
AUDIT REPORT



CITIES OF HUNTINGTON, WEST VIRGINIA AND
IRONTON, OHIO
EMPOWERMENT ZONE PROGRAM

HUNTINGTON, WEST VIRGINIA/IRONTON, OHIO

2003-CH-1006

DECEMBER 31, 2002

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date
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Audit Case Number
2003-CH-1006

TO: Pamela Glekas-Spring, Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative, DEEZ


FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Cities of Huntington, West Virginia and Ironton, Ohio
Empowerment Zone Program
Huntington, West Virginia/Ironton, Ohio

We completed an audit of the Cities of Huntington, West Virginia and Ironton, Ohio's Empowerment Zone Program. The audit was conducted based upon our survey results and requests from Congress. The objectives of our audit were to determine whether the Cities: (1) efficiently and effectively used Empowerment Zone funds; and (2) accurately reported the accomplishments of their Empowerment Zone Program to HUD. The audit was part of our Fiscal Year 2002 Annual Audit Plan. The audit resulted in three findings.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, 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 recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Edward Kim, Assistant Regional Inspector General for Audit, at (614) 469-5737 extension 8306 or me at (312) 353-7832.



Executive Summary

We completed an audit of the Cities of Huntington, West Virginia and Ironton, Ohio's Empowerment Zone Program. The objectives of our audit were to determine whether the Cities: (1) efficiently and effectively used Empowerment Zone funds; and (2) accurately reported the accomplishments of their Empowerment Zone Program to HUD. The audit was part of our Fiscal Year 2002 Annual Audit Plan. The audit was conducted based upon our survey results and two requests from Congress.

The United States House of Representatives' Conference Report 107-272 directed HUD's Office of Inspector General to review the use of Empowerment Zone funds and to report our findings to the Senate Appropriations Committee. The United States Senate's Report 107-43 also requested us to review the use of Zone funds and report our audit results to Congress.

We concluded that the Cities need to improve their oversight of Empowerment Zone funds and did not accurately report the accomplishments of their Empowerment Zone Program to HUD. Specifically, the Cities did not use \$160,000 of Empowerment Zone funds in accordance with their Strategic Plan and the September 8, 1999 Agreement for the Marting Hotel Renovation project. We also found that the Cities inaccurately reported the accomplishments of their Empowerment Zone projects to HUD, and used Empowerment Zone monies to fund five projects that have not provided benefits to Empowerment Zone residents or benefited only 27 percent of Zone residents as of October 2002. Four of the five projects are scheduled for completion between June 2004 and June 2005, and the remaining project was completed in June 2001.



Controls Over Empowerment Zone Funds Need To Be Improved

As previously mentioned, the Cities of Huntington, West/Virginia and Ironton, Ohio need to improve their oversight of Empowerment Zone funds. One of the 10 projects we reviewed inappropriately used \$160,000 of Zone funds to serve non-Zone residents. Since the Cities spent over \$4.6 million in Empowerment Zone funds as of April 2002 for the 10 projects, the Cities' inappropriate use of Zone funds was not a systematic break down in their oversight of the Empowerment Zone Program. However, the Cities' Strategic Plan for the Marting Hotel Renovation project showed that low to moderate income, elderly households residing in the Zone would be the targeted group to occupy the project. This was not done.

Additionally, the September 8, 1999 Agreement for the project showed that 50 Zone residents projected to be served. However, Zone residents have only occupied 10 of the 50 units as of November 2002. The problem occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the

Cities' Empowerment Zone Program, did not adequately monitor the Empowerment Zone project to ensure the use of Empowerment Zone funds benefited Zone residents.

The Cities Inaccurately Reported The Accomplishments Of Their Zone Projects

The Cities incorrectly reported the actual status and/or progress for five of the 10 projects we reviewed from their June 30, 2001 or June 30, 2002 Annual Reports. The Cities' June 2001 Report contained inaccuracies related to five projects' progress on projected outputs and one project's percentage of completion on a project milestone. The problems occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the 2001 Report.

The Cities Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Only 27 Percent Of Zone Residents

The Cities of Huntington, West Virginia and Ironton, Ohio used \$4,035,697 of the \$4,637,000 in Empowerment Zone monies committed to fund five projects that have not provided benefits to Empowerment Zone residents or benefited only 27 percent of Zone residents as of October 2002. Four of the five projects are scheduled for completion between June 2004 and June 2005, and the remaining project was completed in June 2001. Since the four projects spent 87 percent of their Zone funds committed, benefits to Empowerment Zone residents would be expected. However, this has not occurred.

The problem occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not ensure that Empowerment Zone contracts required projects to primarily benefit Zone residents. We believe the City's use of Empowerment Zone funds for the five projects does not meet HUD's Empowerment Zone regulation at 24 CFR Part 598.215(b)(4)(i)(D) that incorporates the Appendix from the April 16, 1998 Federal Register requiring all projects financed in whole or in part with Zone funds be structured to primarily benefit Zone residents. However, HUD must make a determination whether the Cities' use of Zone funds was appropriate.

Recommendations

We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise

Communities Initiative assure that the Cities of Huntington, West Virginia and Ironton, Ohio reimburse 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 audit report to the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, and HUD's staff during the audit. We held an exit conference with the Executive Director on December 17, 2002. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. disagreed that Empowerment Zone funds were inappropriately used and submitted procedures to improve the accuracy of future information submitted to HUD.

We included paraphrased excerpts of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s comments with each finding (see Findings 1, 2, and 3) and the summary of Empowerment Zone projects reviewed (see Appendix B). The complete text of the comments is in Appendix C with the exception of two exhibits that were not necessary for understanding the comments. A complete copy of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s comments with the exhibits were provided to HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative.



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Introduction

The Cities of Huntington, West Virginia and Ironton, Ohio were designated as an urban Empowerment Zone effective January 1, 1999. 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 Omnibus Budget Reconciliation Act of 1993 authorized the Empowerment Zone Program. The Reconciliation Act provided funding for the Empowerment Zone Program under Title 20 of the Social Security Act. The Program was initially designed to provide the Empowerment Zones authorized by the Reconciliation Act of 1993 with \$250 million in tax benefits and \$100 million of Social Service Block Grant funds from the Department of Health and Human Services. The Taxpayer Relief Act of 1997 authorized the Secretary of HUD to designate 15 additional urban areas as Empowerment Zones. The 15 additional urban Empowerment Zones were eligible to share in HUD grants and tax-exempt bonding authority to finance revitalization and job creation over the next 10 years. As of April 30, 2002, the Cities of Huntington, West Virginia and Ironton, Ohio drew down and spent \$8,596,017 in HUD Empowerment Zone funds.

The Cities of Huntington, West Virginia and Ironton, Ohio are municipal corporations that are each governed by a mayor and a city council. The City of Huntington's fiscal year is July 1 through June 30 and the City of Ironton's fiscal year is January 1 through December 31. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. is a nonprofit organization established to administer the Cities' Empowerment Zone Program.

The Mayors of the Cities of Huntington, West Virginia and Ironton, Ohio are the Honorable David Felinton and the Honorable Robert Cleary, respectively. The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. is Cathy Burns. The Empowerment Zone, Inc.'s books and records are located at 320 Ninth Street, Huntington, West Virginia.

Audit Objectives

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

Audit Scope And Methodology

We performed our on-site work between July and November 2002. To determine whether the Cities efficiently and effectively used Empowerment Zone funds and accurately reported the accomplishments of their Empowerment Zone Program, we interviewed staff from: HUD; the Cities; Huntington, West Virginia/Ironton, Ohio

Empowerment Zone, Inc.; and administering entities of the Cities' Zone projects. Based upon the projects' reported expenditures as of April 30, 2002, we selected 10 of the Cities' 29 projects reported in their June 30, 2001 or June 30, 2002 Annual Reports. The following table shows the 10 projects reviewed.

<i>Project</i>
1. Marting Hotel Renovations
2. American College Testing Work Keys
3. School Based Behavioral Health Services
4. Universal Screening
5. Huntington Industrial Center
6. South Point
7. Douglass Building Renovations
8. City of Huntington Street Improvements
9. City of Huntington Infrastructure
10. City of Ironton Street Improvements

To evaluate the Cities' Empowerment Zone Program, we reviewed files and records maintained by: the Cities; HUD; Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.; and the administering entities. We also reviewed: 24 CFR Part 598; the April 16, 1998 Federal Register; HUD's guidance and instructions for the Program; the Cities' June 2001 and June 2002 Annual Reports; agreements and contracts; approved payment requests related to the projects; and the administering entities' voucher payments, monitoring files, and supporting documentation. We visited or met with representatives for each of the administering entities for the 10 projects included in our audit to review their documentation, reports, and correspondence.

The audit covered the period January 1, 1999 to April 30, 2002. 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 Mayors of the Cities of Huntington, West Virginia and Ironton, Ohio, and copies to the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.

Controls Over Empowerment Zone Funds Need To Be Improved

The Cities of Huntington, West Virginia and Ironton, Ohio need to improve their oversight of Empowerment Zone funds. One of the 10 projects we reviewed inappropriately used \$160,000 of Zone funds to serve non-Zone residents. Since the Cities spent over \$4.6 million in Empowerment Zone funds as of April 2002 for the 10 projects, the Cities' inappropriate use of Zone funds was not a systematic break down in its oversight of the Empowerment Zone Program. However, the Cities' Strategic Plan for the Marting Hotel Renovation project showed that low to moderate income, elderly households residing in the Zone would be the targeted group to occupy the project. This was not done. Additionally, the September 8, 1999 Agreement for the project showed that 50 Zone residents projected to be served. However, Zone residents have only occupied 10 of the 50 units as of November 2002. The problem occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not adequately monitor the Empowerment Zone project to ensure the use of Empowerment Zone funds benefited Zone residents. As a result, Empowerment Zone funds were not used efficiently and effectively.

Federal Requirements And Cities' Strategic Plan

Page 1 of the Memorandum of Agreement effective January 1, 1999, between the Cities of Huntington, West Virginia and Ironton, Ohio and HUD, requires the Cities to comply with HUD's Empowerment Zone regulations at 24 CFR Part 598.

24 CFR Part 598.215(b)(4)(i)(D) states a detailed plan that outlines how an Empowerment Zone will implement its strategic plan must include details about proposed uses of Zone funds in accordance with guidelines published on April 16, 1998 in the Federal Register's Appendix.

Paragraph (3)(c) of the April 16, 1998 Federal Register, Appendix-Guidelines on Eligible Uses of Empowerment Zone Funds, requires Empowerment Zones to ensure that each proposed use of Zone funds is included in their strategic plans.

The Cities of Huntington, West Virginia and Ironton, Ohio's Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to renovate the Marting Hotel in downtown Ironton, Ohio to provide 50 new units of rental housing to the elderly. The Cities' Strategic Plan also shows low to moderate income,

elderly households residing in the Empowerment Zone as the targeted group to occupy the project.

Zone, Inc.'s Contract With Community Action Organization

Section 1(a) of the September 8, 1999 Agreement between Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. and Ironton-Lawrence County Community Action Organization, Inc., the administering entity of the Marting Hotel Renovation project, requires Community Action Organization to provide housing services in accordance with the Cities' October 9, 1998 Strategic Plan. Exhibit C, Section V(F)(2), of the Agreement projected that 50 Empowerment Zone residents would be served by the project.

The Cities Did Not Have Adequate Control Over Zone Funds

The Cities of Huntington, West Virginia and Ironton, Ohio did not maintain adequate oversight for one of their 10 projects we reviewed. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity for the Cities' Empowerment Zone Program, executed an agreement on September 8, 1999 with the Ironton-Lawrence County Community Action Organization, Inc. for the renovation of the Marting Hotel in downtown Ironton, Ohio to provide housing services in accordance with the Cities' October 9, 1998 Strategic Plan. The Cities' Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to provide 50 new units of rental housing to the elderly. The Cities' Strategic Plan also shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group to occupy the project. The Cities provided \$200,000 in Zone funds for the project.

RLJ Management Company, the management company for the project, leased all 50 units as of November 26, 2002. However, documentation provided by RLJ Management Company showed that only 10 of the 50 units (20 percent) were leased to elderly, Empowerment Zone households with low to moderate incomes. Of the remaining 40 units, individuals who previously resided outside of the two counties where the Huntington, West Virginia/Ironton, Ohio Empowerment Zone is located occupied 15 units. Therefore, the intended beneficiaries of the Empowerment Zone were not served.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. said she believed Zone residents occupied all 50 units. However, she said the Empowerment Zone, Inc. had not monitored the use of Zone funds for the Marting Hotel Renovation project to determine whether the 50 units were occupied by elderly, Empowerment Zone households with low to moderate incomes. Exhibit C, Section V(F)(2), of the September 8, 1999 Agreement for the project showed that 50 Empowerment Zone residents were projected to be served by the Marting Hotel Renovation project.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. said the Cities' Strategic Plan shows that low to moderate income, elderly households residing in the Empowerment Zone were the targeted group to occupy the Marting Hotel project. However, this was not done. The President of RLJ Management Company said his company was not instructed to target low to moderate income, elderly households residing in the Empowerment Zone. He said his company only made sure that elderly, low to moderate income households occupied the project in order to meet the Low Income Housing Tax Credit requirements.

RLJ Management Company's Property Manager provided documentation regarding the marketing efforts for the Marting Hotel Renovation project. The documentation included: an in-house pamphlet that prospective tenants may obtain by visiting the project; a flier distributed during the project's open house held in November 2001; 13 newspaper advertisements; and a radio advertisement. Six of the 13 newspaper advertisements were published in newspapers located outside of Huntington, West Virginia and Ironton, Ohio. None of the marketing efforts mentioned that the project was targeting Empowerment Zone residents. As a result, \$160,000 (\$200,000 times 80 percent of the project occupied by non-Zone households) of the Zone funds was not used effectively and efficiently.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report

follow. Appendix C, pages 46 to 48, contains the complete text of the comments for this finding.]

HUD's Office of Inspector General incorrectly cited the Cities' Strategic Plan for the Marting Hotel Renovation project. The objective of the project as stated in the Plan is to renovate the Marting Hotel in downtown Ironton to provide 50 new units of rental housing for the elderly. The Plan shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group. The Plan clearly does not state that the Cities must place existing Zone residents in the units or that the Cities are targeting all 50 units to existing Zone residents. To target a certain population for housing does not mean one must place only the population in the units and exclude all others. By definition, target means to direct one's efforts. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s project files include supporting documentation on marketing the units upon completion of the renovations. As a result, 10 households who were currently residing in the Zone that were elderly with low incomes moved into the project.

From the inception of Marting Hotel Renovation project, the renovations were primarily funded from the issuance of Low Income Housing Tax Credits. The Tax Credits could have never been sought for a project conditioned on rental to only existing Empowerment Zone residents. Therefore, all 50 units were intended for and were rented to low income, elderly households. The Cities' Strategic Plan states the objective of the project is to provide 50 new units of rental housing for the elderly. Since occupancy of the units began in April 2000, 60 households resided in the 50 units.

By virtue of the Marting Hotel Renovation project being located in the Empowerment Zone, the Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. determined that Zone residents occupied all 50 units. Defining resident benefit was left to the locality as who benefits from the activity. Each resident who moved into the units benefited from the project and since their address is within the Zone, they are considered Zone residents. HUD concurs with the Cities' definition as shown by its July 2, 2002 memorandum that states a beneficiary will be

considered a Zone resident when the activity is completed and the household's residence is located within the Zone.

As a result of the Cities' investment of \$200,000 in a \$4,500,000 project, the City of Ironton Empowerment Zone: gained 40 new Zone residents; provided 10 existing residents with safe, affordable housing; renovated a vacant, blighted building; improved a pivotal structure; and provided 5,000 square feet of renovated space for a potential private business. The Empowerment Zone's financial participation was less than five percent of the total project costs and achieved multiple objectives in accordance with the Cities' Strategic Plan. Given that this project is both a success and consistent with the Plan, the Cities disagree fully with the finding, and the recommendations for reimbursement and implementation of new procedures to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Empowerment Zone Program requirements.

OIG Evaluation Of Auditee Comments

We adjusted our audit report to show that the Cities' Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to provide 50 new units of rental housing to the elderly and the Plan shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group to occupy the project. However, this was not done. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s Executive Director claimed that the project's files include supporting documentation on marketing the units upon completion of the renovations, but no documentation was provided to support this claim. Additionally, the President of RLJ Management Company said his company was not instructed to target low to moderate income, elderly households residing in the Empowerment Zone. He said his company only made sure that elderly, low to moderate income households occupied the project in order to meet the Low Income Housing Tax Credit requirements.

Exhibit C, Section V(F)(2), of the September 8, 1999 Agreement between Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. and Ironton-Lawrence County Community Action Organization, Inc. showed that

50 Empowerment Zone residents were projected to be served by the project. Based upon the supporting documentation provided by RLJ Management Company, only 10 of the 50 units were leased to elderly, Empowerment Zone households with low to moderate incomes. Therefore, the terms of the Agreement were not met.

The Marting Hotel Renovation project was initiated before HUD's July 2, 2002 memorandum; therefore, HUD's definition of benefits to Empowerment Zone residents cannot be used retroactively. As previously mentioned, the September 8, 1999 Agreement for the project showed that 50 Empowerment Zone residents were projected to be served by the project. However, this was not done.

We agree that the Marting Hotel Renovation project provided benefits to the City of Ironton Empowerment Zone. However, the benefits were not in full compliance with the Cities' Strategic Plan and the September 1999 Agreement for the project. The Cities should reimburse their Empowerment Zone Program from non-Federal funds for the improper use of Zone funds to provide housing to non-Zone residents. The Cities should also implement procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Empowerment Zone Program requirements.

Recommendations

We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the Cities of Huntington, West Virginia and Ironton, Ohio:

- 1A. Reimburse their Empowerment Zone Program \$160,000 from non-Federal funds for the improper use of Zone funds to provide housing to non-Zone residents.
- 1B. Implement procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Empowerment Zone Program requirements.

The Cities Inaccurately Reported The Accomplishments Of Their Empowerment Zone Projects

The Cities of Huntington, West Virginia and Ironton, Ohio incorrectly reported the actual status and/or progress for five of the 10 projects (50 percent) we reviewed from their June 30, 2001 or June 30, 2002 Annual Reports. The Cities' June 2001 Report contained inaccuracies related to five projects' progress on projected outputs and one project's percentage of completion on a project milestone. The problems occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the 2001 Report. As a result, the Cities did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the Cities' Empowerment Zone Program were greater than actually achieved.

Federal Requirements

Article IV, Section A, of the Grant Agreement for the Cities of Huntington, West Virginia and Ironton, Ohio's Empowerment Zone Program requires the Cities to submit annual reports to HUD on the progress made against their Empowerment Zone's Strategic Plan in accordance with 24 CFR Part 598.415. Annual reports must be in a format required by HUD.

24 CFR Part 598.415(a) requires Empowerment Zones to submit periodic reports to HUD identifying actions taken in accordance with their strategic plans and providing notice of updates and modifications to their plans.

Page two of the Empowerment Zone and Enterprise Community Initiative Performance Measurement System guidance issued in April 2001 states that HUD is congressionally mandated to obtain performance reports from the Empowerment Zones. To accomplish this objective, the Zones are to report projects and progress via HUD's Performance Measurement System. The Empowerment Zones are required to submit an Annual Report that includes information on their progress for the projected outputs and milestones in the Zones' Implementation Plans. Page 16 of the Performance Measurement System guidance states outputs are the results

immediately created upon implementation of a project or program. Page 14 of the Performance Measurement System guidance states milestones are the major steps taken to implement a project.

The Cities Incorrectly Reported The Progress Of Empowerment Zone Projects

The Cities of Huntington, West Virginia and Ironton, Ohio inaccurately reported the accomplishments for five of the 10 projects we reviewed from their June 30, 2001 or June 30, 2002 Annual Reports. The Cities’ June 2001 Report included inaccuracies related to five projects’ progress toward projected outputs and one project’s percentage of completion on a project milestone. The following table shows the incorrect reporting by category for the five projects and the page number in this report where a detailed summary for each project is located.

Project	Outputs	Milestones	Page Number
Marting Hotel Renovations	X		28
American College Testing Work Keys	X	X	35
School Based Behavioral Health Services	X		38
Universal Screening	X		41
Huntington Industrial Center	<u>X</u>	–	43
Totals	<u>5</u>	<u>1</u>	

The Cities Inaccurately Reported Projects’ Outputs

The Cities incorrectly reported five projects’ outputs. Outputs are the results immediately created upon completion of a project. For example, the Cities reported in their June 30, 2001 Annual Report that the School Based Behavioral Health Services project served 91 Empowerment Zone children and 1,545 residents by public meetings. Documentation maintained by Pretera Center for Mental Health, the project’s administering entity, showed that 78 Zone children were served through June 30, 2001. The Center did not maintain adequate documentation to support the number of residents served by the public meetings.

The Cities Inaccurately Reported A Project's Milestone

The Cities inaccurately reported a milestone for one project. Milestones are the major steps taken to implement a project. The Cities reported in their June 30, 2001 Annual Report that American College Testing Work Keys project was 25 percent complete on the project's milestone of hiring Zone residents as of June 2001. Documentation maintained by Collins Career Center, the project's administering entity, showed that the project had not resulted in jobs for any Zone residents as of June 30, 2001. The Center reported to Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, that no jobs resulted from the project for Zone residents. However, the Empowerment Zone, Inc.'s Executive Director said she reported that the project resulted in jobs for 15 Zone residents based upon conversations she had with the Center's Contractual Services Director. The Empowerment Zone, Inc.'s Executive Director lacked any documentation to support the 25 percent of completion she reported.

The Cities' Administering Entity Of Their Program Did Not Verify Annual Reports Submitted To HUD

The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the Cities' June 2001 Report. The Empowerment Zone, Inc.'s Executive Director said she relied on the projects' administering entities to accurately report projects' outputs and milestones. The Cities of Huntington, West Virginia and Ironton, Ohio did not monitor the Empowerment Zone, Inc. to ensure it accurately reported projects' accomplishments to HUD. As a result, the Cities did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the Cities' Empowerment Zone Program were greater than actually achieved.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, pages 49 to 51, contains the complete text of the comments for this finding.]

In regards to the School Based Behavioral Health Services project, Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. concurs that Prester Center for Mental Health, the project's administering entity, maintained case files on 78 Empowerment Zone children. The inconsistency between what the Empowerment Zone, Inc. reported and Prester's file documentation resulted from formal medical records not opened on all children served. In 13 instances, children were served for brief intervention or guidance, but a case was not formally opened. Effective July 1, 2002, Prester's reports to the Empowerment Zone, Inc. will only include children that have a formal chart/record. Once HUD returns the Cities' June 2002 Annual Report, the project's outputs of Empowerment Zone residents served will be amended.

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. added the output of public meetings for the School Based Behavioral Health Services project to the Cities' Implementation Plan to show the broad level of community support and input. Prester conducted six community meetings and one workshop. Prester counted the people in attendance and reported the totals in their final report. However, Prester did not utilize sign in sheets. The local newspaper reported on the community meetings and the estimated number of people in attendance. Copies of the newspaper article were provided to HUD's Office of Inspector General as supporting documentation to confirm the meetings and estimated number of people in attendance. The Empowerment Zone, Inc. contends the newspaper articles are sufficient documentation to establish the meetings occurred and residents attended.

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s contracts with Collins Career Center, the administering entity for American College Testing Work Keys project, provide for work force development in the areas of assessment, job profiles, skills testing, and training to private businesses. As of June 30, 2002, the Center was working with four manufacturing businesses. After contracting with the Empowerment Zone, Inc. to receive Empowerment Zone monies, the Center received funding from the State of Ohio to pay for workforce development assistance. The State funding was used for one of the four businesses that created new jobs and ultimately hired 15

Zone residents. The Empowerment Zone, Inc. reported this accomplishment because Empowerment Zone objectives were achieved and leveraged with the assistance of other funds. The Center provided the Empowerment Zone, Inc. with a list of employees hired and staff confirmed that the employees resided in the Zone. Based upon the 15 Zone residents employed by the manufacturing business, the Empowerment Zone, Inc. reported the project's milestone for job creation was 25 percent complete.

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. is not aware of any Federal requirements that only accomplishments funded by the Empowerment Zone may be reported in the Annual Report. The Empowerment Zone, Inc. will amend the Cities' Implementation Plan for the American College Testing Work Keys project to include funding provided by the State of Ohio and maintain documentation to support the State's funds.

To enhance the reporting procedures, the Cities and the Empowerment Zone, Inc. submit the procedures to assure the accuracy of future information submitted.

OIG Evaluation Of Auditee Comments

As indicated by Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s comments, the number of residents in attendance for the School Based Behavioral Health Services project's community meetings were estimates based upon information included in a newspaper article. However, the Cities reported in their June 30, 2001 Annual Report to HUD that 1,545 residents were served by the project's meetings. The Empowerment Zone, Inc. and the project's administering entity lacked any documentation to support the number of residents served by the meetings. Information included in a newspaper article that cites an estimated number of residents served is not adequate documentation to support the Cities' June 2001 Report.

In regards to the American College Testing Work Keys project, the Cities reported that the project was 25 percent complete on its milestone of hiring Zone residents as of June 2001. Documentation maintained by Collins Career Center, the project's administering entity, showed that the project had not resulted in jobs for any Zone residents as of

June 30, 2001. Additionally, the Center's Contractual Services Director said the State of Ohio funding did not relate to the project. She said the State funding was used for a different project. Therefore, the Cities incorrectly reported the project's milestone in the June 2001 Annual Report.

The procedures provided by the Cities and Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. should improve the accuracy of information reported in the Cities' Annual Report, if they include controls to verify the accuracy of information submitted to HUD for their Empowerment Zone Program. Additionally, staff responsible for preparing the Annual Report for HUD should use the actual verified accomplishments to report each project.



Recommendations

We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the Cities of Huntington, West Virginia and Ironton, Ohio:

- 2A. Implement procedures and controls to verify the accuracy of information submitted to HUD for their Empowerment Zone Program.
- 2B. Ensure that staff responsible for preparing the Annual Report for HUD, use the actual verified accomplishments to report each project.

The Cities Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Only 27 Percent Of Zone Residents

The Cities of Huntington, West Virginia and Ironton, Ohio used \$4,035,697 of the \$4,637,000 in Empowerment Zone monies committed to fund five projects that have not provided benefits to Empowerment Zone residents or benefited only 27 percent of Zone residents as of October 2002. Four of the five projects are scheduled for completion between June 2004 and June 2005, and the remaining project was completed in June 2001. Since the four projects spent 87 percent of their Zone funds committed, benefits to Empowerment Zone residents would be expected. However, this has not occurred. The problem occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not ensure that Empowerment Zone contracts required projects to primarily benefit Zone residents. We believe the City's use of Empowerment Zone funds for the five projects does not meet HUD's Empowerment Zone regulation at 24 CFR Part 598.215(b)(4)(i)(D) that incorporates the Appendix from the April 16, 1998 Federal Register requiring all projects financed in whole or in part with Zone funds be structured to primarily benefit Zone residents. However, HUD must make a determination whether the Cities' use of Zone funds was appropriate.

Federal Requirements

Page 1 of the Memorandum of Agreement effective January 1, 1999, between the Cities of Huntington, West Virginia and Ironton, Ohio and HUD, requires the Cities to comply with HUD's Empowerment Zone regulations at 24 CFR Part 598.

24 CFR Part 598.215(b)(4)(i)(D) states a detailed plan that outlines how an Empowerment Zone will implement its strategic plan must include details about proposed uses of Zone funds in accordance with guidelines published on April 16, 1998 in the Federal Register's Appendix.

Paragraph (3)(f) of the April 16, 1998 Federal Register, Appendix-Guidelines on Eligible Uses of Empowerment Zone Funds, requires all programs, services, and activities financed in whole or in part with Round II Empowerment Zone funds must be structured to primarily benefit Zone residents. The program, services, and activities may also benefit non-Zone residents.

Finding 3

Projects Have Not Benefited Zone Residents Or Benefited Less Than 50 Percent Of Zone Residents

The Cities of Huntington, West Virginia and Ironton, Ohio used \$4,035,697 of the \$4,637,000 in Empowerment Zone monies committed to fund five projects that have not provided benefits to Empowerment Zone residents or benefited only 27 percent of Zone residents as of October 2002. Four of the five projects are scheduled for completion between June 2004 and June 2005, and the remaining project was completed in June 2001. Since the four projects spent 87 percent of their Zone funds committed, benefits to Empowerment Zone residents would be expected. However, this has not occurred. We believe the City's use of Empowerment Zone funds for the five projects does not meet HUD's Empowerment Zone regulation at 24 CFR Part 598.215(b)(4)(i)(D) that incorporates the Appendix from the April 16, 1998 Federal Register requiring all projects financed in whole or in part with Zone funds be structured to primarily benefit Zone residents. However, HUD must make a determination whether the Cities' use of Zone funds was appropriate.

The following table shows for each of the five projects as of October 2002: the actual start date; the projected or actual completion date; Empowerment Zone funds committed; Zone funds spent; total number of individuals served; actual number of Zone residents served; and the percentage of Zone residents served.

Project	Actual Start Date	Projected/Actual Completion Date	Zone Funds Committed To Project	Zone Funds Spent On Project	Total Number Of Individuals Served	Number Of Zone Residents Served	Percentage Of Zone Residents Served
American College Testing Work Keys	4/1/99	6/30/04	\$52,500	\$50,730	0	0	0
Huntington Industrial Center	4/1/99	6/30/04	\$292,000	\$292,000	0	0	0
South Point	4/1/99	6/30/05	\$3,542,500	\$2,942,967	0	0	0
Douglass Building Renovations	4/1/99	6/30/04	\$650,000	\$650,000	0	0	0
City of Huntington Street Improvements	4/1/99	6/30/01	<u>\$100,000</u>	<u>\$100,000</u>	334	90	27
Totals			<u>\$4,637,000</u>	<u>\$4,035,697</u>			

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. executed contracts between July 1, 1999 and November 1, 2001 with the five projects' administering

entities. None of the Empowerment Zone, Inc.'s contracts required the projects to primarily serve Empowerment Zone residents. Additionally, the April 16, 1998 Federal Register does not provide a definition for primarily benefits Empowerment Zone residents. HUD issued a memorandum on July 2, 2002 that provided guidance to Empowerment Zones regarding benefits to Zone residents.

HUD's July 2002 memorandum states HUD presumes an Implementation Plan is consistent with an Empowerment Zone's strategic plan if at least a majority, 51 percent, of the beneficiaries of an activity are Zone residents. The memorandum also states that in computing the percentage of beneficiaries who are Zone residents where the benefit is in the form of jobs, at least 35 percent of those jobs must be filled by Zone residents. Since HUD's memorandum was issued after the five projects were started, the memorandum cannot be used retroactively to determine the appropriateness of Empowerment Zone funds used for the projects. Therefore, HUD must make a determination whether the Cities' use of Zone funds for the five projects was appropriate.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, pages 52 and 53, contains the complete text of the comments for this finding.]

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. believes that:

- Given that four of the five projects will not be complete until after June 2004, the heading for this finding implying a past failure is inaccurate and should be changed;
- The reference to the Federal Register is inaccurate and should be changed to show that the Appendix is entitled: Guidelines on Eligible Uses of Empowerment Zone/Enterprise Community Social Security Block Grant Funds; and
- The legal governing regulations are not contained in the Appendix or the Federal Register publication of

the interim rule, but rather at 53 CFR 19155. The Appendix does not exist as a governing document because it was dropped in the Code of Federal Regulations and it applies only to Social Security Block Grant monies that did not fund the Round II Empowerment Zones. The Federal Register included the Appendix in case Social Security Block Grant funds were provided to the Round II Zones and was made moot by the fact that such funding never occurred.

Actual funding took place for the Cities of Huntington, West Virginia and Ironton, Ohio Empowerment Zone as a result of HUD signing a contract with the Cities on June 11, 1999 and HUD's subsequent approval of the action budget for the first year that resulted in a draw of funds for administrative costs on July 23, 1999. HUD approved subsequent annual plans for the five projects cited by HUD's Office of Inspector General for failing a regulatory test.

There is no HUD regulation defining primary benefit. HUD's Office of General Counsel stated that without a publication for comment in the Federal Register, the July 2, 2002 memorandum cited by the Office of Inspector General carries no legal authority for HUD to make any determination carrying with it any sanction against an Empowerment Zone Program based upon its content and standards. Until there is a Federal regulatory or statutory definition for required resident benefit, the Cities will continue to follow the current rules that allow for local decision-making in defining benefit for Zone residents.

This finding should be eliminated from the audit report since its conclusion has no legal standing and its recommendation suggests a legal authority that does not exist.

OIG Evaluation Of
Auditee Comments

The Cities and Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. claim that there is no legal governing regulation in the Federal Register or its Appendix is incorrect. The Cities and HUD executed a Memorandum of Agreement effective January 1, 1999 that required the Cities to comply with HUD's Empowerment Zone regulations at 24 CFR Part 598. 24 CFR Part 598.215

(b)(4)(i)(D) required the Cities to outline in a detailed plan how their Empowerment Zone will implement the Cities' Strategic Plan that included details about proposed uses of Zone funds in accordance with guidelines published on April 16, 1998 in the Federal Register's Appendix. Paragraph (3)(f) of the April 16, 1998 Federal Register's Appendix required all programs, services, and activities financed in whole or in part with Round II Empowerment Zone funds must be structured to primarily benefit Zone residents. The program, services, and activities may also benefit non-Zone residents. Therefore, the Cities were required to follow the April 16, 1998 Federal Register's Appendix regarding the use of Zone funds.

We agree with the Cities and Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. that HUD's July 2, 2002 memorandum has no legal authority for HUD to make a determination regarding the use of Zone funds. As our audit report states that since HUD's memorandum was issued after the five projects were started, the memorandum cannot be used retroactively to determine the appropriateness of Empowerment Zone funds used for the projects. Therefore, HUD must make a determination whether the Cities' use of Zone funds for the five projects was appropriate. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s Executive Director claims that governing regulations for the Empowerment Zone Program are located at 53 CFR 19155; however, there is no such Federal regulation.

We also agree that there is no regulatory or statutory definition regarding resident benefit. As stated in our audit report, the Appendix in the April 16, 1998 Federal Register does not provide a definition of primarily benefits Empowerment Zone residents. Again, HUD must make a determination whether the Cities' use of Zone funds for the five projects was appropriate.

Recommendations

We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the Cities of Huntington, West Virginia and Ironton, Ohio:

- 3A. Implement procedures and controls to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents.
- 3B. Amend the contracts for the four projects cited in this finding scheduled for completion between June 2004 and June 2005 to include requirements regarding benefits to Zone residents.

We also recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative:

- 3C. Ensures the five projects cited in this finding primarily benefit Empowerment Zone residents as required by the April 16, 1998 Federal Register. If HUD determines that the projects do not primarily benefit Zone residents, then HUD should require the Cities of Huntington, West Virginia and Ironton, Ohio to reimburse their Empowerment Zone Program the applicable amount from non-Federal funds.

Management 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 that 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 during our audit of the Cities of Huntington, West Virginia and Ironton, Ohio's Empowerment Zone Program.

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 Cities did not use all Empowerment Zone funds to benefit Zone residents or the Zone as required by the Cities' Strategic Plan and the September 8, 1999 Agreement for the Marting Hotel Renovation project (see Finding 1).

- Validity and Reliability of Data

The Cities incorrectly reported the actual status and/or progress for five of the 10 projects we reviewed from their June 30, 2001 or June 30, 2002 Annual Reports. The Cities' June 2001 Report contained inaccuracies related to five projects' progress on projected outputs and one project's percentage of completion on a project milestone (see Finding 2).

- Compliance with Laws and Regulations

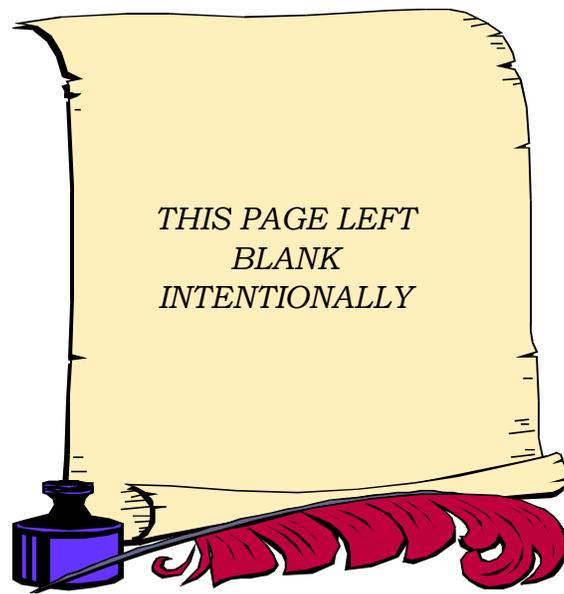
The Cities did not follow 24 CFR Part 598.215 (b)(4)(i)(D) or the April 16, 1998 Federal Register. Empowerment Zone funds were used and did not benefit Empowerment Zone residents (see Finding 1). Additionally, the Cities failed to follow HUD's regulation regarding the reporting of actual status and/or progress for five of the 10 projects we reviewed from their June 30, 2001 or June 30, 2002 Annual Reports (see Finding 2).

- Safeguarding Resources

The Cities inappropriately used \$160,000 of Empowerment Zone funds for services that did not benefit Zone residents as required by the Cities' Strategic Plan and the September 8, 1999 Agreement for the Marting Hotel Renovation project (see Finding 1).

Follow Up On Prior Audits

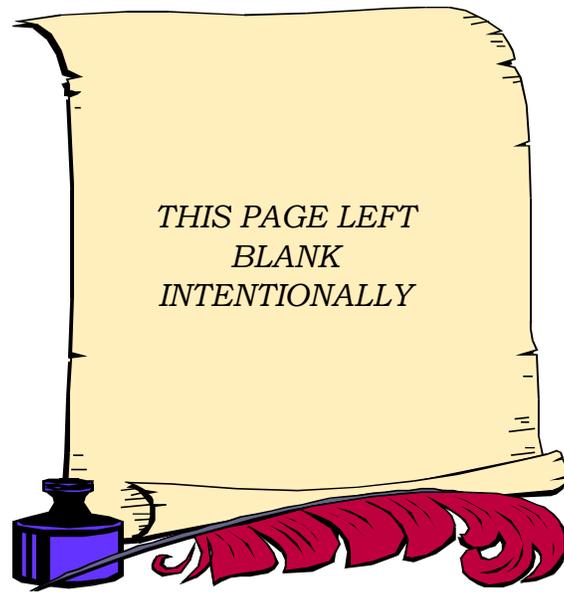
This is the first audit of the Cities of Huntington, West Virginia and Ironton, Ohio's Empowerment Zone Program by HUD's Office of Inspector General. The latest Independent Auditors' Reports for the City of Huntington, West Virginia and Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Program, covered the periods ending June 30, 2001. The latest Independent Auditor's Report for the City of Ironton, Ohio covered the period ending December 31, 2001. The Reports contained no findings.



Schedule Of Ineligible Costs

<u>Recommendation</u>	
<u>Number</u>	<u>Ineligible Costs 1/</u>
1A	<u>\$160,000</u>
Total	<u>\$160,000</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.



Projects Reviewed

This appendix contains the individual evaluations for the projects we reviewed. We selected 10 of the Cities of Huntington, West Virginia and Ironton, Ohio's 29 projects reported in their June 30, 2001 or June 30, 2002 Annual Reports. We found that the Cities inappropriately used Empowerment Zone funds for one project and inaccurately reported the accomplishments of its Program to HUD for five projects. The following table shows the five projects that had problems, the location of their evaluation in this appendix, and the finding(s) they relate to.

<i>Project</i>	<i>Page</i>	<i>Finding</i>
Marting Hotel Renovations	28	1 and 2
American College Testing Work Keys	35	2
School Based Behavioral Health Services	38	2
Universal Screening	41	2
Huntington Industrial Center	43	2

Controls Over Marting Hotel Renovation Project Were Not Adequate

The Cities of Huntington, West Virginia and Ironton, Ohio did not maintain adequate controls over the Marting Hotel Renovation project. The Cities did not ensure that \$160,000 of Empowerment Zone funds benefited Zone residents. The Cities' Strategic Plan for the Marting Hotel Renovation project showed that low to moderate income, elderly households residing in the Zone would be the targeted group to occupy the project. However, this was not done. Additionally, the September 8, 1999 Agreement for the project showed that 50 Zone residents projected to be served. However, Zone residents have only occupied 10 of the 50 units as of November 2002. The Cities also inaccurately reported the project's outputs for the number of Empowerment Zone residents who were provided with housing and the number of Zone resident jobs created or retained. The inappropriate use of the Zone funds and inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not ensure the use of Empowerment Zone funds benefited Zone residents and verify the accuracy of the information included in the June 2001 Annual Report. As a result, Empowerment Zone funds were not used efficiently and effectively. The Cities also did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

Federal Requirements And Cities' Strategic Plan

Page 1 of the Memorandum of Agreement effective January 1, 1999, between the Cities of Huntington, West Virginia and Ironton, Ohio and HUD, requires the Cities to comply with HUD's Empowerment Zone regulations at 24 CFR Part 598.

24 CFR Part 598.215 (b)(4)(i)(D) states a detailed plan that outlines how an Empowerment Zone will implement its strategic plan must include details about proposed uses of Zone funds in accordance with guidelines published on April 16, 1998 in the Federal Register's Appendix.

Paragraph (3)(c) of the April 16, 1998 Federal Register, Appendix-Guidelines on Eligible Uses of Empowerment Zone Funds, requires Empowerment Zones to ensure that each proposed use of Zone funds is included in their strategic plans.

The Cities of Huntington, West Virginia and Ironton, Ohio's Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to renovate the Marting Hotel in downtown Ironton, Ohio to

provide 50 new units of rental housing to the elderly. The Cities' Strategic Plan also shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group to occupy the project.

Zone, Inc.'s Contract With
Community Action
Organization

Section 1(a) of the September 8, 1999 Agreement between Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. and Ironton-Lawrence County Community Action Organization, Inc., the administering entity of the Marting Hotel Renovation project, requires Community Action Organization to provide housing services in accordance with the Cities' October 9, 1998 Strategic Plan. Exhibit C, Section V(F)(2), of the Agreement projected that 50 Empowerment Zone residents would be served by the project.

The Cities Did Not Have
Adequate Control Over
Zone Funds

The Cities lacked adequate oversight over the Marting Hotel Renovation project. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity for the Cities' Empowerment Zone Program, executed an agreement on September 8, 1999 with the Ironton-Lawrence County Community Action Organization, Inc. to renovate the Marting Hotel in downtown Ironton, Ohio to provide housing services in accordance with the Cities' October 9, 1998 Strategic Plan. The Cities' Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to provide 50 new units of rental housing to the elderly. The Cities' Strategic Plan also shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group to occupy the project. The Cities provided \$200,000 in Zone funds for the project.

RLJ Management Company, the management company for the project, leased all 50 units as of November 26, 2002. However, documentation provided by RLJ Management Company showed that only 10 of the 50 units (20 percent) were leased to elderly, Empowerment Zone households with low to moderate incomes. Of the remaining 40 units, individuals who previously resided outside of the two counties where the Huntington, West Virginia/Ironton, Ohio Empowerment Zone is located occupied 15 units. Therefore, the intended beneficiaries of the Empowerment Zone were not served.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. said she believed Zone residents occupied all 50 units. However, she said the Empowerment Zone, Inc. had not monitored the use of Zone funds for the Marting Hotel Renovation project to determine whether the 50 units were occupied by elderly, Empowerment Zone households with low to moderate incomes. Exhibit C, Section V(F)(2), of the September 8, 1999 Agreement for the project showed that 50 Empowerment Zone residents were projected to be served by the Marting Hotel Renovation project.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. said the Cities' Strategic Plan shows that low to moderate income, elderly households residing in the Empowerment Zone were the targeted group to occupy the Marting Hotel project. However, this was not done. The President of RLJ Management Company said his company was not instructed to target low to moderate income, elderly households residing in the Empowerment Zone. He said his company only made sure that elderly, low to moderate income households occupied the project in order to meet the Low Income Housing Tax Credit requirements.

RLJ Management Company's Property Manager provided documentation regarding the marketing efforts for the Marting Hotel Renovation project. The documentation included: an in-house pamphlet that prospective tenants may obtain by visiting the project; a flier distributed during the project's open house held in November 2001; 13 newspaper advertisements; and a radio advertisement. Six of the 13 newspaper advertisements were published in newspapers located outside of Huntington, West Virginia and Ironton, Ohio. None of the marketing efforts mentioned that the project was targeting Empowerment Zone residents. As a result, \$160,000 (\$200,000 times 80 percent of the project occupied by non-Zone households) of the Zone funds was not used effectively and efficiently.

The Cities Inaccurately
Reported Project's Outputs

The Cities incorrectly reported in their June 30, 2001 Annual Report the number of Empowerment Zone residents who received housing and the number of Zone resident jobs created or retained. The Cities reported that 23 Zone residents were provided with housing and that one Zone

resident job was created or retained. However, documentation provided by RLJ Management Company showed that only four Zone residents received housing and no Zone resident jobs were created or retained.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. said she believes a determination whether individuals are Empowerment Zone residents should be made at the time individuals move into the Zone. The Director also said she believes all individuals that leased units at the Marting Hotel Renovation project should be considered Empowerment Zone residents. However, the September 8, 1999 Agreement for the project showed that 50 Empowerment Zone residents were projected to be served by the Marting Hotel Renovation project. Based upon the September 1999 Agreement, the individuals must already be Zone residents for the Cities to report them in their Annual Report to HUD.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, pages 46 to 48, contains the complete text of the comments for this project.]

HUD's Office of Inspector General incorrectly cited the Cities' Strategic Plan for the Marting Hotel Renovation project. The objective of the project as stated in the Plan is to renovate the Marting Hotel in downtown Ironton to provide 50 new units of rental housing for the elderly. The Plan shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group. The Plan clearly does not state that the Cities must place existing Zone residents in the units or that the Cities are targeting all 50 units to existing Zone residents. To target a certain population for housing does not mean one must place only the population in the units and exclude all others. By definition, target means to direct one's efforts. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s project files include supporting documentation on marketing the units upon completion of the renovations. As a result, 10 households who were currently residing in

the Zone that were elderly with low incomes moved into the project.

From the inception of Marting Hotel Renovation project, the renovations were primarily funded from the issuance of Low Income Housing Tax Credits. The Tax Credits could have never been sought for a project conditioned on rental to only existing Empowerment Zone residents. Therefore, all 50 units were intended for and were rented to low income, elderly households. The Cities' Strategic Plan states the objective of the project is to provide 50 new units of rental housing for the elderly. Since occupancy of the units began in April 2000, 60 households resided in the 50 units.

By virtue of the Marting Hotel Renovation project being located in the Empowerment Zone, the Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. determined that Zone residents occupied all 50 units. Defining resident benefit was left to the locality as who benefits from the activity. Each resident who moved into the units benefited from the project and since their address is within the Zone, they are considered Zone residents. HUD concurs with the Cities' definition as shown by its July 2, 2002 memorandum that states a beneficiary will be considered a Zone resident when the activity is completed and the household's residence is located within the Zone.

As a result of the Cities' investment of \$200,000 in a \$4,500,000 project, the City of Ironton Empowerment Zone: gained 40 new Zone residents; provided 10 existing residents with safe, affordable housing; renovated a vacant, blighted building; improved a pivotal structure; and provided 5,000 square feet of renovated space for a potential private business. The Empowerment Zone's financial participation was less than five percent of the total project costs and achieved multiple objectives in accordance with the Cities' Strategic Plan. Given that this project is both a success and consistent with the Plan, the Cities disagree fully with the finding, and the recommendations for reimbursement and implementation of new procedures to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Empowerment Zone Program requirements.

In the Cities' June 30, 2001 Annual Report, the Cities reported that the Marting Hotel Renovation project provided 23 Zone households with housing units. For the Cities June 30, 2002 Annual Report, 50 Zone households were provided housing units since the building reached 100 percent occupancy. Additionally, Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. maintained proper file documentation to support the one new job created. The new job is the project's Housing Manager and she resides in one of the project's units.

OIG Evaluation Of Auditee Comments

We adjusted our audit report to show that the Cities' Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to provide 50 new units of rental housing to the elderly and the Plan shows low to moderate income, elderly households residing in the Empowerment Zone as the targeted group to occupy the project. However, this was not done. Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s Executive Director claimed that the project's files include supporting documentation on marketing the units upon completion of the renovations, but no documentation was provided to support this claim. Additionally, the President of RLJ Management Company said his company was not instructed to target low to moderate income, elderly households residing in the Empowerment Zone. He said his company only made sure that elderly, low to moderate income households occupied the project in order to meet the Low Income Housing Tax Credit requirements.

Exhibit C, Section V(F)(2), of the September 8, 1999 Agreement between Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. and Ironton-Lawrence County Community Action Organization, Inc. showed that 50 Empowerment Zone residents were projected to be served by the project. Based upon the supporting documentation provided by RLJ Management Company, only 10 of the 50 units were leased to elderly, Empowerment Zone households with low to moderate incomes. Therefore, the terms of the Agreement were not met.

The Marting Hotel Renovation project was initiated before HUD's July 2, 2002 memorandum; therefore, HUD's definition of benefits to Empowerment Zone residents cannot be used retroactively. As previously mentioned, the September 8, 1999 Agreement for the project showed that 50 Empowerment Zone residents were projected to be served by the project. However, this was not done.

We agree that the Marting Hotel Renovation project provided benefits to the City of Ironton Empowerment Zone. However, the benefits were not in full compliance with the Cities' Strategic Plan and the September 1999 Agreement for the project. The Cities should reimburse their Empowerment Zone Program from non-Federal funds for the improper use of Zone funds to provide housing to non-Zone residents. The Cities should also implement procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively, and in accordance with Empowerment Zone Program requirements.

The Cities incorrectly reported in their June 30, 2001 Annual Report the number of Empowerment Zone residents who received housing and the number of Zone resident jobs created or retained. The Cities reported that 23 Zone residents were provided with housing and that one Zone resident job was created or retained. However, documentation provided by RLJ Management Company showed that only four Zone residents received housing and no Zone resident jobs were created or retained.

Accomplishments Of American College Testing Work Keys Project Were Inaccurately Reported

The Cities of Huntington, West Virginia and Ironton, Ohio incorrectly reported the accomplishments of the American College Testing Work Keys project in their June 30, 2001 Annual Report. The Cities inaccurately reported the percentage of completion on the project's milestone that 50 Empowerment Zone residents be hired and the project's output for the number of Zone residents placed in jobs. The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the June 2001 Annual Report. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

The Cities Inaccurately Reported Project's Milestone And Output

In their June 30, 2001 Annual Report, the Cities inaccurately reported the percentage of completion on American College Testing Work Keys project's milestone that 50 Empowerment Zone residents be hired and the project's output for the number of Zone residents placed in jobs. The Cities reported that the project was 25 percent complete on the project's milestone of hiring 50 Zone residents and the project's output that 15 Zone residents were placed in jobs.

Documentation maintained by Collins Career Center, American College Testing Work Keys project's administering entity, showed that the project had not resulted in jobs for any Zone residents as of June 30, 2001. The Center reported to Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, that no jobs resulted from the project for Zone residents.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, stated the accomplishments in the Cities' Annual Report should show all of the Zone residents placed in jobs by the Collins Career Center, even if Zone funds were not used to place the Zone residents in jobs. As a result, the Cities did not provide HUD with an accurate representation

of the project and the impression exists that the benefits of the project are greater than actually achieved.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, page 49, contains the complete text of the comments for this project.]

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s contracts with Collins Career Center, the administering entity for American College Testing Work Keys project, provide for work force development in the areas of assessment, job profiles, skills testing, and training to private businesses. As of June 30, 2002, the Center was working with four manufacturing businesses. After contracting with the Empowerment Zone, Inc. to receive Empowerment Zone monies, the Center received funding from the State of Ohio to pay for workforce development assistance. The State funding was used for one of the four businesses that created new jobs and ultimately hired 15 Zone residents. The Empowerment Zone, Inc. reported this accomplishment because Empowerment Zone objectives were achieved and leveraged with the assistance of other funds. The Center provided the Empowerment Zone, Inc. with a list of employees hired and staff confirmed that the employees resided in the Zone. Based upon the 15 Zone residents employed by the manufacturing business, the Empowerment Zone, Inc. reported the project's milestone for job creation was 25 percent complete.

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. is not aware of any Federal requirements that only accomplishments funded by the Empowerment Zone may be reported in the Annual Report. The Empowerment Zone, Inc. will amend the Cities' Implementation Plan for the American College Testing Work Keys project to include funding provided by the State of Ohio and maintain documentation to support the State's funds.

**OIG Evaluation Of
Auditee Comments**

The Cities reported that the American College Testing Work Keys project was 25 percent complete on its

milestone of hiring Zone residents as of June 2001. Documentation maintained by Collins Career Center, the project's administering entity, showed that the project had not resulted in jobs for any Zone residents as of June 30, 2001. Additionally, the Center's Contractual Services Director said the State of Ohio funding did not relate to the project. She said the State funding was used for a different project. Therefore, the Cities incorrectly reported the project's milestone in the June 2001 Annual Report.

Accomplishments Of School Based Behavioral Health Services Project Were Not Accurately Reported

The Cities of Huntington, West Virginia and Ironton, Ohio inaccurately reported outputs for its School Based Behavioral Health Services project. The Cities inaccurately reported in its June 30, 2001 Annual Report the number of Empowerment Zone children and residents served by the project. The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the June 2001 Annual Report. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

The Cities Inaccurately Reported Project's Outputs

The Cities reported in their June 30, 2001 Annual Report that the School Based Behavioral Health Services project served 91 Empowerment Zone children and 1,545 residents by public meetings. Documentation maintained by Prester Center for Mental Health, the project's administering entity, showed that 78 Zone children were served through June 30, 2001. The Director of Marketing and Development for Prester Center for Mental Health said he lacked adequate documentation for residents served by the meetings.

The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, failed to verify the accuracy of the information included in the 2001 Report. As a result, the Cities did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the Cities' Empowerment Zone Program were greater than actually achieved.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report

follow. Appendix C, page 50, contains the complete text of the comments for this project.]

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. concurs that Pretera Center for Mental Health, the School Based Behavioral Health Services project's administering entity, maintained case files on 78 Empowerment Zone children. The inconsistency between what the Empowerment Zone, Inc. reported and Pretera's file documentation resulted from formal medical records not opened on all children served. In 13 instances, children were served for brief intervention or guidance, but a case was not formally opened. Effective July 1, 2002, Pretera's reports to the Empowerment Zone, Inc. will only include children that have a formal chart/record. Once HUD returns the Cities' June 2002 Annual Report, the project's outputs of Empowerment Zone residents served will be amended.

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. added the output of public meetings for the School Based Behavioral Health Services project to the Cities' Implementation Plan to show the broad level of community support and input. Pretera conducted six community meetings and one workshop. Pretera counted the people in attendance and reported the totals in their final report. However, Pretera did not utilize sign in sheets. The local newspaper reported on the community meetings and the estimated number of people in attendance. Copies of the newspaper article were provided to HUD's Office of Inspector General as supporting documentation to confirm the meetings and estimated number of people in attendance. The Empowerment Zone, Inc. contends the newspaper articles are sufficient documentation to establish the meetings occurred and residents attended.



OIG Evaluation Of Auditee Comments

As indicated by Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.'s comments, the number of residents in attendance for the School Based Behavioral Health Services project's community meetings were estimates based upon information included in a newspaper article. However, the Cities reported in their June 30, 2001 Annual Report to HUD that 1,545 residents were served by

the project's meetings. The Empowerment Zone, Inc. and the project's administering lacked any documentation to support the number of residents served by the meetings. Information included in a newspaper article that cites an estimated number of residents served is not adequate documentation to support the Cities' June 2001 Report.

An Output Of Universal Screening Project Was Inaccurately Reported

The Cities of Huntington, West Virginia and Ironton, Ohio did not accurately report in their June 30, 2001 Annual Report the output for its Universal Screening project. The Cities inaccurately reported the number of Empowerment Zone residents served by the project. The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the June 2001 Annual Report. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

The Cities Inaccurately Reported Project's Output

The Cities inaccurately reported in their June 30, 2001 Annual Report the number of Empowerment Zone residents served through the Universal Screening project. The Cities reported that 276 Zone residents were served. Documentation maintained by Together Eliminating Abuse and Maltreatment for West Virginia Children, the project's administering entity, showed that 265 Zone residents were served as of June 30, 2001. The inaccuracy was as a result of four residents counted twice, one resident counted three times, and five residents lived outside the Zone.

The Executive Director for Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity for the Cities' Empowerment Zone Program, said that the reporting of the five individuals multiple times occurred because the Zone, Inc. only reviewed the addresses for the individuals served. The Executive Director also said the reporting of the five residents living outside the Empowerment Zone occurred because HUD's website was not accurate until after the Annual Report was submitted. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.



Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, page 50, contains the complete text of the comments for this project.]

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. concurs that 265 Empowerment Zone residents were served. Prior to July 1, 2002, the Empowerment Zone, Inc. required administering entities to provide client numbers and addresses of individuals served. The Empowerment Zone, Inc. now requires the administering entities to provide client names and addresses.



OIG Evaluation Of
Auditee Comments

The actions taken by Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. to require administering entities to provide client names and addresses of individuals served should improve its reporting procedures, if fully implemented.

One Of Huntington Industrial Center's Outputs Was Incorrectly Reported

The Cities of Huntington, West Virginia and Ironton, Ohio failed to accurately report in their June 30, 2001 Annual Report an output for the Huntington Industrial Center project. The Cities incorrectly reported that one Zone business received assistance from the project. The inaccurate reporting occurred because Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., the administering entity of the Cities' Empowerment Zone Program, did not verify the accuracy of the information included in the June 2001 Annual Report. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

The Cities Inaccurately Reported Project's Output

The Cities inaccurately reported in their June 30, 2001 Annual Report the number of Empowerment Zone businesses that received assistance from the Huntington Industrial Center project. Documentation maintained by Huntington Municipal Development Authority, the project's administering entity, showed that no Zone businesses received assistance from the project as of June 30, 2001.

The Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc., which administers the Cities' Empowerment Zone Program, said that the over-reporting occurred, because the Zone, Inc.'s Fiscal and Office Administrator entered the incorrect number of the output in the Performance Measurement System and the Executive Director did not verify the accuracy of the project's information entered into the Annual Report. As a result, the Cities did not provide HUD with an accurate representation of the project and the impression exists that the benefits of the project are greater than actually achieved.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. on our draft audit report follow. Appendix C, page 51, contains the complete text of the comments for this project.]

Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc. concurs that typographical error occurred by reporting one business assisted by the Huntington Industrial Center project in the Cities' June 30, 2001 Annual Report. The Empowerment Zone, Inc. caught the mistake while monitoring the project and corrected the error in the Cities' June 30, 2002 Annual Report. The Empowerment Zone, Inc. questions why this is a finding when it has monitoring procedures in place to correct reporting errors and corrected this output prior to the Office of Inspector General's audit.

**OIG Evaluation Of
Auditee Comments**

As our audit report shows, we did not review the Cities' June 30, 2002 Annual Report submitted to HUD for accuracy. We reviewed the Cities' June 30, 2001 Annual Report and found that the Cities' failed to accurately report an output for the Huntington Industrial Center project. The problem occurred because the Empowerment Zone, Inc.'s Fiscal and Office Administrator entered the incorrect number of the output in the Performance Measurement System and the Executive Director did not verify the accuracy of the project's information entered into the Annual Report. Therefore, the Empowerment Zone, Inc. needs to implement procedures and controls to verify the accuracy of information submitted to HUD for the Cities' Empowerment Zone Program.

Auditee Comments



**Huntington
West Virginia**
•
**Ironton Ohio
Empowerment
Zone, Inc.**

Cathy Burns
Executive Director

Jennifer Evans
Fiscal Administrator
320 Ninth Street
Suite B
Huntington, WV
25701

304-399-5454
304-399-5458 (fax)

Board of Directors

Betty Barrett
Kenneth Busz
Mayor Robert Cleary
Patricia Clonch
Robert L. Dalton
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William A. Smith

December 19, 2002

Mr. Edward Kim
Assistant Regional Inspector General for Audit
U.S. Dept. of HUD-Office of Inspector General
200 North High Street, Room 334
Columbus, Ohio 43215

Dear Mr. Kim:

The cities of Huntington, West Virginia and Ironton, Ohio and the Huntington, WV-Ironton, OH Empowerment Zone, Inc. provide the attached response to the draft audit report 2003-CH-100X.

As stated in our exit conference, we strongly believe issues regarding resident benefit standard or principal benefit should be removed from our audit and addressed by the Office of Inspector General directly to the U.S. Department of Housing and Urban Development. I have the opportunity to work closely with the 14 Round II Empowerment Zones in their discussions with HUD around the July 2 memorandum. It is clear that neither HUD program staff nor the Inspector General Regions consistently reviewed or audited this issue. It is also clear from discussions with the Office of General Counsel present, that barring a new publication of a resident benefit standard for regulatory purposes, there is no legal basis for insisting, as the OIG in our case has done, that there is such a standard in place. Based on these factors, Finding 3 should be removed from Huntington-Ironton's audit and OIG concerns addressed separately to HUD.

If you have any questions about this submission, please feel free to contact me at 304-399-5454.

Sincerely,

Cathy Burns
Executive Director

Cc: David Felinton, Mayor of the City of Huntington, West Virginia
Robert Cleary, Mayor of the City of Ironton, Ohio

Finding 1 - OIG Position: “Controls Over Empowerment Zone Funds Need to be Improved”

Issue: The Cities Did Not Have Adequate Control Over Zone Funds

OIG Position: The Cities of Huntington, West Virginia and Ironton, Ohio’s Strategic Plan dated October 9, 1998 states the objective of the Marting Hotel Renovation project is to renovate the Marting Hotel in downtown Ironton, Ohio to provide 50 new units of rental housing to elderly Empowerment Zone households with low to moderate income. Because only 10 of the original elderly households were Empowerment Zone residents at the time of the rental, the strategic plan was not followed and therefore the Empowerment Zone Account should be reimbursed \$160,000 from non-federal funds.

EZ Inc. Response: The OIG incorrectly states the Cities of Huntington, West Virginia and Ironton, Ohio’s Strategic Plan. The objective for the Marting Hotel Renovation project as stated in Huntington, WV-Ironton, Ohio’s Strategic Plan on pages VII-3 and VI-11 (see Exhibit 1) is “Renovate the Marting Hotel in Downtown Ironton to provide 50 new units of rental housing for the elderly. Also included with this project are streetscape and parking improvements in Downtown Ironton.”

On page VI-11 of the EZ, Inc.’s Strategic Plan is a chart with 5 columns labeled as Objectives, **Targeted Groups**, Lead Agencies, Community-Based Partnerships, and Financial Resources (see Exhibit 1). Under the column Targeted Groups we list low and moderate-income elderly households residing in the EZ. We clearly do not say we must place existing zone residents in these units, nor do we say that we are targeting all 50 units to existing zone residents. To target a certain population for housing does not mean one must place only that population in the units and exclude all others. By definition, target means to “direct efforts”. If we had stated we would target minorities, it would not have precluded us from renting units to non-minorities. The EZ, Inc. project file includes support documentation on marketing the units upon completion of the renovations and as a result 10 elderly low income persons who were currently residing in the zone moved into the units.

From the inception of this project, the renovations were primarily funded with revenues generated from the issuance of Low Income Housing Tax Credits. The tax credits could never have been sought for a project conditioned on rental only to existing zone residents, given the small size of the zone boundary in Ironton, since this would have been unacceptable to any potential buyer of the tax credits and no elderly including any zone residents would have benefited. Therefore, all 50 units were intended and have been rented to low-income elderly. Our Plan states our objective is to renovate the structure to provide 50 new units of rental housing for the elderly. The EZ, Inc. has accomplished our objective by renting all 50 units to low-income elderly. Additionally, we targeted our efforts to existing zone residents and had 10 move into the units. Since occupancy of the

units began in April 2000, 60 individuals have lived in the available 50 apartments. In accordance with approval of the reduction of age limits authorized by the State of Ohio Housing Finance Agency, 59 of the residents are classified as elderly and 1 disabled resident received a waiver of approval to occupy a unit.

By virtue of this project being located in the Empowerment Zone boundaries, the EZ, Inc. determined that all 50 residents of the new housing units are zone residents for reporting purposes. Defining resident benefit has been left to the locality as who benefits from the activity. Each resident who moved into these housing units benefited from the activity and by the fact their address is within the zone, they are considered zone residents. That HUD concurs with our definition is shown by the issuance of the July 2, 2002 memorandum from Assistant Secretary Roy Bernardi which states "a beneficiary will be considered a Zone resident if, following completion of the activity, the person's (or household's) residence will be within the Zone boundaries." The fact that HUD has indicated that the definition of resident benefit itself is not to be applied on a retroactive basis does nothing to change the HUD understanding of who qualifies as a Zone resident.

The EZ, Inc. monitored the occupancy of each unit and required filings of the developer with the Internal Revenue Service in support of the Low Income Housing Tax Credits to ensure compliance. In 2001 we reported on the Annual Report 23 zone occupants of the units and in 2002 we reported 50 zone occupants since the building had reached 100% occupancy.

I had the fortunate experience of participating in the writing of our strategic plan and this project was envisioned to achieve additional objectives such as:

- * Increase the population of our zone and reverse the negative trends and increase more pedestrian traffic downtown thereby improving neighborhood safety and create a more business friendly downtown.
- * Reutilize abandoned, blighted structures, particularly pivotal structures such as the Marting, which is the 2nd tallest building in Ironton and located on the main entrance thoroughfare of the city.
- * Offer senior services
- * And create new jobs in the zone by attracting a commercial business to the first floor space.

Additionally, the EZ, Inc. maintained proper file documentation to support the one new job created. The new job is the housing project manager and she resides in an apartment in the project. A stipulation of her being hired for the job required she live in the project site in the zone.

As a result of the EZ, Inc.'s investment of \$200,000 in a \$4.5 million dollar project, the Ironton zone gained 40 new zone residents; provided 10 existing residents with safe, affordable housing; renovated a vacant, blighted building; improved a pivotal structure in the heart of the downtown; and provided 5,000 square feet of renovated 1st floor space for

a potential private business. The EZ financial participation was less than 5% of the total project costs and we achieved multiple objectives in accordance with our strategic plan.

Given that this project is both a success and consistent with our strategic plan, the Cities of Huntington, West Virginia and Ironton, Ohio disagree fully with the finding and the recommendations for reimbursement and need to implement new procedures as stated in the OIG draft report and request that this finding be eliminated.

Finding 2 - OIG Position: “The Cities Inaccurately Reported the Accomplishments of Their Empowerment Zone Projects”

Issue 1: Accomplishments of Marting Hotel Renovations Were Inaccurately Reported

OIG Position: See Finding Number 1

EZ, Inc. Response: See Finding Number 1

Issue 2: Accomplishments of American College Testing Work Keys Project Were Inaccurately Reported

OIG Position: The Cities Inaccurately Reported Project’s Milestone and Output. The cities reported that the project was 25 percent completed on the project’s milestone of hiring 50 Zone residents and the project’s output that 15 Zone residents were placed in jobs. Documentation maintained by Collins Career Center showed that the project had not resulted in jobs for any Zone residents as of June 20, 2001. The Center reported to Huntington, WV-Ironton, OH Empowerment Zone Program that no jobs resulted from the project for Zone residents.

EZ, Inc. Response: The EZ, Inc. contracts with Collins Career Center to provide work force development in the areas of Assessments, Job Profiles, Skills Testing and Training to private businesses. As of June 30, 2002 Collins Career Center was working with four manufacturing businesses. After contracting with the EZ, Inc., Collins Career Center received other funds (from the State of Ohio), in addition to the EZ, Inc. funds, to pay for their workforce development assistance. These State funds were used for one of the four businesses. This business created new jobs for the area and ultimately hired 15 Zone residents. The EZ, Inc. reported this accomplishment because Empowerment Zone objectives were achieved and leveraged with the assistance of other funds. Collins Career Center supplied the EZ, Inc. with the list of employees hired by the private business and the EZ, Inc. staff confirmed addresses located in the Zone. Based on the 15 Zone residents employed at the new manufacturing business, the EZ, Inc. reported that the milestone for job creation was 25% complete. A complete list of hires and addresses for this business was supplied to the EZ, Inc. from Collins Career Center.

The Huntington, WV-Ironton, OH Empowerment Zone is not aware of any federal requirements that only accomplishments *funded* by the EZ may be reported on the Annual Report where the accomplishment achieved is consistent with and in tandem with the EZ objectives and funded activity. The EZ Inc. will amend the Implementation Plan for this activity to include matching funds provided by the State of Ohio and maintain file documentation to support the matching State of Ohio training funds. Therefore the EZ, Inc. objects to this finding.

Issue 3: Accomplishments of School Based Behavioral Health Services Project Were Not Accurately Reported

OIG Position: The Cities reported in their June 30, 2001 Annual Report that the School Based Behavioral Health Services project served 91 Empowerment Zone children and 1,545 residents by public meetings. Documentation maintained by Pretera Center for Mental Health showed 78 Zone children were served through June 30, 2001. Pretera did not provide adequate documentation for residents served by the meetings.

EZ, Inc. Response: The EZ, Inc. concurs that Pretera maintained case files on 78 Zone children. The inconsistency between what was reported to the EZ, Inc. by Pretera and file documentation maintained by Pretera primarily resulted from formal medical records not opened on all youth served. Opening a formal chart/record is indicated if treatment is rendered or is definitely planned and would also constitute the assignment of a case number and computerized entry for easy tracking and location. In 13 instances, youth were served for brief intervention or guidance and therefore didn't warrant a case opening. Effective July 1, 2002, Pretera reports to the EZ, Inc. only those youth served that have a formal chart/record. Upon HUD returning the EZ, Inc.'s 2002 Annual Report, the outputs of EZ residents served will be amended.

Regarding the public meetings, the EZ, Inc. added this to the Implementation Plan as an "Other" output to show the broad level of community support and input for this activity. The lead entity, Pretera, conducted 6 community meetings and 1 workshop. Pretera counted the people in attendance and reported the totals in their final report. They did not utilize sign in sheets. However, the local newspaper reported on all 6-community meetings in the local newspaper and stated the estimated number of people in attendance. Copies of each newspaper article were provided to OIG as support documentation to confirm the meetings occurred and the estimated number of people in attendance. The EZ, Inc. contends the newspaper articles are sufficient documentation to establish the meetings occurred and residents attended.

Issue 4: An Output of Universal Screening Project was Inaccurately Reported

OIG Position: The Cities reported 276 Zone residents were served by Universal Screening project. Documentation maintained by Together Eliminating Abuse and Maltreatment (TEAM) of West Virginia Children showed 265 Zone residents were served.

EZ, Inc. Response: The EZ, Inc. concurs 265 Zone residents were served. Prior to July 1, 2002, the EZ, Inc. required lead entities to provide client number and address of individuals served. The EZ, Inc. now requires the lead entities to provide client name and address.

Issue 5: One of Huntington Industrial Center's Outputs was Incorrectly Reported

OIG Position: The Cities inaccurately reported 1 business received assistance.

EZ, Inc. Response: EZ, Inc. concurs that a typographical error occurred by reporting one business assisted on the 2001 Annual Report. The EZ, Inc., while monitoring the project, caught the mistake and corrected the error for the 2002 Annual Report *and* prior to the OIG Audit. The EZ, Inc. questions why this is a finding when the EZ Inc. has monitoring procedures in place to correct reporting errors and corrected this output prior to the OIG Audit.

In summary, the EZ, Inc. objects to the Marting Hotel renovation, American College Testing Work Keys and Huntington Industrial Center being included in Finding Number 2. For the remaining two projects, of the 367 reported Zone residents, we concur the documented number served is 343. The "over accomplishment" reported is only 24 residents. The EZ Inc. has requested HUD to return our 2002 Annual Report so we can correct the outputs for School Based Behavioral Health Services and Universal Screening. To date, the 2002 Annual Report has not been returned to us via electronically to make the necessary changes. In both cases, EZ, Inc has already taken steps to change reporting requirements to avoid any similar mistake in documentation in the future.

To further enhance our reporting procedures, the cities of Huntington, West Virginia and Ironton, Ohio and the EZ, Inc. submit the enclosed Procedure for Reporting (Exhibit 2) to assure future accuracy of information submitted.

Finding 3 – OIG Position "The Cities Provided Zone Funds to Projects that have not Benefited Zone Residents or Benefited Less than 50 Percent of Zone Residents"

OIG Position: Paragraph (3)(c) of the April 16, 1998 Federal Register, Appendix - Guidelines on Eligible Uses of Empowerment Zone Funds, requires all programs, services, and activities financed in whole or in part with Round II Empowerment Zone funds must be structured to primarily benefit Zone residents. The program, services and activities may also benefit non-Zone residents but according to the OIG, 50 Percent of the benefit must be for Zone residents. Five projects, four of which will not be complete until June 2004 to June 2005, funded by EZ, Inc., have not benefited or are not structured to primarily benefit Zone residents and appear out of compliance with the above Federal Register provision. The OIG recommends review by the HUD Central Office to determine if the projects meet the Appendix requirement and whether reimbursement of program funds from non-federal sources should be required.

EZ, Inc. Response:

- (A) Given that four of the five projects will not be complete until after June 2004, the heading for this finding implying a past failure is itself inaccurate and should be changed.
- (B) The reference to the Federal Register is itself inaccurate and should be changed to show that the Appendix cited is entitled: Guidelines on Eligible Uses of EZ/EC SSBG Funds.
- (C) The legal governing regulations are not contained in the Appendix or the Federal Register publication of the interim rule but rather in 53 CFR 19155. The Appendix does not exist as a governing document because it was dropped in the CFR published regulations and it was dropped because it applies only to funding from SSBG funds none of which fund Round Two Empowerment Zones. The Federal Register included the Appendix in case SSBG funds were provided to Round Two EZs and was made moot by the fact that such funding never occurred.

Actual funding took place for the Huntington, WV-Ironton, OH Empowerment Zone as a result of HUD signing a contract with the cities on June 11, 1999 and HUD's subsequent approval of the action budget for the first year which resulted in a draw of funds for administrative costs on July 23, 1999. Subsequent annual action plans have been approved by HUD for the very projects cited by the OIG as allegedly failing a regulatory test.

In fact, there is no HUD regulation defining primary benefit. The HUD Office of General Counsel has publicly and verbally stated that fact, and has stated that without publication for comment in the Federal Register, the July 2, 2002 memorandum cited by the OIG carries with it no legal authority for HUD to make any determination that carries with it any sanction against an Empowerment Zone program based on its content and standards.

Until there is a federal regulatory or statutory definition for required resident benefit, the Huntington, WV-Ironton, OH Empowerment Zone will continue to abide by the current rules which allow for local decision making in defining benefit for zone residents.

This finding should be eliminated from the report since its conclusion has no legal standing, and its recommendation suggests a legal authority, and legally published standards, on the part of the HUD Office of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative, which do not exist.



Distribution

The Honorable Barbara A. Mikulski, Chairperson, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 709 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Christopher S. Bond, Ranking Member, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 274 Russell Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Joseph Lieberman, Chairman, Committee on Governmental Affairs, 706 Hart Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Fred Thompson, Ranking Member, Committee on Governmental Affairs, 340 Dirksen Senate Office Building, United States Senate, Washington, DC 20510

The Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

The Honorable Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Andy Cochran, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Clinton C. Jones, Senior Counsel, Committee on Financial Services, B303 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Sharon Pinkerton, Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B373 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

Stanley Czerwinski, Director of Housing and Telecommunications Issues, United States General Accounting Office, 441 G Street NW, Room 2T23, Washington, DC 20548

Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17th Street NW, Room 9226, New Executive Office Building, Washington, DC 20503

Linda Halliday (52P), Department of Veterans Affairs, Office of Inspector General, 810 Vermont Avenue NW, Washington, DC 20420

William Withrow (52KC), Department of Veterans Affairs, Office of Inspector General Audit Operations Division, 1100 Main, Room 1330, Kansas City, Missouri 64105-2112

Kay Gibbs, Committee on Financial Services, 2129 Rayburn House Office Building, United States House of Representatives, Washington, DC 20515

George Reeb, Assistant Inspector General for Health Care Financing Audits

David Felinton, Mayor of the City of Huntington, West Virginia

Robert Cleary, Mayor of the City of Ironton, Ohio

Cathy Burns, Executive Director of Huntington, West Virginia/Ironton, Ohio Empowerment Zone, Inc.