



Issue Date	October 11, 2006
Audit Report Number	2007-KC-1001

TO: Dee Ann Ducote, Director, Community Planning and Development, 7ED

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The City of St. Louis, Missouri, Did Not Meet HUD's Requirements for Creating and Retaining Jobs

HIGHLIGHTS

What We Audited and Why

We audited the City of St. Louis (City) because it received approximately 30 percent of the Community Development Block Grant (Block Grant) funds allocated throughout the state of Missouri in 2003 and 2004 and because we had not audited the City's Block Grant program since 1999. Our audit objectives were to determine whether the City used its funds to create or retain the required number of jobs and properly allocated administrative costs to the Block Grant.

What We Found

The City provided loans to 52 of 66 economic development projects totaling nearly \$4.5 million that did not meet the U.S. Department of Housing and Urban Development's (HUD) requirements for creating and retaining jobs. These Block Grant funds were used to benefit businesses without demonstrating that they also benefited low- and moderate-income people.

The City did not require the St. Louis Development Corporation (development corporation) to properly report the number of jobs it created with the HUD funds it loaned to projects. The City placed more emphasis on attracting new businesses or retaining existing businesses than on demonstrating that it met HUD's national

objective of benefiting low- and moderate-income persons. Without obtaining documentary evidence, the City has no assurance that nearly \$5.1 million in Block Grant funds will meet HUD's national objective.

We did not find any material deficiencies in the City's allocation of administrative costs to the Block Grant program.

What We Recommend

We recommend that HUD require the City to provide sufficient documentation to show that the 52 projects created or retained at least the minimum number of jobs. In the absence of such documentation, we recommend that HUD require the City to:

- Repay \$1.7 million in forgivable loans provided to projects that did not properly create or retain jobs, and
- Create additional jobs above the normal public benefit standards with next year's funding to offset the \$2.8 million in repayable loans that did not properly create or retain jobs.

We recommend that HUD require the City to improve its control structure to ensure that the development corporation properly reports job creation data to ensure that nearly \$1.7 million in underway projects creates the appropriate number of jobs and to impose sanctions against its development corporation if poor performance continues.

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

The City generally agreed with our findings. We provided the draft report to the City on September 18, 2006, and requested a response by October 2, 2006. The City provided written comments on October 2, 2006.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report. The attachments have not been included since they are not required to understand the response. We provided a complete copy of the City's response to the Action Official addressed in this report.

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BACKGROUND AND OBJECTIVES

The purpose of the Community Development Block Grant (Block Grant) program is to provide assistance to grantees to ensure decent affordable housing, provide community services, create jobs, and expand business opportunities. Block Grant funds can only be used to meet one of HUD's national objectives, which are:

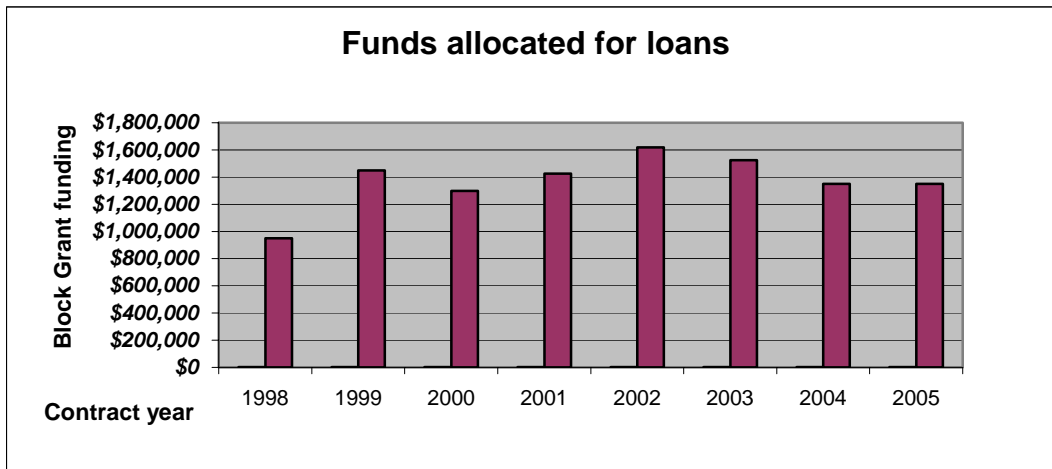
- Activities benefiting low- and moderate-income persons,
- Activities that aid in the prevention or elimination of slums or blight, and
- Activities designed to meet community development needs having a particular urgency.

The City is required to ensure, and maintain evidence, that each of its activities assisted with Block Grant funds meets one of these three national objectives.

The U.S. Department of Housing and Urban Development (HUD) has provided Block Grant funds to the City of St. Louis (City) since the inception of the program in 1974. At that time, the City created a division called the Community Development Agency (now called Community Development Administration). One of this division's responsibilities is to administer federal funds for community and economic development programs that strengthen the City and its neighborhoods. This division contracts with the St. Louis Development Corporation (development corporation) to carry out some of these programs under HUD's Block Grant program.

The development corporation's business development support division provides below market rate loans and grants to businesses located within the City. Certain loans and grants are forgiven based on the attainment of stipulated goals, while other loans are repaid. These Block Grant-funded loans and grants are given to help expand and retain businesses, create and retain jobs for the low and moderate income residents of the city of St. Louis, and expand the City's revenue base. As a condition of accepting these loans and grants, the assisted businesses must agree to submit quarterly job creation information. The City requires the development corporation to obtain sufficient information to show that jobs are created or retained.

From 1998 through 2005, the City provided the development corporation almost \$11 million to fund economic development projects.



We chose the City for audit because it received approximately 30 percent of the Block Grant funds allocated within the state of Missouri in 2003 and 2004. Also, we had not audited the City's Block Grant program since 1999.

Our audit objectives were to determine whether the City used its funds to create or retain the required number of jobs and properly allocated administrative costs to the Block Grant.

RESULTS OF AUDIT

Finding 1: The City Used Block Grant Funds on Projects that Did Not Create or Retain Jobs

The City provided Block Grant funded loans to 52 economic development projects totaling nearly \$4.5 million that did not meet HUD's requirements for creating and retaining jobs. The City did not have adequate controls to ensure that its projects met the requirements before marking the projects as complete and reporting the number of jobs to HUD. As a result, these loans were used to benefit businesses without demonstrating that they also provided the intended benefits to low- and moderate-income people.

Job Creation or Retention

Of 66 economic development projects, the City provided loans to nine projects that did not create any jobs for low- and moderate-income people and 43 projects that it cannot demonstrate created jobs. HUD requires that each economic development project create or retain at least one permanent full-time job for every \$50,000 in funding. HUD also requires that at least 51 percent of these jobs be held by or made available to low- and moderate-income persons. HUD's regulations specify how the City should document jobs created and retained and state that failure to maintain required records may result in a finding that the recipient has failed to meet the applicable requirement to which the record pertains.

The City provided loans to nine projects totaling \$972,637 that did not create any jobs for low- and moderate-income people. The City reported that six of these projects created zero jobs and the remaining three projects created a total 19 jobs. However, the documentation showed that the number of jobs decreased or remained the same. For example, the City reported that one project created eight jobs. The file showed that the recipient hired employees but that its overall number of employees had decreased from 13 at the beginning of the project to 12 at the end of the loan term.

The City provided loans to 43 projects totaling more than \$3.5 million that it cannot demonstrate created or retained jobs. Some projects provided information on the people they hired, and others only provided summary numbers without detail. The City did not obtain the HUD-required documentation to evaluate a net gain in jobs. New employees do not necessarily equate to a net gain in the number of full-time permanent employees because the project may have had turnover in existing jobs. Since the projects did not provide the required listing of jobs to be created, as well as the number of full-time equivalent employees before and after the loan, the City could not determine whether the projects created jobs.

Those projects expected to retain jobs did not meet HUD’s requirement to provide evidence that jobs would have been lost.

The City did not maintain sufficient records to demonstrate the number of jobs created by its projects (see table below).

<i>Description of deficiencies</i>	<i>Number of projects</i>	<i>Loan amount</i>	<i>Minimum # of jobs required</i>
<i>Provided information that shows jobs were not created</i>	9	\$972,637	22
<i>Unsupported - Provided information on persons hired, but no indication of low- and moderate-income status, or did not provide information to show jobs were new</i>	22	\$1,919,726	44
<i>Unsupported - Did not provide details on jobs filled and information to show jobs were new</i>	21	\$1,596,910	40
<i>Total unsupported</i>	<u>43</u>	<u>3,516,636</u>	<u>84</u>
<i>Total</i>	<u>52</u>	<u>\$4,489,273</u>	<u>106</u>

See appendix C for more details on each of the 52 projects represented in the table.

Inadequate Controls

The City did not have adequate controls to ensure that its projects met the requirements before marking the projects as complete and reporting the number of jobs to HUD. The City’s staff did not verify the accuracy of the summary level information it used to report job creation. In the Integrated Disbursement and Information System, projects are shown as underway until the City changes their status to complete to indicate they have met their job creation requirements and job creation will no longer be tracked. The City reported the number of jobs created and retained to HUD through this system based on a summary sheet listing the number of employees for each project with no supporting documentation showing who was hired and that the position was new.

The City’s contracts and agreements did not explicitly require the development corporation to submit job creation documentation according to requirements of 24 CFR [Code of Federal Regulations] 570.506. Instead, the City required the development corporation to maintain adequate documentation to verify the low- and moderate-income benefit and submit quarterly reports reflecting the status of all open projects and an annual report detailing the cumulative loans’ funds expended as well as the number of jobs created or retained. These report templates did not contain all of the HUD-required information.

Did Not Show Low- and Moderate-Income Benefit

As a result, these Block Grant funded loans were used to benefit businesses without demonstrating that they also provided the intended benefits to low- and moderate-income people. Of the three national objectives, the City chose the objective of benefiting low-and moderate-income people by creating jobs. HUD has no assurance that these projects generated the 106 jobs required.

Of the nearly \$4.5 million loaned to projects that did not meet HUD's requirements for creating and retaining jobs, \$1.7 million were forgivable loans/grants, and nearly \$2.8 million were to be repaid. The City spent \$1.7 million of Block Grant funds on forgivable loans that it could not demonstrate met HUD's national objective. The City also cannot demonstrate that the \$2.8 million in repayable loans created or retained jobs, but because in many cases these loans were repaid, we cannot monetize the loss to HUD. HUD's regulations allow HUD to require the City to meet more stringent standards in future years if its projects fail the public benefit standards.

Conclusion

The City did not adequately demonstrate that 52 of 66 economic development projects met the national objective of benefiting low- and moderate-income persons. While the City spent nearly \$1 million on loans that did not meet the national objectives of creating or retaining jobs, HUD has no assurance that an additional \$3.5 million in loans was used to create jobs as originally intended. In a 1999 audit, the Office of Inspector General (OIG) also found that the City did not adequately demonstrate that 10 of 16 economic development activities funded with more than \$2.4 million in Block Grant loans met the national objective. HUD has the option of taking corrective and remedial action against the City to prevent a continuation of a performance deficiency, mitigate the adverse effects of a deficiency, and prevent a recurrence of a deficiency. Since this is a recurring problem, HUD should consider sanctions against the City (see Appendix D for a complete list of available sanctions at 24 CFR [*Code of Federal Regulations*] 570.910).

Recommendations

We recommend that the director of the St. Louis Office of Community Planning and Development require the City to

- 1A. Provide sufficient documentation to show each project with a forgivable loan/grant created or retained at least the minimum number of jobs, and in the absence of such documentation, repay the \$1,716,840 in Block Grant funds expended for forgivable loans/grants that did not demonstrate job creation.
- 1B. Provide sufficient documentation to show that each project assisted with repayable loans created or retained at least the minimum number of jobs, and in the absence of such documentation, use future funds to create at least that number of jobs above the normal public benefit standards.
- 1C. Include the job creation documentation requirements of 24 CFR [*Code of Federal Regulations*] 570.506 in its future contracts and agreements with the development corporation.
- 1D. Improve its control structure to ensure that it only reports accurate and updated job creation information, as supported by adequate documentation, in the Integrated Disbursement and Information System.
- 1E. Correct the inaccurately reported number of jobs in the Integrated Disbursement and Information System for the 52 projects discussed in this finding.

In addition, we recommend that the director of the St. Louis Office of Community Planning and Development

- IF. Take appropriate corrective and remedial action against the City, ranging from a letter of warning to a reduction of the City's annual grant.

Finding 2: The City Did Not Require the Development Corporation to Properly Report the Number of Jobs It Created with Its HUD Funding

The City did not require the development corporation to properly report the number of jobs it created with the HUD funds it loaned to projects. The City placed more emphasis on attracting new businesses or retaining existing businesses than on demonstrating that it met HUD’s national objective of benefiting low- and moderate-income persons. Without obtaining documentary evidence, the City has no assurance that the development corporation will meet HUD’s national objective with the use of nearly \$5.1 million in Block Grant funds.

The City Did Not Require the Development Corporation to Ensure Proper Reporting

The City did not ensure that the development corporation properly reported the number of jobs it created with the HUD funds it loaned to projects. Regulations at 24 CFR [*Code of Federal Regulations*] 570.501 state that the City is responsible for determining whether its subrecipients are performing adequately and for taking appropriate action when performance problems arise.

According to its agreement with the City, the development corporation is required to

- Meet HUD’s public benefit standard to create or retain a minimum of one job per \$50,000 for each economic development project,
- Meet the higher contract provisions for the number of jobs created or retained, and
- Provide quarterly and annual reports of job creation for open activities.

The City continually had monitoring findings that showed the development corporation was not properly reporting job creation accomplishments.

<i>Failure to submit:</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
<i>Reports in a timely manner</i>	X	X	X
<i>Complete and accurate reports</i>	X	X	X
<i>Job creation/retention data & low- to moderate-income benefit on all open activities back to 1998</i>	X	X	X

Although the 2001 report had no findings, it said that previously noted problems or findings on job creation activities had not been corrected or eliminated. The 2002 report was not available.

In addition, an OIG audit report in 1999 found these same issues.

However, the City continued to fund the development corporation and did not impose any of the following sanctions available to it. The subrecipient agreement allows for:

- Withholding of contract award,
- Suspension of contract,
- Withholding of reimbursement of payment,
- Rescission of contract, and
- Disqualification of operating agency from eligibility to receive Block Grant funds.

The City's Documentation Priority Differed from HUD's

The City placed more emphasis on attracting new businesses or retaining existing businesses than on demonstrating that it met HUD's national objective of benefiting low- and moderate-income persons. City staff said that the City continues to fund the development corporation because it is trying to encourage more companies to establish themselves in the city to generate tax funds. The City's staff feels that it cannot overlook all of the good that the development corporation does despite its inaccurate reporting of job creation information.

The City Has No Assurance of Meeting National Objectives

Without obtaining documentary evidence, the City has no assurance that the development corporation will meet HUD's national objective of benefiting low- and moderate-income persons for 47 underway projects totaling nearly \$5.1 million. Economic development projects can benefit low- and moderate-income persons by either creating and retaining jobs or providing goods or services to residents of an area. The City chose job creation and retention as its method of demonstrating its low- and moderate-income benefit.

The underway projects totaling \$5.1 million include \$2.4 million in forgivable loans/grants. To make a non-statistical estimate of the amount of underway loans that the City might improperly forgive, we are applying the percentage of improperly forgiven loans to the ongoing activities. Sixty-eight percent (\$1.7 million/\$2.5 million) of the forgivable loans/grants to projects completed in the last year did not meet HUD's requirement to create or retain jobs (see Finding 1). Based on the results of the completed projects, we expect the City to forgive nearly \$1.7 million (\$2.4 million X 68 percent) in loans that do not meet HUD's requirement to create or retain jobs. If the City makes changes to its monitoring process by obtaining the HUD required documentation showing whether jobs were actually created, the City will only forgive loans that meet HUD's national objective.

Recommendations

We recommend that the director of the St. Louis Office of Community Planning and Development require the City to

- 2A. Improve its control structure to ensure that the development corporation properly reports job creation data and takes appropriate action when performance problems arise to ensure that nearly \$1.7 million in underway projects are forgiven only if they create the appropriate number of jobs.
- 2B. Impose sanctions against the development corporation, ranging from withholding of reimbursement to disqualification of eligibility to receive Block Grant funds, if poor performance continues.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed the *Code of Federal Regulations* pertaining to the Block Grant; the City’s policies and agreements with the development corporation; the City’s monitoring reports of the development corporation; and the results of prior certified public accountant, HUD, and Office of Inspector General (OIG) reviews. We interviewed City, HUD, and development corporation personnel.

We reviewed the Integrated Disbursement and Information System Summary of Activities report as of March 31, 2006, and prepared the following summary.

Economic development funding to local development corporation from 1998 to 2005		
Projects underway	47 ¹	\$5,062,179
Projects completed (since March 1, 2005)	75 ¹	<u>\$6,780,760</u>
Total	122	\$11,842,939

¹We reclassified two projects from underway to complete because their job creation term expired between March 31 and June 30, 2006.

We reviewed 66 of the 75 completed economic development projects to determine whether their job creation documentation met HUD’s requirements and supported the information that the City reported. We reviewed all projects that were supposed to directly create or retain jobs, except for one project for which the City was unable to locate the file. We did not review the eight projects that were to pass the funds on to further subrecipients to create or retain jobs.

We determined that none of the projects met HUD’s documentation requirements contained in 24 CFR [*Code of Federal Regulations*] 570.506. We further reviewed each project’s loan file to determine whether it created or retained the required and reported number of jobs. We made this determination based on whether the City obtained

- Information showing whether new employees were low- and moderate-income, either by income and family size or through the employee or business being in an empowerment zone or enterprise community;
- Documentation to show that for job retention, jobs would have been lost without Block Grant assistance; and
- Documentation to show that new permanent full-time positions were created, resulting in a net gain in employees.

We defined net gain as an increase in the total number of full-time permanent employees since the company received the loan. A company met HUD’s requirements for job creation if it increased by one full-time permanent employee for each \$50,000 in funding received.

After reviewing each project’s file, we selected a sample of 11 projects for site visits. We chose the projects with the highest dollar amounts from the following three categories:

- Claimed that they met job creation goal and were documented,
- Claimed that they met job creation goal and were not documented, or
- Did not claim that they met the job creation goal and were not documented.

We performed site visits at eight of the projects to confirm the job creation information reported by the City. During the site visits, we requested the records of all employees who were hired and retained, as well as those who had departed, within the time the project received the loan through the current quarter year. We requested an employee listing containing the names, addresses, start dates, and end dates of these employees.

In response to our audit, the City obtained additional documentation from many of the projects. We used the information available as of July 18, 2006, as well as the information obtained during our site visits, to determine whether the project created or retained the required number of jobs.

We relied upon data from the Integrated Disbursement and Information System Summary of Activities report (C04PR03). We used the data to identify completed and underway economic development projects and to determine the number of jobs the City claimed it created. We performed a preliminary assessment based upon a control interview, prior audit report, and comparison to hard copy information. We found the data were sufficiently reliable to meet our audit objectives.

We performed audit work from February through July 2006 at the City's Community Development Administration's office located at 1015 Locust Street, St. Louis, Missouri. We conducted our audit in accordance with generally accepted government auditing standards.

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:

- Controls over the tracking of program accomplishments.
- Controls over charging administrative costs to the grant.

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 item is a significant weakness:

- The City did not have adequate controls to ensure it demonstrated that its projects correctly created the appropriate number of jobs and the subrecipient properly reported the number of jobs created or retained (see findings 1 and 2).

Separate Communication of Minor deficiencies

Minor internal control and compliance issues were reported to the auditee by a separate letter, dated September 21, 2006.

FOLLOWUP ON PRIOR AUDITS

Audit Report # 99-KC-244-1022
City of St. Louis Community
Development Block Grant
Program

We audited the City's Block Grant program in 1999. The audit covered the period from January 1997 through December 1998. The audit identified one finding, which is related to the objectives of our current review.

The audit finding was that low- and moderate-income jobs were not adequately documented because the City did not

- Adequately monitor the economic development activities to ensure that the activities created/retained jobs and made them available to low- and moderate-income persons and
- Adequately demonstrate that 10 of 16 economic development activities funded with more than \$2.4 million in Block Grant funds met the national objective.

We made three job creation recommendations. We recommended that the Community Development Administration verify that all community development participants have documentation of their progress in job creation/retention for low- and moderate-income persons according to their agreements. Second, we recommended that the Community Development Administration repay HUD the amount of the grants/loans for which the economic development participants cannot support the jobs that should have been created/retained. Finally, we recommended that the Community Development Administration's actions to hire additional personnel result in effective monitoring of subrecipients.

HUD closed all three recommendations.

APPENDIXES

Appendix A

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

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A		\$1,716,840	
2A			\$1,662,210

- 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 polices or regulations.
- 2/ 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 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 estimates of amounts that could be used more efficiently if an OIG recommendation is implemented. This includes reductions in outlays, deobligation of funds, withdrawal of interest subsidy costs, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings which are specifically identified. In this instance, if the City implements our recommendation, it will no longer forgive loans/grants to projects that did not create or retain jobs, and instead, will require repayment from projects which did not meet HUD’s public benefit standards. Once the City successfully improves its controls, this will be a recurring benefit. Our non-statistical estimate, based on the best data available for projects completed last year, reflects only the amount for projects currently underway.


Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Comment 1

Auditee Comments


OFFICE OF THE MAYOR
CITY OF ST. LOUIS
MISSOURI

FRANCIS G. SLAY
MAYOR

BARBARA A. GEISMAN
EXECUTIVE DIRECTOR FOR DEVELOPMENT
CITY HALL - ROOM 200
1200 MARKET STREET
SAINT LOUIS, MISSOURI 63103-2877
(314) 622-4792
FAX: (314) 622-3240
geismanb@stlouis-city.com

October 2, 2006

Mr. Ronald J. Hosking
Regional Inspector General for Audit
U. S. Department of Housing and Urban Development
Office of Inspector General
Gateway Tower II—5th Floor
400 State Avenue
Kansas City, Missouri 66101-2406

**RE: Audit Report—City of St. Louis
Community Development Block Grant Program**

Dear Mr. Hosking:


Thank you for this opportunity to provide comment on the Inspector General's recent Audit Report for the City's Community Development Block Grant program. We also wish to express our thanks to Carrie Gray, Anthony Anderson and Lanre Iwayemi of your staff for taking the time to review the draft report with my staff.

It is our understanding that the audit addressed the following aspects of the City's Block Grant program: whether administrative costs were properly allocated, and whether the St. Louis Development Corporation's Business Development Support program complied with HUD's requirements. We understand you did not find any material deficiencies in the City's allocation of administrative costs to the Block Grant program but that you identified minor deficiencies and provided suggestions as to how the City should correct them. Please be advised that the City has accepted your suggestions and is already taking the necessary actions in response to them.

The audit report indicated that material deficiencies exist in the City's expenditure of Block Grant funds for economic development activities, specifically in the St. Louis Development Corporation's Business Development Support program. The report makes two findings with respect to this program, and also makes recommendations to the Department of Housing and Urban Development with respect to these findings. In summary, our understanding of the findings and recommendations is the following:

- **Finding 1:** The City, through the St. Louis Development Corporation, used Block Grant Funds on economic development projects classified by the City as job creation or retention projects, but the Development Corporation did not adequately document the creation or retention of jobs.

With respect to Finding 1, the auditors concluded that, in 52 of the 66 loan files reviewed, the City did not have the necessary documentation to adequately demonstrate that the program's expenditures complied with HUD's national objectives. They recommended that HUD consider taking corrective and remedial action against the City. The auditors further recommended that the HUD St. Louis Office require the City to:



Ref to OIG Evaluation

Auditee Comments

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- For forgivable loan projects, provide sufficient documentation to show that each project created or retained at least the minimum number of jobs required, and, in the absence of such documentation, repay the portion of \$1.7 million in Block Grant funds expended for loans for which documentation was not produced.
- For repayable loan projects, provide sufficient documentation to show that each project assisted with a repayable loan created or retained at least the minimum number of jobs required, and, in the absence of such documentation, require the City to increase the number of jobs created by future loan activities to cover the jobs required but not documented for the audited loans.
- Include the job creation and retention documentation requirements (24 CFR 570.506) in its future contracts and agreements with the Development Corporation.
- Improve its control structure to ensure that it only reports accurate and updated job creation information, as supported by accurate documentation, in the Integrated Disbursement and Information System (IDIS).
- Correct the inaccurately reported number of jobs in the IDIS for the 52 projects discussed in this Finding.
- **Finding 2:** The City did not require the St. Louis Development Corporation to properly document and report the number of jobs it created or retained with City Block Grant funds.

With respect to Finding 2, the audit report recommends that HUD require the City to

- Improve its internal control structure to ensure that the Development Corporation properly reports job creation data and takes appropriate action when performance problems arise to ensure that nearly \$1.7 million in loans to projects now underway are forgiven only if they create the appropriate number of jobs, and
- Impose sanctions against the Development Corporation ranging from withholding of reimbursement to disqualification from eligibility to receive Block Grant funds, if poor performance continues.

Our responses to these two findings are as follows:

Response to Finding #1

The City agrees with the auditors' assertion that the Development Corporation failed to maintain the records necessary to document job creation and retention with respect to CDBG-assisted projects. The City further agrees with the auditors' assertion that the City did not do an adequate job of ensuring that the program was effectively and responsibly administered by the Development Corporation, with controls that promptly identify deficiencies and either cause them to be corrected in a timely manner or cause appropriate other remedial action to be taken.

We believe that there is no excuse for inaccurate and incomplete record-keeping, review, and documentation, and no excuse for placing inaccurate information into the HUD data system. Please be assured that the City is committed to taking the necessary steps to remedy these problems and, as discussed below and in the exit conference, is already taking a number of such steps.

Staff from the Mayor's Office and staff from the Community Development Administration (the City department that administers the City's Block Grant program) are working closely with the

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Development Corporation on the following changes and improvements to the Development Corporation's record-keeping and documentation systems and personnel:

- As discussed with the auditors at the exit conference, the Development Agency is making significant personnel changes as a result of the audit report. Since these are personnel matters, we will not detail them in this written response but are available to discuss them in person.
- Second, CDA and the Mayor's Office are in the process of identifying an individual with successful experience in understanding and interpreting Block Grant regulations and successful experience in the operation of programs in accordance with these regulations. This new individual's sole responsibilities will be to (a) review each proposed Business Development Support expenditure before a commitment to fund the expenditure is made to ensure that the expenditure meets HUD's objectives and eligible activities requirements and that documentation and other requirements are clearly set forth in associated funding agreements; and (b) collect the documentation provided, review and interpret the documentation correctly, and provide accurate reports to CDA, so that CDA in turn can provide accurate reports to HUD. While this individual will be paid by the Development Corporation and will provide work related to the Development Corporation's program, the individual will essentially report exclusively to CDA. We believe that this new structure will improve control and record-keeping markedly and will produce the required results. We intend to have the necessary individual, tentatively titled "Economic Development Compliance Specialist," in place no later than November 15, 2006.
- Third, before the Development Corporation commits to funding any project, CDA will require the Development Corporation to meet with the Economic Development Compliance Specialist and receive an affirmative written determination that (a) that the project meets a national objective and (b) that the project is an eligible activity. The Economic Development Compliance Specialist will also provide the Development Corporation with a detailed description of the HUD regulations applicable to that activity.
- Fourth, we are in the process of developing detailed file and recordkeeping systems for each job creation and retention project and are updating the records for each project to conform to the new recordkeeping system. A draft of the new file checklist that will serve as the standard for each file's documentation is included as Exhibit A to this letter—we expect to review this form with local HUD staff and fine tune/augment it further to address all applicable regulations and situations. The checklist includes methodology for counting jobs created and jobs retained and lists the required source documentation that each file must include.
- Fifth, the St. Louis Development Corporation disburses funds for economic development projects pursuant to written legal agreements. The Development Corporation, working with CDA and my staff, is in the process of redrafting the standard conditions for these agreements to include a definitive requirement that the entity receiving funding must provide all of the records necessary for compliance with the applicable HUD regulations and to affirmatively state that legal proceedings will be instituted if the entity fails to provide the required records on a timely basis, fails to produce the required number of jobs in the required time period, and/or fails to meet any other contractual requirement. Other specific sections will be added to each agreement to clearly spell out the national objective the project is intended to address, the manner in which the project is intended to address the objective and the eligible activity that is to be carried out with the Block Grant funds made available, and the HUD regulatory requirements applicable to the particular project, objective and activity, and will provide detailed reporting forms that the business must submit.

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- Sixth, CDA will include in its agreements with the Development Corporation clear requirements for compliance with 24 CFR 570.506. Future agreements with the Development Corporation will also include the newly designed reporting and documentation forms.

With respect to providing documentation on both the forgivable and repayable loan files reviewed by the auditors and found to be deficient, we are in the process of compiling documentation on each of these files in accordance with the new system. A draft of this compilation is attached as Exhibit B to this letter, but we are planning to triple and quadruple check this information before submitting it to the local HUD office. We expect to have this documentation completed within the next sixty (60) days for those files where documentation is possible. In some cases, we expect to reclassify project eligibility or national objective. We will complete this work no later than November 30, 2006, and correct the information reported in the IDIS accordingly. At that time, we will discuss the status of this effort and related issues with the local HUD office with the goal of resolving this finding in a manner acceptable to HUD. These related issues are discussed at the end of this letter as general comments on the audit report.

Response to Finding #2

Comment 3

In response to this Finding, the City, through the Community Development Administration and Mayor's Office staff, is committed to providing the proper oversight to ensure that the Development Corporation effectively and responsibly administers this program, and to designing and implementing control mechanisms that promptly identify deficiencies and either cause them to be corrected in a timely manner or cause appropriate other action to be taken. In addition to the steps described above that are directed towards improving the Development Corporation's recordkeeping, documentation and reporting to address Finding 1, the City is also taking the following additional steps to address the City oversight and control issues identified in Finding 2:

- Once each month, the CDA Monitoring Manager will review each Business Development Support file to determine if the information required by the checklist is in fact in place in the file, that actual results are recorded in the file based on the source documentation and in accordance with the applicable regulations, and that the source records in the file are sufficient to adequately document the required file element. The Monitoring Manager will also review the summary report that the Development Corporation provides to CDA for HUD system input to ensure that the documentation in each file backs up the summary report. CDA and its staff are committed to independently and closely monitoring the recordkeeping and documentation for each loan on a monthly basis, until the City is satisfied that the new system is working reliably and as planned.
- If the CDA Monitoring Manager determines that the recordkeeping and documentation performed by the Economic Development Compliance Specialist is deficient, she will be instructed to immediately bring these deficiencies to the attention of the CDA Director and the Mayor's Executive Director for Development, both of whom will devote the necessary attention to correcting the problems, either by providing additional guidance to the Economic Development Compliance Specialist, or replacing the Compliance Specialist.
- Once the system appears to be working well but no sooner than a year from the date of this letter, it is expected that CDA's detailed review of the Development Corporation's files will be scheduled on a quarterly basis. CDA staff will continue to be responsible for verifying that the necessary documentation exists and for ensuring that accurate results are entered into the IDIS—when, and not before, a particular project is complete.

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Overview and General Issues

In addition to responding to the specific points and recommendations included in the audit report, we would like to take this opportunity to address several general issues and concerns.

The audit report stated that "City officials said the City continues to fund the development corporation because it is trying to encourage more companies to establish themselves in the City to generate tax funds" and "the City feels that it cannot overlook all of the good that the Development Corporation does despite its inaccurate reporting of job creation information."

In reality, the City continues to fund the development corporation because the development corporation has a unique relationship with City government. The development corporation serves as staff to a variety of economic and real estate agencies that were established by the City pursuant to Missouri law—the Land Clearance for Redevelopment Authority, the Planned Industrial Expansion Authority, the Tax Increment Financing Commission, and several others. Prior to the formation of the development corporation, several of these agencies had separate independent staffs. The development corporation carries out the City's economic and real estate development activities. The City does not believe that it would be a cost-effective use of HUD funds to discontinue funding the development corporation and find and fund another subrecipient to carry out the City's economic development activities. One of the benefits of using the St. Louis Development Corporation to carry out CDBG-funded economic development activities is that the Development Corporation also has access to other resources that are not available to the City. Further, the Development Corporation has done an excellent job of carrying out a number of activities that benefit low- and moderate-income persons (e.g., the public improvements associated with the Darst-Webbe HOPE VI project, the development of the Renaissance Hotel in the Empowerment Zone) and prevent or eliminate slums and blight (e.g., acquisition and sale of blighted properties for reuse as low- and moderate-income housing, environmental cleanup of problem properties in low- and moderate-income neighborhoods.)

Further, this administration has been committed to improving management at the development agency. In cooperation with Mayor's Office staff, the current agency director and the previous director have streamlined various agency functions and dismissed various agency personnel for failure to perform their duties. We are no less committed to addressing the failures identified in the audit report and, as indicated above, the agency director is in the process of making significant personnel changes to deal with the documentation and reporting issues for this program.

We are **not** reluctant to hold up further loan processing as a "stick" to ensure that the necessary records are kept, are kept correctly and are produced when required, and CDA has been doing so since the audit began. We **will** impose sanctions on the businesses assisted if they fail to comply with the applicable HUD requirements and the requirements of their particular loan documents.

We are actively recruiting a qualified individual to perform as the Economic Development Compliance Specialist to ensure that all future loans made are in concert with HUD's national objectives at inception, that all of the documentation is collected and thoroughly reviewed, that, to the extent possible, the assistance produces the desired and required results, and that the program is administered in a responsible manner, with appropriate controls. In the meantime, senior SLDC, CDA staff, and the Mayor's Office are committed to compiling the documentation required for loans now in place, both audited loans and all loans which have not been audited.

The City's executives will not hesitate to jump in and do their part to secure the necessary documentation when the documentation exists. Mayor's Office staff has already stepped in and become familiar with the applicable regulations and are actively working with both CDA and SLDC to design a thorough and workable record-keeping and administration system that collects the necessary documentation, monitors compliance with the applicable regulations, and pursues the necessary sanctions against the parties responsible for deficiencies when deficiencies occur.

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CDA staff will be committed to independently and closely monitoring the recordkeeping and documentation for each loan on a monthly basis, until the City is satisfied that the new system is working reliably and as planned. Once the system appears to be working well, CDA staff will continue to be responsible for verifying that the necessary documentation exists and for ensuring that accurate results are entered into the IDIS—when, and not before, a particular project is complete.

In summary, the City is committed to making the Development Corporation as effective, efficient and compliant with HUD and other applicable regulations as possible, and CDA and the Development Agency, working with the Mayor's Office, are taking the steps necessary to correct the problems identified in the audit.

The second point we would like to address is the following. While the City fully intends to take action against those businesses that fail to produce the documentation required to demonstrate that the business has met the obligations set forth in its funding agreement with the City, including legal action to compel the repayment of even forgivable loans, forcing repayment of the loan is something that may not always be possible. In virtually all loan situations, the CDBG loan is in a position junior to one or more layers of private financing that have first priority on the collateral of the business or the personal guarantee of the owner or owners. Given that these loans are typically made, per HUD requirements, with the "amount necessary and reasonable" to enable the business expansion, creation or attraction to occur (e.g., the portion of the cost that cannot be privately financed because private lenders will not assume the risk or because the business owner will not risk the entire and often out of the ordinary cost of expansion in the City), it is likely that little will be left to repay the CDBG loan after all of the senior debt has been paid. Nevertheless, the threat of "foreclosure" can and should be an effective tool in encouraging the businesses to comply with both their commitments and the reporting requirements, and we have used this tool to good effect in collecting documentation related to this audit. We are currently developing procedures detailing at what point in a business's failure to comply with its requirements legal action should be threatened, and at what point legal action should be actually taken after the threat.

Comment 5

Another question that has arisen in the course of our interaction with the auditors is the following: what can and should the City do if the business either goes out of business or fails to produce the required numbers of jobs due to economic conditions beyond the business's control? We do not believe that the City can be responsible for keeping individuals in business, nor can the City be responsible for fluctuations in the economy. As most of these loans are by their very nature intended to shoulder risk burden that the private sector will not assume, it is not reasonable to expect that all of the businesses to which these loans are made will succeed. Some businesses will fail; others may not fail entirely but due to ill economic health will not expand their workforces as planned. Ten (10) of the sixty-six (66) loans reviewed by the auditors fell into the "failed business" category.

Comment 6

In the course of our review of the HUD literature on economic development uses of CDBG funds, we encountered a March 27, 1992, memo from the Assistant Secretary for Community Planning and Development that dealt with this issue in another part of the country. The memo states in part: "The Inspector General found a large number of businesses that received CDBG assistance had failed and that many assisted businesses had not produced the expected jobs long after the assistance had been provided...establishing local default rates and timeliness standards are two measures that could be used by the recipient to monitor its program and determine whether or not its lending practices are prudent. . .in light of the fact that CDBG recipients cited in the audit are showing delinquent or defaulted loan rates of 30 percent, 40 percent, and 50 percent, some rates significantly below these figures would be acceptable as a monitoring mechanism for the recipient to evaluate their lending and underwriting practices." We would like to explore the possibility of establishing these guidelines with the local HUD office. Although we completely agree that there is no excuse for poor recordkeeping, documentation and program

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administration or controls, the best recordkeeping in the world cannot force a business to succeed.

The City has limited resources, and the size of its primary resource for economic development, the Community Development Block Grant program, has been shrinking since the heyday of the program in the late 1980s, when the City received nearly \$40 million. Today, our CDBG entitlement is approximately \$21 million—roughly half of the heyday amount in raw dollars and far less when inflation is taken into account. We strive to secure other resources like New Markets Tax Credits, State and Federal Historic Tax Credits, tax increment financing, and SBA loans to stimulate and provide incentives for business and other development. In all of our activities, our aim is to use our Block Grant funds for projects that really need them—those projects and activities that, but for the use of Block Grant funds, could not take place. This philosophy applies to our use of Block Grant funds for job creation and retention—because we endeavor to avoid wasting these scarce funds on projects that are “sure things,” there is risk involved in the projects that we do fund. In some cases, forces beyond the control of the business or the City caused the business’s extinction—HUD regulations do not require a grantee to have a “crystal ball” and be able to predict a business’s future. Thus, there will always be some risk that the jobs anticipated will not be produced. And, because we have scarce resources, we always try to push a particular business’s job production requirements via the funding agreement to more jobs than the required one job per \$50,000—this, of course, increases the risk that the anticipated number of jobs will not be created, as it is impossible to predict the course of the national or local economies and the factors that influence these economies beyond our control. We do not believe it is either in the City’s best interests or in concert with the national objectives of the Block Grant program to avoid using Block Grant funding on businesses development activities where there is risk because we fear that we may be required to repay the funds if the business fails, and we do not believe it is in anyone’s best interest for us to cut back the businesses’ job production goals to the minimum number required by HUD—we would have far less economic development impact with our Block Grant program if we did. Thus, we believe that assessing the program on an overall rather than an individual project basis makes more sense from both the perspective of the City’s goals and is appropriate in consideration of the Block Grant program’s overall goals.

Comment 7

From our reading of the HUD regulations, it appears that job creation and retention results can be aggregated in certain circumstances and compliance with HUD’s objectives and regulations demonstrated on the entire program rather than on its individual components. Aggregating would address the issue raised above with respect to businesses that fail and businesses that do not fully succeed. We would like to explore the aggregation method of demonstrating compliance with the HUD local office once we have fully and accurately documented all of the files. The attached draft chart with updated data (which we are in the process of re-checking) appears to show that, in the aggregate, the projects questioned by the auditors produced more jobs than the jobs required.

Comment 6

We would also like to take this opportunity to discuss a third broad issue: why we believe this program is important, and why we believe the City’s reasons for having the program in place are, in both spirit and in actuality, commensurate with HUD’s goals. We feel strongly that in a very real sense retaining, growing and attracting businesses and jobs in the City of St. Louis is essential to maintaining and improving quality of life for the City’s low- and moderate-income population, and we do not want the impression to linger, however softly, that the welfare of this population is not one of our primary concerns.

Even though we have made significant progress over the past five years, St. Louis remains, by almost anyone’s standards, a City in distress. Over the past five decades the City lost approximately 60% of its population—the City’s population dropped from 850,000 to just under 350,000, a loss of 500,000 people. As residents left, so did businesses—and so did the tax base that supports the remaining residents, many of whom continued to live in the City because they had no other choice. While we have begun to turn the population loss curve in the other

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direction and are now slowly gaining population, we expect it will be quite a while before a healthy City population base once again exists.

As of the 2000 census, approximately 24.6% of the City's 350,000 people lived in poverty, with median household incomes of \$13,200 or less. Approximately 65% of the City's 350,000 people meet HUD low- and moderate-income guidelines. These populations rely on the City for services—police services, fire department services, street repair services, park and recreation services, and other services. Clearly, the City cannot provide an acceptable level of service to its low- and moderate-income residents with the taxes that can be paid by its residents alone. Thus, the City relies heavily on businesses and the taxes they pay to provide services for our low- and moderate-income people. In the City's fiscal year 2006-2007, approximately \$196 million—46%—of the City's general revenue budget of \$425 million that provides City services will be derived from taxes and fees paid by businesses. An additional \$102 million—another 24%—of this service budget is paid by workers with jobs in the City, many of whom do not live in the City. Altogether, 70% of the revenues that provide services for the City's predominantly low- and moderate-income population come from the City's businesses and jobs.

The primary reason that the City strives to retain and attract businesses and retain and attract jobs is so that the City can pay for the services that its predominantly low- and moderate-income population needs. If the City continues to lose jobs and businesses, the City's ability to pay for these services will continue to be impaired. Without the 70% of its general revenues that the City receives from its businesses and jobs, it is safe to say that the City would be bankrupt and incapable of providing services for its citizens, a clear majority of whom meet HUD's low- and moderate-income guidelines.

Job losses from the City also have a more direct negative impact on many low- and moderate-income City residents who need employment. Many low- and moderate-income people have difficulty affording automobiles and rely heavily on public transportation. Public transportation serving most parts of the City is readily available—public transportation does not adequately serve the parts of the region where most businesses that move out of the City end up. And for those low- and moderate-income people who do own automobiles, a job close to home has other benefits—a job close to home does not require the expenditure of a significant portion of one's limited income on gasoline to get to work, and a job close to home does not require long commutes that deprive children in single-parent households of that parent's time and energy. Keeping jobs in the City rather than sitting by idly while these jobs move to far outlying suburbs benefits low- and moderate-income people by keeping their jobs close to where they live.

If jobs and businesses continue to leave the City, the value of residents' property will continue to drop, as it has over the past fifty years—the acres of abandoned property in many parts of the City are evidence that the homes of many city residents had little or no value on the open market over the past fifty years. Home ownership is the primary means of wealth-building for most American families. If the City's home values decline or do not increase, low- and moderate-income families lose the value of their most important asset. Preserving the City's tax base and reversing the loss of jobs and businesses from the City stabilizes and grows the City's revenues to provide services and asset values for low- and moderate-income residents.

For the past five years we have been committed to retaining the City's existing businesses whenever and wherever possible. The Business Development Support program has been instrumental in addressing this goal. Statistics available through the U. S. Bureau of Labor Statistics indicate that the application of an aggressive business retention and attraction strategy has begun to work—after decades of substantial job losses, we have essentially halted the loss of jobs from the City and are now in a position to focus more intently on adding new jobs.

These are the reasons why the Mayor and his staff have made it a high priority to retain the jobs and businesses we already have, to help our existing businesses grow, attract new businesses and grow new businesses "from the ground up."

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Notwithstanding this broad value that job creation and retention has for the City's low- and moderate-income population, however, please be assured that we do understand the need to correct the deficiencies in our Business Development Support program's documentation, analysis and reporting, and that we are committed to correcting these deficiencies once and for all, as detailed earlier in this letter.

The Community Development Block Grant program is one of the City's most important job creation and retention tools. We understand the auditors' concerns about the City's control and documentation mechanisms for these programs and, as we hope this letter and its attachments demonstrate, we are committed to improving our control and documentation performance to meet HUD's requirements and standards. We very much appreciate the auditors' help in reviewing this program and its records, and in providing us with valuable feedback on how compliance must be achieved. We view the auditors' scrutiny as an opportunity to significantly improve the operation of this program to comply with applicable regulations and address the national objectives of HUD. We believe that benefiting low- and moderate-income persons and preventing and eliminating slums and blight are important goals for the City of St. Louis as well as important goals for HUD. We look forward to working closely with HUD in the future to address these goals in accordance with HUD regulations in the Business Development Support program as well as in the other uses of our Block Grant funds.

Please feel free to contact me if you have any questions.

Sincerely,



Barbara A. Geisman
Executive Director for Development

BAG/bg
ATTACHMENTS: Exhibit A and Exhibit B

copies: Mayor Francis Slay
Carrie Gray, CPA, Assistant Regional Inspector General for Audit, HUD Office of
Inspector General—St. Louis
Anthony Anderson, CIA, Auditor, HUD Office of Inspector General—St. Louis
James Heard, Fannie Woods and Dee Ann Ducote, St. Louis Local HUD Office
Barbara Geisman, Executive Director for Development
Jill Claybour, Acting Director, Community Development Administration
Rodney Crim, Executive Director, St. Louis Development Corporation

OIG Evaluation of Auditee Comments

- Comment 1** We commend the City for promptly taking the following actions in response to our audit:
- working closely with the development corporation to resolve the audit findings,
 - making significant personnel changes,
 - having the new Economic Development Compliance Specialist report exclusively to the City,
 - developing a new record keeping system, and
 - redrafting the loan agreements.
- Comment 2** We agree that the City should compile documentation on each existing project in accordance with the new system. We disagree with the reclassification of projects to national objectives that were not initially chosen by the City. The City chose the benefit to low- and moderate-income persons through job creation as its objective, and the regulations do not state that one can change objectives upon unsuccessfully reaching its original objective. In addition, a sound internal control structure would demand that the City only use funds to achieve the purposes and benefits it decided upon before it disbursed the money.
- Comment 3** We commend the City for taking the steps to address the oversight and control issues identified in finding 2. We believe that the monthly reviews by the Monitoring Manager, and monitoring the process until the project is complete, will help to improve the control structure.
- Comment 4** We understand the relationship between the City and the development corporation and appreciate the City's optimism in this regard, but the City needs to be able to consider all options if the new procedures and controls do not correct the issues. The City recognizes many benefits of doing business through the Development Corporation. But, it should be aware that if the cost of doing business with the Development Corporation, in terms of inefficiencies and regulatory violations, becomes greater than those benefits, it will be necessary to enforce more stringent penalties.
- Comment 5** In the case of businesses that fail, or fail to produce the required number of jobs, the City should do whatever it can, within the restraints of the regulations, to satisfy their commitment to HUD in exchange for the use of Block Grant funds.
- Comment 6** The City should review any issues and possibilities with the local HUD office to resolve the findings contained in this report.
- Comment 7** We believe the City should assess its program on an individual and an overall basis. HUD regulations establish an individual as well as an aggregate public benefit standard, and the City must follow the regulations and document the measurement of each of these goals.

Appendix C

SCHEDULE OF ECONOMIC DEVELOPMENT PROJECTS

Table 1 – No jobs created or retained

Activity Number in Integrated Disbursement and Information System	Repayable amount	Forgivable amount	Number of jobs documented	Minimum number of jobs ¹ required	Expected number of jobs ² (total / low-moderate)	Reported number of jobs ³ (total / low- moderate)
1	3305 ⁴	\$35,000	0	1	3 / 3	2 / 2
2	3855 ⁴	\$60,000	0	2	8 / 5	0 / 0
3	3500	\$90,000	0	2	9 / 9	8 / 8
4	5055	\$150,000	0	3	33 / 16	0 / 0
5	5045	\$132,637	0	3	15 / 8	9 / 9
6	3608 ⁴	\$150,000	0	3	15 / 8	0 / 0
7	2857 ⁴		0	2	50 / 50	0 / 0
8	3127 ⁴	\$250,000	0	5	41 / 21	0 / 0
9	1895 ⁴	\$25,000	0	1	7 / 4	0 / 0
		\$892,637	\$80,000	0	22	

¹ A job is defined as one permanent full-time equivalent. HUD requires each project to create or retain at least one job for each \$50,000 in Block Grant funding.

² The number of jobs expected is the number that the City indicated in its approval letter to the development corporation for each project.

³ The number of jobs reported is the number reported in the Integrated Disbursement and Information System (Report C04PR03) as of March 31, 2006.

⁴ The City reports that these businesses are no longer in business.

Table 2 – No evidence that jobs were created or retained.

Provided information on employees hired, but no evidence that they were hired in new positions rather than vacated positions. For retained jobs, provided no evidence that jobs would have been lost without assistance.

	Activity Number in Integrated Disbursement and Information System	Repayable amount	Forgivable amount	Number of jobs documented	Minimum number of jobs ¹ required	Expected number of jobs ² (total / low-moderate)	Reported number of jobs ³ (total / low-moderate)
1	3025	\$69,480		0	2	6 / 6	8 / 8
2	3492	\$50,206		0	1	6 / 4	13 / 7
3	2972	\$28,500		0	1	12 / 12	14 / 14
4	3659		\$50,000	0	1	25 / 15	63 / 63
5	3905		\$13,340	0	1	4 / 3	5 / 3
6	4324	\$65,000	\$10,000	0	2	7 / 4	55 / 55
7	5046	\$90,000		0	2	9 / 5	1 / 1
8	3501	\$95,000		0	2	10 / 6	21 / 17
9	3467	\$93,000		0	2	10 / 6	17 / 17
10	3645	\$142,500		0	3	15 / 8	24 / 24
11	4299		\$36,000	0	1	3 / 2	3 / 2
12	3498		\$100,000	0	2	10 / 10	18 / 18
13	4155		\$13,000	0	1	1 / 1	1 / 1
14	5136		\$350,000	0	7	10 / 6	7 / 7
15	3635		\$63,500	0	2	125 / 80	157 / 157
16	3203	\$150,000		0	3	15 / 8	1 / 1
17	5095		\$50,000	0	1	1 / 1	1 / 1
18	5057		\$21,000	0	1	85 / 14	28 / 28
19	3952		\$150,000	0	3	23 / 12	28 / 28
20	4325		\$50,000	0	1	5 / 3	20 / 20
21	3510	\$90,000		0	2	5 / 3	8 / 8
22	3512	\$139,200		0	3	15 / 8	9 / 9
		\$1,012,886	\$906,840	0	44		

¹ A job is defined as one permanent full-time equivalent. HUD requires each project to create or retain at least one job for each \$50,000 in Block Grant funding.

² The number of jobs expected is the number that the City indicated in its approval letter to the development corporation for each project.

³ The number of jobs reported is the number reported in the Integrated Disbursement and Information System (Report C04PR03) as of March 31, 2006.

Table 3 - No evidence that jobs were created or retained.

Did not provide details on jobs filled. Did not verify that existing businesses created new jobs or that jobs would have been lost without assistance.

	Activity Number in Integrated Disbursement and Information System	Repayable amount	Forgivable amount	Number of jobs documented	Minimum number of jobs ¹ required	Expected number of jobs ² (total / low-moderate)	Reported number of jobs ³ (total / low-moderate)
1	3487		\$75,000	0	2	10 / 6	19 / 19
2	4129	\$90,000		0	2	5 / 3	6 / 4
3	4154		\$70,000	0	2	7 / 4	30 / 23
4	3175		\$250,000	0	5	20 / 20	37 / 37
5	5241	\$130,000		0	3	13 / 7	15 / 15
6	5116	\$28,360		0	1	5 / 3	20 / 20
7	5114		\$12,000	0	1	1 / 1	2 / 2
8	5120		\$50,000	0	1	40 / 21	128 / 128
9	5074	\$12,550		0	1	5 / 3	12 / 12
10	3858 ⁴	\$51,000		0	2	5 / 3	2 / 2
11	2814 ⁴	\$30,000	\$10,000	0	1	5 / 5	7 / 7
12	5206	\$130,000	\$20,000	0	3	10 / 6	3 / 3
13	5240	\$50,000		0	1	5 / 3	15 / 15
14	5048	\$150,000	\$8,000	0	4	5 / 3	15 / 7
15	5043	\$175,000		0	4	7 / 4	7 / 7
16	5269		\$50,000	0	1	2 / 1	2 / 2
17	2697	\$20,000		0	1	2 / 2	2 / 2
18	3903 ⁴		\$20,000	0	1	1 / 1	1 / 1
19	No number ⁴		\$50,000	0	1	3 / 2	N/A
20	5047		\$15,000	0	1	1 / 1	1 / 0
21	5053		\$100,000	0	2	10 / 5	2 / 2
		\$866,910	\$730,000	0	40		

¹ A job is defined as one permanent full-time equivalent. HUD requires each project to create or retain at least one job for each \$50,000 in Block Grant funding.

² The number of jobs expected is the number that the City indicated in its approval letter to the development corporation for each project.

³ The number of jobs reported is the number reported in the Integrated Disbursement and Information System (Report C04PR03) as of March 31, 2006.

⁴ The City reports that these businesses are no longer in business.

Appendix D

CRITERIA

Regulations at 24 CFR [Code of Federal Regulations] 570.200(a) state that an activity may be assisted in whole or in part with CDBG funds only if all of the following requirements are met: (2) Compliance with national objectives. Grant recipients under the Entitlement and HUD-administered Small Cities programs must certify that their projected use of funds has been developed so as to give maximum feasible priority to activities which will carry out one of the national objectives of benefit to low and moderate income families or aid in the prevention or elimination of slums or blight; the projected use of funds may also include activities which the recipient certifies are designed to meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs. Consistent with the foregoing, each recipient under the Entitlement and HUD-administered Small Cities programs must ensure, and maintain evidence, that each of its activities assisted with CDBG funds meets one of the three national objectives as contained in its certification. Criteria for determining whether an activity addresses one or more of these objectives are contained at Sec. 570.208.

Regulations at 24 CFR [Code of Federal Regulations] 570.209(b)(3) specify the standards for individual activities. Any activity subject to these guidelines which falls into one or more of the following categories will be considered by HUD to provide insufficient public benefit, and therefore may under no circumstances be assisted with CDBG funds (i) The amount of CDBG assistance exceeds either of the following, as applicable: (A) \$50,000 per full-time equivalent, permanent job created or retained. 570.209(d) states that the grantee must maintain sufficient records to demonstrate the level of public benefit, based on parts (a) and (b) of this regulation, that is actually achieved upon completion of the Block Grant-assisted economic development activity(ies) and how that compares to the level of such benefit anticipated when the Block Grant assistance was obligated. If the grantee's actual results show a pattern of substantial variation from anticipated results, the grantee is expected to take all actions reasonably within its control to improve the accuracy of its projections. If the actual results demonstrate that the recipient has failed the public benefit standards, HUD may require the recipient to meet more stringent standards in future years as appropriate.

Regulations at 24 CFR [Code of Federal Regulations] 570.501(b) state that the recipient is responsible for ensuring that Block Grant funds are used in accordance with all program requirements. The use of subrecipients does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and for taking appropriate action when performance problems arise.

Regulations at 24 CFR [Code of Federal Regulations] 570.506(b)(5) state that for each activity determined to benefit low- and moderate-income persons based on the creation of jobs, the recipient shall provide the documentation described in either paragraph (b)(5)(i) or (ii) of this section.

- (i) Where the recipient chooses to document that at least 51 percent of the jobs will be available to low- and moderate-income persons, documentation for each assisted business shall include
 - (A) A copy of a written agreement containing
 - (1) A commitment by the business that it will make at least 51 percent of the jobs available to low- and moderate-income persons and will provide training for any of those jobs requiring special skills or education;
 - (2) A listing by job title of the permanent jobs to be created indicating which jobs will be available to low- and moderate-income persons, which jobs require special skills or education, and which jobs are part-time, if any; and
 - (3) A description of actions to be taken by the recipient and business to ensure that low- and moderate-income persons receive first consideration for those jobs; and
 - (B) A listing by job title of the permanent jobs filled and which jobs of those were available to low- and moderate-income persons and a description of how first consideration was given to such persons for those jobs. The description shall include what hiring process was used, which low- and moderate-income persons were interviewed for a particular job, and which low- and moderate-income persons were hired.
- (ii) Where the recipient chooses to document that at least 51 percent of the jobs will be held by low- and moderate-income persons, documentation for each assisted business shall include
 - (A) A copy of a written agreement containing
 - (1) A commitment by the business that at least 51 percent of the jobs, on a full-time equivalent basis, will be held by low- and moderate-income persons and
 - (2) A listing by job title of the permanent jobs to be created, identifying which are part-time, if any;
 - (B) A listing by job title of the permanent jobs filled and which jobs were initially held by low- and moderate-income persons; and
 - (C) For each such low- and moderate-income person hired, the size and annual income of the person's family prior to the person being hired for the job.

Subpart (6) states that for each activity determined to benefit low- and moderate- income persons based on the retention of jobs, the recipient shall provide

- (i) Evidence that in the absence of CDBG [Block Grant] assistance jobs would be lost;
- (ii) For each business assisted, a listing by job title of permanent jobs retained, indicating which of those jobs are part-time and (where it is known) which are held by low- and moderate-income persons at the time the CDBG assistance is provided. Where applicable, identification of any of the retained jobs (other than those known to be held by low- and moderate-income persons) which are projected to become available to low- and moderate-income persons through job turnover within two years of the time CDBG assistance is provided. Information upon which the job turnover projections were based shall also be included in the record;
- (iii) For each retained job claimed to be held by a low- and moderate-income person, information on the size and annual income of the person's family;
- (iv) For jobs claimed to be available to low- and moderate-income persons based on job turnover, a description covering the items required for "available to" jobs in paragraph (b)(5) of this section; and
- (v) Where jobs were claimed to be available to low- and moderate-income persons through turnover, a listing of each job which has turned over to date, indicating which of those jobs were either taken by, or available to, low- and moderate-income persons. For jobs made available, a

description of how first consideration was given to such persons for those jobs shall also be included in the record.

Subpart (7) states that for purposes of documenting that the person for whom a job was either filled by or made available to a low- or moderate-income person based upon the census tract where the person resides or in which the business is located, the recipient, in lieu of maintaining records showing the person's family size and income, may substitute records showing either the person's address at the time the determination of income status was made or the address of the business providing the job, as applicable, the census tract in which that address was located, the percent of persons residing in that tract who either are in poverty or who are low- and moderate-income, as applicable, the data source used for determining the percentage, and a description of the pervasive poverty and general distress in the census tract in sufficient detail to demonstrate how the census tract met the criteria in section 570.208(a)(4)(v), as applicable.

Regulations at 24 CFR [Code of Federal Regulations] 570.900(b)(3) state that in conducting performance reviews, HUD will primarily rely on information obtained from the recipient's performance report, records maintained, findings from monitoring, grantee and subrecipient audits, audits and surveys conducted by the HUD Inspector General, and financial data regarding the amount of funds remaining in the line of credit plus program income. HUD may also consider relevant information pertaining to a recipient's performance gained from other sources, including litigation, citizen comments, and other information provided by or concerning the recipient. A recipient's failure to maintain records in the prescribed manner may result in a finding that the recipient has failed to meet the applicable requirement to which the record pertains.

Regulations at 24 CFR [Code of Federal Regulations] 570.901 state that HUD reviews for compliance with the primary and national objectives and other program requirements. HUD will review each entitlement and HUD-administered small cities recipient's program to determine if the recipient has carried out its activities and certifications in compliance with:

- (a) The requirement described at Sec. 570.200(a)(3) that, consistent with the primary objective of the Act, not less than 70 percent of the aggregate amount of CDBG funds received by the recipient shall be used over the period specified in its certification for activities that benefit low and moderate income persons;
- (b) The requirement described at Sec. 570.200(a)(2) that each CDBG assisted activity meets the criteria for one or more of the national objectives described at Sec. 570.208;
- (c) All other activity eligibility requirements defined in subpart C of this part.

Regulations at 24 CFR [Code of Federal Regulations] 570.910 specify corrective and remedial actions available to HUD.

- (a) General. Consistent with the procedures described in Sec. 570.900(b), the Secretary may take one or more of the actions described in paragraph (b) of this section. Such actions shall be designed to prevent a continuation of the performance deficiency; mitigate, to the extent possible, the adverse effects or consequences of the deficiency; and prevent a recurrence of the deficiency.
- (b) Actions authorized. The following lists the actions that HUD may take in response to a deficiency identified during the review of a recipient's performance:

- (1) Issue a letter of warning advising the recipient of the deficiency and putting the recipient on notice that additional action will be taken if the deficiency is not corrected or is repeated;
- (2) Recommend, or request the recipient to submit, proposals for corrective actions, including the correction or removal of the causes of the deficiency, through such actions as:
 - (i) Preparing and following a schedule of actions for carrying out the affected CDBG activities, consisting of schedules, timetables and milestones necessary to implement the affected CDBG activities;
 - (ii) Establishing and following a management plan which assigns responsibilities for carrying out the actions identified in paragraph (b)(2)(i) of this section;
 - (iii) For entitlement recipients, canceling or revising affected activities which are no longer feasible to implement due to the deficiency and reprogramming funds from such affected activities to other eligible activities (pursuant to the citizen participation requirements in 24 CFR part 91); or
 - (iv) Other actions which will serve to prevent a continuation of the deficiency, mitigate (to the extent possible) the adverse effects or consequences of the deficiency, and prevent a recurrence of the deficiency;
- (3) Advise the recipient that a certification will no longer be acceptable and that additional assurances will be required;
- (4) Advise the recipient to suspend disbursement of funds for the deficient activity;
- (5) Advise the recipient to reimburse its program account or letter of credit in any amounts improperly expended and reprogram the use of the funds in accordance with applicable requirements;
- (6) Change the method of payment to the recipient from a letter of credit basis to a reimbursement basis;
- (7) In the case of claims payable to HUD or the U.S. Treasury, institute collection procedures pursuant to subpart B of 24 CFR part 17; and
- (8) In the case of an entitlement recipient, condition the use of funds from a succeeding fiscal year's allocation upon appropriate corrective action by the recipient pursuant to Sec. 570.304(d). The failure of the recipient to undertake the actions specified in the condition may result in a reduction, pursuant to Sec. 570.911, of the entitlement recipient's annual grant by up to the amount conditionally granted.