
AUDIT REPORT



CITY OF UTICA
COMMUNITY PLANNING AND DEVELOPMENT
PROGRAMS

UTICA, NEW YORK

2002-NY-1003

September 5, 2002

OFFICE OF AUDIT
NEW YORK/NEW JERSEY DISTRICT



Issue Date	September 5, 2002
Audit Case Number	2002-NY-1003

TO: Michael F. Merrill, Director, Community Planning and Development, 2CD

for William H. Rooney

FROM: Alexander C. Malloy, Regional Inspector General for Audit, 2AGA

SUBJECT: City of Utica
Community Planning and Development Programs
Utica, New York

Pursuant to a request from the U.S. Department of Housing and Urban Development (HUD) Director, Community Planning and Development, Buffalo New York, we completed an audit of two development projects within the City of Utica, New York: the Utica Historic Marina Project and the Parkway Recreation Center Project. The primary objectives of the review were to determine whether: (1) the two projects were eligible activities that met a national objective of the Community Development Block Grant (CDBG) Program; (2) the costs charged for the projects were necessary, reasonable, and in accordance with Federal regulations; and (3) the City of Utica (Grantee) had proper budgetary and accounting controls. The results of our audit are contained herein and include two findings with recommendations for corrective actions.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please give us, for each recommendation without management decisions, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendations without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or you staff have any questions, please contact William H. Rooney, Assistant Regional Inspector General for Audit, at (212) 264-8000, extension 3976.

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Executive Summary

We completed an audit of two development projects administered by the City of Utica, New York (Grantee): the Utica Historic Marina Project and the Parkway Recreation Center Project. The purpose of our audit was to determine whether: (1) the two projects were eligible activities that met a national objective of the CDBG Program; (2) the costs charged for the projects were necessary, reasonable, and in accordance with Federal regulations; and (3) the City of Utica (Grantee) had proper budgetary and accounting control. Our review raised concerns regarding the two projects. These concerns are discussed below.

Utica Historic Marina Project

Utica Historic Marina Project may not meet its job creation goal

The Utica Historic Marina Project, which is part of the Canal Corridor Initiative, a HUD initiative, related to the New York canal system, may not meet its job creation goal. This occurred because the Grantee failed to develop a plan to ensure that the required job creation goal would be met for low and moderate income families. To be an eligible activity, CDBG funds must be used to achieve one of the CDBG national objectives. One of the national objectives is to benefit low and moderate income families. As a result, we consider cost of \$213,750 that was incurred with Small Cities CDBG funds from Oneida County, New York, as unsupported pending a HUD eligibility determination. Regarding a pending Section 108 CDBG Loan Guarantee of \$250,000 under Oneida County's Small Cities CDBG Program, we recommend that HUD should not provide final approval to the Section 108 Loan Guarantee until both the County and the Grantee provide assurances that an acceptable number of jobs will be created.

In connection with the above, it should be noted that the Grantee expended \$902,799 of the Grantee's CDBG Entitlement Funds on the Marina Project. However, HUD disagreed with the expenditure of these funds and directed the Grantee to reimburse its CDBG Program \$902,799. Accordingly, we questioned these costs pending the Grantee's reimbursement to its CDBG Program.

Parkway Recreation Center

Activity may not meet a National Objective

The Grantee used CDBG funds to help finance the renovation of a Ski Chalet in spite of a warning by HUD that the activity may not meet a national objective of the CDBG Program. This occurred because the Grantee

decided to rehabilitate and connect an existing Ski Chalet that abutted the new recreation facility that the Grantee constructed for its youth. Our review disclosed that the Grantee referred to the construction of the new recreation facility as Phase I and to the Ski Chalet as Phase II of its Parkway Recreation Center Project. HUD told the Grantee that the use of CDBG funds to rehabilitate the Ski Chalet may not meet a national objective. Despite this warning, the Grantee charged the CDBG program at least \$255,158 of costs associated with the renovation of the Ski Chalet (Phase II). Since the Ski Chalet activity may not meet a CDBG national objective, the costs, \$255,158, that we identified as being associated with the activity are considered unsupported pending a HUD eligibility determination.

Recommendations

We are recommending that HUD ensure that the Grantee repays the \$902,799 of ineligible costs to the CDBG Program from non-Federal funds. We also recommend that HUD make eligibility determinations regarding the unsupported costs involving both the Marina and Parkway Recreation Center Projects. Finally, we recommend that HUD should not provide final approval to the Section 108 Loan Guarantee until assurances are provided that an acceptable number of jobs will be created.

Exit Conference

On July 30, 2002, we held an exit conference at City Hall, Utica, New York that was attended by the following Grantee and HUD officials:

City of Utica, New York

Timothy Julian, Mayor
Mark Mojave, Commissioner, Department of Urban and Economic Development
James Schlager, Finance Director, Department of Urban and Economic Development

HUD-Office of Inspector General (OIG)

William H. Rooney, Assistant Regional Inspector General
John Cameron, Senior Auditor
Richard Roseboom, Senior Auditor

The Grantee's written response to our draft findings was provided to us on August 14, 2002. The response is summarized at the end of each finding and is shown in its entirety in Appendix A of this report.

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Abbreviations

CDBG	Community Development Block Grant
CCI	Canal Corridor Initiative
FT	Full Time
HUD	U.S. Department of Housing and Urban Development
OIG	Office of Inspector General
PT	Part Time

Introduction

HUD approved the Utica Historic Marina Project as part of the Canal Corridor Initiative. The Canal Corridor initiative commenced with a Notice of Funding Availability that was published in the Federal Register of December 3, 1996 (Volume 61, Number 233). The Notice announced the availability of Small Cities CDBG and Section 108 Guaranteed Loans to fund eligible development activities related to the New York State Canal System.

Oneida County, New York obtained HUD approval for the Small Cities funding to develop a Marina, located in Utica, New York. Although Oneida County, New York obtained the funding for the Utica Historic Marina Project funding, the City of Utica (Grantee) designed, implemented, and administered the Project.

The Grantee also administers its own CDBG Entitlement Program under Title 1 of the Housing and Community Development Act of 1974, as amended. The Grantee used some of its CDBG Entitlement funds to develop the Marina and to construct the Parkway Recreation Center. Both the Utica Historic Marina Project and the Parkway Recreation Center are the subject of this audit.

A Mayor and Common Council govern the Grantee. The Grantee's office is located at City Hall, Utica, New York. The Mayor is Timothy Julian; the Commissioner of the Department of Urban and Economic Development is Mark Mojave; and the Comptroller is Joan Scalise.

Audit Objectives

The audit objectives were to determine whether: (1) the two projects were eligible activities that met a CDBG national objective; (2) the costs charged for the projects were necessary, reasonable, and in accordance with Federal regulations; and (3) the City of Utica (Grantee) had proper budgetary and accounting control.

Audit Scope and Methodology

To accomplish our audit objectives, the following audit procedures were performed:

- Interviewed HUD staff at the Buffalo, New York Office.
- Examined pertinent HUD files to obtain various background information.
- Reviewed pertinent requirements for the Canal Corridor Initiative and the Section 108 Loan Guarantee Program, and the CDBG Program.
- Interviewed officials at Oneida County, New York.

- Reviewed Oneida County files pertaining to the Utica Historic Marina Project.
- Interviewed officials at the Grantee's Department of Urban and Economic Development.
- Reviewed Grantee's Project files pertaining to the Marina and Parkway Recreation Center.
- Reviewed the applicable costs charged for the Marina and Parkway Recreation Center for appropriateness and eligibility.
- Reviewed the Grantee's budgetary and accounting processes relating to the Marina and Parkway Recreation Center.
- Performed site visits to the Marina and Parkway Recreation Center Projects.
- Examined procurement records relating to the two projects.

Regarding the Marina, \$487,500 of Small Cities funds were budgeted for the Project. In addition, the Grantee provided \$902,799 of its Entitlement funds for the Project. As explained in Finding 1, we essentially reviewed all of the applicable costs charged for this project. Regarding the Parkway Recreation Center Project, the Grantee budgeted \$1,053,693. As explained in Finding 2, we used the non-representative method to select a sample of 21 invoices amounting to \$431,230.

We performed the audit field work from November 2001 through June 2002. The audit covered period from January 1, 1997 through October 31, 2001, and was extended where necessary. The audit was conducted in accordance with generally accepted government auditing standards.

A copy of this report was provided to representatives of the Grantee and Oneida County, New York.

Utica Historic Marina Project May Not Meet The Job Creation Goal

The Utica Historic Marina Project, which is part of the Canal Corridor Initiative, a HUD initiative involving grants from the Small Cities CDBG Program and loans from the Section 108 Loan Guarantee Program to fund development activities related to the New York canal system, may not meet its job creation goal. This 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 cost of \$213,750 that was incurred with Small Cities CDBG funds from Oneida County, New York, as unsupported pending a HUD eligibility determination. Regarding a pending Section 108 CDBG Loan Guarantee of \$250,000, which is under Oneida County's Small Cities CDBG Program, we recommend that HUD should not provide final approval to the Section 108 Loan Guarantee until both the County and the Grantee provide assurances that an acceptable number of jobs will be created.

In connection with the above, it should be noted that the Grantee expended \$902,799 of the Grantee's CDBG Entitlement Funds on the Marina Project. The Grantee attempted to justify the expenditures that were made with these funds by stating that the Marina would service low and moderate income families. However, HUD disagreed and directed the Grantee to reimburse its CDBG Program the \$902,799. At the completion of our fieldwork, the Grantee had not reimbursed the money to its CDBG Program.

Background of Utica Historic Marina Project

Background of Utica Historic Marina Project

The following chronology of key events provides background on the Utica Historic Marina Project.

September 1997:

HUD approves the Canal Corridor Initiative application from Oneida County, New York. The Marina Project, located in Utica, New York, was part of the approved application.

The Marina Project was expected to cost \$500,100 with \$487,500 of the funds coming from HUD: \$237,500 of Small Cities CDBG funds and a \$250,000 Small Cities Section 108 Loan. All of the HUD funding flowed through Oneida County, New York to the City of Utica, New York (Grantee).

The HUD approved Canal Corridor application stated that the Marina would create 60 jobs. (35 full time and 25 part time).

August 1998:

Grantee expands scope of Marina Project; estimated cost now \$2.6 million

The Grantee greatly expanded the planned scope of the Marina Project. The Grantee obtained professional cost estimates of \$2.6 million for the Marina project. The Grantee did not provide any documentation as to the source of the additional funding.

August 2000:

The Grantee provided the County with a revised Small Cities Section 108 Loan Guarantee application for the Marina Project. The total budget was over \$2,500,000. Almost \$2,000,000, was budgeted as Grantee funds. The Grantee did not mention that it was using its CDBG Entitlement funds for the Marina Project.

The application also included a letter from the Grantee dated August 10, 2000, regarding the funding sources for the Marina Project. The letter stated that the Grantee would provide an additional \$2,000,000 as part of its capital plan. The letter also reiterated that 5 full-time (FT) and 10 part-time (PT) jobs would be created. The 10 PT jobs equate to 5 FT jobs; therefore, the total FT jobs to be created would be 10.

March 2001:

The Grantee requested \$237,500 of Small Cities CDBG funds from the County. The County sent the Grantee \$213,750.

June 2001:

As of this time period the Grantee provided over \$900,000 of it CDBG Entitlement Funds for the Marina Project. The Grantee wrote to HUD stating that this was an eligible use of CDBG funds because it considered the Marina as a public use facility available to low and moderate income families. Note: under the Canal Corridor Initiative the Marina was considered an economic development project,

whereby jobs would be created for low and moderate income families.

Use of \$902,799 in CDBG Entitlement Funds is ineligible

November 2001:

HUD officially told the Grantee that the \$902,799 of CDBG Entitlement funds expended on the Marina Project by the Grantee was ineligible because the activity did not benefit low and moderate income families. HUD directed the Grantee to repay its CDBG Entitlement Program with non-Federal funds.

February 2002:

The Grantee filed its annual consolidated plan. The plan included \$300,000 of local funds for partial repayment of the \$902,799 of ineligible costs mentioned above. However; a written agreement did not exist between HUD and the Grantee regarding repayment of the remaining funds.

Small Cities CDBG Funds Tied to Marina Project May Not Meet Job Creation Criteria

If jobs are not created at the Marina the additional HUD funds may be ineligible

HUD approved the Small Cities CDBG funds for the Marina Project based upon at least 10 jobs being available for low and moderate income families. However, our discussions with County and Grantee officials indicated that the Marina Project had not created any jobs. Furthermore, Grantee officials told us that there are no solid numbers available or plans in place regarding how many or what types of jobs the Grantee anticipates creating.

Our review disclosed that the Grantee expended \$213,750 of Small Cities CDBG funds on the Marina Project. The funds were provided by HUD through Oneida County, New York as part of the Canal Corridor Initiative Program. In addition, the County and the Grantee are awaiting HUD's approval on a \$250,000 Small Cities Section 108 Loan

In accordance with Title 24, Code of Federal Regulations (CFR) Part 570.209 (b)(3)(i)(A) \$50,000 is the amount HUD uses as its benchmark for job creation and amount of CDBG assistance. For example, if only three jobs are created, than in theory only \$150,000 of CDBG funds should be provided.

Since the Marina Project had not created any jobs, and the Grantee and County do not have a plan regarding how many jobs will be created, we consider the \$213,750 of Small Cities CDBG funds provided for the Marina Project as unsupported costs pending a HUD eligibility determination. Also, HUD should not provide final approval to the Small Cities Section 108 Loan Guarantee until both the County and Grantee provide assurances that an acceptable number of jobs will be created.

Auditee Comments

Regarding the \$902,799 of ineligible costs, the Grantee has already provided \$300,000¹ to its CDBG Program from non-Federal funds. The Grantee completed its first monitoring of the Marina regarding jobs. Although, there is no time frame in which to accomplish the job goals, the Grantee believes that it will be achieved. (See Appendix A, for the Grantee's entire response.)

**OIG Evaluation of
Auditee Comments**

HUD needs to ensure that the Grantee continues to reimburse its CDBG Program from non-Federal funds and HUD must ensure that jobs are created within a reasonable time period.

We recommend that HUD:

- 1A. Ensure that the Grantee reimburses its CDBG Program the balance of the \$902,799 of ineligible costs from non-Federal funds.
- 1B. Follow up on the Grantee's progress regarding its job creation goals at the Marina Project and give the Grantee a specified period of time to meet the job creation goals.
- 1C. Apply the \$50,000 per job standard and make a determination how much of the \$213,750 of Small Cities CDBG funds are eligible costs.
- 1D. Require the Grantee to reimburse the County for any Small Cities CDBG funds that is determine to be ineligible.

¹ After the completion of our field work, at our exit conference the Grantee provided us with evidence that it reimbursed its CDBG Program \$300,000.

- 1E Should not provide final approval to the \$250,000 Section 108 Loan Guarantee until both the County and the Grantee provide assurances that an acceptable number of jobs would be created.

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The Ski Chalet Project May Not Meet National Objective of the CDBG Program

The Grantee used CDBG funds to help finance the renovation of a Ski Chalet in spite of a warning by HUD that the activity may not meet a national objective of the CDBG Program. This occurred because the Grantee decided to rehabilitate and connect an existing Ski Chalet that abutted the new recreation facility that the Grantee constructed for its youth. Our review disclosed that the Grantee referred to the construction of the new recreation facility as Phase I and to the Ski Chalet as Phase II of its Parkway Recreation Center Project. Regarding this Project, HUD told the Grantee that the construction of the new recreation facility was an eligible CDBG activity; but, the use of CDBG funds to rehabilitate the Ski Chalet may not meet a national objective. Despite this warning, the Grantee charged the CDBG Program at least \$255,158 of costs associated with the renovation of the Ski Chalet (Phase II). Since the Ski Chalet activity may not meet a CDBG national objective, the costs totaling \$255,158, that we identified as being associated with the activity are considered unsupported pending a HUD eligibility determination.



Background

In 1998, the Grantee’s former Mayor conceived a plan to construct a recreation center within the City of Utica’s limits to provide activities for the City’s youth. On May 6, 1998, the Utica City Council introduced the Parkway Recreational Center activity. Initially, the Grantee budgeted \$1,000,000 of State funds to construct the new recreation facility.

In May 1999, the Grantee increased the budget to over \$2,000,000. The Grantee’s Department of Urban and Economic Development showed the following sources of funds for the Project:

State Funds	\$1,000,000
Capital Fund	450,000
Utica Foundation	150,000
CDBG	551,425
Total	\$2,151,425

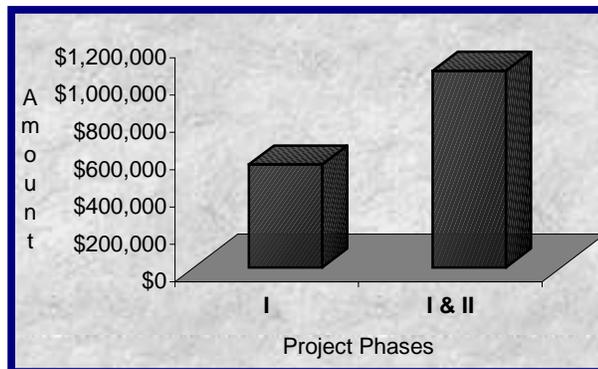
Parkway Recreation Center Project expands into a second phase

Within a few months of securing funding for the Project a new scope of work was determined that significantly expanded the activity.

Additionally, the Grantee also decided to rehabilitate an existing Ski Chalet that it owned. Since the Ski Chalet abutted the new recreation facility, the Grantee connected it to the new facility. The Grantee referred to the construction of the new recreation facility as Phase I, and to the rehabilitation of the Ski Chalet as Phase II, of its Parkway Recreation Center Project. In August 1998, the Grantee's Architect estimated that the total project cost of both phases would exceed \$4 million.

With the addition of Phase II, the Parkway Recreation Center's budget increased from \$2,151,425 to \$4,387,124. Moreover, the portion of CDBG funding included in the budget increased from \$551,425 to \$1,053,693; thus, increasing the proposed use of CDBG funds to over \$500,000. As shown below, adding the Ski Chalet to the Project (Phase II) increased the proposed amount of CDBG funds for the Parkway Recreation Center by 91 percent.

Parkway Recreation Center



Accounting for Project costs

The Grantee's Department of Urban and Economic Development's budget and summary of accounting for the Parkway Recreation Center, as of February 15, 2002, showed the following:

<u>Funding Source</u>	<u>Budget</u>	<u>Expended</u>
General Fund	\$529,040	\$501,459
State Grant	1,000,000	947,063
Capital Fund H-56504-4.44500	4,391	4,391
Capital Fund H-81641-4.44104	800,000	794,237
Capital Fund H-81641-4.44105	500,000	499,200
Capital Fund H-81641-4.44106	300,000	286,986
Parks Foundation H-56506-.44101	5,000	5,000
Utica Foundation & Donation	195,000	95,000
CDBG	1,053,693	1,040,944
TOTAL BUDGET	\$4,387,124	\$4,174,280

Criteria

Title 24, Code of Federal Regulation (CFR) Part 85.20, Standards for financial management systems, requires grantees and subgrantees to: report accurate, current and complete disclosure of the financial results of financially assisted activities; maintain records which adequately identify the source and application of funds; maintain effective control and accountability for all grant and subgrant cash, personal property and other assets; and, compare actual expenditures and outlays with budgeted amounts for each grant or subgrant.

The results of our review indicated that as of February 15, 2002, the Grantee expended \$4,174,280 of the \$4,387,124 budgeted for the Parkway Recreation Center Project, of which \$1,040,944 of those expenses were charged to the CDBG Program.

Title 24, CFR Part 570.200(a)(2) requires that CDBG grantees must certify that their projected use of funds has

been developed so as to give maximum feasible priority to projects that will carry out one of the national objectives: (1) benefit to low and moderate income families, (2) aid in the prevention and elimination of slums or blight, or (3) urgency of need.

Accounting records were not adequately maintained

During the review, we examined relevant accounting records and related documentation that was maintained by the Grantee's Comptroller's Office and the Grantee's Department of Urban and Economic Development. Although the Grantee's official accounting records are maintained by the Comptroller's Office, detailed subsidiary accounting records for CDBG assisted projects are maintained by the Department of Urban and Economic Development. Neither the Comptroller's office nor the Department of Urban and Economic Development maintained detailed records for the Parkway Recreation Center Project reflecting costs by phases. Therefore, the Grantee was unable to provide us with total costs incurred with CDBG funds relative to Phase I and Phase II.

The distinction is important because HUD advised the Grantee, in correspondence dated November 26, 2001, that Phase I of the Parkway Recreation Center appears to service an area that meets the low and moderate income national objective. However, HUD stated that Phase II (Ski Chalet) might not meet the low and moderate income national objective. Accordingly, the use of CDBG funds for the Ski Chalet may not be eligible.

Since the Grantee could not provide us a detail listing of disbursements by Phase for the Parkway Recreation Center, we selected a sample of costs that the Grantee charged to the CDBG Program. Our objective was to determine whether CDBG funds were used to pay for costs associated with Phase II of the Parkway Recreation Center project.

At least \$255,158 of the Parkway Recreation Center costs are Phase II costs

To test costs charged to the CDBG Program for the Project during the period June 2000 through May 2001, we used a non-representative sampling method to select 21 invoices, which reflected costs of \$431,230. A review of the 21 invoices disclosed that 11, reflecting costs of \$255,158, related to expenditures associated with Phase II of the Parkway Recreation Center Project.

Since the Grantee did not account for Project costs by each phase, it is possible that more CDBG costs could have been incurred for Phase II of the Parkway Recreation Center. Because HUD told the Grantee that costs applicable to Phase II might not meet a national objective, the Grantee must organize its accounting records to differentiate between Phase I and Phase II costs of its Parkway Recreation Project.

Auditee Comments

The Grantee believes that HUD based its opinion regarding the low and moderate income national objective on a narrow definition of the criteria. The Grantee is prepared to document the eligible uses of the Phase II, Ski Chalet to the HUD Area Office. The Grantee will perform a complete analysis of all CDBG expenditures to distinguish between Phase I and Phase II costs per the OIG's recommendation. (See Appendix A, for the Grantee's entire response.)

**OIG Evaluation of
Auditee Comments**

HUD has determined that the Ski Chalet may not meet the low and moderate income national objective. If the Grantee can document that the Ski Chalet meets the low and moderate income national objective, the Grantee should provide the documentation to the HUD Area Office.

We recommend that HUD:

- 2A. Make an eligibility determination regarding the \$255,158 of unsupported CDBG costs.
- 2B. Require the Grantee to distinguish between Phase I and Phase II costs of its Parkway Recreation Center Project.
- 2C. Make an eligibility determination regarding any additional CDBG funded Phase II costs identified by the Grantee's actions resulting from Recommendation 2B above.

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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, 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.
- Compliance with Laws and Regulations- Controls to ensure that the projects meet a national objective.
- Safeguarding Resources- Controls to ensure that project costs charged to HUD are necessary, reasonable, and in compliance with pertinent Federal regulations.
- Validity and Reliability of Data- Grantee Budgetary and Accounting controls

We assessed 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:

- Grantee did not ensure that the Projects met a national objective. Audit Findings 1 and 2. (Program Operations)(Compliance with Laws and Regulations).

- Grantee did not ensure that all project costs charged to HUD are necessary, reasonable, and in compliance with federal regulations. Audit Findings 1 and 2. (Safeguarding Resources).
- Grantee did not have adequate budgetary and accounting controls. Audit Finding 2. (Validity and Reliability of Data).

Follow Up On Prior Audits

There were no prior audit reports specifically pertaining to the Grantee's Historic Marina and Parkway Recreation Center Projects.

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Schedule of Questioned Costs and Funds Put to Better Use

<u>Recommendation Number</u>	<u>Unsupported Costs (1)</u>	<u>Funds Put To Better Use (2)</u>
1A	\$902,799	
1C	\$213,750	
1E		\$250,000
2A	\$255,158	
Total	\$1,371,707	\$250,000

1/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

2/ Funds Put To Better Use pertain to future costs that can be avoided or reprogrammed.

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Auditee Comments



TIMOTHY J. JULIAN
MAYOR

CITY OF UTICA

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MARK F. MOJAVE
Commissioner

August 14, 2002

Mr. Alexander C. Malloy
District Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of Inspector General
26 Federal Plaza
Room 3430
New York, NY 10278

RE: Marina/REC Center Draft Findings

Dear Mr. Malloy:

Included herein are initial responses to the draft findings presented by your office on July 23, 2002.

Finding #1: Utica Historic Marina Project - Job Creation**Response:**

- 1A The City has already provided documentation to the Inspector General of the first repayment via check number 115183 in the amount of \$300,000 from non-federal funds. Said check represents the first of three annual installments as agreed upon by the City of Utica and the Housing and Urban Development Buffalo area office. The check was deposited into the City's Community Development Block Grant bank account on June 18, 2002.
- 1B-E The contract between the City of Utica and the County of Oneida establishes job creation goals for the Marina Project as ten (10) full-time equivalent (FTE) jobs. However, no time frame is specified in which to accomplish said goal.

Generally, with regard to economic development activities, HUD requires the City to monitor and report job creation data annually until the established job creation goals are met. This condition is also incorporated in the above referenced contract between the City of Utica and the County of Oneida.

The Historic Marina project officially opened for business on Sunday June 16, 2002. Accordingly, the City would begin activities related to job monitoring and associated reporting thereafter. There are currently two for-profit businesses that operate in the Marina.

The First is Kitty's on The Canal, a full service restaurant open for lunches and dinners. The second business is Northern Outfitter's, which provides canoe and kayak rentals, as well as kayaking lessons and tours along the canal system.

The City has already completed the first job monitoring visit to the Marina. The City has received completed job monitoring forms in the format prescribed by the County per the contract, documenting the creation of seven (7) full time jobs to date of which four (4) are held or were made available to low-moderate income individuals.

Applying the \$50,000 per job standard, this documented job creation activity is more than adequate to justify the \$213,750 of Small Cities CDBG Canal Corridor Incentive Grant monies drawn down from the County to date. As such, no repayment of said funds is warranted.

Furthermore, given the observed success (see attached Observer-Dispatch article dated Monday, July 29, 2002) of the existing businesses which have begun operation at the Marina and the growing interest from area businesses coupled with the already documented job creation data, the City believes that it will have no difficulty in documenting the remaining job creation requirements.

As such, the City is anticipating HUD's expeditious review and determination relative to the status of this project so that the release of the retention for the CCI Grant funded portion of the project as well as the \$250,000 Section 108 Loan Guarantee Proceeds will be released by HUD and the County.

Finding #2 - Parkway Recreation Center/Ski Chalet - National Objective

Response:

- 2A The City asserts that the Phase II renovations at the Parkway Recreation Center project are CDBG eligible public improvements which meet a national objective of principally benefiting low to moderate income individuals on an area basis. This same justification and eligibility determination was made by the HUD Area Office for the Phase I public improvements.

The City believes that the HUD Area Office's contention that "Phase II" might not meet the low and moderate income national objective" is based solely on the narrow definition of the historical name of the facility (i.e. Ski Chalet).

While this interpretation is an understandable one based upon the descriptive name, the fact remains that the "ski chalet" was improved and expanded as part of the overall Parkway Recreation Center Project in order to make it viable as a year round community center. Statistics will prove that due to lack of snow making equipment, absence of rental ski equipment, previously inoperable/antiquated lift system and lack of natural snow, that the ski chalet has been open and operated as a ski hill for less than one month out of the year over the last 10 years.

In order to use this facility more productively, it was renovated with the intent of being utilized as a year round community center coupled to and with the newly constructed Recreation Center building.

The "Phase II" portion of the project is currently utilized daily as a neighborhood based meeting room and senior recreational activity center, as well as providing program space for youths in conjunction with the Recreation Center. The City is prepared to document these eligible uses of the Phase II Ski Chalet/Community Center to the HUD area office.

2B-C The City will perform a complete analysis of all CDBG funded expenditures on the Parkway Recreation Center in order to distinguish between Phase I and Phase II costs per the IG's recommendation.

Said analysis will distribute costs of the entire project paid for with CDBG funds by Phase.

The City of Utica is confident that it will be able to document the eligibility of all CDBG expenditures on the Parkway Recreation Center Project. However, the City would be willing to exchange and/or reimburse Phase II costs which are determined to be paid for with CDBG funds with Phase I costs paid for with non-federal funds (local) funds regardless of HUD's final determination regarding CDBG funded Phase II costs eligibility.

As always, your time and consideration are greatly appreciated. Please contact me directly with any questions you may have.

Sincerely,



Mark F. Mojave
Commissioner

Cc: Mayor Timothy J. Julian
James Schlager, U&ED
William Rooney, HUD IG
Mike Merrill, CP&D, HUD

Attachment

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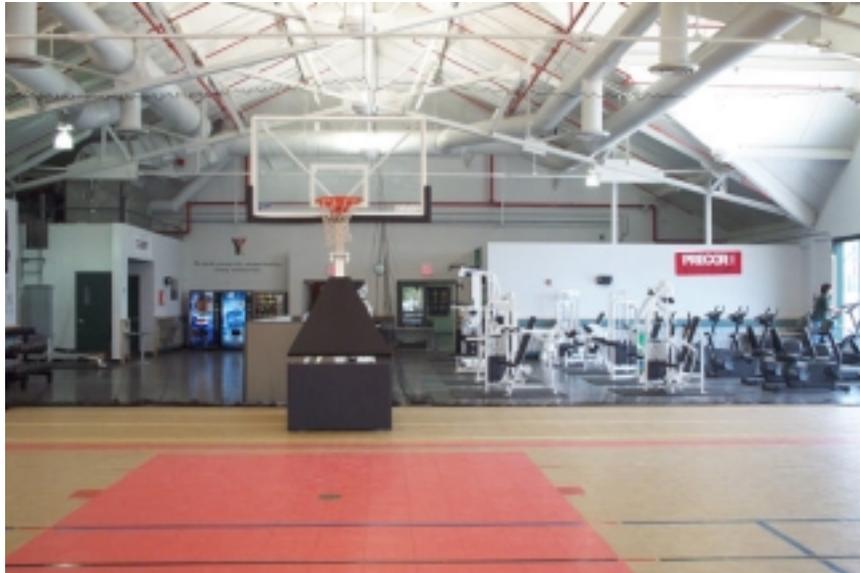
UTICA PHOTOS



Ski Chalet



Utica Historical Marina



Parkway Recreation Center

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