



Issue Date	June 23, 2004
Audit Case Number	2004-CH-1006

TO: Thomas S. Marshall, Director of Public Housing Hub, 5DPH
Margarita Maisonet, Director of Departmental Enforcement Center, CV


FROM: Heath Wolfe, Regional Inspector General for Audit, 5AGA

SUBJECT: Housing Authority of the City of Evansville
Housing Assistance Payment Savings Refunding Agreements
Evansville, Indiana

INTRODUCTION

We completed an audit of the Housing Authority of the City of Evansville's Housing Assistance Payment Savings Refunding Agreements. The audit was conducted based upon an anonymous complaint to our Hotline. The complaint alleged that the Housing Authority's former Executive Director who left the Authority in November 2003: (1) abused his authority; (2) improperly used Federal funds; and (3) had a conflict of interest as Executive Director of two corporations. Our audit objectives were to determine whether the complaint's allegations were substantiated and whether HUD's requirements for the Agreements were followed.

The audit identified that the complaint's allegations were generally substantiated with regard to the improper use of Federal funds and HUD's requirements for the Agreements were not followed. Specifically, the Authority: (1) did not have adequate controls over HUD funds when it drew down \$796,858 in Housing Assistance Payment Savings funds that did not fulfill the Agreements' requirements; (2) lacked adequate documentation to support that \$768,517 in Savings funds benefited very low-income persons and families; and (3) disbursed \$28,341 for ineligible expenses. The allegations regarding the former Executive Director's abuse of authority and conflict of interest were not substantiated. Our report contains five recommendations to address the issues identified in this report.

In conducting the audit, we reviewed the Housing Authority's policies and procedures for the period January 2002 to December 2003. We also reviewed and evaluated the Authority's management controls over the Housing Assistance Payment Savings Refunding Agreements

between HUD and the Authority. In addition, we reviewed: the Authority's records; HUD's records; bank statements; cancelled checks; Office of Management and Budget Circular A-87; 24 CFR Part 24; and the Stewart B. McKinney Act of 1988 as amended by the Housing and Community Development Act of 1992. We reviewed 100 percent of the \$796,858 in Housing Assistance Payment Savings funds received by the Authority to determine whether the funds were used appropriately.

We interviewed: the Housing Authority's employees and HUD's staff; the Chairman of the Board of Commissioners for the Authority; the Executive Director of Washington Court Redevelopment Corporation, a non-profit corporation established by the Authority; a former Interim Executive Director of the Authority; and the former Executive Director of the Authority who left the Authority in November 2003. Our audit covered the period January 2002 to December 2003. This period was adjusted as necessary. We performed our on-site audit work in February 2004. We conducted the audit in accordance with Generally Accepted Government Auditing Standards.

We presented our draft audit report to the Authority's Interim Executive Director and HUD's staff during the audit. We held an exit conference with the Authority's Interim Executive Director on May 19, 2004. HUD's Coordinator of the Indianapolis Field Office of Public Housing Program Center proposed a management decision dated June 21, 2004 regarding the Recommendations included in this report. Appropriate entries to HUD's Audit Resolution and Controlled Actions Tracking System will be made based upon HUD's management decision.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact Ronald Farrell, Assistant Regional Inspector General, at (614) 469-5737 extension 8279 or me at (312) 353-7832.

SUMMARY

The Housing Authority of the City of Evansville disregarded the Housing Assistance Payment Savings Refunding Agreements between HUD and the Authority. Specifically, the Authority:

- Drew down \$796,858 in Housing Assistance Payment Savings funds that did not fulfill the Agreements' requirements;
- Lacked adequate documentation to support that \$768,517 in Savings funds benefited very low-income persons and families; and
- Disbursed \$28,341 for ineligible expenses.

BACKGROUND

Avondale Housing Incorporated, an instrumentality of the Housing Authority, was established in 1980 and disbanded in 2000. Avondale Housing Incorporated issued Mortgage Revenue Bonds, Series 1980 and 1982, for the development of Avondale Apartments Phase I and II. In 1993 and 1994, Avondale Housing Incorporated refunded the bonds with Mortgage Revenue Bonds, series 1993A, 1993C, 1993D, and 1994A. The issuance of the refunding bonds at a reduced interest rate permitted HUD to recapture Housing Assistance Payments used to subsidize Avondale Apartments. Fifty percent plus interest from the Housing Assistance Payments savings were made available to Avondale Housing Incorporated and the Housing Authority. The savings were governed by two Refunding Agreements, executed in March and April 1996, between HUD, the Authority, and Avondale Housing Incorporated. The Agreements are valid for 10 years from the date of the first drawdown of funds. The approximate savings totaled \$1,715,924 and the Authority's portion was approximately \$857,962. In 1996, the former Executive Director of the Authority, who left in January 2001, requested and received \$181,265 in Housing Assistance Payments funds. In 2002, the Authority's former Executive Director, who left in November 2003, drew down \$615,593 in Housing Assistance Payment funds. As of May 5, 2004, there was \$61,515 of remaining Savings funds.

The Refunding Agreements are controlled by the following Acts: the Stewart B. McKinney Homeless Assistance Amendments Act of 1988, as amended by the Housing and Community Development Act of 1992; Section 8(b)(2) of the United States Housing Act of 1937 (as in effect on September 30, 1983); and the HUD Appropriations Act of 1994 (House of Representatives Bill 2491). The McKinney Act requires that the Payment funds can only be used to provide decent, safe, and sanitary housing affordable to very low-income persons and families.

The Housing Authority was established under the laws of the State of Indiana. A seven member Board of Commissioners governs the Authority. Since November 2003, the Authority has been without a permanent Executive Director. The Authority's books and records are located at 500 Court Street, Evansville, Indiana.

FINDING

The Authority Lacked Adequate Controls Over HUD Funds

The Housing Authority of the City of Evansville did not have adequate controls over funds received from its Housing Assistance Payment Savings Refunding Agreements with HUD. The Authority drew down \$796,858 in Housing Assistance Payment Savings funds that failed to fulfill the Agreements' requirements. The Authority lacked documentation to support \$768,517 benefited very low-income persons and families, and disbursed another \$28,341 for ineligible expenses. We provided the Authority's current Interim Executive Director and HUD's staff a schedule of the inappropriate expenses. The Housing Authority lacked effective procedures and controls to assure that Housing Assistance Payment Savings funds were used appropriately. Additionally, the former Executive Directors, who left the Authority in January 2001 and November 2003, circumvented the Authority's Board of Commissioners and its management

controls. As a result, Housing Assistance Payment Savings funds were not used efficiently and effectively, and available funding for very low-income persons and families was reduced. Also, HUD and the Authority lack assurance that available Savings funds were used in accordance with the Stewart B. McKinney Homeless Assistance Act of 1988 and the Agreements.

Federal Requirements

The March and April 1996 Refunding Agreements, between HUD and the Housing Authority, require the Authority to: comply with the Stewart B. McKinney Act of 1988; agree that all Housing Assistance Payment Savings funds must be used in the City of Evansville to provide decent, safe, and sanitary housing affordable to very low-income persons and families; not use Savings funds to pay administrative costs except for required reviews and reports; ensure funds received under the Agreements may only be used to pay development costs of dwelling units and facilities for persons and families of very low-income; require owners of rental housing units assisted with Housing Assistance Payment Savings funds to limit the occupancy of such units to persons and families of very low-income for a period of 10 years; only request payments for reimbursement of funds expended or expected to be expended within six months; include a certification on subsequent requisitions that funds previously requisitioned were expended; provide within 90 days of the end of the fiscal year annual certifications to HUD; cause to be prepared triennially, a report from an independent consulting firm; and to submit annually, or direct the owners of the project to submit to HUD, financial statements and physical inspection reports.

The Stewart B. McKinney Act of 1988, as amended by the Housing and Community Development Act of 1992 (Public Law 102-550), Section 1012 requires that Housing Assistance Payment Savings funds may only be used for providing decent, safe, and sanitary housing affordable to very low-income persons and families.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(j) requires that all costs be adequately documented.

24 CFR Part 24.110 permits HUD to take administrative sanctions against employees or recipients under HUD assistance agreements that violate HUD's requirements. The sanctions include debarment, suspension, or limited denial of participation that are authorized by 24 CFR Parts 24.300, 24.400, or 24.700, respectively. HUD may impose administrative sanctions based upon the following conditions:

- Failure to honor contractual obligations or to proceed in accordance with contract specifications or HUD regulations (limited denial of participation);
- Deficiencies in ongoing construction projects (limited denial of participation);
- Violation of any law, regulation, or procedure relating to the application for financial assistance, insurance or guarantee, or to the performance of obligations incurred pursuant to a grant of financial assistance or pursuant to a conditional or final commitment to insure or guarantee (limited denial of participation);

- Violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program such as a history of failure to perform or unsatisfactory performance of one or more public agreements or transactions (debarment);
- Any other cause so serious or compelling in nature that it affects the present responsibility of a person (debarment); or
- Material violation of a statutory or regulatory provision or program requirements applicable to a public agreement or transaction including applications for grants, financial assistance, insurance or guarantees, or to the performance of requirements under a grant, assistance award, or conditional or final commitment to insure or guarantee (debarment).

The Authority Disregarded The Refunding Agreements

The Housing Authority disregarded its Refunding Agreements with HUD. From the time the Agreements were signed in April 1996 until March 2004, the Authority has not: filed the required annual certification or triennial audit reports; segregated funds; used Housing Assistance Payment Savings funds within the stipulated time frames; used Savings funds for authorized administration costs; required owners of rental housing units to limit the occupancy of units to very low-income persons and families; and maintained sufficient documentation to support that funds were used for very low-income persons and families. The Authority lacked adequate procedures and controls to ensure Housing Assistance Payment Savings funds were used appropriately. As a result, HUD and the Authority lack assurance that Savings funds were used in accordance with the Stewart B. McKinney Homeless Assistance Act of 1988 and the Agreements.

The Authority's Former Executive Director Circumvented Management Controls

The Housing Authority's former Executive Director, who left the Authority in November 2003, circumvented the Authority's management controls. Without the Authority's Board of Commissioners' approval or knowledge, the former Director transferred: \$615,593 of Housing Assistance Payment Savings funds into a Washington Court Redevelopment Corporation bank account and subsequently transferred \$400,000 of the funds into Washington Court Redevelopment Corporation's general fund account. He also transferred the funds to Washington Court without a written agreement stipulating how the funds were to be used or the controls to ensure compliance with the Refunding Agreements. Additionally, the former Director inappropriately transferred \$179,699 from Washington Court Redevelopment Corporation to the Authority without approval from the Corporation's Board or the Housing Authority's Board. As a result, Housing Assistance Payment Savings funds were not used efficiently and effectively, and available funding for very low-income persons and families was reduced.

AUDITEE COMMENTS

[Excerpts paraphrased from the Housing Authority of the City of Evansville's comments on our draft audit report follow. Appendix B, pages 12 to 16, contains the complete text of the Authority's comments for this finding.]

The Authority agrees that it did not have adequate controls over funds received from its Housing Assistance Payment Savings Refunding Agreements with HUD and lacked procedures to ensure the Housing Assistance Payment Savings funds were used appropriately. The Authority admits that it may lack adequate documentation to show that \$768,517 in Savings funds was used to benefit very low-income persons and \$28,341 was disbursed for ineligible expenses.

The Authority concurs that its former Executive Directors did not specifically adhere to the requirements set forth in the Refunding Agreements. The Authority denies that its personnel carried out such disregard of the requirements with deliberate intent.

The Housing Authority concurs with the portion of the finding that its former Executive Director, who left the Authority in November 2003, circumvented the Authority's management controls and its Board of Commissioners' authority.

The Authority will ensure its Board, current management staff, and all incoming management staff receives training regarding Federal program requirements, including requirements under the Refunding Agreements. The Authority's Board of Commissioners is receiving training regarding their role and responsibilities in monitoring the Authority's procedures and operations.

The Authority has been actively involved in litigation to account for and/or recover \$400,000 in Housing Assistance Savings funds transferred to Washington Court Redevelopment Corporation. At this time, an order by HUD requiring repayment of funds by the Authority could severely jeopardize and impair the services and programs that serve the low and very low-income residents of the Evansville community.

OIG EVALUATION OF AUDITEE COMMENTS

The Housing Authority generally concurs with the findings. The Authority does not agree with the repayment of the questioned costs. However, it is imperative that these funds be repaid. Repayment will ensure that the Housing Assistance Savings funds are used for their original purpose, services and programs to benefit very low-income families and persons of the Evansville community. The actions planned and by the Authority, if fully implemented, should improve its adherence to the Refunding Agreements.

RECOMMENDATIONS

We recommend that HUD's Director of Public Housing Hub, Cleveland Field Office, ensure the Housing Authority of the City of Evansville:

- A. Reimburses a control account \$28,341 from non-Federal funds for the ineligible expenses cited in this report.
- B. Provides documentation to support that \$768,517 of Housing Assistance Payment Savings funds benefited very low-income persons and families. If the Authority cannot

provide the necessary documentation, then the Authority should reimburse a control account from non-Federal funds for the applicable amount.

- C. Implements procedures and controls to ensure that Housing Assistance Payment Savings funds are used appropriately. These procedures and controls should help ensure that \$61,515 in remaining Savings funds is used appropriately.
- D. Executes a new Refunding Agreement(s) with HUD regarding the funds deposited to the control account and the remaining Housing Assistance Payment Savings funds.

We also recommend that HUD's Director of Departmental Enforcement Center:

- E. Takes appropriate administrative action against the Housing Authority's former Executive Directors who left the Authority in January 2001 and November 2003, respectively.

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of the Housing Authority for the City of Evansville's Housing Assistance Payment Savings Refunding Agreements.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based upon our review, we believe the following items are significant weaknesses:

- Program Operations

The Authority's Housing Assistance Payment Savings funds were not used in accordance with the Refunding Agreements. Specifically, the Authority failed to: (1) maintain documentation to support that \$768,517 in Savings funds were used to benefit very low-income persons and families; and (2) ensure that \$28,341 was used for eligible expenses (see Finding).

- Compliance with Laws and Regulations

The Authority failed to follow the Stewart B. McKinney Act of 1988 regarding the use of Housing Assistance Payment Savings funds (see Finding).

- Safeguarding Resources

The Authority did not ensure \$796,858 in Housing Assistance Payment Savings funds was used to provide decent, safe, and sanitary housing affordable to very low-income persons and families (see Finding).

FOLLOW-UP ON PRIOR AUDITS

This is the first audit of the Housing Authority of the City of Evansville's Housing Assistance Payment Savings Refunding Agreements with HUD. The latest Independent Auditor's Report for the Authority covered the period ending December 31, 2002. The Report contained four findings. None of the findings were related to the Refunding Agreements.

Appendix A

**SCHEDULE OF QUESTIONED COSTS AND RECOMMENDATION FOR FUNDS
TO BE PUT TO BETTER USE**

Recommendation Number	Type of Questioned Cost		Funds To Be Put To Better Use <u>3/</u>
	Ineligible <u>1/</u>	Unsupported <u>2/</u>	
A	\$28,341		
B		\$768,517	
C			\$61,515
Totals	<u>\$28,341</u>	<u>\$768,517</u>	<u>\$61,515</u>

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds To Be Put To Better Use are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in a reduced expenditure in subsequent periods for the activity in question. Specifically, this includes an implemented OIG recommendation that causes a non-HUD entity not to expend Federal funds for a specific purpose. These funds could be reprogrammed by the entity and not returned to HUD.

AUDITEE COMMENTS



**THE HOUSING AUTHORITY
OF THE CITY OF EVANSVILLE**



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Board of Commissioners:

June 9, 2004

Rev. Martha E. Granger, Chairwoman
Danny Spindler, Vice Chairman
Jeanette Benton, Commissioner
Jerry Clark, Commissioner
Bobby Gold, Commissioner
Tony A. Kirkland, Commissioner
Judge William H. Miller, Commissioner

Mr. Ronald Farrell, Assistant Regional Inspector General for Audit
United States Department of HUD – Office of Inspector General
200 North High Street, Room 334
Columbus, Ohio 43215-2499

**Re: Response of The Housing Authority of the City of Evansville, Indiana to the
May 11, 2004 - Draft Audit Report of the United States Department of
Housing and Urban Development ("HUD"), Office of Inspector General
("OIG")**

Dear Mr. Farrell:

The Housing Authority of the City of Evansville, Indiana (hereinafter referred to the "**Authority**"), has reviewed the May 11, 2004, Draft Audit Report issued by your office. We understand based on discussions and e-mail correspondence from your representatives with our counsel, Katz & Korin, P.C., we were provided until June 10, 2004, to respond to your report. The purpose of this letter is to respond to and provide comments on the Draft Audit Findings included in your report ("**Draft Findings**").

We understand your report was triggered by a hotline complaint that contained the three allegations set forth in the beginning of your report. The only allegation that was generally substantiated in your report was improper use of Federal funds by the Authority. Though the report indicates there was an abuse of discretion by a former Executive Director, this allegation was not substantiated by the audit. Additionally, your report included an allegation of a conflict of interest involving a former Executive Director involving two corporations. This allegation also was not substantiated in the reported findings of the audit.

DRAFT FINDING

The Authority Lacked Adequate Controls Over HUD Funds

The Authority agrees that it did not have adequate controls over funds received from its Housing Assistance Payment Savings ("**HAP Savings**") Refunding Agreements with HUD and lacked effective

procedures to ensure that the HAP Savings were used appropriately. The Authority admits that it may lack a adequate documentation to show that \$ 768,517 in HAP Savings were used to benefit very low-income persons and that \$28,341 was apparently disbursed for ineligible expenses. The Authority agrees that it must take all actions necessary to ensure that its procedures and controls over Federal funds are both effective and adequate to ensure that such funds are used in accordance with their designated purposes and that the Authority's accounting and documentation procedures accurately and appropriately reflect the proper handling of funds. As discussed more fully below, the Authority has taken steps to: (1) recover and/or account for the HAP Savings; (2) implement training with regard to proper handling of and accounting for funds; and (3) implement effective procedures and controls to ensure that all Federal Funds are used in accordance with their designated purposes.

The Authority Disregarded the Refunding Agreements

The Authority concurs that apparently the former Executive Directors did not specifically adhere to the requirements set forth in the Refunding Agreements (referenced in your report). The Authority denies that such disregard of the requirements was carried out by Authority personnel with any deliberate intent. Failure to strictly adhere to the requirements of the Refunding Agreements was the result of the staff's failure to fully understand the extent of such requirements and their mistaken belief that Avondale Housing, Inc., an instrumentality of the Authority which participated in and benefited from the Refunding Agreements, along with the Authority's former Executive Director, John Collier ("Mr. Collier") who left the Authority in January of 2001, were fulfilling these obligations. The Authority admits that this mistaken belief in no way excuses its failure with regard to the Refunding Agreements and agrees that it must and will take all actions necessary to ensure that it will comply with all requirements for the remaining HAP Savings. The Authority is already in the process of implementing training for its staff and Board of Commissioners to ensure that they are familiar with all accounting and reporting obligations, and that all funds intended for very low-income purposes are used accordingly.

The Authority's Former Executive Director Circumvented Management Controls

The Authority concurs with the portion of the finding that the former Executive Director, Paul Fletcher ("Mr. Fletcher"), circumvented the Authority's management controls and the authority of the Board of Commissioners. We understand Mr. Fletcher authorized the withdrawal of \$615,593 of HAP Savings and deposited the funds into an account which he established in the name of the Authority, although the federal identification number of Washington Court Redevelopment Corporation ("WCRC") was identified with this account. This action was taken without the knowledge or approval of the Authority's Board of Commissioners. Mr. Fletcher subsequently advised counsel to the Board of Commissioners the wrong taxpayer identification number was provided to the financial institution for this account when the account was created.

Mr. Fletcher later transferred \$400,000 of the HAP Savings funds to WCRC and \$179,699 to the Authority, both of which transfers were also without the Board's knowledge or approval. Though the Authority's Board of Commissioners passed a motion by roll call vote on January 16, 2001, concerning this matter, this motion required the funds to be used for the required programmatic purposes of benefiting "very low-income persons".¹ Additionally, WCRC discussed the use of these funds at its December 18, 2000, WCRC Board Meeting and approved, by motion, the receipt of these funds

¹ At the Authority's January 16, 2001 Board Meeting, the Board of Commissioners discussed the transfer of Avondale funds to WCRC. The Meeting Minutes clearly state that "these funds must be used for very low-income families." The transfer was approved by roll call vote. Despite this roll call vote to transfer, the Board of Commissioners did not make any physical transfer of these funds.

specifically for the benefit of "very low-income persons".² The use and accountability of the HAP Savings funds by WCRC is also the subject of certain litigation between the Authority and WCRC, pending before the Vanderburgh Superior Court in Evansville, Indiana.³

The Authority has taken steps to recover and/or account for HAP Savings inappropriately transferred to WCRC by Fletcher, and to establish management procedures and controls to prevent future occurrences.

ACTIONS TAKEN AND PROPOSED BY EHA

The Authority was formed to provide quality affordable housing for moderate, low and very low-income populations in the City of Evansville, and clearly recognizes and agrees that any shortcoming or failure in the Authority's management controls, procedures and program operations that may result in waste, loss, or misuse of Federal funds, and in particular, the HAP Savings dedicated to persons of very low-income, has a significant impact on the accessibility of housing and quality of life of those who most need its assistance. Accordingly:

1. The Authority shall take appropriate and timely action to ensure that training is obtained for its current management staff and all incoming management staff regarding Federal program requirements, including the requirements under the Refunding Agreements. The Authority understands and appreciates the importance of operating its programs in accordance with legal and applicable programmatic requirements. As its first step to ensure proper training, two of the Authority's Financial Managers and its Capital Fund Manager attended a financial training session at HUD's Indianapolis Office on May 27, 2004, given by Mary Ellen Burke. In addition, Ms. Burke has agreed to come to EHA's offices in June for extended financial training on the proper handling of HUD funds. The Board of Commissioners will be training with HUD representatives during the week of June 21, 2004. It is also worth noting that the current Finance Director of the Authority, William J. Barthel, is a certified public accountant. Mr. Barthel is the first certified public accountant to serve as the Finance Director of the Authority in the past ten years. Mr. Barthel began serving as Finance Director on October 28, 2003.
2. The Authority shall take appropriate and timely action to ensure that training is obtained for its Board of Commissioners regarding the role and responsibility of each Commissioner in monitoring the Authority's procedures and operations. The Board of Commissioners intends to take an active role in overseeing solutions to the current problems faced by the Authority. The Board of Commissioners has emphasized to the office of the Executive Director and all staff that Federal funds are to only be used in accordance with legal and applicable programmatic requirements. As its first steps to ensure proper use of funds, the Board adopted a resolution on February 17, 2004, requiring the Executive Director and Director of Finance to obtain the Board's prior

² At the WCRC Board Meeting Minutes on December 18, 2000, on a motion passed by unanimous vote of all WCRC Directors present, WCRC agreed to "accept the monies from Avondale with the stipulation that the corporation [WCRC] accepts the requirements attached to the money as specifically set forth in Section 1012 of the Stewart B. McKinney Homeless Assistance Act of 1988, as amended ..."

³ The cause number of this action is 82D03-030-PL-930, pending before The Honorable Robert J. Pigman.

approval with respect to managing the Authority's investments.⁴ In addition, the Board is taking an active role in selecting a new executive director and establishing the qualifications which that director must meet.

3. Separate accounts for all non-Federal funds shall be maintained to ensure such funds are not commingled with Federal Funds. The Authority intends to review all of its accounts to ensure that each program has its own account and that the finance employees who handle these accounts understand the purposes of the funds and are familiar with all reporting and audit requirements associated with each program. As stated earlier, the Authority has taken the initiative to seek staff financial training session at HUD's Indianapolis Office and has additional training scheduled. The Authority has installed new financial software and is revising financial statements to ensure better accountability for all program funds.
4. The Authority's Board of Commissioners adopted a resolution on April 20, 2004, adopting the recommendations made by the Authority's Finance Committee and streamlined its staff to ensure that unnecessary costs are eliminated. In essence, the Authority is attempting to maintain a very rigid hold on its costs while still striving to fulfill its mission of providing quality services and housing to the community of Evansville which it serves.
5. The Authority has been actively involved in litigation to account for and/or recover \$400,000 of HAP Savings transferred to WCRC by Mr. Fletcher, which action was taken without the knowledge or consent of the Authority's Board of Commissioners.

In April of 2002, Mr. Fletcher caused the Authority's former Finance Director, Olga Briggs, to draw down \$615,593 in HAP Savings. Mr. Fletcher subsequently advised the Board of Commissioners this action was taken based upon the January 16, 2001, meeting minutes of the Authority's Board of Commissioners. After learning that the former Executive Director had drawn down and transferred \$400,000 of the HAP Savings to WCRC's general fund account in October of 2002, the Authority's Board of Commissioners asked WCRC to return or provide an accounting of these funds to ensure that they were used appropriately in accordance with the McKinney Act as the WCRC Board had agreed to do at its December 18, 2001 meeting. The Authority also attempted to use its right to confirm members of the WCRC Board as a means of ensuring proper use of such funds.

The Authority filed suit against WCRC on March 7, 2003, seeking among other things the return and/or an accounting of the HAP Savings so that the Authority could properly account and report to HUD. On May 7, 2004, after amicable attempts to resolve the situation, a hearing was held in Vanderburgh Superior Court in Evansville, Indiana, wherein the Authority sought the appointment of a receiver over WCRC. If a receiver is appointed, the Authority expects that the receiver will provide the Authority's Board of Commissioners with an accounting of the \$400,000 of HAP Savings transferred to WCRC's possession. A decision on the receivership hearing is pending, though Judge Pigman made a preliminary ruling to freeze \$25,000 of funds currently held by WCRC,

⁴ In pertinent part, the February 17, 2004, resolutions state that the Interim Executive Director and Finance Director "are authorized to manage certificates of deposit, investments, fund transfers and other HUD approved financial transactions in all accounts in person or by telephone, subject to Board approval."

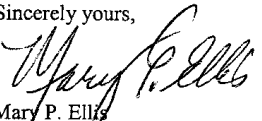
pending the issuance of his decision. The Authority will determine what additional steps it must take to recover these funds after the decision is handed down.

The Authority understands why you have made the recommendation to reimburse a control account for HAP Savings. At this juncture, an order requiring repayment of funds by the Authority could severely jeopardize and impair the services and programs which serve the low and very low-income residents of the Evansville community. HUD should be well aware of the budgetary constraints faced by public housing authorities across the country. The Authority has taken significant steps to create permanent solutions to the problems that arose. Through the measures implemented to date and the oversight and internal controls that the Board of Commissioners recognizes as essential to ongoing operations, the Authority is on the right track. However, these measures could be derailed if the Authority is overburdened with debt and repayment obligations attributable to the actions taken by former employees. The litigation of pursuing the wrongs of a runaway subsidiary, the staffing cutbacks which have already ensued as a result of budgetary constraints, and the implementation of new safeguards all come at a cost to the Authority.

The staff and Board of Commissioners of the Authority are determined and dedicated to once and for all close the chapter of the prior problems plaguing its operations. The Authority will continue to implement appropriate controls and procedures to ensure proper use of the remaining HAP Savings and those funds placed into the control account, as well as implement safeguards to ensure that all program funds are used according to their designated purposes. The Authority requests that HUD assist it by continuing to provide training and guidance to the Authority's Board and staff so that the Authority may fully achieve its mission.

We appreciate your consideration.

Sincerely yours,



Mary P. Ellis
Acting Interim Executive Director