Issue Date March 9, 2005	
Audit Report Number 2005-PH-1007	

TO: Malinda Roberts, Director, Office of Public Housing, Pennsylvania State Office, 3APH

Daniel G Temme

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic Region, 3AGA

SUBJECT: Lehigh County Housing Authority, Emmaus, PA, Could Not Support All Costs and Used HUD Funds to Support Its Nonfederal Entities

HIGHLIGHTS

What We Audited and Why

We completed an audit of the Lehigh County Housing Authority (Authority) in response to a complaint. The complainants alleged the Authority improperly used HUD funds to benefit its affiliated nonfederal entities. Our audit objectives were to determine whether the Authority could adequately support its use of HUD funds and if it used HUD funds to develop and support its affiliated nonfederal entities.

What We Found

Contrary to its Annual Contributions Contract, the Authority could not always support expenditures made with HUD funds and used HUD funds to develop and support its affiliated nonfederal entities. Specifically, the Authority could not provide adequate documentation to support $4 million in expenditures it made from January 2001 to December 2003 using HUD Public Housing and Section 8 Program funds. During the same period, the Authority also used an estimated

$726,625 in HUD funds to pay salary and administrative costs of its affiliated nonfederal entities. Further, by accurately allocating salaries and other administrative costs, and supporting its disbursements, the Authority will more effectively use HUD funds of $1.6 million annually.

What We Recommend

We recommend that HUD require the Authority to provide adequate documentation to fully support its disbursement of $4 million of HUD funds that it could not properly support, or reimburse HUD from nonfederal sources. We also recommend HUD require the Authority to implement an equitable method of allocating administrative expenses to its nonfederal entities and to reimburse the Public Housing Program $726,625 for ineligible salaries and administrative costs it provided to its nonfederal entities.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the report with the Authority during the audit and at an exit conference on February 10, 2005. The Authority provided its written comments to our draft report on March 4, 2005. The Authority acknowledged that it could not adequately support costs during the audit and did not have a certified cost allocation plan. It agreed to pass Board resolutions approving new procedures needed to ensure it properly supports and allocates costs. The Authority believed however, that after the audit it had located additional documentation needed to support its costs. It also stated it would work with the Director of Public Housing, Pennsylvania State Office to develop an accurate allocation plan and to recover amounts subsequently determined to be not properly allocated. The complete text of the Authority's response can be found in Appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Lehigh County Housing Authority was established in 1975 under the Housing Authorities Law of the Commonwealth of Pennsylvania to provide affordable, sanitary and safe housing for low-income families. A five-member Board of Commissioners appoints the Authority's Executive Director and governs the Authority. The current Board Chairman is Robert Forney. John Seitz was the Authority's Executive Director during most of the audit. Mr. Seitz resigned during the audit in September 2004. The Board subsequently appointed Daniel Beers, formerly the Authority's Deputy Executive Director, to replace him. The Executive Director and Deputy had served in their respective positions for more than 20 years. The Authority's main administrative office is located at 635 Broad Street, Emmaus, PA.

The Authority owns and manages 289 public housing units under its Annual Contributions Contract with HUD. The Annual Contributions Contract defines the terms and conditions under which the Authority agrees to develop and operate all projects under the agreement. HUD authorized the Authority the following financial assistance from fiscal years 2000 to 2004: $2.9 million Operating Subsidy to operate and maintain its housing developments; $2.0 million Capital Fund Program to modernize public housing units; and $35.4 million to provide housing assistance through tenant-based Section 8 certificates and vouchers.

In 1982, the Authority created a nonfederal entity known as the Valley Housing Development Corporation. The Authority formed this nonprofit corporation to provide low- and moderate-income households opportunities for low cost rental housing and homeownership. A Board of Commissioners, consisting of 11-21 members, governs the corporation. As of December 2003, the Valley Housing Development Corporation held an interest in 46 limited partnerships in which it served as the general partner. It primarily funded its limited partnerships through a combination of private investment (in exchange for Federal housing tax credits), commercial loans, and loans the corporation made using funds it received in exchange for 1-year state tax credits. In total, these partnerships operate more than 1,300 units of low-income housing.

Since November 1990, the Authority has assisted the Valley Housing Development Corporation, for a fee, to enable it to develop and operate its housing projects for low- and moderate-income households. The Authority shares common management, administrative, and maintenance service employees with the corporation. In July 2003, several complainants alleged the Authority used HUD funds improperly to benefit the Valley Housing Development Corporation. This is the second and final report we will issue in response to this complaint. In our first report (Audit Case Number 2005-PH-1001, dated October 15, 2004), we noted the Authority improperly pledged $4.4 million in HUD assets to guarantee debt incurred by its nonfederal entities and improperly provided these nonfederal entities $95,634. Our audit objective for this second report was to determine whether the Authority used HUD funds to develop and support its affiliated nonfederal entities and whether it could adequately support its expenditures of HUD funds.

RESULTS OF AUDIT

Finding 1: The Authority Could Not Adequately Support Costs of $4 Million

Contrary to its Annual Contributions Contract, the Authority could not adequately support disbursements of $4 million made over the 3-year period reviewed from January 2001 to December 2003. This occurred because the Authority's former Executive Director did not ensure costs were adequately supported and the Authority's Board of Commissioners did not ensure internal controls were in place to prevent these problems from occurring. We estimate the Authority could annually put $1.3 million[1] to better use by ensuring its future costs are allowable, properly supported, and well documented.

The Authority Could Not Support $4 Million in Expenditures

The Authority could not adequately support how it spent $4 million of $5.5 million (73 percent) of the disbursements audited. Specifically, our review of disbursements made during the audit period showed the Authority could not provide adequate documentation to support how it used $1.2 million of Public Housing and $2.3 million of Section 8 Program funds. The funds from these two programs were deposited into the Authority's general fund account which is used for payroll and the disbursement of general operating expenses. The Authority also received $565,454 in Housing Assistance Payment Savings funds. It could not support that these funds were used to benefit very low-income persons and families.

Part A, Section 9 (C) of the Authority's Annual Contributions Contract with HUD requires it to maintain records identifying the source and allocation of Federal funds. The Authority may withdraw funds only for the payment of costs related to the operation of the projects under its Annual Contributions Contract. This key management control is critical to ensure the Authority spends Federal funds, provided through its Annual Contributions Contract, only in accordance with the regulatory requirements of each specific Federal program. Federal regulations[2] also require the Authority to maintain complete and accurate records identifying the source and application of grant funds such as cancelled checks, paid bills, payrolls, and time and attendance records. Office of Management and Budget

[1] $4,028,698/3 years = $1,342,899 annually
[2] Title 24 Code of Federal Regulations 85.20

Circular A-87[3] further requires the Authority to adequately document its costs under Federal awards.

The Authority was required to use the unsupported $4 million mostly to fund its Public Housing and Section 8 Programs. Since the Authority did not properly support its disbursements, we have limited assurance that it used HUD funds properly. The Authority acknowledged its supporting documentation was not adequate and stated it was now working to correct the problem. The Authority's lack of support for its transactions has also contributed to HUD designating it a substandard financial agency for its Public Housing Program and a troubled performer for its Section 8 Program.

Recommendations

We recommend that the Director, Office of Public Housing, Pennsylvania State Office:

1A. Direct the Authority to provide adequate documentation to support the $4,028,698 million identified in this finding or reimburse HUD from nonfederal sources.

1B. Require the Authority's Board of Commissioners to pass a Board resolution approving procedures requiring it to maintain required supporting documentation such as cancelled checks, paid bills, payrolls, and time and attendance records, and thereby, put $1,342,899 million to better use annually.

1C. Periodically perform reviews at the Authority to ensure that it maintains documentation for salaries and administrative expenses related to the Public Housing and Section 8 Programs. The documentation should identify the source and application of grant funds such as cancelled checks, paid bills, payrolls, and time and attendance records where appropriate.

[3] Attachment A, Paragraph C, Subparagraph 1.j

Finding 2: The Authority Used $726,625 of HUD Funds to Support Its Nonfederal Entities

Contrary to its Annual Contributions Contract, the Authority used HUD funds to support its affiliated nonfederal entities. This occurred because the Authority's former Executive Director did not ensure all relevant costs were accurately allocated to the nonfederal entities and the Authority's Board of Commissioners did not ensure adequate internal controls were in place to prevent these problems from occurring. As a result, the Authority paid salaries and administrative expenses totaling $726,625 from Federal funds from January 2001 to December 2003 for work its employees performed for its nonfederal entity. We also estimated the Authority will annually put $242,208 to better use by properly accounting for and allocating work its employees perform in support of its nonfederal entity.

Authority Improperly Subsidized Nonfederal Entities

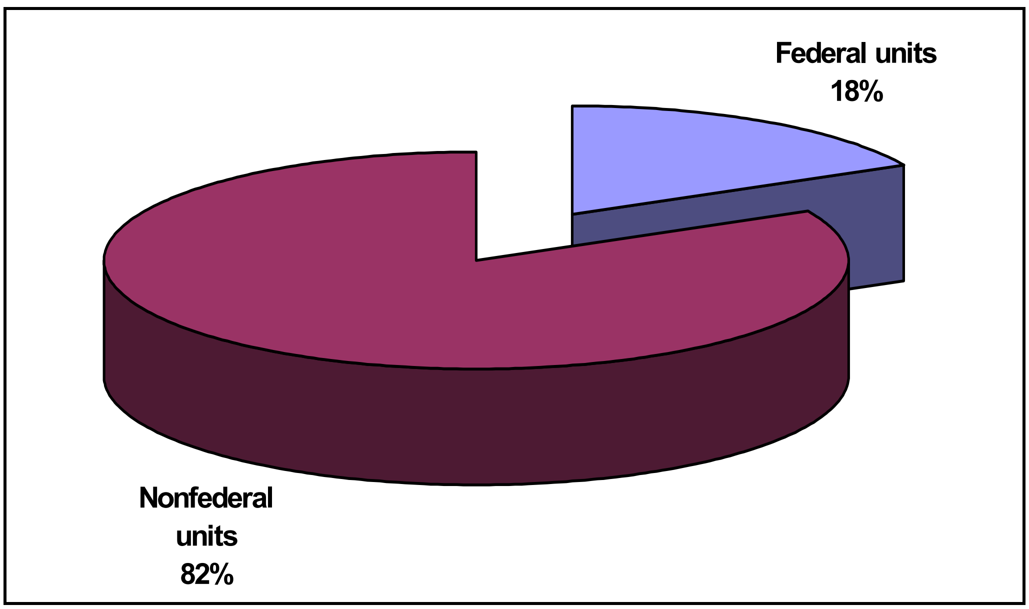
The Authority paid expenses totaling $726,625[4] from Federal funds from January 2001 to December 2003 for work its employees performed for its nonfederal entity. Specifically, our review showed the Authority did not properly allocate salaries, fringe benefits and other administrative expenses associated with at least 16 employees who performed work for its affiliated Valley Housing Development Corporation. The 16 employees performed a variety of duties such as management, maintenance, purchasing, and tenant selection. Authority officials used a range of percentages to allocate salaries and other administrative expenses to its nonfederal entities. However, Authority officials did not develop a cost allocation plan or maintain formal accounting and other records to support the various percentages used as required by Office of Management and Budget Circular A-87[5]. The Deputy Director informed us that he and the Executive Director determined the individual percentages. However, they could not explain the methodology used or provide any other documentation supporting the estimates.

Part A, Section 9 (C) of the Authority's Annual Contributions Contract with HUD requires it to maintain records identifying the source and allocation of Federal funds. This key management control is critical to ensure the Authority spends Federal funds, provided through its Annual Contributions Contract, only in accordance with the regulatory requirements of each specific Federal program. Further, the contract specifies that the Authority can only withdraw Federal funds

[4] Some of these costs may be included in the $4 million in unsupported costs reported in Finding 1. Since the Authority lacked adequate support, we could not determine how much of the $726,625 is included in the $4 million.
[5] OMB Circular A-87- Attachment E, Section (A)(1)(3) and (4)

for the payment of costs associated with the development and operation of projects under its Annual Contributions Contract or other projects specifically approved by HUD. Thus, when employees work on multiple programs, a distribution of their salaries should be supported by personnel reports or equivalent documentation. As stated previously, Office of Management and Budget Circular A-87 also requires the Authority to assign costs to benefited activities on a reasonable and consistent basis. Formal accounting and other records should support all costs and other data used to distribute the costs included in its cost allocation plan, including the support needed to establish the propriety of the costs assigned to the Federal awards.

Since the Authority did not have an allocation plan or other records to support the percentages used to allocate salaries and other administrative expenses to its nonfederal entities, we estimated the total salaries and other administrative expenses the Authority should have paid based on the ratio of the number units of low-income housing managed by the two organizations. We found that from January 2001 to December 2003, an average of 1,354 of 1,643 units the Authority managed were not covered by its Annual Contributions Contract. As illustrated below, the percentage of costs that should have been fairly allocated to the nonfederal entities was an average of about 18 percent (289 nonfederal units divided by 1,643 total units).



As shown above, only about 18 percent of the low-income housing units the Authority managed, maintained, and supported were covered by its Annual Contributions Contract with HUD. Therefore, the Authority is prohibited from using HUD funds to manage, maintain, and support an estimated 82 percent of its units. Accordingly, we used 18 percent to estimate salaries, fringe benefits and other administrative expenses that should be allocated to the Authority's HUD-funded Public Housing Program. In this regard, we analyzed salaries, fringe benefits and other administrative expenses the Authority paid for the 16 employees who were working concurrently for the Authority and its nonfederal entities from January 2001 to December 2003. Our review showed the Authority improperly paid salaries and administrative expenses totaling $726,625 from Federal funds from January 2001 to December 2003 to support its nonfederal entities. We also estimated that in the future, the Authority can annually put $242,208 to better use by properly accounting for and allocating work its employees perform in support of its nonfederal entities.

Recommendations

We recommend that the Director, Office of Public Housing, Pennsylvania State Office:

2A. Require the Authority to recover $726,625 from its nonfederal entity for employee expenses not properly allocated to its nonfederal entity or repay it from nonfederal funds.

2B. Require the Authority's Board of Commissioners to pass a Board resolution approving procedures for accurately allocating costs to ensure the Authority does not use HUD funds to support its affiliated nonfederal entities, and thereby, put $242,208 to better use annually.

SCOPE AND METHODOLOGY

We performed an audit from November 2003 through November 2004 of the Lehigh County Housing Authority, located in Emmaus, PA. The audit was conducted in accordance with generally accepted government auditing standards and included tests of internal controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit and included the period January 2001 through December 2003. We expanded the scope of the audit as necessary. We reviewed applicable guidance and discussed operations with management and staff personnel at the Lehigh County Housing Authority and key officials from HUD's Pennsylvania State Office.

To determine that the Authority improperly used HUD funds to develop and support its affiliated nonfederal entities and whether it could properly support its expenditures of HUD funds we:

- Reviewed all documentation provided by the Authority related to our audit objectives, including accounting records, invoices, cancelled checks, payrolls, time and attendance records, partnership agreements, financial statements, general ledgers, bank statements, payment vouchers, minutes from Board meetings and other related correspondence.

- Non-statistically selected $5.5 million of disbursements the Authority made from its general fund account from January 2001 to December 2003 and reviewed documentation such as accounting records, invoices, cancelled checks, payrolls, and time and attendance records that were used to support those disbursements.

- Reviewed the Authority's available Independent Auditor's Reports for fiscal years 2001 and 2002.

- Reviewed HUD and Authority correspondence related to the audit and results of monitoring reviews HUD's Pennsylvania State Office conducted.

INTERNAL CONTROLS

Internal Control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

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

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals and objectives. Internal controls include the processes and procedures for planning, organizing, directing and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Assigning costs to benefited activities on a reasonable and consistent basis including maintaining support to establish the propriety of costs assigned to the Federal awards.

- Maintaining complete and accurate records identifying the source and application of grant funds.

We assessed the relevant controls identified above. A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses. The Authority did not:

- Assign costs to its nonfederal entities on a reasonable and consistent basis and did not maintain required support.

- Maintain complete and accurate records identifying the source and application of grant funds.

Appendixes

Appendix A

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BE PUT TO BETTER USE

Recommendation Number	Ineligible 1/	Unsupported 2/	Funds To Be Put to Better Use 3/
1A		$4,028,698	
1B			$1,342,899
2A	$726,625		
2B			$ 242,208
Total	$726,625	$4,028,698	$1,585,107

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 those costs charged to a HUD-financed or HUD-insured program or activity, where we cannot determine eligibility at the time of audit. Unsupported costs require a 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 Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, de-obligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

Appendix B

AUDITEE COMMENTS

Ref to OIG Evaluation **Auditee Comments**

Lehigh County Housing Authority

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Daniel C. Beers, EXECUTIVE DIRECTOR
Robert P. Forney, CHAIR
Kent H. Herman, SOLICITOR

EQUAL HOUSING OPPORTUNITY

March 4, 2005

Mr. Daniel G. Temme
Regional Inspector General for Audit
United States Department of Housing and Urban Development
OIG-Audit
The Wanamaker Building, Suite 1005
100 Penn Square Street
Philadelphia, PA 19107-3380

RE: Lehigh County Housing LCHA

Dear Mr. Temme:

The purpose of this letter is to respond to an Audit Report from your office regarding the Lehigh County Housing Authority's (LCHA) support of its use of federal funds. This is the second and final report to be issued subsequent to the audit. I first want to once again provide a background of LCHA and its affiliated "nonfederal entities", Valley Housing Development Corporation, a Pennsylvania Non-Profit Corporation..

The Lehigh County Housing Authority was organized by Lehigh County in the mid-1970's. It began providing affordable housing in the 1979. Its first activity consisted of 100 units of Section 8 housing. Throughout the next 25 years LCHA consistently sought available public funding for a variety of affordable housing programs. Currently LCHA assists over 1660 families through its Section 8 voucher, moderate rehabilitation and family unification programs. It also serves 225 elderly households and 64 families in 9 developments through its public housing program. LCHA operates a shelter plus care program which provides housing for persons with mental illness. Currently the program serves 37 individuals

LCHA has been an active participant in the 5(h) home ownership program providing 20 public and assisted housing families first time home buying opportunities in the Boroughs of Fountain Hill and Emmaus. The LCHA acquisition with rehab program allowed an additional 6 lower income families to become first time homebuyers in Whitehall Township. LCHA has been and continues to be the administrator for numerous housing rehabilitation grants awarded to Lehigh County and other municipalities. LCHA has provided administration for the Act 137 Lehigh County Recording Fee Program which has provided down payment and closing cost assistance, home ownership counseling and housing rehabilitation services for low income home buyers. LCHA was an original member of the Lehigh Valley Coalition on Affordable Housing and continues its efforts to explore and advocate for increased affordable housing opportunities for all residents of the Lehigh Valley.

In the 1980's LCHA created VHDC. VHDC's primary purpose has been to promote and advance decent, safe and sanitary housing for persons of low and moderate incomes including families, elderly and disabled individuals. LCHA and VHDC have separate Board of Directors and meet separately. A contract exists between LCHA and VHDC. Under the terms of the contract VHDC pays LCHA for administrative, management and social service functions delivered to VHDC by LCHA employees.

Valley Housing Development Corporation, an affiliate "nonfederal entity" of LCHA, has created over 1360 affordable housing units in the Lehigh Valley. These developments service a wide array of housing needs for lower income individuals. Thirty developments containing 1060 units house senior citizens. Two developments containing 22 units are designed as transitional housing for homeless families. Twelve developments provide 141 units of low income family housing. Two developments containing 40 units are independent living apartments for persons with mental illness. One development provides 15 units of independent living to families who have severe physical disabilities. Another project works toward providing 8 units of low income family housing to families who are victims of domestic violence. More than 2200 low income families are housed in these developments.

These developments were created using the Low Income Housing Tax Credit program (LIHTC). The LIHTC is allocated by the Pennsylvania Housing Finance Agency. The creation of this housing has generated over $75,000,000.00 in construction activity. This work consisted of new construction as well as the renovation of numerous old and obsolete factory buildings, schools, or other commercial buildings. Financing of over $25,000,000.00 has been provided for these projects, and these projects have generated over $52,000,000.00 in private equity investment. An important point is that all of these projects are subject to local taxes. The creation of these units has generated in excess of $1,300,000.00 of local, county and school real estate taxes on an annual basis.

LCHA currently employs approximately 65 individuals providing administrative, management, maintenance and social services for the housing provided by both VHDC and LCHA. LCHA and VHDC projects also provide on-going economic activity for a variety of outside vendors required for property maintenance and other services. VHDC has provided a host of other management services to other local non-profit groups as well as programs designed to expand housing opportunities for persons with mental illness. It has also provided home ownership opportunities for over 50 low income first time home buyers.

This background of accomplishments is important in fully understanding the response to each of these findings of the OIG. The following represents the responses of LCHA.

Finding 1. The Authority Could Not Adequately Support Costs of $4 Million.

Response: The $4 million disbursements in question were made to LCHA's general fund account in support of salaries and administrative overhead costs incurred. LCHA's general fund account is a general operating account used for payroll and the disbursement of general operating expenses. It is the practice of LCHA for the general fund to charge each program under management for its respective payroll and administrative overhead expenses. Each program is to then disburse funds to the general fund in the amount charged to cover these expenses. LCHA can document the origin of the charges from its payroll allocation to each program as well as the subsequent disbursements from each program to the general fund. Likewise administrative overhead expenses are allocated to each program and disbursements from each program are able to be traced to the general fund. This is the procedure that was in place during the audit period. This procedure was subject during all three years to an Independent Public Accountant audit of Financial Statements by two different auditing firms without finding. Therefore, LCHA does believe it has records identifying the source and application of grant funds.

LCHA accepts that record keeping during the audit period could have been better. Immediately prior to audit there was a turnover in accounting staff making it difficult to locate some supportive documentation. Since the completion of the audit, LCHA has located additional records that were not available during the audit that LCHA believes will provide appropriate support for the disbursements identified in this finding. LCHA has done substantial testing of the documentation found as it relates to the Public Housing Program and is satisfied that it provides the required support for that program. LCHA believes that with documentation available and the additional documentation located after audit, that it will be able to support that the $4 million identified in this finding was used mostly to support its Public Housing and Section 8 Programs.

In May of 2004 LCHA created a Comptroller position and hired a CPA to fill that position. A major priority and responsibility of the Comptroller is to establish improved record keeping to support all financial activities of LCHA. Invoices are prepared for all charges from the general fund and related supportive documentation is maintained with those invoices. The LCHA Board of Commissioners is determined to ensure procedures are in practice and have instructed staff to prepare a written policy of procedures that requires proper maintenance of supporting documentation for Board resolution by the April meeting of the Board.

Finding 2: The Authority Used $726,625 of HUD Funds to Support Its Nonfederal Entities

Response: During the audit period LCHA allocated salaries based upon reasonable historical charges, however it did not have a certified allocation plan. However, LCHA did maintain employee time records, including the years in question. This process had been in place for nearly 20 years and had been subject to Independent

Public Accountant audits and HUD review of those audits each year. This practice did not result in a finding until the 2002 IPA audit of financial statement released in late 2003. At that time LCHA responded by allocating maintenance salaries in accordance with time records and followed in the beginning of 2004 allocating all costs in accordance with contemporaneously kept time records.

LCHA submitted its revised procedures to HUD documenting its policy of recording each employee's actual daily hours to specific cost categories. HUD required that the time records be signed by the employee and approved by their supervisor and an administrator. This allocation process is now in place.

During the audit period of 2001-2003 LCHA charged an average of $725,795 per year of total administrative and maintenance salaries, fringe benefits and administrative overhead expenses to the Public Housing Program based upon the allocation method in place at that time. The auditor created an allocation method that he believed to be acceptable under the governing OMB Circular A-87. It was noted that in accordance with the OMB Circular A-87 these allocated costs must be reasonable. By the method employed as stated in the finding, the auditor determined that $726,625 or an average of $242,208 was improperly charged for those same costs. LCHA believes that other methods of allocating costs are allowable in accordance with OMB Circular A-87. One acceptable method is the allocation of costs based upon time records. Since LCHA did maintain time records for the period in question LCHA did do an analysis of the charges based upon the time records. The analysis indicated that the costs could be supported. In addition LCHA believes the charges to be reasonable based upon its survey of nine Pennsylvania Housing Authorities. LCHA's costs for total administrative and maintenance salaries and fringe benefits were comparable to those housing authorities costs for administrative and maintenance salaries and fringe benefits with four having lower average costs and five having higher average costs.

LCHA understands that its assumption is only effective if the time records that have been maintained have reliable information. Therefore, LCHA agrees to work with the Director, Office of Public Housing, Pennsylvania State Office to resolve this finding and to recover any amount determined to be not properly allocated.

In addition the LCHA Board of Commissioners will direct staff to develop an allocation plan that is acceptable to HUD for the Board's approval. The Board will pass a resolution adopting the allocation plan and approve procedures for accurate allocating costs to ensure LCHA does not use HUD funds to support affiliated nonfederal entities.

Closing. During the past year and in particular over the past five months LCHA has made significant progress in developing better internal controls, better record keeping, better communication and clearer compliance. Board membership has been strengthened, a Comptroller has been added and LCHA is under the leadership of a new Executive Director. LCHA is much stronger both financially and managerially than it was just five months ago. LCHA has entered into a Memorandum of Agreement with HUD to resolve the findings that were part of the first Audit Report of the OIG released in October of 2004. Working closely with the Office of Public Housing, Pennsylvania State Office, LCHA has addressed most findings with only $100,000 of guarantees remaining to be released.

We are proud of the progress we have made and remain proud of the accomplishments of LCHA and VHDC over the past 25 years. These agencies provide affordable housing opportunities for families, seniors and those with disabilities living in our community. Thousands will sleep tonight in safe, decent and sanitary housing because of the efforts of these two agencies. LCHA has consistently fully cooperated with the efforts of the OIG and has done everything possible to respond as quickly as possible to the findings contained in the OIG's report. LCHA will continue its efforts to fully comply with the OIG's recommendations.

Sincerely,

Daniel C. Beers
Executive Director