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Audit Case Number	98-CH-259-1005

TO: Dennis Kane, Coordinator of the EZ/EC Initiative, Office of Community Planning and Development, DEEZ

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: City of Atlanta
Empowerment Zone Program
Atlanta, Georgia

We completed an audit of the City of Atlanta's Empowerment Zone Program. The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds to meet the objectives of its Strategic Plan; and (2) accurately reported the accomplishments of its Empowerment Zone Program to HUD. We performed the audit based upon our Fiscal Year 1998 annual audit plan.

Based on our review of 16 of the 123 activities reported to HUD in its June 30, 1997 Performance Review, we concluded that the City did not maintain adequate control over its Empowerment Zone Program to assure efficient and effective use of the funds or accurate reporting of the Program's accomplishments. The City inappropriately: paid \$739,178 for services from Empowerment Zone funds and was billed \$53,979 for services that did not benefit Zone residents; used \$429,241 of Zone funds to assist in the relocation of a business to the Zone, but the relocation of the business resulted in decreased employment and the closing of the business in its original location which is not an appropriate use of Zone funds; committed \$400,000 of Zone funds to assist in the relocation of another business to the Zone which will result in the closing of the business and decreased employment in the original location; and provided \$8,000 of Zone funds to assist in the purchase of a home located outside of the Zone. The City also did not competitively bid a contract awarded under the Empowerment Zone Program, inaccurately reported the accomplishments of its Zone activities, and incorrectly reported nine activities as Zone activities when they were not. As a result, Zone funds were not efficiently and effectively used, and HUD was provided with the impression that the benefits of the Program were greater than actually achieved.

Management Memorandum

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312)353-7832.

Executive Summary

We completed an audit of the City of Atlanta's Empowerment Zone Program. The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds to meet the objectives of its Strategic Plan; and (2) accurately reported the accomplishments of its Empowerment Zone Program to HUD. We performed the audit based upon our Fiscal Year 1998 annual audit plan.

We found that the City did not have adequate control over its Empowerment Zone funds. Specifically, the City inappropriately: paid \$739,178 for services from Empowerment Zone funds and was billed \$53,979 for services that did not benefit Zone residents; used \$429,241 of Zone funds to assist in the relocation of a business to the Zone, but the relocation of the business resulted in decreased employment and the closing of the business in its original location which is not an appropriate use of Zone funds; committed \$400,000 of Zone funds to assist in the relocation of another business to the Zone which will result in the closing of the business and decreased employment in the original location; and provided \$8,000 of Zone funds to assist in the purchase of a home located outside of the Zone. The City also did not competitively bid a contract awarded under the Empowerment Zone Program, inaccurately reported the accomplishments of its Zone activities, and incorrectly reported nine activities as Zone activities when they were not. As a result, Zone funds were not efficiently and effectively used, and HUD was provided with the impression that the benefits of the Program were greater than actually achieved.

The City Did Not Have Adequate Control Over Zone Funds

As previously mentioned, the City of Atlanta did not maintain adequate oversight of Empowerment Zone funds. Four of the 16 activities we reviewed incurred inappropriate expenditures or improper commitment of Empowerment Zone funds. The City also did not competitively bid a contract awarded under the Empowerment Zone Program.

The problems occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not: (1) perform monitoring reviews to ensure services were provided to Empowerment Zone residents; (2) have procedures to ensure that Zone funds were awarded according to requirements; (3) provide accurate information to HUD for approval to use Zone funds; and (4) correctly interpret the Federal law regarding the use of Empowerment Zone funds to relocate businesses.

The City Incorrectly Reported Zone Activities' Accomplishments

The City of Atlanta incorrectly reported the actual status and progress for five of the 16 activities we reviewed from

the June 30, 1997 Performance Review. The 1997 Performance Review contained inaccuracies related to: four activities' performance measures; three activities' funding; two activities' performance milestones; and one activity's narrative status. The inaccuracies occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not verify the information included in the Performance Review. As a result, the City did not accurately report the accomplishments of its Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

The City Inaccurately Reported Activities As Zone Activities

The City of Atlanta incorrectly reported activities included in its June 30, 1997 Performance Review as Empowerment Zone Program activities when they were not. Of the 16 activities we selected for review from the Performance Review, the City inappropriately reported that nine activities were Zone activities. The nine non-Zone activities were included as benchmarks in the City's Strategic Plan; however, the activities were established or scheduled prior to the City's Zone designation. HUD's instructions for the Performance Review reporting is designed to measure the performance of Empowerment Zone activities. Because the City included the nine non-Zone activities in the Performance Review, the City incorrectly reported that 170 housing units were rehabbed or constructed and \$57,204,000 in funding was leveraged as a result of the Empowerment Zone Program. The problem occurred because the Atlanta Empowerment Zone Corporation, which administers the City's Empowerment Zone Program, misunderstood HUD's verbal instructions on the preparation of the Performance Review and did not remove the inappropriate benchmarks. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative, in conjunction with officials from the Department of Health and Human Services, assure that the City of Atlanta reimburses the Empowerment Zone Program for the inappropriate use of Zone funds and implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the former Acting Executive Director and the current Executive Director of the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, and HUD's staff during the audit. We held an exit conference with the current Executive Director and the Commissioner for the City's Department of Planning, Development, and Neighborhood Conservation on September 1, 1998. The Corporation provided written comments to our draft findings. We included paraphrased excerpts of the comments with each finding (see Findings 1, 2, and 3) and excerpts of the comments with the summary of activities reviewed (see Appendix B). The complete text of the comments are included in Appendix C with the exception of an exhibit that was not necessary for understanding the Corporation's comments. A complete copy of the Corporation's comments with the exhibit were provided to HUD's Coordinator of the EZ/EC Initiative and the Director of Community Planning and Development, Georgia State Office.

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Introduction

The City of Atlanta was designated as an urban Empowerment Zone effective December 21, 1994. The objective of the Empowerment Zone Program is to rebuild communities in poverty stricken inner cities and rural areas by developing and implementing strategic plans. The plans are required to be based upon the following four principles: (1) creating economic opportunity for Empowerment Zone residents; (2) creating sustainable community development; (3) building broad participation among community-based partners; and (4) describing a strategic vision for change in the community.

The Empowerment Zone Program was authorized by the Omnibus Budget Reconciliation Act of 1993. The Reconciliation Act provided funding for the Program under Title 20 of the Social Security Act. The Empowerment Zone Program was designed to provide \$250 million in tax benefits with \$100 million of Social Service Block Grant funds from the Department of Health and Human Services. As of June 30, 1998, the City of Atlanta drew down \$8,398,530 in Empowerment Zone funds from the Social Services Block Grant and had spent \$8,100,61512.

The City of Atlanta is a municipal corporation governed by a mayor and a city council. The City's fiscal year is January 1 through December 31. The City contracted with the Atlanta Empowerment Zone Corporation, a non-profit organization and a component of the City of Atlanta, to administer its Empowerment Zone Program.

The Mayor of the City of Atlanta and the Chairman of the Atlanta Empowerment Zone Corporation is the Honorable Bill Campbell. The former Acting Executive Director of the Corporation was Elbert Jenkins who was replaced in July 1998. The current Executive Director is Joseph Reid. The Corporation's Empowerment Zone books and records are located at 675 Ponce De Leon Avenue, North West, Atlanta, Georgia.

Audit Objectives

The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds to meet the objectives of its Strategic Plan; and (2) accurately reported the accomplishments of its Empowerment Zone Program to HUD.

Audit Scope And Methodology

We performed our on-site work between March and July 1998. To determine whether the City efficiently and effectively used Empowerment Zone funds and accurately reported the accomplishments of its Empowerment Zone Program, we interviewed staff from HUD, the City, the Atlanta Empowerment Zone Corporation, and administering entities of the City's Zone activities. Based upon the activities' funding and reported accomplishments, we judgmentally selected 16 of the City's 123 activities

reported in the June 30, 1997 Performance Review. The following table shows the 16 activities reviewed:

<i>Activity</i>
1. Atlanta Center for Home Ownership
2. Revolving Loan for Creative Fine Arts
3. Mortgage Assistance Program
4. Revolving Loan for Corporate Courier
5. Sweet Auburn Curb Market
6. Revolving Loan Fund
7. Pittman Park Improvements
8. Joyland Park Improvements
9. Chosewood Park Tennis Courts Improvements
10. Daniel Stanton Recreation Center
11. Sidewalk Repair
12. Bridge Repair
13. Storm Drainage Improvements
14. Reynoldstown Community Revitalization Project
15. Historic District Community Revitalization Project
16. Revolving Loan Fund - Miss Piggy's

To evaluate the City's Empowerment Zone Program, we reviewed records maintained by HUD, the Atlanta Empowerment Zone Corporation, the City, and the administering entities. We reviewed: HUD's guidance and instructions for the Program; the Corporation's files, reports, and approved payment requests related to the activities; the City's June 1997 Performance Review and supporting documentation; and the administering entities' voucher payments, monitoring files, and supporting documentation. We visited each of the administering entities for the 16 activities included in our audit to review their documentation, reports, and correspondence.

The audit period covered the period July 1, 1996 to June 30, 1997. This period was adjusted as necessary. We conducted our audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Mayor of the City of Atlanta and the Executive Director of the Atlanta Empowerment Zone Corporation. We also provided a copy of this report to the Acting Director of the Office for Civil Rights, Department of Health and Human Services.

The City Did Not Have Adequate Control Over Empowerment Zone Funds

The City of Atlanta did not maintain adequate oversight of Empowerment Zone funds. Four of the 16 activities we reviewed incurred inappropriate expenditures or improper commitment of Empowerment Zone funds. The inappropriate expenditures or improper commitment of funds accounted for 49.6 percent of the Empowerment Zone funds allotted to the 16 activities. The City inappropriately: (1) paid \$739,178 for services from Empowerment Zone funds, and was billed \$53,979 for services provided, but the services did not benefit Zone residents; (2) used \$429,241 of Empowerment Zone funds to assist in the relocation of a business to the Zone, but the relocation of the business resulted in decreased employment and the closing of the business in its original location which is not an appropriate use of Zone funds; (3) committed \$400,000 of Empowerment Zone funds to assist in the relocation of another business to the Zone which will result in the closing of the business and decreased employment in the original location; and (4) provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside of the Zone. The City also did not competitively bid a contract awarded under the Empowerment Zone Program.

The problems occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not: perform monitoring reviews to ensure services were provided to Empowerment Zone residents; have procedures to ensure that Zone funds were awarded according to requirements; provide accurate information to HUD when it sought HUD's approval to use Zone funds; and correctly interpret the Federal law regarding the use of Empowerment Zone funds to relocate businesses. As a result, Empowerment Zone funds were not used efficiently and effectively.

United States Code

Title 20 of the United States Code, Section 2007(c)(1)(B) requires Empowerment Zone funds to be used for activities that benefit Zone residents.

For the purposes of our audit, we concluded activities did not benefit Empowerment Zone residents if the activities served less than 51 percent of Zone residents, or if the activities did not provide benefits to Zone residents when the activity administrators had control over who received the benefit of the services.

Title 26 of the United States Code, Section 1391(f)(2)(F) prohibits any action to assist any establishment in relocating from an area outside the nominated area to the nominated area when the relocation will result in decreased employment and closing of the establishment in the area of original location.

HUD's Requirements

24 CFR Part 597.200(f) states activities included in the Strategic Plan may be funded from any source which provides assistance to the nominated area.

Department Of Health And Human Services' Requirements

45 CFR Part 92.36 states that all procurement transactions will be conducted in a manner providing full and open competition. Furthermore, contract awards will be made to the lowest responsive and responsible bidder.

City's Contract Requirements

The contract dated July 8, 1996 between the City of Atlanta and the Atlanta Empowerment Zone Corporation states that the Corporation will monitor subgrantee and subcontractor activities for the Empowerment Zone Program and take reasonable steps to ensure compliance with all applicable laws and regulations.

Oversight Of Zone Funds Was Not Adequate

The City of Atlanta did not maintain adequate oversight over four of the 16 activities we reviewed. The City: used \$739,178 of Empowerment Zone funds to provide services and was improperly billed another \$53,979 for services that did not benefit Zone residents; paid \$429,241 in Empowerment Zone funds to assist in the relocation of a business to the Zone when the relocation of the business resulted in decreased employment and the closing of the business in its original location; improperly committed \$400,000 of Empowerment Zone funds to assist in the relocation of another business that will result in the closing of the business and decreased employment in the original location; and inappropriately provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside of the Zone. The inappropriate expenditures or improper commitment of funds accounted for 49.6 percent of the Empowerment Zone funds allotted to the 16 activities. The City also did not competitively bid the contract for the Atlanta Center for Home Ownership program. The following table shows the total impact of the funding problems:

Activity	No Benefit	Business Relocation
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Home Ownership Program	\$793,157	
Creative Fine Arts		\$429,241
Mortgage Assistance Program	8,000	
Corporate Courier		<u>400,000</u>
TOTAL	<u>\$801,157</u>	<u>\$829,241</u>

A detailed summary for each of the four activities is at page 40 for the Home Ownership program, page 59 for Creative Fine Arts, page 37 for the Mortgage Assistance Program, and page 52 for Corporate Courier.

Empowerment Zone Funds Did Not Benefit Zone Residents

The Housing Authority of the City of Atlanta, the administering entity for the Atlanta Center for Home Ownership program, used \$739,178 of Empowerment Zone funds that did not benefit Zone residents. The Authority's contract with the Atlanta Empowerment Zone Corporation and the affordable housing proposal required that the program provide services for money management, home management, and home ownership to Empowerment Zone residents. However, services were provided to non-Zone individuals. The problem occurred because the Corporation did not monitor the program to ensure that Zone residents were the beneficiaries of the program.

The Authority also billed the Atlanta Empowerment Zone Corporation \$60,651 for services provided during January and February 1998. During this period, the program served 98 (11 percent) Zone residents out of 889 individuals served. Of the \$60,651 billed, \$53,979 (89 percent x \$60,651) was for services to non-Zone residents.

Empowerment Zone Funds Were Used To Relocate A Business To The Zone

The City inappropriately provided \$500,000 of Empowerment Zone funds for the revolving loan to Creative Fine Arts of which \$429,241 was outstanding as of May 31, 1998. The funds were used to assist the relocation and expansion of Creative Fine Arts to the Empowerment Zone from an established location outside the Zone. However, Federal law prohibits the use of Empowerment Zone funds to assist a business to relocate to the Zone. The Atlanta Empowerment Zone Corporation requested HUD's approval in October 1996 to use Empowerment Zone funds for the loan; however, the Corporation did not provide

HUD with complete or accurate information on which to make its decision.

The City Inappropriately Committed Zone Funds To Relocate A Business

The City inappropriately committed \$400,000 of Empowerment Zone funds for the revolving loan to Corporate Courier. The Atlanta Empowerment Zone Corporation signed a loan commitment with Corporate Courier in September 1996 to assist the business in its relocation and expansion into the Empowerment Zone. The relocation will result in the closing of Corporate Courier and decreased employment in the original location. As previously stated, Federal law prohibits the use of Empowerment Zone funds to assist a business to relocate to the Zone.

Empowerment Zone Funds Were Used To Assist In The Purchase Of A House Outside The Zone

The City provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside the Zone. The individual who received the funding lived in the Zone and was an employee of the Atlanta Empowerment Zone Corporation, which administered the Mortgage Assistance Program. The Program's guidelines required funds to be provided to Empowerment Zone residents who purchase a home located within the Zone. The Corporation did not have procedures to verify the location of a property before giving a loan.

Contract Was Not Properly Procured

The Atlanta Empowerment Zone Corporation did not properly procure its contract with the Housing Authority of the City of Atlanta. In July 1996, the Corporation signed a \$4 million, nine year contract with the Authority to provide home ownership services to Empowerment Zone residents. The City awarded the contract to the Authority without full and open competition. The City planned to provide the Authority \$13.2 million of Zone funds for the Authority's modernization efforts; however, the plan was changed because of resistance by community leaders. In order to determine whether the contract was reasonable, we compared the Authority's program costs to cost proposals we obtained from four vendors.

The costs charged by the Authority appear within an acceptable range when compared to the vendors' quotes. However, the Authority's cost is based on the volume of both Empowerment Zone residents and non-Zone residents; whereas, the four quotes we obtained were based on services to only

Empowerment Zone residents. The Director of the Home Ownership Center said the costs of the program would increase significantly if the program only served Zone residents. As a result, the City and HUD lack assurance that the contract costs represented the most efficient and effective expenditure of Empowerment Zone funds.

Empowerment Zones Are Intended To Benefit Zone Residents

The Empowerment Zone Program was established to stimulate the creation of new jobs, particularly for the disadvantaged and long-term unemployed, and to promote revitalization of economically distressed areas. The United States Code requires that Empowerment Zone funds must be used for activities that benefit Zone residents.

To effectively accomplish the Empowerment Zone Program's objectives, Zone resources need to be spent in the nominated area and to the benefit of Zone residents to the maximum extent possible. Where the nature of an activity is such that it affects both Empowerment Zone and non-Zone residents, such as the creation of a grocery store, then the City needs to demonstrate that the activity primarily benefits Zone residents. Because the Corporation did not monitor the Empowerment Zone activities to ensure that the activities benefited Zone residents to the maximum extent possible, the impact of the Empowerment Zone expenditures on Zone residents was diminished.

The funds that were not efficiently and effectively used were Title 20 funds from the Department of Health and Human Services. Since all Federal officials have a fiduciary responsibility to ensure the efficient and effective use of Federal funds, we recommend that the funds that were not appropriately used be reimbursed to the Empowerment Zone Program. Reimbursement to the Program should not impede the goals of the Empowerment Zone Program since the funds will be available for appropriate Zone activities.

Auditee Comments

Excerpts paraphrased from the Atlanta Empowerment Zone Corporation's comments on our draft findings follow. Appendix C contains the complete text of the comments.

The Atlanta Empowerment Zone Corporation disagrees that the City should reimburse \$1,176,419 to the Empowerment Zone Program. The Corporation also disagrees that the City should limit reimbursement for services billed to \$6,672 because the Atlanta Housing Authority had a contractual relationship with the Corporation. The referenced loan to Corporate Courier is no longer valid. A new commitment has been made for \$250,000 which will be used for the acquisition of equipment.

OIG Evaluation of
Auditee Comments

We believe reimbursement by the City to the Empowerment Zone Program is necessary because the use of Zone funds was not in accordance with Federal law, HUD's regulations, and the Corporation's requirements. We acknowledge that the Corporation may have a contractual obligation to pay the Authority for services to non-Zone residents. We have adjusted our recommendation to say that the City should only use \$6,672 of Zone funds to reimburse the Authority.

The new commitment to Corporate Courier may be appropriate if Empowerment Zone funds are not used as an incentive for Corporate Courier to relocate to the Zone. The City needs to ensure that the use of Zone funds for the new commitment is in accordance with Federal law.

Auditee Comments

The City will continue to take all necessary steps to ensure Empowerment Zone funds are used efficiently and effectively and for purposes consistent with Federal law and regulation.

It is clear that the OIG made a factual error in reporting that the agreement establishing the Atlanta Center for Home Ownership program required that all services be provided only to Zone residents.

OIG Evaluation of
Auditee Comments

The City acknowledges that it will ensure Zone funds are efficiently and effectively used. At the time of our review, procedures and controls were not adequate. The City needs to establish procedures and controls to ensure that Zone funds are properly used. We acknowledge that the Atlanta Center for Home Ownership is not required to provide services to only Zone residents. We adjusted our finding to reflect this fact. For the purpose of this audit, we concluded activities did not benefit Zone residents if the activities served less than 51 percent of Zone residents, or if the activities did not provide

benefits to Zone residents when the activity's administrators had control over who received the benefit of their services.

Auditee Comments

The Atlanta Empowerment Zone Corporation has hired a new Executive Director. Among the many tasks before him is to improve the procedures and controls to monitor Empowerment Zone funded activities. The Corporation will continue to improve the accuracy of the information provided to HUD.

OIG Evaluation of Auditee Comments

The City should ensure that procedures and controls are established to monitor activities funded under the Empowerment Zone Program and to improve the accuracy of information provided to HUD.

Auditee Comments

The Corporation has developed procedures to ensure compliance with the Mortgage Assistance Program's guidelines. The Corporation has assigned the responsibility of oversight for the Program to a housing specialist.

OIG Evaluation of Auditee Comments

The Corporation said it developed procedures and controls to ensure compliance with the Mortgage Assistance Program's guidelines; however, the Corporation did not provide the procedures with its comments. The Corporation assigned responsibility for the Program to a housing specialist. The Corporation's Executive Director needs to ensure that supervisory reviews over the Program are adequate.

Auditee Comments

The new Executive Director will review the Corporation's current procurement practices and will make improvements as needed. The intergovernmental agreement between the Corporation and the Atlanta Housing Authority is not in violation of the Department of Health and Human Services' procurement standards and complies with the Office of Management and Budget's Common Rule. The Authority's per client cost is reasonable.

OIG Evaluation of Auditee Comments

The Department of Health and Human Services' regulations require that all procurement transactions be conducted in a manner providing full and open competition. While the regulations and the Office of Management and Budget's Common Rule allow for intergovernmental agreements, the

agreements must foster greater economy and efficiency. The City and the Corporation could not provide assurance that the agreement was economical or efficient.

We acknowledge that the Atlanta Center for Home Ownership's cost per person is reasonable; however, the Center's Director said the cost of the program would increase significantly if the program only served Zone residents. Since the Center primarily served non-Zone residents and needs to increase the number of Zone residents served, the City needs to ensure that the cost of the program remains competitive.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative, in conjunction with officials from the Department of Health and Human Services, assure the City of Atlanta:

- 1A. Reimburses the Empowerment Zone Program \$1,176,419 from non-Federal funds for the home ownership services (\$739,178), the loan to Creative Fine Arts (\$429,241), and the mortgage assistance loan (\$8,000).
- 1B. Only reimburses the Housing Authority of the City of Atlanta \$6,672 from Empowerment Zone funds for services provided to Zone residents during January and February 1998.
- 1C. Uses Empowerment Zone funds to fulfill the \$250,000 loan commitment to Corporate Courier only if the use of Zone funds fully complies with Federal law.
- ID. Establishes procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Program requirements.
- 1E. Ensures the Housing Authority of the City of Atlanta provides services to Empowerment Zone residents as required by the Atlanta Empowerment Zone Corporation's contract.
- 1F. Establishes procedures and controls to ensure that the Atlanta Empowerment Zone Corporation monitors all Empowerment Zone activities as required by the City's contract.

- 1G. Ensures the Atlanta Empowerment Zone Corporation provides complete and accurate information when requesting approval to use Empowerment Zone funds.
- 1H. Ensures the Atlanta Empowerment Zone Corporation establishes procedures and controls so that the Mortgage Assistance Program complies with established guidelines.
- 1I. Ensures the Atlanta Empowerment Zone Corporation establishes supervisory review and oversight over the Mortgage Assistance Program.
- 1J. Establishes procedures and controls to ensure that Empowerment Zone contracts are awarded in a manner providing full and open competition as required by the Department of Health and Human Services.
- 1K. Ensures costs charged by the Housing Authority of the City of Atlanta do not exceed those that would have been charged if the contract had been competitively bid.

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The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Activities

The City of Atlanta incorrectly reported the actual status and progress for five of the 16 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: four activities' performance measures; three activities' funding; two activities' performance milestones, and one activity's narrative summary. The inaccuracies occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not verify the information included in the Performance Review. As a result, the City did not accurately report the accomplishments of its Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

HUD's Requirements

Page 3 of the December 21, 1994 Memorandum of Agreement between HUD and the City of Atlanta requires the City to submit reports to HUD on the progress made in carrying out activities specified in the Strategic Plan. Page 3 of the Agreement also requires the City to provide HUD with a narrative summarizing the progress made and obstacles encountered in carrying out the Plan during each year of designation.

The 1997 EZ/EC Performance Review instructions issued by HUD on June 23, 1997, page 4, state for performance measures, Empowerment Zones will report the final products produced or other measurable outcomes of the activity. Zones should describe: the major sources of funding, the amounts, and the status of the commitment at the time the report is submitted. For performance milestones, Empowerment Zones should also report both projected and actual dates for key interim actions that will result in the completion of the activity.

The City Incorrectly Reported The Progress Of Empowerment Zone Activities

The City of Atlanta inaccurately reported the accomplishments for five of the 16 activities we reviewed from the June 1997 Performance Review. The status of two activities was accurately reported. The other nine activities although reported as Empowerment Zone activities, were not (see Finding 3). The following table shows the incorrect reporting by performance category for the five

activities reviewed and the page number where a detailed summary for each activity is located:

<i>Activity</i>	<i>Measures</i>	<i>Funding</i>	<i>Milestones</i>	<i>Narrative Summary</i>	<i>Page Number</i>
Sweet Auburn Curb Market	X	X	X		47
Creative Fine Arts	X	X			59
Revolving Loan Program	X		X		50
Corporate Courier		X		X	52
Home Ownership Program	X				40
Totals	4	3	2	1	

The City Inaccurately Reported Four Activities' Performance Measures

The City incorrectly reported the performance measures for four activities. Performance measures are the final products produced or other measurable outcomes of the activity. For example, the City reported in the June 1997 Performance Review that the Atlanta Center for Home Ownership program served a total of 500 Empowerment Zone residents and the Center had received 1,300 visitors as of June 30, 1997. Documentation maintained by the Housing Authority of the City of Atlanta, the program's administering entity, showed that only 189 Empowerment Zone residents were served through June 30, 1997. The Authority did not maintain any documentation to support the number of visitors to the Center. The number of visitors was an estimate provided by the Director of the Center.

The City Over Reported The Activities' Funding By Over \$5 Million

The City over reported the funding for three activities in the June 1997 Performance Review. Funding consists of Empowerment Zone monies, non-Zone Federal funds, State and local funds, private funds, and in-kind contributions. The City reported the three activities' funding included \$6,588,388; however, the activities leveraged funding only included \$1,228,000 as of June 30, 1997. The net affect was an over reporting of \$5,360,388. The following table shows the incorrect funding reported for the three activities:

Activity	Amount Reported	Amount Supported	Over/Under Reporting
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Sweet Auburn Curb Market	\$5,988,388	\$500,000	\$5,488,388
Creative Fine Arts	900,000	728,000	172,000
Corporate Courier	700,000	0	700,000
Totals	\$6,588,388	\$1,228,000	\$5,360,388

Because of the inaccurate reporting, a false impression was created that more funds were committed to the activities than actually were. Since one of the measures of success for the Empowerment Zone Program is the amount of leveraged funds and contributions, we believe it is imperative for the City to accurately report the funding of its activities.

The City Incorrectly Reported The Activities' Performance Milestones

The City inaccurately reported the performance milestones for two activities. Performance milestones are the key interim actions that will result in the completion of the activity. For example, the City's June 1997 Performance Review showed the Revolving Loan Fund program received 100 loan requests between January and December 1996; however, documentation maintained by the Atlanta Empowerment Zone Corporation showed that only 12 requests were received in 1996. The over reporting of loan requests by the Corporation provided an exaggerated impression of program interest.

The City Did Not Have Documentation To Support The Number of Jobs Reported

The City reported in the June 1997 Performance Review that Corporate Courier employed 50 persons of which 12 were Empowerment Zone residents. The Atlanta Empowerment Zone Corporation did not have documentation to support the number of individuals reported as employed by Corporate Courier. The President of Corporate Courier declined to provide us information on the number of its employees and their residency.

The individuals who prepared the 1997 Performance Review no longer work at the Corporation. Personnel currently working at the Empowerment Zone Corporation said they did not know the source of the reported figures. The Corporation did not verify the accuracy of the information reported. We believe it is imperative that the progress of Zone activities be verified to ensure the validity and reliability of reported information.

Auditee Comments

Excerpts paraphrased from the Atlanta Empowerment Zone Corporation's comments on our draft findings follow. Appendix C contains the complete text of the comments.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

The City's actions should ensure the accuracy of the Performance Review, if properly implemented. The Corporation needs to ensure that personnel who prepare the Performance Review use actual verified accomplishments to report on each activity.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative assures the City of Atlanta:

- 2A. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.
- 2B. Ensures that staff, who are responsible for preparing the Performance Review for HUD, use the actual verified accomplishments to report on each activity.

The City Incorrectly Reported Nine Activities As Empowerment Zone Activities

The City of Atlanta incorrectly reported activities included in its June 30, 1997 Performance Review as Empowerment Zone Program activities when they were not. Of the 16 activities we selected for review from the Performance Review, the City inappropriately reported that nine activities were Zone activities. The nine non-Zone activities were established or scheduled prior to the City's Zone designation. HUD's instructions for the Performance Review reporting is designed to measure the performance of Empowerment Zone activities. Because the City included the nine non-Zone activities in the Performance Review, the City incorrectly reported that 170 housing units were rehabbed or constructed and \$57,204,000 in funding was leveraged as a result of the Empowerment Zone Program. The problem occurred because the Atlanta Empowerment Zone Corporation, which administers the City's Empowerment Zone Program, misunderstood HUD's verbal instructions on the preparation of the Performance Review and did not remove the inappropriate benchmarks. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

HUD's Requirements

The June 23, 1997 EZ/EC instructions for Performance Review reporting, page 1, state the Performance Review System is designed to measure the performance of Empowerment Zone activities. Page 3 of the instructions allows Zones to add, modify, or delete individual Strategic Plan benchmarks.

City Incorrectly Reported Nine Projects As Zone Activities

The City of Atlanta inaccurately reported that nine of the 16 activities included in the June 1997 Performance Review that we reviewed were Empowerment Zone activities. The nine non-Zone activities were established or scheduled prior to the City's Zone designation.

HUD's instructions are designed to gather information on activities resulting from the Empowerment Zone Program, and contain procedures to change benchmarks. Because the City included the nine non-Zone activities in the Performance Review, it incorrectly reported that its Empowerment Zone Program: (1) rehabbed or constructed 170 housing units; (2) repaired 5,000 feet of deteriorated sidewalks, and (3) leveraged \$57,204,000 in funding. The following chart lists the nine activities, their reported leveraged funding, and the page number where a detailed summary for each activity is located:

<i>Activity Name</i>	<i>Funding</i>	<i>Page Number</i>
Pittman Park Improvements	\$ 195,000	30
Joyland Park Improvements	100,000	30
Chosewood Park Tennis Courts Improvement	60,000	30
Daniel Stanton Recreation Center	286,000	30
Sidewalk Repair	2,230,000	30
Reynoldstown Community Revitalization	30,236,000	56
Historic District Community Revitalization	17,687,000	56
Storm Drainage Improvements	2,070,000	34
Bridge Repair	4,340,000	34
Total	<u>\$57,204,000</u>	

The Atlanta Empowerment Zone Corporation consultant, who assisted in preparing the Performance Review, said he received verbal instructions from HUD and the Corporation’s former Executive Director to include non-Zone funded activities in the Review.

The Corporation’s staff and the consultant misunderstood the instructions. HUD’s verbal instructions were the same as the requirements contained in the June 1997 Performance Review instructions. The instructions require Zones to report on activities resulting from the Empowerment Zone Program. Since the nine activities were not initiated as a result of the Zone, the City should have included them in the non-Zone activities section of the 1997 Performance Review. As a result, the accomplishments of the Empowerment Zone were not accurately reported to HUD, and an impression was created that the benefits of the Empowerment Zone Program were greater than actually achieved.

Auditee Comments

Excerpts paraphrased from the Atlanta Empowerment Zone Corporation’s comments on our draft findings follow. Appendix C contains the complete text of the comments.

There is no requirement that the source of funding for Empowerment Zone activities was to be made from Zone funds. Zone residents were the beneficiaries of the activities.

The activities were implemented as a result of the Zone designation. The Zone designation acted as a catalyst for implementation of the activities.

We agree that procedures were needed to control and ensure appropriate reporting of Empowerment Zone activities to HUD. Monitoring procedures have been developed to accomplish this goal.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of Auditee Comments

Our finding did not question the source of funding for the activities. We questioned the City's reporting of them as Empowerment Zone activities when the activities were planned before the City's Zone designation. The intention of the Empowerment Zone Performance Review is to measure the impact the Empowerment Zone Program is having on the designated area. If an activity was planned before the City received its designation, the Empowerment Zone Program cannot be considered the catalyst for the activity. The City and the Atlanta Empowerment Zone Corporation did not provide any documentation to show that the Empowerment Zone Program impacted the implementation of the activities.

The procedures the Corporation says it will use to ensure the reporting accuracy of the Performance Review to HUD should correct the problem, if properly implemented.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative assures the City of Atlanta:

- 3A. Establishes procedures and controls to appropriately report Empowerment Zone activities to HUD.

Management Controls

In planning and performing our audit, we considered the management controls of the City of Atlanta in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

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

We assessed all of the relevant controls identified above.

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

Significant Weaknesses

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

- Program Operations.

The City did not use all Empowerment Zone funds to benefit Zone residents or the Zone (see Finding 1).

- Validity and Reliability of Data.

The City incorrectly reported the actual status and progress for five of the 16 activities we reviewed from the June 30, 1997 Performance Review (see Finding 2). The City also incorrectly reported that nine of the 16 activities included in its June 1997 Performance Review were Empowerment Zone Program activities when they were not (see Finding 3).

- Compliance with Laws and Regulations.

The City did not follow the United States Code, the Department Health and Human Services' regulations, or HUD's regulations. Empowerment Zone funds were: (1) used and did not benefit Zone residents or the Zone; (2) paid to relocate a business to the Zone when the relocation of the business resulted in decreased employment and the closing of the business in its original location which is not an appropriate use of Zone funds; and (3) committed to assist in the relocation of another business to the Zone which will result in the closing of the business and decreased employment in the original location. Also, an Empowerment Zone contract was not awarded through a competitive process as required (see Finding 1).

- Safeguarding Resources.

The City inappropriately: (1) paid \$739,178 for services from Empowerment Zone funds, and was billed \$53,979 for services provided, but the services did not benefit Zone residents; (2) used \$429,241 of Empowerment Zone funds to assist in the relocation of a business to the Zone, but the relocation of the business resulted in decreased employment and the closing of the business in its original location which is not an appropriate use of Zone funds; (3) provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside of the Zone; and (4) committed \$400,000 of

Empowerment Zone funds to assist in the relocation of another business to the Zone which will result in the closing of the business and decreased employment in the original location (see Finding 1).

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Follow Up On Prior Audits

This is the first audit of the City of Atlanta's Empowerment Zone Program by HUD's Office of Inspector General. The latest single audit for the City covered the fiscal year ended December 31, 1996. The report contained six findings. One of the six findings is repeated in this report.

Single Audit Report

The City Failed To Effectively Monitor The Empowerment Zone Grant (Finding 6).

This Report

The City Did Not Have Adequate Control Over Empowerment Zone Funds (Finding 1).

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Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs Ineligible ^{1/}</u>
1A	\$1,176,419
1C	<u>400,000</u>
Total	<u>\$1,576,419</u>

^{1/} Ineligible costs are questioned costs to a HUD program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

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Activities Reviewed

This appendix contains the individual evaluations for the activities we reviewed. We judgmentally selected 16 of the City of Atlanta's 123 activities reported in the June 30, 1997 Performance Review. We found that the City inappropriately used or committed Empowerment Zone funds, or inaccurately reported the accomplishments of its Program to HUD for 15 activities. The following table shows the 15 activities that had problems, their location in this appendix, and the finding(s) they relate to:

<i>Activity</i>	<i>Page</i>	<i>Finding</i>
1. Pittman Park Improvements	30	3
2. Joyland Park Improvements	30	3
3. Chosewood Park Tennis Courts Improvements	30	3
4. Daniel Stanton Recreation Center	30	3
5. Sidewalk Repair Sweet	30	3
6. Bridge Repair	34	3
7. Storm Drainage Improvements	34	3
8. Mortgage Assistance Program	37	1
9. Atlanta Center for Home Ownership	41	2 and 3
10. Sweet Auburn Curb Market	48	2
11. Revolving Loan Fund	51	2
12. Revolving Loan for Corporate Courier	53	1 and 2
13. Reynoldstown Community Revitalization Project	57	3
14. Historic District Community Revitalization Project	57	3
15. Revolving Loan for Creative Fine Arts	60	1 and 2

Five Physical Improvement Activities Were Incorrectly Reported As Zone Activities

The City of Atlanta incorrectly reported that five activities included in its June 30, 1997 Performance Review were Empowerment Zone Program activities. The activities were three parks that were to be improved, a recreation center that was to be rehabilitated, and a sidewalk repair program. The activities were included as benchmarks in the City's Strategic Plan; however, the activities were scheduled prior to the City's Zone designation. Because the City included the five activities in the Performance Review, \$2,961,000 in funding was incorrectly reported as leveraged funds. The problem occurred because the Atlanta Empowerment Zone Corporation, which administers the City's Program, misunderstood HUD's verbal instructions on the preparation of the Performance Review and did not remove the inappropriate benchmarks. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

City Incorrectly Reported Five Projects As Zone Activities

The City of Atlanta incorrectly reported that five activities included in the June 1997 Performance Review were Empowerment Zone activities. The five activities were included as benchmarks in the City's Strategic Plan; however, the activities were scheduled prior to the City's Zone designation. HUD's instructions are designed to gather information on activities resulting from the Empowerment Zone Program, and contain procedures to change benchmarks. Because the City included the five activities in the Performance Review, it incorrectly reported that \$2,961,000 in funds were leveraged, and 5,000 feet of deteriorated sidewalks were repaired as a result of the Zone. Funding for the five activities did not involve Empowerment Zone monies. The following chart lists the five activities and their reported funding levels:

<u>Activity Name</u>	<u>Funding</u>
Pittman Park Improvements	\$195,000
Joyland Park Improvements	100,000
Chosewood Park Tennis Courts Improvements	60,000
Daniel Stanton Recreation Center	286,000
Sidewalk Repair	<u>2,320,000</u>
Total	<u>\$2,961,000</u>

The Deputy Commissioner of the City's Department of Parks, Recreation, and Cultural Affairs said the Pittman Park, Joyland Park, Chosewood Park, and the Daniel Stanton Recreation

Center activities were not initiated as a result of the Empowerment Zone Program. He said the activities resulted from suggestions made by the City's staff and community residents. The four activities were included in the City's 1993-1994 Capital Improvements Plan for planned parks and recreation projects.

The Budget Manager for the City's Department of Planning, Development, and Neighborhood Conservation and the former Project Manager for the Corporation for Olympic Development in Atlanta, said the Sidewalk Repair program was initiated in connection with the Olympics. The Sidewalk Repair program was included in the Corporation for Olympic Development in Atlanta's September 1993 survey. The survey identified needed repairs to sidewalks located in 15 neighborhoods near the City's Olympic area.

The Atlanta Empowerment Zone Corporation's consultant, who assisted in preparing the Performance Review, said he received verbal instructions from HUD and the Corporation's former Executive Director to include non-Zone funded activities in the Review. However, the Corporation's staff and the consultant misunderstood the instructions. HUD's verbal instructions were the same as the requirements contained in the June 1997 Performance Review instructions that require Zones to report on activities resulting from the Empowerment Zone Program. Since the four activities were not initiated as a result of the Zone, the City should have included them in the non-Zone activities section of the 1997 Performance Review. As a result, the accomplishments of the Empowerment Zone Program were not accurately reported to HUD and an impression was created that the benefits of the Program were greater than actually achieved.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 74, contains the complete text of the comments.

There is no HUD requirement or Department of Health and Human Services' requirement that states the source of funding for Zone activities has to be funded by Zone dollars. Zone residents directly benefited from these activities which were addressed in the Strategic Plan. All five (5) projects were planned over a period of time, but did not come to

fruition until after the Empowerment Zone designation. These projects assisted in the removal of blight and the revitalization of the Zone. Therefore, since the projects were effectuated after the designation of the Empowerment Zone, these activities were correctly characterized and should be considered accomplishments of the Empowerment Zone.

Although the activities were scheduled prior to the designation of the Atlanta Empowerment Zone, there was no guarantee that these activities would have been implemented without the Zone designation. Further, the designation of the Atlanta Empowerment Zone accelerated the implementation of these activities and was a catalyst for these activities to come to fruition.

There was a need for procedures and controls for the appropriate reporting of Empowerment Zone activities to HUD. The Empowerment Zone has developed monitoring procedures to address these issues that will be used for future reporting.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

Our finding did not question the source of funding for the five activities. We questioned the City's reporting of them as Empowerment Zone activities when the activities were planned before the City's designation as a Zone. The intention of the Empowerment Zone Performance Review is to measure the impact the Empowerment Zone Program is having on the designated area. If an activity was planned before the City received its Zone designation, obviously the Empowerment Zone Program was not the initiative for the activity. The City

and the Atlanta Empowerment Zone Corporation did not provide any documentation to show that the Empowerment Zone Program impacted the five activities.

The procedures the Corporation says it will use to ensure the reporting accuracy of the Performance Review to HUD should correct the problem, if properly implemented.

Bridge Repair and Storm Drainage Improvements Projects Were Incorrectly Reported As Empowerment Zone Activities

The City of Atlanta incorrectly reported that the Bridge Repair and Storm Drainage Improvements projects included in its June 30, 1997 Performance Review were Empowerment Zone Program activities. The projects were included as benchmarks in the City's Strategic Plan; however, the projects were scheduled prior to the City's Zone designation. Because the City included the two projects in the Performance Review, \$6,410,000 in funding was incorrectly reported as leveraged funds. The problem occurred because the Atlanta Empowerment Zone Corporation, which administers the City's Program, misunderstood HUD's verbal instructions on the preparation of the Performance Review. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

City Incorrectly Reported
Two Projects As Zone
Activities

The City of Atlanta incorrectly reported that two projects included in the June 1997 Performance Review were Empowerment Zone activities. The two projects were included as benchmarks in the City's Strategic Plan; however, the projects were scheduled prior to the City's Zone designation. HUD's instructions are designed to gather information on activities resulting from the Empowerment Zone Program, and contain procedures to change benchmarks. Because the City included the two projects in the Performance Review, it incorrectly reported that \$6,410,000 in funds were leveraged. Funding for the two projects did not involve Empowerment Zone monies.

The Budget Manager for the City's Department of Planning, Development, and Neighborhood Conservation said the Bridge Repair and Storm Drainage Improvements projects were not initiated as a result of the City's Empowerment Zone Program. He said the projects were part of the City's infrastructure improvements to correct overdue problems. The Bridge Repair project included improvements to the Decatur and Lakewood Streets bridges. The Decatur Street bridge repairs were initiated prior to the City's designation as an Empowerment Zone and Lakewood Street bridge was included in the City's 1993-1994 Capital Improvement Program that was prepared prior to the City's Empowerment Zone designation. The Storm Drainage project was included in the Corporation for Olympic Development in Atlanta's September 1993 survey which was also completed prior to the City being declared an Empowerment Zone. The survey identified improvements to storm and sanitary sewer systems located in 14 neighborhoods near the City's Olympic area.

The Atlanta Empowerment Zone Corporation's consultant, who assisted in preparing the Performance Review, said he received verbal instructions from HUD and the Corporation's former Executive Director to include non-Zone funded activities in the Review. However, the Corporation's staff and the consultant misunderstood the instructions. HUD's verbal instructions were the same as the requirements contained in the June 1997 Performance Review instructions that require Zones to report on activities resulting from the Empowerment Zone Program. Since the two projects were not initiated as a result of the Zone, the City should have included them in the non-Zone activities section of the 1997 Performance Review. As a result, the accomplishments of the Empowerment Zone Program were not accurately reported to HUD and an impression was created that the benefits of the Program were greater than actually achieved.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 76, contains the complete text of the comments.

There is no stated requirement that limits reported projects to only those that are funded with the Empowerment Zone dollars. In as much, as Empowerment Zone residents benefited from the improvements, there was a leveraging of dollars as stated within the Performance Report and the benefit of the Program was accurately reported.

The projects reported, the repair of bridges and storm drains, are projects that might not have occurred without the Zone designation. These projects were included in the Capital Improvement Program and the Corporation for Olympic Development; however, the leverage concept does not merely include the Federal and State, but also the local government or City of Atlanta projects as well. The planning of a project in the Capital Improvement Program does not actually mean that the project will be implemented. Consequently, the Zone designation acted as a trigger or a catalyst for these projects and ensured that these projects as well as other developments would be completed within the Atlanta Empowerment Zone.

We agree there was a need for procedures and controls for appropriate reporting to HUD. The Atlanta Empowerment

Zone Corporation has developed monitoring procedures to ensure that the reporting, from this point forward, will be accurate and appropriate.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

Our finding did not question the source of funding for the activities. We questioned the City's reporting of them as Empowerment Zone activities when the activities were planned before the City's designation as a Zone. The intention of the Empowerment Zone Performance Review is to measure the impact the Empowerment Zone Program is having on the designated area. If an activity was planned before the City received its Zone designation, obviously the Empowerment Zone Program was not the initiative for the activity. The City and the Atlanta Empowerment Zone Corporation did not provide any documentation to show that the Empowerment Zone Program impacted the two activities.

The procedures the Corporation says it will use to ensure the reporting accuracy of the Performance Review to HUD should correct the problem, if properly implemented.

Zone Funds Were Inappropriately Used To Purchase A Home Outside Of The Zone

The City of Atlanta inappropriately provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside the Zone. The individual who received the funding was an employee of the Atlanta Empowerment Zone Corporation. The City contracted with the Corporation to administer its Empowerment Zone Program. The problem occurred because the Corporation did

not have adequate procedures to ensure that funds were awarded according to the Mortgage Assistance Program's guidelines. As a result, Empowerment Zone funds were not efficiently and effectively used.

Mortgage Assistance Program's Guidelines

The Atlanta Empowerment Zone Corporation, the administering entity for the Mortgage Assistance Program, established guidelines on March 26, 1997. The guidelines required funding to be provided only to Empowerment Zone residents who are purchasing a home within the geographical boundaries of the Zone.

\$8,000 Of Zone Funds Were Inappropriately Used

The City of Atlanta inappropriately provided \$8,000 of Empowerment Zone funds to assist in the purchase of a home located outside the Zone. The individual who received the funding lived in the Zone and was an employee of the Atlanta Empowerment Zone Corporation, which administered the Program. The Corporation did not have procedures to verify the location of a property before giving a loan. The Corporation only verified that loan recipients were Zone residents. Also, there were no procedures for supervisory review and oversight. As a result, \$8,000 of Empowerment Zone funds were not used efficiently and effectively.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 80, contains the complete text of the comments.

HUD's guidance were in conflict concerning this issue. Therefore, under local governance, we believe that the Atlanta Empowerment Zone Corporation Board's approval of a policy validates the action taken.

The Atlanta Empowerment Zone Corporation Board has expressed its intent to allow Social Service Block Grant funds to be expended on linkage and outside communities. This is further illustrated by the 1998 Resident Benefit Policy that authorized expenditures in linkage/outside communities.

We agree the Atlanta Empowerment Zone Corporation needed procedures and controls to ensure compliance with Mortgage Assistance Program's guidelines. The

Corporation's staff has developed procedures to govern the Mortgage Assistance Program.

The Atlanta Empowerment Zone Corporation currently has a new Executive Director who has assigned the responsibility of supervision and oversight of the Mortgage Assistance Program to a housing specialist.

Our position is that the Empowerment Zone resident who purchased a home outside the Zone was at the time believed to be eligible to receive the \$8,000 grant under the Mortgage Assistance Program. As a Zone resident, it was assumed, in error, that the receipt of a direct benefit to the Zone resident constituted a correct usage of Zone funds. Therefore, the repayment of these funds should not be required in as much as this was an isolated case resulting from lack of clarity as well as ambiguity of guidance received with regard to this issue. The error made was unintentional.

OIG Evaluation of
Auditee Comments

We do not know what HUD guidance the Corporation believes is conflicting. We evaluated the appropriateness of Empowerment Zone funds used based upon the Corporation's own guidelines that required Zone funds assist with the purchase of homes located within the Zone.

The purpose of the Empowerment Zone Program is to benefit the designated area. Under the Program's requirements, the Corporation's Board does not have the flexibility to use Zone funds to benefit linkage/outside communities.

The Corporation indicated it had developed procedures and controls to ensure compliance with the Mortgage Assistance Program. The Corporation did not provide the procedures with its comments.

The Corporation assigned responsibility for the Mortgage Assistance Program to a housing specialist. The Corporation's Executive Director needs to verify that supervisory reviews over the Program are adequate.

Although the inappropriate use of Zone funds by the Corporation for the Mortgage Assistance Program was an

isolated occurrence, the City still needs to reimburse the Empowerment Zone Program \$8,000 from non-Federal funds.

Controls Over the Center for Home Ownership Program Were Not Adequate

The City of Atlanta did not have adequate controls over the Atlanta Center for Home Ownership program. The City did not ensure that \$739,178 of Empowerment Zone funds benefited Zone residents and did not competitively bid the contract that established the program. The City also inaccurately reported the actual progress of the program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures and funding. The problems occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform monitoring reviews to ensure services were provided to

Zone residents and verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate picture of the program and the impression exists that the benefits of the program are greater than actually achieved.

Empowerment Zone
Funds Did Not Benefit
Zone Residents

The Housing Authority of the City of Atlanta used \$739,178 of Empowerment Zone funds that did not benefit Zone residents. The City chose the Authority to administer the Home Ownership Center that provides services to Zone residents. However, services were provided to non-Zone residents which was not in accordance with the affordable housing proposal and the Authority's contract. The Corporation's Board approved the proposal on September 11, 1995 that resulted in a contract between the Corporation and the Authority. The contract was effective on July 15, 1996 and required that services for money management, home management, and home ownership be provided to Zone residents.

The Authority received \$911,440 in Zone funds to provide home ownership services through December 31, 1997. The Authority's records showed that only 515 (18.9 percent) of 2,717 persons served were Zone residents. Therefore, only \$172,262 of the funds spent were related to services provided to Empowerment Zone residents. Additionally, the Authority submitted an invoice totaling \$60,651 for services provided during January and February 1998. During this period, the program served 98 (11 percent) Zone residents out of 889 individuals served. Of the \$60,651 billed, \$53,979 (89 percent x \$60,651) were for services to non-Zone residents. The Corporation did not monitor the program to ensure that Zone residents were the beneficiaries of the program. As a result, Empowerment Zone funds were not used efficiently and effectively.

Contract Was Not
Properly Procured

The Corporation did not properly procure its contract with the Housing Authority of the City of Atlanta. In July 1996, the Corporation signed a \$4 million, nine year contract with the Authority to provide home ownership services to Empowerment Zone residents. The City awarded the contract to the Authority without full and open competition. In order to determine whether the contract was reasonable, we compared the Authority's program cost of \$480 per person to cost proposals we obtained from four vendors. The vendors provided us cost proposals ranging from \$300 to \$689 per

person. The costs charged by the Authority appear within an acceptable range when compared to the vendors' quotes. However, the Authority's cost of \$480 is based on the volume of both Empowerment Zone residents and non-Zone residents; whereas, the four quotes we obtained were based on services to only Empowerment Zone residents. The Director of the Home Ownership Center said the costs of the program would increase significantly if the program only served Zone residents. The cost per Empowerment Zone resident served through December 1997 was \$1,770 (\$911,440 Zone funds / 515 Zone residents served).

A Board member of the Corporation and Chairperson of the Housing Task Force said the City's original Zone application included a provision for \$13.2 million for the Authority's modernization efforts; however, the provision was changed because of resistance by community leaders. The Housing Task Force wanted the Authority included in the Zone activity; therefore, the Task Force developed a plan to use the Authority to provide home ownership services to Zone residents. The City awarded the contract to the Authority without soliciting proposals from other home ownership counseling providers. As a result, the City and HUD lack assurance that the contract costs represented the most efficient and effective expenditure of Empowerment Zone funds.

The City Incorrectly
Reported The Number Of
Individuals Served

The City's Review showed the program served a total of 500 Empowerment Zone residents and the Center had received 1,300 visitors as of June 30, 1997. Documentation maintained by the Authority only supported 189 Empowerment Zone residents were served through June 30, 1997, and the Authority did not maintain documentation on the number of visitors to the Center. We determined the number of visitors was an estimate provided by the Director of the Center. The Director did not have any documentation to support the estimate.

The individuals who prepared the 1997 Performance Review no longer work at the Corporation. Personnel at the Empowerment Zone Corporation said they did not know where the reported figures were obtained. The Empowerment Zone Corporation did not monitor the program or verify the accuracy of information reported. We believe it is imperative that the progress of Zone activities

be monitored and verified to ensure Empowerment Zone funds are efficiently and effectively spent.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 82, contains the complete text of the comments.

The OIG omitted important information regarding the Atlanta Center for Home Ownership program's outreach efforts to Empowerment Zone residents from the draft audit finding. There was an on-going misunderstanding with regard to the contract terms versus HUD's and the Atlanta Empowerment Zone Corporation Executive Board's guidance on the issue of who could be served with Empowerment Zone funds.

OIG Evaluation of Auditee Comments

We acknowledge that the Authority had an extensive outreach program; however, the Authority's own records showed that of the 13,000 surveys conducted, only 6,300 were sent to Zone residents. This shows the Authority's efforts were not directed primarily to Zone residents.

Auditee Comments

The OIG's method of determining the Atlanta Center for Home Ownership program's per client cost must be challenged. The \$480 per client cost determination is based on \$911,440 in Empowerment Zone funds plus \$392,401 in Atlanta Housing Authority in-kind funds divided by 2,717, the number of individuals served by the program. Since the misuse of Empowerment Zone funds is at the heart of the OIG's finding, the dollars the Atlanta Housing Authority invested in the program are not a consideration. Subtracting the in-kind dollars from the equation results in a per client cost of \$335 in Empowerment Zone funds. The OIG's numbers without the in-kind cost and deducting the expenses for the build-out and furniture results in a per client cost of \$180.

OIG Evaluation of Auditee Comments

The method we used to calculate the per person cost included all funds expended since they comprised the total cost to provide the services. Build-out expenses were a part of operating the program. The cost proposals obtained from the four vendors included all costs of operating the program. The fact that some of the funds came from the Authority does not

negate the fact that the funds were used to provide the services. Based on the total cost to provide the services, the per person cost was \$480.

Auditee Comments

It is our position that the non-Empowerment Zone clients served by the Atlanta Center for Home Ownership program had the same profile as Zone clients. The non-Zone clients were low-income and expressed interest in the Zone and its programs. Many of these clients were public housing residents and others were Empowerment Zone Linkage Community families. Both the Empowerment Zone Board and the Atlanta Center for Home Ownership's Advisory Board have representatives from the Linkage Communities. It is not clear how the rules and regulations for the Empowerment Zone Program define and treat such low-income families. However, it is clear that the OIG made a factual error in reporting that the agreement establishing the Atlanta Center for Home Ownership program required that all services be provided only to Zone residents. The agreement does not limit the Atlanta Center for Home Ownership program's delivery of client services to only Zone residents.

OIG Evaluation of Auditee Comments

We acknowledge that by the terms of its contract, the Atlanta Center for Home Ownership is not required to provide services to only Zone residents. We corrected our finding to reflect this fact. However, Federal law, the Authority's contract, and the affordable housing proposal required the Center to provide services to Zone residents. Since only 18.9 percent of the individuals served were Zone residents, the Center did not primarily benefit Empowerment Zone residents. For the purpose of this audit, we concluded activities did not benefit Empowerment Zone residents if the activities served less than 51 percent of Zone residents, or if the activities did not provide benefits to Zone residents when the activity's administrators had control over who received the benefit of the services. In the case of the Atlanta Center for Home Ownership, the Housing Authority of the City of Atlanta had control over who received the benefits of its services.

Auditee Comments

The Atlanta Center for Home Ownership program was not designed to limit the program's delivery of client services to

only Zone residents. The methodology used by the OIG in determining benefit was flawed in that the proposed reimbursement does not take into consideration the performance goals for the HUD-approved activity, fixed costs versus per client costs, and the profile of the non-Empowerment Zone clients receiving services. Services were not inappropriately provided to non-Zone clients, so the City will not be reimbursing the Empowerment Zone Program.

OIG Evaluation of
Auditee Comments

We believe the \$739,178 repayment from non-Federal funds to the Empowerment Zone Program is appropriate. The Center's contract and the affordable housing proposal required the Center to provide services to Zone residents. If it was the City's intention that the Center should provide services to non-Zone residents as well as Zone residents, then the City needs to modify the Center's contract. However, the City must ensure that Empowerment Zone residents are the primary beneficiaries of the Center's services.

Auditee Comments

We strongly disagree that the City should only reimburse the Authority \$6,672 for the services provided to Empowerment Zone residents during January and February 1998. The Atlanta Housing Authority is providing services in accordance with its agreement with the Atlanta Empowerment Zone Corporation. There is no legal basis under the terms and conditions of that agreement to withhold payment.

OIG Evaluation of
Auditee Comments

We have changed our recommendation to say that the City should only reimburse the Authority \$6,672 from Empowerment Zone funds. We acknowledge the Corporation may have a contractual obligation to pay the Authority for services to non-Zone residents.

Auditee Comments

The City is reevaluating the performance of the Atlanta Empowerment Zone Corporation. A new Executive Director has been hired. Among the many tasks before him is to improve the procedures and controls to monitor Empowerment Zone funded activities.

OIG Evaluation of
Auditee Comments

The City should ensure that procedures and controls are established to monitor activities funded under the Empowerment Zone Program.

Auditee Comments

The new Executive Director will review the Atlanta Empowerment Zone Corporation's current procurement practices and will make improvements as needed. However, the intergovernmental agreement between the Atlanta Empowerment Zone Corporation and the Atlanta Housing Authority is not in violation of the Department of Health and Human Services' procurement standards. This agreement complies with the Office of Management and Budget's Common Rule.

OIG Evaluation of
Auditee Comments

The City did not competitively bid the Center's contract to the Authority as required. The Department of Health and Human Services' regulations require that all procurement transactions will be conducted in a manner providing full and open competition. While the regulations and the Office of Management and Budget's Common Rule allow for intergovernmental agreements, the agreements must foster greater economy and efficiency. The City and the Atlanta Empowerment Zone Corporation could not provide assurance that the Center's contract was economical or efficient.

Auditee Comments

The Atlanta Housing Authority's per client cost is reasonable. The analysis conducted by the OIG supports this conclusion. Pursuant to the Empowerment Zone's guidelines, the Atlanta Housing Authority has the demonstrated capacity to deliver the services under the housing benchmark in the Strategic Plan and has made a long-term financial commitment to promote the program.

We acknowledge that the Center's cost per person is reasonable; however, the Center's Director said the cost of the program would increase significantly if the program only served Zone residents. Since the Center primarily served non-Zone residents and needs to increase the number of Zone residents served, the City needs to ensure that the cost of the program remains competitive.

Auditee Comments

We will continue to improve every area of program performance including the accuracy of reported accomplishments; however, we take exception to the inference that the City falsified the report.

We will continue to improve every area of program performance including the accuracy of the information provided to HUD.

**OIG Evaluation of
Auditee Comments**

It was not our intention to infer that the City intentionally falsified the June 1997 Performance Review; however, the City did inaccurately report the Center's progress. The City must ensure that staff use actual accomplishments for each activity when preparing the Performance Review.

The City's improvement should include procedures and controls to verify the accuracy of information provided to HUD.

Accomplishments of the Sweet Auburn Curb Market Loan Were Inaccurately Reported

The City of Atlanta incorrectly reported the accomplishments of the Sweet Auburn Curb Market loan in the June 30, 1997 Performance Review. The City did not report the number of Empowerment Zone businesses projected to be created or actually created from the Sweet Auburn Curb Market loan. The City also inaccurately reported that: (1) the Empowerment Zone loan for the Sweet Auburn Market leveraged \$5,988,388 of Federal funds when it only leveraged \$500,000; (2) the Market had an 80 percent occupancy in July 1997 when it was only 55 percent occupied; and (3) the Market developed and implemented a leasing strategy when there was no documentation to support the accomplishment. The problems occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, HUD was not provided with a realistic picture of actual progress, and the impression exists that the benefits of the loan were greater than actually achieved.

The City Did Not Report
Empowerment Zone
Businesses

The City of Atlanta did not report the number of Empowerment Zone businesses projected to be created or established from the Sweet Auburn Curb Market loan. Based on a review of the Curb Market's loan proposal, we determined that 23 Empowerment Zone businesses were projected to be created. The City did not report this information in the June 1997 Performance Review. Additionally, we obtained documentation from the Curb Market that showed one Empowerment Zone business was created as of the date of the Review; however, the Empowerment Zone business was not reported in the Performance Review.

The City Over Reported
The Market's Leveraged
Funding By \$5,488,388

The City inaccurately reported that the Empowerment Zone loan for the Sweet Auburn Curb Market leveraged \$5,488,388 of Federal funds. The City reported the Market received \$1,788,388 of Community Development Block Grant funds and a \$4.2 million Section 108 Loan as of June 30, 1997. Based on Sweet Auburn Market's records, we determined that the \$5,488,388 (\$1,788,388 of Block Grant funds and \$3.7 million of Section 108 funds) was received prior to the City's Zone designation in December 1994. The only leveraged funds attributable to the Empowerment Zone were from a \$500,000 Section 108 Loan awarded in April 1997.

The City Over Reported
The Market's Occupancy
Rate

The City reported the Sweet Auburn Market achieved an 80 percent occupancy rate in the June 1997 Performance Review. The occupancy rate was one of the Market's performance measures. However, during our site visit to the Market, we reviewed documentation that showed in July 1997 the Market only had an occupancy rate of 55 percent.

The City Could Not
Support The Market's
Leasing Strategy

The City reported the leasing strategy for the Sweet Auburn Market was developed and implemented in February and March 1997, respectively. However, neither the City nor the Market could provide documentation to support the leasing strategy. The Manager and Controller of the Sweet Auburn Curb Market were not employed with the Market at the time the leasing strategy was reported to have been developed and implemented. They said they were not aware of any leasing strategy. The leasing strategy was one of the Market's performance milestones.

The individuals who prepared the 1997 Performance Review no longer work at the Atlanta Empowerment Zone Corporation. Personnel currently working at the Corporation said they did not know where the reported figures were obtained. The Corporation did not monitor the Sweet Auburn Curb Market loan or verify the accuracy of information reported. As a result, the information provided to HUD in the Performance Review did not provide an accurate picture of the potential or progress of the loan. We believe it is imperative that the progress of Zone activities be monitored and verified to ensure the validity and reliability of reported information.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 66, contains the complete text of the comments.

The Empowerment Zone currently has comprehensive written monitoring and program evaluation procedures (see page 91). Consistent with those procedures, annual schedules are developed for the monitoring review of each sub-recipient on a bi-annual basis. The City has directed the program monitoring be a high priority for the recently reorganized Atlanta Empowerment Zone Corporation. The City will ensure that monitoring records and files which document the Zone's monitoring activities will be maintained and available for review upon request.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of Auditee Comments

The procedures that the Corporation provided with its comments were in place during our review; however, they were not enforced. Our recommendation is for the City to establish procedures to ensure the Corporation monitors all activities as required by the City's contract.

The City's actions will ensure the accuracy of the Performance Review to HUD, if properly implemented.

The Accomplishments of the Revolving Loan Program Were Inaccurately Reported

The City of Atlanta inaccurately reported the accomplishments of the Revolving Loan Fund program in the June 30, 1997 Performance Review. The inaccuracies related to the program's performance milestones and measures. The City reported the program received 100 loan requests between January and December 1996, and disbursed \$2 million of Empowerment Zone funds. However, documentation maintained by the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, showed the program received only 12 requests in 1996 and \$1,923,891 in Zone funds were disbursed as of June 1997. The problem occurred because the Corporation did not verify the accuracy of the information included in the Performance Review. As a result, the City did not provide HUD with an accurate picture of the program.

The City Incorrectly Reported The Program's Loan Requests

The City of Atlanta inaccurately reported one of the Revolving Loan Fund's performance milestones in the June 1997 Performance Review. The Review showed the program received 100 loan requests between January and December 1996; however, documentation maintained by the Atlanta Empowerment Zone Corporation showed that only 12 requests were received in 1996. The over reporting of

The City Inaccurately Report
The Fund's Performance
Measures

loan requests by the Zone provided an exaggerated impression of program interest.

The City's June 1997 Performance Review showed that the Revolving Loan Fund program disbursed \$2 million of Empowerment Zone funds. However, the Atlanta Empowerment Zone Corporation's records showed \$1,923,891 was loaned as of June 30, 1997. HUD requires Empowerment Zones to report the actual progress of an activity, such as the amount of Zone funds disbursed. In this situation, the Zone showed it loaned \$76,109 more than it actually did.

The individuals who prepared the 1997 Performance Review no longer work at the Corporation. Personnel currently working at the Empowerment Zone Corporation said they did not know where the reported figures were obtained. The Corporation did not verify the accuracy of information reported. We believe it is imperative that the progress of Zone activities be verified to ensure the validity and reliability of reported information.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 73, contains the complete text of the comments.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

The City's actions will ensure the accuracy of the Performance Review to HUD, if properly implemented.

Controls Over the Revolving Loan for Corporate Courier Were Not Adequate

The City of Atlanta committed \$400,000 of Empowerment Zone funds to assist in the relocation of Corporate Courier; however, the relocation of a business that results in decreased employment and the closing of the business in the original area is not an appropriate use of Zone funds. Additionally, the City of Atlanta inaccurately reported the accomplishments of the loan in the June 30, 1997 Performance Review. The City reported that \$700,000 in private funds were leveraged for the loan, but the private loan had not been approved as of June 30, 1997. The City also did not have documentation to support the number of individuals reported as employed by Corporate Courier. The problems occurred because the staff for the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, believed that Zone funds could be committed for the loan since the funds were planned to pay for equipment and supplies once Corporate Courier relocated. The purpose of the loan was to relocate and expand the business; however, Federal law prohibited the use of Empowerment Zone funds for the relocation. The Corporation also did not conduct any monitoring reviews of the loan or verify the information included in the Performance Review. As a result, the City's loan commitment to Corporate Courier was not an efficient and effective use of Empowerment Zone funds. The City also did not provide HUD with a realistic picture of the loan's progress, and the impression exists that the benefits of the loan were greater than actually achieved.

The City Inappropriately
Committed Zone Funds
To Relocate A Business

The City of Atlanta inappropriately committed \$400,000 of Empowerment Zone funds for the revolving loan to Corporate Courier. The Atlanta Empowerment Zone Corporation signed

a loan commitment with Corporate Courier in September 1996 to assist the business in its relocation and expansion into the Empowerment Zone. Corporate Courier has until September 30, 1998 to use the commitment.

The Atlanta Empowerment Zone Corporation's records showed that its Board indicated that Empowerment Zone funds could not be used to relocate a business to the Zone. The Corporation's staff advised the Board that Empowerment Zone funds would be used for the purchase of equipment and supplies once Corporate Courier relocated. However, Federal law prohibits the use of Empowerment Zone funds to assist a business to relocate to the Zone. As a result, the City's loan commitment to Corporate Courier was not an efficient and effective use of Empowerment Zone funds.

The City Over Reported
The Activity's Funding By
\$700,000

The City inaccurately reported the private funds leveraged for Corporate Courier's revolving loan. The City's June 1997 Performance Review showed that a \$700,000 private bank loan was received by Corporate Courier. However, Corporate Courier had not received the bank loan as of June 1997. Since June 1997, Corporate Courier received a commitment of \$212,500 for a private bank loan and was awaiting approval for a \$340,000 loan from the Small Business Administration.

The City Lacked
Documentation To
Support The Number Of
Employees

The City reported that Corporate Courier employed fifty persons of which 12 were Empowerment Zone residents. However, the Atlanta Empowerment Zone Corporation did not have documentation to support the number of individuals reported. Additionally, the President of Corporate Courier declined to provide us information on the number of employees and their residency.

The individuals who prepared the 1997 Performance Review no longer work at the Atlanta Empowerment Zone Corporation. Personnel currently working at the Corporation said they did not know where the reported figures were obtained. The Corporation did not monitor Corporate Courier's loan or verify the accuracy of information reported. As a result, the information provided HUD in the Performance Review did not provide an accurate picture of the progress or benefits of the loan. We believe it is imperative that the progress of Zone activities

be monitored and verified to ensure the validity and reliability of reported information.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 68, contains the complete text of the comments.

The City's decision to commit Social Services Block Grant funds for activities related to Corporate Courier's relocation into the Zone was based on HUD's guidance. The guidance stated in part that we have conferred with the Department of Health and Human Services' officials and have reached the conclusion that Section 139(f)(2)(F) does not prohibit an Empowerment Zone in the implementation stages of the initiative from using Social Services Block Grant funds to finance activities that may assist a business relocating to the Zone.

OIG Evaluation of Auditee Comments

The City and the Corporation did not request HUD's approval for the Corporate Courier loan. Instead, the Corporation used the approval HUD provided for the Creative Fine Arts' loan as a basis for its action. However, for the Creative Fine Arts' loan, the Corporation did not provide HUD with complete or accurate information on which to base its decision. Accurate information would have led HUD to a different conclusion since Federal law does not permit Empowerment Zone funds to assist in the relocation of a business to the Zone when the relocation will result in the closing of the business in the original location.

Auditee Comments

The referenced loan commitment to Corporate Courier is no longer valid. A new commitment has been made for \$250,000 which will be used for the acquisition of equipment. The City will continue to take all necessary steps to ensure Empowerment Zone funds are in fact used efficiently and effectively and for purposes consistent with Federal law and regulation.

In those areas not clearly defined in HUD's or the Department of Health and Human Services' regulations or polices, the City will obtain prior approval from the appropriate agency prior to committing or expending Social Services Block Grant funds. The City offers its assurance

that the necessary procedures and controls are in place to manage and provide the necessary oversight for the use of Social Services Block Grant funds. These procedures and controls will include closer monitoring of deadlines for loan closings.

OIG Evaluation of
Auditee Comments

The Corporation indicates that the necessary controls are in place to manage and provide the necessary oversight for the use of Empowerment Zone funds. At the time of our review, the procedures and controls were not adequate. The City needs to establish procedures and controls to ensure that Zone funds are used efficiently and effectively.

Auditee Comments

The Empowerment Zone currently has comprehensive written monitoring and program evaluation procedures (see page 91). Consistent with those procedures, annual schedules are developed for the monitoring review of each sub-recipient on a bi-annual basis. The City has directed the program monitoring be a high priority for the recently reorganized Empowerment Zone. The City will ensure that monitoring records and files which document the Zone's monitoring activities will be maintained and available for review upon request.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

The procedures that the Corporation provided with its comments were in place during our review; however, they were not enforced. Our recommendation is for the City to establish procedures to ensure the Corporation monitors all activities as required by the City's contract.

The City's actions will ensure the accuracy of the Performance Review to HUD, if properly implemented.

Community Revitalization Projects Were Inaccurately Reported As Empowerment Zone Activities

The City of Atlanta incorrectly reported that the Reynoldstown and Historic District Community Revitalization Projects included in its June 30, 1997 Performance Review were Empowerment Zone Program activities. The Projects were included as benchmarks in the City's Strategic Plan; however, the Projects were established prior to the City's Zone designation. Because the two Projects were included in the Performance Review, the City incorrectly reported that the Projects rehabbed or constructed 170 housing units and leveraged \$47,923,000 in funding as part of the Empowerment Zone Program. The problem occurred because the Atlanta Empowerment Zone Corporation, which administers the City's Program, misunderstood HUD's verbal instructions on the preparation of the Performance Review. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

City Incorrectly Reported Two Projects As Zone Activities

The City of Atlanta incorrectly reported that two Projects included in the June 1997 Performance Review were Empowerment Zone activities. The two Projects were included as benchmarks in the City's Strategic Plan; however, the Projects were established prior to the City's Zone designation. HUD's instructions are designed to gather information on activities resulting from the Empowerment Zone Program, and contain procedures to change benchmarks. Because the City included the two Projects in the Performance Review, it incorrectly reported that the Projects rehabbed or constructed 170 housing units and leveraged \$47,923,000 in funding as part of the Empowerment Zone Program.

The leveraged funds consisted of: (1) \$1,545,000 of non-Empowerment Zone Federal funds received; (2) \$1,701,000 in funding received from the City and the State of Georgia; and (3) \$44,677,000 of projected private funding. Funding for the two projects did not involve Empowerment Zone monies.

The Executive Directors of the two Projects said the Projects were not initiated as a result of the Empowerment Zone Program. The Projects were part of their organizations' operations and were initiated prior to the City's designation as an Empowerment Zone.

The Atlanta Empowerment Zone Corporation's consultant, who assisted in preparing the Performance Review, said he received verbal instructions from HUD and the Corporation's former Executive Director to include non-Zone funded activities in the Review. However, the Corporation's staff and the consultant misunderstood the instructions. HUD's verbal instructions were the same as the requirements contained in the June 1997 Performance Review instructions that require Zones to report on activities resulting from the Empowerment Zone Program. Since the two Projects were not initiated as a result of the Zone, the City should have included them in the non-Zone activities section of the 1997 Performance Review. As a result, the accomplishments of the Empowerment Zone Program were not accurately reported to HUD and an impression was created that the benefits of the Program were greater than actually achieved.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 78, contains the complete text of the comments.

There is no requirement that the source of funding for improvements in the Zone was to be made from Empowerment Zone funds. Zone residents were the direct beneficiaries of the revitalization projects. These benefits, although not directly resulting from the Empowerment Zone designation, were activities that were addressed in the Strategic Plan (e.g. to remove blight and add vitalization to the Zone communities.) It must be further recognized that projects take time to come to fruition, in addition to the difficulty of developing projects in the inner city.

While the Projects were included in the Strategic Plan, these Projects were implemented as a result of the Zone designation. The Zone designation acted as a catalyst for implementation of the Projects and utilized the concept of leveraging by including local dollars rather than Federal or State dollars in the implementation of these Projects to benefit Zone residents.

We agree that procedures were needed to control and ensure appropriate reporting of Empowerment Zone activities to HUD. Monitoring procedures have been developed to accomplish this goal.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of Auditee Comments

Our finding did not question the source of funding for the activities. We questioned the City's reporting of them as Empowerment Zone activities when the activities were planned before the City's Zone designation. The intention of the Empowerment Zone Performance Review is to measure the impact the Empowerment Zone Program is having on the designated area. If an activity was planned before the City received its designation, obviously the Empowerment Zone Program was not the initiative for the activity. The City and the Atlanta Empowerment Zone Corporation did not provide any documentation to show that the Program impacted the activities.

The procedures the Corporation says it will use to ensure the reporting accuracy of the Performance Review to HUD should correct the problem, if properly implemented.

Controls Over the Revolving Loan for Creative Fine Arts Were Not Adequate

The City of Atlanta did not have adequate controls over the revolving loan for Creative Fine Arts, Incorporated. The City inappropriately used \$429,241 of Empowerment Zone funds to assist in the relocation of Creative Fine Arts to the Zone; however, the relocation of a business that results in decreased employment and the closing of the business in its original area is not an appropriate use of Zone funds. Additionally, the City of Atlanta inaccurately reported the accomplishments of the loan in the June 30, 1997 Performance Review. The inaccuracies related to performance measures and funding. The problems occurred because the Atlanta Empowerment Zone Corporation, which the City contracted with to administer its Empowerment Zone Program, provided inaccurate information to HUD, that resulted in HUD's approval to use Zone funds for the loan. The City also did not perform monitoring reviews of the loan or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used for eligible purposes. The City also did not provide HUD with the actual progress of the loan, and the impression exists that the benefits of the loan were greater than actually achieved.

The City Inappropriately Used Zone Funds To Relocate A Business

The City of Atlanta inappropriately provided \$500,000 of Empowerment Zone funds for the revolving loan to Creative Fine Arts of which \$429,241 was outstanding as of May 31, 1998. In February 1996, staff from the Atlanta Empowerment Zone Corporation met with the Owner of Creative Fine Arts regarding the relocation of its operations from Norcross, Georgia, located outside of the City's Empowerment Zone, to the Zone. After the meeting, the Corporation's staff located potential sites in the Zone where Creative Fine Arts could relocate to. The Owner of Creative Fine Arts said she agreed to purchase one of the sites recommended by the Corporation. She said she submitted a loan application to the Atlanta Empowerment Zone Corporation with assistance from the Corporation's staff. The loan application dated March 8, 1996 showed that the purpose of the loan was relocation and expansion of the business to the Zone.

The Atlanta Empowerment Zone Corporation's Board approved Creative Fine Arts' loan application on August 12, 1996. On August 14, 1996, the State of Georgia informed the Corporation that the use of Empowerment Zone funds to assist Creative Fine Arts' relocation to the Zone was not appropriate. The State instructed the Corporation to seek HUD's approval of the loan since the State was unsure if Creative Fine Arts planned to close its operations outside of the Zone. The Corporation requested HUD's approval in October 1996 to use Empowerment Zone funds for the loan; however, the Corporation did not provide HUD with complete or accurate information.

The Atlanta Empowerment Zone Corporation informed HUD that Creative Fine Arts was negotiating to acquire property in the Zone prior to Fine Arts contacting the Corporation. However, as previously discussed, Creative Fine Arts met with the Corporation's staff and purchased a site that was identified by the staff after the meeting. The Corporation informed HUD that Empowerment Zone funds would not be used to relocate Creative Fine Arts to the Empowerment Zone. However, Creative Fine Arts' application to the Corporation indicated that the purpose of the loan was relocation and expansion of the business to the Zone. The Corporation also did not inform HUD that Creative Fine Arts intended to close its operations in Norcross, Georgia, located outside the Empowerment Zone, and move to the Zone.

Additionally, because the disbursement of the loan proceeds was slow, Creative Fine Arts initiated a lawsuit that indicated the proceeds of the loan were needed to close the deal for acquiring the property in the Empowerment Zone. Since the persons involved with the original decision were no longer employed by the Corporation, we could not determine the basis for the inaccurate information provided to HUD. As a result, Empowerment Zone funds were not used efficiently and effectively.

The City Inaccurately
Reported The Number Of
Jobs Created By the Loan

The City incorrectly reported one of the loan's performance measures. The June 1997 Performance Review showed that five jobs were created as a result of the loan to Creative Fine Arts. However, Creative Fine Arts provided us with documentation that indicated eight jobs were created as of June 1997. The eight jobs were the net increase in

employment after Creative Fine Arts relocated to the Zone. Of the eight jobs, two were held by Empowerment Zone residents.

The City Over Reported
The Leveraged Funding
By \$172,000

The City incorrectly reported the private funding received by Creative Fine Arts. The June 1997 Performance Review showed that \$900,000 of private funding was received. However, documentation provided by Creative Fine Arts indicated that \$728,000 of private funding was received as of June 1997.

The individuals who prepared the 1997 Performance Review no longer worked at the Corporation. Personnel at the Empowerment Zone Corporation said they also did not know where the reported figures were obtained. The Corporation staff did not monitor the loan or verify the accuracy of the information reported. Since a goal of the Empowerment Zone Program is to assist in the employment of Zone residents and to leverage private funding, we believe it is imperative that the progress of Zone activities be monitored and verified.

Auditee Comments

Excerpts from the Atlanta Empowerment Zone Corporation's comments on our draft finding follow. Appendix C, page 71, contains the complete text of the comments.

The City will continue to take all necessary steps to ensure Empowerment Zone funds are in fact used efficiently and effectively. In those areas not clearly defined in HUD's or the Department of Health and Human Services' regulations or policies, the City will obtain prior approval from the appropriate agency prior to committing or expending Social Services Block Grant funds. The City offers its assurance that the necessary procedures and controls are in place to manage and provide the necessary oversight for the use of Social Services Block Grant funds. These procedures and controls will include closer monitoring of deadlines for loan closings.

OIG Evaluation of
Auditee Comments

The Corporation indicates that the necessary controls are in place to manage and provide the necessary oversight for the use of Empowerment Zone funds. At the time of our

review, the procedures and controls were not adequate. The City needs to establish procedures and controls to ensure that Zone funds are used efficiently and effectively.

Auditee Comments

The City committed Social Services Block Grant funds to make this loan for activities related to the relocation of Creative Fine Arts into the Zone based on the guidance from HUD. To require the City to repay these funds to the grant, unfairly penalizes the City for complying with a written policy determination approved by both HUD and the Department of Health and Human Services. The City recommends that if the policy enunciated in HUD's correspondence is incorrect, then it is incumbent on HUD and the Department of Health and Human Services to promptly issue clarifying or corrected guidance to Empowerment Zones. To our knowledge, no such guidance has been issued. The City believes it followed the correct course of action prior to expending Social Services Block Grant funds for the Creative Fine Arts loan and thus should not be made to repay these funds to the grant. If necessary, the City will request a waiver for use of these funds from the Department of Health and Human Services and HUD, given the unusual circumstances involving this case. In the future, the City will strictly adhere to HUD's and the Department of Health and Human Services' policies.

We also disagree with the statement that the Zone provided inaccurate information to HUD, that resulted in HUD's approval to use Zone funds for this loan. The focused response by HUD on the specific issue of using Social Services Block Grant funds to finance activities that may assist a business relocating to the Zone indicates that we articulated this issue to HUD in a clear and unambiguous manner. We believe to suggest or imply otherwise is both unfair and unwarranted.

OIG Evaluation of Auditee Comments

The Corporation did not provide HUD with complete or accurate information on which to base its decision. For example, the Corporation informed HUD that Empowerment Zone funds would not be used to relocate Creative Fine Arts to the Zone. However, Creative Fine Arts' application to the Corporation showed that the

purpose of the loan was relocation and expansion of the business to the Zone. Accurate information would have led HUD to a different conclusion since Federal law does not permit Empowerment Zone funds to assist in the relocation of a business to the Zone when the relocation will result in the closing of the business in the original location. The City needs to reimburse the Empowerment Zone Program \$429,241 from non-Federal funds for the inappropriate use of Zone funds.

Auditee Comments

The City has and will continue to provide HUD the most accurate information available when requesting prior approval to use Empowerment Zone funds. The City has taken steps to ensure the necessary supervisory controls, procedures, and oversight are in place to manage the use of Empowerment Zone funds by the City.

OIG Evaluation of
Auditee Comments

Our recommendation was intended to improve the Corporation's procedures for providing accurate information when requesting approval to use Empowerment Zone funds. The Corporation's response only addressed the City's actions, not the Corporation's procedures.

Auditee Comments

The Empowerment Zone currently has comprehensive written monitoring and program evaluation procedures (see page 91). Consistent with those procedures, annual schedules are developed for the monitoring review of each sub-recipient on a bi-annual basis. The City has directed the program monitoring be a high priority for the recently reorganized Empowerment Zone. The City will ensure that monitoring records and files which document the Zone's monitoring activities will be maintained and available for review upon request.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed, it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews

prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

OIG Evaluation of
Auditee Comments

The procedures that the Corporation provided with its comments were in place during our review; however, they were not enforced. Our recommendation is for the City to establish procedures to ensure the Corporation monitors all activities as required by the City's contract.

The City's actions will ensure the accuracy of the Performance Review to HUD, if properly implemented.

Auditee Comments

ATLANTA
EMPOWERMENT
ZONE
CORPORATION

September 4, 1998

Mr. Heath Wolfe, Senior Auditor
U.S. Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson Boulevard
Room 2646
Chicago, IL 60604

Dear Mr. Wolfe:

Enclosed herein are the final responses from the City of Atlanta to the findings of the Department of Housing and Urban Development , Office of the Inspector General, during your review of the Atlanta Empowerment Zone Initiative.

Your findings have proven insightful and educational to us in our continuing efforts to improve the efficiency and effectiveness of the management of this initiative in the City of Atlanta. We trust that the exchange of information and views which took place throughout the review, and particularly during the out-briefing, pointed out the need for uniform and clearly articulated policies which provide local governing bodies maximum flexibility to act to meet the unique challenges they face.

If I or my staff may be of further assistance to your as you review our responses and prepare your final findings, please contact me at (404) 8537485.

Respectfully,

Joseph Reid
Executive Director, AEZC

Enclosure

cc: Larry Wallace, COO
Mike Dobbins, Commissioner
John Perry, CPD, HUD

AUDIT RESPONSE

Response to the Finding of the Inspector General for Audit, HUD

Accomplishments of the Sweet Auburn Curb Market Loan Were Inaccurately Reported

Summary of Audit Finding

The finding raised the following issues with regard to the City of Atlanta's loan to the Sweet Auburn Curb Market.

- The City did not report Zone business.
- The City over reported the Market's leveraged funding by \$5,488,388.
- The City over reported the Market's occupancy rate.

Summary of Our Response.

Our response to the finding for the loan to the Sweet Auburn Curb Market is as follows:

- The City intentionally did not include data projection of businesses to be created by the loan to the Sweet Auburn Curb Market because of confusion regarding whether these were contractual requirements which should have been included in the report, or non-contractual goals. When the report was prepared the interpretation of staff was that the business projections for the Market were non-contractual goals and therefore not firm performance measures. Consequently they were not included in the report.
- The City acknowledges that only \$500,000 was leveraged by the AEZ loan to the Curb Market.
- The occupancy rate of the Sweet Auburn Curb Market has, on occasion, fluctuated over a wide range. We believe the differences between the occupancy rate reported by the City and that reported to HUD by the Curb Market is the possible results of the methodology used and the inconsistency with which this data was collected.
- A condition for the City to approve the Section 108 loan to the Curb Market was that a leasing strategy be developed as one method of measuring the performance of the Curb Market. This condition was articulated in a City ordinance and documents related to the loan itself. The Manager of the Curb Market at the time the loan was approved was fully aware of the leasing strategy.
- The loan to the Sweet Auburn Curb Market was made as part of an overall strategy by the City to ensure the continued presence and operation of the Market, and an attempt to stimulate revitalization and development in the Auburn Avenue area. The Sweet Auburn Curb Market has for some time and continues to be the only retail grocer serving a large segment of the City's communities. It is a vital part of the community and the City, and the lost of the Market would have had a

devastating effect on many residents of the City, particularly many senior citizens and those without the means or resources to travel to other shopping areas. The partnership between the City and AEZ to provide the financing for the major renovations at the Curb Market has allowed it to attract new businesses and remain in operation to serve the residents that depend on it. We view this project as a success for the residents, the AEZ initiative and the City.

Response to IG's Recommendations:

A. Establish procedures to ensure that the Atlanta Empowerment Zone Corporation monitors all Empowerment Zone activities as required by the City's contract.

The Empowerment Zone currently has comprehensive written monitoring and program evaluation procedures (TAB 11). Consistent with those procedures, annual schedules are developed for the monitoring review of each sub-recipient on a bi-annual basis. The City has directed the program monitoring be a high priority for the recently reorganized Empowerment Zone. The City will ensure that monitoring records and files which document the Zone's monitoring activities will be maintained and available for review upon request.

B. Establish procedures and controls to ensure the accuracy of Performance Review information submitted to HUD for the Empowerment Zone Program.

The City has taken actions to ensure procedures and controls are in place to verify the accuracy of the information submitted to HUD. The Empowerment Zone Executive Director will have overall responsibility for the Performance Review. After the Performance Review has been completed it will undergo a final review by the Compliance Manager. The report will then be submitted to the City for review and submission to HUD. The Performance Review will undergo a total of three reviews prior to submission to HUD. The City is confident that these procedures will ensure the accuracy of the data submitted to HUD.

Conclusion

We request that the IG withdraw the audit finding related to the Sweet Auburn Curb Market.

AUDIT RESPONSE

Response to the Finding of the Inspector General for Audit, HUD

Controls Over the Revolving Loan Fund for Corporate Courier Were Not Adequate

Summary of Audit Finding

The finding raised the following issues with regard to the City of Atlanta's loan commitment to Corporate Courier, Inc.

- The City inappropriately committed Zone funds to relocate a business
- The City over reported the activity's funding by \$700,000
- The City lacked documentation to support the number of employees.

General Comments Regarding This Finding

The loan to Corporate Courier was never consummated and consequently no SSBG funds were expended. The circumstances may warrant a reiteration of the policies governing the uses of SSBG funds and the need to maintain supporting files and records. The City requests that this finding be deleted.

Summary of Our Response

Our response to the finding for the loan commitment to Corporate Courier, Inc. is as follows:

- The City's decision to commit SSBG funds for activities related to Corporate Courier's relocation into the Zone was based on HUD's guidance which stated in part that "We have conferred with HHS officials and have reached the conclusion that Section 139(f)(2)(F) does not prohibit an Empowerment Zone in the implementation stages of the initiative from using EZ/EC SSBG funds to finance activities that may assist a business relocating to the Zone". A copy of that correspondence is attached. Our interpretation of HUD's response was that it provided a clear determination on this issue, and we acted on this guidance accordingly. The decision by the City to obtain prior approval from HUD before committing SSBG funds to assist Corporate Courier in relocating to the Zone clearly demonstrated our commitment to act in compliance with applicable Federal policies.
- At the time the 1997 Performance Review was being prepared the terms and conditions of the loan to Corporate Courier were still being developed. It was anticipated that based on the limits on the amount of SSBG funds could be used in the total loan package, and the total amount of funding being sought by Corporate Courier that the remaining funds above the SSBG funds would come from private sources. The 1997 Performance Review was prepared using the best information available to us at the time. Based on that information, and the fact that the loan was expected to close within forty-five to sixty days, the funding information was included in error in the report. However, when it was realized that the loan to Corporate Courier was not going to close, the Performance Review had already been submitted.

- A standard practice of the City is to negotiate targets or goals for businesses receiving SSBG funded loans that will provide a direct benefit to the residents of the Zone. In the case of Corporate Courier there was mutual agreement that this company would attempt to employ up to twelve Zone residents as part of the fifty employee workforce expected to be employed by Corporate Courier once it relocated into the Zone. At the time the 1997 Performance Review was being prepared the loan to Corporate Courier was expected to close within forty-five to sixty days and the employment goals were included in error in the Performance Review. However, when it was realized that the loan to Corporate Courier was not going to close the Performance Review had already been submitted.

Response to IG's Recommendations:

- A. Do not use Empowerment Zone funds to fulfill the \$400,000 loan commitment to Corporate Courier.

The referenced loan commitment to Corporate Courier is no longer valid. A new commitment has been made for \$250,000 which will be used for the acquisition of equipment. The City will continue to take all necessary steps to ensure EZ funds are in fact used efficiently and effectively and for purposes consistent with Federal law and regulation.

- B. Establish procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively.

The City will continue to take all necessary steps to ensure EZ funds are in fact used efficiently and effectively. In those areas not clearly defined in existing HUD or Department of Health and Human Services (HHS) regulations or polices, the City will obtain prior approval from the appropriate agency prior to committing or expending SSBG funds. The City offers its assurance that the necessary procedures and controls are in place to manage and provide the necessary oversight for the use of SSBG funds.

These procedures and controls will include closer monitoring of deadlines for loan closings.

- C. Establish procedures to ensure that the Atlanta Empowerment Zone Corporation monitors all Empowerment Zone activities as required by the City's contract.

See previous response to this recommendation at TAB 1.

- D. Establish procedures and controls to ensure the accuracy of Performance Review information submitted to HUD for the Empowerment Zone Program.

See previous response to this recommendation at TAB 1.

Conclusion:

We request that the IG withdraw the audit finding related to the loan commitment to Corporate Courier, Inc.

AUDIT RESPONSE

Response to the Finding of the Inspector General for Audit, HUD

Controls Over the Revolving Loan Fund for Creative Fine Arts (CFA) Were Not Adequate

Summary of Audit Finding

The finding raised the following issues with regard to the loan to Creative Fine Arts.

- The City inappropriately committed Zone funds to relocate a business.
- The City inaccurately reported the number of jobs created by the loan.
- The City over reported the leveraged funding by \$172,000.

Summary of Our Response.

Our response to the finding for the loan to Creative Fine Arts is as follows:

- Prior to arriving at the decision to use SSBG funds to assist Creative Fine Arts in relocating to the Zone, the City requested HUD to provide a clarification and/or determination on the applicability of the provisions of United States Code, Section 139(f)(2)(F) to EZ programs and projects. The response from HUD stated in part that “We have conferred with HHS officials and have reached the conclusion that Section 139(f)(2)(F) does not prohibit an Empowerment Zone in the implementation stages of the initiative from using EZ/EC SSBG funds to finance activities that may assist a business relocating to the Zone”. A copy of that correspondence is attached. Our interpretation of HUD’s response was that it provided a clear determination on this issue, and we acted on this guidance accordingly. The decision by the City to obtain prior approval from HUD before committing SSBG funds to assist CFA in relocating to the Zone clearly demonstrated our commitment to act in compliance with applicable Federal policies.
- We also disagree with your statement that the Zone “provided inaccurate information to HUD, that resulted in HUD’s approval to use Zone funds for this loan”. The focused response by HUD on the specific issue of using SSBG funds to “finance activities that may assist a business relocating to the Zone” indicates that we articulated this issue to HUD in a clear and unambiguous manner. We believe to suggest or imply otherwise is both unfair and unwarranted.
- The City acknowledges that it inadvertently over reported the leveraging of the loan to Creative Fine Arts.

Response to IG’s Recommendations:

- A. Establish procedures and controls to ensure that Empowerment Zone monies are used efficiently and effective.

See previous response to this recommendation at TAB 2.

- B. Reimburse the Empowerment Zone Program \$429,241 from non-Federal funds for the inappropriate use of Zone funds for the loan to Creative Fine Arts.

The City committed SSBG funds to make this loan for activities related to the relocation of CFA into the Zone based on the guidance from HUD. To require the City to repay these funds to the grant unfairly penalizes the City for complying with a written policy determination approved by both HUD and HHS. The City recommends that if the policy enunciated in the attached HUD correspondence is incorrect, then it is incumbent on HUD and HHS to promptly issue clarifying or corrected guidance to EZ's. To our knowledge no such guidance has been issued. The City believes it followed the correct course of action prior to expending SSBG funds for the CFA loan and thus should not be made to repay these funds to the grant. If necessary, the City will request a waiver for use of these funds from HHS and HUD given the unusual circumstances involving this case. In the future the City will strictly adhere to HUD and HHS policies.

- C. Ensure that the Atlanta Empowerment Zone Corporation provides accurate information when requesting approval to use Empowerment Zone funds.

The City has and will continue to provide HUD the most accurate information available when requesting prior approval to use Empowerment Zone funds. The City has taken steps to ensure the necessary supervisory controls, procedures and oversight are in place to manage the use of Empowerment Zone funds by the City.

- D. Establish procedures to ensure that the Atlanta Empowerment Zone Corporation monitors all Empowerment Zone activities as required by the City's contract.

See previous response to this recommendation at TAB 1.

- E. Establish procedures and controls to ensure the accuracy of Performance Review information submitted to HUD for the Empowerment Zone.

See previous response to this recommendation at TAB 1.

Conclusion:

We request that the IG withdraw the request for reimbursement related to the loan to Creative Fine Arts.

DRAFT AUDIT RESPONSE

Response to the Draft Finding of the Inspector General for Audit, HUD

Accomplishments of the Revolving Loan Program Were Inaccurately Reported

Summary of Draft Audit Finding

The draft finding raised the following issues with regard to the reported accomplishments of the revolving loan program:

- The City incorrectly reported the program's loan requests.
- The City over reported the fund's performance measures.

Summary of Our Response.

Our response to the draft finding that the City inaccurately reported the accomplishments of the revolving loan program is as follows:

- During the first year of the EZ initiative the Atlanta Empowerment Zone (AEZ) instituted an unsolicited proposal process. In response to this announcement the City received well over one hundred proposals from individuals seeking loans and grants. The City believes that the information reported in the Performance Review reflects the total proposals received for both loans and grants. The City regrets the obvious confusion in the reporting of this data and will provide corrected data upon request.

Response to IG's Recommendations:

A. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

See Previous Finding

Conclusion:

We request that the IG withdraw this draft finding.

AUDIT RESPONSE

Response to Finding of Inspector General for Audit, HUD

Activities Were Incorrectly Reported As Empowerment Zone Activities

Summary of Findings.

The audit findings raised five (5) issues of City reporting of Empowerment Zone activities.

- The City incorrectly reported five (5) activities in the June 1997 Performance Review as Empowerment Zone activities;
- The five (5) activities included three (3) parks to be improved; a recreation centers to be rehabilitated; and a sidewalk repair program.
- All the activities were included as benchmarks in the City's Strategic Plan;
- The inclusion of the five (5) projects resulted in \$2,961,000.00 in inaccurate reporting since these activities were scheduled prior to the City's Zone designation.

Summary of Our Response.

Our response to the audit finding of the incorrect reporting of Empowerment Zone Activities is as follows:

- The Deputy Commissioner of the City of Atlanta, Department of Parks and Recreation and Cultural Affairs was correct in the statement that the park improvements were conceived prior to the Zone's designation. However, the improvements to the parks, the sidewalks, and the recreation center all benefited the Zone residents.
- None of the projects that developed independently of the Zone were tracked, so it was difficult to determine the impact all the projects occurring in the Zone actually had on the Zone residents.
- Although no Empowerment Zone funds were used in these project activities, the project activities benefited Zone residents.
- The use of Zone funds was not required for the project to be considered a Zone project or for the residents to reap benefit from the project activities.
- The Zone assisted activities supported the Strategic Plan.

EZ/EC Instructions for Performance Review Reporting.

The EZ/EC Instructions on page 1 discuss reporting successes and assessing the program pursuant to the Strategic Plan; and on page 3 changes in the benchmarks are discussed. 24 CFR 597.200(d)(20) states that agencies in State and local government are to work together in new ways that are responsive to the Strategic Plan. Therefore, the \$2,961,000.00 in funds and the 5,000 feet of deteriorated sidewalks repaired in the Zone were reported correctly.

There is no HUD requirement or HHS requirement that states the source of funding for Zone activities has to be funded by Zone dollars. The Zone residents directly benefited from these activities which were addressed in the Strategic Plan. All five (5) projects were planned over a period of time, but did not come to fruition until after the Empowerment Zone designation. These projects assisted in the removal of blight and the revitalization of the Zone. Therefore, since the projects were effectuated after the designation of the Empowerment Zone, these activities were correctly characterized and should be considered accomplishments of the Empowerment Zone.

Although the activities were scheduled prior to designation of the Atlanta Empowerment Zone, there was no guarantee that these activities would have been implemented without the Zone designation. Further, the designation of the Atlanta Empowerment Zone accelerated the implementation of these activities and was a catalyst for these activities to come to fruition (e.g. the sidewalks complimented the Strategic Plan).

Response to IG's Recommendations.

- A. Establishes procedures and controls to appropriately report Empowerment Zone Activities to HUD.

There was a need for procedures and controls for the appropriate reporting of Empowerment Zone Activities to HUD. The Empowerment Zone has developed monitoring procedures to address these issues that will be used for future reporting.
(see attachment)

- B. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

See previous response to this recommendation at TAB 1.

Conclusion.

We request the IG to withdraw the finding related to the inaccurate reporting of Empowerment Zone Activities to HUD.

AUDIT RESPONSE

Response to Finding of Inspector General for Audit, HUD

Bridge Repair and Storm Drainage Improvements Projects Were Incorrectly Reported As Empowerment Zone Activities

Summary of Findings.

The audit finding addressed two (2) issues of reporting by the City of Atlanta as Empowerment Zone Projects.

- The City incorrectly reported two (2) projects in June, 1997 as a part of the Performance Review as Empowerment Zone activities;
- The two (2) projects were included as benchmarks in the City's strategic Plan even though the projects were scheduled before the City's Zone designation;
- The City incorrectly reported \$6,410,000 in leverage funds because no Empowerment Zone funds were used for these projects.

Summary of Our Response.

Our response to the finding of incorrect reporting is as follows:

- The projects reported were part of the infrastructure improvements to correct overdue problems. These projects, while being conceived and scheduled prior to the Zone's designation, occurred during the Empowerment Zone reporting period. Consequently, the Zone residents did receive benefit from these projects, regardless of the time of conception or no use of Empowerment funds to carry out these projects.
- Due to a lack of a tracking system during this period, it is not possible to know all the projects that were occurring and the impact these projects were having on the Empowerment Zone residents.
- With regard to funding, it is not necessary for Empowerment Zone dollars to be used as funding for the activity.
- Lack of funding by the Empowerment Zone does not diminish the benefit received by Zone residents.
- These were Zone assisted activities that support the Strategic Plan

EZ/EC Instructions for Performance Review Reporting.

The EZ/EC Performance Review Reporting Instructions states that "Describe successes and assess progress against each long term goal.... In the Strategic Plan and describe successes and progress in terms of economic, social and physical outcome, such as increased public services to the community, jobs created, businesses started and housing units built/rehabilitated."

On page 3 of the Instructions, is stated "The EZ/EC Performance Review System enables each community to add, modify, or delete individual benchmarks from time to time.".... "Consistent with the local government policy EZ/EC initiative, any new benchmark governing structure prior to submission for Federal review." 24 CFR 597.200 (d)(20) states an element of the Strategic Plan is the explanation of how different agencies in State and local governments work together in ways that are new and responsive to implement the Strategic Plan. In accordance with the foregoing, the reporting of \$6,410,000.00 in leveraged funds was not incorrect.

There is no stated requirement that limits projects to be reported to only those that are funded with the Empowerment Zone dollars. Inasmuch as Empowerment Zone residents benefited from the improvements, there was a leveraging of dollars as stated within the Performance Report and the benefit of the Program was accurately reported.

The projects reported, the repair of bridges and storm drains are projects that might not have occurred without the Zone designation. These projects were included in the Capital Improvement Program (CIP) and the Corporation for Olympic Development, however, the leverage concept does not merely include the federal and state, but also the local government or City of Atlanta projects as well. The planning of a project in the CIP does not actually mean that the project will be implemented. Consequently, the Zone designation acted as a “trigger” or a catalyst for these projects and ensured that these projects as well as other developments would be completed within the Atlanta Empowerment Zone.

Response to IG’s Recommendations.

- A. Establishes procedures and controls to appropriately report Empowerment Zone Program activities to HUD.

We agree there was a need for procedures and controls for appropriate reporting to HUD. The Atlanta Empowerment Zone Corporation has developed monitoring procedures to ensure that the reporting, from this point forward will be accurate and appropriate.

- B. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

See previous response to this recommendation at TAB 1.

Conclusion.

We request the IG withdraw the finding related to the inaccurate reporting of improvement projects.

AUDIT RESPONSE

Response to Finding of Inspector General for Audit, HUD

Community Revitalization Projects Were Inaccurately Reported As Empowerment Zone Activities

Summary of Findings

The audit finding raised two (2) issues regarding the City of Atlanta's reporting of Community Empowerment Zone Projects.

- The City incorrectly reported two (2) projects in the June 1997 Performance Review as Empowerment Zone activities;
- The two (2) projects were included as benchmarks in the City's Strategic Plan although the projects were established prior to the City's Zone designation;
- By including the two (2) projects in the Performance Review, the City incorrectly reported the Projects rehabbed or constructed 170 housing units and leveraged \$47,923,000 in funding as part of the Empowerment Zone Program.

Summary of Our Response.

Our response to the finding of incorrect reporting is as follows:

- We acknowledge that the Executive Directors of the two (2) projects stated that the Projects were not initiated as a result of the Empowerment Zone Program; the projects were a part of those organizations' operations and were initiated prior to the City's designation as an Empowerment Zone. However, it was envisioned that the conditions created in the Zone, regardless of whether there was actual knowledge of the project occurring, did not prevent these projects from being eligible activities. Consequently, the City's reporting of these two (2) projects, as eligible activities was correct. The City's reporting of these projects goes to the heart of the concept of leverage because these activities benefited the Zone as a whole.
- Since no one was tracking activities, it was not possible to always know what projects were resulting.
- It was not essential that the projects in question were funded by the Empowerment Zone. The concern is with the Zone residents benefiting from the Project.
- Regardless of whether or not the project was not funded by the Zone or a direct outgrowth of the Zone designation, does not prevent the project from being a good project or beneficial to Zone residents.
- The delay of systems for reporting by HUD also had an impact on the reporting of the City.
- The activities were Zone assisted activities which supported the Strategic Plan.

EZ/EC Instructions for Performance Review Reporting.

The EZ/EC Instructions provided as part of the Performance Review System stated on page 1 under Executive Summary...."Describe successes and assess progress against each long term goal...in the Strategic Plan and describe successes and progress in terms of economic, social, and physical outcome, such as increased public services to the community, jobs created, businesses started, and housing units built/rehabilitated." Page 3 referenced in the audit findings under Section B. Making Occasional Benchmark Changes states: "The EZ/EC Performance Review System also enables each community to add, modify, or delete individual benchmarks from time to time." ... "Consistent with the local

empowerment policy EZ/EC initiative, any new benchmark activities, major modifications, or deletions of activities must be approved by the local governing structure prior to submission for Federal review.” Further, 24 CFR 597.200 (d)(20) states an element of the Strategic Plan is the explanation of how different agencies in State and local governments work together in ways that are new and responsive to implement the Strategic Plan. It is reasonable to conclude the \$1,701,000.00 in funding received from the City and the State of Georgia plus the \$44,677,000.00 in private funding, were leverage funds even though Empowerment Zone funds were not involved.

There is no requirement that the source of funding for improvements in the Zone was to be made from Empowerment Zone funds. The Zone residents were direct beneficiaries of the revitalization projects. These benefits, although not directly resulting from the Empowerment Zone designation, were activities that were addressed in the Strategic Plan (e.g. to remove blight and add vitalization to the Zone communities.) It must be further recognized that projects take time to come to fruition, in addition to the difficulty of developing projects in the inner city.

While the projects were included in the Strategic Plan, these projects were implemented as a result of the Zone designation. The Zone designation acted as a catalyst for implementation of the projects and utilized the concept of leveraging by including local dollars rather than federal or state dollars in the implementation of these projects to benefit Zone residents.

Response to IG’s Recommendations.

- A. Establishes procedures and controls to appropriately report Empowerment Zone Program activities to HUD.

We agree that procedures were needed to control and ensure appropriate reporting of Empowerment Zone activities to HUD. Monitoring procedures have been developed to accomplish this goal.

- B. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone.

See previous response to this recommendation at TAB 1.

Conclusion.

We request the IG withdraw the finding related to the inaccurate reporting of Revitalization projects as Empowerment Zone activities.

AUDIT RESPONSE

Response to Finding of Inspector General for Audit, HUD

City Inappropriately Used \$8,000 of Zone Funds

Summary of Audit Finding

The finding raised the following issues with regard to the City of Atlanta's monitoring of the Mortgage Assistance Program (MAP).

- The City did not have adequate controls over the MAP program;
- The City did not appropriately use \$8,000 in the purchase of a home outside the Zone;
- The Corporation did not have the procedures to verify loan recipients were Zone Residents; and
- There were no procedures for supervisory review and oversight.

Summary of Our Response.

Our response to the finding for the MAP program is as follows:

- At the time of the grant, there was limited staffing at the Atlanta Empowerment Zone Corporation (AEZC) due to a reorganization . The interim management team at the AEZC was unfamiliar with the nuances of the MAP program. There was a misconception that linkage/outside communities were eligible to receive funds under the MAP program. Consequently, the purchaser of the home was believed to be eligible to apply for the \$8,000 grant as a Zone resident. This was the only home purchased outside the Zone, consequently an isolated instance. Further, the AEZC Board and HUD guidance were in conflict concerning this issue. Therefore, under local governance, we believe that the AEZC Board's approval of a policy validates the action taken.

The following detailed response will outline our disagreement with the audit finding and why we believe the IG should withdraw this finding.

HUD Requirements.

HUD regulations for Urban Empowerment Zones and Enterprise Communities are codified in 24 CFR Part 597. The IG relied on 24 CFR 597.200 (d) (ii)..."Empowerment Zone funds must be used to achieve and maintain the goals of the Strategic Plan..." However, the regulation cited does not adequately represent the full intent of the Strategic Plan as outlined by President Bill Clinton.

- President Clinton has propounded the rights of local governments to make their own decision concerning governance. In this regard, the Executive Board of the Atlanta Empowerment Zone Corporation (AEZC) has the ability and the right to make decisions concerning the inclusion or exclusion of linkage/other communities for the receipt of Empowerment Zone funds.
- In the absence of clarity on this issue by the Executive Board of the AEZC and the guidance received by HUD, which are in conflict, the actions of the AEZC Board prevails.
- The AEZC Board has expressed its intent to allow Social Service Block Grant (SSBG) funds to be expended on linkage/outside communities. This is further illustrated by

the 1998 Resident Benefit Policy that authorized expenditures in linkage/outside communities.

Response to the IG's Recommendations

- A. Ensures the Atlanta Empowerment Zone Corporation established procedures and controls so that the Mortgage Assistance Program complies with established guidelines.

We agree the AEZC needed procedures and controls to ensure compliance with MAP guidelines. AEZC staff has developed procedures to govern the MAP program.

- B. Ensures the Atlanta Empowerment Zone Corporation establishes supervisory review and oversight over the Mortgage Assistance Program.

The AEZC currently has a new Executive Director who has assigned the responsibility of supervision and oversight of the MAP program to a housing specialist.

- C. Reimburses the Empowerment Zone Program \$8,000.00 from non-Federal funds for services inappropriately provided to the Corporation's employee.

Our position is that the Empowerment Zone (EZ) resident who purchased a home outside the Zone was at the time believed to be eligible to receive the \$8,000.00 grant under the MAP program. As a Zone resident, it was assumed, in error, that the receipt of a direct benefit to the Zone resident constituted a correct usage of Zone funds. Therefore, the repayment of these funds should not be required inasmuch as this was an isolated case resulting from lack of clarity as well as ambiguity of guidance received with regard to this issue. The error made was unintentional.

Conclusion.

We request the IG to withdraw the audit finding related to the inappropriate use of \$8,000.00 in Zone funds.

Response to Finding of the Inspector General for Audit, HUD

Controls Over the Center for Home Ownership Were Not Adequate

Summary of Audit Finding

The audit findings raised several issues with respect to the City of Atlanta's performance

monitoring of the Atlanta Center for Home Ownership (ACH) program.

- The City did not have adequate controls over the ACH program;
- The City did not ensure that \$739,178 of Empowerment Zone funds benefited Zone residents;
- The City did not competitively bid the contract that established the program; and
- The City did not accurately report the actual progress of the program in the June 30, 1997 Performance Audit

Summary of Our Response.

We disagree with the draft audit finding for the ACH program for the following reasons.

- The IG made a factual error in reporting that the agreement between the AEZC and AHA establishing the ACH program required all ACH services to be provided to Zone residents only. The agreement did not restrict the ACH program in the delivery of client services to only Zone residents.
- ACH served 515 Zone residents in a 10 month period. Consequently, AHA exceeded its obligation under the agreement to serve 120 Zone residents in the first year. AHA served 100% of the Zone residents it was contracted to serve and then served an additional 395 Zone residents, in less than one (1) year.
- The IG failed to acknowledge that the AEZC as a quasi governmental agency and the AHA another quasi governmental agency entered into an intergovernmental agreement for the ACH program pursuant to federal rules and regulations. The ACH program, therefore, was not subject to procurement regulations cited by the IG.
- For every \$1.00 the EZ expended toward service delivery, AHA and ACH program leveraged an additional \$1.15.
- The IG inaccurately calculated the ACH program's per client costs. Our analysis reveals that the ACH program per client cost in EZ service related dollars is \$180 as compared to the average IG vendor cost of \$495.
- The IG omitted important information regarding the ACH program outreach effort to EZ residents from the draft audit finding.
- There was an on-going misunderstanding with regard to the contract terms versus HUD and the Executive Board's guidance on the issue of whom could be served with Empowerment Zone funds.

The following detailed response will outline our disagreement with the draft finding and why we believe the IG should withdraw it.

HUD Requirements.

HUD regulations for Urban Empowerment Zones and Enterprise Communities are promulgated at 24 CFR Part 597. The IG relied on 24 CFR 597.200(d)(12)(ii), ". . . Empowerment Zone funds must be used to achieve and maintain the goals of the Strategic Plan . . ." and 24 CFR 597.200(f), ". . . activities included in the Plan may be funded from any source which provides assistance to the nominated area." It is not clear how the cited regulations support the IG's position on the

different issues. It would appear, however, that the cited regulations are selective in nature and do not adequately represent the full breath and intent of the regulations with respect to the ACH program.

24 CFR 597.200(d)(12)(ii) also provides in paragraph (A)(2) that one of the program options is to support ". . . programs that promote home ownership, education or other routes to economic independence for low-income families, youths, and other individuals." We will argue that the ACH program utilized Empowerment Zone funds pursuant to the Strategic Plan by promoting home ownership as a route to economic independence for low-income families and other low-income individuals.

As stated in the IG's draft finding, it is important that activities included in the Strategic Plan be funded from sources which will provide assistance to the Empowerment Zone area. The regulations at 24 CFR 597.200(d)(20) state that one of the elements of the Strategic Plan is to explain how different agencies in State and local governments will work together in new responsive ways to implement the Strategic Plan. In addition, 24 CFR 597.200(d)(6) states that the Strategic Plan should provide evidence that key partners have the capacity to implement the Plan. Finally, 24 CFR 597.201 states that one of the criteria for evaluating the Strategic Plan will be the extent to which State and local governments are committed to providing support to implement the Plan. We will argue that the City of Atlanta partnered with The Housing Authority of the City of Atlanta, Georgia (AHA) to promote the ACH program through an intergovernmental agreement in the spirit and letter of the regulations in order to achieve and maintain the goals of the Strategic Plan.

Department of Health and Human Services Requirements.

The IG cited the provisions in 45 CFR 92.36 that require all procurement transactions to be conducted in a manner providing full and open competition, and that contract awards will be made to the lowest responsive and responsible bidder.

Not cited by the IG, 45 CFR 92.36(b)(5) states the following:

To foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services.

The same language appears in the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (OMB Common Rule).

We will argue that the City of Atlanta through the Atlanta Empowerment Zone Corporation (AEZC) entered into an intergovernmental agreement with AHA in connection with the ACH program. Therefore, regulations at 45 CFR 92.36 as cited by the IG are not applicable to the intergovernmental agreement for the ACH program.

Empowerment Zone (EZ) Funds Did Not Benefit Zone Residents.

The IG noted in the draft finding that AHA received \$911,440 in EZ funds from July 15, 1996, the effective date of the agreement between the AEZC and AHA, through December 31, 1997. Because 515 of the 2,717 clients AHA served were EZ residents, the IG concluded that only 18.9% or \$172,262 in EZ funds paid to AHA were related to services provided to EZ residents. The remainder of the EZ funds or \$739,178 provided services to non-EZ residents. The IG used the same methodology to determine that only \$6,672 is reimbursable to AHA under its invoice totaling \$60,651 for services provided to 98 EZ residents (out of 889 total clients) during January and February 1998. These assumptions, however, are flawed for a number of reasons.

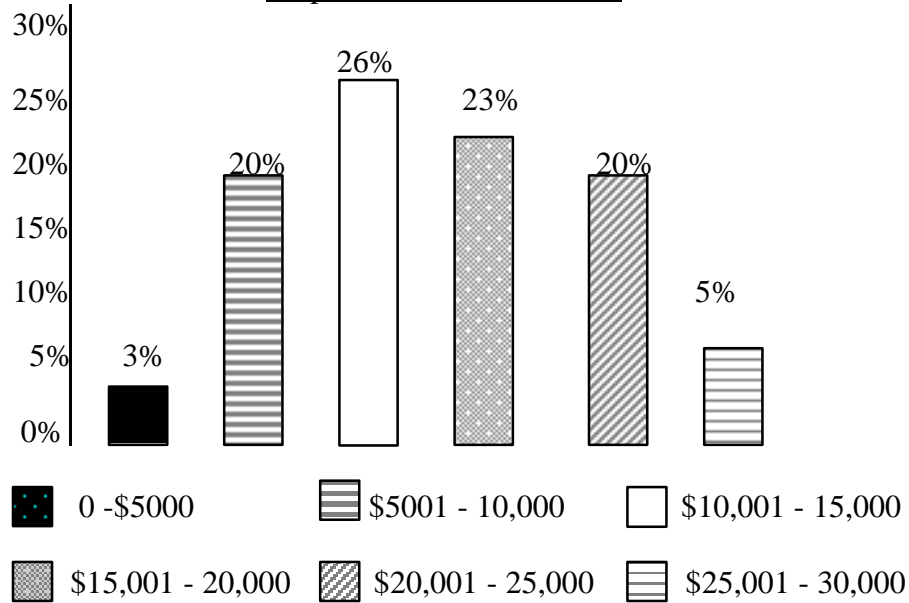
The ACH program is being administered in accordance with the affordable housing proposal. Pursuant to the narrative for the housing benchmark in the HLTD-approved Strategic Plan, 1800 families are to be assessed for homeownership over the life of the ACH program. The agreement between the AEZC and AHA stated that the ACH would serve at least 120 EZ residents on an annual basis. For the period beginning in late February 1997 (the ACH opened on February 27, 1997) through December 31, 1997, 2,717 clients were served under the ACH program. 515 of the total clients served were EZ residents. This number represents 28.6% of the Benchmark goal and 429% of the annual performance requirement under the intergovernmental agreement.

The statistics on the ACH program's extensive outreach effort to EZ residents was examined and verified by the IG during the time of the on-site review, yet the value of this effort to the program was not acknowledged by the IG. Two full-time Outreach Specialists representing one-third of funded staff positions are engaged in the outreach effort on a daily basis. Calendars, flyers, and event notices are either mailed or hand distributed monthly to over 3000 EZ residents. Flyers and event notices are posted in 30 different Empowerment Zone locations each month. The ACH program's EZ direct mailing list includes churches, public and private schools, day care facilities, community based groups, and libraries. The ACH program began its targeted campaign of outreach to EZ residents in the fall of 1996, six months before the ACH opened. Outreach staff gave numerous presentations to Zone residents between August 1996 and December 31, 1996. Continuing the effort, ACH staff averaged six presentations per week to EZ audiences between January 1997 and June 30, 1997 with an average meeting size of 40. In the second half of 1997, ACH staff added relocated EZ public housing residents to the mailing list. Staff also increased the number of flyers distributed door-to-door within the Zone communities in order to facilitate meetings with EZ residents. During the period from July 1, 1997 through December 31, 1997, the ACH staff distributed or mailed notices and flyers to EZ residents, and made presentations to approximately 4,520 EZ residents. Disregarding the extensive advertisement and promotion of the ACH program to EZ residents, the IG did not factor the cost of the outreach effort into the analysis presented in the draft audit finding.

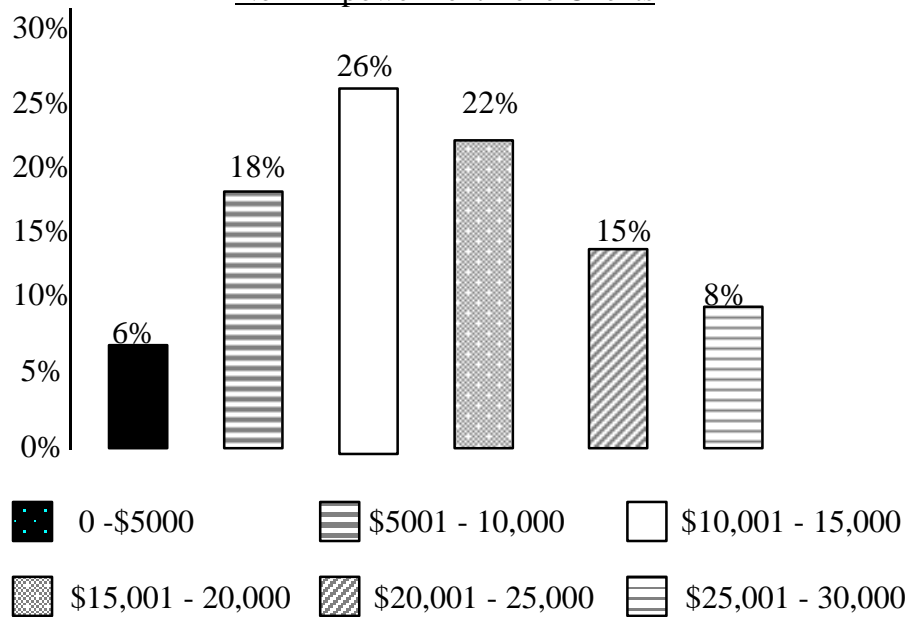
Although 100% of the clients served by the ACH program were not EZ residents, it is important to note that the non-EZ clients were low-income families and other low-income individuals pursuant to EZ guidelines. 319 of the 2,717 were public housing residents and another 1,883 were EZ Linkage Community and other low-income clients.

**Comparison of Income Ranges for Empowerment Zone Clients and
Non-Empowerment Zone Clients*
(February 27, 1997 Through December 31, 1997)**

Empowerment Zone Clients



Non Empowerment Zone Clients



* Information on Non-Empowerment Zone Clients is based on a random sample of 367 files representing 20% of the total client files.

Clients who were not residents of the EZ indicated that they came to the ACH to find out about EZ programs, or were considering moving into the Zone. An analysis of whether or not the program was benefiting low-income people was conducted during the IG review. A random sample of 367 client files revealed that the ACH is serving clients who match the profile of EZ residents. Coupling this data with the fact that non-EZ clients expressed an interest in the Zone

adds weight to the argument that the ACH program was serving the targeted population, either those currently residing in the EZ or those that could reasonably be expected to reside in the EZ based on their expressed interest.

The charts on the preceding page support this argument. The charts demonstrate that the income ranges for EZ and non-EZ clients were nearly identical. The sole or major source of income of 11% of all EZ clients is derived from Social Security, SSI, VA, or TANF, while a comparable number of non-EZ clients (10% of the sample) had similar federally funded income sources. This analysis further indicated that the percentage of clients receiving government housing benefits (public housing or Section 8) in the two groups was also comparable --- 33% of the EZ clients versus 34% of the non-EZ clients were receiving some form of housing assistance.

The IG's methodology for allocating costs to EZ and non-EZ clients failed to recognize the fixed costs associated with the initial implementation of the ACH program and the provision of ongoing services. As stated above, the ACH program exceeded the affordable housing benchmark and the performance requirements under the intergovernmental agreement. An accurate analysis would contemplate the start-up expenses for a new program and conclude that such expenses represent the cost of doing business. Even before the first client stepped across the threshold of the ACH, the build out expense and the cost of furnishing the space totaled \$423,343. To tie the expense of these sunk costs to a per-client cost allocation based on EZ resident benefit over the first four months instead of the 10-year term of program is wrong. After all, the ACH is in the Zone to serve EZ clients. This fact alone justifies the build-out expense. Office rent for the period in question totaled another \$37,500. This expense would fall in the same category as the build-out and furniture expenses --- if you build it they will come, but if they don't, you still have to pay the rent.

We must also consider the other expenses tied to the ongoing administration of the ACH program such as salaries and benefits, office supplies, telephones and equipment, and so on. Here again these expenses become fixed costs. We have to realize that in establishing a rigid performance standard that is focused on arbitrary boundaries rather than the interests of low-income families can adversely impact the program's ability to develop sustainable communities through home ownership. Would the IG have the ACH turn low-income clients away simply because they did not reside in the Zone? If so, the fixed costs for ongoing administration would still remain the same. To establish these expenses as incremental costs is a flawed analysis. In exceeding its goals, it can be concluded that the ACH program served EZ residents at the fixed costs for the program and served the additional non-EZ clients at no cost. In the final analysis, as a new program in its first year of operation, we argue that the expended EZ funds were used in an efficient and effective manner.

Contract Was Not Properly Procured.

As previously stated, the OMB Common Rule recognizes the importance of intergovernmental agreements in the procurement and delivery of services. The IG questioned the efficiency and effectiveness of the intergovernmental agreement between the AEZC and AHA. To support the IG's argument, the cost proposals from four housing counseling vendors were presented.

Supposedly, the four vendors can provide housing counseling services at a per client cost ranging from \$300 to \$689. This range was then compared to an incorrectly calculated ACH program per client cost of \$480. The IG claimed that although the ACH program per client cost would fall within the vendor range, the vendors' cost proposals were based on EZ clients, while the ACH program's cost included both EZ and non-EZ clients. The IG did not indicate how the vendor cost proposals were obtained or the criteria on which the vendors based their proposals. For example, the criteria used to define EZ residents and to draw a distinction between EZ and non-EZ clients would enlighten us as to the validity of the cost proposals. As we have demonstrated above, there is no distinction. EZ clients and non-EZ clients share the same income characteristics. To believe there is a difference between a low-income family that lives in the Zone and one that may live just outside of the Zone on the next street is flawed social science.

The IG's method of determining the ACH program's per client cost must be challenged as well. The \$480 per client cost determination is based on \$911,440 in EZ funds plus \$392,401 in AHA in-kind funds divided by 2,717. Since the misuse of EZ funds is at the heart of the IG's finding, the dollars AHA invested in the program are not a consideration. Subtracting the in-kind dollars from the equation results in a per client cost of \$335 in EZ funds. The following chart recaps our analysis of the IG's numbers.

	<u>Cost Ranges For Services</u>	<u>Average Within Range</u>
IG Vendors	\$300-\$689	\$495
ACH Program	\$335-\$480	\$408

Using the IG's numbers without the in-kind costs and deducting the expenses for the build-out and furniture results in an ACH program per client cost of **\$180**. Obviously, the efficiency and effectiveness of the ACH program's costs are superior.

Furthermore, several factors concerning the capacity of the vendors were not considered nor disclosed by the IG.

- Ability to administer program on a reimbursable basis without program interruption.
- Financial capacity to advance funds upward to over \$400,000 to further program goals.
- Capacity of the vendors to deliver housing counseling services within the Zone.
- Location of vendors in relation to client population.
- Construction project management capacity to procure an architect for design services and a general contractor to effect the build-out of the space.

Even though a competitive bid process is inappropriate and not a requirement of a procurement under an intergovernmental agreement, it is quite apparent that AHA would have been the most responsive and responsible bidder. AHA had the experience, the capacity, the financial wherewithal, and the access to the client population. After all, 51% of all EZ residents are also residents of AHA public housing. This is the reason that the original proposal under the housing benchmark included \$13.2 million in public housing modernization funding. This proposal was renegotiated to provide funding for the self-sufficiency center for homeownership to provide housing counseling, a down payment assistance program, and an owner occupied housing rehabilitation program. AHA agreed to administer the self-sufficiency program because it was believed that over the 10-year life of the program the majority of the clients would be public

housing residents. A competitive bidding process would not have been applicable to this initiative. Returning to the vendors, one last point needs to be considered. Were any of the vendors willing to commit \$2,417,000 in actual and in-kind services to EZ clients" AHA did! AHA expended \$392,401 in actual and in-kind funds through December 31, 1997. The ACH program raised an additional \$123,405 in in-kind services, products, and supplies from lenders, non-profits, a university, and the business community. The following chart demonstrates the value of the AEZC's partnership with AHA.

Analysis of Leveraged Dollars Through December 31, 1997

<u>EZ Funded Services*</u>	<u>ACH In-Kind Services</u>	<u>Leverage Ratio</u>
\$450,597	\$515,806	1.00:1.15

*Funded service delivery costs only. Sunk costs associated with the build-out, furniture, and rent are not included in the total.

For every \$1.00 the EZ expended toward service delivery, AHA and the ACH program contributed an additional \$1.15. Our analysis can only lead to one conclusion --- an intergovernmental agreement between the AEZC and AHA was not only the most efficient and effective means of providing the ACH program, it was also the right thing to do for low income families seeking these services.

The City Incorrectly Reported the Number of Individuals Served.

The 1997 Performance Review of the ACH program covers the period of operation from February 27, 1997 through June 31, 1997. The program was just over four months old when the report was submitted and substantial progress had been made to get the program off the ground, but the IG's draft finding did not reflect this. Due to the fact that the original EZ staff is no longer employed by the AEZC, it cannot be determined at this time how they arrived at the reported figures for the 1997 Performance Review. It is clear, however, that the current numbers for program activities are accurate. Not only do we agree that the progress of Zone activities must be monitored and verified to ensure that EZ funds are efficiently and effectively spent, but we also believe that the ACH program is achieving the goals of the benchmark for which the EZ funds were earmarked.

Response to the IG's Recommendations.

A. The City must ensure that the Authority only provides services to Empowerment Zone residents.

It is our position that the non-EZ clients served by the ACH program had the same profile as EZ clients. The non-EZ clients were low-income and expressed interest in the Zone and its programs. Many of these clients were public housing residents and others were EZ Linkage Community families. Both the EZ Board and the ACH advisory board have representatives from the Linkage Communities. It is not clear how the rules and regulations for the EZ program define and treat such low-income families. However, it is

clear that the IG made a factual error in reporting that the agreement establishing the ACH program required that all services be provided only to Zone residents. The agreement does not limit the ACH program's delivery of client services to only Zone residents.

B. The City must reimburse the EZ program \$739,178 from non-federal funds for services inappropriately provided to non-Zone residents.

We strongly disagree with this recommendation. As stated above, the ACH program was not designed to limit the ACH program's delivery of client services to only Zone residents. The methodology used by the IG in determining benefit was flawed in that the proposed reimbursement does not take into consideration the performance goals for the HUD-approved bench-mark activity, fixed costs versus per client costs, and the profile of the non-EZ clients receiving services. Services were not inappropriately provided to non-EZ clients, so the City will not be reimbursing the EZ program.

C. The City must only reimburse the Authority \$6,672 for the services provided to EZ residents during January and February 1998.

We strongly disagree with this recommendation. In addition to the response to Recommendation B, AHA is providing services in accordance with its agreement with the AEZC. There is no legal basis under the terms and conditions of that agreement to withhold payment.

D. The City must establish procedures and controls to monitor activities funded under the EZ program.

The City is reevaluating the performance of the AEZC. A new Executive Director has been hired. Among the many tasks before him is to improve the procedures and controls to monitor EZ funded activities.

E. The City must establish procedures and controls to ensure that Zone contracts are awarded in a manner providing full and open competition as required by the Department of Health and Human Services.

The new Executive Director will review the AEZC's current procurement practices and will make improvements as needed. However, the intergovernmental agreement-between the AEZC and AHA is not in violation of HHS procurement standards. This agreement complies with the OMB Common Rule.

F. The City must ensure costs charged by the Authority do not exceed those that would have been charged if the contract had been competitively bid.

As proven above, AHA's per client cost is reasonable. The analysis conducted by the IG supports this conclusion. Pursuant to EZ guidelines, AHA has the demonstrated capacity

to deliver the services under the housing benchmark in the Strategic Plan and has made a long-term financial commitment to promote the program.

G. The City must ensure its staff who are responsible for preparing the Performance Review for HUD uses the actual accomplishments for each activity.

We will continue to improve every area of program performance including the accuracy of reported accomplishments; however, we take exception to the inference here that the City falsified the report.

H. The City must establish procedures and controls to verify the accuracy of the information provided to HUD.

We will continue to improve every area of program performance including the accuracy of the information provided to HUD.

Conclusion.

We request that the IG withdraw the draft audit finding related to the ACH program.

**ATLANTA EMPOWERMENT ZONE
CORPORATION**

PROGRAM MONITORING AND PERFORMANCE AUDIT PROCEDURES

Effective Date: May 1, 1997
(This supersedes all previous versions)

POLICY

The Atlanta Empowerment Zone Corporation (AEZC) will maintain a proactive monitoring and evaluation program for all Federally assisted programs/projects administered by the AEZC. This monitoring program consists of Courtesy Visits, Programmatic Progress Visits, Technical Assistance Visits and Performance Audits.

These programs are administered by designated AEZC staff and implemented as described herein.

RESPONSIBILITIES

Program Evaluation Specialist

The Program Evaluation Specialist is responsible for:

- administration and implementation of the AEZC Program Monitoring and Performance Audit Procedures;
- conducting semi-annual Performance Audits of all Federally assisted programs/projects administered by the AEZC;
- providing administrative Technical Assistance (TA) to sub-recipients as needed;
- ensuring the resolution of major findings as described herein and;
- coordinating internally and with the City of Atlanta, Georgia Department of Community Affairs (DCA) or other Federal, state or local agencies to ensure laws or regulations applicable to AEZC administered programs/projects are adhered to and monitored as required.

Discipline Directors/Development Officers

Discipline Directors/Development Officers are responsible for:

- ensuring Requests for Proposals, contracts and agreements for their respective programs/projects include language which advises sub-recipients or prospective sub-recipients that they will be subject to program/project monitoring and semi-annual Performance Audits by the AEZC if awarded a loan or grant to implement a Federally funded activity administered by the AEZC;
- developing a programmatic progress site visit schedule for each of their respective sub-recipients to observe program/project implementation and provide

programmatic technical assistance as required. The frequency of these visits will be based on program/project complexity, its nature and the expertise/sophistication of the sub-recipient. However, each sub-recipient will be visited by the Discipline Director/Development Officer at least quarterly;

- establishing procedures, utilizing site visits or other methods, to facilitate the early identification and/or resolution of potential problem;
- through a systematic review of program/project operations during programmatic progress visits, reviewing program/project related correspondence, and other communications with sub-recipients, identifying the need for 1) technical assistance, 2) changes or adjustments in program/project implementation methodology, 3) amendments to program/project contracts or agreements and, 4) any actions or changes that may affect the eligibility of the project/program or sub-recipient;
- ensuring completion of an *AEZC Sub-Recipient Site Visit Reports* (TAB 14) to document each programmatic progress or technical assistance visit;
- accompanying the Program Evaluation Specialist and Sub-Recipient Specialist during Courtesy Visits to sub-recipients and;
- promptly advising the Program Evaluation Specialist of any financial or administrative problems requiring Technical Assistance (TA) or other assistance. Assist, as required, in the delivery of TA or other assistance rendered to a sub-recipient.

Sub-Recipients

Sub-recipients are responsible for:

- executing benchmark program/projects as specified and agreed to in agreement(s) and contract(s), and any attendant terms and conditions, between the sub-recipient and AEZC;
- being knowledgeable of and in compliance with all Federal, state and City of Atlanta laws, ordinances, regulations and policies applicable to their Federally assisted program/project and which are funded and administered by the AEZC;
- ensuring they are thoroughly knowledgeable of and in compliance with the contents of the AEZC Sub-Recipient Manual, the policies contained herein and all other Federal, state and local polices, regulations applicable to the administration of their program/project and;

- fully cooperating in the resolution of performance audit or financial management findings and complying with any related directives from the AEZC.

Sub-Recipient Specialist

The Sub-Recipient Specialist is responsible for:

- implementation of the AEZC Financial and Management Systems for Sub-Recipients;
- providing financial management and internal controls Technical Assistance (TA) to sub-recipients and;
- conduct of financial reviews during semi-annual Performance Audits.

TYPES OF MONITORING VISITS

Courtesy Visits: Courtesy Visits will be conducted by the Program Evaluation Specialist and Sub-Recipient Specialist to make initial "face to face" contact with a sub-recipient and their staff, discuss program/project monitoring and performance audit requirements and procedures, financial management procedures, sub-recipient responsibilities, determine the need for technical assistance, and discuss and/or resolve any AEZC sub-recipient operations/compliance issues. Sub-recipients will be notified in writing of pending Courtesy Visits, and the specific day and time agreed to by both the sub-recipient and Program Evaluation Specialist. The appropriate Discipline Director and/or Development Officer will accompany the Program Evaluation Specialist and Sub-Recipient Specialist on all Courtesy Visits.

Technical Assistance Visits: Technical Assistance (TA) Visits will be conducted to assist or advise a sub-recipient on how to accomplish a specific monitored task to ensure compliance with an applicable policy, procedure, regulation or law. An AEZC Sub-Recipient Site Visit Report will be completed for each TA Visit. A copy will be retained by the Program Evaluation Specialist, the Sub-Recipient Specialist and a copy provided to the sub-recipient. TA Visits will be conducted by the Program Evaluation Specialist, Sub-Recipient Specialist and Discipline Directors/Development Officers.

Programmatic Progress Visits - Programmatic Progress Visits will be conducted by the Discipline Directors/Development Officers to observe and/or review progress on program implementation and provide programmatic TA if required. The frequency of these visits will be based on program/project complexity, its nature and the expertise/sophistication of the sub-recipient. However, each sub-recipient will be visited by the Discipline Director/Development Officer at least quarterly.

Performance Audits - A Performance Audit is a review and examination of all areas, programmatic and financial (Note 1), related to execution of the terms and conditions of the agreement or contract between the AEZC and sub-recipient. The AEZC Sub-Recipient Performance Audit Visit Checklist (TAB 15) will serve as a *basic guideline* for conducting a Performance Audit. However, sub-recipients are advised that Performance Audits may deviate from this checklist based on the nature and complexity of the program/project, and issues/problems which may surface during the Performance Audit. A copy will be retained by the Program Evaluation Specialist and the Sub-Recipient Performance Audits will be conducted by the Program Evaluation Specialist and Sub-Recipient Specialist.

Close-Out Audit: Close-Out Audits will be conducted at the termination of a program/project to ensure compliance with applicable financial, programmatic and procurement policies, procedures and regulations. Close-Out Audits will be conducted no later than fourteen days prior to program/project termination. The exact day and time will be agreed to by the AEZC staff and sub-recipient. The primary focus of these audits will be to determine final disposition of supplies and equipment, reconciliation of drawdowns with bank statements, invoices and receipts, determination of the amount of final program/project drawdown and to reiterate program/project records/files retention requirements. An AEZC Sub-Recipient Site Visit Report will be completed for each Close-Out Audit. A copy will be provided to the sub-recipient. Disputes that arise during Close-Out Audits will be provided to the AEZC Director of Administration for resolution.

Special Monitoring Visits: Special Monitoring Visits will be conducted to provide intense administrative, financial or programmatic review for programs/projects which were suspended and have been reinstated. These programs/projects will be subject to bi-weekly programmatic progress monitoring and monthly abbreviated (Note 2) Performance Audits for a period of at least ninety days. Special Monitoring Visits will be conducted by the Program Evaluation Specialist, Sub-Recipient Specialist and Discipline Directors/Development Officers.

NOTES:

- (1) The financial review conducted during a Performance Review **does not** meet the requirements of the annual financial audit completed by a Certified Public Accountant (CPA) which will be required by some sub-recipients. Questions regarding annual audits should be directed to the AEZC Chief Financial Officer (CFO).
- (2) These Performance Audits will focus only on the issues/problems which were the
- (3) basis for the major findings.

PROCEDURES

Frequency of Visits

Programmatic Progress Visits: The frequency of these visits is based on program/project complexity, its nature and the financial/programmatic technical expertise/sophistication of the sub-recipient. However, each sub-recipient will be visited by the appropriate Discipline Director/Development Officer at least quarterly.

Courtesy Visits: Courtesy visits will be conducted within forty-five days of loan, grant or contract/agreement closing. Sub-recipients will be notified in writing of upcoming Courtesy Visits. The specific day and time will be agreed to by both the sub-recipient and Program Evaluation Specialist.

Technical Assistance Visits: Technical Assistance (TA) Visits normally visits will be conducted in response to a request from a sub-recipient. However, the Executive Director or Director of Administration may, upon receipt of creditable and reliable information or recurring indication that a sub-recipient is experiencing program/project administration problems, direct that a meeting be held between the sub-recipient and designated AEZC staff. A determination will be made as to the existence or degree of the problem, and a recommendation for resolution made.

Performance Audit: Initial Performance Audits will be conducted no later than six months from the date of the Courtesy Visit and continue semi-annually until program/project termination. Sub-recipients will be given reasonable notification for pending visits, usually within a thirty-day window. The specific day and time may be coordinated with the sub-recipients no later than fourteen days prior to the AEZC's desired date for the Performance Audit.

Close-Out Audit: Close-Out Audits will be conducted no later than fourteen days prior to program/project termination. Sub-recipients will be given written notice of an upcoming Close-out Visit

Conducting Performance Audits

Performance Audits will be initiated by discussions between the sub-recipient and the Program Evaluation and the Sub-Recipient Specialist on any areas or issues of concern. For all Performance Audits the sub-recipient or acceptable designate will be available to:

1) respond to questions, 2) discuss program/project progress or problems, 3) identify the need for any technical or other assistance, and 4) discuss recommended changes in program/project scope or objectives. Sub-recipients will ensure all requested records and files are available and a temporary work area (desk/table and 2 chairs) is made available. Upon completion of the Performance Audit, the sub-recipient will be given a summarized

briefing and a written report within fourteen days. Findings made during the Performance Audit will be processed in accordance with the "*Resolution of Findings*" paragraph below. An AEZC Sub-Recipient Site Visit Report will be completed for each Performance Audit.

Areas to be Reviewed

At a minimum, appropriate and applicable items listed on the AEZC Sub-Recipient Monitoring Visit Checklist (TAB 15) will be reviewed for each program/project during Performance Audits. Sub-recipients are advised, however, that all areas, programmatic and financial, related to activities funded with AEZ funds are subject to review.

Performance Audit Findings

Minor Findings: A minor finding is a finding which does not indicate any misconduct, deceit or intentional violation of law, regulation, statute, regulation, contract or agreement. Findings, recommended actions for resolution and follow-up actions will be recorded on the AEZC Sub-Recipient Site Visit Report.

Major Findings: A major finding is a finding of misconduct, deceit, and/or a systematic or pattern of clear violation of law, regulation, statute, contract or agreement. Upon discovery of a major finding the Program Evaluation Specialist and/or the Sub-Recipient Specialist will conduct an immediate review/assessment to ascertain the nature and scope of the violation(s). They will provide a brief summary of the violation(s) to the appropriate Discipline Director/Development Officer, Chief Financial Officer, Director of Operations, and Director of Administration. Depending on the nature of the violations a decision will be made regarding the need for a legal opinion and the involvement of other agencies or entities.

Resolution of findings

Minor Findings: Minor findings will be addressed through technical assistance from the appropriate AEZC. Any action or practice which constitutes a violation of law, statute, regulation contract or agreement must terminate immediately. Sub-recipients will cooperate fully with the AEZC staff in the prompt resolution of minor findings.

Major Findings: The Program Evaluation Specialist is responsible for coordinating with the Director of Administration, other AEZC staff or legal counsel on the development of recommendations for the resolution of major findings. Recommendations for resolution of major findings may include but are not limited to:

- termination of a program/project
- suspension of program/project funding subject to conditions
- removal of an individual(s) from the program/project

- directing changes in the operational procedures of the program/project
- changing the scope or objectives of a program/project
- modifying the program/project contract

Recommendations will be provided to the Executive Director for a decision. The Department of Housing and Urban Development (HUD), the Department of Housing and Community Development and the Georgia Department of Community Affairs will be promptly advised of all program/project termination's.

The decision to reinstate funding for a program/project will be made by the Executive Director. Sub-recipients must diligently comply with all the terms, conditions and agreements established as conditions for reinstatement of their program/project. These programs will undergo monitoring as indicated in the "*Special Monitoring Visits* " paragraph above.

Distribution

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 (Room 8162)
 Director, Housing and Community Development Issue Area, U.S. GAO, 441 G Street N.W.,
 Room 2474, Washington DC 20548
 The Honorable John Glenn, Ranking Member, Committee on Governmental Affairs, United
 States Senate, Washington DC 20515-4305
 The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, United
 States Senate, Washington DC 20515-4305
 The Honorable Dan Burton, Chairman, Committee on Government Reform and Oversight, United
 States House of Representatives, Washington DC 20515-6143
 Mr. Pete Sessions, Government Reform and Oversight Committee, Congress of the United
 States, House of Representatives, Washington, DC 20510-6250
 Ms. Cindy Sprunger, Subcommittee on General Oversight and Investigations, Room 212,
 O'Neil Office Building, Washington DC 20515
 Acting Director of the Office for Civil Rights, Department of Health and Human Services,
 200 Independence Avenue S.W., Room 515, Washington DC 20201
 Inspector General, Department of Health and Human Services, 330 Independence Avenue S.W.
 Room 5246, Washington DC 20201
 Executive Director, Atlanta Empowerment Zone Corporation
 Mayor, City of Atlanta, and Chairman of the Board of Directors, Atlanta Empowerment Zone
 Corporation