



Issue Date December 26, 2002
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Audit Case Number 2003-KC-1003
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TO: Pamela Glekas-Spring, Director of Renewal Communities/Empowerment  
Zones/Enterprise Communities Initiative, DEEZ

*Roger E. Niesen*

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: St. Louis, Missouri/East St. Louis, Illinois Empowerment Zones  
St. Louis, MO

### INTRODUCTION

We have completed an audit of the City of St. Louis Empowerment Zone Program. The audit was conducted based upon a request 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. Our audit covered the period of January 1, 1999 through June 30, 2002. We conducted the audit in accordance with generally accepted government auditing standards.

To determine whether the City efficiently and effectively used Empowerment Zone funds and accurately reported the accomplishments of its Empowerment Zone Program, we interviewed appropriate Empowerment Zone and HUD staff, researched the Internet to obtain background information on the Empowerment Zone, reviewed HUD's guidance, and performed site visits at the projects selected for detailed review. Additionally, we reviewed the following records maintained by HUD, the St. Louis Empowerment Zone, and administering entities:

- St. Louis Community Planning and Development files, records and reports
- Empowerment Zone project files
- Subgrantee files and records
- Disbursing agent documentation

- HUD guidelines and other pertinent federal regulations applicable to the review objectives.

We reviewed the purpose and eligibility of all the projects performed by the Zone during the audit period. In addition, we performed a more detailed review of the activities of four of the Zone's 20 projects. These projects represent \$2,400,000 or 45 percent of the Zone's \$5,278,675 in total funding commitments and fall into three of the four main funding categories contained in the City's Strategic Plan. We chose these four projects because they were the only projects that had expended at least 85 percent and \$100,000 of their committed funding.

The following table shows the four activities reviewed:

<i>Activity</i>
<b>1. Parson's Place Phase 1</b>
<b>2. Near Southside Hope Senior Housing</b>
<b>3. Midwest Telecommunications Preparatory Academy</b>
<b>4. River South Recreation Area Remediation</b>

We concluded that the City did not correctly report all accomplishments of its Empowerment Zone Program to HUD. This report contains one recommendation requiring corrective action.

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 me at (913) 551-5870.

### **SUMMARY**

We have completed an audit of the City of St. Louis Empowerment Zone Program. The audit was conducted based upon a request from Congress. The 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 Report 107-43 also requested HUD's Office of Inspector General to review the use of Empowerment Zone funds with a report to Congress. This audit was part of our fiscal year 2002 Annual Audit Plan.

We concluded that the City did not accurately report all planned and actual outputs or funding commitments in its June 30, 2002 Performance Review. For one of the four projects we reviewed, the Performance Review contained information that overstated the projected number of area residents to be served and understated the actual number of area residents

served. For two of the four projects, total funding commitments were understated. This occurred because the City projected all residents of the Empowerment Zone census tract as being served by a construction project, whereas only the occupants of the units should have been projected. Also, the City overlooked reporting the actual figures when it prepared its report. HUD requires accurate information to be able to accurately review and assess the progress of the City's Empowerment Zone activities.

## **BACKGROUND**

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 designed to provide \$250 million in tax benefits with \$100 million of Social Service Block Grant funds from the Department of Health and Human Services. The Taxpayer Relief Act of 1997 authorized the Secretary of HUD to designate 15 additional urban areas as Empowerment Zones. The Round II Empowerment Zones were eligible to share in Federal grants and tax incentives to finance revitalization and job creation over a ten-year period.

The cities of Wellston, St. Louis, and East St. Louis, St. Louis County and the states of Illinois and Missouri participated in a joint planning process and applied for an Empowerment Zone designation to receive extended benefits for development projects. As a result, their application for Round II Empowerment Zone designation was approved and the City of St. Louis was designated as an urban Empowerment Zone effective January 1, 1999.

The Greater St. Louis Regional Empowerment Zone, a non-profit management corporation was formed to administer the program. The Greater St. Louis Regional Empowerment Zone has a board of directors representing the different geographies, residents, business and regional development organizations. To date, the Empowerment Zone has become actively involved in projects throughout the region and reports \$4.5 million in grants, \$95 million in bonds, and a total leveraged investment of \$294 million into the regional economy.

The Mayor of The City of St. Louis is Francis G. Slay and the Executive Director of the City's Regional Empowerment Zone Program is Michael Jones. The Empowerment Zone operates on a calendar year of January 1 through December 31, but reports to HUD using a fiscal year of July 1 through June 30. The Zone maintains its books and records at 100 N. Tucker, suite 540, St. Louis, Missouri 63101.

## **FINDING 1**

### **The City Did Not Accurately Report Information To HUD**

The City of St. Louis did not accurately report all planned and actual outputs or funding commitments in its June 30, 2002 Performance Review. For one of the four projects we reviewed, the Performance Review contained information that overstated the projected number of area residents to be served and understated the actual number of area residents served. This occurred because the City improperly calculated the projected benefit of the project and had not received an updated report from the activity. Additionally, for two of the four activities, total funding commitments were understated. The City overlooked updating the actual figures when it prepared its report. HUD requires accurate information to be able to accurately evaluate the progress and benefit of the City's Empowerment Zone activities

#### HUD's Requirements

The City of St. Louis is required to submit annual progress reports to HUD according to 24 CFR 598.415.

HUD's Empowerment Zone and Enterprise Community Initiative Performance Measurement System (PERMS) Guidance for Grantees states that outputs are the results immediately created upon implementation of a project or program. Outputs are set when programs and projects are designed, and should clearly explain what quantifiable product is created by the activity. Output measurements can be modified or edited to reflect changes.

The Guidance also says that sources and uses of funds should reflect the total projected funds over the life of the program or project. Sources and uses can be modified over time to reflect any significant budget changes.

#### The City Inaccurately Reported Output

The City did not accurately report the planned or actual outputs relating to the Parson's Place Development. The City's June 30, 2002 Performance Review inaccurately reported that the activity planned to serve 2,157 zone residents. This occurred because the City projected all residents of the empowerment zone census tract as being served by the construction project, whereas only the occupants

of the units should have been projected. We also found that the City understated the number of residents it actually served. The City reported that zero residents were actually served. However, the project was substantially complete, and as of August 2002, there were 328 residents occupying units and all had “move-in dates” that were prior to June 30, 2002. Therefore, on its June 30, 2002 Performance Report, the City should have reported that 328 residents were served. The City failed to report an accurate figure because it had not received an updated report from the administering entity.

#### The City Did Not Update Funding Commitments

The City also did not accurately report information relating to funding commitments (leveraged funding) on two projects. The City did not update the funding status to reflect actual funding commitment increases as of June 30, 2002. Based on information we obtained from Commonwealth Land Title Company, the funding commitments for Parson’s Place Housing Development and Near Southside Senior Housing, both increased by \$2,892,235 and \$27,897 respectively, but were not accurately reported in the June 30, 2002 Performance Report. The \$25,244,500 original projection on Parsons’s Place increased to \$28,136,735, and on Near Southside Senior Housing the original projection of \$4,571,345 increased to \$4,599,242. The City was unaware that the commitments had changed and; therefore, overlooked including the changes in its June 30, 2002 Performance Report.

#### Auditee Comments

The Executive Director of the Greater St. Louis Regional Empowerment Zone provided the following comments:

“The draft audit report referenced two PERMS reporting areas that the St. Louis Regional Empowerment Zone is to correct. The first is accurately reporting the outputs for the Parson’s Place Development and the second is correcting the leverage for both the Parson’s Place Development and the Near Southside Senior Housing projects.

“The Parson’s Place Development Implementation Plan G4.C3.P1 has been updated and approved by HUD. The changes include updating the outputs to reflect serving 328 residents served. The leverage amount was also updated. Between the time of the audit data gathering and today the project has been completed. The project drew down \$1,098,115 in Empowerment Zone funds and will not be making any additional requests. The leverage number for this project was \$27,036,735 and the total project costs were \$28,134,850.

“The Near Southside Senior Housing project Implementation Plan G4.C1.P2 has been updated and approved by HUD. The leverage was increased to \$4,599,242.

“The final step in correcting items mentioned in the audit is to update the 2002 Annual Report to reflect the changed leverage amounts and outputs. This was completed December 18, 2002.”

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## OIG Evaluation of Auditee Comments

The Director, Greater St. Louis Regional Empowerment Zone says the Zone has corrected the deficiencies we identified in our report for the projects we reviewed. The Empowerment Zone also needs to establish and implement controls to ensure the Zone reports accurate information for all projects in its Annual Performance Reports.

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## Recommendation

We recommend that the Director of Renewal Communities/Empowerment Zones/Enterprise Communities Initiative ensure that the City of St. Louis:

- 1A. Establishes and implements management controls to ensure that accurate and current output goals and funding commitments are obtained and included in the Annual Performance Reports.

## **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

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

- Controls for determining the eligibility of each activity
- Controls over determining the level of funding for each activity
- Controls over compliance with laws and regulations

We assessed the relevant controls identified above.

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

We did not identify any significant control weaknesses during our review.

## Distribution Outside of HUD

Chairman, Committee on Government Reform, 2185 Rayburn Building, House of Representatives, Washington, DC 20515

Ranking Member, Committee on Government Reform, 2204 Rayburn Building  
House of Representatives, Washington, DC 20515

Chairman, Committee on Governmental Affairs, [senator\\_lieberman@lieberman.senate.gov](mailto:senator_lieberman@lieberman.senate.gov)

Ranking Member, Committee on Governmental Affairs, [senator\\_thompson@thompson.senate.gov](mailto:senator_thompson@thompson.senate.gov)

Senior Advisor, Subcommittee on Criminal Justice, Drug Policy & Human Resources,

[Sharon.Pinkerton@mail.house.gov](mailto:Sharon.Pinkerton@mail.house.gov)

House Committee on Financial Services, [Andy.Cochran@mail.house.gov](mailto:Andy.Cochran@mail.house.gov)

Senior Counsel, Committee on Financial Services, [Clinton.Jones@mail.house.gov](mailto:Clinton.Jones@mail.house.gov)

Committee on Financial Services, [Kay.Gibbs@mail.house.gov](mailto:Kay.Gibbs@mail.house.gov)

Director, Housing and Telecommunications Issues, U.S. GAO, [CzerwinskiS@GAO.gov](mailto:CzerwinskiS@GAO.gov)

Chief Housing Branch, Office of Management and Budget, [Fredburn@omb.eop.gov](mailto:Fredburn@omb.eop.gov)

Department of Veterans Affairs, Office of Inspector General, [Linda.Halliday@mail.va.gov](mailto:Linda.Halliday@mail.va.gov)

Department of Veterans Affairs, OIG Audit Operations Division, [William.Withrow@med.va.gov](mailto:William.Withrow@med.va.gov)

Assistant Inspector General for Health Care Financing Audits, [rmeddo@os.dhhs.gov](mailto:rmeddo@os.dhhs.gov)