
AUDIT REPORT



CITY OF INDIANAPOLIS ECONOMIC DEVELOPMENT INITIATIVE – SPECIAL PURPOSE GRANT (B-03-SP-IN-0240)

INDIANAPOLIS, IN

HUD's Interest in More Than \$130,000 in Grant Funds
Awarded to the City Was Not Secured

2005-CH-1021

SEPTEMBER 30, 2005

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	September 30, 2005
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Audit Report Number	2005-CH-1021
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TO: Francis P. McNally, Director of Congressional Grants, DECC

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

SUBJECT: HUD's Interest in More Than \$130,000 in Economic Development Initiative – Special Purpose Grant Funds Awarded to the City of Indianapolis Was Not Secured; Indianapolis, Indiana

HIGHLIGHTS

What We Audited and Why

We audited the City of Indianapolis, Indiana's (City) Economic Development Initiative - Special Purpose Grant (Grant). We initiated the audit in conjunction with our internal review of the U.S. Department of Housing and Urban Development's (HUD) oversight of Economic Development Initiative – Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the City's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative – Special Purpose Grants, in which 90 percent or more in funds were disbursed. Our objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

What We Found

The City used the Grant funds in accordance with HUD's requirements. It disbursed \$134,123 in Grant funds to the Indiana University Research and Technology Corporation (Corporation) to pay for the construction of the Indiana University Emerging Technologies Center's (Center) wet laboratory space.

However, it did not place a covenant on the property title for the Center assuring nondiscrimination based on race, color, national origin, or handicap.

What We Recommend

We recommend that HUD's director of congressional grants require the City to ensure the Corporation records a covenant on the property title for the Center assuring nondiscrimination based on race, color, national origin, or handicap. If the covenant is not recorded, the City should reimburse HUD \$134,123 from nonfederal funds for the Grant funds used to pay for the Center's wet laboratory space.

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

Auditee's Response

We provided our discussion draft audit report to the City's director of metropolitan development and HUD's staff during the audit. We held an exit conference with the City's assistant administrator of economic development for the Department of Metropolitan Development on September 19, 2005.

We asked the City's director of metropolitan development to provide comments on our discussion draft audit report by September 21, 2005. The City's administrator of community economic development for the Department of Metropolitan Development provided written comments dated September 21, 2005. The administrator of community economic development agreed to implement corrective action to address our finding. The complete text of the written comments can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Economic Development Initiative program. The U.S. Department of Housing and Urban Development's (HUD) Economic Development Initiative program includes noncompetitive Economic Development Initiative – Special Purpose Grants. HUD awards Economic Development Initiative – Special Purpose Grants to entities included in the U.S. House of Representatives' conference reports.

The City of Indianapolis, Indiana. Organized under the laws of the State of Indiana, the City of Indianapolis (City) and Marion County, Indiana are combined under a unified government (Unigov). Unigov is governed by a mayor and a 29-member council. The U.S. House of Representatives' Conference Report 108-10 set aside \$135,000 in Economic Development Initiative – Special Purpose Grant (Grant) funds to the City for construction at the life sciences research park. In December 2003, HUD awarded the City a \$134,123 Grant to pay for the construction of wet laboratory space at the Indiana University Emerging Technologies Center (Center). The Center is a business incubator for life sciences, biotechnology, and bioinformatics companies. It provides support, guidance, and resources to help entrepreneurs launch and build successful companies. The City's Department of Metropolitan Development administered the City's Grant. The City disbursed the Grant funds to the Indiana University Research and Technology Corporation (Corporation) to construct the Center. The City's records for the Grant are maintained at the City-County Building, located at 200 East Washington Street, Indianapolis, Indiana.

The Indiana University Research and Technology Corporation. Incorporated in 1996 under the laws of the State of Indiana, the Corporation, formerly the Advanced Research Technology Institute, is a nonprofit corporation charged with increasing Indiana University's collaboration with the private sector.

We initiated this audit in conjunction with our internal review of HUD's oversight of Economic Development Initiative – Special Purpose Grants. The review is part of our fiscal year 2005 annual audit plan. We chose the City's Grant based upon a statistical sample of fiscal years 2002 and 2003 Economic Development Initiative – Special Purpose Grants, in which 90 percent or more in funds were disbursed.

Our objectives were to determine whether the City used its Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property.

RESULTS OF AUDIT

Finding: HUD's Interest in More Than \$130,000 in Grant Funds Awarded to the City Was Not Secured

The City disbursed \$134,123 in Grant funds to the Corporation to pay for the construction of the Center's wet laboratory space; however, the City did not ensure the Corporation placed a covenant on the property title for the Center, a research facility constructed with Grant funds, assuring nondiscrimination based on race, color, national origin, or handicap. The City did not record the covenant on the title because it lacked effective oversight over applicable Grant requirements. As a result, HUD's interest in the Center is not protected.

The City Used More Than \$130,000 in Grant Funds without Placing a Covenant on the Center's Title to Ensure Nondiscrimination

Contrary to federal requirements, the City did not ensure the Corporation secured HUD's interest in \$134,123 in Grant funds used to pay for the construction of the Center's wet laboratory space. The Center is a business incubator for life sciences, biotechnology, and bioinformatics companies. The funds were disbursed in February 2004. The City failed to place a covenant on the Center's property title to assure nondiscrimination based on race, color, national origin, or handicap. The purpose of the covenant is to ensure nondiscrimination for the period that the Center is used for a research facility as outlined in the City's application for the Grant or for another purpose involving similar services or benefits. The recording of the covenant will provide HUD recourse if discrimination based on race, color, national origin, or handicap occurs in relation to the Center.

HUD's Interest in the Center Is at Risk

The City's administrator of economic development for the Department of Metropolitan Development said HUD did not provide the City any directives or guidance regarding the securing of HUD's interest in the Center. However, the City assured it would place a covenant in the real property's title to assure nondiscrimination during the useful life of the project. The recording of the covenant will provide HUD recourse if discrimination based on race, color, national origin, or handicap occurs in relation to the Center.

Recommendations

We recommend that HUD's director of congressional grants require the City to

- 1A. Ensure the Corporation records a covenant on the property title for the Center assuring nondiscrimination based on race, color, national origin, or handicap. The covenant should help ensure that the City protects HUD's interest in the \$134,123 in Grant funds used for the Center.
- 1B. Reimburse HUD from nonfederal funds for the Grant funds used to pay for the Center's wet laboratory space if the covenant is not recorded.

SCOPE AND METHODOLOGY

We performed the audit at the City's Department of Metropolitan Development's offices and the Center in July 2005. To accomplish our objectives, we interviewed HUD's staff, and the City's and the Center's employees.

To determine whether the City used Grant funds in accordance with HUD's requirements and recorded HUD's interest on the assisted property, we reviewed

- U.S. House of Representatives' Conference Report 108-10,
- HUD's file related to the Grant,
- The City's financial records,
- The Corporation's financial records, and
- The Indiana secretary of state's, the City's, and the Center's Websites for organizational information on the City and the Institute.

We also reviewed 24 CFR [*Code of Federal Regulations*] parts 1, 8, and 85; HUD Directives 1.5, 8.50, and 85.31; Office of Management and Budget Circulars A-21, A-87, A-110, and A-122; and HUD Handbook 2000.06, REV-3.

The audit covered the period from December 1, 2003, through June 10, 2005. This period was adjusted as necessary. We performed 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,
- Compliance with applicable laws and regulations, and
- Safeguarding resources.

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:

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

We assessed all of the relevant controls identified above.

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

Significant Weakness

Based on our audit, we believe the following item is a significant weakness:

- The City did not record the covenant on the title because it lacked effective oversight over applicable Grant requirements.

APPENDIXES

Appendix A

SCHEDULE OF FUNDS TO BE PUT TO BETTER USE

Recommendation number	Funds to be put to better use 1/
1A	<u>\$134,123</u>
Total	<u>\$134,123</u>

1/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an Office of Inspector General (OIG) recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

AUDITEE COMMENTS



September 21, 2005

Mr. Brent Bowen
Assistant Regional Inspector General for Audit
United States Department of HUD-Office of Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, IL 60604

Re: Audit of 2003 EDI Special Purpose Grant No. B-03-SP-IN-02

Dear Mr. Bowen:

The purpose of this letter is to respond to the audit conducted for EDI Special Purpose Grant No. B-03-SP-IN-02, the audit concluded that the City had one finding for the EDI Special Project.

The Draft Audit Report stated that the City did not secure HUD's interest because the City did not ensure that a covenant assuring nondiscrimination based on race, color, national origin, or handicap was placed on the property where Indiana University Emerging Technologies Center is located. HUD recommended the City ensure that such a nondiscrimination covenant is recorded on the property title for Indiana University Emerging Technologies Center.

The City has responded by relaying HUD's request to the Indiana University Research and Technology Corporation (IURTC). The IURTC has recommended to the Indiana University Foundation (owner of the property) that a covenant assuring nondiscrimination based on race, color, national origin, or handicap needed to be placed on the title of the land. Indiana University Foundation has acted on this request and is currently in the process of having the covenant placed on the title. The Indiana University Foundation has provided a draft copy of the covenant, and it is attached with this letter.

We appreciate the opportunity to respond to the Draft Audit Report of for EDI Special Purpose Grant No. B-03-SP-IN-02, and look forward to continuing our partnership with HUD.

If you have any questions regarding these comments, please feel free to call Amber Ross, Senior Economic Impact Analyst at 317-327-5402.

Sincerely,

Margaret Lawrence Banning
Administrator of Community Economic Development

Department of Metropolitan Development
Office Of the Director

2042 City County Building | (317) 327-5355
200 East Washington Street | (fax) 327-5958
Indianapolis, Indiana 46204 | indygov.org

2005 SEP 21 10:17 AM

317-327-5402

COMMUNITY ECONOMIC DEVELOPMENT

Cc: Mr. John R. Kerstiens, Vice President of Finance & Chief Financial Officer, Indiana University
Research and Technology Corporation.
Stephanie Quick, Assistant Administrator of Economic Development, DMD

Attachments: Draft Copy of Covenant

UNIVERSITY OF INDIANA LIBRARY & ARCHIVES FAX: 317-495-2700 SEP 21 2007 12:08 PM

Appendix C

FEDERAL REQUIREMENTS

The City's grant agreement with HUD, article I, section B, states the grant funds must be made available in accordance with 24 CFR [*Code of Federal Regulations*] parts 1 and 8. Section E of article I states the City will comply with 24 CFR [*Code of Federal Regulations*] part 85.

According to 24 CFR [*Code of Federal Regulations*] 1.5(a)(2), in the case of real property, structures, improvements thereon, or interests therein, acquired through a program of federal financial assistance, the instrument effecting any disposition by the recipient of such real property, structures, improvements thereon, or interests therein shall contain a covenant running with the land assuring nondiscrimination based on race, color, or national origin for the period during which the real property is used for a purpose for which the federal financial assistance is extended or for another purpose involving the provision of similar services or benefits.

According to 24 CFR [*Code of Federal Regulations*] 8.50(c)(2), when no transfer of property is involved, but property is purchased or improved with federal financial assistance, the recipient shall agree to include a covenant in the instrument effecting or recording any later transfer of the property for the period during which it retains ownership or possession of the property to assure nondiscrimination based on a handicap.

The City's administrator of economic development for the Department of Metropolitan Development certified in Form HUD-424-B, Applicant Assurances and Certifications, sections 2 and 3, that the City would administer the Grant in compliance with 24 CFR [*Code of Federal Regulations*] 1 and 8.