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Brownfield Economic Development Initiative and Empowerment Zone Grant Programs

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TO: Yolanda Chavez, Deputy Assistant Secretary for Grant Programs, DG

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FROM: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

SUBJECT: Economic Development Programs Lacked Adequate Controls To Ensure Program Effectiveness

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG), final results of our review of controls over the Brownfield and Round II Empowerment Zone programs.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8L, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at 404-331-3369.

Date of Issuance: September 3, 2013

Economic Development Programs Lacked Adequate Controls To Ensure Program Effectiveness

Highlights

Audit Report 2013-AT-0003

What We Audited and Why

As part of the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) annual plan, we audited HUD's controls over the Brownfield and Round II Empowerment Zone programs. Our objective was to determine whether HUD had adequate procedures to measure Brownfield and Round II Empowerment Zone effectiveness.

What We Recommend

We recommend that HUD clarify requirements and responsibilities for reporting and monitoring Brownfield project performance and progress. HUD should also identify and terminate Brownfield projects that grantees never started, including the four grants identified in this report totaling more than $5.16 million, and return the unneeded funds to the U.S. Treasury. In addition, HUD should require Columbia-Sumpter County, SC, and Miami-Dade County, FL, to support more than $2.2 million in Round II Empowerment Zone expenses or repay the Treasury from non-Federal funds.

What We Found

HUD did not have adequate procedures to ensure the effectiveness of its Brownfield Economic Development Initiative. It did not fully implement plans to improve monitoring and did not identify and terminate in a timely manner projects that grantees never started. These conditions occurred because of confusion within HUD over monitoring requirements and responsibilities, and because HUD was reluctant to terminate projects and deobligate funds before grants expired. As a result, the Brownfield program was not always effective. In addition, HUD unnecessarily delayed returning at least $22.4 million in unneeded Brownfield funds to the Treasury, and needs to return an additional $5.16 million for projects that grantees did not start.

HUD's Round II Empowerment Zone Performance Measurement System (PERMS) contained unsupported and inaccurate program results. Grantees generally could not support economic development results and some expense eligibility, and one inaccurately reported a program achievement. These deficiencies occurred due to misreporting by grantees that went undetected partly because it was impractical for HUD to verify all of the data grantees entered into the system and partly because of a deficiency in HUD's risk-based selection process for grantee monitoring. As a result, for the three grantees we reviewed, HUD could not rely on grantee submitted PERMS information for determining the effectiveness of the program, and grantees could not support at least $2.2 million in expenses.

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BACKGROUND AND OBJECTIVE

The Brownfield Economic Development Initiative provided competitive economic development grants to Community Development Block Grant (CDBG) recipients in connection with loans guaranteed under Section 108 of the Housing and Community Development Act of 1974. Brownfield grants provided financial assistance for industrial or commercial sites where redevelopment was hindered by the presence or potential presence of environmental contamination. Under the Section 108 loan guarantee provision of the CDBG program, the U.S. Department of Housing and Urban Development (HUD) offered communities a source of financing for housing rehabilitation, economic development, and large-scale physical development projects. Each Brownfield grant required new Section 108 loan guarantees, and applicants were required to pledge their current and future CDBG funds as the principal security for the loan guarantee. HUD's Office of Economic Development administered the Brownfield competitions, and the Office of Block Grant Assistance administered the grants after the Section 108 loan guarantees were approved. In 2012 the Office of Block Grant Assistance assumed full administration. Implementing guidance was in 24 CFR (Code of Federal Regulations) Part 570. HUD awarded 97 Brownfield grants between 2002 and 2011 valued at $134 million in Brownfield funds and $549 million in Section 108 loan guarantees. HUD terminated Brownfield as a distinct program as of fiscal year 2012; however, Brownfield activities remain eligible under the CDBG program.

The Empowerment Zone program included grants and tax incentives to locate businesses and hire local residents in economically disadvantaged areas. The Empowerment Zone program was carried out in 3 rounds, with HUD designating 15 Round II Empowerment Zones under Public Law 105-34. State and local governments nominated areas for Empowerment Zone designation and were required to submit a strategic plan detailing how they intended to achieve the program goals. Those selected had to meet specified criteria with respect to poverty, unemployment, and general economic distress. HUD's Office of Community Renewal administered the Empowerment Zone program with the implementing guidance from 24 CFR Part 598. The 15 Round II Empowerment Zones each received grants totaling more than $25.6 million. All Empowerment Zone grants expired on July 2, 2010.

Our objective was to determine whether HUD had adequate procedures to measure Brownfield and Round II Empowerment Zone effectiveness.

RESULTS OF AUDIT

Finding 1: HUD Did Not Implement Procedures To Ensure Brownfield Economic Development Initiative Effectiveness

HUD did not implement procedures to ensure the effectiveness of its Brownfield Economic Development Initiative. It did not fully implement plans to improve monitoring, and did not identify and terminate in a timely manner projects that grantees did not start. These conditions occurred because of confusion within HUD over monitoring requirements and responsibilities, and because HUD was reluctant to terminate projects and deobligate funds before grants expired. As a result, the Brownfield program was not always effective. In addition, HUD unnecessarily delayed returning at least $22.4 million in unneeded Brownfield funds to the U.S. Treasury and needs to return an additional $5.16 million for projects that grantees did not start.

HUD Did Not Fully Implement Plans for Improving Monitoring

HUD developed a performance reporting and monitoring tool that it did not use, and its monitoring was inconsistent. Therefore, HUD's action did not increase the project completion rate, and about one third of the Brownfield projects never started.[1]

A Required Performance Reporting and Monitoring Tool Was Not Used

HUD was concerned about the number of Brownfield projects that grantees did not start, and during 2004 added the requirement for a logic model report to help determine whether the projects were progressing as planned.[2] HUD staff stated that about one-third of the projects never started, in part, due to provisions included in the 1989 HUD Reform Act that limited communication with grant applicants before award. Because of this limitation, staff was unable to clear up problems or questions related to the applications until after grant award. HUD had made earlier changes to application scoring to reward applicants with proven capabilities and ready-to-go projects. It awarded more points for experience and achieving results and for concurrent Brownfield and Section 108 applications. However, the fact that HUD could not communicate with the applicants before award, made it imperative that HUD closely monitor grantee progress.

[1] For grants awarded from 2004, when the logic model was first required, through 2006, about 31 percent of the projects never started.

[2] Notice of Funding Availability; Federal Register Volume 69, Number 94; May 14, 2004; section VI, paragraph C, page 27346

The notices of funding availability application process required grantees to provide specific schedules for carrying out the project and identifying measurable benchmarks, such as acquisition, demolition, site improvements, relocation, and construction. The logic model was a reporting and monitoring tool that HUD developed to assess grantee performance according to the schedules and identify impediments to progress. HUD required that grantees annually prepare and submit the more detailed logic model reports along with the standard consolidated annual performance and evaluation report.[3]

Due to confusion within HUD over the Brownfield program requirements, HUD did not enforce the logic model requirement with the grantees, and headquarters staff did not forward the reports they received to field offices to aid in the identification of grantees for monitoring. Headquarters staff members said that they were unaware of the logic model reporting requirements or that the grantees were required to submit the reports to the headquarters Financial Management Division office. Staff did not track when logic models were due, from whom they were due, or whether they were submitted as required. Since the logic model reports were not available to them, some field office staffs used the less detailed consolidated annual performance and evaluation report as their Brownfield monitoring tool. Some field office staff members also mistakenly thought that Brownfield was a headquarters program that headquarters staff was monitoring. Since they generally did not use the logic model reports, field office staffs did not use the most complete information when selecting grantees for monitoring.

HUD’s Monitoring Was Inconsistent

The regulations required HUD to determine, at least annually, whether grantees carried out and had the continuing capacity to carry out their activities in a timely manner.[4] Instead, HUD used risk-based assessments outlined in Handbook 1840.1 to identify grantees for monitoring. Under this method, HUD often failed to select Brownfield grants for monitoring due to their relatively low dollar amount. We contacted 28[5] grantees and found that HUD had not monitored 7 grants; however, 6 of the 21 grantees with projects that never started said that HUD had actively monitored their progress and offered assistance. The other 15 grantees either did not respond or were not sure whether HUD had monitored their grants.

Despite HUD’s efforts to improve grantee performance by requiring logic model reporting to better measure grantee progress, it did not properly implement the reporting system, and the rate of projects that never started remained at about one-third.

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[3] Notices of funding availability for 2004 (section VI, paragraph C, page 27346), 2005 (section VI, paragraph C, page 13965), 2006 (section VI, paragraph C, page 11884), 2007 (section VI, paragraph C, page 54337), 2008 and 2009 (section VI, paragraph C, page 54), and 2010 (section VI, paragraph C, page 33)

[4] 24 CFR 570.900(a)(1)

[5] We contacted the 21 grantees with projects that did not start by email or telephone, plus in earlier work, we performed onsite visits with another 7 grantees with active grants.

HUD Did Not Identify and Terminate in a Timely Manner Projects That Grantees Never Started

HUD did not act in a timely manner on the warning signs that projects were not progressing or on grantee requests to terminate projects. This condition caused HUD to delay identifying projects in trouble. It also delayed de-obligating and returning to the Treasury about $22.4 million in Brownfield grants for 20 of the 21 grants that did not start. HUD should also verify that the three grants identified in the subsection titled Some Active Projects Were Not Progressing are not going to start and return another $4.29 million in Brownfield funding to the Treasury.

HUD Did Not Act on Missed Performance Milestones

Our review of the 21 grants that did not start from the 73 grants awarded from 2002 through 2006 showed that HUD had not acted on missed performance milestones indicating that the projects were in trouble. The notices of funding availability required grantees to meet application and approval deadlines for Section 108 loan guarantees as well as their performance milestones for project financial and construction activities. The notices warned that HUD could deobligate funding if grantees did not submit the Section 108 loan guarantee application within specified timeframes or did not meet performance milestones.[6]

Thirteen of the twenty-one grantees did not meet the Section 108 loan guarantee requirement, thereby ensuring that their projects would not start. One grantee told us that it did not apply for the Section 108 loan because HUD could deduct defaulted loan amounts from future CDBG funding.

HUD did not act on grantees that missed financial and construction performance milestones. Since law established the grant expiration dates, HUD could have used the performance milestones to determine whether the grantees had time to complete their projects. HUD waited until the grant's expiration date to deobligate funds for 20 of the 21 grants, an average delay of 33 months from the last date that the project could have started in order to be completed before the grant expired. We also noted that HUD only partially deobligated the Brownfield funds for a Sacramento, CA, grant, leaving $872,630 of the $2 million grant needing to be deobligated.

[6] Notices of funding availability for 2002 (section IV, paragraph (A), page 14142), 2003 (section IV, paragraph (F), page 21429), 2004 (section VI, paragraph B.1.b, page 27346), 2005 (section VI, paragraph B.1.b, page 13964), 2006 (section VI, paragraph B.1.b, page 11883), 2007 (section VI, paragraph B.1.b, page 54337), 2008 and 2009 (section VI, paragraph B.1.b, page 52), and 2010 (section VI, paragraph B.1.b, page 32)

HUD Did Not Respond to Grantee Terminations in a Timely Manner

HUD did not always act in a timely manner on grantee requests that HUD terminate their grants. The regulations allowed grantees to terminate for convenience upon written notification to HUD setting forth the reasons and effective date for the termination.[7] Because the grantees did not start the project and expend funds, there was no need to perform closeout procedures. Therefore, HUD should deobligate the unneeded funds shortly after termination. Of the three grantees that notified HUD of project terminations, HUD deobligated the $225,000 in Brownfield funding for one on the day of the notification but waited about 4 years to deobligate funds for the other two. Whittier, CA, requested grant termination on December 16, 2005, but HUD did not deobligate its funds until September 30, 2009, and Cocoa, FL, requested grant termination on May 31, 2007, but HUD did not deobligate its funds until September 30, 2011.

HUD did not terminate projects that did not start because it did not see a benefit to de-obligating funds before grant expiration. Staff members told us that since they could not reaward the funds, they did not cancel a Brownfield grant due to lack of progress. Starting with the 2004 awards, the notices of funding availability required HUD to deobligate and return unneeded funding to the Treasury.[8] Instead, HUD kept 20 of the 21 grants active when there was no longer a need for $22.4 million in Brownfield funds.

Some Active Projects Were Not Progressing

We reviewed 13 of the 24 active grants awarded between 2007 through 2011 with no grant expenditure activity. Through contacting the grantees and researching documentation, we identified one project that the grantee wanted to terminate and two that showed a lack of planned progress or missed milestones, indicating that the grantees could not complete them as approved.

- Bremerton, WA’s Boardwalk and Evergreen Expansion Project for which HUD awarded a $1.75 million Brownfield grant and made available up to $2.8 million in Section 108 loan guarantees was not going to proceed. The city had planned to remediate a contaminated site and develop it into a waterfront park. The project manager said that the city did not move forward and was canceling this project.

- Burlington, VT’s mayor canceled the HUD-approved Moran Center Project, and in our opinion, the city does not have time to complete an alternative project. The project, funded with $1.04 million in Brownfield funds and up to $2.08 million in Section 108 loan guarantees, was to have converted a coal-fired generating plant into a children’s museum, sailing center, and ice

[7] 24 CFR 85.44(b)

[8] Notices of funding availability for 2004 (section VI, paragraph B.1.c, page 27346), 2005 (section VI, paragraph B.1.c, page 13964), 2006 (section VI, paragraph B.1.c, page 11883), 2007 (section VI, paragraph B.1.c, page 54337), 2008 and 2009 (section VI, paragraph B.1.c, pages 52 and 53), and 2010 (section VI, paragraph B.1.c, page 33)

climbing adventure. The mayor canceled the planned project in July 2012 because he wanted alternative development proposals in which the city would not serve as the developer and private investment would be more involved. The city received more than 40 proposals in April 2013 and was identifying the finalists. It planned to place the finalists on the annual Town Hall Meeting Day ballot for citizen voting in March 2014. HUD approved the city to use the Brownfield funds and the Section 108 loan guarantees for architect and engineering services and construction. The city estimated that these activities would take 27 months, or until June 2016, if it started immediately after the election. However, we do not believe that the city would have time to obtain HUD's approval and construct whatever project the citizens select in March 2014 before the September 30, 2014, statutory Brownfield grant expiration deadline.

- Santa Rosa, CA's Cannery Project had not progressed. The city planned to fund the commercial component of this project with a $1.5 million Brownfield grant and up to $5.6 million in Section 108 loan guarantees. Although HUD extended the Section 108 loan application deadline until September 2013 to give the city more time to submit its Section 108 application, the planned health club that was to provide the 232 jobs to achieve the national objective withdrew from the project and the city did not have a replacement business. The mayor opposed and the city council voted to cancel the residential component, which was to have built low-income senior housing on top of the health club building. Further, the developer was in a legal dispute with the State of California because the State had reclaimed more than $4 million in redevelopment funds that the city needed for the residential component.

Conclusion

HUD did not fully implement performance reporting and progress monitoring procedures because its staff was uncertain about the requirements. It did not ensure that grantees submitted the required logic model reports or that field office staffs used the reports to assess progress and identify grantees for monitoring or technical assistance. In addition, it did not terminate in a timely manner Brownfield projects that did not start because it did not see a benefit to de-obligating funds before the statutory expiration. Grantees missed required milestones to apply for and obtain Section 108 loan guarantees and start planned performance activities, but HUD left the projects active until the grants expired. By not fully using the logic model reports and acting on warning signs that projects were not progressing, HUD lost an opportunity to better ensure that the 21 grantees created or retained 6,577 planned jobs and helped to redevelop contaminated sites across the country. HUD should strengthen its Brownfield monitoring so that it can better identify projects that are not progressing and target technical assistance when needed. HUD should confirm that Bremerton wants to cancel its project and that the other cities cannot complete their planned projects before their statutory deadlines. It should then deobligate and return to the Treasury $5.16 million in Brownfield funds.[9]

Recommendations

We recommend that the Deputy Assistant Secretary for Grant Programs

1A. Require grantees to comply with the logic model reporting requirements contained in the notices of funding availability or submit an alternative performance measuring report similar to the logic model report.

1B. Issue a directive to collect the annual logic model reports or the alternative performance measuring report, and forward them to the responsible HUD field office for review and inclusion in the field offices' annual grantee risk analyses.

1C. Issue a directive to deobligate and return funds to the Treasury in a timely manner when projects do not start or it becomes obvious that projects will not start due to missed milestones or grantee termination requests.

1D. Deobligate the remaining $872,630 in Brownfield funds for the Sacramento grant.

1E. Confirm that the grantees for the three active grants in the report are not going to start their projects, then deobligate and return to the Treasury the $4.29 million in Brownfield funds.

[9] The $5.16 million is for the Bremerton, Burlington, and Santa Rosa grants ($1,750,000 + $1,040,000 + $1,500,000) totaling $4.29 million plus the $872,630 that was not fully deobligated when the Sacramento grant expired.

Finding 2: The Round II Empowerment Zone Performance Measurement System Was Not Reliable

HUD's Round II Empowerment Zone Performance Measurement System (PERMS) contained unsupported and inaccurate program results. Grantees generally could not support economic development results and some expense eligibility, and one inaccurately reported a program achievement. These deficiencies occurred due to misreporting by grantees and went undetected partly because it was impractical for HUD to verify all of the data grantees entered into the system and partly due to a deficiency in HUD's risk-based selection process for grantee monitoring. As a result, for the three grantees we reviewed, HUD could not rely on PERMS information for determining the effectiveness of the program, and grantees could not support at least $2.2 million in expenses.

Reported Results Were Not Accurate

We reviewed the reliability of data submitted to HUD for 3 of the 15 Empowerment Zone grantees and found that none could support economic development results or expense eligibility and one inaccurately reported a program achievement.

HUD required each Empowerment Zone grantee to develop a strategic plan describing overall goals along with supporting implementation plans with more specific goals, sources and uses of funding, milestones toward goal achievement, and economic development results.[10] The regulations required that these implementation plans meet an economic development standard, such as employment training and assistance or business development assistance.[11] HUD also required grantees to submit an annual performance report so that it could determine grantees' continuing eligibility for the Empowerment Zone program. HUD's Office of Community Renewal developed PERMS, an Internet-based performance measurement system, for grantees to self-report results that HUD could use in evaluating program performance.[12] As support for their PERMS reporting, HUD required that grantees have records identifying the use of funds, procedures for preparing necessary reports, and accounting records supported by source documentation.[13]

[10] 24 CFR 598.615(a)
[11] 24 CFR 598.615(a)
[12] HUD's "Introduction to the RC/EZ Initiative," page 3
[13] 24 CFR 85.20a(1), b(2), and b(6)

Grantees Could Not Support Economic Development Results

We compared the number of jobs created or retained, the persons trained, and the businesses assisted according to grantee reporting in PERMS to the grantee's supporting records. We looked at three implementation plans for Knoxville, TN, two for Columbia-Sumter County, SC, and five for Miami-Dade County, FL. The grantees generally lacked adequate support for what they had reported to HUD through PERMS. They provided spreadsheets that lacked supporting source documents, comingled payroll records, and issued a closeout report that contradicted reported results. Appendix C shows the results for all of the implementation plans reviewed.

Some Grantees Could Not Support Expense Eligibility

Two grantees could not provide support showing that some of their expenses were eligible. Miami-Dade could not show how it spent about $1.9 million, and Columbia-Sumter County lacked support for about $371,000. Regulations required grantees to maintain records adequately identifying the use of funds.[14]

Miami-Dade had a $1.3 million implementation plan for providing training and employment opportunities that would result in placing Empowerment Zone residents into jobs. The description in the application and the approving board resolution stated that the funds were for job training and placement, but the project budget and the closeout report showed that Miami-Dade used the funds for land acquisition and building renovation. Miami-Dade could not explain how it used the $1.3 million or an additional $580,622 that it spent under an implementation plan for assisting businesses by providing access to capital.

Columbia-Sumter County could not support $371,216 in expenditures for an implementation plan for workforce development. Although HUD had monitored Columbia-Sumter County and approved the draw requests, the grantee was unable to provide support for the expenditures. Some of the required supporting documentation was commingled with other implementation plans, and Columbia-Sumter County had purged some of the required documents.

One Grantee Misreported a Project

Miami-Dade inaccurately reported in PERMS that it had completed the $3 million Carrie Meek Poinciana Industrial Center under an implementation plan for assisting businesses. However, a representative of Miami-Dade told us that a subrecipient had misreported this and some other information and that Miami-Dade was in the process of making corrections. Following our inquiry, Miami-Dade corrected the report to show that the Industrial Center was not complete and that it had deobligated the $3 million in Section 108 loan funding. Of the five implementation plans reviewed for Miami-Dade, most of the deficiencies were with the three administered by its subrecipient. It appeared that Miami-Dade had

[14] 24 CFR 85.20(b)(2)

improved program administration after terminating its agreement with the subrecipient in 2007.

Monitoring Was Sometimes Inadequate

HUD's monitoring of the individual grantees varied. The Empowerment Zone regulations did not specify the frequency of comprehensive monitoring. The regulations stated that HUD would review the performance of an Empowerment Zone grantee through its regular evaluation process, through onsite monitoring as warranted by program needs, and by other appropriate means.[15] Thus, HUD field offices used risk-based guidance in HUD's monitoring handbook and instructions in annual notices for selecting grantees for monitoring.

Between 2002 and 2008, HUD monitored Knoxville and Miami-Dade once but monitored Columbia-Sumter County five times. Even when it selected a grantee for monitoring through the risk-based process, HUD's limited resources made it impractical to review the many implementation plans employed by some grantees.

Except for one in Knoxville, the implementation plans selected for review had not been subject to HUD monitoring reviews. The HUD monitor for Knoxville had missed the grantee's lack of support for its jobs information. However, based on our review of nine HUD monitoring reports, we determined that HUD generally verified economic development results and expense eligibility. Since the deficiencies found generally occurred in implementation plans that HUD had not monitored, we concluded that there was not a systemic problem with HUD's monitoring procedures. However, we also concluded that the risk-based monitoring selection process employed by the field offices contributed to the deterioration of at least one grantee's program without HUD's knowledge.

Procedures for Identifying High-Risk Grantees Were Inadequate

HUD's procedures for identifying high-risk Empowerment Zone grantees for monitoring were not adequate to allow staff a reasonable opportunity to detect misstatements in performance information or violations of laws and regulations on a timely basis. This condition occurred because HUD failed to consider the significant added risk posed to program performance and compliance when a grantee used a subrecipient to carry out its program.

From 1999 through 2007, Miami-Dade contracted with a nonprofit subrecipient, the Miami-Dade Empowerment Trust, to administer its grant. During that 8-year period, HUD selected the grantee for monitoring only once. That deficiency occurred because HUD's annual risk assessment focused only on the grantee; it ignored the subrecipient.

[15] 24 CFR 598.620(a)

HUD monitored Miami-Dade during 2002 and found problems with management controls, unsupported expenses, ineligible expenses, and procurement procedures. The Empowerment Trust provided written assurance to HUD that it had corrected the problems, and HUD did not perform a follow-up review.

Beginning in June 2007, a Miami newspaper published a series of articles that were extremely critical of Miami-Dade's and the Empowerment Trust's program administration and HUD's oversight. Miami-Dade then released an audit report in September 2007, covering October 2002 through June 2007, that repeated the same problems found by HUD's 2002 monitoring plus many more. Serious deficiencies included a failure to obtain required audits, a lack of many needed internal controls, a lack of support for disbursements, and others.

During 2009, HUD followed up Miami-Dade's audit with two additional monitoring reviews, the first since 2002. Those reviews identified unsupported expenses of $3.7 million and many other previously unidentified deficiencies and resulted in HUD's suspending Miami-Dade's Empowerment Zone designation.

<u>HUD Made Significant Improvements to Its Risk-Based Selection Process</u>

In October 2007, HUD significantly changed the risk assessment procedures related to the Empowerment Zone program. A new Office of Community Planning and Development (CPD) notice, CPD-07-07, contained procedures designed to increase the chance that HUD would select Empowerment Zone grantees for monitoring. The notice incorporated many of the changes recommended by HUD's Office of Community Renewal. These changes specifically addressed subrecipient involvement in Empowerment Zone grants and many of the problems found with the Miami-Dade Empowerment Zone. They appear to have been effective, because HUD identified Miami-Dade as high risk for both 2008 and 2009.

Conclusion

HUD could not rely on PERMS data submitted by the three grantees we reviewed for evaluating the program and reporting to Congress, because the information was often unsupported and inaccurate. Grantees generally could not support their reported jobs, job training, and businesses assisted with required source documents. In addition, grantees could not support more than $2.2 million in expenses including a $1.3 million misreported achievement.

Our review of past monitoring reports showed that HUD generally verified performance and expense information when it monitored grantees, but it was not practical to monitor all of the implementation plans employed by grantees. In addition, HUD had corrected a weakness in the risk-based process it used for selecting grantees for monitoring. Because of this condition, we concluded that these results did not indicate a systemic weakness in HUD's monitoring procedures.

Recommendations

We recommend that the Deputy Assistant Secretary for Economic Development require the Office of Community Renewal to

2A. Require Knoxville, Columbia-Sumter County, and Miami-Dade to provide support for their unsupported PERMS information.

2B. Require Columbia-Sumter County and Miami-Dade to support the eligibility of $2,251,838 in expenses or repay the Treasury using non-Federal funds.

SCOPE AND METHODOLOGY

To accomplish our objective, we reviewed

- The Government Performance and Results Act of 1997
- Prior Office of Inspector General (OIG) audit reports
- HUD Handbooks 1830.2 and 1840.1
- Community Planning and Development Monitoring Handbook 6509.2, REV-6
- Brownfield grants-Section 108 loan guarantees
    - 24 CFR Parts 85 and 570
    - Brownfield studies
    - The notices of funding availability and related HUD documents
    - Applications and grant agreements
- Round II Empowerment Zones
    - 24 CFR Part 598
    - Strategic plans and implementation

We interviewed HUD staff within the offices of the Deputy Assistant Secretaries for Economic Development and Grants Programs at headquarters and in field offices.

For the survey, we performed site visits to five HUD field offices in Columbia, SC; Greensboro, NC; Jacksonville, FL; Knoxville, TN; and Miami, FL. We also performed site visits and tested the accuracy of grantee-reported performance results for three Round II Empowerment Zone grants (Columbia-Sumter County, SC; Knoxville, TN; and Miami-Dade, FL) and seven Brownfield grants (Concord, NC; Fort Pierce, FL; Memphis, TN (2); Palm Beach County, FL (2); and Rocky Mount, NC).

We selected the 3 out of the 15 nationwide Round II Empowerment Zone grants based solely on their location within HUD's Region IV; therefore, we did not project our results to the other 12 in the universe. We selected the Brownfield grants based on an attribute sample with a 90 percent confidence level, a 50 percent anticipated error rate, a 20 percent desired range, and a universe of 190 grants awarded from 1998 through 2009. This process gave us a sample size of 52. We selected the seven grants located within Region IV, in order, from the attribute sample, substituting any grants that did not start or were completed with the next grant, in order.

We reviewed the 21 grants in which the grantees did not start the planned projects from the universe of 73 Brownfield grants awarded from 2002 through 2006.

We reviewed the 17 grants in which grantees had not or only partially used their HUD funding from the universe of 24 Brownfield grants awarded from 2007 through 2011.

We tested the reliability of Round II Empowerment Zone grantee-reported performance in PERMS and Brownfield grantee-reported performance in the consolidated annual performance and evaluation reports. We compared grantee reported accomplishments to their supporting source documents. We found that the jobs and expenses reported in PERMS were not reliable, but the data in the consolidated annual performance and evaluation reports was generally reliable. We therefore developed Finding 2 on PERMS not being reliable for determining the effectiveness of the Empowerment Zone program.

We calculated $5.16 million in funds put to better use under the Inspector General Act of 1978, as amended, for the de-obligation of funds from programs. Confirming that Bremerton, WA, wants to cancel its project and that Burlington, VT, and Santa Rosa, CA, cannot complete their planned projects before their statutory deadlines should allow HUD to deobligate $4.29 million in Brownfield funds ($1,750,000 + $1,040,000 + $1,500,000) that will no longer be needed, plus $872,630 remaining to be deobligated for an expired Sacramento grant.

We performed our onsite audit work at HUD headquarters, field offices, and grantee locations from June through December 2012. From December 2012 through March 2013, we performed work via correspondence with the 21 grantees that did not start or complete the planned projects and the 17 grantees that had not or only partially used their HUD funding. For the 17 grantees, we also contacted the servicing HUD field offices.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

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

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Effectiveness of operations
- Controls over program operations
- Controls over compliance with laws and regulations

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following is a significant deficiency:

- HUD did not implement procedures to ensure Brownfield Economic Development Initiative effectiveness.

APPENDIXES

Appendix A

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

Recommendation number	Unsupported 1/	Funds to be put to better use 2/
1D		$872,630
1E		$4,290,000
2B	$2,251,838	

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the 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.

2/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

JUL 19 2013

MEMORANDUM FOR: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

FROM: Yolanda Chávez, Deputy Assistant Secretary for Grant Programs, DG

SUBJECT: Discussion Draft Report – Economic Development Programs Lacked Adequate Controls to Ensure Program Effectiveness

Comment 1

The following comments are offered pursuant to the exit conference and subsequent meeting with your staff. For context, it should be noted that the responsibilities for administering the BEDI program were bifurcated between the Office of Economic Development and the Office of Block Grant Assistance until just recently. The Office of Economic Development administered the competition for BEDI funding and the Office of Block Grant assistance assumed responsibility for the approved projects when the related Section 108 applications were approved. With the changes fully implemented in 2012, the Office of Block Grant Assistance assumed full responsibility.

Finding 1: HUD Did Not Implement Procedures to Ensure Brownfields Economic Development Initiative Effectiveness

Comment 2

1. Page 4 and Page 6: The amounts ($53 and $156 million) listed in the first paragraph of page 4 are incorrect. The actual budget authority obligated for Section 108 commitments amounts to a small percentage of the Section 108 loan guarantee (2.3% on average). According to footnote 6 on page 6, $30.4 million was obligated for 8 of the 21 projects characterized as "failed." The actual budget authority for those commitments totals approximately $700,000, which is the amount that potentially could be deobligated.

   The first paragraph on page 4 also specifies "...an additional $156 million ...." This amount apparently refers to projects that are described later in the draft report, but the amount should be $15.6 million.

Comment 3

2. Page 4: Beginning on page 4, the draft report repeatedly refers to 21 failed projects from a sample of grants awarded during the period from 2002 to 2006. However, the logic model was not required until 2004. Based on our review of BEDI awards covered by the audit, 11 of the failed projects were awarded during 2002 – 2003.[1] The impression is erroneously conveyed that all of the projects would have been affected by the logic model reporting requirement.

[1] We were not provided a listing of these projects, but were able to analyze award data for the 2002-2006 period and identify the awards for which disbursements were not made.

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Comment 4

3. Page 5: The report implies that the availability of a logic model report would have affected the results of the risk analysis used in selecting grantees for monitoring. However, there is nothing in the report to support a conclusion that the failure to submit a required report in connection with a grant would have materially influenced the final ranking for purposes of selecting a grantee to be monitored. There is certainly no support for the implied linkage between the failure to submit a logic model report and the fact that 21 projects did not proceed (particularly, when more than half of them were not subject to the logic model reporting requirement). Our experience with projects that involve the development of environmentally contaminated sites is that they are inherently risky.

Comment 5

4. Page 6: The statement that one grantee completed an unapproved project is incorrect. The statement refers to a project in Stockton, California that has been the subject an extensive and in-depth review by HUD. Based on that review, the grantee only incurred costs on activities that had been approved by HUD, either in the original award or through amendment. The final project, as amended, was approved by HUD.

Comment 6

5. Page 7: The section of the report stating that HUD did not respond to grantee terminations in a timely manner contains a citation to a regulatory provision of the "Common Rule" (24 CFR 85.50(a) and (b)) that is not applicable to BEDI grants. BEDI grants are governed by the CDBG closeout requirements at 24 CFR 570.509.

   This section further states that starting with the 2004 awards, the notices of funding availability required HUD to deobligate and return unneeded funding to the Treasury. We believe this statement is based on language in the amendment provision of the notices providing that HUD will be unable to approve any amendment which materially changes the scope, purpose, or need for the original award and, in such case, unused BEDI funds must be deobligated and returned to the Treasury. This notice provision formally incorporates a GAO requirement that has always been observed in reviewing BEDI amendment requests. However, this provision does not delineate a timeline for deobligating funds. Thus, HUD may retain flexibility to allow a grantee time to submit an amendment containing a replacement project (so long as such amendment does not materially change the scope, purpose, or need for the original award).

Comment 7

6. Page 8 - With respect to the 3 BEDI grants listed:

   Bremerton, WA – HUD has received a letter for the City agreeing to the deobligation of its BEDI grant. The $1.75 million has been marked for deobligation by 9/30/2013.

   Burlington, VT – commercial redevelopment of Moran Center. The City's plan for amending its original BEDI award will be completed in March 2014. Subject to HUD approval of an amended BEDI, the City could meet the September 30, 2014 expenditure deadline depending on its proposed use of grants funds.

Santa Rosa, CA – based on a recent conversation with HUD HQ staff, the HUD Field Office in San Francisco, and the city project development staff, the City is interested in collaborating with developer and board members of Rail Road District to go forward with an alternative, re-designed development for this contaminated site. The City will request more time to support the planning of such a re-designed economic development project.

Comment 8

7. Page 9, Recommendations:
CPD reserves the option to deal with the recommendations based on the final report. However, we do have the following comments:

1A. We do not believe it is necessary or realistic to request Congress to amend the HUD Reform Act, or that such request would be considered favorably, given that HUD is not requesting additional BEDI funding. We are also in no position to evaluate the impact of such a change on all HUD programs to which the Reform Act applies.

1B. CPD believes that some of the information reported in the Logic Model is duplicative of the information reported in a grantee's CAPER. CPD reserves the right to propose modifications to the existing requirement to make the reporting more useful.

1C. The recommendation is to collect logic model reports and forward them to field offices. You should note that the BEDI notices of funding availability already require the logic model reports to be submitted with the CAPER, which is submitted to the responsible HUD field office (and is therefore available for the field office to consider in risk assessments). However, we are aware of some procedural impediments to such submission and will work with the Department's Office of Grants Management to facilitate grantees' access to the logic model for submission with their CAPERS. Finally, as we indicated with respect to recommendation 1B, CPD also reserves the right to propose modifications to the requirement for submission of the logic model reports if a more useful reporting tool can be developed.

1D. HUD reviews the status of BEDI grants on at least an annual basis to determine if any should be deobligated. However, we believe it is necessary to evaluate the circumstances of each project to determine whether the grant should be deobligated. In that regard, it is necessary to determine if the requirements on termination for cause (at 24 CFR 570.509(f)) would apply, particularly where the action would be taken under the authority of Subpart O.

1E. The Sacramento BEDI grant has already been marked for deobligation by 9/30/2013.

1F. Note that no commitments were ever awarded for the projects referenced; thus, there is nothing to decommit.

Comment 9

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

TO: Nikita N. Irons, Regional Inspector General for Audit, Atlanta Region, 4AGA

FROM: Valerie Piper, Deputy Assistant Secretary for Economic Development, DE

SUBJECT: Office of Community Renewal's Response to the OIG's Report on Review of Controls over Round II Empowerment Zone (EZ) programs

The draft report by the Office of the Inspector General (OIG) summarizes the analysis for three Round II EZs in the section entitled Finding *2: The Round II Empowerment Zone Performance Measurement System Was Not Reliable* starting on page 11. In this section, the OIG outlines two major deficiencies with three reviewed EZ Round II grantees, 1) risk-based selection process for grantee monitoring and 2) unsupported and inaccurate reporting in PERMs.

The Office of Community Renewal (OCR) concurs with the risk based monitoring selection deficiency identified by the OIG, having expressed similar concerns in the past. However, OCR disagrees with the concluding statement on reporting in PERMS, "*HUD could not rely on PERMS data for evaluating the program and reporting to Congress because the information reported by grantees was often unsupported and inaccurate*". It is OCR's assertion that this statement is too broad to summarize the quality of reporting across 15 Round II EZs and several hundred Implementation Plans (IPs) when only 10 IPs from 3 Round II EZs were reviewed. HUD has effectively and accurately reported to Congress and others on the impacts of the EZ program using performance and Tax Incentive Utilization Plan (TIUP) data from PERMS, so it is inaccurate to state that the data in whole is unsupported and inaccurate.

OCR understands the concern with unsupported data identified through analysis of the 10 selected IPs and is prepared to move forward with carrying out Recommendations 2A and 2B as outlined on page 15 of the OIG report. With respect to Recommendation 2A, OCR is already in the process of working with the Columbia-Sumter County EZ and Knoxville EZ to reconcile the unsupported PERMS data, so as to ensure that the accomplishments entered into the reporting system are accurately substantiated by source documentation.

As for Recommendation 2B, OCR is in the process of informing the Columbia-Sumter County EZ that data is inaccurately reported for a specific Implementation Plan (IP) reviewed and that proper source documentation must be provided to demonstrate job creation. No indication of potential repayment has been discussed since the OIG report has not been publicized. Please note that the Columbia-Sumter County EZ grant has not been closed out, so resolution of these recommendations is running parallel to the active closeout efforts.

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At this time, OCR has elected to delay contacting the Miami-Dade EZ about the pending IG recommendations, since the CPD Miami Field office and OCR have recently approved a final letter that was sent to the grantee on a longstanding monitoring review of the Miami-Dade EZ. Once the OIG report is publically released, OCR intends to request support documentation from the grantee to substantiate the inaccurate reporting identified by the IG in PERMS. It is important to note that the Miami-Dade EZ has also not been closed out, so these pending deficiencies will need to be factored into the current work being conducted on this grant, with involvement by the field office staff as necessary.

In conclusion, we appreciate OIG's analysis and efforts to improve the efficiency and effectiveness of HUD's programs. If you have any questions about our response please contact OCR Director Pamela Glekas Spring at 202-402-4449 or at email Pamela.Glekas@hud.gov.

OIG Evaluation of Auditee Comments

Comment 1 We clarified the responsibilities of the Offices of Economic Development and the Office of Block Grant Assistance in the Background section of this report.

Comment 2 We changed the wording to show that instead of $53 million, HUD delayed returning the $22.4 million in Brownfield funding to the Treasury. Following discussion with HUD staff, we deleted the $30.4 million for Section 108 loan guarantees because the budget authority required for the loan guarantees was only $184,575.

Comment 3 We revised the report to more clearly show that the 2002 and 2003 notices of funding availability required grantees to provide time schedules and measureable benchmarks for HUD to use in monitoring progress, but that it wasn't until the 2004 notice of funding availability that grantees were required to use and submit the logic model report.

Comment 4 We agree that only one logic model report might not influence a field office to monitor a grant. However, HUD developed a report to measure grantee progress but then did not fully use it. Logic model reports, and the performance schedules required since 2002, provided a means to show where a project stood compared to planned performance, but more importantly it could identify projects needing HUD's technical assistance. To clarify the effect of the logic model reporting, we showed its effect on the rate of projects that did not start instead of on the Brownfield program as a whole.

We agree that developing environmentally contaminated sites is risky and believe that is why it is critical to use performance measuring tools to identify projects that are not progressing so that HUD can assist the grantees or recapture the funds.

Comment 5 We removed the paragraph on the Stockton project after discussing the project activities with HUD staff and reviewing legal opinions from the Office of General Counsel.

Comment 6 We deleted references to closeout procedures and the footnote reference to 24 CFR 85.50(a) & (b). We determined these were not applicable due to the grantees not starting the projects nor expending funds.

However, we do not agree that HUD should have delayed de-obligating funds in the cases we cited. The notices of funding availability state that HUD may approve scope changes under certain circumstances up to the point when the appropriated funds are no longer available for obligation. After that, HUD cannot approve changes to the scope or need for the original award, but must deobligate and return to the Treasury the unused Brownfield funds. When a grantee does not start an approved project, it changes the scope and the need for the original award.

HUD must therefore deobligate and return the funds. Delaying the return of the Brownfield funds was not supportable when there was no longer a bona fide need.

Comment 7 We appreciate HUD initiating action on the three Brownfield projects that have yet to start. HUD should continue working with these grantees and monitoring their progress to help them complete their projects, or terminate the grants if they cannot meet performance time frames.

Comment 8 Finding 1 Recommendations:

1A. Based on the written comments and our discussion during the exit conference, we deleted this recommendation.

1B. We modified the recommendation to allow HUD the option to require an alternative performance measurement report that provides information similar to the logic model report for measuring project progress.

1C. We agree with HUD's comments. We modified this recommendation in the same manner as 1B.

1D. We agree that the recommended directive should require terminating a project based on a grantee's circumstances.

1E. We support HUD's planned action to deobligate the remaining $872,630 for the Sacramento Brownfield grant as we recommended.

1F. We agree with HUD's comment stating that there is nothing to decommit since the $10.48 million in Section 108 loans for the projects never occurred. We revised the recommendation to remove the reference to the loan guarantees.

Note: These recommendation numbers changed for the final report due to our removal of Recommendation 1A.

Comment 9 We agree with HUD's comment and changed the report wording to show that our concern with the reliability of PERMS pertained to the data from the three grantees we reviewed, not all PERMS data.

Appendix C

ROUND II EMPOWERMENT ZONE IMPLEMENTATION PLANS

Empowerment Zone	Implementation plan Empowerment Zone funding – total funding	PERMS results	Grantee records	Analyses
Knoxville	G3.C1.P1 $2,850,339 – $5,218,704	Employees trained: 8,976 Jobs: 4,286 Businesses assisted: 1	Employees trained: 9,010 Jobs: 3,152 Businesses assisted: 1	1. Spreadsheet of employees trained and jobs created was partially completed. 2. Grantee did not have supporting source documents.
	G3.C2.P10 $1,750,000 – $6,157,744	Jobs: 79	Jobs: 71	1. Spreadsheet of jobs created did not match PERMS. 2. Grantee did not have supporting source documents.
	G3.C2.P11 $2,395,854 – $15,271,160	Jobs: 723 Businesses assisted: 189	Jobs: 765 Businesses assisted: 149	1. Grantee did not have supporting source documents. 2. Grantee counted the number of buildings instead of businesses.
Columbia-Sumter County	G3.C1.P2 $371,216 – $371,216	Jobs: 405	Jobs: 0	1. Spreadsheet comingled payroll information for several implementation plans. 2. Grantee did not have supporting source documents.
	G3.C3.P20 $310,000 – $310,000	Jobs: 40 Businesses assisted: 1	Jobs: 0 Businesses assisted: 1	1. Spreadsheet did not show residents employed at least 90 days. 2. Grantee did not have supporting source documents.
Miami-Dade County	G3.C1.P4 $1,300,000 – $1,500,000	Jobs: 800	Jobs: 0	1. Payroll records for several implementation plans were comingled. 2. Closeout report showed 581 job placements but was unclear on whether funds were used for an approved project.
	G3.C2.P46 $376,000 – $4,567,150	Jobs: 10	Jobs: 0	Grantee did not have supporting source documents.
	G3.C2.P61 $327,778 – $327,778	Jobs: 9 Businesses assisted: 1	Jobs: 31 Businesses assisted: 1	Difference appeared to be 22 retained jobs not included in PERMS.
	G3.C2.P69 $273,685 – $273,685	Jobs: 8 Businesses assisted: 1	Jobs: 7 Businesses assisted: 1	Difference was not significant and grantee had supporting source documents.
	G3.C3.P44 $590,000 – $17,159,000	Jobs: 20	Jobs: 9	Grantee did not have supporting source documents.