AUDIT REPORT



CITY OF CINCINNATI EMPOWERMENT ZONE PROGRAM

CINCINNATI, OHIO

2003-CH-1009

JANUARY 28, 2003

OFFICE OF AUDIT, REGION V CHICAGO, ILLINOIS



Issue Date January 28, 2003	
Audit Case Number	
2003-CH-1009	

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

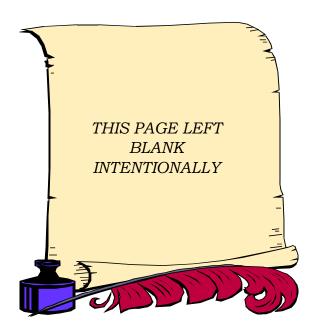
FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: City of Cincinnati Empowerment Zone Program Cincinnati, Ohio

We completed an audit of the City of Cincinnati'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 City: (1) efficiently and effectively used Empowerment Zone funds; and (2) accurately reported the accomplishments of its 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 City of Cincinnati's Empowerment Zone Program. The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds; and (2) accurately reported the accomplishments of its 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 the City needs to improve its oversight of Empowerment Zone funds and more accurately report its Empowerment Zone Program accomplishments to HUD. Specifically, the City inappropriately used \$15,364 of Zone funds and lacked documentation to show that another \$311,346 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required. We also found that the City used Empowerment Zone monies to fund three projects that have not provided benefits to Empowerment Zone residents or benefited only 37 percent of Zone residents as of October 2002. The three projects were completed between August 2001 and November 2002.

Controls Over Empowerment Zone Funds Need To Be Improved

The City Inaccurately Reported The Accomplishments Of Its Zone Projects

As previously mentioned, the City of Cincinnati needs to improve its oversight of Empowerment Zone funds. Four of the 10 projects we reviewed incurred inappropriate or unsupported expenditures of Zone funds. The Citv inappropriately used \$15,364 of Zone funds and lacked documentation to show that another \$311,346 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, lacked effective oversight and controls to assure Zone funds were used appropriately.

The City inaccurately reported the actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports. The City's June 2001 Report contained inaccuracies related to two projects' progress on projected outputs, three projects' milestones, and one project's source of funding. The City's June 2002 Report inaccurately showed seven projects' progress on projected outputs, seven projects' milestones, and five Page iii 2003-CH-1009

The City Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Only 37 Percent Of Zone Residents

Recommendations

projects' sources of funding. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, failed to maintain adequate controls over the Annual Reports submitted to HUD.

The City used \$594,462 of the \$648,030 in Empowerment Zone monies committed to fund three projects that have not benefited Empowerment Zone residents or benefited only 37 percent of Zone residents as of October 2002. The three projects were completed between August 2001 and November 2002. Since the three projects spent 92 percent of their funds committed, benefits to Empowerment Zone residents would be expected. However, this has not occurred.

The Cincinnati problem occurred because the Empowerment Corporation, the administering entity of the City's 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 three 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 City's use of Zone funds was appropriate.

We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the City of Cincinnati reimburses its 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 Chief Executive Officer of the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, and HUD's staff during the audit. We held an exit conference with the Chief Executive Officer on December 20, 2002. The Cincinnati Empowerment Corporation disagreed that Empowerment Zone funds were inappropriately used, that the City inaccurately reported the actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports, and that the City needs to implement procedures and controls to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents.

We included paraphrased excerpts of the Cincinnati Empowerment Corporation'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 four exhibits, attachments in three binders, a financial insert, 10 binders, and a portion of an e-mail that were not necessary for understanding the comments. A Cincinnati complete copy of the Empowerment Corporation's comments with the four exhibits, the attachments in three binders, the financial insert, the 10 binders and a portion of the e-mail were provided to HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative.

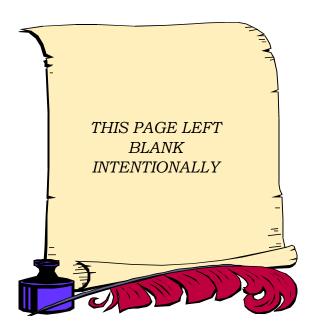


Table Of Contents

Management Memorandum	i
Executive Summary	iii
Introduction	1
Findings	
 Controls Over Empowerment Zone Funds Need To Be Improved 	3
2. The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Projects	19
 The City Provided Zone Funds To Projects That Have N Benefited Zone Residents Or Benefited Only 37 Percent Of Zone Residents 	
Management Controls	33
Follow Up On Prior Audits	35
Appendices	
A. Schedule Of Questioned Costs	37
B. Projects Reviewed	39
Page vii	2003-CH-1009

C. Auditee Comments	83
D. Distribution	139

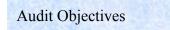
Introduction

The City of Cincinnati was 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 City of Cincinnati drew down and spent \$2,768,148 in Empowerment Zone funds.

The City of Cincinnati is a municipal corporation that is governed by a mayor and a city council. The City's fiscal year is January 1 through December 31. The Cincinnati Empowerment Corporation is a nonprofit organization established to administer the City's Empowerment Zone Program.

The Mayor of the City of Cincinnati is the Honorable Charlie Luken. The Chief Executive Officer of the Cincinnati Empowerment Corporation is Harold L. Cleveland II. The Corporation's books and records for the Empowerment Zone Program are located at 3030 Vernon Place, Cincinnati, Ohio.



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

We performed our on-site work between July and November 2002. To determine whether the City efficiently and effectively used Empowerment Zone funds and accurately reported the accomplishments of its Empowerment Zone Program, we interviewed staff from: HUD; the City; the Cincinnati Empowerment Corporation; and administering entities of the City's Zone projects. Page 1 2003-CH-1009 Based upon the projects' reported expenditures as of April 30, 2002, we selected 10 of the City's 28 projects reported in its June 30, 2001 or June 30, 2002 Annual Reports. The following table shows the 10 projects reviewed.

	Project
1.	Enhanced School Health
2.	Arts for All
3.	Youth Capacity and Resource
	Building/Coalition Freedom School
4.	Walnut
5.	Nu-Blend Paints, Inc.
6.	Liberty Street Learning Center
7.	People Working Cooperatively
8.	Nanny's Multi-Level Learning Center
9.	A.D.A. Investment Group, Inc.
10.	Big Dollar, LLC

To evaluate the City's Empowerment Zone Program, we reviewed files and records maintained by: the City; HUD; the Cincinnati Empowerment Corporation; 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 City's June 2001 and June 2002 Annual Reports; the Corporation's 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 period 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 Mayor of the City of Cincinnati and copies to the Chief Executive Officer of the Cincinnati Empowerment Corporation.

Controls Over Empowerment Zone Funds Need To Be Improved

The City of Cincinnati needs to improve its oversight of Empowerment Zone funds. Four of the 10 projects we reviewed incurred inappropriate or unsupported expenditures of Zone funds. The City inappropriately used \$15,364 of Zone funds and lacked documentation to show that another \$311,346 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required. As of August 2002, the City spent \$1,958,981 of Zone funds on the 10 projects. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, lacked effective oversight and controls to assure Zone funds were used appropriately. As a result, Empowerment Zone funds were not used effectively.

Federal Requirements

Article I, Section D, of the Grant Agreement for the City of Cincinnati's Empowerment Zone Program requires the City to comply with Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Office of Management and Budget Circular A-87, Attachment A, requires principles to be established to assure that Federal awards bear their fair share of costs. Attachment A, paragraph C(1)(j), of the Circular states to be allowable under Federal awards, costs must be adequately documented. Paragraph C(3)(a) of the Circular's Attachment A states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Office of Management and Budget Circular A-87, Attachment B (11)(h)(4) requires that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Attachment B, paragraph 34, of the Circular states costs of preparing proposals for potential Federal awards should be allocated to all activities of the governmental unit utilizing the cost allocation plan and indirect cost rate proposal.

Office of Management and Budget Circular A-87, Attachment C, paragraph A(1), states governments need a

Corporation's Contracts With Administering Entities Of Zone Projects

Oversight Of Zone Funds Was Not Adequate process whereby costs can be assigned to benefited activities on a reasonable and consistent basis.

Section 3 of the June 26, 2000 Agreement, between the Cincinnati Empowerment Corporation and the City of Cincinnati's Board of Health, for the Enhanced School Health project states the term of the Agreement starts on June 22, 2000 and continues until June 21, 2001. Section 16 of the Agreement states an amendment of any provision of this Agreement shall be valid only if in writing, duly executed by both parties, and attached to this Agreement.

Exhibit G, Section H(II), of the June 26, 2000 Agreement, between the Cincinnati Empowerment Corporation and the City of Cincinnati's Public Recreation Commission, for the Arts for All project requires the Commission to match the Empowerment Zone funds awarded for the project with \$250,000 of in-kind services per year.

Section 5(e) of the Agreements, between the Cincinnati Empowerment Corporation and the Empowerment Zone projects' administering entities, states the administering entities will be expected to make good faith efforts to achieve the target of 50 percent of the jobs created will be filled by residents of the Empowerment Zone. Section 6(c) of the Agreements requires Empowerment Zone funds to be used in accordance with Office of Management and Budget Circular A-87.

The City did not maintain adequate oversight for four of its 10 projects we reviewed. Specifically, the projects' administering entities used \$15,364 of Empowerment Zone funds that did not benefit the City's Zone Program. The City and the projects' administering entities lacked sufficient documentation to support that another \$311,346 of Zone funds paid benefited the City's Zone Program or were matched with in-kind services as required. The following table shows the amount of inappropriate and unsupported Zone funds for the five projects and the page number where a detailed summary of each project is located in this report.

Project	Empowerment Zone Funds Spent as of August 2002	Inappropriate Expense	Unsupported Expense	Page Number
Enhanced School Health	\$241,889	\$ 4,986	\$ 0	40
Youth Capacity and Resource Building/Coalition Freedom School	133,377	9,186	44,527	51
Walnut	493,219	0	71,097	58
Arts for All	221,596	1,192	195,722	46
Totals	<u>\$1,090,081</u>	<u>\$15,364</u>	<u>\$311,346</u>	

Zone Funds Were Inappropriately Used The City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project, used \$4,986 in Empowerment Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program. Specifically, the Board of Health used Empowerment Zone funds to pay all of the salary and benefits for its Administrative Technician between September 4, 2000 and June 21, 2001. However, the Administrative Technician said she spent only 85 percent of her time working on the project.

The Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project, used \$9,186 of Empowerment Zone funds to pay expenses that did not benefit the City's Zone Program. Specifically, the Collaborative paid expenses related to office supplies, field trips, payroll, and staff training. However, these expenses were not permitted according to the Collaborative's June 21, 2001 agreement with the Cincinnati Empowerment Corporation.

The City of Cincinnati's Public Recreation Commission, the administering entity for the Arts for All project, inappropriately used \$1,192 of Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program. The Commission used Zone funds to pay 50 percent of its Special Program Coordinator's salary between July 24, 2000 and September 29, 2001. The Coordinator said he spent 90 percent of his time working on the project and 10 percent of his time working on the Lincoln Recreation Center, a non-Zone project. The Commission's June 26, 2000 agreement required that Zone funds would only pay half of the Coordinator's salary related to the project. Therefore, the Commission improperly allocated five percent or \$1,192 of Zone funds for the Coordinator's salary.

The City Lacked Sufficient Documentation To Support The Use Of Zone Funds Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project, used \$44,527 of Empowerment Zone funds to pay expenditures without sufficient supporting documentation. The expenditures included: payroll related expenses for its employees; consulting and accounting services; and evaluation services. However, the Collaborative lacked sufficient documentation to show the expenditures benefited the City's Zone Program.

The Inner City Health Care, Inc. lacked sufficient documentation to support \$71,097 of Empowerment Zone funds used to pay expenses for the Walnut project benefited the City's Zone Program. The expenses included: indirect costs; a consultant's reviews of requests for proposal; and client services.

The City of Cincinnati's Public Recreation Commission, the administering entity of the Arts for All project, lacked adequate documentation to support \$195,722 of Zone funds used for the project were matched with in-kind contributions as required. The Commission's June 26, 2000 contract for the project required it to match the Empowerment Zone funds with \$250,000 of in-kind services. However, the Commission lacked sufficient documentation to support that Zone funds were matched with in-kind services.

The previously cited problems occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, lacked effective oversight and controls to assure Zone funds were used appropriately. As a result, Empowerment Zone funds were not used efficiently and effectively.

Auditee Comments	[Excerpts paraphrased from the comments provided by the
	Chief Executive Officer of the Cincinnati Empowerment
	Corporation on our draft audit report follow. Appendix C,
	pages 83, 84, 92 to 106 and 136, contains the complete text
	of the comments for this finding.]

The Cincinnati Empowerment Corporation is disappointed with the Office of Inspector General's conduct during the audit. The Office of Inspector General assured the Corporation that it would constantly communicate with the Corporation regarding issues, concerns, and requested documents. The Office of Inspector General did not effectively communicate issues, concerns, and requests for documentation.

The City of Cincinnati has continuously maintained sufficient oversight of its Empowerment Zone funds, resulting in the efficient and effective use of the funds. The Office of Inspector General's conclusion that the City inappropriately used \$44,651 of Zone funds and lacked documentation to show that another \$367,548 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required is both premature and incorrect.

The City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project, used the \$26,287 of Empowerment Zone funds within the term of its agreement with the Cincinnati Empowerment Corporation. The Corporation entered into an amendment for the project that extended the term from June 21, 2001 to August 31, 2001. The signed amendment was obtained and is on file at the Corporation.

The City's Board of Health appropriately used \$4,986 of Empowerment Zone funds to pay wages and benefits for its Administrative Technician through the Enhanced School Health project. The Administrative Technician is employed full time by the project.

The Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building-Coalition Freedom School project, appropriately used \$9,186 of Empowerment Zone funds to pay expenses for sites not explicitly included in the agreement between the Cincinnati Empowerment Corporation and the Collaborative. Legal counsel for the Corporation deemed that expenses for these sites are in compliance with the agreement and benefited Empowerment Zone residents. The Corporation's administration and staff approved the sites' inclusion in the program. Inner City Health Care, Inc., the administering entity for the Walnut project, appropriately used \$3,000 of Empowerment Zone funds for a consultant fee for multiple services. Only two percent, or \$60, was for the preparation of a funding proposal.

The City of Cincinnati's Public Recreation Commission, the administering entity for the Arts for All project, appropriately used \$1,192 of Zone funds to pay the salary of its Special Program Coordinator. The Coordinator's supervisor submitted a written affidavit stating that the Special Program Coordinator applied 50 percent of his work time to project activities.

The City's Board of Health appropriately used Empowerment Zone funds for wages and benefits of an employee who was not a Zone resident. The City was within the terms of its agreement with the Corporation to pay a non-Zone resident's wages and benefits with Zone funds.

The Cincinnati Youth Collaborative has documentation to support \$25,451 of Empowerment Zone funds used to pay expenses of the Freedom School project. For each cost in question, the Corporation provided detailed information such as employment contracts, allocation methods, and payroll schedules.

The Collaborative has valid and sufficient documentation on the method of allocation to support \$6,691 of Empowerment Zone funds used for the Freedom School project.

The Collaborative appropriately used Empowerment Zone funds for wages and benefits of employees who were not Zone residents. The Collaborative was within the terms of its agreement with the Corporation to pay non-Zone residents' wages and benefits with Zone funds. The agreement does not require written documentation to evidence a good faith effort was made to hire Zone residents.

Inner City Health Care, Inc. did provide sufficient documentation to support \$68,599 of Empowerment Zone funds for expenses of the Walnut project. For every product or service in question, documentation in the form of cancelled check, invoice, or written verification was obtained.

The City's Public Recreation Commission has documentation to support all \$250,000 of Empowerment Zone funds were matched with in-kind services as required. The document is maintained by the Senior Accountant at the Commission and has been available during the audit.

Nu-Blend Paints, Inc. has sufficient documentation to support \$6,852 of Empowerment Zone funds for expenses of the Nu-Blend Paints, Inc. project. For every product or service paid for by check, an invoice and/or a copy of a cancelled check was available. Items purchased with a credit card were reconciled on a monthly basis and copies of credit card statements with line item detail were available. The Corporation deemed the credit card statement itself as adequate documentation for those expenses.

The Cincinnati-Hamilton County Training and Job Placement Center, the administering entity for the Liberty Street Learning Center project, appropriately used Empowerment Zone funds for wages and benefits of an employee who was not a Zone resident. The Job Placement Center was within the terms of its agreement with the Corporation to pay a non-Zone resident's wages and benefits with Zone funds.

The Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, operates with effective oversight and controls to assure Zone funds were and are used appropriately.

The Corporation refutes this finding and requests the Office of Inspector General remove it from the report.

The Corporation believes the reimbursement of the City of Cincinnati's Empowerment Zone Program is not necessary because all Zone funds questioned in the finding were used appropriately and the Corporation had adequate documentation for unsupported expenses. The Corporation currently has adequate procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively.

The Corporation currently requires the projects' administering entities to maintain documentation to show that Empowerment Zone funds are used in accordance with Empowerment Zone Program requirements.

OIG Evaluation Of Auditee Comments We sent the Cincinnati Empowerment Corporation's Chief Executive Officer a letter on June 14, 2002 requesting general administrative documentation and access to the projects' files. We held an entrance conference with staff from the Corporation on July 1, 2002. We interviewed the Corporation's Chief Executive Officer and Chief Financial Officer on July 3, 2002 and the Chief Financial Officer on July 8, 2002 regarding management controls. We sent an electronic message to the Corporation's Director of Individual and Family Well-Being on July 30, 2002 requesting documentation for the Enhanced School Health project.

> We sent electronic messages to the Corporation's Chief Executive Officer on September 18, 2002 and September 24, 2002 concerning reporting issues with Youth Capacity and Resource Building/Coalition Freedom School and Enhanced School Health projects, respectively. We also sent an electronic message to the Corporation's Chief Financial Officer on September 20, 2002 and September 23, 2002 regarding the project's good faith efforts in hiring Empowerment Zone residents.

> We interviewed the Corporation's Director of Individual and Family Well-Being on September 27, 2002 concerning the City's reporting of the number of Empowerment Zone children that the Enhanced School Health project served. We interviewed the Corporation's Staff Accountant on October 7, 2002 regarding documentation the Corporation accepted to support project expenses.

> We sent an electronic message to the Corporation's Chief Executive Officer on October 15, 2002 regarding the reporting of the Nanny's Multi-Level Learning Center,

A.D.A. Investment Group, Inc., and Big Dollar, LLC projects.

We sent three electronic messages to the Corporation's Chief Executive Officer, Director of Individual and Family Well-Being, and Director of Community and Public Relations on October 16, 2002 in regards to the reporting of the People Working Cooperatively, Nanny's Multi-Level Learning Center, A.D.A. Investment Group, Inc., and/or Big Dollar, LLC projects in the City's 2001 and/or 2002 Annual Reports. We then interviewed the three individuals on October 16, 2002 concerning the four projects. We also interviewed the Corporation's Chief Financial Officer on October 26, 2002 about the reporting of the Nanny's Multi-Level Learning Center, A.D.A. Investment Group, Inc., and Big Dollar, LLC projects in the City's 2001 and 2002 Annual Reports.

We sent electronic messages to the Corporation's Chief Executive Officer on October 23, 2002 and October 31, 2002 to schedule a meeting to discuss issues with the Enhanced School Health, Arts for All, and Youth Capacity and Resource Building/Coalition Freedom School projects. We interviewed the Corporation's Chief Executive Officer, Chief Financial Officer, and Director of Individual and Family Well-Being on November 1, 2002 regarding management controls over Empowerment Zone funds and reporting of accomplishments for the three projects.

We provided the Corporation's Chief Executive Officer finding outlines for the 10 projects we reviewed through two electronic messages dated December 4, 2002.

We interviewed the Corporation's Chief Executive Officer on November 7, 2002 regarding management controls over Zone funds and/or reporting of accomplishments for the Enhanced School Health, Arts for All, Walnut, and Liberty Street Learning Center projects. We also interviewed the Corporation's Chief Financial Officer on November 13, 2002, December 10, 2002, and December 12, 2002 regarding revisions to Implementation Plans, supporting invoices, and allowable supporting documentation. Lastly, we held an exit conference with staff from the Corporation on December 20, 2002. As a result, the Office of Inspector General communicated issues, concerns, and requests for documentation with the Corporation on numerous occasions.

We interviewed the District Nursing Supervisor and Administrative Technician of the City of Cincinnati's Board of Health on July 17, 2002 to obtain background information on the Enhanced School Health project and to provide the objectives of our audit. On July 19,2002 we requested original invoices and cancelled checks from the Board of Health's Administrative Specialist for Nursing Administration in writing. We also interviewed the District Nursing Supervisor on four separate occasions between July 19, 2002 and August 22, 2002 regarding the Enhanced School Health project's nurses, reporting, the coding of time sheets, and/or a good faith effort of hiring Empowerment Zone residents. We interviewed the Administrative Technician on July 23, 2002 about the coding of time sheets. We also sent electronic messages to the Board of Health's Administrative Specialist for Nursing Administration on July 25, 2002 and July 26, 2002 for an invoice and cancelled checks, respectively.

We interviewed the Special Programs Coordinator of the City of Cincinnati's Public Recreation Commission on August 13, 2002 to obtain information on the Arts for All project and to provide the objectives of our audit. We interviewed the Commission's Senior Accountant and Accounting Tech 3 on August 14, 2002 and August 30, 2002 to obtain financial information, discuss in-kind contributions, and the Special Programs Coordinator's time spent working on the project. We interviewed the Coordinator on September 18, 2002 to determine the Coordinator on September 18, 2002 to determine the Commission's use of musical equipment. We interviewed the Senior Accountant on September 19, 2002 regarding in-kind contributions.

We interviewed the Youth Capacity and Resource Building/Coalition Freedom School project's Project Director on August 16, 2002 to obtain information on the project and to provide the objectives of our audit. We interviewed the project's Financial Consultant on August 21, 2002 regarding reimbursement for expenses. We interviewed the Executive Director and former Executive Director of the Cincinnati Youth Collaborative, the administering entity for the project, on August 28, 2002 to obtain information on the project. We interviewed the Project Director on September 25, 2002 and October 7, 2002 concerning project sites and expenses, respectively. We also interviewed the Financial Consultant on October 11, 2002 regarding project expenses.

We interviewed the Executive Director of Inner City Health Care, Inc., the administering entity of the Walnut project, on August 29, 2002 to obtain information on the project and to provide the objectives of the audit. We interviewed the Inner City Health Care, Inc.'s Executive Director and Fiscal Officer/Director of Finance and the Walnut project's Manager on August 29, 2002 regarding the City's reporting of project accomplishments to HUD.

We interviewed Nu-Blend Paints, Inc.'s Executive Director and Office Manager on September 26, 2002 to obtain information on the project and to provide the objectives of the audit. We interviewed Nu-Blend Paints, Inc.'s owner on December 2, 2002 concerning good faith effort in hiring Empowerment Zone residents.

We interviewed Liberty Street Learning Center's Executive Director on October 11, 2002 to obtain information on the project and to provide the objectives of the audit.

We interviewed the Controller for People Working Cooperatively on September 27, 2002 to obtain information on the project and to provide the objectives of the audit. We also interviewed the Controller and former Controller regarding the People Working Cooperatively's contract with the Cincinnati Empowerment Corporation.

We interviewed Nanny's Multi-Level Learning Center's Director on October 30, 2002 to obtain information on the project and to provide the objectives of the audit. We also interviewed an owner of the Center to obtain information on the Center and the City's reporting of accomplishments to HUD on October 31, 2002 and/or November 4, 2002. As a result, HUD's Office of Inspector General communicated issues, concerns, and requests for documentation with the projects' personnel and staff on numerous occasions.

The City of Cincinnati needs to improve its oversight of Empowerment Zone funds. Four of the 10 projects we reviewed incurred inappropriate or unsupported expenditures of Zone funds.

We adjusted our audit report by reducing the amount of inappropriately used Zone funds by \$29,287 and the amount of Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services that the City lacked documentation for by \$56,202. Therefore, the City inappropriately used \$15,364 of Zone funds and lacked documentation to show that another \$311,346 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required.

We adjusted our audit report by removing the City of Cincinnati's Board of Health used \$26,287 of Empowerment Zone funds to pay expenses after its agreement with the Cincinnati Empowerment Corporation expired on June 21, 2001.

The Corporation provided a letter from the District Nursing Supervisor for the City's Board of Health stating that although its Administrative Technician worked on activities that were not exclusive to Empowerment Zone projects, Zone residents were beneficiaries of these activities. The City's Board of Health used \$4,986 of Empowerment Zone funds to pay wages and benefits for its Administrative Technician through the Enhanced School Health project. The payments occurred between September 4, 2000 and June 21, 2001. However, the Administrative Technician said she spent only 85 percent of her time working on the project.

The Cincinnati Empowerment Corporation's June 21, 2001 agreement with the Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building-Coalition Freedom School project, states that with support of the Empowerment Zone, the Collaborative will be able to continue providing services to students residing in Over the Rhine, Mount Auburn, Walnut Hills, the West End, and the overflow of students from the Avondale site. The Cincinnati Youth Collaborative used \$9,186 of Empowerment Zone funds to pay expenses for services to students not included in the agreement. Therefore, the Cincinnati Youth Collaborative used \$9,186 of Empowerment Zone funds to pay expenses that did not benefit the City's Zone Program.

We adjusted our report to include the \$3,000 of Empowerment Zone funds for a consultant to prepare a proposal for funds from the Department of Education as an unsupported expense rather than an ineligible expense.

The City of Cincinnati's Public Recreation Commission, the administering entity for the Arts for All project, inappropriately used \$1,192 of Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program. The Commission used Zone funds to pay 50 percent of its Special Program Coordinator's salary between July 24, 2000 and September 29, 2001. The Coordinator said he spent 90 percent of his time working on the project and 10 percent of his time working on the Lincoln Recreation Center, a non-Zone project. The Commission's June 26, 2000 agreement required that Zone funds would only pay half of the Coordinator's salary Therefore, the Commission related to the project. improperly allocated five percent or \$1,192 of Zone funds for the Coordinator's salary.

The Corporation provided documentation supporting the City's Board of Health advertised in a local newspaper for the hiring of the project's employees. Therefore, we adjusted our audit report by removing the City's Board of Health lacked documentation to support a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Empowerment Corporation.

We adjusted our audit report by removing \$4,892 of Zone funds used in which the Cincinnati Youth Collaborative did not have sufficient supporting documentation. The remaining documentation the Corporation provided was not sufficient to support \$44,527 of Empowerment Zone funds used to pay expenses of the Freedom School project. The expenses included: payroll related expenses to employees; consulting and accounting services; and evaluation services. The Collaborative did not provide documentation to support the method of allocation for expenses of the Youth Capacity and Resource Building-Coalition Freedom School project paid with Empowerment Zone funds.

The Corporation did not provide documentation supporting a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Youth Collaborative.

We adjusted our audit report by reducing the amount of Empowerment Zone funds Inner City Health, Inc. used to pay expenses for the Walnut project by \$502. The remaining documentation the Corporation provided was not sufficient to support \$68,097 of Empowerment Zone funds for expenses of the Walnut project. The costs included the following expenses: indirect costs; a consultant's review of a request for proposal; and client services.

The Corporation provided a schedule of the City of Cincinnati Public Recreation Commission's Operating Expenditures for the matching in-kind services. The Corporation did not provide the supporting documentation for the schedule. Therefore, the Commission lacked adequate documentation to support that \$195,722 of Zone funds used for the project were matched with in-kind contributions as required. The Commission's June 26, 2000 contract for the project required it to match the Empowerment Zone funds with \$250,000 of in-kind However, the Commission lacked sufficient services. documentation to support that Zone funds were matched with in-kind services.

We adjusted our audit report by reducing the amount of Empowerment Zone funds used in which Nu-Blend Paints, Inc. could not provide support for by \$6,852. The Corporation provided documentation to support \$5,713 of the Zone funds used for expenses of the Nu-Blend Paints, Inc. project. The remaining documentation the Corporation provided was not sufficient documentation to support \$1,139 of Empowerment Zone funds for expenses of the Nu-Blend Paints, Inc. Blend Paints, Inc. project. We determined the \$1,139 was not material in relation to the \$239,489 in Zone funds spent for the project as of August 2002.

The Corporation provided documentation supporting the Job Placement Center placed fliers at the Liberty Street Learning Center for the hiring of the project's employees. Therefore, we adjusted our audit report by removing the Cincinnati-Hamilton County Training and Job Placement Center lacked documentation to support a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Empowerment Corporation.

The City of Cincinnati failed to maintain sufficient oversight of its Empowerment Zone funds. Five of the 10 projects we reviewed incurred inappropriate or unsupported expenditures of Zone funds.

The City needs to reimburse its Empowerment Zone Program \$18,364 from non-Federal funds for the inappropriate use of Zone funds cited in this finding

The City needs to provide documentation to support that the projects' administering entities used \$309,485 of Empowerment Zone funds to benefit the City's Empowerment Zone Program. If adequate documentation cannot be provided, then the City should reimburse its Empowerment Zone Program from non-Federal funds for the appropriate amount.

The City needs to implement procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively.

The City needs to require the projects' administering entities to maintain documentation to show that Empowerment Zone funds are used in accordance with Empowerment Zone Program requirements.

Recommendations We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the City of Cincinnati:

1A. Reimburses its Empowerment Zone Program \$15,364 from non-Federal funds for the inappropriate use of Zone funds cited in this finding.

- 1B. Provides documentation to support that the Cincinnati Youth Collaborative (\$44,527), Inner City Health Care, Inc. (\$71,097), and the City of Cincinnati's Public Recreation Commission (\$195,722) used \$311,346 of Empowerment Zone funds to benefit the City's Empowerment Zone Program. If adequate documentation cannot be provided, then the City should reimburse its Empowerment Zone Program from non-Federal funds for the appropriate amount.
- 1C. Implements procedures and controls to ensure that Empowerment Zone funds are used efficiently and effectively.
- 1D. Requires the projects' administering entities to maintain documentation to show that Empowerment Zone funds are used in accordance with Empowerment Zone Program requirements.

The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Projects

The City of Cincinnati inaccurately reported the actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports. The City's June 2001 Report contained inaccuracies related to two projects' progress on projected outputs, three projects' milestones, and one project's source of funding. The City's June 2002 Report inaccurately showed seven projects' progress on projected outputs, seven projects' milestones, and five projects' sources of funding. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, failed to maintain adequate controls over the Annual Reports submitted to HUD. As a result, the City inaccurately reported the accomplishments of its Empowerment Zone Program to HUD.

Federal Requirements

Article IV, Section A, of the Grant Agreement for the City of Cincinnati's Empowerment Zone Program requires the City to submit annual reports to HUD on the progress made against its 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 2 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, milestones, and funding in the Zones' Implementation Plans. Page 12 requires the sources of funds reflect the total projected monies over the life of the project. Page 16 of the Performance Measurement System

guidance states outputs are the results immediately created upon implementation of a project or program.

Page 1 of the Renewal Communities/Empowerment Zones/Enterprise Communities Performance Measurement System User Guide issued in July 2002, which applies to the June 30, 2002 Annual Reports, 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 create an Implementation Plan for each project undertaken. The Empowerment Zones are required to submit an Annual Report that includes information on their progress for the projected outputs, milestones, and funding in the Zones' Implementation Plans. Page 12 requires the sources of funds should reflect the total projected monies over the life of the project. Page 24 states that outputs are the results immediately created upon implementation of a project or program.

The City inaccurately reported the accomplishments for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports. The City's June 2001 Report contained inaccuracies related to two projects' progress on projected outputs, three projects' milestones, and one project's source of funding. The City's June 2002 Report inaccurately showed seven projects' progress on projected outputs, seven projects' milestones, and five projects' sources of funding. The following table shows the inaccurate reporting by category for the 10 projects and the page number in this report where a detailed summary for each project is located.

The City Inaccurately Reported The Progress Of Zone Projects

Project	Outputs	Milestones	Source(s) of Funds	Page Number
Enhanced School Health	Х	Х		40
Arts for All	Х	Х	Х	46
Youth Capacity and Resource Building/Coalition Freedom School	Х	Х		51
Walnut	Х	Х	Х	58
Nu-Blend Paints, Inc.	Х	Х		63
Liberty Street Learning Center	Х	Х	Х	68
People Working Cooperatively	Х	Х	Х	73
Nanny's Multi-Level Learning Center		Х		76
A.D.A. Investment Group, Inc.	Х	Х	Х	78
Big Dollar, LLC	<u>X</u>	<u>X</u>	Х	80
Totals	<u>9</u>	<u>10</u>	<u>6</u>	

The City Inaccurately Reported Projects' Outputs

The City Inaccurately Reported Projects' Milestones The City inaccurately reported nine projects' outputs. Outputs are the results immediately created upon completion of a project. For example, the City reported in its June 30, 2002 Annual Report that the Walnut project served 384 Empowerment Zone residents and placed 56 Zone residents in jobs. Documentation maintained by Inner City Health Care, Inc., the administering entity for the project, showed that 274 Zone residents were served and 38 Zone residents were placed in jobs as of June 2002.

The City inaccurately reported 10 projects' milestones. Milestones are the major steps taken to implement a project. For example, the City inaccurately reported the actual progress for 11 milestones of the Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report. The following table shows the inaccuracies related to the project's 11 milestones.

Project Milestone	Projected Start Date Reported	Was Projected Start Date Met As of 6/30/01?	Projected End Date Reported	Was Projected End Date Met As of 6/30/01?	Reported Percentage Complete as of 6/30/01	Actual Percentage Complete as of 6/30/01
Begin construction/renovation of						
building converting it from medical			0/10/01		100	0.5
building to a childcare center.			3/13/01	No	100	95
Advertising/promotion of events for						
the grand opening of the new childcare center.	2/2/01	No	4/26/01	No	100	0
Install kitchen equipment, computer	2/2/01	INU	4/20/01	INU	100	0
systems, and cabinetry.	2/12/01	No	3/7/01	No	100	0
Begin enrolling new children.	2/13/01	No	3/13/01	No	100	0
Install fire system, security system,						-
CCTV system and phone system.	2/26/01	No	3/7/01	No	100	0
Installation of children's playground						
equipment.	3/5/01	No	3/13/01	No	100	0
Inspection by the Health						
Department, building inspector, Fire						
Department and child daycare						
licensing.	3/13/01	No	3/20/01	No	100	0
Attain various childcare licenses and					100	0
permits.	3/13/01	No	3/23/01	No	100	0
Opening for infants and toddlers.	3/23/01	No	3/23/01	No	100	0
Move center #1 (Rockdale facility)	2/20/01	N.	4/2/01	N.	100	0
from old location to new location.	3/30/01	No	4/2/01	No	100	0
Move center #2 (Reading Road facility) to new location.	4/7/01	No	4/8/01	No	100	0
facility) to new location.	4/ //01	INO	4/0/01	INO	100	0

The City Incorrectly Reported Projects' Source Of Funding

The City's Administering Entity Of Its Program Did Not Verify Annual Reports Submitted To HUD The City incorrectly reported six projects' sources of funding. Funds are the total projected monies over the life of a project. For example, the City reported in its June 30, 2002 Annual Report that the People Working Cooperatively project received \$938,000 in cash from the project's administering entity. Documentation maintained by the administering entity showed the project received \$1,292,078 in cash contributions as of June 2002.

The inaccurate reporting occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, did not verify: the accuracy of the information included in the City's June 2001 and June 2002 Reports; and the validity of the information maintained by the projects' administering entities. The Corporation's Program Director said the Corporation did not verify the accomplishments provided for three of the 10 projects we reviewed. As a result, the City inaccurately reported the accomplishments of its Empowerment Zone Program to HUD.

Auditee Comments Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 107 to 128 and 137, contains the complete text of the comments for this finding.] The City of Cincinnati, to the best of its ability, accurately reported the status and/or progress of its projects in its June 30, 2001 and June 30, 2002 Annual Reports. The City has operated within HUD and/or City published reporting guidelines, repeatedly explained mitigating circumstances surrounding the purported inaccuracies and/or identified previously existing documentation to substantiate the figures the Office of Inspector General reported. Cincinnati Empowerment Corporation, The the administering entity for the City's Empowerment Zone Program, concurs that the City inaccurately reported the outputs of Empowerment Zone residents served and Zone residents placed in jobs by the Walnut project. The City did not report on milestones for the Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report to HUD. The project was initially entered in the Annual Report for tracking. The Corporation's legal counsel determined the project would be reported through the E-Fund process for loans. The Corporation could not delete the project from the Annual Report. The Corporation concurred that the City incorrectly reported in its 2002 Annual Report that People Working Cooperatively, Inc. provided \$938,000 in cash for the project. The Corporation refutes this finding and requests the Office

> The Corporation currently has adequate procedures and controls to verify the accuracy of information submitted to

of Inspector General remove it from the report.

HUD for the City's Empowerment Zone Program and the actual accomplishments were used to report each project.

The Corporation reinforced its operational functions by adding additional staff and procedures to verify the accuracy of information submitted to HUD for the City's Empowerment Zone Program, a dedicated compliance staff, and installed an automated monitoring and tracking system. These enhancements will further improve the accuracy and verification of the accomplishments of the projects.

OIG Evaluation Of Auditee Comments The City of Cincinnati inaccurately reported the actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports. The City's June 2001 Report contained inaccuracies related to two projects' progress on projected outputs, three projects' milestones, and one project's source of funding. The City's June 2002 Report inaccurately showed seven projects' progress on projected outputs, seven projects' milestones, and five projects' sources of funding.

> The City did report on the milestones for Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report to HUD. The City did not provide documentation for the reporting of the project in the E-Fund. Furthermore, page 2 of The Empowerment Zone and Enterprise Community Initiative Performance Measurement System guidance issued in April 2001 states Empowerment Zones are required to create an Implementation Plan for each project undertaken.

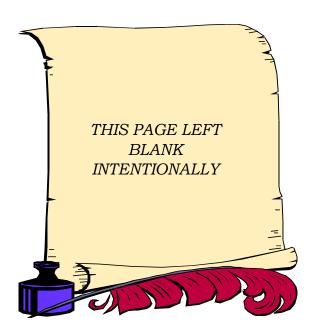
> The City needs to implement procedures and controls to verify the accuracy of information submitted to HUD for the City's Empowerment Zone Program.

> The City needs to ensure that staff responsible for preparing its Annual Report for HUD uses the actual verified accomplishments to report each project.

2003-CH-1009

Recommendations	Comr	recommend that HUD's Director of Renewal nunities/Empowerment Zones/Enterprise Communities tive assure the City of Cincinnati:
	2A.	Implements procedures and controls to verify the accuracy of information submitted to HUD for the City's Empowerment Zone Program.

2B. Ensures that staff responsible for preparing its Annual Report for HUD uses the actual verified accomplishments to report each project.



The City Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Only 37 Percent Of Zone Residents

The City of Cincinnati used \$594,462 of the \$648,030 in Empowerment Zone monies committed to fund three projects that have not provided benefits to Empowerment Zone residents or benefited only 37 percent of Zone residents as of October 2002. The three projects were completed between August 2001 and November 2002. Since the three projects spent 92 percent of their Zone funds committed, benefits to Empowerment Zone residents would be expected. However, this has not occurred. The problem occurred because the Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, did not ensure that its Empowerment Zone contracts required projects to primarily benefit Zone residents. We believe the City's use of Empowerment Zone funds for the three 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 City's use of Zone funds was appropriate.

Federal Requirements

Page 1 of the Memorandum of Agreement, between the City of Cincinnati and HUD, requires the City 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 be structured to primarily benefit Zone residents. The program, services, and activities may also benefit non-Zone residents. Projects Have Not Benefited Zone Residents Or Benefited Only 37 Percent Of Zone Residents The City of Cincinnati provided Empowerment Zone monies to fund three projects that have not provided benefits to Empowerment Zone residents or benefited only 37 percent of Zone residents as of October 2002. The three projects were completed between August 2001 and November 2002. We believe the City's use of Empowerment Zone funds for the three 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.

The following table shows for each of the three projects as of October 2002: the actual start date; the 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	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
Nu-Blend Paints, Inc.	9/11/01	11/10/02	\$258,900	\$239,489	0	0	0
Youth Capacity and Resource Building/Coalition							
Freedom School	6/22/01	8/15/01	\$139,130	\$133,377	0	0	0
Arts for All	6/22/00	9/30/01	<u>\$250,000</u>	<u>\$221,596</u>	187	70	37
Totals			<u>\$648,030</u>	<u>\$594,462</u>			

The Cincinnati Empowerment Corporation executed contracts between June 22, 2000 and September 11, 2001 with the three projects' administering entities. None of the Corporation'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 three 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 City's use of Zone funds for the three projects was appropriate.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 129 to 132 and 138, contains the complete text of the comments for this finding.]

The City of Cincinnati required the projects to primarily serve Empowerment Zone residents.

The City accurately reported in its June 30, 2002 Annual Report for outputs that 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs as a result of the project. Nu-Blend Paints, Inc. employed an individual as evidenced that the individual successfully completed the training.

The Cincinnati Youth Collaborative did maintain adequate documentation to support the 150 Empowerment Zone residents served by the Youth Capacity and Resource Building-Coalition Freedom School project in the City's 2002 Annual Report. The Corporation provided site rosters with student names and addresses.

The City reported the Arts for All project served 15,128 Empowerment Zone residents in its June 30, 2001 Annual Report based on reasonable estimates made by program administrators. The Corporation believes the reported number of residents served is representative based on the project's programs and basic assumptions on participation. These assumptions are that the project must seek multiple encounters with Zone residents to be most effective and the individuals served would be predominately Zone residents. Sign-in sheets were used to track the residents served, but addresses were not requested because of the basic assumption that participation would be from the immediate neighborhood. The Corporation provided documentation to support the project served 208 residents.

The Cincinnati Empowerment Corporation, the administering entity for the City' Empowerment Zone Program, refutes this finding and requests the Office of Inspector General remove it from the report.

The Corporation currently has procedures and controls to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents.

The three projects cited in this finding primarily have met and/or exceeded HUD guidelines for determining whether a project primarily benefits Empowerment Zone residents. HUD should not require the City of Cincinnati to reimburse its Empowerment Zone Program from non-Federal funds.

OIG Evaluation Of Auditee Comments The City of Cincinnati used Empowerment Zone monies to fund three projects that have not provided benefits to Empowerment Zone residents or benefited only 37 percent of Zone residents as of October 2002.

The Cincinnati Empowerment Corporation provided payroll records for Nu-Blend Paints, Inc. employees. The Corporation did not provide any documentation that Nu-Blend Paints trained the individuals. Employment of an individual by Nu-Blend Paints, Inc. does not evidence that an individual successfully completed the training.

The documentation provided by the Corporation was a list of names with addresses. A list of names with addresses is not sufficient documentation to support individuals were served by the project.

Estimates do not provide an accurate representation of a project's accomplishments.

The City reported in its 2001 Annual Report for an output that 15,128 Empowerment Zone residents were served by the project. The Commission only provided sufficient documentation to support that 70 Empowerment Zone residents were served.

The City needs to implement procedures and controls to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents.

Recommendations We recommend that HUD's Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative assure the City of Cincinnati:

3A. Implements procedures and controls to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents.

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

3B. Ensures the three 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 City of Cincinnati to reimburse its 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 City of Cincinnati'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.

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

Significant Weaknesses

• Program Operations

The City inappropriately used and lacked documentation to show that Zone funds benefited its Empowerment Zone Program or were matched with in-kind services as required (see Finding 1).

• Validity and Reliability of Data

The City of Cincinnati inaccurately reported the actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports. The City's June 2001 Report contained inaccuracies related to two projects' progress on projected outputs, three projects' milestones, and one project's source of funding. The City's June 2002 Report inaccurately showed seven projects' progress on projected outputs, seven projects' milestones, and five projects' sources of funding (see Finding 2).

• <u>Compliance with Laws and Regulations</u>

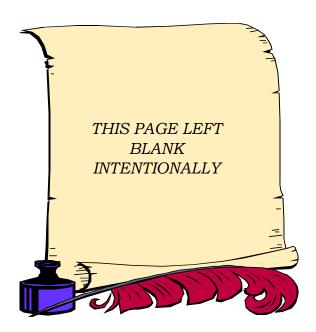
The City failed to follow: Office of Management and Budget Circular A-87 regarding the use of Empowerment Zone funds; and HUD's regulation regarding the reporting of actual status and/or progress for all 10 of the projects we reviewed from its June 30, 2001 or June 30, 2002 Annual Reports (see Findings 1 and 2).

• <u>Safeguarding Resources</u>

The City needs to improve its oversight of Empowerment Zone funds. Four of the 10 projects we reviewed incurred inappropriate or unsupported expenditures of Zone funds. The City inappropriately used \$15,364 of Zone funds and lacked documentation to show that another \$311,346 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required (see Finding 1).

Follow Up On Prior Audits

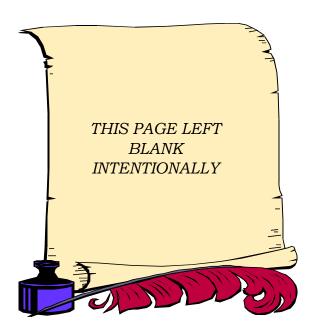
This is the first audit of the City of Cincinnati, Ohio's Empowerment Zone Program by HUD's Office of Inspector General. The latest Independent Auditor's Report for the Cincinnati Empowerment Corporation, the administering entity of the City's Program, covered the period ending September 30, 2001. The latest Independent Auditor's Report for the City of Cincinnati covered the period ending December 31, 2001. The Reports contained no findings.



Schedule Of Questioned Costs

Recommendation	Type of Questioned Costs			
<u>Number</u>	Ineligible 1/	Unsupported 2/		
1A	\$15,364			
1B	<i>412,301</i>	\$311,346		
Total	\$15,364	\$311,346		

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



Projects Reviewed

This appendix contains the individual evaluations for the projects we reviewed. We selected 10 of the City of Cincinnati's 28 projects reported in its June 30, 2001 or June 30, 2002 Annual Reports. We found that the City inappropriately used Empowerment Zone funds for four projects and incorrectly reported the accomplishments of its Program to HUD for all 10 projects. The following table shows all 10 of the projects that had problems, the location of their evaluation in this appendix, and the finding(s) they relate to.

Project		Finding
Enhanced School Health		1 and 2
Arts for All		1 and 2
Youth Capacity and Resource Building/Coalition Freedom Building		1 and 2
Walnut		1 and 2
Nu-Blend Paints, Inc.	63	2
Liberty Street Learning Center		2
People Working Cooperatively		2
Nanny's Multi-Level Learning Center		2
A.D.A. Investment Group		2
Big Dollar, LLC		2

Controls Over Enhanced School Health Project Were Not Adequate

The City's Board of Health, the administering entity for the Enhanced School Health project, inappropriately used \$4,986 of Empowerment Zone funds to pay expenses that did not benefit the City's Zone Program. The City also inaccurately reported the actual progress of the project in its June 30, 2001 Annual Report. The inaccuracies related to outputs and milestones. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure that Zone funds were used appropriately and accurate information was included in the City's June 2001 Annual Report. As a result, Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate representation of the project and the reported benefits of the project are greater than actually achieved.

Inappropriate Wages And Benefits Were Paid Using Zone Funds The Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, executed an agreement with the City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project. The project was to provide health care services with the intent to create a greater opportunity for children's education and decreasing parents' lost time from work. The agreement was effective between June 22, 2000 and June 21, 2001. The City provided \$241,889 in Zone funds for the project.

The Board of Health used \$4,986 of Empowerment Zone funds to pay wages and benefits for its Administrative Technician through the Enhanced School Health project. The payments occurred between September 4, 2000 and June 21, 2001. However, the Administrative Technician said she spent only 85 percent of her time working on the project.

Although the Administrative Technician's timesheets from September 4, 2000 through June 21, 2001 showed that she only worked on the project, the Technician said she spent 15 percent of her time working on tasks not related to the project. The Cincinnati Empowerment Corporation's Chief Executive Officer said that the Technician was not the correct person to determine how much time she spent on the project. He said a higher ranking official from the City's Board of Health involved with the project should provide the information regarding the Administrative Technician's percentage of time spent working on the project.

The City inaccurately reported in its June 30, 2001 Annual Report the actual progress of the Enhanced School Health project. The inaccuracies related to outputs and milestones.

The City reported in its 2001 Annual Report for an output that 1,200 Empowerment Zone children were served by the Enhanced School Health project. The project provided six types of services to Zone children. The Cincinnati Empowerment Corporation's Program Director said she only reviewed one of the six services for the City's June 2001 Annual Report to HUD. The City's Board of Health only provided documentation related to four of the six services. One of the four services was the same service that the Corporation reviewed. Documentation provided by the Board of Health showed that only 927 Zone children were served as of June 2001.

The City inaccurately reported the actual progress for three of the project's milestones in its June 30, 2001 Annual Report. The City reported a projected start date of June 8, 2000 for hiring staff, and purchasing equipment and supplies. Documentation provided by the Board of Health showed that the milestones were not started until after June 30, 2000. Therefore, the City needed to modify the project's projected start dates to reflect the estimated start dates as of June 30, 2000.

The City reported a projected completion date of August 15, 2000 for hiring staff, and purchasing equipment and supplies. Documentation provided by the Board of Health showed that the milestones were not completed until after June 30, 2001. Therefore, the City needed to modify the project's projected completion dates to reflect the estimated end dates as of June 30, 2001. In addition, the City reported that the project had not provided services to any students as of June 30, 2001. The providing of services was not a milestone of the Enhanced School Health project. Therefore, the City needs to remove the milestone from its next Annual Report once HUD approves the change.

The City Inaccurately Reported The Project's Accomplishments The Chief Executive Officer of the Cincinnati Empowerment Corporation stated there are instances when projects are permitted to count encounters separately. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. However, HUD's reporting guidance for the Empowerment Zone Program states Zones are required to submit an Annual Report that includes information on their progress for the projected outputs, milestones, and funding in the Zones' Implementation Plans. Therefore, the City was required to revise the project's projected milestones to allow HUD an accurate impression of the project's anticipated accomplishments.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 84, 85, 92, 93, 97, 98, 107 to 111, 133, and 134, contains the complete text of the comments for this project.]

The City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project, used the \$26,287 of Empowerment Zone funds within the term of its agreement with the Cincinnati Empowerment Corporation. The Corporation entered into an amendment for the project that extended the term from June 21, 2001 to August 31, 2001. The signed amendment was obtained and is on file at the Corporation.

The City's Board of Health appropriately used \$4,986 of Empowerment Zone funds to pay wages and benefits for its Administrative Technician through the Enhanced School Health project. The Administrative Technician is employed full time by the project.

The City's Board of Health appropriately used Empowerment Zone funds for wages and benefits of an employee who was not a Zone resident. The City was within the terms of its agreement with the Corporation to pay a non-Zone resident's wages and benefits with Zone funds. The Corporation correctly reported that 1,200 Empowerment Zone children were served by the Enhanced School Health project. The Corporation reported the number of student encounters rather than the number of children served because more than one service is sometimes required to fulfill the needs of a Zone child.

Page 16 of The Empowerment Zone and Enterprise Community Initiative Performance Measurement System guidance issued in April 2001 states categories have predefined output measurements. The goal/category combination chosen for each Implementation Plan should be that which best describes the project or activity. HUD strongly encourages Empowerment Zones to present their data in the standardized output measurements whenever possible. The Corporation followed these guidelines when it reported the output as the number of children served by the project. The Corporation interpreted the number of children served as the number of student encounters to present the output in a standardized format.

The Office of Inspector General was so restrictive during the audit that any verification methodology other than names and addresses was dismissed. The Corporation obtained an overall percentage of Empowerment Zone students in all four schools and applied that percentage to the total number of encounters documented to obtain a reasonable approximation of the number of Zone student encounters.

The Corporation accurately reported the progress for the project's milestones in its June 30, 2001 Annual Report based on the Corporation's interpretation of milestone reporting guidelines. Projected dates should not be changed once submitted to HUD.

OIG Evaluation Of Auditee Comments We adjusted our audit report by removing the City of Cincinnati's Board of Health used \$26,287 of Empowerment Zone funds to pay expenses after its agreement with the Cincinnati Empowerment Corporation expired on June 21, 2001.

The Corporation provided a letter from the District Nursing Supervisor for the City's Board of Health stating that although its Administrative Technician worked on activities that were not exclusive to Empowerment Zone projects, Zone residents were beneficiaries of these activities. The City's Board of Health used \$4,986 of Empowerment Zone funds to pay wages and benefits for its Administrative Technician through the Enhanced School Health project. The payments occurred between September 4, 2000 and June 21, 2001. However, the Administrative Technician said she spent only 85 percent of her time working on the project.

The Corporation provided documentation supporting the Board of Health advertised in a local newspaper for the hiring of the project's employees. Therefore, we adjusted our audit report by removing the Board of Health lacked documentation to support a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Empowerment Corporation.

The City reported in its 2001 Annual Report for an output that 1,200 Empowerment Zone children were served by the Enhanced School Health project. The project provided six types of services to Zone children. The Cincinnati Empowerment Corporation's Program Director said she only reviewed one of the six services for the City's 2001 Annual Report to HUD. The City's Board of Health only provided documentation related to four of the six services. One of the four services was the same service that the Corporation reviewed. Documentation provided by the Board of Health showed that only 927 Zone children were served as of June 2001.

Page 16 of The Empowerment Zone and Enterprise Community Initiative Performance Measurement System guidance issued in April 2001 states if a project cannot be fully characterized by the predefined output measurements, there is flexibility for the Empowerment Zone to use the dropdown 'other' menu for output measurements. In the event that an Empowerment Zone needs to create an output measurement unique to a particular project, the Zone can type a new output in the provided text field. In most cases, 'other' outputs should be used in addition to, not instead of, the standardized outputs associated with each category. The Corporation did not follow these guidelines when it reported the number of student encounters as the number of children served by the project.

Estimates do not provide an accurate representation of a project's accomplishments.

The City inaccurately reported the actual progress for three of the project's milestones in its June 30, 2001 Annual Report. The City reported a projected start date of June 8, 2000 for hiring staff, and purchasing equipment and supplies. Documentation provided by the Board of Health showed that the milestones were not started until after June 30, 2000. Therefore, the City needed to modify the project's projected start dates to reflect the estimated start dates as of June 30, 2000.

The City reported a projected completion date of August 15, 2000 for hiring staff, and purchasing equipment and supplies. Documentation provided by the Board of Health showed that the milestones were not completed until after June 30, 2001. Therefore, the City needed to modify the project's projected completion dates to reflect the estimated end dates as of June 30, 2001. In addition, the City reported that the project had not provided services to any students as of June 30, 2001. Providing services was not a milestone of the Enhanced School Health project. Therefore, the City needs to remove the milestone from its next Annual Report once HUD approves the change.

Controls Over Arts For All Project Were Not Adequate

The City of Cincinnati did not maintain adequate controls over the Arts for All project. The City of Cincinnati's Public Recreation Commission, the administering entity for the project, inappropriately used \$1,192 of Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program and lacked adequate documentation to support \$195,722 of Zone funds used for the project were matched with in-kind contributions as required. The City also inaccurately reported the actual progress of the project in its June 30, 2001 Annual Report. The inaccuracies related to an output, milestones, and sources of program funds. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure that Zone funds were used appropriately and accurate information was included in the City's June 2001 Annual Report. As a result, Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate representation of the project and the reported benefits of the project are greater than actually achieved.

Inappropriate Wages And Benefits Were Paid Using Zone Funds The Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program, executed a contract on June 26, 2000 with the City's Public Recreation Commission to promote business opportunities for Empowerment Zone artists and to implement a series of cultural/development activities to enhance Zone residents' quality of life.

The City's Public Recreation Commission, the administering entity for the Arts for All project, inappropriately used \$1,192 of Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program. The Commission used Zone funds to pay 50 percent of its Special Program Coordinator's salary between July 24, 2000 and September 29, 2001. The Coordinator said he spent 90 percent of his time working on the project and 10 percent of his time working on the Lincoln Recreation Center, a non-Zone project. The Commission's June 26, 2000 agreement required that Zone funds would only pay half of the Coordinator's salary related to the project. Therefore, the Commission improperly allocated five percent or \$1,192 of Zone funds for the Coordinator's salary. The City's Public Recreation Commission also lacked adequate documentation to support that \$195,722 of Zone funds used for the project were matched with in-kind contributions as required. The Commission's June 26, 2000 contract for the project required it to match the Empowerment Zone funds with \$250,000 of in-kind services. However, the Commission lacked sufficient documentation to support that Zone funds were matched with in-kind services.

The Corporation accepted an October 3, 2001 letter from the City of Cincinnati as support for the \$250,000 of in-kind contribution. The Corporation did not verify whether the City provided the in-kind contributions.

The City inaccurately reported in its June 30, 2001 Annual Report the accomplishments for the Arts for All project. The inaccuracies related to an output, milestones, and sources of program funds.

The City reported in its 2001 Annual Report for an output that 15,128 Empowerment Zone residents were served by the project. Documentation maintained by the City's Public Recreation Commission consisted mostly of lists of names that did not consistently show the addresses of the individuals served to verify whether the individuals were Zone residents. The Commission only provided sufficient documentation to support that 70 Empowerment Zone residents were served.

The City inaccurately reported in its June 30, 2001 Annual Report the actual progress for six of the project's milestones. The City reported a start date of June 6, 2000 for the following milestones: interviewing and hiring of staff (artists); training staff (artists); plan art events including Empowerment Zone Expo; schedule art events including Empowerment Zone Expo; and develop lesson plans. The City also reported the milestone of purchase materials and supplies started on June 15, 2000. However, documentation provided by the Commission showed that the milestones were not started until after June 30, 2000. Therefore, the Corporation needed to modify the project's milestones to reflect the estimated start dates as of June 30, 2000.

The City Inaccurately Reported The Project's Accomplishments The City reported in its June 30, 2001 Annual Report that the Commission's in-kind contributions for the project consisted of \$250,000. However, the Commission lacked adequate documentation for \$195,722 of the \$250,000 of the in-kind contributions for the project.

The Cincinnati Empowerment Corporation's Program Director said they did not verify the project's accomplishments provided by the Commission. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. The Corporation's Chief Financial Officer said that he trusted the City to abide by their agreement with the Corporation. As a result, Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate representation of the project and the reported benefits of the project are greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 84, 85, 92, 99, 100, 107, 108, 112 to 114, 129 to 134, contains the complete text of the comments for this project.]

The City of Cincinnati's Public Recreation Commission, the administering entity for the Arts for All project, appropriately used \$1,192 of Zone funds to pay the salary of its Special Program Coordinator. The Commission's Supervising Accountant submitted a written affidavit stating that the Special Program Coordinator applied 50 percent of his work time to project activities.

The City's Public Recreation Commission has documentation to support all \$250,000 of Empowerment Zone funds were matched with in-kind services as required. The document is maintained by the Senior Accountant at the Commission and has been available during the audit.

The Corporation reported the Arts for All project served 15,128 Empowerment Zone residents in its June 30, 2001 Annual Report based on reasonable estimates made by

The Corporation believes the program administrators. reported number of residents served is representative based on the project's programs and basic assumptions on participation. These assumptions are that the project must seek multiple encounters with Zone residents to be most the individuals served effective and would be predominately Zone residents. Sign-in sheets were used to track the residents served, but addresses were not requested because of the basic assumption that participation would be from the immediate neighborhood. The Corporation provided documentation to support the project served 208 residents.

The City accurately reported the progress for the Arts for All project's milestones in its June 30, 2001 Annual Report based on the Corporation's interpretation of milestone reporting guidelines. Projected dates should not be changed once submitted to HUD.

OIG Evaluation Of Auditee Comments

The City's Public Recreation Commission, the administering entity for the Arts for All project, inappropriately used \$1,192 of Zone funds to pay expenses that did not benefit the City's Empowerment Zone Program. The Commission used Zone funds to pay 50 percent of its Special Program Coordinator's salary between July 24, 2000 and September 29, 2001. The Coordinator said he spent 90 percent of his time working on the project and 10 percent of his time working on the Lincoln Recreation Center, a non-Zone project. Commission's June 26, 2000 agreement required that Zone funds would only pay half of the Coordinator's salary related to the project. Therefore, the Commission improperly allocated five percent or \$1,192 of Zone funds for the Coordinator's salary.

The Corporation provided a schedule of the Commission's Operating Expenditures for the matching in-kind services. The Corporation did not provide the supporting documentation for the schedule. Therefore, the Commission lacked adequate documentation to support that \$195,722 of Zone funds used for the project were matched with in-kind contributions as required. The Commission's June 26, 2000 contract for the project required it to match

the Empowerment Zone funds with \$250,000 of in-kind services. However, the Commission lacked sufficient documentation to support that Zone funds were matched with in-kind services.

Estimates do not provide an accurate representation of a project's accomplishments.

The documentation provided by the Corporation was a list of names with addresses. A list of names with addresses is not sufficient documentation to support individuals were served by the project.

The City reported in its 2001 Annual Report for an output that 15,128 Empowerment Zone residents were served by the project. The Commission only provided sufficient documentation to support that 70 Empowerment Zone residents were served.

The City inaccurately reported in its June 30, 2001 Annual Report the actual progress for six of the project's milestones. The City reported a start date of June 6, 2000 for the following milestones: interviewing and hiring of staff (artists); training staff (artists); plan art events including Empowerment Zone Expo; schedule art events including Empowerment Zone Expo; and develop lesson plans. The City also reported the milestone of purchase materials and supplies started on June 15, 2000. However, documentation provided by the Commission showed that the milestones were not started until after June 30, 2000. Therefore, the Corporation needed to modify the project's milestones to reflect the estimated start dates as of June 30, 2000.

The Corporation provided a schedule of the Commission's Operating Expenditures for the matching in-kind services. The Corporation did not provide the supporting documentation for the schedule. Therefore, the City reported in its June 30, 2001 Annual Report that the Commission's in-kind contributions for the project consisted of \$250,000. However, the Commission lacked adequate documentation for \$195,722 of the \$250,000 of the in-kind contributions for the project.

Controls Over Youth Capacity And Resource Building/Coalition Freedom School Project Were Not Adequate

The City of Cincinnati did not maintain adequate controls over the Youth Capacity and Resource Building/Coalition Freedom School project. The Cincinnati Youth Collaborative, the administering entity for the project, inappropriately used \$9,186 of Empowerment Zone funds and lacked sufficient documentation to support another \$44,527 of Zone funds paid for expenses benefited the City's Zone Program. The City also inaccurately reported the actual progress of the project in its June 30, 2002 Annual Report. The inaccuracies related to an output and milestones. The problems occurred because the Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure that Zone funds were used appropriately and accurate information was included in the City's June 2001 Annual Report. As a result, Zone funds were not used efficiently and effectively. The City 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.

The City Lacked Adequate Controls Over Zone Funds

The Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, executed an agreement on June 21, 2001 with the Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building-Coalition Freedom School project. The purpose of the project was to prevent students from losing reading skills over the summer period between June 22, 2001 and June 21, 2002. The City provided \$133,377 in Zone funds for the project.

The Cincinnati Youth Collaborative used \$9,186 of Empowerment Zone funds to pay expenses that did not benefit the City's Zone Program. Specifically, the Collaborative paid expenses related to office supplies, field trips, payroll, and staff training. However, these expenses were not permitted according to the Collaborative's June 21, 2001 agreement with the Cincinnati Empowerment Corporation.

The Collaborative lacked adequate documentation to support \$31,277 of Empowerment Zone funds used to pay expenses of the Freedom School project. The expenses included the following: consulting services by the

Collaborative's former Executive Director of \$10,798; evaluation of the project for \$10,000; wages and benefits for the Collaborative's Director of \$6,359; and Children Defense Funds for \$4,120. The Corporation accepted copies of checks that were not cashed, duplicate checks, or schedules provided by the Collaborative as supporting The Chief Financial Officer for the documentation. Corporation said he felt that copies of checks not cashed, duplicate checks, and schedules were acceptable documentation to support the expenses. The Officer also said he trusted the Cincinnati Youth Collaborative to abide by their contract with the Corporation.

The Collaborative also lacked adequate documentation on the method of allocation to support \$6,691 of Empowerment Zone funds used for the Freedom School project. The costs included the following expenses: financial consulting of \$3,635; independent public accountant of \$2,200; state unemployment insurance of \$517; payroll of \$237; and payroll bank charges of \$102. The Corporation's Chief Financial Officer said he did not realize there was a problem with the method of allocation used for the expenses of the project.

The Collaborative could not provide documentation to support a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Empowerment Corporation. Twenty-three jobs were the Youth Capacity created by and Resource Building/Coalition Freedom School project. Only nine of the jobs were filled with Zone residents. The Collaborative lacked documentation to support \$6,559 of Zone funds used for employees' wages and benefits benefited Zone residents

The Corporation's Chief Executive Officer stated that the September 5, 2002 letter from HUD's Deputy Assistant Secretary for Economic Development stated the requirement that 51 percent of the beneficiaries of a project must be Empowerment Zone residents cannot be applied retroactively. However, the September 2002 letter refers to HUD's Assistant Secretary for Community Planning and Development's July 2, 2002 memorandum regarding benefits to Zone residents. HUD's letter did not waive the Corporation's contract requirements for the Freedom School project.

The City inaccurately reported in its June 30, 2002 Annual Report the actual progress of the Youth Capacity and Resource Building/Coalition Freedom School project. The inaccuracies related to an output and milestones.

The City reported in its June 2002 Annual Report for an output that 150 Empowerment Zone residents were served by the project. However, the Cincinnati Youth Collaborative could not provide adequate documentation to support that the project served Empowerment Zone residents.

The City and the Collaborative lacked documentation to support the progress reported for one of the project's milestones reported in the City's June 30, 2002 Annual Report. The following table below shows the information reported in the City's June 2002 Annual Report that was unsupported.

			Reported
	Reported		Percentage
	Start	Reported End	Complete as of
Project Milestone	Date	Date	6/30/02
Evaluate students' behavior and			
academics during the school year.	8/1/01	6/1/02	100

In addition, the City failed to report on two milestones contained in the Cincinnati Empowerment Corporation's contract with the Cincinnati Youth Collaborative. The two milestones were arrange for food with the United States Department of Agriculture Summer Food Coordinator, and order books and supplies.

The Corporation could not provide an explanation for the incorrect reporting of the project's output. The Chief Executive Officer said he did not feel that all of the project's milestones listed in the Corporation's contract with the Cincinnati Youth Collaborative should be reported on in the City's Annual Report.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Page 53 2003-CH-1009

The City Inaccurately Reported The Project's Accomplishments Corporation on our draft audit report follow. Appendix C, pages 84, 85, 93, 95, 101 to 103, 107, 108, 115, 116, 129, 130, 133, and 134, contains the complete text of the comments for this project.]

The Cincinnati Youth Collaborative, the administering for the Youth Capacity and Resource entity Building/Coalition Freedom School project, appropriately used \$9,186 of Empowerment Zone funds to pay expenses for sites not explicitly included in the agreement between the Cincinnati Empowerment Corporation and the Collaborative. Legal counsel for the Corporation deemed that expenses for these sites are in compliance with the agreement and benefited Empowerment Zone residents. The Corporation's administration and staff approved the sites' inclusion in the program.

The Cincinnati Youth Collaborative has documentation to support \$25,451 of Empowerment Zone funds used to pay expenses of the Freedom School project. For each cost in question, the Corporation provided detailed information such as employment contracts, allocation methods, and payroll schedules.

The Collaborative has valid and sufficient documentation on the method of allocation to support \$6,691 of Empowerment Zone funds used for the Freedom School project.

The Collaborative appropriately used Empowerment Zone funds for wages and benefits of employees who were not Zone residents. The Collaborative was within the terms of its agreement with the Corporation to pay non-Zone residents' wages and benefits with Zone funds. The agreement does not require written documentation to evidence a good faith effort was made to hire Zone residents.

The Cincinnati Youth Collaborative did maintain adequate documentation to support the 150 Empowerment Zone residents served by the Youth Capacity and Resource Building/Coalition Freedom School project in the City's 2002 Annual Report. The Corporation provided site rosters with student names and addresses. The Corporation accurately reported the progress for the Coalition Freedom School project's milestones in its June 30, 2002 Annual Report based on the Corporation's interpretation of milestone reporting guidelines.

The City did not report on the two milestones of arrange for food with the United States Department of Agriculture Summer Food Coordinator, and order books and supplies. The City deliberately reported on only the major milestones for the project.

The Cincinnati Empowerment Corporation's June 21, 2001 agreement with the Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project, states that with support of the Empowerment Zone, the Collaborative will be able to continue providing services to students residing in Over the Rhine, Mount Auburn, Walnut Hills, the West End, and the overflow of students from the Avondale site. The Cincinnati Youth Collaborative used \$9,186 of Empowerment Zone funds to pay expenses for services to students not included in the agreement. Therefore, the Collaborative Cincinnati Youth used \$9.186 of Empowerment Zone funds to pay expenses that did not benefit the City's Zone Program.

We adjusted our audit report by removing \$4,892 of expenses in wages and benefits for the Collaborative's Director and transportation for \$80. The remaining documentation the Corporation provided was not sufficient to support \$31,277 of Empowerment Zone funds used to pay expenses of the Freedom School project. The expenses included the following: consulting services by the Collaborative's former Executive Director of \$10,798; evaluation of the project for \$10,000; wages and benefits for the Collaborative's Director of \$6,359; and Children Defense Funds for \$4,120.

The Corporation provided an explanation of allocation and a schedule of the expenses for the consulting services by the Collaborative's former Executive Director. The Corporation provided two payment schedules and cancelled checks for the evaluation of the project. The Corporation

OIG Evaluation Of Auditee Comments provided a salary schedule, a payroll journal, and a letter of acceptance of the position for the wages and benefits for the Collaborative's Director. The Corporation provided a schedule of individuals who attended training, an invoice, and a cancelled check for the Child Defense Funds.

The Corporation provided an expense allocation schedule, cancelled checks, invoices, checking account statements, and payroll documentation to support the \$6,691 of Empowerment Zone funds used for the Freedom School project. The Collaborative did not provide documentation to support the method of allocation for expenses of the Freedom School project paid with Empowerment Zone funds.

The Corporation did not provide documentation supporting a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Youth Collaborative. The Corporation provided a position announcement for the Collaborative's Project Direct, which did not mention anything concerning Empowerment Zone residency, a resume, intern duties and responsibilities sheet, interview evaluation sheets, a staff roster, background checks, continuation of employment memorandums, offer of employment letters, employees acknowledgement and acceptance of project policies and procedures, and project code of conduct agreements. Therefore, the Collaborative lacked documentation to support \$6,559 of Zone funds used for employees' wages and benefits benefited Zone residents.

The documentation provided by the Corporation was a list of names with addresses. A list of names with addresses is not sufficient documentation to support individuals were served by the project.

The City reported in its 2002 Annual Report for an output that 150 Empowerment Zone residents were served by the project. However, the Cincinnati Youth Collaborative could not provide adequate documentation to support that the project served Empowerment Zone residents.

The Corporation provided documentation to support the milestone of train site coordinators and interns was

achieved by June 30, 2002. Therefore, we adjusted our audit report by removing the City and the Collaborative lacked documentation to support the progress reported in the City's June 30, 2002 Annual Report for the milestone of train site coordinators and interns.

The City did not provide documentation for the milestone of evaluating students' behavior and academics during the school year. Therefore, the City and the Collaborative lacked documentation to support the progress reported for one of the project's milestones reported in the City's June 30, 2002 Annual Report.

The City failed to report on two milestones contained in the Cincinnati Empowerment Corporation's contract with the Cincinnati Youth Collaborative. The two milestones were arrange for food with the United States Department of Agriculture Summer Food Coordinator, and order books and supplies.

Controls Over Walnut Project Were Not Adequate

The City of Cincinnati did not maintain adequate controls over the Walnut project. Inner City Health Care, Inc., the administering entity for the project, did not have sufficient documentation to support \$71,097 of Zone funds for expenses for the project benefited the City's Zone Program. The City also inaccurately reported the actual progress of the project in its June 30, 2002 Annual Report. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants. The problems occurred because Cincinnati Empowerment Corporation, the administering entity for the City, lacked effective oversight and controls to assure Zone funds were used appropriately and accurate information was included in the June 2002 Annual Report. As a result, HUD does not have assurance Zone funds were used efficiently and effectively. The City 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.

The City Lacked Adequate Controls Over Zone Funds

The City of Cincinnati lacked adequate oversight of the Walnut project. Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, executed a contract on July 30, 2001 with Inner City Health Care, Inc., the administering entity for the Walnut project, to assist Zone residents overcome the barriers faced in sustaining employment. The City provided \$493,219 in Zone funds for the project.

The Corporation and Inner City Health Care, Inc. could not provide sufficient documentation to support \$71,097 of Empowerment Zone funds for expenses of the Walnut project. The \$71,097 was not supported by invoices and cancelled checks. The costs included the following expenses: indirect costs of \$64,333; a consultant's review of a request for proposal for \$6,000; and client services for \$764. The client services included \$425 for the reinstatement of a driver's license, \$260 for housing rent, and \$79 for a phone bill.

Cincinnati Empowerment Corporation did not require Inner City Health Care, Inc. to provide invoices for the expenses. The Corporation accepted copies of un-cashed checks or cost estimates as support for the \$71,097 of Inner City Health Care, Inc.'s Empowerment Zone costs. The Chief Financial Officer for the Corporation said that he felt the copies of uncashed checks and cost estimates were acceptable documentation to support the expenses. The Officer also said he trusted Inner City Health Care, Inc. to abide by their contract with the Corporation. As a result, HUD does not have assurance Empowerment Zone funds were used efficiently and effectively.

The City inaccurately reported in its June 30, 2002 Annual Report the actual progress of the project. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants. Furthermore, the City failed to report on three of the project's milestones.

The City reported in its 2002 Annual Report for outputs that 384 Empowerment Zone residents were served and 56 Zone residents were placed in jobs as a result of the project. Documentation maintained by Inner City Health Care, Inc. showed that 274 Zone residents were served and 38 Zone residents were placed in jobs.

The City inaccurately reported the actual progress for two of the Walnut project's milestones in its June 30, 2002 Annual Report. The City reported end dates of July 31, 2001 and October 15, 2001 for designing a database management system and developing health and social program strategies, respectively. The milestones were not met as of June 30, 2002. Therefore, the City needed to modify the date to reflect the estimated completion date as of June 30, 2002.

In addition, the City failed to report on the following three milestones contained in Cincinnati Empowerment Corporation's contract with the Inner City Health Care, Inc.: develop and post workforce developer job positions; develop health/social system relationships; and develop case manager and recruiters job positions.

The City reported in its 2002 Annual Report the Walnut project received \$72,000 of in-kind contributions in sources of program funds from non-Empowerment Zone grants. The Corporation and Inner City Health Care, Inc. did not have documentation to support Cincinnati Collective Learning Center and Inner City Health Care, Inc. provided \$26,000 and \$46,000 of in-kind contributions as of June 30, 2002, respectively.

The City Inaccurately Reported Project's Accomplishments The Corporation could not provide an explanation for the incorrect reporting of the output. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. If a date for a milestone was not achieved by June 30, 2002, the City should have modified the date for the milestone to accurately reflect the projected completion date. The Officer also said that he did not feel that all of the project milestones listed in the Corporation's contract with Inner City Health Care, Inc. should be reported on in the Annual Report. As a result, the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 85, 92, 104, 107, 108, 117, 118, 133, and 134, contains the complete text of the comments for this project.]

Inner City Health Care, Inc., the administering entity for the Walnut project, appropriately used \$3,000 of Empowerment Zone funds for a consultant fee for multiple services. Only two percent, or \$60, was for the preparation of a funding proposal.

Inner City Health Care, Inc. did provide sufficient documentation to support \$68,599 of Empowerment Zone funds for expenses of the Walnut project. For every product or service in question, documentation in the form of cancelled check, invoice, or written verification was obtained.

The Corporation concurs that the City inaccurately reported the outputs of Empowerment Zone residents served and Zone residents placed in jobs by the Walnut project.

The Corporation accurately reported the progress for the Coalition Freedom School project's milestones in its June 30, 2002 Annual Report based on the Corporation's interpretation of milestone reporting guidelines. Projected dates should not be changed once submitted to HUD.

The City did not report on the following three milestones contained in Cincinnati Empowerment Corporation's contract with the Inner City Health Care, Inc.: develop and post workforce developer job positions; develop health/social system relationships; and develop case manager and recruiters job positions. The City deliberately reported on only the major milestones for the project.

Inner City Health Care, Inc. has documentation to support the Walnut project received \$72,000 of in-kind contributions in sources of program funds from non-Empowerment Zone grants.

OIG Evaluation Of Auditee Comments

We adjusted our report to include the \$3,000 of Empowerment Zone funds for a consultant to prepare a proposal for funds from the Department of Education as an unsupported expense rather than an ineligible expense.

We adjusted our audit report by reducing \$377 of client services questioned and removing utilities of \$75 and a health fair for \$50. The remaining documentation the Corporation provided was not sufficient documentation to support \$71,097 of Empowerment Zone funds for expenses of the Walnut project. The costs included the following expenses: indirect costs of \$64,333; a consultant's reviews of requests for proposal for \$6,000; and client services for \$764. The client services included \$425 for the reinstatement of a driver's license, \$260 for housing rent, and \$79 for a phone bill.

The Corporation provided a memorandum from its Chief Financial Officer stating that the Corporation informed the projects' administering entities that the norm for indirect costs is 12 to 15 percent of total administration costs and that Inner City Health Care, Inc. used this range as a guideline to allocate its indirect costs using 15 percent of its administrative costs. The corporation also provided a partial schedule for administration costs, explanations of financial report, a schedule of costs from contract services and a debt distribution report. The schedules and report were not supported with documentation. The Corporation provided two invoices for the consultant's reviews of requests for proposal and a memorandum from the consultant. The invoices were for multiple activities and did not detail the amount of time the consultant spent on the reviews of requests for proposal. The Corporation provided for the client services a referral form and cancelled checks.

The City inaccurately reported the actual progress for two of the Walnut project's milestones in its June 30, 2002 Annual Report. The City reported an end date of July 31, 2001 and October 15, 2001 for designing a database management system and developing health and social program strategies, respectively. The milestones were not met as of June 30, 2002. Therefore, the City needed to modify the date to reflect the estimated completion date as of June 30, 2002.

The City failed to report on the following three milestones contained in Cincinnati Empowerment Corporation's contract with the Inner City Health Care, Inc.: develop and post workforce developer job positions; develop health/social system relationships; and develop case manager and recruiters job positions.

The Corporation provided a schedule of the Walnut project's sources of program funds. The Corporation did not provide the supporting documentation for the schedule. Therefore, the City reported in its 2002 Annual Report the Walnut project received \$72,000 of in-kind contributions in sources of program funds from non-Empowerment Zone grants. The Corporation and Inner City Health Care, Inc. did not have documentation to support Cincinnati Collective Learning Center and Inner City Health Care, Inc. provided \$26,000 and \$46,000 of in-kind contributions as of June 30, 2002, respectively.

Accomplishments Of Nu-Blend Paints, Inc. Project Were Not Accurately Reported

The City of Cincinnati inaccurately reported the actual progress of the Nu-Blend Paints, Inc. project in its June 30, 2002 Annual Report. The inaccuracies related to outputs and milestones. Furthermore, the City failed to report on nine of the project's milestones. The problems occurred because Cincinnati Empowerment Corporation, the administering entity for the City, lacked effective oversight and controls to assure accurate information was included in the June 2002 Annual Report. As a result, the City 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 City Inaccurately Reported Project's Accomplishments The City inaccurately reported in its June 30, 2002 Annual Report the actual progress of the project. The inaccuracies related to outputs and milestones. Furthermore, the City failed to report on nine of the project's milestones.

The City reported in its 2002 Annual Report for outputs that 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs as a result of the project. Cincinnati Empowerment Corporation and Nu-Blend Paints, Inc. did not have sufficient documentation to support the number of Empowerment Zone residents trained and the number of Zone resident trainees placed in jobs.

The City inaccurately reported the actual progress for four of the Nu-Blend Paints, Inc. project's milestones in its June 30, 2002 Annual Report. The table below contains the inaccuracies the City reported for the four milestones.

Project Milestone	Projected Start Date Reported	Was Projected Start Date Met As of 6/30/02	Projected End Date Reported	Was Projected End Date Met As of 6/30/02	Reported Percentage Complete as of 6/30/02	Actual Percentage Complete as of 6/30/02
Target sales gallons for						
month of March 2002						
(1,200).					75	100
Develop testing lab for						
improved quality.			3/12/02	No		
Add two, 1,200 gallon						
blending tanks.	7/11/02	NA	8/11/02	NA		
Hire temporary labor and						
temporary workforce of at						
least 6 Zone residents for						
transition expansion.			2/9/02	No	100	83

NA – Not Applicable. The 1,200 gallon blending tanks were not needed. Therefore, the City should have reported that the milestone was not applicable.

The City also did not have documentation to support the milestone of implement paint training program classes 101, 201, 301, and 401.

In addition, the City failed to report on the following nine milestones contained in the Corporation's contract with Nu-Blend Paints, Inc.: temporary labor to expand; add new blending motors/mixers; Empowerment Zone residential discount of 25 percent; Empowerment Zone business location discount of 25 percent; install employee benefits package; install fax machine; install land line telephone system; target sales of 1,000 gallons for October 2001; and add Vorti-Sieve vibratory filter.

The Corporation could not provide an explanation for the incorrect reporting of the output. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. If a date for a milestone was not achieved by June 30, 2002, the City should have modified the date for the milestone to accurately reflect the projected completion date. The Officer also said that he did not feel that all of the project milestones listed in their contract with Nu-Blend Paints, Inc. should be reported on in the Annual Report. As a result, the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of

the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 85, 92, 105, 107, 108, 119, 120, 129, 130, 133, and 134, contains the complete text of the comments for this project.]

Nu-Blend Paints, Inc. has sufficient documentation to support \$6,852 of Empowerment Zone funds for expenses of the Nu-Blend Paints, Inc. project. For every product or service paid for by check, an invoice and/or a copy of a cancelled check was available. Items purchased with a credit card were reconciled on a monthly basis and copies of credit card statements with line item detail were available. The Corporation deemed the credit card statement itself as adequate documentation for those expenses.

The City accurately reported in its June 30, 2002 Annual Report for outputs that 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs as a result of the project. An individual was employed by Nu-Blend Paints, Inc. is evidenced that the individual successfully completed the training.

The Corporation accurately reported the progress for the Nu-Blend Paints, Inc. project's milestones in its June 30, 2002 Annual Report based on the Corporation's interpretation of milestone reporting guidelines. Projected dates should not be changed once submitted to HUD.

The City did not report on the following nine milestones contained in Cincinnati Empowerment Corporation's contract with the Nu-Blend Paints, Inc.: temporary labor to expand; add new blending motors/mixers; Empowerment Zone residential discount of 25 percent; Empowerment Zone business location discount of 25 percent; install employee benefits package; install fax machine; install land line telephone system; target sales of 1,000 gallons for October 2001; and add Vorti-Sieve vibratory filter. The City deliberately reported on only the major milestones for the project.

OIG Evaluation Of Auditee Comments

We adjusted our audit report by reducing equipment for \$2,462, advertising for \$2,283, automobile of \$767, professional fees of \$530, dues and subscription fees for \$200, insurance of \$200, and miscellaneous costs of \$125. The Corporation provided documentation to support equipment for \$2,250, advertising for \$2,126, automobile of \$538, professional fees of \$530, dues and subscription fees for \$150 and insurance of \$200. The remaining documentation the Cincinnati Empowerment Corporation provided was not sufficient to support \$1,139 of Empowerment Zone funds for expenses of the Nu-Blend Paints, Inc. project. The costs included the following expenses: contract labor for \$285; advertising for \$238; automobile of \$229; equipment for \$212; dues and subscription fees for \$50: and miscellaneous costs of \$125. We determined the \$1,139 was not material in relation to the \$239,489 in Zone funds spent for the project as of August 2002.

The Corporation provided a hand written note on a blank piece of paper and a cancelled check for \$81 of the advertising expenses. The Corporation provided an invoice for the remaining \$157 of advertising expenses. The Corporation only provided credit card statements without a detail of the purchases for the automobile and equipment The Corporation provided an invoice and a expenses. duplicate check for \$225 of the contract labor expenses. The remaining \$60 was supported with a cancelled check and a memorandum from Nu-Blend Paints, Inc. certifying that the contractor completed the machine installation. The Corporation provided a cancelled check for the entire \$200, but only provided an invoice for \$150 for the dues and subscription fees. For \$25 of the miscellaneous expenses, Corporation provided cancelled check. the а а memorandum from Nu-Blend Paints, Inc. certifying cement was purchased by an individual, and time sheets for that individual. Another \$34 was supported with a cancelled check. The Corporation provided credit card statements without detail of the purchases for the remaining \$66 of miscellaneous expenses.

The Corporation provided payroll records for Nu-Blend Paints, Inc. employees. The Corporation did not provide any documentation that Nu-Blend Paints trained these individuals. Employment of an individual by Nu-Blend Paints, Inc. is not evidence that an individual has successfully completed training.

The Corporation did not provide documentation for the milestone of target sales gallons for month of March 2002. For milestones not met as of June 30, 2002, the City needed to modify the date to reflect the estimated completion date as of June 30, 2002. The Corporation provided July 2002 cancelled checks for contract labor as support for the milestone of hiring temporary labor and temporary workforce of at least six Zone residents for transition expansion. The documentation did not support Nu-Blend Paints, Inc. was 100 percent complete with the milestone as of June 30, 2002. The City inaccurately reported the actual progress for four of the Nu-Blend Paints, Inc. project's milestones in its June 30, 2002 Annual Report.

The City failed to report on the following nine milestones contained in the Corporation's contract with Nu-Blend Paints, Inc.: temporary labor to expand; add new blending motors/mixers; Empowerment Zone residential discount of 25 percent; Empowerment Zone business location discount of 25 percent; install employee benefits package; install fax machine; install land line telephone system; target sales of 1,000 gallons for October 2001; and add Vorti-Sieve vibratory filter.

Accomplishments Of Liberty Street Learning Center Project Were Inaccurately Reported

The City of Cincinnati inaccurately reported the actual progress of the Liberty Street Learning Center project in its June 30, 2002 Annual Report. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants. The problems occurred because Cincinnati Empowerment Corporation, the administering entity for the City, lacked effective oversight and controls to assure accurate information was included in the June 2002 Annual Report. As a result, the City 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 City Inaccurately Reported Project's Accomplishments The City inaccurately reported in its June 30, 2002 Annual Report the actual progress of the Liberty Street Learning project. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants.

The City reported in its June 30, 2002 Annual Report for an output that 32 Empowerment Zone residents were trained. The Cincinnati-Hamilton County Training and Job Placement Center provided documentation that 34 individuals attended training. Only 17 of the 34 individuals attended training during the contract period from July 9, 2001 through July 8, 2002. Of the 17 individuals trained during the term of the contract, only nine were Zone residents.

The City also reported in its 2002 Annual Report for outputs that 12 Empowerment Zone resident trainees were placed in jobs, 32 Zone residents attended job fairs, and 12 Zone residents were placed in jobs as a result of job fairs. The Job Placement Center could not provide adequate documentation for the three outputs.

The City reported in its June 30, 2002 Annual Report that the end date for the milestone summer training and follow-up was December 31, 2001. The City also reported the milestone was 100 percent complete as of June 30, 2002. The Job Placement Center could not provide documentation

as to whether the summer training and follow-up was complete.

In addition, the City failed to report on the following seven milestones contained in Cincinnati Empowerment Corporation's contract with the Job Placement Center: interview participants and set up files; conduct program orientation; begin summer quarter training program; provide life skills classes; conduct employment preparedness training; hold job fair/employment seminar; and hold graduation ceremony.

The City reported in its 2002 Annual Report the Liberty Street Learning Center project received \$138,000 in sources of program funds from non-Empowerment Zone grants. The Corporation and the Job Placement Center did not have documentation to support the Kroger Foundation, Emery Foundation, and all other foundations provided \$11,000, \$10,000 and \$117,000 in cash as of June 30, 2002, respectively.

The Corporation could not provide an explanation for the incorrect reporting of the outputs. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. If a date for a milestone was not achieved by June 30, 2002, the City should have modified the date for the milestone to accurately reflect the projected completion date. The Officer also said that he did not feel that all of the project milestones listed in their contract with Cincinnati-Hamilton County Training and Job Placement Center should be reported on in the Annual Report. As a result, the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 85, 93, 96, 106, 107, 109, 121 to 123, 133, and 134,

contains the complete text of the comments for this project.]

The Cincinnati-Hamilton County Training and Job Placement Center, the administering entity for the Liberty Street Learning Center project, appropriately used Empowerment Zone funds for wages and benefits of an employee who was not a Zone resident. The Job Placement Center was within the terms of its agreement with the Corporation to pay a non-Zone resident's wages and benefits with Zone funds.

The City accurately reported in its June 30, 2002 Annual Report for an output that 32 Empowerment Zone residents were trained as a result of the project.

The City accurately reported in its June 30, 2002 Annual Report that the milestone summer training and follow-up was 100 percent complete as of June 30, 2002.

The City did not report on the following seven milestones contained in Cincinnati Empowerment Corporation's contract with the Job Placement Center: interview participants and set up files; conduct program orientation; begin summer quarter training program; provide life skills classes; conduct employment preparedness training; hold job fair/employment seminar; and hold graduation ceremony. The City deliberately reported on only the major milestones for the project.

The City has supporting documentation for sources of program funds from non-Empowerment Zone grants. The funding from the Kroger Foundation and Emery Foundation were the only funds requiring disclosure and documentation. The additional \$117,000 in non-Zone grants were included in the June 30, 2002 Annual Report as a budget estimate and fundraising goal.

OIG Evaluation Of	
Auditee Comments	

The Corporation provided documentation supporting the Job Placement Center placed fliers at the Liberty Street Learning Center for the hiring of the project's employees. Therefore, we adjusted our audit report by removing the Cincinnati-Hamilton County Training and Job Placement Center lacked documentation to support a good faith effort was made to fill 50 percent of the jobs created with Empowerment Zone residents as required by its agreement with the Cincinnati Empowerment Corporation.

The Corporation provided Trainee Registration Forms. Registration for training is not sufficient documentation that an individual attended the training. The Corporation also provided class sign-in sheets, class rosters, and student logs. There were no addresses for the individuals listed on these documents.

The City reported in its June 30, 2002 Annual Report for an output that 32 Empowerment Zone residents were trained. The Cincinnati-Hamilton County Training and Job Placement Center provided documentation that 34 individuals attended training. Only 17 of the 34 individuals attended training during the contract period from July 9, 2001 through July 8, 2002. Of the 17 individuals trained during the term of the contract, only nine were Zone residents.

The City provided sufficient documentation for training, but did not provide documentation that follow-up occurred for the milestone summer training and follow-up.

The City reported in its June 30, 2002 Annual Report that the end date for the milestone summer training and follow-up was December 31, 2001. The City also reported the milestone was 100 percent complete as of June 30, 2002. The Job Placement Center could not provide documentation as to whether the summer training and follow-up was complete.

The City failed to report on the following seven milestones contained in Cincinnati Empowerment Corporation's contract with the Job Placement Center: interview participants and set up files; conduct program orientation; begin summer quarter training program; provide life skills classes; conduct employment preparedness training; hold job fair/employment seminar; and hold graduation ceremony.

The Corporation provided grant letters from both the Kroger Foundation and the Emery Foundation for \$11,000 and \$10,000, respectively. Both letters stated that a check was enclosed with the letter. The Corporation did not provide documentation of the checks from either foundation.

The City reported in its 2002 Annual Report the Liberty Street Learning Center project received \$138,000 in sources of program funds from non-Empowerment Zone grants. The Corporation and the Job Placement Center did not have adequate documentation to support the Kroger Foundation, Emory Foundation, and all other foundations provided \$11,000, \$10,000 and \$117,000 in cash as of June 30, 2002, respectively.

Accomplishments Of People Working Cooperatively Project Were Not Adequate Reported

The City of Cincinnati did not accurately report the actual progress of the People Working Cooperatively project in its June 30, 2002 Annual Report. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants. The problems occurred because Cincinnati Empowerment Corporation, the administering entity for the City, lacked effective oversight and controls to assure accurate information was included in the June 2002 Annual Report. The City did not provide HUD with an accurate representation of the project.

The City Inaccurately Reported Project's Accomplishments The City inaccurately reported in its June 30, 2002 Annual Report the actual progress of the People Working Cooperatively project. The inaccuracies related to outputs, milestones, and sources of program funds from non-Empowerment Zone grants.

The City reported in its June 30, 2002 Annual Report for an output that no Empowerment Zone residents were served. Documentation maintained by People Working Cooperatively, Inc. showed three Zone residents were served.

In addition, the City reported that 75 Zone residents are projected to be served and did not report on the number of housing units to be rehabilitated. However, the June 26, 2000 agreement between the Cincinnati Empowerment Corporation and People Working Cooperatively, Inc. projected 300 Zone residents were to be served and 25 housing units were to be rehabilitated. Documentation provided by People Working Cooperatively, Inc. showed three housing units were rehabilitated.

The City reported in its June 30, 2002 Annual Report that the milestone of loan booking and closure was 50 percent complete as of June 30, 2002. Documentation maintained by People Working Cooperatively, Inc. showed the milestone was 100 percent complete as of June 2002. The City also reported in its June 2002 Annual Report the milestone of start of classes was 50 percent complete as of June 30, 2002. Neither Cincinnati Empowerment Corporation nor People

Working Cooperatively, Inc. could provide documentation as to the percentage of completion for the milestone.

In addition, the City failed to report on the following eight milestones contained in Cincinnati Empowerment Corporation's contract with People Working Cooperatively: identification and certification of clients; preparations of specifications; environmental and historical review and clearance; loan origination; construction monitoring; periodic and final inspection of work; recruit and certify Zone contractors; and advertise for potential employment opportunities with contractors.

The City reported in its 2002 Annual Report that People Working Cooperatively, Inc. provided \$938,000 in cash for the project. Documentation maintained by People Working Cooperatively, Inc. showed they provided \$1,292,078 in cash contributions for the project.

The Corporation's Program Director said the Corporation made an error in entering the accomplishments in the June 30, 2002 Annual Report for the People Working Cooperatively, Inc. project. The Corporation did not verify the accomplishments included in the 2002 Annual Report. The Chief Executive Officer said the milestones were reported at 50 percent complete as of June 30, 2002 because the project was not completed. However, the contract term was over. Furthermore, the Corporation used this reasoning to report other milestones as 100 percent complete. The Officer also said that he did not feel that all of the project milestones listed in the their contract with People Working Cooperatively, Inc. should be reported on in the Annual Report. As a result, the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 107, 108, 124, and 125, contains the complete text of the comments for this project.]

The Corporation concurred that it did not report on the number of housing units to be rehabilitated through the People Working Cooperatively project.

The City did not report on the following eight milestones contained in Cincinnati Empowerment Corporation's contract with People Working Cooperatively, Inc.: identification and certification of clients; preparations of specifications; environmental and historical review and clearance; loan origination; construction monitoring; periodic and final inspection of work; recruit and certify Zone contractors; and advertise for potential employment opportunities with contractors. The City deliberately reported on only the major milestones for the project.

The Corporation concurred that the City incorrectly reported in its 2002 Annual Report that People Working Cooperatively, Inc. provided \$938,000 in cash for the project.

OIG Evaluation Of Auditee Comments The City failed to report on the following eight milestones contained in Cincinnati Empowerment Corporation's contract with People Working Cooperatively: identification and certification of clients; preparations of specifications; environmental and historical review and clearance; loan origination; construction monitoring; periodic and final inspection of work; recruit and certify Zone contractors; and advertise for potential employment opportunities with contractors.

Milestones Of Nanny's Multi-Level Learning Center Project Were Inaccurately Reported

The City inaccurately reported the projected milestones of the Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report. The problems occurred because Cincinnati Empowerment Corporation, the administering entity for the City, lacked effective oversight and controls to assure accurate information was included in the June 2001 Annual Report. As a result, the City 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 City Inaccurately Reported Project's Milestones The City inaccurately reported the actual progress for 11 milestones of the Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report. The table below contains the inaccuracies the City reported for the 11 milestones.

Project Milestone	Projected Start Date Reported	Was Projected Start DateMet As of 6/30/01	Projected End Date Reported	Was Projected End Date Met As of 6/30/01	Reported Percentage Complete as of 6/30/01	Actual Percentage Complete as of 6/30/01
Begin construction/ renovation of						
building converting it from medical						
building to a childcare center.			3/13/01	No	100	95
Advertising/promotion of events						
for the grand opening of the new						
childcare center.	2/2/01	No	4/26/01	No	100	0
Install kitchen equipment,						
computer systems and cabinetry.	2/12/01	No	3/7/01	No	100	0
Begin enrolling new children.	2/13/01	No	3/13/01	No	100	0
Install fire system, security system,						
CCTV system and phone system.	2/26/01	No	3/7/01	No	100	0
Installation of children's						
playground equipment.	3/5/01	No	3/13/01	No	100	0
Inspection by the Health						
Department, building inspector,						
Fire Department and child daycare						
licensing.	3/13/01	No	3/20/01	No	100	0
Attain various childcare licenses						
and permits.	3/13/01	No	3/23/01	No	100	0
Opening for infants and toddlers.	3/23/01	No	3/23/01	No	100	0
Move center #1 (Rockdale facility)						
from old location to new location.	3/30/01	No	4/2/01	No	100	0
Move center #2 (Reading Road						
facility) to new location.	4/7/01	No	4/8/01	No	100	0

The City also did not have documentation to support the milestones of advertise and interview for 13 staff positions and hire and begin training new staff members.

The Corporation did not require Nanny's Multi-Level Learning Center, Inc., the administering entity for the project, to provide reports on progress of the project. The Corporation's Chief Executive Officer stated that the start and end dates for project milestones are proposed dates, not the actual dates the milestones were accomplished. If a date for a milestone was not achieved by June 30, 2001, the City should have modified the date for the milestone to accurately reflect the projected completion date. As a result. the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 85, 107, 108, 126, 133, and 134, contains the complete text of the comments for this project.]

The City did not report on milestones for the Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report to HUD. The project was initially entered in the Annual Report for tracking. The Corporation's legal counsel determined the project would be reported through the E-Fund process for loans. The Corporation could not delete the project from the Annual Report.

OIG Evaluation Of Auditee Comments The City did report on the milestones for Nanny's Multi-Level Learning Center project in its June 30, 2001 Annual Report to HUD. The City did not provide documentation reporting the project in the E-Fund. Furthermore, page 2 of The Empowerment Zone and Enterprise Community Initiative Performance Measurement System guidance issued in April 2001 states Empowerment Zones are required to create an Implementation Plan for each project undertaken.

Accomplishments Were Not Correctly Reported For A.D.A. Investment Group, Inc. Project

The City of Cincinnati did not correctly report in its June 30, 2002 Annual Report the actual progress of the A.D.A. Investment Group, Inc. project. The problem occurred because Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure correct information was included in the June 2002 Annual Report. As a result, the City did not provide HUD with a correct representation of the project.

The City Incorrectly Reported Project's Accomplishments The City of Cincinnati incorrectly reported in its June 30, 2002 Annual Report the actual progress of the A.D.A. Investment Group, Inc. project. The A.D.A. Investment Group, Inc. project is one of the projects in the City's Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund category. The City reported multiple Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund projects under a single Implementation Plan in the June 2002 Annual Report. Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, did not have documentation to support the accomplishments reported under the Economic Empowerment Fund Implementation Plan.

The problem occurred because Cincinnati Empowerment Corporation lacked effective oversight and controls to assure correct information was included in the June 2002 Annual Report. As a result, the City did not correctly report the accomplishments of their Empowerment Zone Program to HUD.

Auditee Comments [Excerpts paraphrased from the comments provided by the Chief Executive Officer of the Cincinnati Empowerment Corporation on our draft audit report follow. Appendix C, pages 107, 108, 127, 133, and 134, contains the complete text of the comments for this project.]

The City did not report in its June 30, 2002 Annual Report the actual progress of the A.D.A. Investment Group project. The Corporation only created an Implementation Plan for the establishment of the E-Fund. The Corporation has no means of reporting the actual progress of the project.

OIG Evaluation Of Auditee Comments

Page 1 of the Renewal Communities/Empowerment Zones/Enterprise Communities Performance Measurement System User Guide issued in July 2002, which applies to the June 30, 2002 Annual Reports, states the Empowerment Zones are required to create an Implementation Plan for each project undertaken.

Accomplishments Were Not Correctly Reported For Big Dollar, LLC Project

The City of Cincinnati did not correctly report in its June 30, 2002 Annual Report the actual progress of the Big Dollar, LLC project. The problem occurred because Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure correct information was included in the June 2002 Annual Report. As a result, the City did not provide HUD with a correct representation of the project.

The City Incorrectly Reported Project's Accomplishments

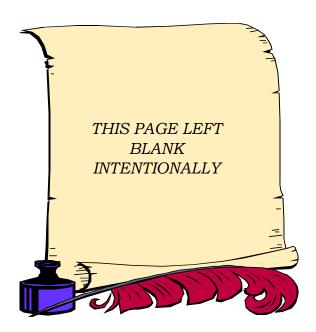
The City of Cincinnati incorrectly reported in its June 30, 2002 Annual Report the actual progress of the Big Dollar, LLC project. The Big Dollar, LLC project is one of the projects in the City's Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund City reported multiple category. The Economic Center/Creation Empowerment of the Cincinnati Empowerment Fund projects under a single Implementation Plan in the June 2002 Annual Report. Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, did not have documentation to support the accomplishments reported under the Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund Implementation Plan.

The problem occurred because Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, lacked effective oversight and controls to assure correct information was included in the June 2002 Annual Report. As a result, the City did not accurately report the accomplishments of their Empowerment Zone Program to HUD.

Chief Executive Officer o Corporation on our draft au	n the comments provided by the f the Cincinnati Empowerment udit report follow. Appendix C, and 134, contains the complete is project.]
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The City did not report in its June 30, 2002 Annual Report the actual progress of the Big Dollar, LLC project. The Corporation only created an Implementation Plan for the establishment of the E-Fund. The Corporation has no means of reporting the actual progress of the project.

OIG Evaluation Of Auditee Comments Page 1 of the Renewal Communities/Empowerment Zones/Enterprise Communities Performance Measurement System User Guide issued in July 2002, which applies to the June 30, 2002 Annual Reports, states the Empowerment Zones are required to create an Implementation Plan for each project undertaken.



Auditee Comments



Cincinnati Empowerment Corporation

Office of the CEO

Leaving No One Behind

Empowerment Zone Neighborhoods Avondale Clifton Heights Corryville Evanston Mt. Auburn Over-the-Rhine Queensgate Walnut Hills West End

December 20, 2002

Edward Kim Assistant Regional Inspector General for Audit U.S. Department of HUD Office of Inspector General 200 North High Street, Room 334 Columbus, OH 43215

Dear Mr. Kim:

As requested by Mr. Heath Wolfe, Regional Inspector General for Audit, Region V, I am addressing our official comments to you regarding the draft audit report for the Office of Inspector General (OIG). This represents our response to the fiscal issues identified in the draft document.

The Cincinnati Empowerment Corporation (CEC) is disappointed in the process that was used to conduct this audit. In the OIG Entrance Conference on July 1, 2002 Mr. Bowen and other members of OIG were present as evidenced by the attached sign-in sheet (Exhibit A). At which time CEC was assured by OIG that the auditing team would not wait until the end of the audit to communicate a large volume of issues, but rather the process would include constant communication from the auditing team to our staff regarding requested documents. The Chief Executive Officer asked a specific question to the OIG team, "my concern is that you no wait until the last minute to inundate us with a large volume of requests, so are we assured that your team would be communicating to us throughout the process the need for documents?" The OIG representatives assured him that there would be effective communication throughout the process. This statement was made by OIG in the presence of OIG, HUD and CEC representatives. Therefore, from that point we had OIG's assurance that issues, concerns and the need for documents would be communicated on an ongoing basis. From July 1 until November 2002 the auditing team conducted its work onsite at CEC. During their four months onsite OIG did not effectively communicate issues,

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concerns or the need for additional documents, thereby allowing CEC the due process of submitting documentation to address identified issues.

We therefore in accordance with the HUD publication *Managing CBDG...a Guide for CBDG Grantees on Subrecipient Oversight*, chapter 8 *OIG Audits* (Exhibit B), believe that the draft audit in its current form is both inaccurate and does not meet the "due professional care" guidelines. We were not given the opportunity to present documentation during the audit because issues and the need for additional documents were not brought to our attention. We believe that we should have been given the opportunity to present documents during the audit and made aware of issues as the auditors identified them. Hence we are submitting today approximately two hundred pages of documentation in a binder dealing with the financial issues of the draft audit that could have been provided during the audit if we had simply been asked.

Within the report itself there are several inaccuracies. In a phone conference with Mr. Kim, Mr. Bowen, Ms. Llamas and Mr. Heiser of OIG and representatives from CEC on December 9, 2002 I suggested that the alleged quotes in the draft outline reports be removed. There are statements in the draft report that simply did not occur. On page 36 the CEO is quoted as saying "he felt that copies of checks not cashed, duplicate checks, and schedules were acceptable documentation to support the expenses". This statement is simply not true. The CEO never made this statement. On page 33 of the draft document the CEO is said to have said "he was not aware that list of names was not adequate documentation to show attendance of Zone residents", this statement is not accurate. On page 30 of the draft document the Chief Executive Officer is identified as having said, " he thought the Board of Health advertised the position; however, he could not provide documentation to support the Board of Health advertised the position". No only is this statement not accurate, the CEO was never requested to provide the documentation and in our submission the documentation will be included. On page 31 of the draft document the Chief Executive Officer is quoted as having said, "individuals should be counted each time they receive any of the project services" this is also not true. When the CEO was informed in late November that OIG had eliminated some of the persons counted by the Board of Health his quote was as follows "there are instances when programs are permitted to count encounters separately. Please provide us your methodology for eliminating some of the names. Once we determine your methodology we may be able to provide a source whether Federal, State or Local that permits the use of the names you have eliminated". After this request was promised by OIG it took three weeks to receive that. Time in this letter will not permit further examples in our next submission of the operational documents I will submit in further detail inaccurate quotes in the draft document. I am therefore once again requesting that OIG remove the quotes in the draft document, as they do not represent quotations made by

CEC staff. If you examine further you will find no letters, emails or written communications to substantiate these quotes.

Throughout the document OIG has taken the position that because the start date of projects in the PERMS Implementation Plans of CEC do not match the actual start date that CEC has inaccurately reported to HUD. In the HUD publication The Empowerment Zone and Enterprise Community Initiative Performance Measurement System (PERMS) - Guidance for Grantees FY 2000 pages 1 and 3 and FY2002, page 14, it states "Milestones are the major steps taken by the EZ/EC and lead entities to implement the projects/program. The proposed start and end dates for the milestones indicate the time frame in which the milestone will be completed". "Each EZ/EC is required to periodically submit reports on their accomplishments" (Exhibit C). The guideline clearly states that these are proposed dates and not actual dates. The guidelines identify periodic reports rather than a constant adjusting of the implementation plans. Further, in the PERMS system (attached Exhibit D) the start and end dates are identified as projected dates. Therefore, it is our conclusion that in order to maintain the integrity of the system once projected dates are submitted into the PERMS system it better allows HUD to monitor our progress when we submit our actual completion percentage against the projected dates. If we are constantly moving our projected to actual dates it falls outside of the periodic submission and would mandate that the corporation is constantly changing those dates. In addition, if we constantly change our projected dates to reflect actual dates our percentage of completion would always be 100. This would not be an effective monitoring tool. Given this evidence and documentation we believe OIG takes extreme view in requiring that we change projected dates to actual dates. We also believe that OIG takes an extreme view when it characterizes our projected dates as inaccurate reporting. We have found no publication or source that guides us to change projected dates to actual dates.

Referencing the above-mentioned documentation, guidelines dictate that milestones are major steps taken to implement the project/program. The contracts CEC uses are approximately twenty pages of detailed information. CEC identified with HUD the major milestones in its management judgment that reflects major steps in the project/program. We believe that OIG moves from an auditing function to a management function when it concludes that more milestones should be added. In our assessment the milestones that OIG identifies as should have been added do not constitute major steps and therefore should not be added. We do believe that is in error for OIG to site their desire to have us add additional milestones as a finding on the part of CEC constituting in OIG's opinion inaccurate reporting.

We appreciate this opportunity to submit documentation to address the draft audit report. I must say, however, that I believe that this is not what Congress had in mind when it asked for an audit of Empowerment Zones. I believe Congress expected an audit where the auditing teams dialogued with the Empowerment Zones giving them every opportunity to present documentation as requested. The fact that these requests did not come prior to the draft report is not in the spirit of what Congress intended. I believe that the current draft report does a disservice to the auditing profession, to the high integrity of the Office of Inspector General and to the Congress of the United States of America.

This submission answers the fiscal issues of the draft audit. Next week we will submit our official answer to the operational issues of the draft audit. According to the letter from Mr. Wolfe we have fourteen days from the date of the audit letter dated December 16, 2002 to respond. Since today's date is December 20, 2002 we feel confident that all our responses are well within the time allowed. Thank you for this opportunity to submit CEC responses.

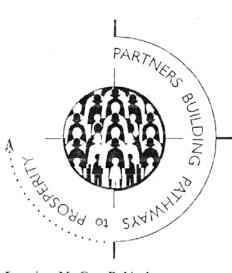
Sincerely,

Tarol Cercla

Harold Cleveland Chief Executive Officer

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AUDIT REPORT RESPONSE



Leaving No One Behind

CITY OF CINCINNATI EMPOWERMENT ZONE PROGRAM

CINCINNATI, OHIO

DECEMBER 27, 2002

CINCINNATI EMPOWERMENT CORPORATION CINCINNATI, OH

Edward Kim Assistant Regional Inspector General for Audit



Cincinnati Empowerment Corporation

Office of the CEO.

Leaving No One Behind

December 27, 2002

Empowerment Zone Neighborhoods Avondale Clifton Heights Corryville Evanston Mt. Auburn Over-the-Rhine Queensgate Walnut Hills West End

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

Dear Mr. Kim:

Being delivered to you today, December 27, 2002 by Thomas Briner our Chief Operations Officer is the official Cincinnati Empowerment Corporation's (CEC) response to the operational issues in the OIG draft audit report. The letter from Mr. Heath Wolfe, Regional Inspector General for Audit, Region V, dated December 16, 2002 allowed fourteen days from the date of his letter to submit CEC's response. At our meeting on December 20th in Cincinnati, Mr. Bowen indicated that the draft audit report would be adjusted if/when adequate documentation is received. Let me take the opportunity to provide to you a list of what this submission includes:

- 1. Cover letter, executive summary and statement letter
- 2. Response to Finding 2 (binder-finding 2)
- 3. Response to Finding 3 (binder-finding 3)
- 4. Response to lack of good faith claim (binder-good faith response)
- 5. Financial inserts (inserts for binder 1, submitted to OIG, 12/20/02)
- 6. Set of binders containing encounter documentation referenced in binder 2- Enhanced School Health.

This response (operational issues) along with binder 1 (financial issues) which we submitted to you in person at the meeting in the CEC office in Cincinnati, OH on December 20th at 10:00 a.m. constitutes CEC's official response to the draft audit. We believe we have provided exhaustive documentation that more then adequately address findings 1, 2 and 3. We respectfully request that OIG, as we agreed, give careful and due consideration to the materials we have

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presented. We believe that once the documents are examined, Findings 1, 2 and 3 will be adequately answered and accordingly we request they be eliminated from the draft report. If we can provide further information or documentation please feel free to contact us at (513) 487-5200.

Sincerely,

level

Harold L. Cleveland Chief Executive Officer

c: Mr. Brent Bowen, OIG Senior Auditor Ms.Clara Llamas, OIG Auditor Mr. Larry Goodwin, Community Planning & Development Representative Ms. Daphne Nisperos, Presidential Management Intern Mayor Charlie Luken, Mayor, City of Cincinnati Ms. Susan Paddock, CEC Liaison, City of Cincinnati Mr. Robert Killins, CEC Board Chair Cincinnati Empowerment Corporation Response

Summary

Executive Summary

The Cincinnati Empowerment Corporation, on behalf of the City of Cincinnati's Empowerment Zone Program, wholly refutes the preliminary audit findings of the Office of the Inspector General. After a thorough review of each issue associated with the projects cited in the findings, CEC can find no material evidence of inadequate oversight of its Empowerment Zone funds or inaccurate reporting of the accomplishments of its Empowerment Zone Program to HUD. (Findings 1 & 2) Furthermore, CEC strongly objects to the claim that the City used Empowerment Zone monies to fund three projects that have not provided benefits to Empowerment Zone residents. (Finding 3)

It is the opinion of the Cincinnati Empowerment Corporation that the audit was conducted with very little due professional care and a strong negative bias. CEC researched and validated every issue cited by OIG in the Preliminary Findings. With minimal effort, supporting documentation, clear adherence to HUD guidelines, and/or a reasonable mitigating circumstance was found to refute each material issue. In many instances, this documentation had been previously made available to auditors and rationale for certain reporting methodologies explained. For reasons unknown to CEC, it appears the audit staff chose to disregard this information and instead report items as missing and/or inaccurate.

Maintaining the integrity of the reporting and use of funds of the City of Cincinnati's Empowerment Zone Program is of utmost importance to the Cincinnati Empowerment Corporation. An allegation of impropriety in the form of inadequate oversight and inaccurate reporting, even though unfounded, can cause untold damage to the Program's forward momentum and future potential.

The City strongly refutes these findings and requests OIG to remove them from the audit report.

Controls Over Empowerment Zone Funds Need To Be Improved OIG claims that "the City inappropriately used \$44,651 of Zone funds and lacked documentation to show that another \$367,548 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required." CEC has found that at most, \$60 of the \$44,651 is questionable (resulting from consulting fees for Walnut Project), and all of the \$367,548 has supporting documentation.

The following binder(s) address each expenditure in detail:

- Binder 1 CEC Response to Finding 1
- Addendum to Binder 1 Good Faith Effort

The City Inaccurately Reported The Accomplishments Of Its Zone Projects

The City of Cincinnati accurately reported the status and/or progress of its projects in its June 30, 2001 and June 30, 2002 Annual Reports. The City's June 2001 Report contained no inaccuracies related to project outputs, milestones and sources of funding and the

Page 1 of 2

Cincinnati Empowerment Corporation Response

Summary

City's June 2002 Report contained a single minor discrepancy in reporting the actual dollar amount of a project's source of funding. At no time has the City reported outside of the HUD guidelines and CEC operating principles.

The following binder(s) address each reporting item in detail:

Binder 2 – CEC Response to Finding 2

Not only did the City ensure that contracts with each project stipulate that the project primarily benefit Zone residents, each project met and exceeded HUD requirements to demonstrate consistency with the Empowerment Zone strategic plan. At no time has the City provided Zone funds to a project that has not benefited Zone residents or less than 50 percent of Zone residents.

The following binder(s) address each project in detail: • Binder 3 – CEC Response to Finding 3

The City Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Less Than 50 Percent Of Zone Residents

Page 2 of 2

Controls Over Empowerment Zone Funds Need To Be Improved

The City of Cincinnati has continuously maintained sufficient oversight of its Empowerment Zone (EZ) funds, resulting in efficient and effective use of the funds. OIG claims that "the City inappropriately used \$44,651 of Zone funds and lacked documentation to show that another \$367,548 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required". The conclusion reached by OIG on this finding is both premature and incorrect. At no time were Zone funds used inappropriately and not only was adequate supporting documentation found filed on-site at either CEC headquarters or Project offices, many of the documents were provided to auditors by the administering entities of the City's Zone projects during the initial audit. In some instances, the documents obtained during this 'audit response period' had never even been requested of the administering entities during the audit. We refute this finding, and request OIG to remove it from the report. The Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, operates with effective oversight and controls to assure Zone funds were and are used appropriately.

cited OIG Sub-Finding Oversight of Zone Funds Was Not Adequate

The following table summarizes the funds in question with reference to location of CEC Response and Supporting Detail.

Project	Inappropriate Expense	Reference
Enhanced School Health		Tab 1 - Issue 6 Tab 1 - Issue 1
CYC – Youth Capacity and Resource Building/Coalition Freedom School	\$9,186	Tab 3 - Issue 3
Inner City Health - Walnut	\$3.000	Tab 4 - Issue 2
Arts For All	<u>\$1,192</u>	Tab 2 - Issue 2
TOTAL Funds in Question	\$44,651	

Project	Unsupported Expense	Reference
Enhanced School Health	\$45,134	Tab 1 - Issue 3
CYC – Youth Capacity and Resource Building/Coalition Freedom School	(\$36,249)	Tab 3 – Issue 1 Tab 3 – Issue 2 Tab 3 – Issue 4
Inner City Health - Walnut	\$68,599	Tab 4 – Issue 1
Arts For All	\$195,722	Tab 2 – Issue 3
Nu-Blend Paint, Inc	\$6,852	Tab 5 – Issue 1
Liberty Street Learning Center	<u>\$1,742</u>	Tab 6 – Issue 4
TOTAL Funds in Question	\$367,548	

Page 1

Good Faith Effort

In Finding 1 of the OIG Audit Preliminary Report, lack of documentation to show good faith effort to hire Zone residents is repeatedly cited as the basis for reporting the "inappropriate use of funds" by several projects (representing \$53,435 of the \$367,548 questioned as unsupported expense). Fulfillment of the good faith requirement as written in the Contracts is subject to interpretation. Legal counsel for the Cincinnati Empowerment Corporation, has interpreted this requirement as such:

"Notably, Section 5.3 does not require any particular written documentation to evidence a "good faith effort." "...after appropriate inquiry into the recipient's attempts to achieve this target, we believe that CEC may utilize its reasonable business judgment to determine the procedure by which it makes such determination [as to whether a recipient has made a "good faith effort"]".

This is exactly the procedure CEC has followed. Using "it's reasonable business judgment", CEC determined that all the projects in question had fulfilled the "good faith effort" to hire employees residing within the Empowerment Zone. Therefore, subsequent expenditures for wages and salaries of non-EZ residents were an appropriate use of EZ funds.

As a measure of goodwill, CEC has obtained further documentation to show good faith effort to hire Zone residents for each project in question, although CEC believes this is not necessary to prove fulfillment of the requirement.

The City Lacked Sufficient Documentation To Support The Use Of Zone Funds The City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project, used \$45,134 of Empowerment Zone funds to pay salaries and benefits for the project's nurses. The Enhanced School Health project provided documentation to show that efforts were made to fill all the nursing positions with Zone residents.

Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project, used \$6,559 of Empowerment Zone funds to pay salaries of non-EZ residents. CYC provided documentation to show that efforts were made to hire EZ residents.

The Cincinnati-Hamilton County Training and Job Placement Center used \$1,742 of Zone funds to pay the salary of a non-EZ resident. The Center provided documentation to show that efforts were made to hire EZ residents for the eight jobs created.

<u>Supporting Documents:</u> Attorney Memo – Attachment 1

Page 1 of 4

Cincinnati Empowerment Corporation Response

Enhanced School Health

The City of Cincinnati's Board of Health, the administering entity for the Enhanced School Health project, fulfilled the good faith effort requirement regarding hiring policy per the Agreement with the Cincinnati Empowerment Corporation.

In addition, documentation exists which shows that a good faith effort in hiring was exercised. A hiring file was obtained which included copies of ads and a project diary. This diary detailed how ads were placed in various publications over a period of weeks, and logged that a job announcement was sent to the African American Health Network, the Black Nurses Association and area churches all located within the Empowerment Zone.

Forty-nine interviews were scheduled, but cancellations, no-shows and refusals yielded thirty-six actual interviews. In mid-July, two applicants were hired and in mid-August two more positions filled. All four new hires were African American women, one an EZ resident and another from an EZ neighborhood. Out of the thirty-six applicants interviewed, two were EZ residents.

In summary, the good faith effort to hire EZ residents resulted in two EZ applicants; one of whom was hired. CEC accepts this as fulfillment of the requirement.

Supporting Documents: Nursing Interview Memo Hiring File

Attachment 2
Attachment 3

Page 2 of 4

Finding 1 Addendum

Cincinnati Youth Collaborative

Youth Capacity and Resource Building/Coalition Freedom School Project

Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project, fulfilled the good faith effort requirement regarding hiring policy per the Agreement with the Cincinnati Empowerment Corporation.

In addition, documentation exists which shows that a good faith effort in hiring was exercised. Documents include a Position Announcement sent to schools and subsequent applicant resume, sample interview questions and evaluation forms for potential employees, a staff roster, police background checks on all applicants, and employee acceptance forms.

In summary, the good faith effort to hire EZ residents resulted in nine EZ resident employees. CEC accepts this as fulfillment of the requirement.

Supporting Documents: Position Announcement & Resume Interview Questions & Evaluation Staff Roster Police Background Checks Employee Acceptance Forms

Attachment 4
Attachment 5
Attachment 6
Attachment 7
Attachment 8

Page 3 of 4

Cincinnati Empowerment Corporation Response

Liberty Street Learning Center

Cincinnati-Hamilton County Training and Job Placement Center

The Cincinnati-Hamilton County Training and Job Placement Center fulfilled the good faith effort requirement regarding hiring policy per the Agreement with the Cincinnati Empowerment Corporation.

In addition, documentation exists which shows that a good faith effort in hiring was exercised. A flyer was posted at the LLC when positions became available. The statement "Empowerment Zone residents are encouraged to apply" is expressly written on the flyer itself. Payroll records show three EZ residents were hired during the audit period, and more importantly, four other EZ residents were hired during the two years prior, including LLC's Lead Instructor and the Office Manager.

Liberty Street Learning Center has an established track record of hiring EZ residents. This is accomplished because LLC employees can see first hand the EZ students in their classes who have the specific skills needed to fill specific intern positions. Rather than passively waiting for applicants, LLC employees proactively approach these students about the available positions.

In summary, the good faith effort to hire EZ residents resulted in seven EZ resident employees. CEC accepts this as fulfillment of the requirement.

Supporting Documents:LLC Memo (p. 2, point 4)Internship Flyer- Attachment 9- Attachment 10EZ Resident Resume (current employee)- Attachment 11Payroll Records- Attachment 12

Page 4 of 4

Enhanced School Health

OIG Preliminary

Finding Caption: Control Over The Enhanced School Health Program Were Not Adequate

Condition: Issue 1

The City of Cincinnati Board of Health, the administering agent for the Enhanced School Health Program, inappropriately paid \$6,254 of the Health Program's Administrative Technician's wages and benefits from Empowerment Zone funds.

The Administrative Technician said she was told to code her timesheets as though she spent all of her time on the Empowerment Zone project.

The Administrative Technician said she spent 15% of her time on non-Empowerment Zone projects.

Issue 2 - DELETED by OIG

The City of Cincinnati Board of Health also inappropriately paid \$6,010 of employees' salaries for the Health Program with Empowerment Zone funds when their timesheet showed they spent time on non-Zone activities.

Issue 3

The City of Cincinnati Board of Health did not maintain documentation to support that a good faith effort was made to hire employees from within the Empowerment Zone as required in the agreement between the Cincinnati Empowerment Corporation and the Cincinnati Board of Health. The City inappropriately paid \$45,134 for one nurse's salary who was not an Empowerment Zone resident.

Issue 6

The City of Cincinnati Board of Health used \$26,287 of Zone funds for expenses outside the term of its contract with the Corporation. The expenses were for human body models, pagers, computer cable, charts, videos and other supplies, wages and benefits.

CEC Fiscal Response:

Issue 1 - VALIDATED & REFUTED

The City of Cincinnati Board of Health, the administering agent for the Enhanced School Health Program, <u>appropriately paid</u> \$6,254 of the Health Program's Administrative Technician's wages and benefits from Empowerment Zone funds. The Administrative Technician is employed full time on behalf of the EZ project.

<u>Supporting Documents:</u> Board of Health Clarification Memo

Attachment 1

Issue 2 - DELETED by OIG, VALIDATED & REFUTED

The City of Cincinnati Board of Health appropriately paid \$6,010 of employees' salaries for the Health Program with Empowerment Zone funds. The timesheets were improperly coded due to human error. The employees' time was dedicated to EZ and EZ-related activities and their salaries were correctly paid for with EZ funds. This coding error in no. way indicates that the salaries should not have been paid with EZ funds.

> Supporting Documents: Board of Health Clarification Memo Attachment 1

Issue 3 – VALIDATED & REFUTED

The City appropriately paid the salary of an employee who was not an Empowerment Zone resident. The City was within the terms of its Agreement to hire non-EZ residents and pay salaries with EZ funds.

> Supporting Documents: CEC Clarification Memo

Attachment 2

Issue 6 – VALIDATED & REFUTED

The City of Cincinnati Board of Health operated within the term of its contract with the Corporation when using \$26,287 of Zone funds for expenses. It was the clear intent of Cincinnati Empowerment Corporation (CEC), as the administering entity of the EZ funds, to amend the contract and extend the term to August 31, 2001, so as to avoid a break in service of the Enhanced School Health program between the first funding year and the second. This intent is evidenced by 1) a CEC signed Amendment dated June 20, 2001 extending the term and 2) the pursuant Amendment to the Agreement dated September 25, 2001 commencing a new Agreement beginning August 31, 2001. A signed Amendment was obtained and is on file at CEC headquarters.

Supporting Documents:	
2001 Amendment	
2002 Amendment	

Attachment 3 Attachment 4

Cincinnati Empowerment Corporation Fiscal Response

Arts For All

OIG Preliminary

Finding Caption: Controls Over The Arts for All Project Were Not Adequate

Condition: Issue 1

The City of Cincinnati's Public Recreation Commission, the administering entity for the project, did not have documentation to support \$194,531 of in kind services for the Arts for All project it was required to match in the Agreement between the Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program and the City of Cincinnati's Public Recreation Commission.

The City's Public Recreation Commission also did not account for the \$250,000 of in kind contributions.

Issue 2

The City's Public Recreation Commission inappropriately paid \$2,383 of its Special Program Coordinator's wages and benefits with its matching funds. The Special Program Coordinator's timesheets show that he spent time on non-Empowerment Zone projects, but the timesheets did not provide how much time he spent on those projects.

The Special Program Coordinator said he worked on the Empowerment Zone and also on the Lincoln Recreation Center. The Senior Accountant for the Recreation Commission stated he and the Special Program Coordinator estimated that 90% of the Special Coordinator Project Coordinator's time was spent on the Arts for All Program and 10% at the Lincoln Recreation Center.

Issue 3

The Cincinnati Empowerment Corporation inaccurately reported the Arts for All program's funding in the June 30, 2001 Annual Report. The City reported that its in kind contributions for the program consisted of \$250,000. The Commission could not provide documentation for \$194,531 of the in kind contributions for the program.

CEC Fiscal Issue 1 - VALIDATED & REFUTED

Response: The City of Cincinnati's Public Recreation Commission (CRC) did have documentation to support all \$250,000 of in-kind services required in matching funds for the Arts for All project. In fact, CRC showed a total of \$252,130 in matching contributions for the 6/1/00 through 9/30/01 period. This document is maintained by the Senior Accountant at CRC and has been available at all times during the audit.

Supporting Documents:

OIG Schedule of In-kind Contribution CRC Operating Expenditures-EZ Match

Attachment 1 Attachment 2

Arts For All

Issue 2: - VALIDATED & REFUTED

The City's Public Recreation Commission <u>appropriately paid</u> \$2,383 of the Service Area Coordinator's wages and benefits with it's matching funds. In alignment with his effort, Empowerment Zone (EZ) matching funds paid 50% of the Service Area Coordinator's wages and benefits. Any time spent on non-EZ projects was supported from CRC budget dollars or alternate funding sources not associated with the EZ/Arts for All program funds.

Supporting Documents: CRC Clarification Memo

Attachment 3

Issue 3 – VALIDATED & REFUTED

The Cincinnati Empowerment Corporation <u>accurately reported</u> the Arts for All program's funding in the June 30, 2001 Annual Report. The City reported that its in kind contributions for the program consisted of \$250,000, correctly reflecting the Match amount.

Supporting Documents:CRC Operating Expenditures-EZ MatchCity of Cincinnati MemoAttachment 4

2003-CH-1009

CYC Freedom School

OIG Preliminary Controls Over The Youth Capacity and Resource Finding Caption: Building/Coalition Freedom School Project Were Not Adequate

Condition: Issue 1

The Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project inappropriately paid \$6.691 of Empowerment Zone funds for the following: a financial consultant: an independent public accountant: state upeniployment insurance: payroll charges: and payroll bank charges. The Collaborative did not maintain an allocation method for the expenses.

Issue 2

The Chicinnati Youth Collaborative did not have documentation to support \$25,151 of Empowerment Zone funds used to pay for the Collaborative's Program Director and Program Evaluator's salaries. transportation, and training provided to the Collaborative's staff.

The Cincinnati Youth Collaborative inappropriately paid \$10,798 of Empowerment Fone funds for consulting services provided by the former. Executive Director.» The Collaborative paid for work performed from July 15, 2001 through January 15, 2002. The Collaborative did not enter into a contract with the former Executive Director for the consulting services. The Youth Capacity project started on June 15, 2001 and ended August 15, 2001. The former Executive Director said that he was hired as a conjultant to do work for the Youth Capacity and Resource Building Coalition Freedom School project. The Collaborative's Project Director said that she did not know exactly what the former Executive-Director did for the project. Neither the former Executive Director nor the Project Director had documentation supporting what consulting services the former Executive Director provided to the project.

Therefore, the payments were not necessary and reasonable,

Issue 3

the Cincinnati Youth Collaborative inappropriately paid \$9,186 of Empowerment Zone funds for office supplies, field trips, payroll, and staff training at two sites not included in the Agreement between the Cincinnati Empowerment Corporation and the Collaborative. The two sites were Avondale and Winton Hills,

i.

We determined the costs incurred at the Avondale site were not allowable due to the students served were not an overflow from the Avondale site. To be eligible, the Avondale students were required to be served at one of the following sites: Over the Rhine: Mount Auburn: Walnut Hills; or the West End.

Issue 4

The Cincinnati Youth Collaborative did not maintain documentation to support that a good faith effort was made to hire employees from within the Empowerment Zone as required in the Agreement between the Cincinnati Empowerment Corporation and the Collaborative. The only support provided by the Program was the information for the employees hired. The Program did not have documentation on advertisements or job amouncements for the Site Coordinator's and Interns. The City inappropriately paid \$6,559 for employees' salaries that were not Empowerment Zone residents.

CEC Fiscal Issue 1 - VALIDATED & REFUTED

Response:

The Cincinnati Youth Collaborative, the administering entity for the Youth Capacity and Resource Building/Coalition Freedom School project appropriately paid \$6,691 of Empowerment Zone funds for various project expenses. There is a valid and sufficiently documented allocation method for the expenses paid by EZ funds.

Supporting Docun	nents:
Summary Detail	
Itemized Detail	

Schedule 1, Issue 1 Attachments 1-5

Issue 2 - VALIDATED & REFUTED

The Cincinnati Youth Collaborative <u>did</u> have documentation to support \$25,451 of Empowerment Zone funds. For each cost in question, detailed information such as employment contracts, allocation methods, and payroll schedules were provided.

Supporting Documents: Summary Detail Itemized Detail

Schedule 1, Issue 2 Attachments 6 – 10

Issue 3 - VALIDATED & REFUTED

The Cincinnati Youth Collaborative <u>appropriately</u> paid \$9,186 of Empowerment Zone funds for sites not explicitly included in the Agreement between the Cincinnati Empowerment Corporation (CEC) and the Collaborative. Legal counsel for CEC deemed that expenses for these sites are in compliance with the contract and benefited Empowerment Zone residents. CEC Administration and staff approved of the sites' inclusion in the program.

CYC Freedom School

Supporting Documents:

Attorney Memo Summary Detail Attachment 11 Schedule 1, Issue 3

Issue 4 - VALIDATED & REFUTED

The City <u>appropriately paid</u> salaries of employees who were not Empowerment Zone residents. The City was within the terms of its Agreement to hire non-EZ residents and pay salaries with EZ funds.

> Supporting Documents: Attorney Memo

Attachment 11

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Walnut Project

OIG Preliminary Finding Caption: Controls Over the Walnut Project Were Not Adequate

Condition: Issue 1

Response:

Inner City Health Care, Inc. (Walnut Project) did not provide sufficient documentation to support \$68,824 of the costs charged to the Walnut Project. The \$68,824 consisted of: (1) \$64,333 of indirect costs; (2) \$3,000 paid to a consultant and not sufficiently detailed; (3) \$1,141 of inadequately supported client services; (4) \$225 of transportation costs that was excessive; (5) \$75 of space costs for unsupported utilities, and (6) \$50 for a health fair that was not supported.

Issue 2

Inner City Health Care, Inc. (Walnut Project) charged \$3,000 of ineligible costs to the Walnut Project. The \$3,000 was for a consultant's fee for searching additional funding sources for the Walnut Project.

Issue 3

Inner City Health Care, Inc. (Walnut Project) did not provide documentation to support that \$72,000 in-kind contributions were provided to the Walnut Project.

CEC Fiscal Issue 1 - VALIDATED & REFUTED

Inner City Health Care, Inc. (Walnut Project) <u>did provide sufficient</u> <u>documentation</u> to support \$68,824 of the costs charged to the Walnut Project. For every product or service in question, documentation in the form of cancelled check, invoice, or written verification was obtained. The majority of the documents were located in appropriate files on-site at Inner City Health Care.

Supporting Documents: Summary Detail Clarification Memo Itemized Detail

Schedule 1 Attachment 1 Attachments 2 - 8

Issue 2 – VALIDATED & REFUTED

Inner City Health Care, Inc. (Walnut Project) charged \$3,000 of <u>eligible costs</u> to the Walnut Project. The \$3,000 was a consultant's fee for multiple services, only 2% (\$60) of which included preparation of a funding proposal.

Supporting Documents: Clarification Memo Response to Inquiry

Attachment 1 Attachment 3

Nu-Blend Paint

OIG Preliminary Controls Over The Nu-Blend Paint, Inc. Project Were Not Finding Caption: Adequate

Condition: Issue 1

Nu-Blend Paint, Inc. did not have adequate documentation to support \$6,852 of Empowerment Zone funds used for the Nu-Blend Paint, Inc. project. The \$6,852 was not supported by invoices and cancelled checks. The costs included the following expenses: equipment for \$2,462; advertising for \$ 2,283; automobile of \$767; professional fees of \$530; contract labor for \$285; dues and subscription fees for \$200; insurance of \$200; and miscellaneous cost of \$125.

CEC Fiscal

Response:

Issue 1 - VALIDATED & REFUTED

Nu-Blend Paint, Inc. <u>does have adequate documentation</u> to support \$6,852 of Empowerment Zone funds used for the Nu-Blend Paint, Inc. project. For every product or service paid for by check, an invoice and/or a copy of a cancelled check was available and filed on-site at Nu-Blend. Items purchased by corporate credit card were reconciled on a monthly basis and copies of the credit card statements with line item detail was also available and on file at Nu-Blend. Cincinnati Empowerment Corporation deemed the credit card statement itself to be adequate documentation for those expenses.

<u>Supplemental Documents:</u> Summary Detail Itemized Detail

Schedule 1 Attachments 1 - 19

Liberty Street

OIG Preliminary Controls Over The Cincinnati-Hamilton County Training And Finding Caption: Job Placement Center Project Were Not Adequate

Condition: <u>Issue 1</u>

The City of Cincinnati did not have supporting documentation for Participating Entities listed as providing non-Empowerment Zone grant funds for the Cincinnati-Hamilton County Training and Job Placement Center project in its June 30, 2002 Annual Report to HUD. The City reported the Kroger Foundation, Emory Foundation and all other foundation provided \$11,000, \$10,000 and \$117,000, respectively. However, the City did not have supporting documentation for the \$138,000 in non-Zone grant funds from the Participating Entities.

Issue 4

The City did not maintain documentation to support that a good faith effort was made to hire employees from within the Empowerment Zone Corporation and the Cincinnati-Hamilton County Training and Job Placement Center. The City inappropriately paid \$1,742 for one employee's salary who was not an Empowerment Zone resident.

CEC Fiscal Response:

Issue 1 – VALIDATED & REFUTED

The City of Cincinnati <u>did have supporting documentation</u> for Participating Entities listed as providing non-Empowerment Zone grant funds for the Cincinnati-Hamilton County Training and Job Placement Center project in its June 30, 2002 Annual Report to HUD. Grant letters from both the Kroger Foundation and the Emery Foundation were given to auditors and have been on-site at all times. These non-Zone grant funds were the <u>only</u> funds requiring disclosure and documentation. They represented and exceeded the required match for the HUD EZ Funds (Round II) of \$16,000. The additional \$117,000 in non-Zone grant funds were above and beyond the required match and were included as a budget estimate and fundraising goal.

Supporting Documents:	
PERMS Summary Report	
Kroger Foundation Grant Letter	
Emery Foundation Grant Letter	

Issue 4 – VALIDATED & REFUTED

The City <u>appropriately paid</u> the salary of an employee who was not an Empowerment Zone resident. The City was within the terms of its Agreement to hire non-EZ residents and pay salaries with EZ funds.

Supporting Documents: CEC Clarification Memo

Attachment 4

Attachment 1 Attachment 2 Attachment 3

The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Projects

The City of Cincinnati, to the best of its ability, accurately reported the status and/or progress of its projects in its June 30, 2001 and June 30, 2002 Annual Reports. Contrary to the opinion of the Office of the Inspector General, the City's June 2001 Report <u>contained no inaccuracies</u> related to project outputs, milestones and sources of funding and the City's June 2002 Report <u>contained only a single minor discrepancy</u> in reporting the actual dollar amount of a project's source of funding.

OIG defines "inaccurate reporting" with broad and sweeping brush strokes. In every instance that OIG claimed "inaccurate reporting", the City has 1) operated within HUD and/or City published reporting guidelines 2) repeatedly explained mitigating circumstances surrounding the purported inaccuracies and/or 3) identified previously existing documentation to substantiate the figures reported.

The Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, has and continues to maintain adequate controls over the Annual Report submitted to HUD. The City refutes this finding and requests OIG to remove it from the report.

The City Inaccurately Reported Progress Of Zone Projects The City accurately reported the accomplishments for all 10 of the projects OIG reviewed from its June 30, 2001 and June 30, 2002 Annual Reports. The table below shows the projects reviewed and the corresponding issues identified by OIG from the Preliminary Findings Report received by CEC on December 10, 2002. Each item is specifically addressed in the CEC Response Binder for Finding 2.

Project	Outputs	Milestones	Source(s) of Funds	Tab
Enhanced School Health	Issue 4	Issue 5		1
Arts For All	Issue 4	Issue 5	Issue 1	2
CYC - Freedom School	Issue 5	Issue 6		3
Walnut Project	Issue 4	Issue 5	Issue 3	4
Nu-Blend Paint	Issue 2	Issue 3		5
Liberty Street	Issue 2	Issue 3	Issue 1	6
PWC	Issue 2	Issue 3	Issue 1	7
Nanny's		Issue 1		8
A.D.A.	Issue 1	Issue 1	Issue 1	9
Big Dollar	Issue 1	Issue 1	Issue 1	10

Issue Reference Matrix for Reporting Categories of EZ Projects

The City Inaccurately Projects' Outputs

The City Inaccurately Reported Projects' Milestones

The City Incorrectly Reported Projects' Source Of Funding

The City accurately reported on all projects' Reported outputs. The Cincinnati Empowerment Corporation followed HUD guidelines at all times. Some of OIG's claims of inaccurate reporting cite missing documentation as the basis for the finding. This statement is blatantly false. For example, Nu-Blend Paint reported 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs. Documentation has been and is available which shows payroll records and verification of EZ resident status to support the data reported. Other instances of supposed inaccurate reporting stem from CEC's efforts to follow HUD guidelines suggesting that data be presented in the standardized output measurements whenever possible. In several cases the standardized output was "number served", while the actual measurement was "number of encounters". There was implicit understanding as to what the figures represented, but could not explicitly state due to the constraints of the system. In other cases, valid approximation methodologies were used to arrive at output figures. OIG did not find this acceptable. Both CEC and the City find these to be reasonable and acceptable methodologies.

The City accurately reported on all major project milestones. The majority of OIG's cited inaccuracies are related to projected vs. actual start and end dates. Following HUD guidelines, and according to the statement by CEC CEO, projected dates, once submitted to PERMS, should not be changed. This maintains the integrity of the system and allows PERMS to be an effective monitoring tool.

OIG also repeatedly cites "failure to report on milestones" as an inaccuracy. As a guiding principle for effective business practice, CEC has elected to report only on <u>major</u> milestones essential to the critical path of the projects. Each instance of "failure to report" reflects a deliberate decision on the part of the City to focus efforts against reporting on and tracking the most valueadded tasks to the projects, not as OIG suggests, an inability to maintain adequate controls.

The City correctly reported all projects' source of funding. The City inadvertently misstated one project's funding amount, and the error has been corrected in PERMS.

Page 2 of 2

Finding 2

OIG Preliminary Control Over The Enhanced School Health Program Were Not Finding Caption: Adequate

Condition: Issue 4

The Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program, incorrectly reported the Enhanced School Health Program served 1,200 Empowerment Zone children in its June 30, 2001 Annual Report. However, the Board of Health only provided adequate documentation supporting that 927 Zone children were served.

Issue 5

The Corporation also inaccurately reported the actual progress of the Health Program's milestones in its June 30, 2001 Annual Report.

CEC Operations

Response: <u>Issue 4</u> – VALIDATED & REFUTED

The Cincinnati Empowerment Corporation (CEC), the administering entity for the City of Cincinnati's Empowerment Zone Program, <u>correctly</u> <u>reported</u> the Enhanced School Health Program served <u>at least</u> 1,200 Empowerment Zone (EZ) children in its June 30, 2001 Annual Report. CEC reported the number of children served based on the number of <u>student encounters</u>, as more than one service is at times required to fulfill the needs of an EZ child.

In the HUD publication, *The Empowerment Zone and Enterprise Community Initiative PERMS – Guidance for Grantees FY2000*, page 4 states that "the Categories have predefined Output Measurements. The Goal/Category combination chosen for each Plan should be that which best describes the project or activity." "We strongly encourage EZ/EC's to present their data in the standardized output measurements whenever possible." Following these guidelines, CEC & the Enhanced School Health program reported on this output using Number of Children as the measurement and interpreting it as Number of Student Encounters so as to present the data in standardized format.

The documentation provided to OIG by CEC & the Enhanced School Health program was disallowed due to OIG's failure to understand or recognize the intent of the program. This is a comprehensive school health program employing six types of services directed toward EZ students. The program emphasizes health promotion activities that can help children grow up better informed and better prepared to make healthier lifestyle choices. Studies have shown that the availability of school-based screening and health care can reduce the drop out rate by early identification and correction of problems that affect learning ability.

Enhanced School Health

Early intervention in elementary school is more effective and has a greater impact on the child as he/she grows to adulthood.

The intent of this program is to help as many EZ students in the designated schools as possible by utilizing the nursing services offered <u>as often as required</u>. It is certainly possible that an EZ child, like any other child, may require more than one service to fulfill his/her needs. That potential is fully within the comprehensive design and intent of the Enhanced School Health program.

However, the audit has placed a limitation on this program by eliminating/disallowing the measurement of more than one service administered to any EZ child. By permitting only a count of <u>EZ students</u> served as opposed to the <u>number of encounters with EZ students</u>, the comprehensive nature, intent, and obvious benefits of the program are blatantly ignored.

CEC adamantly opposes the method, means and attitude with which the audit of this program was conducted.

Furthermore, the four schools included in the program are all neighborhood elementary schools located within the EZ boundaries. The EZ Board of Directors and Cincinnati Public School Administration selected them because of their location as well as their position as four of the top five schools in the City in terms of poverty rate. Because of the selection process, the Program Administrators reasonably assumed that all the students were EZ students and therefore did not require names and addresses to be maintained for all services performed.

Once again, the audit was so restrictive that any verification methodology other than names and addresses was dismissed. To obtain a reasonable approximation of the number of EZ student encounters, CEC obtained an overall percentage of EZ students in all four schools and applied that percentage to the total number of encounters documented. The 1,200 "encounters" the program reported is extremely conservative given the comprehensive nature and intent of the program. CEC refutes the premise that the documentation was insufficient to substantiate that at least 1,200 EZ student encounters took place.

Supporting Documentation: HUD Publication Encounter Documentation

Attachment 1 Attachment 2

Enhanced School Health

Page 2 of 3

Cincinnati Empowerment Zone Response

Finding 2

Issue 5 - VALIDATED & REFUTED

The Corporation <u>accurately reported</u> the progress of the Health Program's milestones in its June 30, 2001 Annual Report based on CEC interpretation of milestone reporting guidelines.

Supporting Documents: Milestone Status & Response 2001 Amendment 2002 Amendment Position Statement from CEC CEO

Schedule 1 Attachment 3 Attachment 4 Attachment 5

Enhanced School Health

Page 3 of 3

OIG Preliminary Finding Caption: Controls Over The Arts for All Project Were Not Adequate

Condition: Issue 1

The City of Cincinnati's Public Recreation Commission, the administering entity for the project, did not have documentation to support \$194,531 of in kind services for the Arts for All project it was required to match in the Agreement between the Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program and the City of Cincinnati's Public Recreation Commission.

The City's Public Recreation Commission also did not account for the \$250,000 of in kind contributions.

Issue 4

Cincinnati Empowerment Corporation Response

The Corporation incorrectly reported the Arts for All program served 15.128 Empowerment Zone residents in its June 30, 2001 Annual Report. However, the Commission only provided adequate documentation supporting that 70 Zone residents were served.

Issue 5

The Corporation also inaccurately reported the actual progress of the Arts for All program's milestones in its June 30, 2001 Annual Report.

CEC Response:

Issue 1 – VALIDATED & REFUTED

The City of Cincinnati's Public Recreation Commission (CRC) <u>did and</u> <u>does</u> have documentation to support all \$250,000 of in-kind services required in matching funds for the Arts for All project. In fact, CRC showed a total of \$252,130 in matching contributions for the 6/1/00 through 9/30/01 period. This document has been available at all times.

Supporting Documents:

OIG Schedule of In-kind Contribution Attachment 1 CRC Operating Expenditures-EZ Match Attachment 2

Issue 4 – VALIDATED & REFUTED

The Corporation reported the Arts for All program served 15,128 Empowerment Zone residents in its June 30, 2001 Annual Report based on reasonable estimates made by program administrators.

The Audit states that the Commission only provided adequate documentation supporting that 70 Zone residents were served. However, in only a three day period, (versus the three months the audit staff had to collect data) the Commission provided documentation to support three times (208) the number of residents served, in response to CEC's request

Arts For All

for additional supporting documents. Although these findings did not match what was reported in the 2001 Annual Report, CEC believes the reported number is representative of Arts for All EZ resident encounters based on the programs led and basic assumptions on participation detailed below.

This program was an effort to identify, hire, train and equip individuals and teams of artists to bring a variety of performing, visual and literary arts programs to the youth, teens, adults and senior residents of the EZ. The program hired qualified instructors from within the EZ, in effect hiring small business entrepreneurs who conducted the arts program and helped Zone residents put together an EZ Expo/Craft Fair. These activities enhanced the economic development of the Zone by supporting its entrepreneurs. Zone residents were also utilized to conduct the programs and provide training for other residents. This exposed participants to career opportunities in the arts through instructional programs and the Expo.

The instructional programs included:

<u>EZ MAP</u> – three mobile arts programmers brought the community targeted arts and crafts projects and performance opportunities. <u>Puppet Program</u> – three programmers and neighborhood participants developed their own script, constructed puppets, sets and props, and ultimately practiced and performed in the community. <u>African Drum & Dance Program</u> – multi-generational participants explored the history of drum and constructed drums for use in the

program.

Literary Arts Program – participants enhanced their self-image, fostered cultural awareness and developed a deeper understanding and appreciation for the literary arts.

These programs were directed toward each of the twelve EZ Centers over a period of time ranging from 20 weeks to 50 weeks. The intent of this program was to impact as many Zone residents as many times as possible. An EZ child or teen that participated in each program more than once would be an ideal example of success for those who developed Arts for All. This program is one that seeks multiple encounters with EZ residents, not singular contacts.

The administrators of the program in the Year 2000, when the EZ was in its infancy, made several key assumptions. First, the program <u>must</u> seek multiple encounters with EZ residents, not singular contacts, to be most effective. Second, by utilizing existing community centers located in all nine EZ neighborhoods, the contacts would be predominately EZ residents. These basic assumptions are in concert with the intent and spirit of the program. Sign-in sheets were used to track encounters but

Arts For All

Page 2 of 3

addresses were not requested because of the basic assumption that participation would be from the immediate neighborhood. Many administrators and participants alike did not understand that while living in an EZ neighborhood, one could very well <u>not</u> be considered an EZ resident by virtue of the inconsistent boundaries of the Empowerment Zone.

Given the breadth and duration of the programs and the key assumptions used to determine participation, attaining a service level of 15,128 encounters with EZ residents is a reasonable conclusion. CEC and the Commission feel that the audit staff was either unable or unwilling to put forth enough effort to reach this reasonable convincing conclusion.

> Supporting Documents: In Zone Participants List

Attachment 3

Issue 5 - VALIDATED & REFUTED

The Corporation <u>accurately</u> reported the progress of the Arts for All program's milestones in its June 30, 2001 Annual Report based on CEC interpretation of milestone reporting guidelines.

Supporting Documents: Milestone Status & Response Position Statement from CEC CEO

Schedule 1 Attachment 4

Arts For All

Page 3 of 3

Finding 2

OIG Preliminary Controls Over The Youth Capacity and Resource Finding Caption: Building/Coalition Freedom School Project Were Not Adequate

Condition: Issue 5

The Cincinnati Youth Collaborative did not maintain adequate documentation to support the 150 Empowerment Zone residents the City reported as served in its June 30, 2002 Annual Report.

Issue 6

The Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program, inaccurately reported the actual progress of the Youth Capacity and Resource Building/Coalition Freedom School project's milestones in its June 30, 2002 Annual Report. The City reported the milestone of evaluating student's behavior and academics during the school year as 100 percent complete. However, the City did not provide documentation to support that the milestone was complete.

The Corporation also failed to report on two milestones. Arrange for food with United States Department of Agriculture Summer Food Coordinator and order books and supplies were the two milestones. These milestones are contained in the Agreement between the Cincinnati Empowerment Corporation, the administering entity for the City, and the Cincinnati Youth Collaborative. The Agreement was not amended. As of June 30, 2002, the Collaborative was 100 percent complete with the milestone order books and supplies. The City did not have documentation to support whether the milestone arrange for food with United States Department of Agriculture Summer Food coordinator was complete.

Therefore, the Corporation should have reported on all the milestones incorporated in the Agreement.

CEC Response:

Issue 5 – VALIDATED & REFUTED

In the final report received from OIG on December 17, 2002, the issue is stated as such: "...the Cincinnati Youth Collaborative could not provide adequate documentation to support that the project served Empowerment Zone residents." (Appendix B, p.37) The Cincinnati Youth Collaborative <u>did maintain adequate documentation</u> to support that Empowerment Zone residents were served as stated in the City's June 30, 2002 Annual Report. Documentation is available in the form of site rosters with student names and addresses that were used to verify that EZ residents were indeed served.

Supporting Documents: Site Rosters

Attachment 1

CYC Freedom School

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Finding 2

Issue 6 - VALIDATED & REFUTED

The Cincinnati Empowerment Corporation, the administering entity for the City of Cincinnati's Empowerment Zone Program, <u>accurately reported</u> the progress of the Youth Capacity and Resource Building/Coalition Freedom School project's milestones in its June 30, 2002 Annual Report. The City deliberately reported on only the <u>major</u> milestones for the project, and held original <u>projected</u> start and end dates constant to ensure the integrity of the system and its use as an effective monitoring tool.

The City did not report on the additional two milestones. This is in line with CEC policy to report only on <u>major</u> project milestones.

Supporting Documents:		
Milestone Status & Response	Schedule 1	
Training Agenda	Attachment 2	
Training Summary - 2001 Implementation	Attachment '3	

CYC Freedom School

Page 2 of 2

Finding 2

OIG Preliminary

Finding Caption: Controls Over the Walnut Project Were Not Adequate

Condition: Issue 3

Inner City Health Care, Inc. (Walnut Project) did not provide documentation to support that \$72,000 in-kind contributions were provided to the Walnut Project.

Issue 4

The Cincinnati Empowerment Corporation did not accurately report the progress of five of the Inner City Health Care, Inc. (Walnut Project) milestones in its June 30, 2002 Annual Report. The table below contains the inaccuracies the City Reported for the five milestones.

Project Milestone	Reported Start Date	Actual Start Date	Reported End Date	Actual End Date	Reported Percent Complete as of 6/30/02	Actual Percent Complete as of 6/30/02
Design database management system			7/51/01	NM	100	75
Develop health and social program strategies	9/15/01	8/01/02	10/15/01	NM	75	
Recruit participants and complete initial workforce initial			12/30/02	6/30/02	a start da	
Place participants on jobs			12/30/02	6/30/02	n nghas	11.11.11.11.1
Implement retention activities		- 1	12/30/02	6/30/02		

NM- The milestone was not met. Therefore, the City needed to modify the date to reflect the estimated completion date.

> The Cincinnati Empowerment Corporation inaccurately reported outputs of the Walnut Project's in its June 30, 2002 Annual Report. The Corporation reported that 56 Empowerment Zone residents were placed in jobs and 384 Zone residents were served. However, the Walnut Project's documentation supported 38 Empowerment Zone residents placed in jobs and 274 Zone residents served.

Issue 5

The Cincinnati Empowerment Corporation did not report on three milestones for the Walnut project contract: develop and post workforce developer job positions; develop health/social system relationships; develop case manager and recruiters job positions

CEC

Response:

Issue 3 – VALIDATED & REFUTED

Inner City Health Care, Inc. (Walnut Project) <u>did provide documentation</u> to support that \$72,000 in-kind contributions were provided to the Walnut

Inner City Health - Walnut Project

Finding 2

Project. Upon CEC's request, a copy of the detailed breakdown of the inkind contributions was provided without delay.

Supporting Documents:	
Walnut Project PERMS Report	Attachment 1
Inner City Health Care Clarification Memo	Attachment 2 (p.3)

Issue 4 – VALIDATED & REFUTED

The Cincinnati Empowerment Corporation <u>accurately reported</u> the progress of the Inner City Health Care, Inc (Walnut Project) milestones in its June 30, 2002 Annual Report. Of the five milestones listed in the table above, only two were identified to CEC as being "incorrect". These two milestones were correctly reported based on CEC's policy to hold original <u>projected</u> start and end dates constant to ensure the integrity of the system and its use as an effective monitoring tool.

Regarding the reported outputs of the Walnut Project in its June 30, 2002 Annual Report. The figures reported were, in fact, in error. CEC takes issue with the language of the audit. It leaves the impression that this reporting inaccuracy is due to the inadequate controls, negligence or outright efforts at misinformation of the sub recipient. This is clearly not the case and CEC objects to the implication that it was anything more than an innocent mistake.

Earlier in the existence of the Cincinnati Empowerment Corporation, some sub recipients made the erroneous assumption that anyone living in an EZ neighborhood was by definition an EZ resident. Others used zip codes to determine if a person was within the EZ, not knowing the inconsistent nature of the EZ boundaries. The individuals and/or organizations using these methods were in error in their reporting methodology. Their intent, however, was to operate ethically and within the boundary and intent of the contract.

Supporting Documents: Milestone Status & Response Position Statement from CEC CEO

Schedule 1 Attachment 3 (p.3)

Issue 5 - VALIDATED & REFUTED

The Cincinnati Empowerment Corporation deliberately did not report on three milestones for the Walnut project. This is in line with CEC policy to report only on <u>major</u> project milestones.

Supporting Documents: Blanket Response from QA Officer

Attachment 4

Inner City Health - Walnut Project

Page 2 of 2

Finding 2

OIG Preliminary Controls Over The Nu-Blend Paint, Inc. Project Were Not Finding Caption: Adequate

Condition: Issue 2

The City inaccurately reported outputs of the Nu-Blend Paint, Inc. project in its June 30, 2002 Annual Report. The City reported 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs. However, Nu-Blend Paint. Inc., the administering entity for the project, did not have documentation to support the number of Empowerment Zone residents trained and the number of Zone resident trainees placed in jobs.

<u>Issue 3</u>

The City inaccurately reported the actual progress for eight of the Nu-Blend Paint, Inc. project's milestones in its June 30, 2002 Annual Report. The table below contains the inaccuracies the City reported for the seven of the eight milestones.

Project Milestone	Reported Start Date	Actual Start Date	Reported End Date	Actual End Date	Reported Percent Complete as of 6/30/02	Actual Percent Complete as of 6/30/02
Implement advertising of business/print and advertise "Painters Available" lists.			11/10/02	6/30/02		
Target sales gallons for month of March 2002 (1,200).	5/10/02	3/1/02	6/10/02	3/31/02	75	100
Implement pail and lid purchase schedule.			11/10/02	6/30/02		
Develop testing lab for improved quality.	·. · · · · ·	1.16	3/12/02	NM		
Add two, 1,200 gallon blending tanks,	7/11/02	NA	8/11/02	NA	1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 - 1997 -	
Hire temporary labor and temporary workforce of at least 6 Zone residents for transition expansion.			2/9/02	NM	100	83
Continue set-up and expansion of business.		· · · · · · ·	12/11/02	6/30/02		

NM – The milestone was not met. Therefore, the City needed to be modify the date to reflect the estimated completion date.

NA – Not Applicable. The 1,200 gailon blending tanks were not needed. Therefore, the City should have reported that the milestone was not applicable.

The City also did not have documentation to support the milestone of implement paint training program class 101, 201, 301, and 401.

In addition, the City failed to report on the following nine milestones: temporary labor to expand: add new blending motors/mixers: Empowerment Zone residential discount of 25 percent; Empowerment Zone business location discount of 25 percent; install employee benefits package: install fax machine; install land line telephone system; target sales gallon for month of 1000 gallons for October 2001; and add Vorti-Sieve vibratory filter.

CEC Operations

Response: Issue 2 - VALIDATED & REFUTED

The City accurately reported outputs of the Nu-Blend Paint, Inc. project in its June 30, 2002 Annual Report. The City reported 11 Empowerment Zone residents were trained and five Zone resident trainees were placed in jobs. There is sufficient documentation to support this statement.

Fundamental to this program is the progression that individuals must complete before being considered a trained employee. First, the employee must volunteer time without pay in the form of community service to demonstrate a level of commitment to his/her own improvement. Once the community service requirement is completed, the individual must successfully complete a series of preparatory classes designed to provide participants with the skills and knowledge to work successfully in a skilled trade - painting. Upon completion of the training classes the individual has four options: 1) do nothing; 2) work as a painter part-time; 3) work with painting companies as an independent contractor or employee or 4) begin learning how to start his/her own painting company.

Evidence that an individual has been employed by Nu-Blend Paints is also evidence that they have successfully completed their training. Documentation in the form of payroll records has been available at all times and confirms that eleven EZ residents have been hired as temporary employees, as independent contractors or as permanent employees.

Supporting Documentation:

Nu-Blend Clarification Memo	Attachment 1
Nu-Blend Employee Documentation	Attachment 2
Nu-Blend Check Memo	Attachment 3

Issue 3 – VALIDATED & REFUTED

The City did not inaccurately report the progress for Nu-Blend Paint project milestones in its June 30, 2002 Annual Report. The City deliberately reported on only the major milestones for the project, and held original projected start and end dates constant to ensure the integrity of the system and its use as an effective monitoring tool.

The City did not report on the additional nine milestones. This is in line with the CEC policy to report only on major project milestones.

Supporting Documentation:	
Milestone Status & Response	Schedule 1
Position Statement from CEC CEO	Attachment 4
Blanket Response from QA Officer	Attachment 5
Nu-Blend Memo on Test Lab Milestone	Attachment 6
Payroll Records	Attachment 7
101, 401 Training Class Timesheets	Attachment 8

OIG Preliminary Controls Over The Cincinnati-Hamilton County Training And Finding Caption: Job Placement Center Project Were Not Adequate

Condition: Issue I

The City of Cincinnati did not have supporting documentation for Participating Entities listed as providing non-Empowerment Zone grant funds for the Cincinnati-Hamilton County Training and Job Placement Center project in its June 30, 2002 Annual Report to HUD. The City reported the Kroger Foundation, Emory Foundation and all other foundation provided \$11,000, \$10,000 and \$117,000, respectively. However, the City did not have supporting documentation for the \$138,000 in non-Zone grant funds from the Participating Entities.

Issue 2

The City of Cincinnati inaccurately reported the project's outputs in its June 30, 2002 Annual Report. The City reported that 32 Empowerment Zone residents were trained. The Cincinnati-Hamilton County Training and Job Placement Center, the administering entity for the project, provided a list of 40 trainces. However, the Center only had supporting documentation that 17 of the trainees attended training during the term of the contract. Another 17 individuals attended training outside the term of the contract. The Center did not have supporting documentation for the remaining six individuals. Of the 17 trainees provided training during the term of the contract, only nine were Zone residents.

The City also reported 12 Zone resident trainees were placed in jobs. However, the Center did not have adequate documentation to support that the 12 Zone resident trainees were placed in jobs.

4.1.2

Issue 3

The City of Cincinnati inaccurately reported on one milestone in its June 30, 2002 Annual Report to HUD. The City reported that the summer training and follow-up was 100 percent complete. However, adequate documentation was not provided to support this milestone was actually completed as of June 30, 2002. In addition, the City failed to report on the following seven milestones: interview participants and set up files; conduct program orientation; begin summer quarter training program; provide life skills classes; conduct employment preparedness training; hold job fair/employment seminar: and hold graduation ceremony. These milestones are contained in the Agreement between the Cincinnati Empowerment Corporation, the edministering entity for the City, and Cincinnati-Hamilton County Training and Job Placement Center. The Agreement was not amended. Therefore, the City should have reported on all the milestones incorporated in the Agreement.

Liberty Street

CEC Response:

Issue 1 – VALIDATED & REFUTED

The City of Cincinnati <u>did have supporting documentation</u> for Participating Entities listed as providing non-Empowerment Zone grant funds for the Cincinnati-Hamilton County Training and Job Placement Center project in its June 30, 2002 Annual Report to HUD. Grant letters from both the Kroger Foundation and the Emery Foundation were given to auditors and have been on-site at all times. These non-Zone grant funds were the <u>only</u> funds requiring disclosure and documentation. They represented and exceeded the required match for the HUD EZ Funds (Round II) of \$16,000. The additional \$117,000 in non-Zone grant funds were above and beyond the required match and were included as a budget estimate and fundraising goal.

Supporting Documents:	
PERMS Summary Report	Attachment 1
Kroger Foundation Grant Letter	Attachment 2
Emery Foundation Grant Letter	Attachment 3

Issue 2 – VALIDATED & REFUTED

The City of Cincinnati <u>accurately reported</u> the project's outputs in its June 30, 2002 Annual Report. There is more than adequate documentation to support the training of 32 Empowerment Zone residents. The program employees provided sign-in sheets and teachers' class attendance records for the EZ students. The addresses were cross-referenced to registration forms and to the student roster. These documents substantiated the figure reported by the City.

The Center also <u>had adequate documentation</u> to support job placement of 12 EZ residents. An "Empowerment Zone Student Log" which lists names, phone numbers, employer and/or position, and hourly wages for 12 EZ students was available.

Supporting Documents:	
Liberty Street Clarification Memo	Attachment 4
Trainee Registration Forms	Attachment 5
Class Sign-In Sheets	Attachment 6
Teachers' Class Rosters	Attachment 7
EZ Student Log	Attachment 8

Issue 3: VALIDATED & REFUTED

The City of Cincinnati <u>accurately</u> reported on the milestone that the summer training and follow-up was 100 percent complete in its June 30, 2002 Annual Report to HUD. Liberty Street Learning Center provided adequate documentation to support that the milestone was completed.

Liberty Street

Page 2 of 3

Finding 2

This documentation is in the form of teacher attendance records and student sign-in sheets for the summer training. In addition, a life skills class was offered which included employment preparedness. A job fair and employment seminar presented by Cincinnati Works were held to discuss employment opportunities. Finally, a graduation ceremony was organized for interested students.

The City deliberately did not report on the additional seven milestones. This is in line with CEC policy to report only on <u>major</u> project milestones.

Supporting Documents:	
Milestone Status & Response	Schedule 1
Trainee Registration Forms	Attachment 5
Class Sign-In Sheets	Attachment 6
Teachers' Class Rosters	Attachment 7
EZ Student Log	Attachment 8
Blanket Statement from QA Officer	Attachment 9

Liberty Street

Page 3 of 3

Finding 2

OIG Preliminary Accomplishments For The People Working Cooperatively, Inc. Finding Caption: Project Were Inaccurately Reported

Condition: Issue 1

In its Annual Report to HUD for the year ended June 30, 2002, the City of Cincinnati inaccurately reported the sources of program funds from non-Empowerment Zone grants. The City reported the People Working Cooperatively. Inc. provided \$938,000 cash for the project. However, People Working Cooperatively, Inc. contributed \$1,292,078 of in-kind services.

issue 2

In its Annual Report to HUD for the year ended June 30, 2002, the City of Cincinnati inaccurately reported the number of Empowerment Zone residents served. The City reported that zero Zone resident were served. However, three Zone residents were served. In addition, the City only reported that 75 Zone residents are projected to be served and did not report on the number of housing units to be rehabilitated. However, the agreement between the Cincinnati Empowerment Corporation and People Working Cooperatively, Inc. projected 300 Zone residents were to be served and 25 housing units were to be rehabilitated. Also, three housing units were rehabilitated.

Issue 3

The City of Cincinnati inaccurately reported on three milestones in its Annual Report to HUD for the year ended June 30, 2002. The City reported that the start of classes, loan booking and closure, and monthly Cincinnati Empowerment Corporation Director were 50, 50, and 25 percent complete as of June 30, 2002. However, all three milestones were 100 percent complete as of June 30, 2002. In addition, the City failed to report on the following eight milestones: identification and certification of clients; preparations of specifications; environmental and historical review and clearance; loan origination: construction monitoring; periodic and final inspection of work; recruit and certify zone contractors; and advertise for potential employment opportunities with contractors. These milestones are comained in the Agreement between the Cincinnati Empowerment Corporation, the administering entity for the City, and People Working Cooperatively, Inc. The Agreement was not amended. Therefore, the City should have reported on all the milestones incorporated in the Agreement.

CEC

Response:

Issue 1 – VALIDATED

In its Annual Report to HUD for the year ended June 30, 2002, the City of Cincinnati erroneously reported the amount of program funds from non-Empowerment Zone grants. People Working Cooperatively, Inc. has actually contributed \$1,292,078 in cash donations to the project. This

PWC

Finding 2

correct amount will be updated in the PERMS system maintained by Cincinnati Empowerment Corporation.

Supporting Documents:	
PERMS Summary Report	Attachment 1
PWC Clarification Memo	Attachment 2
Cash Contribution Detail Summary	Attachment 3

Issue 2 – VALIDATED & REFUTED

In the Agreement between the Cincinnati Empowerment Corporation and People Working Cooperatively, Inc., the contract Scope of Service and/or Performance goals never stated how many EZ residents would be served. The only statement that can be remotely construed as such is "300 homes within the Zone are in need of major exterior repair." The City reported that zero Zone residents were served because the number of residents served should not be on the Implementation Plan and should not have become a measurable output. This fact should have become evident to any auditor with access to these files.

The City did not report on the number of housing units to be rehabilitated because of the uncertainties arising from the lead abatement issues. Work halted awaiting federal and state lead based paint laws. When issued, the laws were more complex and burdensome than originally anticipated. As governing bodies were defining lead containment regulations, work had to move slowly or halt entirely because of the confusing and changing nature of construction costs.

To reflect these uncertainties, the output "rehabilitations" was adjusted from 25 to 0. Once again, the audit staff chose to describe the situation as an inaccuracy, preferring to imply negative or negligent performance rather than appropriately reporting the context of the situation and the obvious mitigating circumstances.

Supporting Documents: PERMS Summary Report PWC Clarification Memo

Attachment 1 Attachment 4

Issue 3 - VALIDATED

The City deliberately did not report on eight milestones. This is in line with CEC policy to report only on <u>major</u> project milestones.

Supporting Documents: Milestone Status & Response Blanket Statement from QA Officer

Schedule 1 Attachment 5

PWC

Page 2 of 2

OIG Preliminary Controls Over the Nanny's Multi-Level Learning Center Project Finding Caption: Were Not Adequate

Condition: Issue 1

The Cincinnati Empowerment Corporation in its June 30, 2001 Annual Report did not report accurately the progress of the Nanny's Multi Level Learning Center Project. It did not report accurately the starting and completion dates for 15 milestones reported for the Nanny's Multi Level Learning Center project.

CEC

Response:

e: <u>Issue 1</u> – VALIDATED & REFUTED

The Cincinnati Empowerment Corporation in its June 30, 2001 Annual Report did not report on milestones for Nanny's Multi Level Learning Center Project <u>because for-profit entities are not suited for reporting in the</u> <u>PERMS system.</u>

Nanny's Multi Level Learning Center was the first for-profit program approved by CEC. The project was initially entered into PERMS for tracking. After the project was entered into the system, legal counsel for CEC determined that only grants for non-profit entities are suited for this system. Servicing of for-profit entities would be managed through the E-Fund process for loans. The administration and staff, having little experience and less training on the PERMS system, could not delete the project from PERMS. As a result, Nanny's was left on the system and never utilized with the full understanding that this <u>was not inaccurate</u> <u>reporting</u>, but a short-term solution until the staff received further training and experience.

This situation <u>in no way</u> reflects inaccurate reporting, as the project was duly tracked through the E-Fund process. To reach the conclusion formed by OIG, indicates a lack of professionalism and a bias toward the negative.

Supporting Documents: Attorney Memo E-Fund Memo

Attachment 1 Attachment 2

Nanny's

OIG Preliminary Accomplishments For The A.D.A. Investment Group, Inc. Finding Caption: Project Were Not Reported

Condition: Issue 1

The City of Cincinnati did not accurately report the sources and uses of program funds and accomplishments for the A.D.A. Investment Group, Inc. project in its June 30, 2002 Annual Report to HUD. The City created an Implementation Plan for all of the Zone Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund projects. The City also did not have documentation to support the sources and uses of program funds and accomplishments for each project reported in the Implementation Plan.

The Chief Executive Officer of the Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, stated that the sources and uses of program funds and accomplishments reported in the Annual Report for the Zone Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund did not specifically relate to the A.D.A. Investment Group, Inc. project.

CEC Response:

Issue 1 - VALIDATED & REFUTED

The City of Cincinnati did not report the sources and uses of program funds and accomplishments for the A.D.A. Investment Group, Inc. project in its June 30, 2002 Annual Report to HUD <u>because for-profit entities are</u> not suited for reporting in the PERMS system.

The Cincinnati Empowerment Corporation was advised by HUD to use PERMS when establishing the E-Fund for loans to for-profit entities. The Implementation Plan created during this process is related only to establishment of the E-Fund. Thus, CEC had no means of reporting through PERMS those milestones and/or outputs typically reported for grants to non-profit organizations. The issue is not that CEC incorrectly reported, lacked oversight or control, or documentation but that the process for reporting on loans had never been identified much less clarified. It must be understood that once a loan is closed, as long as regular principal and interest payments are forthcoming, there is little leverage available to require additional reporting. To place too many encumbrances on the recipients could damage the accessibility of the program and cause sub recipients to seek loan-funding elsewhere. HUD has confirmed that this less than adequate procedure will continue until a means is identified to report and monitor progress on milestones and outputs through PERMS. Until that point, however, CEC will monitor these programs in the way grants to non-profits are monitored, (i.e. site visits, progress reporting, etc.) although these procedures will occur outside PERMS.

Supporting Documents: E-Fund Memo

Attachment 1

ADA

OIG Preliminary Accomplishments For The Big Dollar, LLC Project Were Not Finding Caption: Reported

Condition: Issue 1

The City of Cincinnati did not accurately report the sources and uses of program funds and accomplishments for the Big Dollar, LLC project in its June 30, 2002 Annual Report to HUD. The City created an Implementation Plan for all of the Zone Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund projects. The City also did not have documentation to support the sources and uses of program funds and accomplishments for each project reported in the Implementation Plan.

The Chief Executive Officer of the Cincinnati Empowerment Corporation, the administering entity for the City's Empowerment Zone Program, stated that the sources and uses of program funds and accomplishments reported in the Annual Report for the Zone Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund did not specifically relate to the Big Dollar, LLC project.

CEC Response:

Issue 1 - VALIDATED & REFUTED

The City of Cincinnati did not report the sources and uses of program funds and accomplishments for the Big Dollar, LLC project in its June 30, 2002 Annual Report to HUD <u>because for-profit entities are not suited for</u> reporting in the PERMS system.

The Cincinnati Empowerment Corporation was advised by HUD to use PERMS when establishing the E-Fund for loans to for-profit entities. The Implementation Plan created during this process is related only to establishment of the E-Fund. Thus, CEC had no means of reporting through PERMS those milestones and/or outputs typically reported for grants to non-profit organizations. The issue is not that CEC incorrectly reported, lacked oversight or control, or documentation but that the process for reporting on loans had never been identified much less clarified. It must be understood that once a loan is closed, as long as regular principal and interest payments are forthcoming, there is little leverage available to require additional reporting. To place too many encumbrances on the recipients could damage the accessibility of the program and cause sub recipients to seek loan-funding elsewhere. HUD has confirmed that this less than adequate procedure will continue until a means is identified to report and monitor progress on milestones and outputs through PERMS. Until that point, however, CEC will monitor these programs in the way grants to non-profits are monitored, (i.e. site visits, progress reporting, etc.) although these procedures will occur outside PERMS.

Supporting Documents: E-Fund Memo

Attachment 1

Big Dollar

The City Provided Zone Funds To Projects That Have Not Benefited Zone Residents Or Benefited Less Than 50 Percent of Zone Residents

A review of the Contract Statement of Services, Implementation Plan, and/or readily available supporting documentation for each of the projects cited in this finding, unequivocally shows that the City ensured that its Empowerment Zone contracts required projects to primarily benefit Zone residents. Furthermore, not only was that requirement stipulated, each of the projects met and exceeded HUD requirements to demonstrate consistency with the Empowerment Zone strategic plan.

The Cincinnati Empowerment Corporation does not understand how OIG could have reached the conclusion that Zone residents have not been served by projects receiving funds and that the contracts did not require projects to primarily benefit Zone residents. CEC refutes this finding and requests OIG to remove it from the report.

Projects cited by OIG

Project	Start Date	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
Nu-Blend Paint, Inc.	9/11/01	11/10/02	\$258,900	\$239,489	0	0	0
Youth Capacity and Resource Building/Coalition Freedom School	6/22/01	8/15/01	\$139,130	\$133,377	0	0	0
Arts For All	6/22/00	9/30/01	\$250,000	\$221,596	187	70	37

Nu-Blend Paint, Inc

In documentation already supplied refuting Finding 2, the Cincinnati Empowerment Corporation has supported the claim that eleven Empowerment Zone residents were trained and five EZ residents were placed in jobs. In PERMS, the Proposed Outcome on the Implementation Plan states, "Provide EZ Residents with economic opportunity, ... provide EZ residents and businesses with latex paint product discounts of 25%, while providing economic training and job opportunities". The contract dated 9/11/2001 states unequivocally that EZ residents are to be served; "The program's plan is to work with individuals who will all be residents of an Empowerment Zone, and who are interested in learning the painting trade in exchange for volunteer labor. Every eight hours of volunteer work will entitle the

CYC-Freedom School

Arts For All

Finding 3

volunteer to receive one of four training classes on painting.... In addition, we would also look to provide direction and guidance in setting up their own business by periodically arranging for business experts to conduct seminars, etc. at no cost to the graduate". Clearly the contract, the Implementation Plan and documented results of the program refute the unsubstantiated claim by the audit team.

In documentation already supplied refuting Finding 2, the Cincinnati Empowerment Corporation has proved the Program serves & employs Empowerment Zone residents. Hiring EZ residents is accomplished by recruiting from area high schools located within the Empowerment Zone. The Compliance Statement and Implementation Plan on file at CEC headquarters further substantiate the express desire of the Cincinnati Empowerment Corporation to ensure its projects "primarily benefit Zone residents".

The figures OIG presents in support of their finding are simply incorrect. The Contract, Monthly Statistical Reports and Quarterly Statistical Reports provided by Arts For All, all attest to the fact that the number of Zone Residents served by this program is well above the targets set to be consistent with the strategic plan (51%).

This program was an effort to identify, hire, train and equip individuals and teams of artists to bring a variety of performing, visual and literary arts programs to the youth, teens, adults and senior residents of the EZ. The program hired qualified instructors from within the EZ, in effect hiring small business entrepreneurs who conducted the arts program and helped Zone residents put together an EZ Expo/Craft Fair. These activities enhanced the economic development of the Zone by supporting its entrepreneurs. Zone residents were also utilized to conduct the programs and provide training for other residents. This exposed participants to career opportunities in the arts through instructional programs and the Expo.

The instructional programs included: <u>EZ MAP</u> – three mobile arts programmers brought the community targeted arts and crafts projects and performance opportunities.

<u>Puppet Program</u> – three programmers and neighborhood participants developed their own script, constructed puppets, sets and props, and ultimately practiced and performed in the community.

Page 2 of 4

<u>African Drum & Dance Program</u> – multi-generational participants explored the history of drum and constructed drums for use in the program. <u>Literary Arts Program</u> – participants enhanced their selfimage, fostered cultural awareness and developed a deeper understanding and appreciation for the literary arts.

These programs were directed toward each of the twelve EZ Centers over a period of time ranging from 20 weeks to 50 weeks. The intent of this program was to impact as many Zone residents as many times as possible. An EZ child or teen that participated in each program more than once would be an ideal example of success for those who developed Arts for All. This program is one that seeks multiple encounters with EZ residents, not singular contacts.

The administrators of the program in the Year 2000, when the EZ was in its infancy, made several key assumptions. First, the program must seek multiple encounters with EZ residents, not singular contacts, to be most effective. Second, by utilizing existing community centers located in all nine EZ neighborhoods, the contacts would be predominately EZ residents. These basic assumptions are in concert with the intent and spirit of the program. Sign-in sheets were used to track encounters but addresses were not requested because of the basic assumption that participation would be from the immediate neighborhood. Many administrators and participants alike did not understand that while living in an EZ neighborhood, one could very well not be considered an EZ resident by virtue of the inconsistent boundaries of the Empowerment Zone.

The Audit states that the Commission only provided adequate documentation supporting that 70 Zone residents were served (figure shown in above table). However, in only a three day period, (versus the three months the audit staff had to collect data) the Commission provided documentation to support three times (208) the number of residents served, in response to CEC's request for additional supporting documents.

Although these findings did not match the figure reported in the 2001 Annual Report, CEC believes that given the breadth and duration of the programs and the key assumptions used to determine participation, attaining a service level of 15,128 encounters with EZ residents is a reasonable conclusion. CEC and the Commission feel that the audit staff was either unable or

Page 3 of 4

Finding 3

unwilling to put forth enough effort to reach this reasonable convincing conclusion.

In summary, a review of the Contract dated 6/26/00 leaves no question that the program was "structured to primarily benefit Zone residents". The following quotations from the Statement of Services support this point:

"The Commission shall identify, and where practicable hire, qualified performing, literary and creative artists from Empowerment Zone neighborhoods..." (p.14)

"The Commission shall use existing Commission resources currently assigned at Empowerment Zone neighborhoods..." (p. 14)

"The Commission shall plan, develop and organize Empowerment Zone Mobile Arts Programs (EZ MAP)..." (p. 15)

"The Commission shall plan, develop and organize African Drum and Dance Program designed for all ages, running for five (5) weeks at each of the twelve (12) Empowerment Zone neighborhoods..." (p. 15)

"The Commission shall plan, develop and organize Literary Arts Program designed for youths, teens, adults, and senior citizens in the Empowerment Zone." (p. 15)

"The Commission shall transport program participants audiences from the Empowerment Zone neighborhoods to various grassroots art exhibits and performance within the Empowerment Zone..." (p. 16)

Page 4 of 4



Cincinnati Empowerment Corporation

Office of the CEO

Leaving No One Behind

December 26. 2002

Empowerment Zone Neighborhoods Avondale Clifton Heights

Clifton Heights Corryville Evanston Mt. Auburn Over-the-Rhine Queensgate Walnut Hills West End Edward Kim Assistant Regional Inspector General for Audit U.S. Department of HUD-Office of Inspector General 200 North High Street, Room 334 Columbus, Ohio 43215

Dear Mr. Kim:

I send you greetings from the residents and staff of the Cincinnati Empowerment Corporation.

Pursuant to my conversation with Mr. Heath Wolfe, Regional Inspector General for Audit, Region V, on Wednesday, December 18, 2002 I am providing the list of quotes in the OIG draft report for Cincinnati Empowerment Corporation (CEC) that I in fact did not make. According to Mr. Wolfe, all statements attributed to me that I emphatically declare that I did not make and that do not have supporting documentation via letter, email, note or other form of documentation that I would have authored, shall be stricken from the draft report. To restate my concern, as I read the draft it contains several references to what the CEO said which I in fact did not say. I believe it is imperative that the report maintains its accuracy and should not reference statements that individuals in fact did not make. To my remembrance there were only approximately two or three meetings where the OIG on-site team met with my staff and I. In addition, if you would like I can have our attorneys draft affidavits that both my staff and myself will sign to validate that I indeed did not make these statements. Any and all statements attributed to me would have been made in the company of my staff. Therefore, they are willing to sign affidavits regarding these references in the OIG draft report that say the CEO "said". I am listing below for your examination the statements from the report that are attributed to me that I am requesting be stricken from the draft report. In some instances the statements were never made by me and in some instances they do not reflect what I said. I would be happy to elaborate further upon request.

- Page 30 "The Corporation's Chief Executive Officer said he thought the Board of Health advertised the four positions; however, he could not provide documentation to support the Board of Health advertised the positions."
- Page 31 "The Chief Executive Officer for the Cincinnati Empowerment Corporation said individuals should be counted each time they receive any of the project's services. The Officer also said the project's milestones were accomplished."

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- Page 33 "The Cincinnati Empowerment Zone Corporation's Chief Executive Officer said he was not aware that lists of names were not adequate documentation to show attendance of Zone residents."
- Page 34, 41, 44, 47, & 51 "The Corporation's Chief Executive Officer said that project milestones are projections, not the actual dates the milestones were accomplished."
- 5. Page 36 "The Chief Executive Officer for the Corporation said he felt that copies of checks not cashed, duplicate checks, and schedules were acceptable documentation to support the expenses. The Officer also said he trusted the Cincinnati Youth Collaborative to abide by their contract with the Corporation."
- 6. Page 36 "The Corporation's Chief Executive Officer said that the Collaborative did not have to meet its contract requirement because a September 5, 2002 letter from HUD's Deputy Assistant Secretary for Economic Development stated the requirement that 51 percent of the beneficiaries of a project must be Empowerment Zone residents cannot be applied retroactively."
- Page 52 & 54 "The Corporation's Chief Executive Officer said that he views the Economic Empowerment Center/Creation of the Cincinnati Empowerment Fund as one project".

I feel the need to elaborate further on two of the above referenced statements. First, regarding statement #4 referenced on pages 34, 41, 44, 47, and 51 what I as the Chief Executive Officer actually said was "In the EZ/EC Performance Measurement System (PERMS) the start and end date are identified as 'projected' dates and not actual dates". Secondly, regarding statement #6 referenced on page 36, what I said was "Have you received the memo from the HUD's Deputy Assistant Secretary for Economic Development which states that the new resident benefit standard should not be applied retroactively. Please get a copy of this as it may address some of your concerns around the resident benefit percentage".

Mr. Kim, once again I am requesting that the seven above referenced statements including the multiple pages where you will find them be eliminated from the report. I thank you for your diligence in this matter.

Sincerely and respectfully,

Harold Cleveland Chief Executive Officer

Auditee Comments

Auditee Comments

Executive Summary

The Cincinnati Empowerment Corporation, on behalf of the City of Cincinnati's Empowerment Zone Program, wholly refutes the preliminary audit findings of the Office of the Inspector General. After a thorough review of each issue associated with the projects cited in the findings, CEC can find no material evidence of inadequate oversight of its Empowerment Zone funds or inaccurate reporting of the accomplishments of its Empowerment Zone Program to HUD. (Findings 1 & 2) Furthermore, CEC strongly objects to the claim that the City used Empowerment Zone monies to fund three projects that have not provided benefits to Empowerment Zone residents. (Finding 3)

It is the opinion of the Cincinnati Empowerment Corporation that the audit was conducted with very little due professional care and a strong negative bias. CEC researched and validated every issue cited by OIG in the Preliminary Findings. With minimal effort, supporting documentation, clear adherence to HUD guidelines, and/or a reasonable mitigating circumstance was found to refute each material issue. In many instances, this documentation had been previously made available to auditors and rationale for certain reporting methodologies explained. It appears the audit disregarded this information and instead reported items as missing and/or inaccurate.

Maintaining the integrity of the reporting and use of funds of the City of Cincinnati's Empowerment Zone Program is of utmost importance to the Cincinnati Empowerment Corporation. An allegation of impropriety in the form of inadequate oversight and inaccurate reporting, even though unfounded, can cause untold damage to the Program's forward momentum and future potential.

The City strongly refutes these findings and requests OIG to remove them from the audit report.

Auditee Comments – Finding 1

The City of Cincinnati has continuously maintained sufficient oversight of its Empowerment Zone (EZ) funds, resulting in efficient and effective use of the funds. The audit cites that "the City inappropriately used \$44,651 of Zone funds and lacked documentation to show that another \$367,548 in Zone funds paid benefited the City's Empowerment Zone Program or were matched with in-kind services as required". The conclusion reached by the audit on this finding is both premature and incorrect. At no time were Zone funds used inappropriately and not only was adequate supporting documentation found filed on-site at either CEC headquarters or Project offices, many of the documents were provided to auditors by the administering entities of the City's Zone projects during the initial audit. In some instances, the documents obtained during this 'audit response period' had never even been requested of the administering entities during the audit. We refute this finding, and request OIG to remove it from the report. The Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, operates with effective oversight and controls to assure Zone funds were and are used appropriately.

In response to Recommendation 1A, CEC believes no reimbursements to the EZ Program are necessary as all funds questioned in the finding were used appropriately and had adequate supporting documentation. The documentation supporting this position has been submitted to OIG.

Documentation has also been submitted to OIG to support that \$367,548 of EZ funds benefited the City's EZ Program according to Recommendation 1B. It is the opinion of the City that no reimbursement is necessary. The Corporation firmly objects to this finding and recommendation. For the majority of expenses questioned for having insufficient documentation, adequate documentation was found in existing files that should have been clearly evident at the time of the on-site audit.

The Cincinnati Empowerment Corporation currently has adequate procedures and controls in place to ensure that EZ funds are used efficiently and effectively. As the organization matures and gains further experience, it will continue to implement measures to reinforce and continuously improve its capabilities as desired by Recommendation 1C.

In line with Recommendation 1D, CEC currently requires the projects' administering entities to maintain documentation to show that EZ funds are used in accordance with EZ Program requirements. Again, as the project administrators acquire more experience, the process will continually improve.

Auditee Comments

Auditee Comments – Finding 2

The City of Cincinnati, to the best of its ability, accurately reported the status and/or progress of its projects in its June 30, 2001 and June 30, 2002 Annual Reports. Contrary to the preliminary audit of the Office of the Inspector General, the City's June 2001 and 2002 Report contained no material inaccuracies related to project outputs, milestones and sources of funding.

OIG defines "inaccurate reporting" with broad and sweeping brush strokes. In every instance that the audit cited "inaccurate reporting", the City has 1) operated within HUD and/or City published reporting guidelines 2) repeatedly explained mitigating circumstances surrounding the purported inaccuracies and/or 3) identified previously existing documentation to substantiate the figures reported.

The Cincinnati Empowerment Corporation, the administering entity of the City's Empowerment Zone Program, has and continues to maintain adequate controls over the Annual Report submitted to HUD. The City refutes this finding and requests OIG to remove it from the report.

In response to Recommendation 2A, the Cincinnati Empowerment Corporation does have procedures and controls in place to verify the accuracy of the information submitted to HUD for the Empowerment Zone program and that actual accomplishments were used to report each project. Note: exceptions when CEC staff used PERMS for monitoring in cases when system was not designed for monitoring those specific programs (ie. e-funds)

With Board approval and support, CEC has 1.) reinforced the operational functions by adding additional staff and procedures, 2.) a dedicated compliance staff, and 3.) installed an automated monitoring and tracking system. Such enhancements will further improve the accuracy and verification of the outputs / outcomes of the EZ projects.

Auditee Comments

Auditee Comments – Finding 3

A review of the Contract Statement of Services, Implementation Plan, and/or readily available supporting documentation for each of the projects cited in this finding, unequivocally shows that the City ensured that its Empowerment Zone contracts required projects to primarily benefit Zone residents. Furthermore, not only was that requirement stipulated, each of the projects met and exceeded HUD requirements to demonstrate consistency with the Empowerment Zone strategic plan.

The Cincinnati Empowerment Corporation does not agree with the conclusion that Zone residents have not been served by projects receiving funds and that the contracts did not require projects to primarily benefit Zone residents.

CEC refutes this finding and requests OIG to remove it from the report.

As a review of the Contracts in place shows, the Cincinnati Empowerment Corporation has procedures and controls currently in place to ensure that Empowerment Zone contracts meet Empowerment Zone Program requirements regarding benefits to Zone residents. This satisfies Recommendation 3A.

According to Recommendation 3B, the three projects cited in this finding have met and/or exceeded HUD guidelines for determining whether a program primarily benefits Zone residents. No reimbursement to the EZ Program is necessary.

Distribution

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

- The Honorable Christopher S. Bond, Chairman, Subcommittee on Veterans Affairs, HUD, and Independent Agencies, 274 Russell Senate Office Building, United States Senate, Washington, DC 20510
- The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs, 706 Hart 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
- Charlie Luken, Mayor of City of Cincinnati, Ohio
- Harold L. Cleveland II, Chief Executive Officer of Cincinnati Empowerment Corporation