD believes that there is no need for heightened monitoring of this project. RD will continue to review the year-end balance sheets pursuant to 7 C.F.R. §3560.308 and to obtain additional information as necessary.

Based upon the findings of the investigation, the Department has determined that no further administrative action is recommended in this matter for the RD employee.

Again, thank you for writing. I assure you that I take these concerns very seriously and am committed to ensuring that appropriate actions are taken.

Sincerely,



Thomas J. Wilsack
Secretary

Enclosure

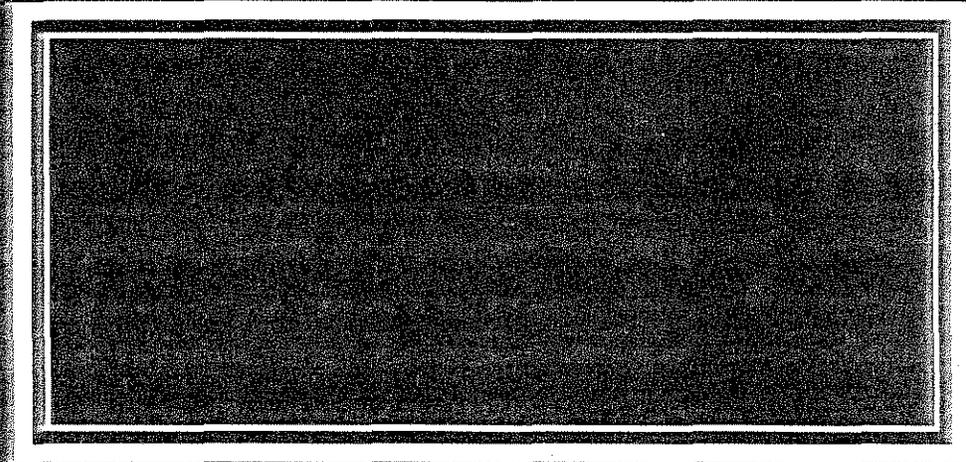
United States
Department of
Agriculture

Forest
Service



Report of Investigation

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Disclosure of other than personal information is subject to the provisions of the Freedom of Information Act.

This report shall be maintained in accordance with FSM-6270.

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REPORT OF INVESTIGATION

OSC File No. DI-11-3709

Whistleblower Complaint
U. S. Department of Agriculture
Rural Development
North Dakota
November 4-8, 2011

Prepared by:
Duane Z. Padilla
Albuquerque, NM

REPORT OF INVESTIGATION

Subject: Alisa Dahl
Area Director (GS-13)
United States Department of Agriculture
Rural Development
Minot, North Dakota

Investigator: Duane Z. Padilla
OSC File NO. DI-11-3709

SUMMARY OF INFORMATION

An administrative investigation was conducted in response to OSC File No. DI-11-3709 regarding allegations brought forth by an anonymous whistleblower who alleges that ALISA DAHL, Area Director, Rural Development (RD), engaged in gross mismanagement by failing to require an audit of a borrower that engaged in highly questionable transactions. The complaint goes on to allege that reports from a certified public accounting firm, which reviewed only a fraction of the borrower's transactions, indicated that the borrower's former manager engaged in related-party transactions and did not accurately record other transactions in the company's ledger. Additionally, the anonymous whistleblower alleges that DAHL failed to require an audit and thereby permitted the borrower to receive additional loans and grants from RD.

SUMMARY OF CONDUCT OF THE INVESTIGATION

After receiving the Office of Special Counsel's September 30, 2011 letter which details the specific allegations against DAHL, RD launched an administrative investigation to investigate the allegations contained in the OSC Whistleblower Complaint. DUANE Z. PADILLA, a United States Department of Agriculture (USDA) credentialed Personal Misconduct Investigator was assigned to conduct the investigation. Additionally, RD assigned STEPHANIE WHITE, Multifamily Housing Programs Director as a Subject Matter Expert (SME) to assist the investigator in reviewing the financial servicing files obtained from the Minot Area Office of RD.

During the investigation, sworn statements were obtained from four (4) employees of RD, including DAHL (Exhibit 1), Loan Specialist CHRISTY WILTSE (Exhibit 2), Management Control Officer DEBRA STEINWAND (Exhibit 3) and Multifamily Housing Coordinator KATHY LAKE (Exhibit 4). In addition, HAROLD GREEK (Exhibit 5), President of the Board of Directors of Renville-Bottineau Senior Citizens Homes (RBSCH), Inc. was interviewed. In addition to the interviews, the servicing files kept in the RD Minot Area Office for RBSCH Projects 01-9 and 06-8 were reviewed by the SME. Attached as exhibits are copies of sworn statements, documentation which records actions taken by RD as well as documentation of follow up actions.

SUMMARY OF EVIDENCE FROM INVESTIGATION

Based on a sworn statement, DAHL acknowledged that RBSCH's projects in April 2010, as the 2009 end of year information for RBSCH was being reviewed by RD, several

discrepancies were noted. As a result of the discovery of the discrepancies, RD also went back to review information for years 2007 and 2008. DAHL states that correspondence was sent by WILTSE to RBSCH, requesting different financial information such as bank account information and Quicken reports. DAHL states that RBSCH's financial information was reviewed and additional information was sought from RBSCH and RBSCH Project Manager SUSAN MATHIASON. Although MATHIASON largely complied, RD did inform the RBSCH Board of Directors (Board) regarding the concerns RD had with the RBSCH's financial information it was provided by MATHIASON.

After RD informed the BOARD, DAHL states that MATHIASON was suspended by the Board and her name was removed as having check signing authority. The Board then retained Certified Public Accounting (CPA) firm of Lervik & Johnson to conduct a review of Project 01-9 as well as Project 06-8 in accordance with agreed upon procedures. The agreed upon procedures include a review of Form RD 3560-7, Multiple Family Housing Project Budget, general ledgers, monthly bank statements and reconciliation for each cash account. Prior to the CPA conducting their review, WILTSE had conducted a similar review and had already noted numerous discrepancies based on a review of similar financial information. WILTSE discussed with the CPA specific items of concern to be reviewed. As a result of the CPA's review, several discrepancies were found and reported to the Board. (Exhibit 25). As a result of RD's review and that review by the CPA, the Board took several actions which included accepting MATHIASON's resignation, ordering MATHIASON to repay funds in the amount of \$797.50, and having Mohall Apts. (a non-RD project) to repay funds previously paid to them by each RBSCH project. The repayment were ordered based on the lack of supporting invoices and therefore, the purpose of why the payments were made originally. (Exhibits 18, 19, 20, 21).

In a memorandum dated March 7, 2011, DAHL reported to STEINWAND, a summary of events relating to Renville Bottineau Senior Citizens Center. (Exhibit 17). In an email message dated March 28, 2011, STEINWAND responded that having reviewed the documents provided, including information from the CPA and based upon a return of funds and immediate action by the board of directors, that STEINWAND believed Office of Inspector General (OIG) would not pursue this matter and the North Dakota State Office of RD considered this matter closed. (Exhibit 22).

In a letter dated April 4, 2011, DAHL notified GREEK, that both Projects 01-9 and 06-8 unauthorized payments had been reviewed by the North Dakota State Office. Since the funds were returned and the Board had taken immediate action, the matter was considered closed. (Exhibit 23).

DAHL acknowledges the use of the term "Audit" in her memorandum to the State Office, but that it was not in an attempt to misrepresent the review done by CPA firm of Lervik & Johnson, which amounted to agreed upon procedres. DAHL states she was informed by WILTSE, that it was WILTSE's past experience that when a "full audit" was recommended and or conducted by a CPA firm, that the results do not provide the needed detail of cross-checking invoices to checks and records; which was required in this case.

In addition, the agreed upon procedures was developed as a more cost effective way in which to balance the requirements of RD with that of financial impact that would result if a "full audit" would be required for projects the size of RBSCH. In this case RBSCH would have had to pay for a "full audit" for the multiple years of 2007, 2008 and 2009 and for both projects (01-9 and 06-8) which could have resulted in a considerable expense.

Based on a sworn statement, WILTSE states that when conducting a review of information for Year 2009 for Renville-Bottineau Senior Citizens Homes, Inc. (RBSCH), things were not matching up. Based on missing information, WILTSE sent a letter to MATHIASON requesting tax, insurance, escrow and reserve account information as well as some other items that weren't matching up with the bank statements. (Exhibits 6 and 7). WILTSE discovered additional discrepancies, and followed up with phone calls and email messages to MATHIASON requesting additional information including check registers to try and match up bank statements, cancelled checks and Quicken spreadsheets. (Exhibits 8 and 9). Overall, WILTSE discovered numerous discrepancies as well as several accounting errors.

WILTSE did initially receive some information, but never received all the information she requested. WILTSE notified Team Leader ROLLIN BROSSART when she first noticed the discrepancies in April 2010. Additional attempts were made to contact MATHIASON and to obtain requested documentation. (Exhibits 10, 11, 12, 13). Following numerous attempts and having several months go by, on September 9, 2010, a letter was sent to the RBSCH Board.

On September 22, 2010, WILTSE attended the RBSCH Board of Directors meeting along with BROSSART. (Exhibit 14). Prior to the meeting, the Board had conducted their own review of the issues raised in RD's letter dated September 9, 2010. The Board decided to have an audit conducted and that MATHIASON be removed from management duties including her ability to sign checks. The board hired the Certified Public Accounting (CPA) firm of Lervick & Johnson to audit all items that RD had brought into question. Lervick & Johnson agreed that they would review the items WILTSE had identified during her annual review. WILTSE's past experience with a so called "audit" for this type of situation was that the auditing procedures utilized were not always the most correct for the application and did not identify specific dollar amounts for discrepancy items in question. RD received a copy of the letter sent by Lervick & Johnson dated November 12, 2010, acknowledging their engagement to conduct agreed upon procedures for RBSCH. (Exhibits 15 and 16).

On February 28, 2011, WILTSE and DAHL attended the RBSCH Board during which the Board went through all discrepancies found by the CPA, and which were identical to those that WILTSE had previously identified and brought to the attention of the Board. MATHIASON tendered her resignation during the meeting which the Board accepted. The Board also requested MATHIASON to reimburse for two expenses for which receipts could not be produced, and had Mohall Apartments, another property owned by

the Board, repay money previously paid to it since no invoices were available and it was unknown for what these payments were made.

As a result of the Board's actions, copies of deposit slips and copies of checks for repayment of funds were provided by the Board to RD. In a memorandum dated March 7, 2011, DAHL sent notification to STEINWAND of the events that had transpired with RBSCH. In an email message dated March 28, 2011, STEINWAND stated that based on the repayment of funds and the Board taking immediate action, that it was not believed OIG would pursue this matter. Therefore, the State Office considered this matter closed.

On April 1, 2011, new loans closed for Project 01-9, which were held up once the discrepancies had been found and until the discrepancies could be rectified.

On October 25, 2011, a copy of the auditor's reports for 2010 actions was received which showed two (2) deviations on Project 06-8 and two (2) for Project 01-9. WILTSE states she had previously identified the deviations when conducting the review of RBSCH's financials, and the amounts had already been repaid. (Exhibit 24). WILTSE states that she does not believe that an "audit" was or is needed for RBSCH, and Projects 01-9 and 06-8 have been thoroughly reviewed for 2007, 2008, 2009 and 2010.

Based on a sworn statement, STEINWAND recalls receiving a memorandum from DAHL concerning RBSCH. STEINWAND states she also had a conversation regarding RBSCH with LAKE. STEINWAND states that although the incident regarding RBSCH should have been reported earlier to the State Office, the matter didn't need to be taken any further, which included having to report it to the Office of Inspector General (OIG). STEINWAND states that had the misappropriated money not been immediately returned or had the Board not taken remedial actions, such as removing the Project Manager, STEINWAND would have reported this incident to OIG. However, STEINWAND believed the remedial actions to be sufficient based on the information provided and considered the matter to be over.

STEINWAND states it was her understanding the needed level of review had been conducted by both the Area Office and the Certified Public Accounting firm. STEINWAND states that based on the information she was provided, STEINWAND believes that the requisite level of review was done in the RBSCH matter.

Based on a sworn statement, LAKE states she became aware of the situation with RBSCH when MICHELLE BROSSART, Area Technician for the Minot Area Office, called LAKE to discuss the situation. LAKE states that either LAKE OR STEINWAND talked with DAHL or WILTSE. LAKE states that as she recalls that money that was found missing or misappropriated would be replaced and that the Project Manager would resign. LAKE states that after this issue was resolved, RD would then be able to close on the new loan for RBSCH. LAKE states she and STEINWAND did discuss referring the discrepancies with RBSCH to the Office of Inspector General (OIG), but LAKE is not sure if the case was referred.

LAKE states that it is her understanding that the actions taken by the Board of Directors for RBSCH were done in accordance with discrepancies found by a Certified Public Accounting (CPA) firm. However, LAKE is unaware if the CPA firm conducted an audit or a review in accordance with agreed upon procedures.

HAROLD GREEK was interviewed during the investigation but since GREEK is not an employee of the USDA, GREEK's interview is recorded in a Memorandum of Interview. GREEK confirmed he is the President of the Board of Directors (Board) of RBSCH and that last year, employees of the Minot Office of Rural Development (RD) had made the Board aware of discrepancies with the financial reports for Years 2007, 2008 and 2009. GREEK states the Board was made aware of the financial discrepancies by RD and that MATHIASON had not provided timely responses to RD regarding financial information that had been requested of MATHIASON concerning RBSCH. Based on the discrepancies raised by RD, the Board chose to engage the Certified Public Accounting firm of Lervick & Johnson to conduct a review of financial information for 2007, 2008 and 2009. GREEK understood that Lervick & Johnson were going to conduct a review of documents and not an audit; GREEK believed an audit would have been a much costlier endeavor. GREEK states the Board paid approximately \$2000 for Lervick & Johnson's review of financial information in accordance with the established "agreed upon procedures."

GREEK acknowledged that MATHIASON had experienced personal issues that were likely the cause of the discrepancies in RBSCH's financial documents, but was confident that all irregularities had been discovered by RD and/or Lervick & Johnson. GREEK verified that the Board had accepted MATHIASON's resignation as Project Manager and that MATHIASON had paid back money to RBSCH which could not be verified by receipt. Additionally, funds that had been transferred to Mohall Apartments (another property owned by the Board of Directors) were also repaid to RBSCH. GREEK states that the Board took over management of RBSCH and that no new Project Director was hired to replace MATHIASON. MATHIASON's husband JAMES MATHIASON is the current Secretary of the Board of Directors and does help RBSCH, but GREEK states that signature cards with the bank were updated so that now two Board member's signatures are required on all checks. GREEK states that everyone associated with RD acted professionally in their handling of this matter and GREEK had no residual issues to report.

UNSUBSTANTIATED VIOLATION OF RULE OR REGULATION

The investigation found no evidence to substantiate that DAHL had engaged in "gross mismanagement by failing to require an audit of a borrower that engaged in highly questionable transactions." The investigation does reveal that RD discovered several discrepancies in the financial information for RBSCH for the years 2007, 2008, 2009 and 2010, and that upon discovery of said discrepancies, worked diligently with the RBSCH Board to correct said discrepancies. Upon being informed of the financial discrepancies, RBSCH engaged a CPA firm to conduct a review of its financial records for 2007, 2008

and 2009. As a result of the review, the CPA issued a report to RBSCH which does recommend an audit be conducted but also states that the objective of said "audit" would be "the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc." Additionally, the CPA report does not state the probability of the existence of other deviations only that had "additional procedures" been performed, "other matters **might** have come to our attention." (Emphasis added). Therefore, with the exception of the recommendation by the CPA Firm, there is no indication of a rule or regulation that required an "audit" be conducted.

FOLLOW-UP ACTIONS

Based on the evidence obtained during the investigation, there appears no evidence to support any violation of law, rule or regulation: therefore no administrative action is recommended as a result of the investigation.

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I, Alisa Dahl, Area Director, GS-13, Minot Area Office, Rural Development hereby declare under penalty of perjury, in accordance with 28 U.S.C. 1746, that the following is true, accurate and complete to the best of my knowledge.

I make the following statement freely and voluntarily. I have been informed that Duane Z. Padilla is a Personnel Misconduct Investigator for the U.S. Department of Agriculture. I understand that this statement is not confidential and may be shown to any interested person on a need to know basis for purposes of making administrative decisions to the extent allowed by law. I have been asked not to discuss my statement with anyone unless asked to do so as part of any official action or follow up to this investigation.

I have worked for the past seven (7) years for Rural Development (RD) and have been the Area Director for approximately one (1) year. Just prior to my current position, I worked as the Business and Community Programs Specialist for three (3) years.

I was asked about my knowledge of the Renville-Bottineau Senior Citizens Home, Inc. (RBSCH) and I am aware that it is an existing multifamily housing project within my area of responsibility as Area Director, and that the project has had a loan from RD for a while. The new loan that RBSCH has received is for multi-family preservation or rehabilitation of the existing structure. One of the primary requirements RBSCH has for being a borrower from RD is to fulfill requirements of providing specific budget reports as well as end of the year reporting to RD.

RBSCH just like other projects must be reviewed by RD on an annual basis, and it is the project's responsibility to provide RD requested financial information. In April 2010, as the 2009 end of year information for RBSCH was being reviewed by RD, several discrepancies were noted. As a result of the discovery of the discrepancies, RD also went back to review information for years 2007 and 2008.

Soon after the discrepancies were noted, correspondence was sent by Loan Specialist Christy Wiltse to Susan Mathiason, Manager of RBSCH Projects 01-9 and 06-8. Several emails and letters were sent to Ms. Mathiason requesting different financial information such as bank account information and Quicken reports. Both Ms. Wiltse as well as Loan Specialist Mark Schaar (who has since retired), worked at reviewing RBSCH's financial information and were able to identify specific expenses that couldn't be substantiated with the information provided by Ms. Mathiason. As a result, Ms. Mathiason was asked to provide documentation for the specific expenses in question. Ms. Mathiason was informed that if the specific information wasn't received, the Board of Directors for RBSCH would be notified.

When the information was not received, Ms. Wiltse and Team Leader Rollin Brossart met with Board of Directors for RBSCH to discuss the concerns RD had with RBSCH's financial information and the lack of response received from Ms. Mathiason. After discussing the information with the Board, the Board chose to suspend Ms. Mathiason as manager, and have her name removed immediately as an authority to sign checks for RBSCH.

The Board then engaged the Certified Public Accounting (CPA) firm of Lervik & Johnson to conduct a review of Project 01-9 as well as Project 06-8 in accordance with agreed upon procedures. The agreed upon procedures include a review of Form RD 3560-7, Multiple Family Housing Project Budget, general ledgers, monthly bank statements and reconciliation for each cash account. Prior to the CPA conducting their review, Ms. Wiltse had conducted a similar review and had already noted numerous discrepancies based on a review of similar financial information. *MS Wiltse discussed with the CPA specific items of concern to be reviewed.*

and

The result of the CPA's review was received in the Minot Area Office on February 10, 2011. As a result of the CPA's review, several discrepancies were found and reported to the Board of Directors. As a result of the discrepancies, several actions were recommended and taken by the Board of Directors. In a Board of Directors meeting held on February 28, 2011, and attended by myself and Ms. Wiltse, Ms. Mathiason submitted her letter of resignation to Board of Directors who accepted her resignation. Additionally, the Board discussed the noted discrepancies found for years 2007, 2008 and 2009. It was decided that Ms. Mathiason owed both projects funds reimbursement and because they could not produce invoices for the services for which they received payment, the Board order Ms. Mathiason to immediately repay funds in the amount of \$797.50. In addition, Mohall Apts (a non-RD project) was requested to repay funds previously paid to them by each project since no invoices were available and it was unknown what these payments were for.

Following the meeting, the Board of Directors provided RD with evidence of all payments that needed to be made to correct the discrepancies. Documentation included copies of checks and bank deposit slips. Additionally, the board provided a copy of Ms. Mathiason's Letter of Resignation and a copy of the Board's minutes from the February 28, 2011 meeting.

including information from the CPA

In a memorandum dated March 7, 2011, I reported to Management Control Officer Debra Steinwand, located at the State Office in Bismarck, a summary of events relating to Renville Bottineau Senior Citizens Center. After having not received a response, I sent a follow-up email message dated March 22, 2011 to Ms. Steinwand, and carbon copied Ms. Wiltse as well as Multi-Family Housing Coordinator Kathy Lake. In an email message dated March 28, 2011, Ms. Steinwand responded that having reviewed the documents provided, and based upon a return of funds and immediate action by the board of directors, that she believed OIG would not pursue this matter and the State Office considered this matter closed.

In a letter dated April 4, 2011, I notified the President of Board of Directors Harold Greek, that both Project 01-9 and 06-8 unauthorized payments had been reviewed by the North Dakota State Office. Since the funds were returned, and the Board had taken immediate action, the matter was considered closed.

Since the review of information for years 2007, 2008 and 2009, was completed, a review of 2010 has also been completed. My understanding is that Ms. Wiltse has found a single

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discrepancy of a \$346 unauthorized expense, which had been addressed previously in the review and paid back.

I believe that the review of the financials for RBSCH and Projects 01-9 and 06-8, with the identified discrepancies and the remedies applied which resulted in a recovery of all funds at question was the best outcome for all parties. While I acknowledge the use of the term "Audit" in my memorandum to the State Office, it was not in attempt to misrepresent that a review, in accordance with the agreed upon procedures, was done by the CPA firm of Lervick & Johnson. I was informed by Ms. Wiltse that it was her past experience that when a "full audit" was recommended and or conducted by a CPA firm, that the results do not provide the needed detail of cross-checking invoices to checks and records; which was required in this case. In addition, the agreed upon procedures was developed as a more cost effective way in which to balance the requirements of RD with that of financial impact that would result if a "full audit" would be required for projects the size of RBSCH. In this case RBSCH would have had to pay for a "full audit" for the multiple years of 2007, 2008 and 2009 and for both projects (01-9 and 06-8) which could have resulted in a considerable expense.

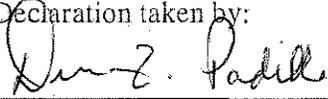
I give this statement voluntarily and without duress. I have read the foregoing statement, consisting of 3 pages. I have signed this page, and have provided initials on the previous pages. I have been given an opportunity to make corrections or additions.

I declare under penalty of perjury that the foregoing is true and correct.


Signature

Executed at Minot, North Dakota on November 7, 2011

Declaration taken by:



Duane Z. Padilla

Personnel Misconduct Investigator

amd



I, Christy Wiltse, Loan Specialist, GS-11, Minot Field Office, Rural Development hereby declare under penalty of perjury, in accordance with 28 U.S.C. 1746, that the following is true, accurate and complete to the best of my knowledge.

I make the following statement freely and voluntarily. I have been informed that Duane Z. Padilla is a Personnel Misconduct Investigator for the U.S. Department of Agriculture. I understand that this statement is not confidential and may be shown to any interested person on a need to know basis for purposes of making administrative decisions to the extent allowed by law. I have been asked not to discuss my statement with anyone unless asked to do so as part of any official action or follow up to this investigation.

I have been employed as a Loan Specialist for Rural Development (RD) for several years, and worked as a loan specialist for the predecessor Agency. In all, I have just short of eleven (11) years as a federal employee.

Annual reviews are conducted by the two (2) loan specialists at the Minot Office, which involve a review of cash balances and bank statements. I know that this is the recognized routine process of the Minot Office, to ensure that each project has its own review.

When conducting my review of information for Year 2009 for Renville-Bottineau Senior Citizens Homes, Inc. (RBSCH), things were not matching up. Based on some missing information, I sent a letter to the RBSCH Project Manager Susan Mathiason requesting tax, insurance, escrow and reserve account information as well as some other items that weren't matching up with the bank statements. As I discovered additional discrepancies, I followed up with phone calls and email messages to Ms. Mathiason requesting additional information including check registers to try and match up bank statements, cancelled checks and Quicken spreadsheets. Overall I discovered numerous discrepancies as well as several accounting errors.

Although I did initially receive some information, I never received all the information I requested. I notified Team Leader Rollin Brossart when I first noticed the discrepancies in April 2010, who directed me to continue to follow-up with Ms. Mathiason via phone calls and email message. In a letter dated July 14, 2010, Mr. Brossart sent a letter to Ms. Mathiason informing her that she had seven (7) days in which to respond. Ms. Mathiason did respond and kept promising to send the requested information. Finally Ms. Mathiason was given a hard deadline of September 4, 2010, to produce the requested information or the Board of Directors for RBSCH would be notified. On September 9, 2010, a letter was sent to the RBSCH Board of Directors.

On September 22, 2010, I attended the RBSCH Board of Directors meeting along with Mr. Brossart. Prior to the meeting, the Board had conducted their own review of the issues raised in the September 9, 2010 letter. When questioned on the discrepancies, Ms. Mathiason stated that she couldn't remember. It was recommended that the board lock up the financial documents, that an audit be conducted and that Ms. Mathiason be removed from management duties including her ability to sign checks. The board agreed to engage the Certified Public Accounting (CPA) firm of Lervick & Johnson to audit all

items that RD had brought into question. Lervick & Johnson agreed that they would review the items I had identified during my annual review. It is my past experience with a so called "audit" for this type of situation that the auditing procedures utilized were not always the most correct for the application and did not identify specific dollar amounts for discrepancy items in question. RD did receive a copy of the letter sent by Lervick & Johnson dated November 12, 2010, acknowledging their engagement to conduct agreed upon procedures for RBSCH. The review conducted by Lervick & Johnson is dated January 3, 2011, and RD received a copy of the report on February 10, 2011.

On February 28, 2011, I and Area Director Alisa Dahl met with the RBSCH Board of Directors. The Board went through all discrepancies found by the auditor, which were identical to those that I had previously identified and brought to the attention of the Board. Additionally, during the Board meeting Ms. Mathiason tendered her resignation which was accepted by the Board. The Board also requested that Ms. Mathiason reimburse for two expenses for which receipts could not be produced and to have Mohall Apartments, another property owned by the Board, to refund money previously paid to it since no invoices were available and it was unknown for what these payments were made.

As a result of the Board's actions, copies of deposit slips and copies of checks for repayment of funds were provided by the Board to RD. In a memorandum dated March 7, 2011, Ms. Dahl sent notification to Management Control Officer Debra Steinwand in the North Dakota State Office of the events that had transpired with RBSCH. In an email message dated March 28, 2011, Ms. Steinwand stated that based on the repayment of funds and the Board taking immediate action, that it was not believed OIG would pursue this matter. Therefore the State Office considered this matter closed.

On April 1, 2011, there were new loans closed for Project 01-9. This had been held up once the discrepancies had been found and until the discrepancies could be rectified.

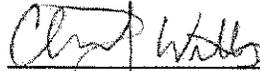
On October 25, 2011, a copy of the auditor's reports for 2010 actions was received which showed two (2) deviations on Project 06-8 and two (2) for Project 01-9. I had found both deviations previously when conducting my review of RBSCH, and the amounts had already been repaid. All relevant bank statements are all in the file kept by RD.

It is my impression that RBSCH has a very active Board of Directors and that the Board was very responsive and cooperative when RD brought them the discrepancies that I had found. Additionally, I do not believe that an "audit" was or is needed for RBSCH and Projects 01-9 and 06-8 have been thoroughly reviewed for 2007, 2008, 2009 and 2010.

I give this statement voluntarily and without duress. I have read the foregoing statement, consisting of 3 pages. I have signed this page and have been given an opportunity to make corrections or additions.



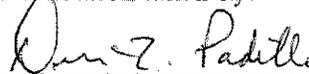
I declare under penalty of perjury that the foregoing is true and correct.



Signature

Executed at Minot, North Dakota on November 8, 2011

Declaration taken by:



Duane Z. Padilla

Personnel Misconduct Investigator

I, Debra Steinwand, Management Control Officer, GS-11, North Dakota State Office, Rural Development hereby declare under penalty of perjury, in accordance with 28 U.S.C. 1746, that the following is true, accurate and complete to the best of my knowledge.

I make the following statement freely and voluntarily. I have been informed that Duane Z. Padilla is a Personnel Misconduct Investigator for the U.S. Department of Agriculture. I understand that this statement is not confidential and may be shown to any interested person on a need to know basis for purposes of making administrative decisions to the extent allowed by law. I have been asked not to discuss my statement with anyone unless asked to do so as part of any official action or follow up to this investigation.

I have been an employee with Rural Development as well as its predecessor Agency for over 26 years. I have been the Management Control ~~Office~~ in the North Dakota State Office since 1995.

Officer

I recall receiving a memorandum from Area Director Alisa Dahl concerning the Renville-Bottineau Senior Citizens Homes (RBSCH), Inc. In addition, I ~~may have~~ had a conversation with Multi-Family Housing Coordinator Kathy Lake. As I recall from my response to Ms. Dahl's memorandum, I stated that the incident regarding RBSCH should have been reported earlier to the State Office, but that the matter shouldn't have to get taken any further, which included having to report to the Office of Inspector General (OIG). Had the misappropriated money not been immediately returned or had the Board of Directors for RBSCH not taken remedial actions, such as removing the Project Manager I likely would have reported this incident to OIG. However, because I believed the remedial actions to be sufficient based on the information that was provided, I considered the matter to be over.

It is the responsibility of the Area Director to ensure when there are reports of fraud or theft to immediately report that to the State Office. The State Office then makes the determination on whether or not OIG needs to be notified or the matter referred for their possible consideration of a criminal investigation.

Based on the information at the time, it was my understanding the needed level of review had been conducted by Area Office, and that which was undertaken by the Certified Public Accounting firm that was engaged by the RBSCH Board of Directors. It is my understanding that an audit is normally conducted on an annual basis for each RD project and that audit would involve a review of the previous year's financial information. Based on the information I was provided, I believe that the requisite level of review was done in the RBSCH matter.

I give this statement voluntarily and without duress. I have read the foregoing statement, consisting of 2 pages. I have signed this page and have initialed each and every page. I have been given an opportunity to make corrections or additions.

I declare under penalty of perjury that the foregoing is true and correct.

Debra Steinwand
Signature

Executed at Bismarck, North Dakota on November 8, 2011

Declaration taken by:

Duane Z. Padilla

Duane Z. Padilla

Personnel Misconduct Investigator

I, Kathy Lake, Multi-Family Housing Coordinator, GS-12, North Dakota State Office, Rural Development hereby declare under penalty of perjury, in accordance with 28 U.S.C. 1746, that the following is true, accurate and complete to the best of my knowledge.

I make the following statement freely and voluntarily. I have been informed that Duane Z. Padilla is a Personnel Misconduct Investigator for the U.S. Department of Agriculture. I understand that this statement is not confidential and may be shown to any interested person on a need to know basis for purposes of making administrative decisions to the extent allowed by law. I have been asked not to discuss my statement with anyone unless asked to do so as part of any official action or follow up to this investigation.

I have worked for thirty-three (33) years with Rural Development and its predecessor Agency. I have been the Multi-Family Housing Coordinator for the past twenty-one (21) years. I became aware of the situation with Renville-Bottineau Senior Citizens Homes (RBSCH), Inc. When Michele Brossart, Area Technician for the Minot Area Office, called me to discuss the situation. This conversation occurred after the loan application was determined eligible and funds had already been obligated but before the loan was close. ~~as my current application is responsible for the review of applications for additional money which were begun in an Area Office. RBSCH had applied for and were about to granted additional monies, when the North Dakota State Office where I work became aware of discrepancies that had been discovered by the Area Office with RBSCH.~~ Although I am not fully aware of the exact discrepancies found, my understanding was that the manager for RBSCH had given money from one of its projects to another, but ultimately there was no single person had benefited or money had not gone into someone's pocket.

I know that I either myself or Management Control Officer Debra Steinwand talked with Area Director Alisa Dahl or Loan Specialist Christy Wiltse. As I recall, what had been decided that the money that was found missing or misappropriated would be replaced and that Project Manager would resign. After this issue had been resolved, we were able to close on the new loan for RBSCH. I do recall seeing the former Project Manager at the title company's office when the RBSCH Board of Directors was signing for the new loan, but I do know that the former Project Manager was not in the room nor did she sign the new loan documents. Additionally, ~~it was my understanding that Ms. Steinwand and I did discuss referring~~ had referred the discrepancies with RBSCH to the Office of Inspector General (OIG) but I am not sure if the case was referred of that fact.

It was my understanding that the actions taken by the Board of Directors for RBSCH were done in accordance with discrepancies found by a Certified Public Accounting (CPA) firm. However I am not aware of whether or not the CPA firm conducted an audit or whether they conducted a review in accordance with agreed upon procedures.

I give this statement voluntarily and without duress. I have read the foregoing statement, consisting of 2 pages. I have signed this page and have initialed each and every page. I have been given an opportunity to make corrections or additions which are underlined in this document.

KL

I declare under penalty of perjury that the foregoing is true and correct.

Kathy Lake
Signature

Executed at Bismarck, North Dakota on November 7, 2011

Declaration taken by:

Duane Z. Padilla

Duane Z. Padilla

Personnel Misconduct Investigator

MEMORANDUM OF INTERVIEW

Date: November 7, 2011

Investigator: Duane Z. Padilla

File: OSC File No. DI-11-3709

Name: Harold Greek

Title: President of Board of Directors Renville-Bottineau Senior Citizens Homes, Inc.

Address: Mohall, ND

Phone: (701) 756-6981

Harold Greek was interviewed by phone and was informed of the allegations set forth in the OSC Whistleblower complaint alleging that Area Director Alicia Dahl had mismanaged the review of financial information of the Renville-Bottineau Senior Citizens Homes (RBSCH), Inc. Mr. Greek confirmed that he is President of the Board of Directors of RBSCH and that last year, employees of the Minot Office of Rural Development (RD) had made the Board of Directors aware of discrepancies with the financial reports for Years 2007, 2008 and 2009. Mr. Greek stated that after the Board was made aware of the discrepancies and the fact that Project Manager Susan Mathiason had not provided timely responses to RD regarding the financial information of RBSCH. Based on the discrepancies raised by RD, the Board of Directors chose to engage the Certified Public Accounting firm of Lervick & Johnson to conduct a review of financial information for 2007, 2008 and 2009. Mr. Greek understood that Lervick & Johnson was going to conduct a review of documents and not an audit, which Mr. Greek believed would have been a much costlier endeavor. Mr. Greek stated that the Board of Directors paid approximately \$2000 for Lervick & Johnson's review of financial information in accordance with the established "agreed upon procedures."

Mr. Greek acknowledged that Ms. Mathiason had experienced personal issues that were likely the cause of the discrepancies in RBSCH's financial documents, but was confident that all irregularities had been discovered by RD and/or Lervick & Johnson. In addition, Mr. Greek verified that the Board of Directors had accepted Ms. Mathiason's resignation as Project Manager and that Ms. Mathiason had paid back money to RBSCH which could not be verified by receipt. Also, funds that had been transferred to Mohall Apartments (another property owned by the Board of Directors) were repaid to RBSCH. Mr. Greek also stated that the Board of Directors has taken management of RBSCH over and that no new Project Director was hired to replace Ms. Mathiason. Ms. Mathiason's husband James Mathiason is the current Secretary of the Board of Directors and does help RBSCH, but that signature cards with the bank were updated so that now two Board of Director's signatures are required on all checks.

Mr. Greek stated that everyone associated with RD acted professionally in their handling of this matter and had no residual issues to report.



United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

April 27, 2010

Renville-Bottineau SCR Homes
Susan Mathiason, Manager
PO Box 37
Mohall, ND 58761

RE: Project 01-9

Dear Ms. Mathiason:

Thank you for submitting the financial reports for Renville-Bottineau Project 01-9. A review of the material indicates items for clarification. Please review the following information:

1. The interest income recorded on Part I, Line 5, was updated to include the interest earned on the tax and insurance escrow account for a total amount of \$47.08
2. The beginning cash balance entered on Part I, Line 31, was updated to include the escrow account for an amount of \$6,140.26. Please note this has been corrected on the three previous year's reports.
3. The changes listed above result in a new ending cash balance on Part I, Line 33 of \$7,364.61, which does not match the balance sheet or reconciled bank statements for the operating and escrow account. The ending cash balances on the budget form must match the reconciled bank statements. There is currently a difference of \$495.71. Please review your records to account for the difference or submit your monthly bank statements for 2009 showing cancelled checks along with your recording keeping books and our office will look for the difference.

Please submit the requested information to our office by **May 7, 2010**.

If you have any questions or need assistance in preparing the reports, please feel free to contact our office at 701-852-1754 or 1-800-765-9476.

Sincerely,

A handwritten signature in cursive script, appearing to read "CW", written in dark ink.

CHRISTY L. WILTSE
Loan Specialist

1920 13th St. SE • Minot, ND 58701-6059
Phone: (701) 852-1754 Ext 4 • (800) 765-9476 Ext 4 • Fax: (701) 839-3624 • TTY: (800) 366-6889 • Web: <http://www.rurdev.usda.gov/>

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United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

April 28, 2010

Renville-Bottineau SCR Homes
Susan Mathiason, Manager
PO Box 37
Mohall, ND 58761

RE: Project 06-8

Dear Ms. Mathiason:

Thank you for submitting the financial reports for Renville-Bottineau Project 06-8. A review of the material indicates items for clarification. Please review the following information:

1. The interest income recorded on Part I, Line 5, was updated to include the interest earned on the tax and insurance escrow account for a total amount of \$113.55
2. The beginning cash balance entered on Part I, Line 31, was updated to include the escrow account for an amount of \$6,564.07. Please note this has been corrected on the three previous year's reports.
3. The changes listed above result in a new ending cash balance on Part I, Line 33 of \$2,999.26, which does not match the balance sheet or reconciled bank statements for the operating and escrow account. The ending cash balances on the budget form must match the reconciled bank statements. There is currently a difference of \$\$2,500. Please review your records to account for the difference or submit your monthly bank statements for 2009 showing cancelled checks along with your recording keeping books and our office will look for the difference.
4. The balance sheet does not reflect an increase in depreciation in 2009. It appears the correct depreciation amount should be \$83,582.77

Please submit the requested information to our office by **May 10, 2010**.

1920 13th St. SE • Minot, ND 58701-6059
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Washington, DC 20250-9410 or call (800)795-3272 (voice) or (202) 720-6382 (TDD).

If you have any questions or need assistance in preparing the reports, please feel free to contact our office at 701-852-1754 or 1-800-765-9476.

Sincerely,

CHRISTY L. WILTSE
Loan Specialist

Wiltse, Christy - Minot, ND

From: Wiltse, Christy - Minot, ND
Sent: Wednesday, May 26, 2010 11:25 AM
To: 'Susan and Jim'
Subject: End of year budgets

Susan,

I have started going thru the end of year budgets and have found some of the discrepancies but there are some areas where the check register doesn't match the bank statements and computer printout report, can you send me the cancelled checks as soon as you can?

A large percentage of the discrepancies result from:

- 1) The transfer from the escrow account on 2/11/2009 in the amount of \$1,680.24 was transferred from Project 01-9's tax and insurance escrow account but was placed into Project 06-8's operating account. This erroneous transfer will need to be shown on both projects 2009 reports and then reimbursed from project 06-8 into 01-9 this year.
- 2) Both projects reflect a transfer into the respective reserve accounts on 9/9/2009 in the amount of \$1,275, which was not transferred from the operating accounts. What is the source of income for this transfer?

If you can shed some light on the above issues and forward the cancelled checks as soon as possible, I should be able to finish up the yearend reports.

Thanks!
Christy

Christy Wiltse | Loan Specialist
Rural Development
U.S. Department of Agriculture
1920 13th ST SE | Minot, ND 58701-6059
Phone: 701.852.1754 | Fax: 701.839.3624
www.rurdev.usda.gov

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Wiltse, Christy - Minot, ND

From: Wiltse, Christy - Minot, ND
Sent: Thursday, July 01, 2010 3:05 PM
To: 'Susan and Jim'
Subject: FW: End of year reports

Susan,

Have you been able to put together the documentation for the end of year report discrepancies? We need to finish up the end of year report. If you are not able to get the info to our office by July 9, please let me know.

Christy

Christy Wiltse | Loan Specialist
Rural Development
U.S. Department of Agriculture
1920 13th ST SE | Minot, ND 58701-6059
Phone: 701.852.1754 | Fax: 701.839.3624
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From: Wiltse, Christy - Minot, ND
Sent: Tuesday, June 15, 2010 10:57 AM
To: 'Susan and Jim'
Subject: End of year reports

Susan,

Just following up to see what you have discovered for additional information on the discrepancies in regards to the \$173 monthly expense reflected in the 2009 actuals, where the check register reflects payments to different places (Matt Johnson, IRS, blank entry, etc) and the computer (quicken?) reports reflects most of the them under Matt Johnson, however the cancelled checks reflect that all checks were wrote to Mohall Apartments (except for one check for \$173, that did not have any name on it).

If you can give me some clarification as to the type of this expense and recipient so we can finish up the end of year report, it will be much appreciated.

Thanks!
Christy

Christy Wiltse | Loan Specialist
Rural Development
U.S. Department of Agriculture
1920 13th ST SE | Minot, ND 58701-6059
Phone: 701.852.1754 | Fax: 701.839.3624
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United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

July 14, 2010

*7/14/10 - Rec'd call from Susan Mathiason re: 1000 P-103
Elan - Rec'd call from Susan Mathiason re: 1000 P-103
as he provided - she in case of programing*

Renville-Bottineau SCH, Inc.
Susan Mathiason, Manager
Box 37
Mohall, ND 58761

COPY

RE: Project 06-8

Dear Ms. Mathiason:

As previously discussed with you, our office has reviewed the year-end report and has some serious concerns regarding the discrepancies between checks written for expenses and how the expenses were recorded in the year-end report.

- Please forward the invoices clarifying the type of expenses and recipient of the checks in question to our office.
- Our office is available for a meeting to discuss the year-end discrepancies with the board and management to clarify and resolve the issues.

Please contact this office within 7 days of the date of this letter to discuss the corrective actions you have taken, or plan to take, to correct the concerns listed. Please note if the year-end report is not finalized, a finding will be placed on the project which will affect the owner's eligibility for additional loans and grants.

If you have any questions, please feel free to contact our office.

Sincerely,

ROLLIN J. BROSSART
Loan Specialist, Team Leader

Wiltse, Christy - RD, Minot, ND

From: Wiltse, Christy - Minot, ND
Sent: Wednesday, July 21, 2010 8:16 AM
To: Brossart, Rollin - Minot, ND
Cc: Brossart, Michele - Minot, ND; Schaar, Mark - Minot, ND; Sanderson, Tammy - Minot, ND; Wiltse, Christy - Minot, ND
Subject: Renville Bottineau

Rollin,

Susan Mathiason just called in regards to the letter sent last week on the end of year discrepancies. Per the letter she was to call by today. She indicated they had been on vacation and just returned, but she pretty much has everything together regarding the end of year discrepancies. She plans to come to the office on Monday, July 26 at 2 pm to go through the items. I will be in the office on Monday to meet with her and just wondering if you want to be involved in the meeting also?

Christy

Christy Wiltse | Loan Specialist
Rural Development
U.S. Department of Agriculture
1920 13th ST SE | Minot, ND 58701-6059
Phone: 701.852.1754 | Fax: 701.839.3624
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Wiltse, Christy - RD, Minot, ND

From: Brossart, Rollin - Minot, ND
Sent: Tuesday, August 24, 2010 1:06 PM
To: Wiltse, Christy - Minot, ND
Subject: Re: Renville-Bottineau

Christy:

Did they commit to dropping the information at our office or mailing it in? Is the meeting with them still planned for this Friday?

Rollin J Brossart | Team Leader
USDA Rural Development
701-340-9656

From: Wiltse, Christy - Minot, ND
To: Brossart, Rollin - Minot, ND
Sent: Tue Aug 24 09:41:58 2010
Subject: Renville-Bottineau

Rollin,

I talked to Susan Mathiason this morning in regards to you stopping by their office on Thursday afternoon to pick up the information we need. She indicated that her and Jim would be out all day at Dr. appts and no one would be at the office on Thursday.

Christy

Christy Wiltse | Loan Specialist
Rural Development
U.S. Department of Agriculture
1920 13th ST SE | Minot, ND 58701-6059
Phone: 701.852.1754 | Fax: 701.839.3624
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United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

September 9, 2010

Renville-Bottineau SCH, Inc.
Harold Greek, President
309 2nd AVE SE
Mohall, ND 58761

Dear Mr. Greek:

Our office has reviewed the 2009 year-end report and has some serious concerns regarding the discrepancies between checks written for expenses and how the expenses were recorded in the year-end report. After several requests from the manager beginning in May 2010, the documentation has not been provided to our office. In regards to the 2009 year-end report:

- Please forward the invoices clarifying the type of expenses and recipient of the checks in question to our office.
- Our office is available for a meeting to discuss the year-end discrepancies with the board and management to clarify and resolve the issues.

Please contact this office within 7 days of the date of this letter to discuss the corrective actions you have taken, or plan to take, to correct the concerns listed. Please note if the year-end report is not finalized, a finding will be placed on the project which will affect the owner's eligibility for additional loans and grants. In addition, the new loans for the properties may not be closed until the year-end report is finalized.

If you have any questions, please feel free to contact our office at 1-800-765-9476 or 701-852-1754 ext. 4.

Sincerely,


MARK SCHAAR
Loan Specialist

cc: Susan Mathiason

1920 13th St. SE • Minot, ND 58701-6059
Phone: (701) 852-1754 Ext 4 • (800) 765-9476 Ext 4 • Fax: (701) 839-3624 • TTY: (800) 366-6889 • Web: <http://www.rurdev.usda.gov/>

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RUNNING RECORD

Renville-Bottineau Housing

September 22, 2010

Met with Renville-Bottineau Housing Board this date to discuss the concerns raised in the review of the End of Year reports and the apparent unaccounted fund use by the existing manager, Susan Mathiason. Several of the board members including the president, Harold Greek were in attendance. I advised of our concern over discrepancies in expenses for the project (checks written) and how the expenses were recorded in the records. Of even more concern were the apparent expenditures for costs that did not appear related to the project. I advised that given the severity of the concern, an investigation or audit of the records would be needed to determine if all funds have been accounted for and to assure unauthorized assistance had not been granted. We agreed to meet with Jim Mathiason at his office to further discuss the discrepancies.

We met with Jim Mathiason at his office in Mohall. Several of the board members (including Harold Greek, Pres.) joined us in the meeting. I advised Mr. Mathiason of the concerns we had with the record keeping and apparent lack of accounting for funds. Mr. Mathiason admitted that after seeing our recent letters, he personally had reviewed the accounts and noted checks written that were not project related or that had no justified purpose. He stated that he was very concerned over this whole issue and could not account for his wife Susan's record keeping. I advised that based on our findings, we felt that it was necessary to immediately investigate the records (certified audit) to determine the extent of the discrepancies. I further advised that effective immediately, Susan Mathiason needed to be immediately removed (suspended) from her management responsibilities until a thorough review was conducted. The Board President, Harold Greek, indicated that he wanted Jim Mathiason to manage the project as no one else had experience in the day to day operations. I express great concern over this and advised Mr. Greek that they should consult legal counsel in going forward in such a way. I also expressed concern that this could potentially put Mr. Mathiason in a very difficult situation should he discover further discrepancies while managing the project. Mr. Greek assured he would personally review all management actions including the collections and expenditures prior to all actions being taken by Mr. Mathiason. I further advised that all accounts were to immediately have Susan Mathiason's named suspended as an authorized agent for the projects and that she was not allowed any further access to management records or further interaction with the tenants until the matter was resolved. We advised the an audit of the records was needed asap and that the findings would need to be thoroughly reviewed by our office. Finally, I advised that given the severity of the concern, our findings would need to be shared with our State Office and OGC as they ultimately would decide if an OIG investigation would be necessary. Mr. Mathiason and the Board indicated that they understood this and would cooperate fully to get this resolved. When asked about the existing MPR funding/application, I advised that this problem would need to be fully resolved before we could go forward with their application.

Follow-up:

Christy – Provide list of potential firms to conduct the audit and provide necessary documents to get accounts updated to remove Susan Mathiason's access. Also, continue to closely monitor project activity to assure no further discrepancies arise.



Rollin Brossart
Loan Specialist – Team Leader

NOV 13 2010

L
&
J
L E R V I K
&
J O H N S O N

Certified Public Accountants

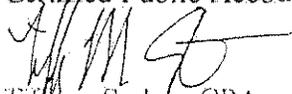
Thank you for the opportunity to assist you in completing the December 31, 2009, 2008 and 2007 agreed-upon-procedures for Renville-Bottineau Senior Citizens Homes, Inc. and Mohall Apartments. Following is a list of items that we will need in conjunction with these procedures:

- General ledger (or checkbook) for the years ending December 31, 2009, 2008 and 2007 for each project;
- Monthly bank statements and reconciliations for each operating cash account. Also please include statements for the month ending January 31, 2010;
- Final Forms RD 3560-7 for the years ended December 31, 2009, 2008 and 2007;
- RD project worksheets for each month of 2009, 2008 and 2007, as well as January of 2010; and
- All 2009, 2008 and 2007 invoices (unless too voluminous, in which case we will choose a sample from your ledger/checkbook activity and simply have only those invoices pulled from your files), as well as invoices paid in January 2010;

If you have any questions, please call me at (701)228-2259. Thank you.

Sincerely,

Lervik & Johnson
Certified Public Accountants


Tiffany Sathre, CPA

November 12, 2010

NOV 16 2010

EXHIBIT A

Schedule of Agreed-Upon Procedures:

- 1.) Examine selected receipts, invoices, cancelled checks, (or check imaging on original bank statement) etc. that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project.



United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

Date: March 7, 2011

Subject: Renville Bottineau MFH Projects 01-9 and 06-8
Misappropriation of Project Funds

To: Debra Steinwand
Management Control Officer

A handwritten signature in black ink, appearing to read "Alisa Dahl".

From: ALISA DAHL
Area Director

During the April 2010 review of documents for the 2009 end of year report for Renville Bottineau Senior Citizens Center projects 01-9 and 06-8, it was discovered that there was a discrepancy in the information presented for review, cash balances, and bank account balances. Over the course of the past year, information gleaned from the manager, manager's financial records, and a requested audit indicated funds had been inappropriately transferred from the Renville Bottineau projects to the Mohall Apartment accounts. In addition, three payments were made to Mathiason Realty or the project manager which did not have supporting documentation. The completed audit outlining these discrepancies was received in the Minot Office on February 10, 2011.

The Board of Directors were notified throughout the process and provided clear cooperation in the review. The results of the audit and review were discussed at a board meeting on February 24, 2011 at which time the board voted to pay back the money owed to the Renville Bottineau Projects from the Mohall Apartments. Mathiason Realty/Jim Mathiason (husband of the project manager) also agreed to pay back funds for payments made without supporting documentation.

The board has provided documentation that the funds have been paid back. The manager was originally suspended but has since resigned.

Please review the attached narrative for more detailed information regarding this matter and supporting documentation for the return of the funds. Please let us know if you require any additional information

Based on the report, we feel the project has been satisfactorily compensated and the board has acted responsibly in requiring immediate return of funds and removing the manager. We recommend no further action at this time.

1920 13th St SE • Minot, ND 58701-6059
Phone: (701) 852-1754 Ext 4 • (800) 785-9476 Ext 4 • Fax: (701) 839-3624 • TTY: (800) 366-6889 • Web: <http://www.rurdev.usda.gov/>

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Renville Bottineau Senior Citizens Center Summary of Events:

On April 15, 2010, the end of year report for 2009 was received in the Minot office. Once the end of year was reviewed, the manager was contacted for more information as the ending numbers did not balance with the bank accounts. The manager provided the Quicken reports to help reconcile the end of year. It was noted that a grant deposit was not recorded and a transfer from the escrow not recorded. After making these adjustments, there was still a difference between the ending cash balance and the bank accounts

The manager was then requested to provide the bank statements and cancelled checks for the projects. A review of these documents indicated that some items reported on the Quicken report under a certain expense did not match the actual cancelled check. It was requested from the manager to provide documentation for the expenses in question. The request for additional information was made several times, and due to medical conditions of the manager and also medical issues with her father she was helping to take care of, the information was not submitted to our office. Rollin attempted to directly pick up information from her office on 8/26/2010 and the manager indicated she would be out all day on medical appointments.

The manager was notified that if the Minot office did not receive the information by 9/4, the president of the board would be contacted for assistance in obtaining the information. On 9/9, the board president was contacted in regards to the discrepancies. The board president called a board meeting for 9/22.

Rollin and Christy attended the board meeting on 9/22 and provided information on the discrepancies in question. After reviewing the information, the board immediately suspended the manager and removed her from the bank accounts until further information was obtained. The board contacted a local auditor to audit the financials. The books/financials were reviewed and similar discrepancies were found beginning in the spring of 2007. The manager and board have been very cooperative in the reviews and have indicated that any funds that were paid for expenses not authorized would be reimbursed immediately. The auditor reviewed the 2007, 2008 and 2009 financials. The completed audit was received in the Minot office on 2/10/2011.

The board scheduled a meeting for 2/24, which due to conflicts in the Minot office was rescheduled for 2/28. Alisa and Christy attended the board meeting in Mohall on 2/28/11 to review the audit with the board and discuss repayment. In addition to the prior mentioned items, 4 more questionable items were found by the audit, 2 in 2007 and 2 in 2008. The majority of the funds were transferred to the Mohall Apartments, another project owned by the Renville Bottineau Senior Citizens Corporation. One item identified in the audit, and not previously recorded was a \$900 transfer to the Mohall Apartments security deposit account with no documentation to support. Total inappropriate funds transferred to Mohall Apartments was \$7,205. Mohall Apartments will repay \$2,042.50 to Project 01-9 and \$5,162.50 to Project 06-8. Mohall Apartments has an adequate balance in the operating account for an immediate, one time repayment.

The 3 remaining payments found in the audit were to Mathiason Realty or Susan Mathiason and did not have supporting documentation. These items were documented under grounds keeping or maintenance expenses, however the appropriate invoice was not found to support them. It was discussed that Mathiason Realty/Susan Mathiason will reimburse these items, in the amount of \$797.50 and if invoices are located the expenses could then be looked at to be paid as an authorized expense. The repayment will include \$373.75 to Project 01-9 and \$473.75 to Project 06-8. Mathiason Realty/Susan Mathiason will make the payment to these accounts immediately.

After discussing the repayment of funds to Project 01-9 and 06-8, the board accepted the immediate resignation of the manager. The board then decided it would self owner-manage the property until the MPR transactions are completed and first stage of MPR construction work completed. The board's intention is to advertise for a manager within a year or so.

The board has provided the Minot office of evidence of deposit of above mentioned funds to the 01-9 and 06-8 projects. The board also decided to increase the number of board members who are approved signers on the bank accounts, approved signers on Project 01-9 and 06-8 accounts will be inclusive of Harold Greek, Duane Vig, Dorothy McCroy and Roy Erickson and the board has provided the Minot office with updated signature cards with these individuals listed.

The Minot office has reviewed the financial records, to include Quicken reports, bank statements and cancelled checks for Project 01-9 and Project 06-8, in addition to the audit reports and feels that the projects have been satisfactorily compensated.

The following documents have been filed in the appropriate case files as supporting documentation:

- Audit reports for 2007, 2008, 2009
- Spreadsheet with amounts from audit reports
- Evidence of repayment of funds
- Copy of updated signature cards
- Copy of 2/28/11 board meeting minutes
- Copy of resignation of manager, Susan Mathiason
- Listing of transactions in question

RENVILLE -BOTTINEAU SENIOR CITIZENS HOMES, INC. , MOHALL, ND
AGENDA FOR February 28, 2011 MEETING

1. CALL TO ORDER
2. MINUTES OF PREVIOUS MEETING
3. FINANCIAL REPORTS AS OF February 28, 2011 01- \$8,531.40 + RA a l. f. by 2/17/11
02 - \$11,292.83 MOHALL APTS \$13,170.73.
4. REVIEW OF AUDIT REPORTS
5. DECISION ON MANAGEMENT AND STRUCURE GOING FORWARD FOR SENIOR CITIZENS APARTMENTS
6. PAYMENT OF AUDIT BILLS → 2400 + 3 * 7200 -
7. MPR UPDATE AND ACTIONS GOING FORWARD ON 01-9 (BIDS, ETC)
8. 02 MPR UPDATE AND DISCUSSION ON ALTERNATIVE FINANCING
9. COMMUNITY ACTION REPORT → CA 3. 11.11.11 24 apps of Pils. and talte of P
10. MOHALL APARTMENTS DECISION ON MANAGEMENT GOING FORWARD AND PAYMENT OF RESTITUION TO SENIOR CITIZENS HMS
11. ANNUAL MEETING - DATE AND DIRECTORS

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J. ...
2/11 ...
1/11 ...
193/11 ...
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ATTENDANCE SHEET

MEETING HELD WITH: Renville Bott Sam Gibens et al
 MEETING HELD AT: Minot, ND
 DATE OF MEETING: 2/28/11

USDA RURAL DEVELOPMENT
 1920 13TH STREET SE
 MINOT, NORTH DAKOTA 58701

NAME OF ATTENDEE	REPRESENTING	MAILING ADDRESS	EMAIL ADDRESS	TELEPHONE NO.	
Christy Little	USDA-RD	Redacted		4	
Alisa Dahl	USDA-RD				
Amanda					
Jessie McCreary	mother				3
Wendy	mother				1
Roy E. Eschen	mother				3

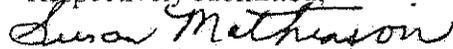
MAR 04 2011

February 28, 2011

The Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc.
Mohall, North Dakota 58761

Due to past and current health problems, both mentally and physically, which resulted in unauthorized transactions occurring in the accounts of the Renville-Bottineau Senior Citizens Homes, Inc., I feel it necessary to submit my resignation as Manager of projects 01-9 and 06-8. I also submit my resignation of my Board position and Secretary/Treasurer positions on the Renville-Bottineau Senior Citizens Homes, Inc. Board of Directors.

Respectively submitted,


Susan Mathiason

MAR 04 2011

Pursuant to notice the Board of Directors of the Renville-Bottineau Senior Citizens Homes, Inc. met February 28, 2011 at their office a 202 Main St West, Mohall, ND at 1:00 P.M..

Members present were Harold Greek, President; Duane Vig, Vice-President; Roy Erickson, Dorothy McCrory and James Mathiason. Also present were Christy Wiltse and Alisa Dahl from the Minot office of USDA Rural Development.

The purpose of the meeting was to review the audit reports compiled by Lervick & Johnson, CPA's, Bottineau, ND on the Renville-Bottineau Senior Citizens Homes, Inc. located in Mohall, ND for projects 01-9 and 06-8 and also for the Mohall Apartments.

The agenda was presented and there being no other items to add to the agenda, the meeting was called to order by President, Harold Greek.

The minutes of the previous meeting were read with a correction, that on the vote on the settlement agreements with two tenants delinquent in rent, Directors James Mathiason and Susan Mathiason, abstained from voting. Duane Vig moved, seconded by Roy Erickson, that the minutes be approved as amended. Motion carried.

The Treasurers' report was given. Motion was made by Roy Erickson and seconded by Duane Vig that the report be accepted. Motion carried.

A motion was made by Dorothy McCrory and seconded by Roy Erickson that the resignation of Susan Mathiason as Manager of projects 01-9 and 06-8 of the Senior Citizens Homes, as a Director on the Board of the Renville-Bottineau Senior Citizens Homes, Inc, and also as Secretary/Treasurer of the Board of the Renville-Bottineau Senior Citizens Homes, Inc. be accepted. The motion carried with James Mathiason abstaining.

After much discussion and review of the audit reports, it was determined that the following reimbursements be made to correct the determined unauthorized transactions. To project 01-9 \$2,042.50 from Mohall Apartments and \$323.75 from Mathiason Realty, for a total of \$2,366.25. To project 06-8 \$4,262.50 from Mohall Apartments, \$323.75 from Mathiason Realty and \$150.00 from Susan Mathiason, for a total of \$5,636.25. Motion was made by Duane Vig, seconded by Roy Erickson, that the above determinations be approved. Motion carried with James Mathiason, abstaining.

Dorothy McCrory moved, seconded by Roy Erickson, that the Renville-Bottineau Senior Citizens Homes, Inc. be self managed with Harold Greek, Dorothy McCrory, Duane Vig and Roy Erickson authorized to have signatory authorization on all accounts belonging to projects 01-9 and 06-8 of the Renville-Bottineau Senior Citizens Homes, Inc. Motion carried.

Duane Vig moved, seconded by Dorothy McCrory, that auditing bills presented from Lervick & Johnson be paid from the respective accounts of projects 01-9, 06-8 and Mohall Apartments. Motion carried with James Mathiason abstaining.

Page 2 – RBSCH, Inc. February 28, 2011 meeting.

Moved by Duane Vig, seconded by Roy Erickson, that James Mathiason be appointed as secretary. Motion carried.

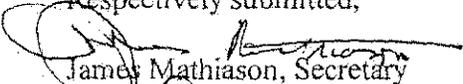
Motion by Duane Vig, seconded by Dorothy McCrory, that the management of the Mohall Apartments continue as it is currently being done and that the Mohall Apartments will make reimbursement to Projects 01-9 and 06-8 as indicated above. Motion carried with James Mathiason, abstaining.

Discussion was held on the status of the MPR loan on project 01-9. It is currently tentatively scheduled for closing on April 1, 2011. Discussion was also held on advertising for bids and this was tabled until the next meeting. Discussion was held on the possibility of the MPR program for rehabilitation of project 06-8. At this time it is uncertain and we may want to look at possibilities of alternative financing. This too was tabled until the next meeting.

It was reported that we are currently making application with Community Action to do weatherization work on both 01-9 and 06-8. Applications have been received and we are in the process of completing the 24 applications for consideration.

The scheduling of the annual meeting was discussed and tabled until the next meeting.

Respectively submitted,


James Mathiason, Secretary


Harold Greek, President

Wiltse, Christy - Minot, ND

From: Steinwand, Debra - Bismarck, ND
Sent: Monday, March 28, 2011 9:05 AM
To: Dahl, Alisa - Minot, ND
Cc: Wiltse, Christy - Minot, ND; Lake, Kathy - Bismarck, ND
Subject: RE: Renville Bottineau MFH Project

Alisa,

I have reviewed the documents you provided. Since the funds have been returned and the board took immediate action, I do not believe OIG would pursue this matter. Therefore, the action is considered closed.

For future reference, please notify the State Office upon discovery of any action like this. The Housing Program Director has the overall responsibility for the portfolio and must know about any issues as they develop.

Give me a call if you have any questions.

Thank you

Debra Steinwand | Management Control Officer
Rural Development
United States Department of Agriculture
PO Box 1737 | 220 East Rosser | Bismarck, ND 58502-1737
Phone: 701.530.2058 | Fax: 701.530.2111
www.rurdev.usda.gov

"Committed to the future of rural communities"
"Estamos dedicados al futuro de las comunidades rurales"

From: Dahl, Alisa - Minot, ND
Sent: Tuesday, March 22, 2011 9:47 AM
To: Steinwand, Debra - Bismarck, ND
Cc: Wiltse, Christy - Minot, ND; Lake, Kathy - Bismarck, ND
Subject: Renville Bottineau MFH Project

Deb,

On March 7, 2011, I forwarded a memo outlining Misappropriation of Project funds for Renville Bottineau projects with supporting documentation. I'm wondering if you have had a chance to review this information and the status of the report. The board is waiting to hear if any additional action is necessary.

Thank you.

Alisa Dahl | Area Director
Rural Development
U.S. Department of Agriculture
1920 13th Street, SE | Minot, ND 58701
Phone: 701.852.1754, Ext 121 | Fax: 701.839.3624
www.rurdev.usda.gov



United States Department of Agriculture
Rural Development
Minot Office

Jasper Schneider
State Director

April 4, 2011

Renville-Bottineau SCH, Inc.
Harold Greek, President
309 2nd AVE SE
Mohall, ND 58761

Dear Mr. Greek:

Our office has received notification from the North Dakota State Office that the unauthorized payments from Project 01-9 and 06-8 have been reviewed. Since the funds in question have been returned to the respective projects and the board took immediate action, they have considered the matter closed.

However, due to the appearance of a conflict of interest, the state office would prefer to keep the previously designated board members as the only individuals having signing authority on the bank accounts. If the board prefers, our office can consider adding James Mathiason as a signing authority on the operating accounts. This authority could be granted if the board agrees to provide a copy of the monthly bank statements to our office so a review can be performed.

If you have any questions, please feel free to contact our office at 1-800-765-9476 or 701-852-1754 ext. 4.

Sincerely,

A handwritten signature in black ink that reads "Alisa Dahl". The signature is fluid and cursive, with a large, sweeping flourish at the end.

ALISA DAHL
Area Specialist

11/26/11 - 2010 enggent Report was Reviewed.

Report included \$346 M unauthorized expenses
which were included in the amount previously Repaid
to the project

clw

LERVIK
&
JOHNSON

Certified Public Accountants

To the Board of Directors.
Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9
Mohall, North Dakota.

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2007. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 170
Total Dollar Amount of Transactions in Population: \$35,365.95
Total Number of Transactions Reviewed: 24
Total Dollar Amount of Transactions Reviewed: \$ 21,990.75
Total Number of Deviations: 11
Total Dollar Amount of Deviations: \$2,064.25

The deviations resulted from lack of invoices in the file for 11 of the selected transactions, totaling \$2,064.25. Of these 11

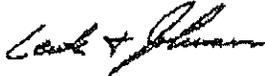
exceptions, seven of the checks (totaling \$570.50) were written to a different source than specified in the Borrower's Quickbooks. In each of the seven cases, the Quickbooks payee was Farmers Union Oil, but the actual payee per the check imaging was Mohall Apartments.

Additionally, we were unable to tie Line 9, Capital Budget, of Form RD 3560-7 to the Borrower's Quickbooks. Costs per Quickbooks were \$631 less than reported on Line 9.

Based upon the results of the agreed-upon procedures enumerated above, we recommend an audit of the Renville-Bottineau Senior Citizens Homes, Inc. for the year ended December 31, 2007.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management agent of Renville-Bottineau Senior Citizens Homes, Inc, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.



LERVIK & JOHNSON P.C.
Certified Public Accountants

January 3, 2011

LERVIK & JOHNSON

Certified Public Accountants

To the Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9
Mohall, North Dakota

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2008. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 189
Total Dollar Amount of Transactions in Population: \$28,673.26
Total Number of Transactions Reviewed: 31
Total Dollar Amount of Transactions Reviewed: \$ 9,064.29
Total Number of Deviations: 15
Total Dollar Amount of Deviations: \$1,724.07

Of the 15 deviations, 14 resulted from lack of invoices in the file, totaling \$1,654.25. Of these 14 exceptions, 13 of the

checks (totaling \$1,354.25) were written to a different source than specified in the Borrower's Quickbooks. In 12 cases (totaling \$1,030.50), the Quickbooks payee was Farmers Union Oil, but the actual payee per the check imaging was Mohall Apartments. In one instance for \$323.75, the Quickbooks payee was Farmers Union Oil, but the actual payee per the check imaging was Susan Mathiason. It was also noted that this check did not have a dual signature.

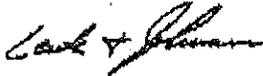
One of the deviations was the result of an invoice paid by the Borrower which was addressed to Mathiason Insurance & Realty for \$69.82.

Additionally, we were unable to tie Line 3, Maintenance-Repairs Contract and Line 4, Painting, of Form RD 3560-7 to the Borrower's Quickbooks. In aggregate, costs per Quickbooks were \$1,819.51 less than reported on Lines 3 and 4.

Based upon the results of the agreed-upon procedures enumerated above, we recommend an audit of the Renville-Bottineau Senior Citizens Homes, Inc. for the year ended December 31, 2008.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management agent of Renville-Bottineau Senior Citizens Homes, Inc, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.



LERVIK & JOHNSON P.C.
Certified Public Accountants

January 3, 2011

LERVIK & JOHNSON

Certified Public Accountants

To the Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9
Mohall, North Dakota

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 01-9 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2009. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 169
Total Dollar Amount of Transactions in Population: \$23,593.07
Total Number of Transactions Reviewed: 23
Total Dollar Amount of Transactions Reviewed: \$ 6,817.59
Total Number of Deviations: 6
Total Dollar Amount of Deviations: \$2,497.00

Of the six deviations, five resulted from lack of invoices in the file, totaling \$1,815.16. Of these five exceptions, two of the

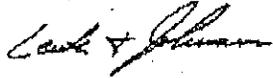
checks (totaling \$940.16) were written to a different source than specified in the Borrower's Quickbooks. A check for \$853.66 listed Matt Johnson as the payee in Quickbooks, but the actual payee per the check imaging was the Internal Revenue Service. A check for \$86.50 listed Farmers Union Oil as the payee in Quickbooks, but the actual payee per the check imaging was Mohall Apartments.

One of the deviations was the result of an invoice paid by the Borrower which was addressed to Mohall Apartments for \$681.84.

Based upon the results of the agreed-upon procedures enumerated above, we recommend an audit of the Renville-Bottineau Senior Citizens Homes, Inc. for the year ended December 31, 2009.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management agent of Renville-Bottineau Senior Citizens Homes, Inc, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.



LERVIK & JOHNSON P.C.
Certified Public Accountants

January 3, 2011

LERVIK & JOHNSON

Certified Public Accountants

To the Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8
Mohall, North Dakota

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2007. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 204
Total Dollar Amount of Transactions in Population: \$41,591.49
Total Number of Transactions Reviewed: 30
Total Dollar Amount of Transactions Reviewed: \$ 19,335.11
Total Number of Deviations: 15
Total Dollar Amount of Deviations: \$2,731.50

Fourteen deviations resulted from lack of invoices in the file, totaling \$2,645.50. Of these 14 exceptions, 12 of the checks

LERVIK & JOHNSON

Certified Public Accountants

To the Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8
Mohall, North Dakota

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2008. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 177
Total Dollar Amount of Transactions in Population: \$29,337.32
Total Number of Transactions Reviewed: 31
Total Dollar Amount of Transactions Reviewed: \$ 8,020.22
Total Number of Deviations: 16
Total Dollar Amount of Deviations: \$2,725.50

All 16 deviations resulted from lack of invoices in the file for the selected transaction, totaling \$2,725.50. Of these 16

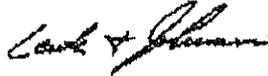
exceptions, 13 of the checks (totaling \$1,354.25) were written to a different source than specified in the Borrower's Quickbooks. In each of the 13 cases, the Quickbooks payee was Farmers Union Oil. However, 12 of the checks were actually written to Mohall Apartments (totaling \$1,030.50) and one was written to Susan Mathiason for \$323.75. It was also noted that the check to Susan Mathiason did not have a dual signature.

Additionally, we were unable to tie Line 3, Maintenance-Repairs Contract and Line 4, Painting, of Form RD 3560-7 to the Borrower's Quickbooks. In aggregate, costs per Quickbooks were \$1,004.26 less than reported on Lines 3 and 4.

Based upon the results of the agreed-upon procedures enumerated above, we recommend an audit of the Renville-Bottineau Senior Citizens Homes, Inc. for the year ended December 31, 2008.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management agent of Renville-Bottineau Senior Citizens Homes, Inc, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.



LERVIK & JOHNSON P.C.
Certified Public Accountants

January 3, 2011

LERVIK & JOHNSON

Certified Public Accountants

To the Board of Directors
Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8
Mohall, North Dakota

We have performed the procedures enumerated below, which were agreed to by the United States Department of Agriculture Rural Development ("RD") and Renville-Bottineau Senior Citizens Homes, Inc., Project 06-8 ("Borrower"), the owner of Renville-Bottineau Senior Citizens Homes located in Mohall, North Dakota, solely to assist those parties in evaluating that the accompanying Form RD 3560-7, Multiple Family Housing Project Budget ("Financial Reports") and Supporting Documentation are prepared by the Borrower in accordance with the criteria specified in RD Regulations contained in 7 CFR 3560 section 303(b) and section 306, in accordance with determination number one noted in Attachment 4-D of RD Handbook HB-2-3560, for the year ended December 31, 2009. The Borrower is responsible for the presentation of the financial reports. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of RD and the Borrower. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We examined selected receipts, invoices, and check imaging on original bank statements that support administrative; and operating and maintenance expenses presented on Form RD 3560-7, Part II, line items 1-10 and 19-32 to determine they were incurred as part of the ongoing operations of the project. We selected a representative sample of invoices and supporting documentation, based on the sample size determined by RD in Attachment 4-D of RD Handbook HB-2-3560, for expenses included in Lines 1-10 and 19-32 of Form RD 3560-7 and determined whether the services were eligible expenses, in accordance with Attachment 4-A of HB-2-3560, and the shipping address agreed to the project address.

Findings:

Total Number of Transactions in Population: 203
Total Dollar Amount of Transactions in Population: \$29,297.42
Total Number of Transactions Reviewed: 30
Total Dollar Amount of Transactions Reviewed: \$ 6,404.33
Total Number of Deviations: 16
Total Dollar Amount of Deviations: \$4,157.16

Fifteen deviations resulted from lack of invoices in the file, totaling \$3,943.16. Of these 15 exceptions, 13 of the checks

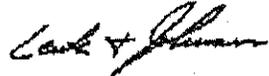
(totaling \$2,843.16) were written to a different source than specified in the Borrower's Quickbooks. Nine checks within Quickbooks listed the payee as Matt Johnson and two as Farmers Union Oil, but the checks were actually written to Mohall Apartments (totaling \$1,816.50). One check for \$173.00 listed Matt Johnson as the payee in Quickbooks, but the payee was actually blank. One check for \$853.66 listed Shaw's Construction as the payee in Quickbooks, but was written to the Internal Revenue Service.

One exception resulted from a security deposit return for \$214.00 which was charged to an expense account.

Based upon the results of the agreed-upon procedures enumerated above, we recommend an audit of the Renville-Bottineau Senior Citizens Homes, Inc. for the year ended December 31, 2009.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial reports and supporting documentation of Renville-Bottineau Senior Citizens Homes, Inc. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and management agent of Renville-Bottineau Senior Citizens Homes, Inc, and Rural Development, and is not intended to be and should not be used by anyone other than these specified parties.



LERVIK & JOHNSON P.C.
Certified Public Accountants

January 3, 2011