



Issue Date June 29, 2007
Audit Report Number 2007-NY-1009

TO: Nancy Peacock, Director, Community Planning and Development, 2CD

FROM: *Edgar Moore*  
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The Town of Alexandria, New York's Small Cities Community Development Block Grant Program Did Not Meet Its Program Objective of Job Creation

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the operations of the Town of Alexandria, New York (grantee), regarding its administration of a Small Cities Community Development Block Grant (Block Grant) obtained in September 1999 under the U. S. Department of Housing and Urban Development's (HUD) Canal Corridor Initiative. The purpose of the examination was to determine whether the grantee ensured that (1) grant funds were disbursed for project costs that were necessary, reasonable, and in accordance with federal regulations and (2) the project for which the funds were used complied with Block Grant program objectives, including the intended benefit of job creation.

### **What We Found**

The grantee disbursed Block Grant funds for project costs that were necessary, reasonable, and in accordance with federal regulations; however, it did not ensure that its use of the grant proceeds complied with program objectives. Specifically, its use of Block Grant funds did not result in job creation, the program objective for which HUD provided the funds.

## **What We Recommend**

We recommend that the director of HUD's Buffalo Office of Community Planning and Development follow up on the grantee's progress toward meeting its job creation goal for the project and set a specified deadline for meeting the goal. We also recommend that HUD use the \$50,000 per job standard to determine how much of the \$600,000 in Block Grant funds are eligible costs, and require the grantee to reimburse the program from nonfederal funds for any amounts determined to be ineligible.

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

## **Auditee's Response**

We discussed the results of our review during the audit and we requested the grantee's comments on May 24, 2007. We held an exit conference on June 14, 2007 and grantee officials provided their written comments via fax on June 19, 2007; we received the mailed originals on June 25, 2007. Grantee officials generally agreed with our finding and provided their written comments during the exit conference. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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## **BACKGROUND AND OBJECTIVES**

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The Town of Alexandria, New York (grantee), was established in 1821 within the County of Jefferson and is governed by the general laws of the State of New York and various local laws. The town supervisor is responsible for overall operations and serves as the chief executive officer. All legislative power of the grantee is vested in the town board. The books and records for the Small Cities Community Development Block Grant (Block Grant) program are located at Town Hall, Alexandria, New York.

In December 1996, the U.S. Department of Housing and Urban Development (HUD) introduced the Canal Corridor Initiative to revitalize communities along the Erie Canal and related waterways in upstate New York. HUD was the sponsor of the Canal Corridor Initiative because in 1996, HUD was the administrator for the State of New York's Block Grant program. In September 2000, the State of New York agreed to administer the program while HUD continues to administer the Canal Corridor Initiative. The Canal Corridor Initiative was authorized by the Housing and Community Development Act of 1974 and was designed to provide grant and loan guarantees to communities along the waterways for economic development projects with an emphasis on job creation. As part of the Canal Corridor Initiative, the grantee, along with the Town of Orleans, New York, applied for a HUD-administered Block Grant in the amount of \$600,000 for a joint wastewater collection and treatment project. Although it was a joint application, the Town of Orleans designated the grantee as the lead applicant for the Block Grant and delineated all responsibilities relating to grant administration to the grantee.

In September 1999, the grantee received notice from HUD that its request for a Block Grant had been approved (Project No: B-99-DH-36-0219). The grant funds were to be used to assist with the construction of the wastewater treatment facility. According to the grantee's application, completion of the wastewater treatment facility would provide the necessary infrastructure for construction of a new budget motel that was expected to result in the creation of 40 new jobs, of which approximately 30 would be made available to low-to moderate-income families.

We selected the grantee for audit based on indicators from monitoring reports that noted concerns regarding the lack of progress toward meeting the job creation goals associated with the Block Grant. In addition, our review of the Canal Corridor Initiative in 2001 noted that program objectives, such as job creation, had not been fully realized.

The objectives of our audit were to determine whether the grantee ensured that (1) grant funds were disbursed for project costs that were necessary, reasonable, and in accordance with federal regulations and (2) the project for which the funds were used complied with Block Grant program objectives, including the intended benefit of job creation.

## RESULTS OF AUDIT

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### Finding: The Program Objective for the Wastewater Treatment Project Was Not Realized

The grantee's use of Block Grant funds to help finance the construction of a wastewater treatment facility did not result in job creation, the program objective for which the funds were provided. This deficiency occurred because the grantee failed to develop a plan to ensure that the required job creation goal would be met. As a result, we consider the cost of \$600,000, incurred with Block Grant funds for the wastewater treatment facility, as unsupported pending a HUD eligibility determination.

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#### Program Objective of Job Creation Not Realized

As part of HUD's Canal Corridor Initiative, the grantee was awarded a \$600,000 Block Grant. The funds were used to assist with the construction of a wastewater treatment facility. According to the grantee's program application to HUD, completion of the wastewater treatment facility would provide the necessary backbone for future development, to include the construction of a new budget motel that was expected to result in the creation of 40 new jobs, of which approximately 30 would be made available to low-to moderate-income families. While no HUD funds were to be used for the construction of the new budget motel, the completion of the motel and resulting jobs formed the basis on which HUD approved the project and awarded the grant funds.

Although the wastewater treatment facility was successfully completed and is currently in operation, the budget motel was not constructed. Moreover, discussions with grantee officials disclosed that the grantee no longer anticipated that the budget motel would be built. Consequently, the jobs would not be created. HUD has held numerous discussions with the grantee since 2003 and sent a warning memo in 2004 advising that failure to satisfactorily document compliance with the statutory objective of job creation would likely result in a determination that the funds were expended for an activity no longer eligible for CDBG assistance and that the grantee may be required to repay the entire amount of the grant.

In accordance with 24 CFR [*Code of Federal Regulations*] 570.209(b)(3)(i)(A), \$50,000 is the amount HUD uses as its benchmark for job creation in relation to the amount of Block Grant assistance provided. HUD requires that at least one full-time equivalent, permanent job be created or retained for each \$50,000 in funding. HUD also requires that at least 51 percent of the jobs be held by or made available to low-and moderate-income individuals.

## **Conclusion**

While the wastewater treatment facility was completed, the budget motel was not constructed; therefore, the jobs were not created. Moreover, grantee officials did not have a plan regarding future job creation since it anticipated that the budget motel would not be constructed. As a result, we consider the \$600,000 in Block Grant funds provided for the wastewater treatment facility as unsupported costs pending a HUD eligibility determination.

## **Recommendations**

We recommend that the director, Buffalo Office of Community Planning and Development,

- 1A. Follow up on the grantee's progress or plan toward meeting its job creation goal for the wastewater treatment project funded with Block Grant funds and set a specified deadline for meeting the goal.
- 1B. Apply the \$50,000 per job standard to determine how much of the \$600,000 in Block Grant funds are eligible costs and require the grantee to reimburse HUD from nonfederal funds for any amounts determined to be ineligible.

## **SCOPE AND METHODOLOGY**

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Our review focused on the grantee's administration of a \$600,000 Block Grant obtained under HUD's Canal Corridor Initiative. To accomplish our objectives, we interviewed HUD officials and grantee staff. In addition, we reviewed applicable laws, regulations, and other HUD program requirements and the grantee's program files for the Block Grant program.

We also reviewed various documents including board minutes, financial statements, bank statements, check vouchers, HUD monitoring reports, and the grantee's audited financial statements.

The review covered the period between January 1, 1999, and December 31, 2006, and was extended as necessary. We performed audit work from January 2007 through May 2007. The review was conducted in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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

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

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

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## Relevant Internal Controls

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

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

We assessed the relevant controls identified above.

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



## Significant Weaknesses

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

- The grantee did not establish controls to ensure that administration of its Block Grant program was conducted in compliance with program regulations and that the project met its objectives (see finding).

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS

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Recommendation number	Unsupported 1/
1B	\$600,000

- 1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

# Appendix B

## AUDITEE COMMENTS AND OIG'S EVALUATION

### Ref to OIG Evaluation

### Auditee Comments

<p><b>Town Justice</b> Louis H. Perry, Jr. Sherry L. Pennington</p> <p><b>Council Members</b> James R. Durand Martha M. Millett Dale. D. Hunneyman Douglas G. Williams</p>	<p>♥ OF THE 1000 ISLANDS <b>TOWN OF ALEXANDRIA</b> COUNTY OF JEFFERSON P.O. BOX 130 46372 CO. RT. 1 ALEXANDRIA BAY, NEW YORK 13607 PHONE (315) 482-9519 FAX (315) 482-6342</p>	<p><b>Supervisor</b> Fairman S. Sutton</p> <p><b>Town Clerk</b> Ellen S. Peck</p> <p><b>Supt. of Highways</b> David H. Bain</p> <p><b>Attorney</b> Joseph W. Russell</p>
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June 19, 2007

Mr. Edgar Moore  
Regional Inspector General for Audit  
U.S. Dept. of Housing and Urban Development  
26 Federal Plaza, Room 3430  
New York, NY 10278-0068

RE: Town of Alexandria, Jefferson County, New York  
Small Cities Community Development Block Grant Program and Draft Audit Report

Dear Mr. Moore:

This correspondence is provided in response to the Draft Audit Report forwarded to the undersigned by letter dated May 24, 2007, and is intended as the written comments of the Town of Alexandria to be included within the Report.

The Town of Alexandria has no dispute with that portion of the Report finding that the new budget motel which was promised by a private developer was never constructed and, therefore, the forty (40) jobs anticipated in the original application have not been realized. However, the Town of Alexandria does dispute the finding that its use of Block Grant Funds did not result in job creation. The Town can establish that, as a direct result of the sewage treatment plant and accompanying infrastructure to which the Grant funds were utilized, jobs that meet the requirements and objectives of the Small Cities Community Development Block Grant Program were created.

The developer that committed to the construction of the budget motel, D.E.C. Properties, Inc. and its principal, [REDACTED] is the largest single commercial property owner within the Town of Alexandria Route 12 Sewer District. Subsequent to receipt of the Grant funds and the expenditure thereof for the construction of the sewage system, D.E.C. Properties, Inc. abandoned its plan for the construction of the budget motel, and diverted its development efforts toward another project located within the boundaries of the Sewer District. D.E.C. Properties, Inc., is the owner of

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The Town of Alexandria is an equal opportunity provider, employer and lender.  
To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W.

**Comment 1**

**Comment 2**

# AUDITEE COMMENTS AND OIG'S EVALUATION

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## Ref to OIG Evaluation

## Auditee Comments

### Comment 3

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the Bonnie Castle Recreational Center located on Route 12 and within the Route 12 Sewer District, which contains an ice arena and restaurant, opened seasonally during the winter months, and a miniature golf course, driving range, and batting cage opened seasonally during the summer months. Prior to the construction of the sanitary sewer system, the Bonnie Castle Recreational Center was serviced by an onsite septic system which was failing and for which the property owner had been cited on numerous occasions. But for the construction of the sanitary sewer facilities that commercial operation was in danger of being closed permanently. In addition, D.E.C. Properties, Inc. acquired another large parcel of real estate on the north side of NYS Route 12 at which there had previously been operated a small seasonal motel. D.E.C. Properties, Inc. constructed a seasonal restaurant operating during the spring, summer and fall months (the Swan Bay Beach Club), and rehabilitated the motel properties. The establishment of this commercial development would not have been possible without the infrastructure provided by the sanitary sewer system for which the Grant funds were utilized. The Bonnie Castle Recreation Center continues to operate seasonally during the winter months, and the Swan Bay Beach Club and adjoining motel operates seasonally during the spring, summer and fall months.

The same individuals and entities control the operations of both facilities, and utilize year round employees to operate both facilities. As a direct result of the new commercial operation there are thirty-eight (38) new full-time jobs between the Bonnie Castle Recreation Center and the Swan Bay Beach Club and Resort.

### Comment 4

In addition to the above, there is currently being constructed on property owned by the Thousand Islands Bridge Authority and within the Town of Alexandria Route 12 Sewer District a new New York State Troopers barracks that will house fourteen (14) State Troopers with the promise of an additional six (6) State Troopers in the near future. The construction of this new Troopers barracks would not have been possible without the infrastructure of the sanitary sewer system for which the Grant funds were provided. In addition, there are currently plans on the table at the Town of Alexandria for the extension of the Route 12 Sewer District northeast towards the Village of Alexandria Bay, a distance of approximately three (3) miles to connect to the Village sewer system. The intent of that extension is not only to provide sanitary sewer service to existing trailer parks and residential communities, but to spur the economic development of the Route 12 corridor which is made up largely of undeveloped abandoned agricultural land.

### Comment 5

Enclosed with this correspondence is a copy of the Intermunicipal Agreement between the Towns of Alexandria, Orleans, and Clayton. The sewer project for which the Grant funds were utilized is a regional project encompassing the three adjoining towns of Alexandria, Orleans and Clayton. That portion of the project

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# AUDITEE COMMENTS AND OIG'S EVALUATION

## Ref to OIG Evaluation

## Auditee Comments

### Comment 5

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located in the Town of Orleans runs from the Hamlet of Fishers Landing to the Thousand Islands Bridge, a distance of approximately three (3) miles along NYS Route 12. It is submitted that the joint sewer project has resulted in the retention and creation of jobs not only in the Town of Alexandria but also within the Town of Orleans. Foxy's Restaurant located in Fisher's Landing within the Town of Orleans was in jeopardy of closure due to a violation of its SPEDES permit, but for the sanitary sewer system it would most likely not be open today and its several employees would be without a job. The following existing businesses within the Town of Orleans have all been able to connect to the sanitary sewer system:

- P.J.'s Motel and River Rat Café, 41867 NYS Route 12;
- The Gal's Place, 42077 NYS Route 12;
- Douglas Kranz / Thousand Islands Campground, 42099 NYS Route 12;
- Thousand Islands Winery, 43298 Seaway Avenue;
- Thousand Islands Bait Store, 42980 NYS Route 12; and
- Seaway Enterprises, 42781 NYS Route 12.

The following are new businesses located within the Town of Orleans Sewer District that have all connected to the treatment plant, and have been established subsequent to the construction of the sanitary sewer system:

- Thrift Shop, NYS Route 12 (3 employees);
- Front Porch Realty, 42781 NYS Route 12 (1 broker and 1 independent agent);
- Premier Builders, 42901 NYS Route 12 (2-3 office employees and 25 construction employees);
- Prudential Realty, NYS Route 12 (7 employees).

In addition to the above, two additional new businesses have recently applied for approval to locate within the Town of Orleans along New York State Route 12 within the sanitary sewer district. The specifics of those businesses and employees thereof can be provided at a later date. Finally, the Town of Orleans has established the Town of Orleans Business Association within the Town of Orleans in general and specifically along the Route 12 corridor serviced by the sanitary sewer system.

Although that portion of the sanitary sewer system servicing the Town of Clayton currently only services residential properties in the Fishers Landing area, the

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# AUDITEE COMMENTS AND OIG'S EVALUATION

**Ref to OIG Evaluation**

**Auditee Comments**


**Comment 6**

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Town of Clayton has plans to extend its sewer district southwesterly along New York State Route 12 toward and to the Village limits of the Village of Clayton. Once again, the intent of expanding the sewer service along the Route 12 corridor is to increase the commercial development opportunities in that area.

The undersigned respectfully requests that consideration be given to the fact that although D.E.C. Properties, Inc., failed to construct the budget motel and therefore create the jobs contemplated in the application, that developer's alternative commercial enterprises have created the necessary jobs to satisfy the program objectives of the Community Development Block Grant. In addition, it is respectfully submitted that the additional economic development along the Route 12 corridor within the adjacent Town of Orleans that was facilitated by the existence of the sanitary sewer system and the jobs created therefrom should be considered in analyzing the Towns' compliance with the program. The Towns of Alexandria and Orleans are in the process of gathering the necessary data to substantiate the jobs created and will be in a position to provide that information to HUD in response to the recommendations submitted in your report.

Thank you for your consideration.

Sincerely,  
TOWN OF ALEXANDRIA  
By:   
F. Sampie Sutton, Supervisor

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## OIG Evaluation of Auditee Comments

- Comment 1** Officials for the grantee agree with our conclusion that the budget motel was never constructed, and therefore, the forty jobs anticipated in the original applications have not been realized. However, the grantee's contention is that its use of Block Grant funds for the sewage treatment facility did result in other jobs that met the requirements and objectives of the Block Grant Program. Nevertheless, the grantee has not provided any documentation showing what jobs were retained or created, nor whether this project met the National Objective of the Program.
- Comment 2** Officials for the grantee state that subsequent to the receipt of the Block Grant funds and its expenditure for the construction of the budget motel, the developer committed to the project abandoned its plan for the construction of the motel. However, our review disclosed that the grantee did not undertake any legal recourse against the developer.
- Comment 3** Officials for the grantee contend that the developer, the largest single commercial property owner within the Town of Alexandria, owns several commercial developments that have benefited from the sanitary sewage system for which grant funds were utilized. Specifically, one of these developments was in danger of being closed due to its failing septic system and the establishment of the other development would not have been possible without the infrastructure provided by the sanitary sewer system. However, the grantee has not provided any documentation to support the creation of new full-time jobs at these developments or documentation from HUD authorizing the grantee to change to alternative ways of counting jobs.
- Comment 4** Officials for the grantee state that the current construction of a New York State Troopers barracks and the planned extension of the sewer system would not be possible without the infrastructure of the sanitary sewer system for which Block Grant funds were provided. The intent of the extension is to provide sanitary sewer service to existing trailer parks and residential communities, and to spur economic development along a corridor of largely undeveloped abandoned land. We do not dispute the fact that the sanitary sewer system has provided an enormous benefit to the surrounding area; however, HUD's decision to competitively award the Block Grant funds to the grantee was specifically based on the motel development and its subsequent creation of low-to-moderate jobs. Thus, the grantee will need to seek approval from HUD as to whether the jobs created by the planned economic development meet the National Objective of the Program.
- Comment 5** Officials for the grantee state that the sewer project for which the Block Grant funds were utilized was a regional project encompassing three adjoining towns and has resulted in the retention and creation of several jobs within two of the

towns, one of which is the grantee. Our review disclosed that although it was a joint application, one of the towns designated the grantee as the lead applicant for the Block Grant funds and delineated all responsibilities relating to grant administration to the grantee. Further, the grantee has not provided documentation to support the alternative jobs created.

**Comment 6** Officials for the grantee requests that consideration be given to the fact that although its developer failed to construct the motel and create the jobs specified in their Block Grant application to HUD, alternative jobs have been created to satisfy the Program objectives. Grantee officials are in the process of gathering the necessary data to substantiate the alternative jobs created. While we commend the grantee on their current plan of action, the grantee should have obtained approval from HUD for the substituted creation of jobs when the planned motel project was abandoned. HUD based its decision to provide the Block Grant Funds to the grantee based on the motel development and its subsequent creation of low-to-moderate income jobs. Since that did not happen, in order for consideration to be given regarding the alternative job creation, the grantee must submit to HUD evidence to support that the alternative jobs retained or created meets the low-to-moderate income statutory National Objective under 24 CFR [Code of Federal Regulations] 570.208(a)(4) as required.