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| Issue Date | September 30, 1998 |
| Audit Case Number | 98-CH-259-1006 |

TO: Dennis Kane, Coordinator of the EZ/EC Initiative, Office of Community
Planning and Development, DEEZ

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: City of Philadelphia
Empowerment Zone Program
Philadelphia, Pennsylvania

We completed an audit of the City of Philadelphia's Empowerment Zone Program. The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds to meet the objectives of its Strategic Plan; and (2) accurately reported the accomplishments of its Empowerment Zone Program to HUD. We performed the audit based upon our Fiscal Year 1998 annual audit plan.

Based on our review of 12 of the 109 activities reported to HUD in its June 30, 1997 Performance Review, we concluded that the City did not maintain adequate control over its Empowerment Zone Program to assure efficient and effective use of the funds or accurate reporting of the Program's accomplishments. The City: inappropriately used \$83,998 of Empowerment Zone funds that did not benefit Zone residents; did not have documentation to show that another \$32,934 of Zone funds paid and \$4,367 billed to the City benefited Zone residents or were reasonable and necessary expenses; and spent \$30,280 of Zone funds above the amount approved. The City also inaccurately reported the accomplishments of its Empowerment Zone activities and reported one project as an Empowerment Zone activity to HUD when it was not. As a result, Empowerment Zone funds were not used efficiently and effectively, and the impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please provide us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (312)353-7832.

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Executive Summary

We completed an audit of the City of Philadelphia's Empowerment Zone Program. The objectives of our audit were to determine whether the City: (1) efficiently and effectively used Empowerment Zone funds to meet the objectives of its Strategic Plan; and (2) accurately reported the accomplishments of its Empowerment Zone Program to HUD. We performed the audit based upon our Fiscal Year 1998 annual audit plan.

We concluded that the City did not use its Empowerment Zone funds appropriately and did not correctly report the accomplishments of its Empowerment Zone Program to HUD. Specifically, the City: inappropriately used \$83,998 of Empowerment Zone funds that did not benefit Zone residents; did not have documentation to show that another \$32,934 of Zone funds paid and \$4,367 billed to the City benefited Zone residents or were reasonable and necessary expenses; spent \$30,280 of Zone funds above the amount approved; inaccurately reported the accomplishments of its Empowerment Zone activities; and reported one project as an Empowerment Zone activity when it was not.

The City Did Not Have Adequate Control Over Zone Funds

As previously mentioned, the City of Philadelphia did not maintain adequate oversight over Empowerment Zone funds. Four of the 12 activities we reviewed incurred inappropriate or questionable expenditures of Empowerment Zone funds. The problems occurred because the City did not adequately monitor its Empowerment Zone activities to ensure the use of Empowerment Zone funds benefited Zone residents or were reasonable and necessary. The City also did not have adequate controls to ensure the use of Zone funds was limited to the approved amount.

The City Inaccurately Reported Progress Of Its Zone Activities

The City of Philadelphia incorrectly reported the actual status and progress for 10 of the 12 activities we reviewed from the June 30, 1997 Performance Review. The inaccuracies related to: seven activities' performance measures; 10 activities' funding; eight activities' performance milestones; five activities' participating entities; and two activities' start dates. The City also did not report obstacles encountered for one activity as required by HUD's guidance. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. Instead, she reported the projected performance as the actual accomplishments. As a result, the impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

The City Incorrectly Reported The Center As A Zone Activity

The City of Philadelphia incorrectly reported that the Life Long Learning and Training Center, included in its June 30, 1997

Performance Review, was an Empowerment Zone Program activity. The Center was included as a benchmark in the City's Strategic Plan; however, it was not approved as an Empowerment Zone activity. The City also reported that the Center served 1,210 Zone residents and leveraged \$4,455,500 of private funds when the Center had not been started. As previously mentioned, problems occurred because the individual who prepared the Performance Review for the City did not verify the accuracy of the information reported. The individual reported planned performance measures and funding as actual results. As a result, the impression exists that the Center provided a benefit.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative, in conjunction with officials from the Department of Health and Human Services, assure that the City of Philadelphia reimburses the Empowerment Zone Program for the inappropriate use of Zone funds and implements controls to correct the weaknesses cited in this report.

We presented our draft findings to the former Executive Director of the City's Empowerment Zone Program, the City's Contracts Manager for the Mayor's Office of Community Services, and HUD's staff during the audit. We held an exit conference with the City's Contracts Manager on August 19, 1998. The City provided written comments to our draft findings. We included excerpts of the comments with each finding and the summary of Empowerment Zone activities reviewed (see Appendix B). The complete text of the comments are included in Appendix C.

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Introduction

The City of Philadelphia, along with the City of Camden, New Jersey, was jointly designated as an urban Empowerment Zone effective December 21, 1994. 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's 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 Empowerment Zone Program was authorized by the Omnibus Budget Reconciliation Act of 1993. The Reconciliation Act provided funding for the Program under Title 20 of the Social Security Act. The Empowerment Zone 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. Of the \$100 million, the City of Philadelphia was awarded \$79 million with the remaining \$21 million going to the City of Camden. As of July 28, 1998, the City of Philadelphia drew down and spent \$19,362,045 in Empowerment Zone funds from the Social Services Block Grant.

The City of Philadelphia is a municipal corporation governed by a mayor and a city council. The City's fiscal year is July 1 through June 30. The Mayor's Office of Community Services for the City of Philadelphia administers its Empowerment Zone Program.

The Mayor of the City of Philadelphia is the Honorable Edward G. Rendell. The former Executive Director of the City's Empowerment Zone Program was Carlos A. Acosta who was replaced in August 1998. The current Executive Director is Eva Gladstein. The Executive Director of the Mayor's Office of Community Services for the City of Philadelphia is Gail S. Greene. The City's Empowerment Zone books and records are located at 1515 Arch Street, Philadelphia, Pennsylvania.

Audit Objectives

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

Audit Scope And Methodology

We performed our on-site work between March and July 1998. 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, and administering entities of the City's Zone activities. Based upon the activities' funding and reported accomplishments, we judgmentally selected 12 of the City's 109 activities

reported in the June 30, 1997 Performance Review. The following table shows the 12 activities reviewed:

| <i>Activity</i> |
|--|
| 1. Lead Abatement Program |
| 2. Safety/Security Program |
| 3. Supervised Child Playsite |
| 4. Multipurpose Athletic Field |
| 5. Child Care Conference |
| 6. Cecil B. Moore Commercial Corridor |
| 7. Youth Landscape Training Program |
| 8. Life Long Learning and Training Center |
| 9. Mini-Mobile Police Stations |
| 10. Community Lending Institution |
| 11. Community Capital Institution |
| 12 Revolving Capital Fund |

We limited our review for four of the 12 activities selected to assessing the accuracy of the accomplishments reported by the City. The four activities were the: (1) Community Lending Institution; (2) Community Capital Institution; (3) Cecil B. Moore Commercial Corridor; and (4) Revolving Capital Fund. We limited our review because the Department of Health and Human Services' Office of Inspector General was assessing the efficiency and effectiveness of the four activities as part of a separate audit.

To evaluate the City's Empowerment Zone Program, we reviewed records maintained by HUD, the Mayor's Office of Community Services for the City, and the administering entities. We reviewed: HUD's guidance and instructions for the Program; the City's June 1997 Performance Review, files, reports, and approved payment requests related to the activities; and the administering entities' voucher payments, monitoring files, and supporting documentation. We visited each of the administering entities for the 12 activities to review their documentation, reports, and correspondence.

The audit period covered the period July 1, 1996 to June 30, 1997. 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, the Executive Director of the City's Empowerment Zone Program, and the Executive Director of the Mayor's Office of Community Services. We also provided a copy of this report to the Acting Director of the Office for Civil Rights, Department of Health and Human Services.

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The City Did Not Have Adequate Control Over Empowerment Zone Funds

The City of Philadelphia did not maintain adequate oversight over Empowerment Zone funds. Four of the 12 activities we reviewed incurred inappropriate or questionable expenditures of Empowerment Zone funds. The inappropriate and unsupported expenditures of funds accounted for 30 percent of the Empowerment Zone funds allotted to the eight activities for which we reviewed the efficiency and effectiveness of Zone funds. For the remaining four activities, we limited our review to assessing the accuracy of the accomplishments reported by the City because the Department of Health and Human Services' Office of Inspector General was assessing the efficiency and effectiveness of the activities as part of a separate audit. These four activities were the: (1) Community Lending Institution; (2) Community Capital Institution; (3) Cecil B. Moore Commercial Corridor; and (4) Revolving Capital Fund.

The City: (1) inappropriately used \$83,998 of Empowerment Zone funds because the use of the funds did not benefit Zone residents; (2) did not have documentation to show that \$32,934 of Zone funds paid and \$4,367 billed to the City benefited Zone residents or were reasonable and necessary expenses; and (3) spent \$30,280 of Zone funds above the amount approved. The problems occurred because the City did not adequately monitor its Empowerment Zone activities to ensure the use of Empowerment Zone funds benefited Zone residents or were reasonable and necessary. The City also did not have adequate controls to ensure the use of Zone funds was limited to the approved amount. As a result, Empowerment Zone funds were not used efficiently and effectively.

United States Code

Title 20 of the United States Code, Section 2007(c)(1)(B) requires Empowerment Zone funds to be used in accordance with the Strategic Plan. Section 2007(c)(1)(C) also requires that Empowerment Zone funds be used for activities that benefit Zone residents.

For the purposes of our audit, we concluded activities did not benefit Empowerment Zone residents if the activities served less than 51 percent of Zone residents, or if the activities did not provide benefits to Zone residents when the activity administrators had control over who received the benefit of their services.

HUD's Requirements

24 CFR Part 597.200(d)(ii) requires that Empowerment Zone funds must be used to achieve or maintain the goals of the Strategic Plan. 24 CFR Part 597.200(f) states activities included in the Plan may be funded from any source which provides assistance to the nominated area.

Strategic Plan's
Requirements

The City of Philadelphia's Empowerment Zone Strategic Plan required the Lead Abatement Program, the Safety/Security Program, the Supervised Child Playsite Project, and the Multipurpose Athletic Field activity to benefit Empowerment Zone residents.

Oversight Of Zone Funds
Was Not Adequate

The City of Philadelphia did not maintain adequate oversight over four of the 12 activities we reviewed. The City: used \$83,998 of Empowerment Zone funds that did not benefit Zone residents; did not have documentation to support that another \$32,934 of Zone funds paid, and \$4,367 billed, to the City benefited Zone residents or were reasonable and necessary expenses; and spent \$30,280 of Zone funds above the amount approved. The following table shows the problems and the activities involved:

| Activity | No Benefit | No Support For Benefit Or Reasonableness And Necessity | Over Expended |
|------------------------------------|-----------------|--|-----------------|
| Lead Abatement Program | \$83,310 | \$ 3,534 | |
| Safety/Security Program | 688 | 6,792 | |
| Child Playsite Project | | 26,975 | |
| Multipurpose Athletic Field | | | \$30,280 |
| TOTAL | <u>\$83,998</u> | <u>\$37,301</u> | <u>\$30,280</u> |

A detailed summary for each of the four activities is at page 54 for the Lead Abatement Program, page 34 for the Safety/Security Program, page 40 for the Child Playsite project, and page 49 for the Multipurpose Athletic Field.

Empowerment Zone
Funds Did Not Benefit
Zone Residents

Sea Change Environmental Services, Incorporated, the administering entity for the Lead Abatement Program, used \$83,310 of Empowerment Zone funds that did not benefit Zone residents. The City's Strategic Plan required that the Program provide lead abatement services within the Empowerment Zone. However, services were provided to non-Zone individuals.

Sea Change Environmental Services received a \$100,000 loan from Empowerment Zone funds in 1996 to provide lead abatement services to properties located in the Zone. Sea Change's records showed that only one of the five properties that received services was located in the Zone.

The Safety/Security Program distributed safety devices valued at \$688 to non-Zone residents. The Safety/Security Program was established to improve the public safety of Empowerment Zone residents and businesses.

The problems occurred because the City did not adequately monitor the activities to ensure the activities provided services to Empowerment Zone residents to the maximum extent possible. As a result, \$83,998 in Zone funds were not used efficiently and effectively.

Documentation Did Not
Exist To Show
Empowerment Zone
Funds Benefited Zone
Residents

The City and the Supervised Child Playsite Project did not have adequate documentation to support that Empowerment Zone residents were the recipients of daycare outreach and counseling services that were paid for with \$22,608 of Zone funds. The Project also did not have support to show that Empowerment Zone residents were the recipients of \$4,367 in services that had been billed to the City but not paid. Additionally, City and administering officials did not have documentation to support that Empowerment Zone residents received the \$6,792 worth of safety devices that were distributed under the Safety/Security Program or that \$3,534 of administrative expenses paid for with Empowerment Zone funds by the Lead Abatement Program were reasonable and necessary.

Between March and December 1997, the Supervised Child Playsite Project used Empowerment Zone funds to pay outreach and counseling costs of \$14,515 for an Intake Specialist and \$8,093 for an Outreach Specialist. The project also billed the City another \$2,792 for the salaries of the Intake Specialist and \$1,575 for the Outreach Specialist for services provided during January and February 1998. The Child Playsite Project paid all of the Intake Specialist's salary and 50 percent of the Outreach Specialist's salary using Zone funds. Another Empowerment Zone activity, the Teen After School Evening Program, paid the remaining 50 percent of the Outreach Specialist's salary.

The City Overspent
Empowerment Zone
Funds

The Supervised Child Playsite Project and the Safety/Security Program did not always keep adequate records that showed who received the benefits of the activities. The Lead Abatement Program did not maintain documentation to show that administrative expenses paid for with Zone funds were used for the Empowerment Zone Program. The problems occurred because the City did not provide adequate oversight of the three activities. As a result, \$32,934 of Empowerment Zone funds spent and \$4,367 billed to the City may not have been efficiently and effectively used.

As of May 1998, \$180,280 of Empowerment Zone funds had been spent on the Multipurpose Athletic Field activity, even though the allocation of Empowerment Zone funds was for only \$150,000. Additionally, \$429,356 of \$430,000 in City funds available for the activity were also spent. The over expenditure of Empowerment Zone funds occurred because the City's system of control for the expenditure of Zone funds was not adequate.

The City's procedures required the Mayor's Office of Community Services' Fiscal Department to approve all Empowerment Zone fund disbursements. The Fiscal Office assigned an index code at the time of processing as a control to prevent unauthorized use of the funds. However, the City's Recreation Department was able to bypass the control and authorized the disbursement of \$148,495 of Empowerment Zone funds for construction of the activity without notifying the Mayor's Office of Community Services.

The City's Recreation Department was informed it had authorization to spend up to \$150,000 in Empowerment Zone funds by the former Fiscal Director in the Mayor's Office of Community Service. The Former Director provided the Department with an Initiation and Funding Approval form that contained the activity's index code. The Budget Officer for the Recreation Department said since the index code was provided, it was assumed the Mayor's Office had recorded the transaction. However, since the Office of Community Services was not aware of the disbursement processed by the Recreation Department, the Office also approved the disbursement of \$31,785 for the acquisition of the property on which the field was to be

Empowerment Zones Are
Intended To Benefit Zone
Residents

constructed. The two disbursements totaled \$180,280, which exceeded the approved Empowerment Zone funding by \$30,280.

The Empowerment Zone Program was established to stimulate the creation of new jobs, particularly for the disadvantaged and long-term unemployed, and to promote revitalization of economically distressed areas. The United States Code requires that Empowerment Zone funds must be used in accordance with the Strategic Plan and for activities that benefit Zone residents.

To effectively accomplish the Empowerment Zone Program's objective, Zone resources need to be spent in the nominated area and to the benefit of Zone residents to the maximum extent possible. Where the nature of an activity is such that it affects both Empowerment Zone and non-Zone residents, such as the creation of a grocery store, then the City needs to demonstrate that the activity primarily benefits Zone residents. Because the City did not adequately monitor its Empowerment Zone activities to ensure that the activities benefited Zone residents to the maximum extent possible, the impact of the Empowerment Zone expenditures on Zone residents was diminished.

The funds that were not efficiently and effectively used were Title 20 funds from the Department of Health and Human Services. Since all Federal officials have a fiduciary responsibility to ensure the efficient and effective use of Federal funds, we recommend that the funds that were not appropriately used or supported be reimbursed to the Empowerment Zone Program. Reimbursement to the Program should not impede the goals of the Empowerment Zone Program since the funds will be available for appropriate Zone activities.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 134, contains the complete text of the comments.

The allegations of the findings can only be characterized as shockingly inaccurate and unfair. The City spent \$16 million in Zone communities for economic development, education, housing, public safety, and critically needed infrastructure improvements in these neighborhoods. The OIG findings

OIG Evaluation of
Auditee Comments

question less than one percent of all funds spent. The City maintains that all of the Empowerment Zone funds were spent to benefit Zone residents.

The information in the finding is based on documentation we obtained from the City's files and the activities' administrators. The information showed that not all Empowerment Zone funds were used according to Federal law, HUD's regulations, and the City's Strategic Plan. The inappropriate and unsupported expenditures of funds accounted for 30 percent of the Empowerment Zone funds allotted to the eight activities for which we reviewed the efficiency and effectiveness of Zone funds.

Auditee Comments

The OIG's finding with respect to the provision of the Supervised Child Playsites is wrong, and as a result, the City strongly objects to its inclusion in the OIG summary findings.

The City takes exception to the OIG assertion that controls over the Playsites activity were inadequate. The City and the provider both have voluminous documentation to support that the contracted services, necessary for the achievement of the performance objectives, have been provided. The City maintains an aggressive system of contract monitoring, and has sufficient documentation to demonstrate that the goals and objectives of this activity were achieved, including the objective of providing age-appropriate activities for 55 Zone children enrolled in daycare. The OIG determination that insufficient documentation exists to support the intake process merely underscores the problem of reporting information that the provider is barred from providing, by virtue of its duty of confidentiality that arises as a result of its agreement with the State. The OIG was provided with the names and addresses of the children identified as participating in the program, and the OIG was provided with more than enough information to independently verify the participation of these children in the daycare program.

OIG Evaluation of
Auditee Comments

Our review determined that Child Playsite and the City did not maintain documentation to show that Empowerment Zone funds were effectively and efficiently used. As a result, we concluded that procedures and controls were not adequate.

The City did not use Empowerment Zone funds to provide daycare services to Zone residents. Instead, the City used Zone funds to conduct outreach and intake services. Contrary to the City's comments, neither the City nor the Child Playsite provided any documentation that showed the names and addresses of the individuals who received the services. The City needs to provide documentation that shows the outreach and intake services primarily benefited Zone residents or reimburse the Empowerment Zone Program \$22,608 from non-Federal funds. The City also needs to maintain similar documentation for future expenditures.

Auditee Comments

The OIG alleges that the Philadelphia Empowerment Zone overspent its \$150,000 budget for the construction of a Multipurpose Athletic Field in the American Street Zone by an estimated \$30,000. As a result, the OIG concluded that the City's expenditure and reporting controls were inadequate.

It is true that the cost of the ball field exceeded budgeted estimates, but the City maintains that all costs for construction of the field were reasonable and necessary. It is also worth noting that the Empowerment Zone funding of the project was completed in partnership with the City, which appropriated \$800,000 toward the construction of the field -- a City/Zone match of nearly three to one -- in an area of the City where such recreation opportunities did not exist and were critically needed. Moreover, the construction of the field has been a tremendously successful project, standing as a focal point of the surrounding community and serving more than 700 Zone residents.

**OIG Evaluation of
Auditee Comments**

The City agrees that it exceeded the authorized budget amount of Empowerment Zone funds for the Multipurpose Athletic Field. The City needs to establish procedures and controls to ensure the disbursement of Empowerment Zone funds does not exceed authorized amounts.

Auditee Comments

The OIG alleges that there was insufficient documentation to verify that the Zone distributed \$6,792 worth of smoke detectors to Zone residents, and that an additional \$688 worth of smoke detectors were distributed to non-Zone

residents.

This allegation is wrong, and moreover, it is not supported by the factual evidence provided to the OIG. The crux of this allegation is that the local Zone failed to provide documentation to support its distribution of the smoke detectors in question to Zone residents. Yet there is no question that the Zone was the target of a comprehensive outreach program conducted by the Zone and the Philadelphia Fire Department, to ensure that Zone residents received free smoke detectors to protect against the danger of business and residential fires. Further, there is no evidence -- none -- to show either that the smoke detectors were not distributed, or that there was any malfeasance on the part of the local Zone officials with respect to this equipment. In fact, all evidence points to the common sense conclusion -- volunteers were recruited to distribute smoke detectors, flyers were distributed in the various Zone neighborhoods, volunteers were clearly deployed to distribute in those neighborhoods on the days in question, and most significantly, routine inspections of the homes in question show that smoke detectors actually were installed. Further, local Zone officials who represented to the OIG that the smoke detectors in question were distributed can document the distribution of more than \$11,000 worth of smoke detectors. In this case, the evidence supports the conclusion that all of the smoke detectors in question were distributed as intended.

Finally, the OIG also questions the distribution of \$688 worth of smoke detectors to non-Zone residents. Yet these smoke detectors were distributed to homes immediately adjacent to the Zone -- in most cases, literally across the street. As such, they serve to protect the Zone itself from the danger of fire, and as Federal regulations make clear, Empowerment Zone funds are not limited for use solely within the designated Zone census tracts. Instead, the relevant Department of Health and Human Services' regulations permit the local Zone community to define residents of the Zone and the benefits they receive in a manner that is consistent with the overall goal of providing benefit to the Zone community. Under the circumstances, the Philadelphia Empowerment Zone's decision to provide smoke detectors to homes immediately adjacent to the Zone constituted a Zone benefit that is consistent with the goals

of the Empowerment Zone legislation.

OIG Evaluation of
Auditee Comments

The City did not have documentation to support that \$6,792 of safety equipment purchased with Empowerment Zone funds benefited Zone residents. The City's comments to the Safety/Security Program activity (see page 100) say that the City instructed administering officials to provide items purchased with Zone funds only to Zone residents. We determined that \$688 of safety equipment was provided to non-Zone residents. The City's comments to the activity also indicated the City did not dispute that the safety equipment was distributed to non-Zone residents. In fact, the individuals who received 95 percent of the safety devices distributed to non-Zone residents lived at least 35 blocks from the Zone. Since the Safety/Security Program administrator had control over who received the safety devices, the devices should have been provided only to Empowerment Zone residents. The City did not indicate which Department of Health and Human Services' regulations it believes permits the use of Zone funds outside the Empowerment Zone. However, Federal law, HUD's regulations, and the City's Strategic Plan required that the safety devices be provided to Zone residents. The City needs to provide documentation to support the use of \$6,792 in Zone funds or reimbursement the Empowerment Zone Program from non-Federal funds. The City should also reimburse the Program \$688 from non-Federal funds for the devices distributed to non-Zone residents.

Auditee Comments

The OIG alleges that the Philadelphia Empowerment Zone used \$83,310 worth of Zone funds for lead abatement services in the North Philadelphia Empowerment Zone, to be performed by a company called Sea Change Environmental Services. As the OIG is aware; however, the Sea Change transaction was a loan. Therefore, the Zone has limited exposure should the contractor not be able to provide lead abatement services. Zone officials already have provided documentation to the OIG to demonstrate that Sea Change is current on its loan repayments to the Empowerment Zone. Once the loan is repaid, the Zone may choose to reissue these funds for additional lead abatement services.

OIG Evaluation of
Auditee Comments

It is the City's responsibility to ensure that Zone funds are efficiently and effectively used. This includes taking necessary

steps to maintain legal control in third party transactions so the City can ensure the use of Empowerment Zone funds benefits Zone residents. We did not question whether Sea Change was current on its loan. The City needs to reimburse the Empowerment Zone Program \$83,310 from non-Federal funds for services provided to non-Zone residents. The City agreed to reimburse the Empowerment Zone in its comments on the Lead Abatement Program activity (see page 130). Additionally, the City needs to provide documentation to support the \$3,534 of administrative expenses paid for with Empowerment Zone funds which Sea Change could not show benefited the Zone. If adequate documentation cannot be provided, then the City should reimburse the Empowerment Zone Program \$3,534 from non-Federal funds.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative, in conjunction with officials from the Department of Health and Human Services, assure the City of Philadelphia:

- 1A. Reimburses the Empowerment Zone Program \$83,998 from non-Federal funds for the lead abatement services (\$83,310) and safety devices (\$688) that were inappropriately provided to non-Zone residents.
- 1B. Provides documentation to support that the Lead Abatement Program (\$3,534), the Safety/Security Program (\$6,792), and the Supervised Child Playsite project (\$22,608) used \$32,934 of Empowerment Zone funds to benefit Zone residents. If adequate documentation cannot be provided, reimburse the Empowerment Zone Program from non-Federal funds for the amount that cannot be supported.
- 1C. Provides documentation to support that the \$4,367 billed by R.W. Brown was for services that benefited Zone residents. If adequate documentation cannot be provided, do not pay R.W. Brown from Empowerment Zone funds for the amount that cannot be supported.
- 1D. Provides documentation to support that future expenditures of Empowerment Zone funds benefit Zone residents, or limits reimbursements to the amounts that can be supported.

- 1E. Instructs agencies responsible for administering activities to maintain documentation to support services received under the Empowerment Zone Program. Also, advises administering officials to provide services paid for with Empowerment Zone funds to Zone residents.
- 1F. Reimburses the Empowerment Zone Program \$30,280 from non-Federal funds for the excess costs charged against Empowerment Zone funds for the Multipurpose Athletic Field.
- 1G. Establishes procedures and controls to ensure the disbursement of Empowerment Zone funds does not exceed authorized amounts.
- 1H. Establishes procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.
- 1I. Establishes procedures and controls to ensure that the goals of the Strategic Plan are met.

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The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Activities

The City of Philadelphia incorrectly reported the actual status and progress for 10 of the 12 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: seven activities' performance measures; 10 activities' funding; eight activities' performance milestones; five activities' participating entities; and two activities' start dates. The City also did not report obstacles encountered by the Youth Landscape Training Program.. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. Instead, she reported the projected performance categories as the actual accomplishments. As a result, the impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

HUD's Requirements

Page 3 of the December 21, 1994 Memorandum of Agreement between HUD and the City of Philadelphia requires the City to submit reports to HUD on the progress made in carrying out activities specified in the Strategic Plan. Page 3 of the Agreement also requires the City to provide HUD with a narrative summarizing the progress made and obstacles encountered in carrying out the Plan during each year of designation.

The 1997 EZ/EC Performance Review instructions issued by HUD on June 23, 1997, page 4, state for performance measures, Empowerment Zones will report the final products produced or other measurable outcomes of the activity. Zones should describe: the major sources of funding, the amounts, and the status of the commitment at the time the report is submitted; the start date for the activity as a whole; and the major entities responsible for financing, managing, and operating the activity. For performance milestones, Empowerment Zones should also report both projected and actual dates for key interim actions that will result in the completion of the activity.

The City Incorrectly
Reported The Progress Of
Empowerment Zone
Activities

The City of Philadelphia inaccurately reported the accomplishments for 10 of the 12 activities we reviewed from the June 1997 Performance Review. The status of one activity was accurately reported. The remaining activity, although reported as an Empowerment Zone activity, was not (see Finding 3). The following table shows the incorrect reporting by performance category for the 10 activities and the page number where a detailed summary for each activity is located:

| <i>Activity</i> | <i>Measures</i> | <i>Funding</i> | <i>Milestones</i> | <i>Participating Entities</i> | <i>Start Date</i> | <i>Page Number</i> |
|--------------------------|-----------------|----------------|-------------------|-----------------------------------|-----------------------|------------------------|
| Cecil B. Moore | X | X | X | X | X | 60 |
| Child Care Conference | X | X | | | | 66 |
| Community Lending | | X | | | | 70 |
| Safety/ Security | | X | X | X | | 34 |
| Child Playsite | X | X | X | | X | 40 |
| Athletic Field | X | X | X | X | | 49 |
| Community Capital | | X | X | X | | 74 |
| Revolving Capital | X | X | X | X | | 78 |
| Youth Landscape | X | X | X | | | 83 |
| Lead Abatement | <u>X</u> | <u>X</u> | <u>X</u> | <u> </u> | <u> </u> | 54 |
| Totals | 7 | 10 | 8 | 5 | 2 | |

The City also did not report the obstacles encountered by the Youth Landscape Training Program. The City accurately reported the results of the Mini-Mobile Police Stations activity in the June 1997 Performance Review.

The City Inaccurately
Reported Activities'
Performance Measures

The City incorrectly reported the performance measures for seven activities. Performance measures are the final products produced or other measurable outcomes of the activity. For example, the City reported in the June 1997 Performance Review that the Cecil B. Moore Commercial Corridor produced a seven store retail strip mall, 16 housing units, and

35 new jobs. As of June 1997, there were only six prospective tenants for the mall and only two of the six had signed leases. The 16 housing units were a separate community development project that was not connected with the Empowerment Zone Program and should not have been reported to HUD. The Corridor also did not create the 35 new jobs reported in the June 1997 Performance Review.

**The City Over Reported
The Activities' Funding
By Over \$40 Million**

The City over reported 10 activities' funding in the June 1997 Performance Review. Funding consists of Empowerment Zone funds, non-Zone Federal funds, State and local monies, private donations, and in-kind contributions. The City reported the 10 activities' funding included \$49,682,243. However, the activities' funding included only \$8,831,444 as of June 30, 1997. The net effect was an over reporting of \$40,850,799. Additionally, the City provided an unrealistic completion date for leveraging private funds for the Community Lending Institution. The following table shows the incorrect reporting by activity:

| Activity | Amount Reported | Amount Supported | Over/Under Reporting |
|-----------------------|---------------------|--------------------|----------------------|
| Cecil B. Moore | \$1,500,000 | \$900,000 | \$600,000 |
| Child Care Conference | 60,000 | 44,474 | 15,526 |
| Community Lending | 14,250,000 | 18,450 | 14,231,550 |
| Safety/Security | 160,000 | 0 | 160,000 |
| Child Playsite | 240,000 | 0 | 240,000 |
| Athletic Field | 369,000 | 580,000 | (211,000) |
| Community Capital | 23,094,280 | 0 | 23,094,280 |
| Revolving Capital | 9,600,000 | 7,000,000 | 2,600,000 |
| Youth Landscape | 119,963 | 38,520 | 81,443 |
| Lead Abatement | <u>289,000</u> | <u>250,000</u> | <u>39,000</u> |
| Totals | <u>\$49,682,243</u> | <u>\$8,831,444</u> | <u>\$40,850,799</u> |

Because of inaccurate reporting, a false impression was created that more funds were committed to the activities than actually were. Since one of the measures of success for the Empowerment Zone Program is the amount of leveraged funds and contributions, we believe it is imperative that the City accurately reports the funding of its activities.

The City Incorrectly
Reported The Activities'
Performance Milestones

The City inaccurately reported eight activities' performance milestones. Performance milestones are the key interim actions that will result in the completion of the activity. For example, the City reported that Sea Change Environmental Services planned to identify and provide referral services regarding lead hazards by March 1998. However, the services were not part of Sea Change's scope of work. The services were provided by the City's Department of Public Health. The accurate reporting of milestones is important for HUD to accurately assess the services of the Empowerment Zone Program.

The City Incorrectly
Reported Participating
Entities

The City inaccurately reported five activities' participating entities. Participating entities are the major entities responsible for financing, managing, and operating an activity. For example, the City reported that The Nelson Network Coalition and the 3rd and Norris Playground were participating entities in the Multipurpose Athletic Field. Although these organizations are expected to participate in the future, neither organization was participating as of June 30, 1997.

The City Incorrectly
Reported Two Activities'
Start Dates

The City reported that the Cecil B. Moore Commercial Corridor and the Supervised Child Playsite Project were initiated in December 1994 and November 1995, respectively. However, the Empowerment Zone loan agreement for the Corridor, and the City employee who assisted with the planning of the Project, indicated that the activities started in June 1997 and April 1996, respectively. As a result, the City gave HUD the impression that the activities were working on achieving the goals of the Strategic Plan when they were not.

The Report Preparer Was
Not Familiar With HUD's
Requirements

The inaccurate reporting occurred because the City employee, who prepared the Performance Review, was not familiar with HUD's reporting requirements. She did not report the actual accomplishments, instead she reported the projected performance categories as actual. The Executive Director of the City's Empowerment Zone said he requested that HUD's reporting requirements be provided to everyone responsible for preparing the Performance Review. However, the former Director of Policy and Planning for the City decided not to distribute the instructions. She believed since she was designated to be responsible for the Review, she was the only one who needed the information.

The Contracts Manager said the former Director misunderstood HUD's requirements for reporting program

results. However, we believe that HUD's requirements were clear. As a result, the City did not accurately report the accomplishments of its Empowerment Zone Program to HUD and did not ensure that the goals of the Strategic Plan were met. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 134, contains the complete text of the comments.

HUD, the Department of Health and Human Services, the State, and City officials agreed that the Performance Review report would monitor only the planning and invoicing activities of the Zone communities. The Review would not; however, provide detailed reporting on the progress of the Zone. The City submitted the Performance Review report with the full acceptance and approval of HUD and the Department of Health and Human Services. Since the report was not intended to serve as a basis for measuring the progress of the Zone, it is equally true that the report could not have misled HUD about the progress of the Zone. In fact, in several cases, the report underrepresented accomplishments of the Zone.

Having full knowledge of the contents (and the limitations) of the Performance Review report, the OIG's continued reliance on the report as the basis for its findings of reporting violations is both inaccurate and unfair. Earlier this year, HUD asked the Philadelphia Empowerment Zone to revise its reporting format to identify specific accomplishments. A corrected report was submitted to HUD in advance of the release of the OIG report. In addition, all local Empowerment Zone staff attended a full-day training session on HUD guidelines for Performance Review reporting on May 18, 1998. Despite the fact that the Philadelphia Empowerment Zone satisfactorily completed all of these measures, the OIG nevertheless chose to publicize findings that allege reporting violations. Under these circumstances, the City objects to this finding as unwarranted, unfair, and unsupported by the facts.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. In fact, HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. The City also did not identify the corrected report it said it provided to HUD. However, we reviewed reports for September 1997 and January 1998 that the City's Empowerment Zone officials said were a corrected copy of the June 30, 1997 Review. We found that these reports also inaccurately reported the accomplishments of the City's Empowerment Zone Program. The City needs to implement written procedures that ensure controls are in place to show the training was effective and the data reported is accurate.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative assures the City of Philadelphia:

- 2A. Establishes procedures and controls to ensure the person who prepares the Zone's Performance Review to HUD: (1) uses the actual accomplishments for each activity provided by administering officials that are verified; and (2) prepares a template on each loan made under a commercial loan program.
- 2B. Ensures its staff, who are responsible for preparing the Performance Review, are knowledgeable of HUD's requirements for reporting actual activity's results and funding sources, and any obstacles encountered for an activity.
- 2C. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.
- 2D. Obtains a revised completion date from the Community Lending Institution for the leveraging of bank funds.

The Life Long Learning And Training Center Was Not An Approved Zone Activity And Its Status Was Incorrectly Reported

The City of Philadelphia incorrectly reported that the Life Long Learning and Training Center, included in its June 30, 1997 Performance Review, was an Empowerment Zone Program activity. The Center was included as a benchmark in the City's Strategic Plan; however, it was not approved as an Empowerment Zone activity. The City also reported that the Center served 1,210 Zone residents and leveraged \$4,455,500 of private funds when the Center had not been started. The problems occurred because the individual who prepared the Performance Review for the City did not verify the accuracy of the information reported. The individual reported planned performance measures and funding as actual results. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, and the impression exists that the Center provided a benefit.

HUD's Requirements

The June 23, 1997 EZ/EC instructions for Performance Review reporting, page 1, state the Performance Review System is designed to measure the performance of Empowerment Zone activities. Page 2 of the instructions require that benchmarks must be approved by the local governing structure prior to submission to HUD for approval. Page 4 of the instructions say that for performance measures, Empowerment Zones will report the final products produced or other measurable outcomes of the activity. Zones should describe: the major sources of funding, the amounts, and the status of the commitment at the time the report is submitted.

The Project Was Not An Approved Zone Activity

The City of Philadelphia incorrectly reported that the Life Long Learning and Training Center included in the June 1997 Performance Review was an Empowerment Zone activity. The Center was included as a benchmark in the City's Strategic Plan; however, it was not approved as an Empowerment Zone activity. As of June 30, 1998, the Center was still in the planning phase and had not been submitted to the appropriate officials for approval. The Community Trust Board for the City's Empowerment Zone Program, the Mayor of Philadelphia, the State of Pennsylvania, and HUD had not approved the Center as an Empowerment Zone activity.

In addition to reporting that the Center was an Empowerment Zone activity, the City also included inaccurate information on the Center's performance measures and funding in the June 30,

1997 Performance Review. The Review reported the Center served 1,210 Empowerment Zone residents and leveraged over \$4.4 million of private funds; however, the Center had not served any Zone residents and did not leverage any private funds. As previously mentioned, the Center had not been approved as an Empowerment Zone activity and was not started as of June 30, 1998.

The inaccurate reporting occurred because the former Director of Policy and Planning, the individual who prepared the Performance Review for the City, did not verify that the Center was an approved Empowerment Zone activity and did not report actual accomplishments for each activity. Instead, she reported the Life Long Learning and Training Center's projected information as actual. The Contracts Manager for the City said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements were clear. The 1997 EZ/EC instructions state that Empowerment Zones should report final products produced or other measurable outcomes of an activity and the status of funding commitments at the time the report is submitted. The City's management staff, who was responsible for administering the Empowerment Zone Program, also did not review the Performance Review for accuracy. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 120, contains the complete text of the comments.

The former Coordinator of Policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

Where the OIG recommends that the City establishes procedures and controls to appropriately report Empowerment Zone activities to HUD, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. It is likely that the result of this assessment will include managerial-level review of future reports prior to submission.

Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information provided to HUD, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that its Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department. Moreover, the City will exercise due diligence in the future to ensure that accurate information has been utilized in its reporting.

OIG Evaluation of Auditee Comments

HUD's guidelines for the Performance Review were clearly presented in writing. The former Coordinator of Policy and Planning misunderstood the instructions. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

The City plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its assessments, the City needs to implement procedures and controls to ensure the data reported is accurate.

Recommendations

We recommend that the Coordinator of the EZ/EC Initiative assures the City of Philadelphia:

- 3A. Establishes procedures and controls to appropriately report Empowerment Zone Program activities to HUD.
- 3B. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

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Management Controls

In planning and performing our audit, we considered the management controls of the City of Philadelphia in order to determine our auditing procedures, not to provide assurance on the 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 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.

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

Significant Weaknesses

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

- Program Operations.

The City did not ensure that it met the objectives of the Empowerment Zone Program. The City did not use all Empowerment Zone funds to benefit Zone residents (see Finding 1).

- Validity and Reliability of Data.

The City: (1) incorrectly reported the actual status and progress for 10 of the 12 activities we reviewed from the June 30, 1997 Performance Review; (2) did not report obstacles encountered for one activity; and (3) incorrectly reported that the Life Long Learning and Training Center, included in its June 30, 1997 Performance Review, was an Empowerment Zone Program activity when it was not (see Findings 2 and 3).

- Compliance with Laws and Regulations.

The City did not follow the United States Code or HUD's regulations. Empowerment Zone funds were used that did not benefit Zone residents (see Finding 1).

- Safeguarding Resources.

The City: (1) inappropriately used \$83,998 of Empowerment Zone funds because the use of the funds did not benefit Zone residents; (2) did not have documentation to show that \$32,934 of Zone funds paid and \$4,367 billed to the City benefited Zone residents or were reasonable and necessary expenses; and (3) spent \$30,280 of Zone funds above the amount approved (see Finding 1).

Follow Up On Prior Audits

This is the first audit of the City of Philadelphia's Empowerment Zone Program by HUD's Office of Inspector General. The latest single audit for the City covered the fiscal year ended June 30, 1996. The report contained 34 findings. None of the findings related to the Empowerment Zone Program.

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Schedule of Questioned Costs

| <u>Recommendation Number</u> | <u>Type of Questioned Costs</u> | |
|----------------------------------|---------------------------------|-----------------------|
| | <u>Ineligible 1/</u> | <u>Unsupported 2/</u> |
| 1A | \$83,998 | |
| 1B | | \$32,934 |
| 1C | | 4,367 |
| 1F | <u>30,280</u> | |
| Total | <u>\$114,278</u> | <u>\$37,301</u> |

1/ Ineligible costs are costs charged to a HUD 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 program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the 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.

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Activities Reviewed

This appendix contains the individual evaluations for the activities we reviewed. We judgmentally selected 12 of the City of Philadelphia's 109 activities reported in the June 30, 1997 Performance Review. We found that the City inappropriately used or lacked documentation to support the use of Empowerment Zone funds, or inaccurately reported the accomplishments of its Program to HUD for 11 activities. The following table shows the 11 activities that had problems, the location of their evaluation in this appendix, and the finding(s) they relate to:

| <i>Activity</i> | <i>Page</i> | <i>Finding</i> |
|---|--------------------|-----------------------|
| 1. Safety/Security Program | 34 | 1 and 2 |
| 2. Supervised Child Playsite | 41 | 1 and 2 |
| 3. Multipurpose Athletic Field | 49 | 1 and 2 |
| 4. Lead Abatement Program | 55 | 1 and 2 |
| 5. Cecil B. Moore Commercial Corridor | 61 | 2 |
| 6. Child Care Conference | 66 | 2 |
| 7. Community Lending Institution | 70 | 2 |
| 8. Community Capital Institution | 74 | 2 |
| 9. Revolving Capital Fund | 78 | 2 |
| 10. Youth Landscape Training Program | 83 | 2 |
| 11. Life Long Learning and Training Center | 23 | 3 |

Controls Over Safety/Security Program for Businesses and Residents Were Not Adequate

The City of Philadelphia did not have adequate controls over the Safety/Security Program for businesses and residents. The City did not have documentation to support that Empowerment Zone residents received \$6,792 of safety devices purchased with Zone funds. Additionally, \$688 of Zone safety devices were inappropriately provided to non-Zone residents. The City also inaccurately reported information in the June 30, 1997 Performance Review related to funding, performance milestones, and participating entities. The problems occurred because the City and the agency who was administering the Program, did not exercise adequate controls over the safety devices. Additionally, the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity that were provided by the administering officials. Instead, she reported the planned performance as the actual results. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with a realistic picture of actual progress, and the impression exists that the benefits of the activity were greater than actually achieved.

Adequate Controls Were Not Established Over Safety Devices

The City and administering officials did not have documentation to support that Empowerment Zone residents received \$6,792 of safety devices purchased with Zone funds. The administering officials did not always keep adequate records that showed to whom and where the devices were distributed. The safety devices included 1,345 smoke detectors and 165 batteries. Additionally, documentation that did include addresses showed that \$688 of Zone safety devices were provided to non-Zone residents. The goal of the Program is to improve the public safety of Empowerment Zone residents and businesses. The agency responsible for administering the Program did not ensure volunteers maintained records showing to whom and where safety devices were distributed. The City did not adequately monitor the activity to ensure that documentation was complete and devices were distributed to Zone residents. As a result, Empowerment Zone funds were not used efficiently and effectively.

The City Inaccurately Reported The Progress Of The Safety/Security Program

The City did not accurately report the actual status and progress of the Safety/Security Program in the June 30, 1997 Performance Review. The City reported that the activity had received \$160,000 in funding from public and private businesses, but no funds were received. The

Safety/Security Program also did not have any commitments from public or private businesses for the \$160,000.

The City reported that Program officials met with officials from the Philadelphia Community Development Corporation to define the steps needed to leverage funding for the Program's security phase. The June 1997 Performance Review reported the action was completed in August 1996. Program officials met with representatives of the City's Department of Commerce and the West Philadelphia Safety and Security Committee in May 1998 to discuss whether to proceed with the Program's security phase. A decision is not expected until August 1998. As of June 3, 1998, no meetings were held concerning the leveraging of funds. The development of steps needed to leverage funds is an important action since a major part of the Empowerment Zone Program is leveraging outside sources of funds.

The City reported that the Safety/Security Program initiated a training program in March 1997 to educate residents and businesses on how to address their concerns. However, the training did not include any businesses. Although the City reported that it had evaluated the training program in April 1997, it did not maintain documentation to support the review.

The City reported that Town Watch, the Lancaster Avenue business owners, the 52nd Street business owners, and the Pennsylvania Department of Community Affairs were participating entities. These entities were originally projected as potential participants, but none of them had participated in the Program. Further, Town Watch was never established as a community organization as planned. City Officials said they anticipate the business owners and Department of Community Affairs will participate once the security phase of the Program begins. Accurate reporting of participating entities helps show readers of the Performance Review the level of interest and support for an activity.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity that were provided

by the administering officials. As previously mentioned, administering officials provided information to the City, prior to the June 30, 1997 Performance Review, that showed some safety devices were distributed to individuals who did not live within the Zone. Additionally, other documentation provided by Program officials was incomplete and could not be used to determine to whom safety devices were distributed. The former Director reported the projected performance measurements and investments as actual and did not verify the accuracy of the information or if it complied with the intention of the Program.

The Contracts Manager said the former Director also misunderstood HUD's requirements for reporting program results. We believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity. The former Director did not provide HUD's instructions to her staff to assist in preparing the City's June 1997 Performance Review. Instead, she verbally instructed her staff to report the projected information as actual. In May 1998, the City provided training on HUD's Performance Review instructions to all Empowerment Zone staff and issued a memorandum that indicates the City will use HUD's procedures to prepare its Performance Review for June 1998. As a result, the City's future reporting should improve in accuracy.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 100, contains the complete text of the comments.

The City disagrees with the OIG's overall assessment. Controls and procedures were established prior to the implementation of this activity to ensure that the supporting documentation would be in place. These controls were more than adequate to provide documentation for nearly two-thirds of the smoke detectors and batteries distributed.

Where the documentation indicates that \$688 of safety equipment was distributed to non-Zone residents, the City will not dispute that point.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

Where the OIG recommends that the City instruct administering agencies to maintain documentation to support benefits received under the Empowerment Zone Program, the Mayor's Office of Community Services has already taken steps to include reporting requirements specific to the Empowerment Zone in all Memoranda of Understanding with other City agencies. Where benchmark activities are conducted by community volunteers, the City will continue to exercise due diligence in its instruction of community participants and provision of Empowerment Zone address listings to ensure that proper documentation is provided to every extent possible.

Where the OIG has recommended that the City instructs administering officials to provide items purchased with Zone funds only to Zone residents, the City has consistently instructed service providers and community residents to provide products and/or services only to Empowerment Zone residents.

Where the OIG recommends that the City establishes procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used efficiently and effectively, the City maintains that the

procedures and controls currently in place are more than adequate to ensure efficient and effective use of Zone funds.

OIG Evaluation of
Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Although the City had established procedures and controls before the implementation of the activity, the procedures were not sufficient to ensure supporting documentation was obtained. Being able to account for two-thirds of the smoke detectors and batteries distributed is not adequate control.

Auditee Comments

The City will continue to seek the necessary documentation to support the \$6,792 of smoke detectors and batteries that were provided to West Philadelphia Empowerment Zone residents.

Where the OIG recommends that the City reimburse the Empowerment Zone \$688 for safety devices that were provided to non-Zone residents, the City will identify a source of non-Federal funds in order to comply with the recommendation.

OIG Evaluation of
Auditee Comments

If the City cannot find the necessary documentation to support the distribution of smoke detectors and batteries, it needs to refund the unsupported amounts from non-Federal funds to the Empowerment Zone Program.

Auditee Comments

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's

guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that the City establishes internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

Auditee Comments

Where the OIG recommends that the City monitors Empowerment Zone activities to ensure they are fulfilling Empowerment Zone objectives, the City maintains that the contract monitoring procedures currently in place far exceed any of the general guidelines issued by HUD to date. Because of the lack of clear monitoring guidelines from HUD, the City has developed monitoring procedures to address all foreseeable contingencies. Monitoring tools developed by the City include a Quality Assurance and

OIG Evaluation of
Auditee Comments

Contract Compliance evaluation form, completed by Contract Monitors during site visits every four-to-six weeks, that specifically address goals and objectives of the HUD-approved Empowerment Zone benchmark. Where activities are conducted outside the existence of a formal contract, the City will conduct an assessment to determine what steps are necessary to fully comply with this recommendation.

The problems we found with this activity were outside the existence of a formal contract. The City needs to develop procedures and controls to ensure Empowerment Zone objectives are fulfilled in those situations when a formal contract is not used.

Controls Over the Supervised Child Playsite Project Were Not Adequate

The City of Philadelphia did not exercise adequate controls over the Supervised Child Playsite Project. The City spent \$22,608 of Empowerment Zone Program funds for the Project; however,

the City and the administering officials did not ensure the funds benefited Zone residents. The City also did not accurately report the actual status and progress of the Project in the June 30, 1997 Performance Review. The Review contained inaccuracies related to: performance measures; funding; performance milestones; and the start date. The problems occurred because the City did not adequately monitor the Project to ensure funds benefited Zone residents. Also, the individual who prepared the Performance Review for the City was not familiar with HUD's reporting requirements and did not verify the accuracy of the information reported. As a result, HUD lacks assurance that Empowerment Zone funds were used efficiently and effectively. The City also did not provide HUD with a realistic picture of actual progress, and the impression exists that the benefits of the activity were greater than actually achieved.

**Adequate Controls Were
Not Established Over The
Project**

The City and the Crime Prevention Association did not have adequate documentation to support that Empowerment Zone residents were the primary recipients of daycare outreach and counseling services funded by \$22,608 of Zone funds. The Association's administering agency, R.W. Brown, did not keep records showing who received outreach efforts and who was counseled on daycare services. The City did not adequately monitor the Project to ensure that documentation was complete and that outreach and counseling services primarily benefited Zone residents.

From March to December 1997, Empowerment Zone funds paid outreach and counseling salary costs of \$14,515 for an Intake Specialist and \$8,093 for an Outreach Specialist. Additionally, the Association billed the City another \$2,792 for the salaries of the Intake Specialist and \$1,575 for the Outreach Specialist for services provided during January and February 1998. The Child Playsite Project paid all of the Intake Specialist's salary and 50 percent of the Outreach Specialist's salary using Empowerment Zone funds. Another Empowerment Zone project, Teen After School Evening Program, paid the other 50 percent of the Outreach Specialist's salary.

**The City Incorrectly
Reported The Project's
Performance Measures**

The City did not accurately report the Project's performance measures. The City reported the Project would pay daycare for 25 children of Empowerment Zone residents on a full-time basis and 30 children on a part-time basis. However, the scope of the Project was changed to assist Zone residents in obtaining daycare services through outreach and counseling, rather than paying for direct daycare services. The change to the Project occurred because the funding provided

by the City was not adequate to start a new daycare program. The City did not report the change in the June 30, 1997 Performance Review.

Due to the change in the Project, the Association assisted parents in obtaining daycare services through its administering agency, R.W. Brown. R.W. Brown had an existing program that offered counseling and step-by-step assistance. R.W. Brown accomplished the goals of the changed Project by hiring two new staff members, an Outreach and an Intake Specialist, who counseled parents and explained the various assistance options and procedures. The Specialists also assisted parents with the necessary paperwork to enroll their children in one of R.W. Brown's programs. The City did not report the number of families and children served by the Project in the Performance Review.

The City Could Not
Support The Project's
Private Funding

The City incorrectly reported the Project received \$240,000 in private funding. The Project had not received any private funds as of June 30, 1997, and as a result of the change in scope to the Project, had no plans for private funds. The \$240,000 was an estimate of subsidy commitments needed to pay for actual daycare services that would have been necessary under the original project scope. The private funding was not intended to cover any salary costs for the Project.

The City Did Not
Accurately Report The
Project's Performance
Milestones

As one of the Project's performance milestones, the City reported that the Project would use a consultant to conduct a feasibility study and acquire a site to construct a daycare center. However, the feasibility survey was conducted using Zone residents and the decision was made to not open a new facility. Instead, the project was changed to provide outreach and counseling services. A contract was executed with R.W. Brown Community Center effective in March 1997 to provide the services. However, the June 1997 Performance Review did not reflect the changes to the Project.

The City also reported that several of the projected performance milestones regarding the commencement of the child care program, the enrollment process, and testing children's learning levels were still going to occur. However, since the scope of the Project was changed, the City should have been aware that these milestones were no longer going to occur.

The City Incorrectly
Reported The Project's
Start Date

The City reported that the Project started in November 1995. However, the City employee who assisted in planning the project said the Project actually started in April 1996. The person who prepared the City's Performance Review did not validate the information reported. As a result, the City provided HUD with information that showed the Project was proceeding at a faster pace than actual.

The inaccurate reporting occurred because the City employee, who prepared the Performance Review, was not familiar with HUD's reporting requirements. She did not report the actual accomplishments, instead she reported the projected performance categories as actual. The Executive Director of the City's Empowerment Zone said he requested that HUD's reporting requirements be provided to everyone responsible for preparing the Performance Review. However, the former Director of Policy and Planning for the City decided not to distribute the instructions. She believed since she was designated to be responsible for the Review, she was the only one who needed the information.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 106, contains the complete text of the comments.

The City disagrees with the OIG's assessment. The OIG determined that, because Empowerment Zone funds were used for salaries for an outreach worker (half-time) and an intake counselor, the targeted use of funds constituted the entire scope of her examination. However, the benchmark activity as reported on the Performance Review Template, as specified in the Request for Proposals, and as included in the terms of the contract with the provider, all list the provision of day care services to 55 Empowerment Zone children as the primary objective of this activity.

The City and the community panel that awarded the grant considered it an efficient and effective use of Empowerment Zone funds to pay for the outreach and intake positions, so long as the hiring for those positions would enable the provider to meet the performance objectives of the benchmark. The outreach and counseling was a means to achieve the governmentally approved objectives delineated

in the benchmark, the Request for Proposal and, subsequently, the contract.

OIG Evaluation of
Auditee Comments

The City changed the scope of services from what was in the Strategic Plan. Originally, the Child Playsite Project was to establish a daycare center and pay for the care of 55 Empowerment Zone children. The change resulted in the Project providing outreach and counseling services to obtain assistance to pay for the care of 55 Zone children at an established facility.

Child Playsite had full control over who received the counseling services; therefore, there was no justification to use Zone funds to provide counseling to non-Zone residents. However, who benefited from the outreach efforts was not directly controllable. Therefore, the City needs to demonstrate that Child Playsite's outreach efforts primarily served Zone residents. Child Playsite and the City did not have documentation to show who received the benefits of the services provided by the Project.

Auditee Comments

Since the OIG has defined the scope of this activity, it did not consider that the City and provider both have voluminous documentation to support that the contracted services necessary for the achievement of the benchmark goals, have been provided. Notably, in its finding, the OIG does not specify what specific documentation it would consider to be sufficient, and the City would appreciate clarification on this point. The Pennsylvania Department of Public Welfare requires its licensed agencies to keep client files in a locked cabinet and to allow only Department of Public Welfare representatives access to those files. The City deems it noteworthy that, where R.W. Brown receives more than \$1 million in public funds annually for children's services, the OIG's demand for documentation--as yet undefined--apparently exceeds the requirements of R.W. Brown's other government funding sources.

OIG Evaluation of
Auditee Comments

Child Playsite and the City did not have documentation to show who benefited from the Project. Child Playsite needs to maintain documentation to show the names and addresses of the individuals who receive counseling services or request services as a result of the outreach efforts.

Auditee Comments

The OIG has arbitrarily determined that the scope of the project changed when, in fact, the goal has been consistently to provide day care for 55 Zone children.

The OIG also states that the City did not report the number of families and children served by the project. First, there is no performance objective listed in that benchmark that identifies a number of families to be served. If, however, the OIG seeks to hold the City accountable to what the OIG thinks should be measured, the City would request that the OIG submit measurement criteria for all approved benchmarks. The City does agree that it did not report the number of children served in the June 1997 report.

**OIG Evaluation of
Auditee Comments**

As previously mentioned, our review determined that the scope of services changed from what was presented in the Strategic Plan. HUD requires Empowerment Zones to report on the final products or other measurable outcomes of an activity. In this instance, the Child Playsite Project needed to report on its outreach and counseling efforts and the Zone residents that benefited from the activities.

Auditee Comments

The OIG states that the City could not support the project's private funding. The City agrees with this assessment in that public funding was identified to cover the costs of day care for the requisite number of Zone children.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections

would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

OIG Evaluation of
Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

Where the OIG recommends the City instruct administering agencies to maintain documentation to support benefits and to provide services only to Empowerment Zone residents, the City maintains that these recommendations were, in fact, well-established practices long prior to this audit.

Where the OIG recommends that the City establishes procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used efficiently and effectively, the City maintains that the procedures and controls currently in place are more than adequate to ensure efficient and effective use of Zone funds.

OIG Evaluation of
Auditee Comments

Our review determined that Child Playsite and the City did not maintain documentation to show that Empowerment Zone funds were effectively and efficiently used. As a result, we determined procedures and controls were not adequate.

Auditee Comments

Where the OIG recommends that the City provide documentation to support that \$22,608 of Empowerment Zone funds spent between March and December 1997, and amounts invoiced in January and February 1998, benefited Zone residents, the City requests that the OIG reverse this

finding. The City maintains that it has offered documentation that is more than adequate to satisfy reasonable reporting requirements based on the scope of activities and objectives of this program. If the OIG chooses to maintain its position that the City did not adequately support services to Zone residents, the City would further request that the OIG specify precisely what additional documentation would satisfy its demand for support.

Where the OIG recommends that the City provide documentation to support that future expenditures of Empowerment Zone funds benefit Zone residents, the City requests clarification from the OIG. The City has already provided the OIG a copy of the Empowerment Zone Strategic Plan that details how the initiative was to be directed to support the Empowerment Zone, and projections and performance objectives included in the Performance Review report accomplish the same.

OIG Evaluation of Auditee Comments

The City needs to show that counseling services were provided to Zone residents since the Child Playsite had full control over who it counseled. Additionally, the City needs to support that outreach services primarily benefited Zone residents. The City also needs to maintain similar documentation for future expenditures. The Strategic Plan does not contain information that supports how Empowerment Zone funds were used for the daycare outreach and counseling services.

Auditee Comments

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of

responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City maintains that the Contracts Department has sufficient controls and procedures to verify the accuracy of its information. In the future; however, the City will ensure that this department is consulted for data on activities under contract prior to the preparation and submission of the Performance Review report.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

The Multipurpose Athletic Field Activity Expenditure and Reporting Controls Were Inadequate

The City of Philadelphia spent \$30,280 of Empowerment Zone funds above the amount approved for the Multipurpose Athletic Field activity. This represents a 20 percent budget overrun. Additionally, the City did not accurately report the actual status and progress of the activity. The June 30, 1997 Performance Review contained inaccuracies related to: funding, performance measures, performance milestones, and participating entities. The City did not have adequate controls to ensure the expenditure of Empowerment Zone funds was limited to the approved amount. The reporting inaccuracies occurred because the individual who prepared the Performance Review for the City did not ascertain the actual accomplishments for each performance category from the administering officials. Instead, she reported projected performance as actual. As a result, the City did not provide HUD with a realistic picture of actual progress for the activity.

The City Overspent Empowerment Zone Funds

As of May 1998, \$180,280 of Empowerment Zone funds had been spent on the activity, even though the allocation of Empowerment Zone funds was for only \$150,000. Additionally, \$429,356 of \$430,000 in City funds that were available for the project were also expended. The over expenditure of Empowerment Zone funds occurred because the City's system of control for the expenditure of the funds was not adequate.

The City's procedures required the Mayor's Office of Community Services' Fiscal Department to approve all Empowerment Zone fund disbursements. The Fiscal Office assigned an index code at the time of processing as a control to prevent unauthorized use of the funds. However, the City's Recreation Department was able to bypass the control and authorized the disbursement of \$148,495 of Empowerment Zone funds for construction of the activity without notifying the Mayor's Office of Community Services.

The Recreation Department was informed it had authorization to spend up \$150,000 in Empowerment Zone funds by the former Fiscal Director in the Mayor's Office of Community Services. The former Director provided the Department with an Initiation and Funding Approval form that contained the project's index code. The Budget Officer for the Recreation Department said since the index code was provided, it was assumed the Mayor's Office had recorded the transaction. However, since the Office of Community Services was not aware of the disbursement processed by the Recreation Department, the Office also approved the disbursement of \$31,785 for the acquisition of the property on which the field was to be constructed. The two disbursements totaled \$180,280, which exceeded the approved Empowerment Zone funding by \$30,280. The construction contract that the expenditure paid for was competitively bid and awarded to the lowest of the four bidders.

The City Under Reported Funding By \$211,000

and \$50,000 in Empowerment Zone funds committed to the project. However, Empowerment Zone funds were increased to \$150,000 in May 1996. The City also reported it had a total of \$319,000 of City funding and in-kind contributions. We determined through discussions with City staff and review of contract records that the City had no in-kind contributions, but

had provided \$430,000 in City funding. As a result, the City under reported the total funding by \$211,000 (\$100,000 of Empowerment Zone funds and \$111,000 of City funds).

The City Incorrectly
Reported Performance
Measures

The City incorrectly reported the activity's performance measures. The Performance Review reflected that 500 elementary school children from a nearby school would have access to the field. As of June 1997, there were 720 children at the school. We believe the fact that an additional 220 children may be served by the Athletic Field is an important benefit that should have been reported.

The City Incorrectly
Reported A Performance
Milestone

The City incorrectly reported a performance milestone for the activity. The City reported that construction began on June 1, 1997; however, as of June 30, 1997, construction had not begun. The notice to proceed was dated August 8, 1997.

The City Incorrectly
Reported Participating
Entities

The Performance Review listed The Nelson Network Coalition and the 3rd and Norris Playground as participating entities in the activity. Although these organizations are expected to participate in the future, neither organization was participating as of June 30, 1997.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the projected performance measures and funding as actual. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements are clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 113, contains the complete text of the comments.

The City agrees that it overspent the approved budgeted amount of Empowerment Zone funds by \$30,280.

The OIG states that the City's Recreation Department was able to bypass Mayor's Office of Community Services'

controls and access \$148,495 of Empowerment Zone funds for the project without notifying the Mayor's Office of Community Services of the disbursement. This is not the case. The controls were established, and the proper procedure for an inter-departmental transfer of funds was followed. The over-expenditure was strictly due to the failure to communicate this transaction within the Fiscal Department.

OIG Evaluation of
Auditee Comments

Communication between departments is a part of the control process; therefore, we determined that controls were not adequate.

Auditee Comments

The City disagrees that Empowerment Zone funds committed to this project were under-reporting funds by \$100,000. The June 30, 1997 Performance Review report lists \$150,000 as the actual expenditure of Empowerment Zone funds, and the approval of the increase in funds for the project is also noted on the Template in the narrative section for that activity.

The City does agree that it under-reported City funds committed to the project by \$111,000. The City leveraged the Empowerment Zone funds for this project with nearly three dollars for every Empowerment Zone dollar.

OIG Evaluation of
Auditee Comments

The Performance Review that was submitted to HUD showed that only \$50,000 of Empowerment Zone funds were spent.

Auditee Comments

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result

of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

Where the OIG recommends that the City reimburse the Empowerment Zone Program with non-Federal funds for the excess costs charged against this activity, the City takes the position that all expenditures associated with property acquisition and construction of the ball field, a Federally approved project, are justifiable expenditures, and that the use of federal funds is permissible for this purpose. The City will, nonetheless, identify a source of additional funds in order to reimburse the Empowerment Zone account.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

Where the OIG recommends that the City establishes procedures and controls to ensure the disbursement of Empowerment Zone funds can only occur with the approval of the Mayor's Office of Community Services Fiscal Department., it is the City's position that these procedures and controls are already in place. The disbursement of Empowerment Zone funds to the City's Recreation Department. occurred only because the Recreation Dept. received prior authorization from Mayor's Office of

Community Services Fiscal Department. The OIG can be assured; however, that Mayor's Office of Community Services current Fiscal Director will not approve such interdepartmental transfers in the future without giving full notification to the Empowerment Zone accountants so they may properly record the transaction.

OIG Evaluation of Auditee Comments

As previously mentioned, communication between departments is part of the control process. The City needs to establish procedures and controls to ensure there is adequate communication between its departments.

Auditee Comments

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to assure controls are in place that ensure data reported is accurate.

Controls Over the Lead Abatement Program Were Not Adequate

The City of Philadelphia did not maintain adequate controls over the Lead Abatement Program. The City inappropriately used \$83,310 of Empowerment Zone funds that did not benefit Zone residents and did not have documentation to support that another \$3,534 of administrative expenses paid with Zone funds were reasonable and necessary. The City also inaccurately reported the actual progress of the Program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, performance milestones, and funding. The problems occurred because the City did not monitor the Program. The individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. Instead, she reported the planned performance categories as the actual results. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with a realistic picture of actual progress, and the impression exists that the benefits of the Program were greater than actually achieved.

The City Did Not Have
Adequate Controls Over
Zone Funds

Sea Change Environmental Services, Incorporated, the administering entity for the Lead Abatement Program, used \$83,310 of Empowerment Zone funds that did not benefit Zone residents. The City and Sea Change also did not have documentation to ensure that an additional \$3,534 of Zone funds used for administrative expenses were reasonable and necessary. The City's Strategic Plan required that the

Program provide lead abatement services within the Empowerment Zone. However, services were provided to non-Zone residents.

Sea Change Environmental Services received a \$100,000 loan from Empowerment Zone funds in 1996 to provide lead abatement services to properties located in the Zone. The loan was provided through the Revolving Capital Fund, an Empowerment Zone activity. Sea Change's records showed that only one of the five properties that received services were located in the Zone. Additionally, Sea Change used \$3,534 of Zone funds to pay for administrative costs such as employees salaries. The City and Sea Change did not maintain documentation to support the use of the Zone funds. The City did not monitor the Program since the Empowerment Zone funds were not provided directly by the City. As a result, Empowerment Zone funds were not used efficiently and effectively.

The City Inaccurately
Reported The Program's
Performance Measures

The City incorrectly reported the Lead Abatement Program's performance measures in the June 1997 Performance Review. The City reported the Program reduced lead hazards in 800 households located in the Empowerment Zone. However, as discussed above, Sea Change's records showed that only one Zone household received services as of June 1997. The President of Sea Change Environmental Services said she did not know how the City arrived at the goal of reducing lead hazards in 800 households. She said the goal was unrealistic and that a reasonable projection would have been 200 households by May 2001. The City also did not report that jobs were created by the loan to Sea Change. Sea Change provided us documentation that showed two full-time employees and 13 temporary employees were hired as of June 30, 1997. Of the 15 employees hired, three were Empowerment Zone residents.

The City Inaccurately
Reported The Program's
Performance Milestones

The City inaccurately reported the Program's performance milestones in the June 1997 Performance Review. The performance milestones that were incorrectly reported were:

- The City reported that Sea Change developed a business plan for the Lead Abatement Program in November 1996. However, the President of Sea Change said the plan was developed in May 1996.

- The Review showed that Sea Change Environmental Services planned to establish its corporate structure in March 1998. However, Sea Change's corporate structure was established in July 1996 according to the Articles of Incorporation.
- The City reported the advertising of the Program was projected to start in March 1998. However, the President of Sea Change said Program brochures were distributed in April 1997.
- The Review showed that Sea Change planned to identify and provide referral services regarding lead hazards by March 1998. However, the President of Sea Change Environmental Services said Sea Change was not performing the services. She said the services were provided by the City's Department of Public Health. The City's Sanitarian Supervisor confirmed the services were provided by the Department of Public Health.

The City Over Reported
The Program's Funding
By \$39,000

The City inaccurately reported the Program's funding in the June 1997 Performance Review. The Review showed that the Program received \$115,000 of Empowerment Zone funds and \$174,000 in State/Local funding. However, as discussed above, Sea Change Environmental Services received a \$100,000 Empowerment Zone loan. Also, the Program only received \$150,000 from the Philadelphia Housing Development Corporation. As a result, the Program's funding was over reported by \$39,000.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the projected performance categories as actual and did not verify the accuracy of the information.

The Contracts Manager said the former Director also misunderstood HUD's requirements for reporting program results. We believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity. The former Director did not provide HUD's instructions to her staff to assist in preparing the City's June 1997 Performance Review. Instead,

she verbally instructed her staff to report the projected information as actual. In May 1998, the City provided training on HUD's Performance Review instructions to all Empowerment Zone staff and issued a memorandum that indicates the City will use HUD's procedures to prepare its Performance Review for June 1998. As a result, the City's future reporting should improve in accuracy.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 130, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying

out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

The City had no contractual relationship with Sea Change or the Lead Abatement Program. The City's contractual relationship was with the North Philadelphia Financial Partnership, which is required to monitor its loans in accordance with lending industry standards and to provide loans within the North Central Empowerment Zone. Where Sea Change may be considered a third-party beneficiary to the contract between the City and North Philadelphia Financial Partnership, the City's ability to enforce reporting requirements against that third party, absent a direct contractual relationship, presents a legal question for which the City will seek counsel prior to committing to a course of action.

Where the OIG recommends that the City establish procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used efficiently and effectively, the City maintains that it has adequate procedures and controls to monitor those parties with whom it has a contractual relationship. The City's authority to monitor activities of a party without a contractual agreement with that party is a legal question for which the City will seek guidance prior to committing to a course of action.

Where the OIG recommends that the City reimburse \$83,310 from non-Federal funds for the lead abatement services that were inappropriately provided to non-Zone households, the City agrees that the Empowerment Zone account should be reimbursed for this amount. The City will seek legal counsel to first explore its ability to recover these funds.

Where the OIG recommends that the City provide documentation to support \$3,534 in administrative expenses paid for with Empowerment Zone funds, the City will attempt to solicit the documentation from both the lending institution and Sea Change. If the documentation is not obtained within a reasonable period of time, the City will seek counsel to explore its ability to recover the full amount

questioned, and will reimburse the Empowerment Zone account with any monies recovered.

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establishes procedures and controls to ensure that the preparer of the report uses the actual accomplishments for each activity, the City is currently re-assessing its assignment of responsibility for coordination of the Performance Review report. The City will ensure; however, that actual data is utilized where required.

Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information presented to HUD, the City maintains that the Contracts Department has sufficient procedures and controls through its contract monitoring process to ensure the accuracy of all data associated with Empowerment Zone contractual relationships. However, as in this case, the City also maintains that its authority to monitor the activity of parties outside a contractual relationship with the City presents a legal question for which the City will seek counsel prior to committing to a course of action.

Where the OIG recommends that the City monitor Empowerment Zone activities to ensure they are fulfilling Empowerment Zone objectives, the City again maintains that its authority to monitor the activities of parties outside a contractual relationship with the City presents a legal question for which the City will seek guidance prior to committing to a course of action.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff,

and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

It is the City's responsibility to ensure that Zone funds are efficiently and effectively used. This includes taking necessary steps to maintain legal control in third party transactions.

Results of Cecil B. Moore Commercial Corridor Were Incorrectly Reported

The City of Philadelphia did not accurately report the actual status and progress of the Cecil B. Moore Commercial Corridor. The June 30, 1997 Performance Review contained inaccuracies related to: performance measures; funding; start date; performance milestones; and participating entities. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not ascertain the actual accomplishments for each performance category from the administering officials. Instead, she reported projected performance categories as actual. As a result, the City did not provide HUD with a realistic picture of actual progress, and the impression exists that the benefits of the activity were greater than actually achieved.

The City Incorrectly Reported The Corridor's Performance Measures

The City inaccurately reported the Corridor's projected performance measures as actual. Specifically, the City reported that a seven store retail strip mall, 16 housing units, and 35 new jobs were produced. As of June 1997, there were only six prospective tenants for the mall and only two of the six, a banquet hall and a radio station, had signed leases. The 16 housing units were a separate community development project that was not connected with the Empowerment Zone Program. The former Director of Policy and Planning for the City included the units to show the full range of work by the Developer. The units should not have been reported to HUD since they did not result from Empowerment Zone efforts. Additionally, no jobs had been created. The jobs are planned to be created in December 1998, when the mall is scheduled to open. At this time, the projected 35 jobs appears reasonable.

The City Over Reported
The Corridor's Funding
By \$600,000

The City reported that \$1.5 million of projected funding was committed by the Philadelphia Industrial Development Corporation and Meridian Bank. In April 1998, ten months after the \$1.5 million commitment was erroneously reported, the Commercial Corridor received a commitment from the Development Corporation for \$600,000. However, no funds were committed by Meridian Bank. The Developer for the Commercial Corridor said Meridian Bank was not planned as a potential source of funds and he had no idea how it got included in the Performance Review. The City had originally included Meridian Bank as a potential source of funds during the development of the activity.

The City did not report that the Commercial Corridor's Developer committed \$50,000 from a Temple University grant as of June 30, 1997. The City also did not report that \$250,000 from the City's Department of Commerce was committed to the Corridor in May 1997. As a result, the City over reported the Corridor's funding sources by \$600,000 to HUD.

The City Incorrectly
Reported The Corridor's
Start Date

The City reported that the Commercial Corridor project started in December 1994, the date the City was designated as an Empowerment Zone. However, the actual start date was June 1997, when the Empowerment Zone loan agreement was executed with the Corridor's Developer.

The City Incorrectly
Reported The Corridor's
Performance Milestones

The City reported that the property for the Corridor was acquired in August 1996. However, according to the settlement statements, the purchase of the property was not completed until April 1997. The City also reported that the Corridor's architectural design was completed in June 1997. However, the Corridor's Developer said the design was actually completed in December 1997.

The City Did Not
Accurately Report The
Corridor's Participating
Entities

The City reported that two organizations: Philadelphia Commercial Development Corporation and Local Initiatives Support Corporation were participating entities. During the drafting of the Strategic Plan, the City planned to use the Development Corporation to assist with the Corridor's development. However, the City instead substituted the Mayor's Office of Community Services. The Developer for the Commercial Corridor solicited funds from the Local Initiatives Support Corporation; however, the funds were not intended for an Empowerment Zone activity. Therefore, the two

Corporations should not have been reported as participating entities.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the projected performance measures and funding as actual. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements are clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 96, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's

Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that the City establishes internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

The City does; however, request further clarification on this finding from the OIG. Where the Performance Review Template does not list loan execution as a Performance

OIG Evaluation of
Auditee Comments

Milestone, it is unclear why the OIG would determine this specific, unnamed activity to delineate the "Start Date" of the project. Where "site acquisition" is the first Performance Milestone listed on the Template, it should follow that the date of site acquisition would be the correct and appropriate Start Date of the project.

The OIG claims that the City incorrectly reported the Performance Milestones in that the City stated that the property for the Corridor was acquired in August 1996. The City disagrees with the OIG's assessment. Although the developer did not obtain title to the property until settlement of its loan, the property was, in fact, acquired in August 1996, by the Philadelphia Housing Development Corporation pursuant to its agreement with the Philadelphia Empowerment Zone to acquire property for Zone development. The Commercial Corridor properties were held by the Philadelphia Housing Development Corporation until execution of the loan agreement between the North Philadelphia Financial Partnership and the developer.

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures that ensure controls are in place that show the training was effective and the data reported is accurate.

We agree that the site acquisition date for the Cecil B. Moore Commercial Corridor is a better measure of the starting of the activity than the loan agreement date, if the purchase preceded the loan agreement. However, the Performance Review which shows the start date as December 1994 is still not accurate. Per the City's comments, the site was acquired in August 1996.

The City indicated the Philadelphia Housing Development Corporation acquired the property for the Corridor in August 1996, pursuant to an agreement with the Philadelphia Empowerment Zone. However, based upon documentation provided by the City, the purchase of the property was completed in April 1997. We adjusted our finding based upon the documentation.

Results of Child Care Conference Were Incorrectly Reported

The City of Philadelphia incorrectly reported the results of the Child Care Conference in its June 30, 1997 Performance Review to HUD. The City inaccurately reported that: (1) 500 parents were educated on criteria for selecting quality child care services; (2) \$30,000 of in-kind contributions were received for the conference; and (3) \$30,000 of Empowerment Zone funds were spent on the conference. Records at the City confirmed that only 55 parents attended the conference and only \$17,990 of in-kind contributions were received. Additionally, the City spent \$26,484 of Zone funds for the conference. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. Instead, she reported the planned performance measures and funding as the actual results. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD and the impression exists that the benefits of the activity were greater than actually achieved.

Conference Results Were Inaccurately Reported

The City incorrectly reported in its June 30, 1997 Performance Review that: (1) 500 parents were educated on criteria for selecting quality child care services; (2) \$30,000 of in-kind contributions were received for the Child Care Conference; and (3) \$30,000 of Empowerment Zone funds were spent on the conference. This occurred even though the City's files contained a June 1997 report from Matrix Research Institute, the organization the City contracted with to administer the Child Care Conference, that showed only 55 parents attended the conference and that in-kind contributions were not received as projected. The invoices in the City's files showed only \$26,484 of Empowerment Zone funds were spent. Additionally, the City's files showed the Conference only received \$17,990 of in-kind contributions.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use

the actual accomplishments for each activity that were provided by the administering officials. As previously mentioned, administering officials reported that only 55 parents attended the conference, \$17,990 of in-kind contributions were received, and \$26,484 of Empowerment Zone funds were spent. The former Director reported that 500 parents attended the conference, \$30,000 of in-kind contributions were received, and \$30,000 of Empowerment Zones funds were spent. The former Director reported the projected performance measures and funding as actual and did not verify the accuracy of the information.

The Contracts Manager said the former Director also misunderstood HUD's requirements for reporting program results. We believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity. The former Director did not provide HUD's instructions to her staff to assist in preparing the City's June 1997 Performance Review. Instead, she verbally instructed her staff to report the projected information as actual. In May 1998, the City provided training on HUD's Performance Review instructions to all Empowerment Zone staff and issued a memorandum that indicates the City will use HUD's procedures to prepare its Performance Review for June 1998. As a result, the City's future reporting should improve in accuracy.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 90, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the

City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's

Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

Accomplishments of the Community Lending Institution Were Misstated

The City of Philadelphia incorrectly reported the accomplishments of the Community Lending Institution. The City's June 30, 1997 Performance Review inaccurately reported that the Institution: loaned \$3.5 million of Empowerment Zone funds, leveraged \$10.5 million from banks, and spent the \$250,000 Empowerment Zone grant. As of June 1997, no loans were made and no bank funds were leveraged by the Institution. Additionally, the Institution only spent \$18,450 of the Empowerment Zone grant. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD and the impression exists that the benefits of the activity were greater than actually achieved.

Benefits From The Lending Institution Were Misstated

The Community Lending Institution had not made a loan as of June 1997, although the City reported that the Institution had loaned \$3.5 million of Empowerment Zone funds. The Institution has made progress in loaning Zone funds since June 1997, and if it continues at its present pace, it should meet its goal of loaning \$3.5 million by January 1999. Between November 1997 and April 1998, the Institution loaned \$612,600 of Empowerment Zone funds and committed another \$922,376 of the funds.

The Community Lending Institution also had not leveraged any funds with banks as of June 1997. However, the Institution has begun to leverage funds. The Institution's Cumulative Loan Status Report for April 1998 showed it leveraged \$3,453,200. The Institution provided the City with monthly Cumulative Loan Status Reports that showed the actual loans made and leveraged funds. Although the City reported a January 1999 completion date for the leveraging of funds, the Institution's Executive Director said he could not provide an estimate. The total amount of funds that will ultimately be leveraged and the timing depends on the number of loans received that are accepted by participating banks. We believe the Institution

needs to analyze past trends and information to develop a revised completion date for leveraging funds.

The Community Lending Institution spent \$18,450 of the Empowerment Zone grant as of June 30, 1997, in lieu of the \$250,000 reported to HUD. The \$18,450 was for the Executive Director's salary and benefits. The administrative costs were reasonable and used according to the grant agreement between the City and the Institution.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements are clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 93, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool

rather than an evaluation mechanism that would be used for the purpose of audit.

Where the OIG recommends that the City establishes procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will reflect actual data where required.

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

The OIG further recommends that the City obtain a revised completion date from the Community Lending Institution for leveraging bank funds. However, leveraging additional public and private financing is an integral ongoing activity of the Community Lending Institutions that will continue even after Empowerment Zone funds are exhausted. In future reports; however, the City will ensure that the reporting error is not repeated and will include the precise dollar amount leveraged as of the date of the report.

invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

Results of Community Capital Institution Were Incorrectly Reported

The City of Philadelphia did not accurately report the actual status and progress of the Community Capital Institution activity. The June 30, 1997 Performance Review contained inaccuracies related to funding, performance milestones, and participating entities. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not ascertain the actual accomplishments for each activity and did not verify the information reported. As a result, the City did not provide HUD with a realistic picture of actual progress, and the impression exists that the benefits of the activity were greater than actually achieved.

The City Over Reported The Activity's Leveraged Funding

The City of Philadelphia's Performance Review showed that the Community Capital Institution activity received \$11,547,140 from private sources and \$11,547,140 from public institutions. However, as of June 30, 1997, the activity had not received any funding or commitments from private or public entities. Since June 30, 1997, the activity has leveraged over \$10.6 million of commitments and, if it continues at its present rate, should meet its goal to leverage \$23 million from public and private sources by September 30, 1999. The commitments consisted of: (1) \$10 million from General Electric Capital in February 1998; (2) \$230,000 from the First Union National Bank in March 1998; (3) \$400,000 from Star Financial in May 1998; and (4) \$50,000 from the Philadelphia Commercial Development Corporation in June 1998.

The City Incorrectly Reported The Institution's Performance Milestones

The City incorrectly reported three of the activity's performance milestones. The City reported that the West Philadelphia Economic Development Committee established and provided training to the Institution's loan committee in May 1997. However, the Institution's records showed the loan committee was not provided training until December 1997. The City also projected that: (1) the Economic Development Committee would develop and implement a strategy to leverage funding from public and private sources in July 1997; and (2) the Institution would open for business and make its first loan in October 1997. The Institution's Executive Director said he would have reported that the leveraging of funds and closing of the first loan would not have occurred until early 1998; however, he said the City

The City Did Not
Accurately Report The
Institution's Participating
Entities

did not request any information from him for the June 1997 Performance Review.

The City's June 30, 1997 Performance Review showed that: (1) the City's Commerce Department; (2) various pension plans, banks, utility companies, and health maintenance organizations; and (3) the Ben Franklin Technology Center were participating entities in the activity. However, the entities were not participating in the activity as of June 1997. Subsequent to the Review, the City's Commerce Department, the First National Bank, and Star Financial began participating in the activity. The Institution's Executive Director said the activity still expects the remaining entities to participate.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the activities' projected information as actual. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 118, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result

of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

The City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will consistently reflect actual data where required.

The City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that its Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that Department.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written

procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

Accomplishments of the Revolving Capital Fund Were Incorrectly Reported

The City of Philadelphia inaccurately reported the actual status and progress of the Revolving Capital Fund in the June 30, 1997 Performance Review. The Review contained inaccuracies related to performance measures, funding, performance milestones, and a participating entity. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not ascertain the actual accomplishments for each performance category from the administering officials. Instead, she reported projected performance information as actual. As a result, the City did not provide HUD with a realistic picture of the actual progress of the Fund.

The Fund's Performance Measures Were Incorrectly Reported

The City of Philadelphia inaccurately reported the Revolving Capital Fund's performance measures in the June 1997 Performance Review. The Review showed that the Fund assisted 30 businesses. However, as of June 30, 1997, the North Philadelphia Financial Partnership, the administering entity for the Revolving Capital Fund, reported to the City that only seven business loans were closed. The City did not report on each loan made under the Revolving Capital Fund as required by HUD. The City also did not report the number of jobs expected to be created or retained as a result of the assistance to the seven businesses. The Partnership's records showed the seven businesses expected to create 119 new jobs and retain 1,357 existing jobs as a result of the seven loans. The records indicated that 38 of the new jobs were projected to be filled by Empowerment Zone residents, but did not comment on how many of the retained jobs affected Zone residents.

The City Incorrectly Reported The Activity's Funding

The City incorrectly reported the funding for the Revolving Capital Fund in the 1997 Performance Review. The Review showed that the Fund received a total of \$9.6 million; however, the Fund only had a commitment for \$7 million as of June 30, 1997. The Executive Director for the North Philadelphia Financial Partnership said the City committed \$7 million of Empowerment Zone funds. The Revolving Capital Fund had not leveraged any other funds as of June 1997. Since that time the Fund has leveraged over \$6 million of additional public and private funding; however, HUD's instructions require the actual status of funding at the time the Review is submitted to be reported.

The City Incorrectly
Reported The Fund's
Performance Milestones

The City incorrectly reported the Fund's performance milestones. The performance milestones that were inaccurately reported were:

- The City reported that the community lending fund was incorporated in July 1996. However, the North Philadelphia Financial Partnership's records showed that the Partnership was incorporated in March 1996;
- The Performance Review showed that the Fund's Advisory Committee/Research and Capital Planning Committee was formed in July 1996. However, the City's records showed the Committee was formed in May 1995. The Committee assisted in establishing the Partnership, and was dissolved in March 1996; and
- The City reported that marketing of the Fund's services began in May 1996. However, the North Philadelphia Financial Partnership's Executive Director said the marketing of the Fund did not begin until August 1996 when brochures were distributed.

The City Incorrectly
Reported One Of The
Fund's Participating
Entities

The City incorrectly reported that the North Central Business Association was a participating entity in the Revolving Capital Fund. However, the North Philadelphia Financial Partnership's Executive Director said the Association did not exist.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the activities' projected information as actual. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 123, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the

implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

OIG Evaluation of Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

The City disagrees with the OIG's definition of assistance to businesses, where the OIG concluded that the correct performance measure was assistance to seven businesses. To the contrary, one of the approved activities of the Capital Fund is to provide technical assistance or referrals for alternative financing to businesses/applicants. As of June 30, 1997, the North Philadelphia Financial Partnership provided assistance or referrals to 18 businesses in addition to the seven businesses that were provided with financing.

OIG Evaluation of
Auditee Comments

The performance measure for the Revolving Capital Fund is to financially assist 30 businesses. Only seven businesses were financially assisted as of June 30, 1997.

Auditee Comments

The City maintains that it is not required by HUD to report each loan. In fact, the City made a request to HUD for additional guidance on this point on May 19, after the issue was initially raised by OIG auditors. HUD's response to the City's request is that it has never been HUD's intent that the City should report on individual loans made under the lending institutions; rather, HUD had informed the City early in the process that it was acceptable for the City to report on loans in the aggregate. It is also the City's understanding that HUD will further clarify this issue when the OIG's report is issued.

The OIG has stated that the City failed to report job creation and retention projections based on the Capital Fund's lending activity. This is inconsistent with the OIG's overall findings that the City has failed to report actual data in the Performance Review report. The HUD-approved benchmark does not list job creation as a performance measure; rather, the activity's objective is to assist businesses with capital financing needs.

OIG Evaluation of
Auditee Comments

HUD's 1997 EZ/EC Performance Review instructions issued on June 23, 1997 require Zones to complete a template for each activity that has a separate outcome. An individual loan is a separate outcome. The instructions also require Zones to report final products produced or other measurable outcomes of an activity. Job creation is a measurable outcome of the loan.

Auditee Comments

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will consistently reflect actual data where required.

Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information reported, it is the City's position that the Contracts Department. did, in fact, have accurate information on the level of activity under the Revolving Capital Fund's benchmark by virtue of its contract reporting requirements with the North Philadelphia Financial Partnership. However, in the future, the City will ensure that this information is communicated to HUD vis-a-vis the Performance Review report, and will not repeat its error of only including projected activity in the report.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

Accomplishments of the Youth Landscape Training Program Were Inaccurately Reported

The City of Philadelphia incorrectly reported the actual status and progress of the Youth Landscape Training Program in the June 30, 1997 Performance Review. The Review contained inaccuracies related to performance measures, funding, performance milestones, and participating entities. The City also did not ensure the Strategic Plan's goal of training and employing Empowerment Zone residents was achieved and did not report the obstacles encountered related to the Program. The inaccuracies occurred because the individual who prepared the Performance Review for the City did not use the actual accomplishments for each activity and did not verify the information reported. Instead, she reported the projected performance categories as the actual results. As a result, the City did not accurately report the accomplishments of the City's Empowerment Zone Program to HUD and did not ensure that the goals of the Strategic Plan were met. The impression exists that the benefits of the Youth Landscape Training Program were greater than actually achieved.

The City Incorrectly
Reported The Program's
Performance Measures

The City of Philadelphia inaccurately reported the Youth Landscape Training Program's performance measures in the June 1997 Performance Review. The City reported that the contract amount of 40 youths and four adult crew leaders received environmental training and employment opportunities. However, the City and the administering entity for the Program, Norris Square Neighborhood Project, could not provide any documentation to support the training, employment, or the names and addresses of any youths or crew leaders who participated in the Program.

The City's Strategic Plan required that Program participants be Empowerment Zone residents. The City's June 1997 site visit report indicated that the City requested a listing of the Zone residents that were participating in the Program, but the City never received the list. As a result, HUD and the City lack assurance that the goals of the Strategic Plan were being achieved.

The City Over Reported
The Program's Funding
By \$81,443

The City over reported the funding received by the Program. The 1997 Performance Review showed that the Program received \$39,931 of Empowerment Zone funds and \$80,032 from the Private Industrial Council. However, as of June 30, 1997, the Program has not received any Zone funds. Additionally, the Administrator for the Private Industrial Council said the Council provided only \$38,520 to the Program as of June 1997.

The City Inaccurately
Reported The Program's
Performance Milestones

The City reported that five milestones were completed in June 1996; however, the milestones were not initiated since the contract for the Program was not awarded until October 1996. The performance milestones that were inaccurately

reported were: the phase one provider, Norris Square Neighborhood Project, would hire a landscape architect to train youths from the community; the architect and crew leaders would develop a data collection/inventory form, a job skills curriculum, and a youth performance evaluation; and the crew leaders would be assigned to teams of 10 youths. The City and the Project did not have any documentation to show that these performance milestones were completed after the contract was awarded. As a result, the impression exists that the benefits of the Empowerment Zone Program were greater than actually achieved.

The Contracts Manager for the City said the inaccurate reporting occurred because the former Director of Policy and Planning, who prepared the Performance Review, did not use the actual accomplishments for each activity. Instead, she reported the projected performance measurements and funding as actual. The Contracts Manager also said the former Director misunderstood HUD's requirements for reporting program results. However, we believe that HUD's requirements were clear. The 1997 EZ/EC Performance Review instructions state that Empowerment Zones will report final products produced and measurable outcomes of the activity.

The City Did Not Report The Program's Obstacles

The City did not report the obstacles it encountered related to the Program. As discussed above, the City's June 1997 site visit report indicated that the City requested a list of Empowerment Zone residents participating in the Program, but it never received the list. The report also showed that Norris Square Neighborhood Project was not providing the required services or submitting invoices. However, the City's June 30, 1997 Performance Review to HUD did not report the obstacles encountered by the Program. The Contracts Manager for the City said the City was not aware of the requirement to report obstacles encountered by an activity. However, the Memorandum of Agreement dated December 21, 1994 requires the City to report obstacles encountered in carrying out the Strategic Plan. The City terminated the contract with Norris Square Neighborhood Project in August 1997.

Auditee Comments

Excerpts from the City's comments on our draft finding follow. Appendix C, page 127, contains the complete text of the comments.

Although we agree that the HUD guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's resistance was resolved in a conference call coordinated by the Department of Health and Human Services, which included HUD, the Commonwealth's Grant Administrator, and the City's former Coordinator of Policy and Planning. The result of this dialog was an agreement that the actual column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section of each template. The former Coordinator understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

OIG Evaluation of
Auditee Comments

The City did not provide any evidence to support an agreement that limited the Performance Review to only planning and invoicing of Empowerment Zone activities. Neither HUD's Coordinator of the EZ/EC Initiative nor the Commonwealth's Grant Administrator recalled an agreement to alter the progress reporting requirements. The City agreed that HUD's guidelines for the Performance Review were clear. HUD's Memorandum of Agreement with the City dated December 21, 1994 and HUD's June 1997 Performance Review instructions required the City to report on the progress made in carrying out Empowerment Zone activities. Overall, we found that the City's oversight for the preparation of the Performance Review was inadequate.

Auditee Comments

Where the OIG recommends that the City establishes procedures and controls to ensure the person who prepares the Performance Review report utilizes actual accomplishments for each activity, the City is currently re-evaluating assignment of responsibility for coordination of

the report. The City will ensure that, in the future, actual data will be utilized where required.

Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training session was held on May 18, 1998, for all Empowerment Zone staff, and HUD's guidelines were addressed in detail. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone Program. During that meeting, the Grant Administrator was presented with a copy of the HUD's guidelines.

Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information reported, it is the City's position that the Contracts Department. did, in fact, have accurate information on the level of activity (none) for the Landscape Training program by virtue of its contract reporting requirements with the administering entity, and terminated that contract accordingly. However, in the future, the City will ensure that this information is communicated to HUD vis-a-vis the Performance Review report, and will not repeat its error of only including projected activity in the report.

Where the OIG recommends that the City establishes procedures and controls to ensure that the goals of the Strategic Plan are met, the City's position is that additional procedures and controls are not necessary. The City's procedures and controls vis-a-vis its contract monitoring and payment processes worked precisely as they should, in that this contract was terminated without disbursement of Empowerment Zone funds due to the administering entity's failure to meet the program goals.

OIG Evaluation of Auditee Comments

The City plans to reevaluate its assignment of responsibilities for coordination of the Performance Review, has conducted a mandatory training session for all Empowerment Zone staff, and plans to conduct a thorough assessment to determine what actions it needs to take to accurately report Empowerment Zone information to HUD. After it completes its reevaluation and assessments, the City needs to implement written

procedures to ensure controls are in place that show the training was effective and the data reported is accurate.

We acknowledge that the City did a review of the activity and terminated its contract before Empowerment Zone funds were disbursed. However, the City reported that goals of the Strategic Plan were met in its June 1997 Performance Review when they were not. The City needs to establish procedures and controls to ensure reviews are accomplished before information is reported.

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Auditee Comments

*Philadelphia Empowerment Zone
Mayor's Office Of Community Services
One Parkway
1515 Arch St. 9th Floor
Philadelphia, Pa. 19102*

Heath Wolfe, Senior Auditor
Office of Inspector General
U.S. Department of Housing and Urban Development
Ohio State Office, Midwest
Room 334
200 North High St.
Columbus, OH 43215-2499

28 July 1998

Dear Mr. Wolfe;

Attached are the City of Philadelphia revised responses for the first six audit findings of the Office of Inspector General.

We appreciate your giving us the opportunity to gracefully distance ourselves from the erroneous claim made in reference to the October 30 report. Please note that other minor changes have been made with regard to other OIG recommendations regarding the Performance Review report and ensuring the accuracy of data.

If you have any questions, please feel free to contact me at 215-683-0462, or Carrie DeBehnke at 683-0461.

Sincerely,

Carlos Acosta
Executive Director
Philadelphia Empowerment Zone.

City of Philadelphia Response to Draft Finding

**of the Office of Inspector General
for the U.S. Dept. Of Housing and Urban Development
Stating "Results of Child Care Conference Were Incorrectly Reported"**

In its draft finding, the OIG states that the City of Philadelphia Empowerment Zone incorrectly reported results as to three specific issues related to its benchmark for the Child Care Conference. The City's response to these issues is as follows:

- 1) The OIG states that the City incorrectly reported in its June 30, 1997 Performance Review that 500 parents were educated on criteria for selecting quality child care services. The City agrees that results pertaining to the number of Empowerment Zone residents in attendance at this conference were incorrectly reported on the Performance Review Template, and that the actual number of parents attending the conference was 55.

The error in reporting occurred when benchmark projections were erroneously placed in the "actual" column of the Performance Review Template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the June, 1997, report leaves the impression that the Philadelphia Empowerment Zone accomplished more than it actually has, it was never the City's intent

to create that impression. To the contrary, the City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

Moreover, it should be added that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. The City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

- (2) The OIG states that the City incorrectly reports that \$30,000 of in-kind contributions were made toward the Child Care Conference. Again, the \$30,000 figure that appeared in the 4 "actual" column of the report was a soft projection made by a committee of the American Street Community Trust Board. The correct in-kind contribution to that activity was \$17,990. The reporting error in the Performance Review occurred due to the reasons stated above.
- (3) The OIG has also stated that the City reported \$30,000 in Empowerment Zone funds were applied toward this activity. Again, this was a projection made by the community based on the funds allocated by the Community Trust Board for this project, and the reporting error occurred due to the reasons stated above. The actual expenditures for this project came in under budget at \$26,484.

The City's response to the OIG's recommendations is as follows:

- A. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. However, the City will ensure that, in the future, the report will reflect actual data where required.
- B. Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training was held on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and is

now aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since carrying out these activities, the City has been notified by HUD that the reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- C. Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department.

**of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "Accomplishments of the Community Lending institution
Were Misstated"**

In its draft finding, the OIG states that the City of Philadelphia Empowerment Zone incorrectly reported the accomplishments of the Community Lending Institution in its June, 1997, Performance Review report. The City's response to the specific issues raised by the OIG are as follows:

- (1) The OIG states that the City incorrectly reported that the Community Lending Institution lent \$3.5 million in Empowerment Zone funds. The City agrees that, as of June 30, 1997, the Community Lending Institution for the American Street Empowerment Zone had not yet settled any Empowerment Zone loans.

The error in reporting occurred when benchmark projections were erroneously placed in the "actual" column of the Performance Review Template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the June, 1997, report leaves the impression that the Philadelphia Empowerment Zone accomplished more than it actually has, it was never the City's intent to

create that impression. To the contrary, the City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation. *As of June 1, 1998, the American Street Financial Services Center has settled \$876,000 in loans, has committed an additional \$646,200, and has leveraged \$1,031,290 in public and private financing as well as owner equity.*

It should be also be noted that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. Moreover, the City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

- (2) The OIG states that, although the City reported that \$10.5 million was leveraged against Empowerment Zone funds, the Community Lending Institution had not leveraged any funds with banks as of June 1997. The City agrees with the OIG's assessment that no funds were leveraged as of the date of the report. The error in reporting occurred due to the reasons stated above. The \$10.5 million erroneously reported in the "actual" column of the template was a soft projection based on deliberations of the Economic Development Committee of the American Street Community Trust Board during benchmark development.
- (3) The OIG states that the City incorrectly reported that the Community Lending Institution spent \$250,000 in Empowerment Zone funds as of June 30, 1997. The City agrees that the lending institution had only spent \$18,450 as of that date for the Executive Director's salary and benefits. The reporting error occurred for the reasons stated above. The \$250,000 that appeared in the "actual" column of the template was based on projected operations expenses for a two-year period,

The City's response to the OIG recommendations is as follows:

- A. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. However, the City will ensure that, in the future, the report will reflect actual data where required.
- B. Where the OIG recommends that City staff responsible for preparing the Performance

were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and is now aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

- C. Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department.
- D. The OIG further recommends that the City obtain a revised completion date from the Community Lending Institution for leveraging bank funds. However, leveraging additional public and private financing is an integral ongoing activity of the Community Lending Institutions that will continue even after Empowerment Zone funds are exhausted. In future reports, however, the City will ensure that the reporting error is not repeated and will include the precise dollar amount leveraged as of the date of the report.

**of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "Results of Cecil B. Moore Commercial Corridor
Were Incorrectly Reported"**

In its draft finding, the OIG states that the City of Philadelphia did not accurately report the actual status and progress of the Cecil B. Moore Commercial Corridor. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG states that the City inaccurately reported the Performance Measures for the Cecil B. Moore Commercial Corridor as a seven-store retail strip mall, 16 housing units and the creation of 35 new jobs. The City agrees that the 16 housing units are a separate development project not funded by the Empowerment Zone, but were included as a performance measure to reflect the full range of development related to that project and occurring within the Zone.

The City also agrees that it incorrectly reported the creation of a seven-store retail mall and 35 jobs where, as of June, 1997, when the project was not yet complete, only six prospective tenants existed for the strip mall and 35 jobs had not yet been created. The error in reporting occurred when benchmark projections were erroneously placed in the actual" column of the Performance Review Template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance*

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Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.

If, as the OIG states, the June, 1997, report leaves the impression that the Philadelphia Empowerment Zone accomplished more than it actually has, it was never the City's intent to create that impression. To the contrary, the City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

Moreover, it should be added that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. Moreover, the City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

- (2) The OIG states that the City over-reported the Corridor's Investments by \$600,000. The City agrees with this assessment. This error occurred when benchmark projections for leveraged investment, originally made by a committee of the Community Trust Board of the North Central Empowerment Zone, were erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above. The correct leveraged investment to date is \$900,000.
- (3) The OIG also states that the City reported that the Commercial Corridor project started in December 1994 where, in fact, the project did not begin until June, 1997, when the loan agreement between the North Philadelphia Financial Partnership and the developer was executed. This error occurred when the benchmark projections were erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above. The loan agreement with the Developer was executed in June, 1997.

The City does, however, request further clarification on this finding from the OIG. Where the Performance Review Template does not list loan execution as a Performance Milestone, it is unclear why the OIG would determine this specific, unnamed activity to delineate the "Start Date" of the project. Where "site acquisition" is the first Performance Milestone listed on the Template, it should follow that the date of site acquisition would be the correct and appropriate Start Date of the project.

- (4) The OIG claims that the City incorrectly reported the Performance Milestones in that the City stated that the property for the Corridor was acquired in August, 1996. The City disagrees with the OIG's assessment. Although the developer did not obtain title to the

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property until settlement of its loan, the property was, in fact, acquired in August, 1996, by the Philadelphia Housing Development Corporation pursuant to its agreement with the Philadelphia Empowerment Zone to acquire property for Zone development. The

Commercial Corridor properties were held by PHDC until execution of the loan agreement between the North Philadelphia Financial Partnership and the developer.

The OIG also states the City incorrectly reported completion of the project's architectural design as June, 1997. The City agrees with the OIG in that the actual completion date of the design was December, 1997. This error occurred when the benchmark projections were erroneously placed in the "actual" column of the template. The reason for the error is stated above.

- (5) The OIG also states that the City did not accurately report the Commercial Corridor's Participating Entities. The City agrees with this assessment. The error occurred when the benchmark projections were erroneously placed in the "actual" column of the Template. The reason for the error is stated above.

The City's response to the OIG recommendations is as follows:

- A. Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three hour training was held on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and is now aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since providing this training, the City has been notified by HUD that this reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- B. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. However, the City will ensure that, in the future, the report will reflect accurate data where required.

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- C. Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply

with this recommendation. While the City is confident that the Contracts unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department.

**for the U.S. Department of Housing and Urban Development
Stating "Controls Over Safety/Security Program
for Businesses and Residents Were Not Adequate"**

In its draft finding, the OIG states that the City of Philadelphia lacked sufficient controls over the Safety/Security program. The City's response to the specific issues raised by the OIG are as follows:

- (1) The OIG states in pertinent part that adequate controls were not established over the safety devices distributed in the West Philadelphia Empowerment Zone community, and that, as a result, Empowerment Zone funds were not used efficiently and effectively. The City disagrees with the OIG's overall assessment.

Controls and procedures were established prior to the implementation of this activity to ensure that the supporting documentation would be in place. As the OIG's review has proven, these controls were more than adequate to provide documentation for nearly two-thirds of the smoke detectors and batteries distributed, i.e., the City had appropriate backup documentation to support the installation of more than \$11,000 of smoke detectors and batteries to West Philadelphia Empowerment Zone residents. Where there was a lapse in the exercise of controls, however, it was due to the fact that the distribution and installation of the smoke detectors was a large-scale, primarily volunteer project carried out by community members, many of them youth, who admittedly may have lacked a clear understanding of the need for documentation.

This activity was deliberately planned as a community-based effort for two reasons. First, at all levels of benchmark planning and development, City staff and community members are mindful that resources are limited; thus, they consistently seek methods of project implementation that will not squander Empowerment Zone funds. The alternative strategy would have been to bid this project through the Request for Proposal process, select a provider, and contract for the services. Then, as with other Empowerment Zone contracts, no payment for services would have been made without the submission and verification of the requisite documentation. At the same time, however, Empowerment Zone funds would have been used to pay for a provider's staff to canvas the neighborhoods, to assemble and install the smoke detectors, and to cover provider and City costs related to the administration of the contract--all in addition to the purchase price of the smoke detectors and batteries. The overall cost of the project would have increased dramatically and, in contrast with the benefit received, would have made the entire effort extremely inefficient and cost prohibitive.

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Second, implementing this activity vis-a-vis the use of community volunteers was seen as a highly effective outreach mechanism to increase community involvement in the Empowerment Zone effort, an outcome entirely consistent with HUD directives. The

benefits of this strategy were thought to be apparent: not only would community residents previously unfamiliar with the Zone gain knowledge and awareness of the EZ initiative, volunteers would gain an increased sense of ownership in the EZ effort by taking part in a project to ameliorate a serious safety issue in their community. Moreover, volunteers and residents alike would be given the opportunity to experience a direct, immediate and tangible benefit of the EZ grant. Where many of the Zone projects are much larger in scope and require more time to adequately plan and execute, the distribution of smoke detectors was a straightforward project that begged for community participation and timely implementation. Moreover, the desired output could be achieved while only generating equipment costs and a few incidental expenses to organize the volunteer effort. The City maintains the position that this was an extremely efficient and effective method of implementation as well as an efficient and effective use of Empowerment Zone funds.

Whereas the City, mindful of the need for documentation, developed controls and procedures related to project implementation, arguably, the focus of the volunteers was not on the potential scrutiny of a federal audit. Rather, for community residents who have taken this process of empowerment very seriously, their primary goal was to distribute the smoke detectors to residents and businesses who needed them in order to prevent deaths and injury from fire. Although documentation was not sufficient to support the distribution of \$6,792 of smoke detectors and batteries, those items were, in fact, distributed along with an additional \$11,280 of smoke detectors for which the City had adequate controls and documentation. The City applauds those community volunteers in the West Philadelphia Empowerment Zone who donated their time and energy to make life safer for Zone residents.

Where the documentation indicates that \$688 of safety equipment was distributed to non-Zone residents, the City will not dispute that point. While the City has paid scrupulous attention to developing controls to ensure that Empowerment Zone funds benefit only those residents of the Zone and has provided a comprehensive Zone address listing (see attachment/Empowerment Zone Boundaries) to all providers and volunteers, there have been a few occasions, e.g., where residents living on the wrong side of a street denoting an Empowerment Zone boundary have been mistakenly included. Where those residents contiguous to the Empowerment Zone boundary are equally impoverished and the cost of smoke detectors de minimus, the City does not view this as an egregious error; the City, however, will continue to exercise caution to every extent possible in order to avoid further human error.

- (2) The OIG states that the City inaccurately reported the progress of the safety/security program. The City agrees with this finding. The reporting error occurred when

Page 2 of 6

benchmark projections were erroneously placed in the "actual" column of the Performance Review Template.

Although the City agrees that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the June, 1997, report leaves the impression that the Philadelphia Empowerment Zone accomplished more than it actually has, it was never the City's intent to create that impression. To the contrary, the City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

It should be also be noted that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. Moreover, the City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

Finally, where the OIG has cited specific instances where objectives have not been met, it has failed to make clear that several aspects of this benchmark, particularly the Town Watch activities, are not yet complete. The City agrees that leveraging Empowerment

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Zone funds is a major part of this initiative and, to further that objective, the City exceeded HUD directives by developing a clear policy that mandates leveraging for every Empowerment Zone dollar (see attachment/Philadelphia Empowerment Zone Leveraging

Policy). The City will continue to seek the necessary additional funds for this project as it has with other benchmark activities.

The City's response to the OIG recommendations is as follows:

- A. Where the OIG recommends that the City instruct administering agencies to maintain documentation to support benefits received under the EZ program, the Mayor's Office of Community Services has already taken steps to include reporting requirements specific to the Empowerment Zone in all Memoranda of Understanding with other City agencies. Where benchmark activities are conducted by community volunteers, the City will continue to exercise due diligence in its instruction of community participants and provision of Empowerment Zone address listings to ensure that proper documentation is provided to every extent possible.

Where the OIG has recommended that the City instructs administering officials to provide items purchased with Zone funds only to Zone residents, the City has consistently instructed service providers and community residents to provide products and/or services only to Empowerment Zone residents. Every Empowerment Zone contract between the City and a service provider has this specific term included, and payment is not made for services unless the requisite documentation is presented with an invoice. As stated above, the City has also included in its MOUs with other City agencies reporting requirements to support service to Zone residents. Finally, as the City has done in the past, community volunteers participating in the implementation of benchmark activities will continue to be instructed that services are only to be provided to Zone residents.

- B. Where the OIG recommends that the City establishes procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used efficiently and effectively, the City maintains that the procedures and controls currently in place are more than adequate to ensure efficient and effective use of Zone funds. These procedures begin during benchmark development where program/project budgets and proposed methods of implementation are scrutinized at the community level with the participation of City representatives appointed by the Mayor to lend their expertise to the process. After projects are approved at the community level, the benchmarks are then forwarded to the Mayor, the Commonwealth and to HUD for governmental approval. Once that approval has been granted, scopes of services for projects or programs are given additional scrutiny at the City level prior to the issuance of a Request for Proposal (see attachment/Scope of Services Multi-Level Review), and Scopes are further negotiated with the inclusion of stringent reporting requirements once a service provider is selected. Program budgets are also reviewed at this time to ensure compliance with City Cost Principles and Guidelines.

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Once a program is implemented, the City carries out a thoughtfully developed and well established system of contract monitoring and technical assistance provision to ensure that all service providers perform in a manner consistent with the contract and Empowerment Zone objectives. Finally, any invoice presented by a service provider goes through a multi-level approval process that begins in the Contracts Dept., where the invoice is

reviewed against documentation submitted by the service provider. An invoice is then forwarded for approval at three additional administrative levels *if and only if the* provider has sufficiently documented completion of the requisite services and reporting.

Where short-term projects are implemented at the community level in the absence of a formal agreement, City staff are ever mindful of the requirements governing tile use of Empowerment Zone funds, and community residents are instructed accordingly. Staff additionally supervises the efforts of volunteers to ensure compliance with these requirements to every extent possible.

- C. The City will continue to seek the necessary documentation to support the \$6,792 of smoke detectors and batteries that were provided to West Philadelphia Empowerment Zone residents. As the Mill Creek and Parkside communities have been identified as the specific areas where volunteers failed to submit sufficient documentation, every effort will be made to re-trace the activity in those areas and provide the missing or incomplete documentation.
- D. Where the OIG recommends that the City reimburse the Empowerment Zone \$688 for safety devices that were provided to non-Zone residents, the City will identify a source of non-Federal funds in order to comply with the recommendation.
- E. Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three-hour training was held on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and is now aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.
- F. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the

Page 5 of 6

Performance Review report. However, the City will ensure that, in the future, the report will reflect actual date where required.

- G. Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment

to determine what additional action is required to comply with this recommendation. While the City is confident that the Contracts unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department.

- H. Where the OIG recommends that the City monitors Empowerment Zone activities to ensure they are fulfilling Empowerment Zone objectives, the City maintains that the contract monitoring procedures currently in place far exceed any of the general guidelines issued by HUD to date. Because of the lack of clear monitoring guidelines from HUD, the City has developed monitoring procedures to address all foreseeable contingencies. Monitoring tools developed by the City include a Quality Assurance and Contract Compliance evaluation form, completed by Contract Monitors during site visits every four-to-six weeks, that specifically address goals and objectives of the HUD-approved Empowerment Zone benchmark (see attachment/sample evaluation form). In cases where service providers fall short of those goals, technical assistance is provided to ensure providers remain on course and, as stated above, payment is not made unless the provider meets all expectations.

However, where activities are conducted outside the existence of a formal contract, the City will conduct an assessment to determine what steps are necessary to fully comply with this recommendation.

**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Dept. of Housing and Urban Development
Stating "Controls Over the Supervised Child Playsite Project
Were Not Adequate"**

In its draft finding, the OIG states that the City did not exercise adequate controls over the Supervised Child Play Site project; that the City did not ensure the funds benefitted Zone residents; and that the City inaccurately reported the actual status and progress of the project in the June 30, 1997, report. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG claims that the City and the Crime Prevention Association did not have adequate documentation to support that Empowerment Zone residents were the primary recipients of daycare outreach and counseling services funded by \$22,608 of Empowerment Zone funds. The OIG further states that the administering agency, R. W. Brown, did not keep records showing who received outreach and who was counseled on day care. The City disagrees with the OIG's assessment.

First, the auditor reviewing this activity for the OIG determined that, because Empowerment Zone funds were used for salaries for an outreach worker (half-time) and an intake counselor, the targeted use of funds would constitute the entire scope of her examination. However, the benchmark activity as reported on the Performance Review Template, as specified in the Request for Proposals, and as included in the terms of the contract with the provider, all list the provision of day care services to 55 Empowerment Zone children as the primary objective of this activity.

Where the allocated funds (\$50,000) could not have covered the cost of 55 day care slots for one year, where the applicant had an existing day care center that could accommodate 55 additional children, and *where the applicant could meet all other goals of the activity* (which include providing a developmentally appropriate program for the 55 children, *assisting EZ parents to obtain child care subsidies through existing programs by offering counseling and step-by-step assistance*, and connecting families with other services within the community such as health care, jobs skills programs, etc.), the City--and the community panel that awarded the grant--considered it an efficient and effective use of Empowerment Zone funds to pay for the outreach and intake positions, *so long as the hiring for those positions would enable the provider to meet the performance objectives of the benchmark*. It stands to reason that neither the City nor the community would fund outreach and counseling for day care subsidies for its own sake, nor would funding be approved for the creation of one and a half jobs. Rather, the outreach and counseling was a means to achieve the governmentally approved objectives delineated in the

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benchmark, the RFP and, subsequently, the contract.

Since the OIG has defined the scope of this activity, it did not consider that the City and provider both have voluminous documentation to support that the *contracted services* necessary for the achievement of the benchmark goals, have been provided. This documentation includes monthly calendars of activities for each age group division, Zone children's attendance sheets, teaching curricula, and information on other programs

available in the community, as well as monthly site visit reports completed by the City's contract monitors who closely observed the day care services at R.W. Brown.

To substantiate outreach in particular, the City accepted as proof copies of outreach flyers and schedules of outreach activities, as well as quarterly report narratives detailing outreach activities. Time sheets for the outreach worker have also been made available for review. City staff, intimately involved in Zone community activities, also has direct knowledge of R.W. Brown's participation in North Central Empowerment Zone committees as well as its linkages with other EZ non-profit agencies, and the City refers to those activities in its site visit reports. Notably, in its finding, the OIG does not specify what specific documentation it would consider to be sufficient, and the City would appreciate clarification on this point.

As to intake counseling, R.W. Brown, a state-licensed provider of day care services, conducts an intensive intake process and keeps extensive records and documentation concerning counseling for parents seeking day care services for their children. Empowerment Zone children enrolled in the day care program are no exception to this rule; to the contrary, as nearly all Empowerment Zone families meet poverty criteria, they require substantial counseling from intake workers in order for staff to determine eligibility and to complete the necessary paperwork required for day care subsidies offered through this program, and to meet its licensing agency's requirements.

Critically, however, the OIG did not mention in its finding that R.W. Brown, pursuant to a mandate from its licensing agency, the Pennsylvania Department of Public Welfare, declined the OIG's request that full access to these records be provided. DPW requires its licensed agencies to keep client files in a locked cabinet and to allow only DPW representatives access to those files (see attachment/Pennsylvania Code Title 55 Public Welfare §§3270.183 and 3270.193).

Absent monitoring guidance from HUD, the City assumed that HUD would not counsel the City to violate the confidentiality requirements of State agencies. Therefore, understanding that the families of all enrolled EZ children have gone through the mandatory intake counseling process, the City accepted as proof of intake counseling a DPW-required, signed release that permits emergency medical treatment of the child as well as an Empowerment Zone residency verification form for each EZ child enrolled. The City also believes it to be self-evident that the outreach and intake process was

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successful where R.W. Brown further supported the enrollment, subsidization and attendance of 51 Zone children in its day care program.

Finally, the City deems it noteworthy that, where R.W. Brown receives more than \$1 million in public funds annually for children's services, the OIG's demand for documentation--as yet undefined--apparently exceeds the requirements of R.W. Brown's other government funding sources.

- (2) The OIG states that the City did not accurately report that the scope of the project was changed to assist Zone residents to obtain day care through outreach and counseling, rather than to fund 55 day care slots for Empowerment Zone residents. The City disagrees with this assessment.

As supported above, the OIG has arbitrarily determined that the scope of the project changed when, in fact, the goal has been consistently to provide day care for 55 Zone children. The provision of day care for 55 children was contractually expressed, monitored and enforced. It was at the applicant's discretion, in its response to the RFP, to develop a budget that would enable that goal to be achieved with the \$50,000 allocated for this benchmark.

The OIG also states that the City did not report the number of families and children served by the project. First, there is no performance objective listed in that benchmark that identifies a number of families to be served, and the City would not be inclined to report a performance measure that the community members who developed the project did not consider an integral objective of that activity. If, however, the OIG seeks to hold the City accountable to what the OIG thinks should be measured, the City would request that the OIG submit measurement criteria for all approved benchmarks.

The City does agree that it did not report the number of children served in the June, 1997, report.

- (3) The OIG states that the City could not support the project's private funding as the project, as implemented, did not require private funding. The City agrees with this assessment in that public funding was identified to cover the costs of day care for the requisite number of Zone children.

The estimate for private funding was based on a soft projection made by the Health and Human Services committee of the North Central Community Trust Board during the benchmark development period. The projection was erroneously placed in the "actual" column of the Performance Review Template in the June, 1997, report.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the

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Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the June, 1997, report leaves the impression that the Philadelphia Empowerment Zone accomplished more than it actually has, it was never the City's intent to create that impression. To the contrary, the City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

Moreover, it should be added that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. The City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

- (4) The OIG states that the City did not accurately report the project's performance milestones. The City agrees with this assessment as to the June, 1997, report. This occurred when benchmark projections were erroneously placed in the "actual" column of the Performance Review Template. The reason for the reporting error is stated above.
- (5) The OIG states that the City incorrectly reported the project start date in the June, 1997, report. The City agrees with this assessment. The error occurred when the projected start date was erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above.

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The City's response to the OIG recommendations is as follows.

- A. Where the OIG recommends the City instruct administering agencies to maintain documentation to support benefits and to provide services only to Empowerment Zone residents, the City maintains that these recommendations were, in fact, well-established practices long prior to this audit.

When a grant is awarded by the Provider Selection Panel, Contracts Dept. staff meets with the selected provider no less than three times to discuss contract reporting requirements. First, a negotiation session is scheduled with the provider's key staff responsible for the implementation and administration of the program. During this session, services are discussed in detail as are the accompanying deliverables that will substantiate the provision of the services and that will be required. Second, the provider attends a training session, which the Contracts Dept. holds three times annually, so that all providers will receive this extensive training either prior to or within the first two months of the contract period. Topics covered during what is now a day-long session include financial reporting requirements at the federal level (OMB Circulars A-133 and A-122) as well as the City level (monthly financial statements); leverage requirements and basic grantsmanship techniques; submission of contract deliverables with particular attention given to verification of service to Zone residents for a wide range of activities; an overview of the contract monitoring process and mutual expectations; and, finally, a discussion of the contract termination policy. R.W. Brown staff attended such a training session on April 18, 1997.

Within the first four-to-six weeks of the contract term, an initial visit is scheduled at the provider's site and is attended by the Contracts Manager, the Contract Monitor assigned to the provider and, periodically, Empowerment Zone neighborhood operations staff. During this initial visit, the scope of services and contract deliverables are again discussed in detail, with emphasis placed on how the provider will track service to Zone residents based on the specific activities they have contracted to perform.

Throughout the contract term, deliverables are closely monitored by the Contract Monitor and the Contracts Manager. If, at any time during the contract year, the provider's reporting is determined to be inadequate, the Technical Assistance Specialist of the Contracts Dept. provides a high-level of support to the provider in order to build organizational capacity and to assist them to come into compliance. Moreover, during any period of non-compliance with reporting requirements, and particularly the requirement of verification of service to Zone residents, invoices will not be approved for payment until all requirements are met. This process has applied to R.W. Brown as it is applied to all Empowerment Zone service providers.

- B. Where the OIG recommends that the City establishes procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used

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efficiently and effectively, the City maintains that the procedures and controls currently in place are more than adequate to ensure efficient and effective use of Zone funds. These procedures begin during benchmark development where program/project budgets and proposed methods of implementation are scrutinized at the community level with the participation of City representatives appointed by the Mayor to lend their expertise to the process. After projects are approved at the community level, the benchmarks are then forwarded to the Mayor, the Commonwealth and to HUD for governmental approval.

Once that approval has been granted, scopes of services for projects or programs are given additional scrutiny at the City level prior to the issuance of a Request for Proposal, and Scopes are further negotiated with the inclusion of stringent reporting requirements once a service provider is selected. Program budgets are also reviewed at this time to ensure compliance with City Cost Principles and Guidelines.

Once a program is implemented, the City carries out a thoughtfully developed and well established system of contract monitoring and technical assistance provision to ensure that all service providers perform in a manner consistent with the contract and Empowerment Zone objectives. Finally, as stated above, any invoice presented by a service provider goes through a multi-level approval process that begins in the Contracts Dept., where the invoice is reviewed against documentation submitted by the service provider. An invoice is then forwarded for approval at three additional administrative levels *if and only if* the provider has sufficiently documented completion of the requisite services and reporting.

- C. Where the OIG recommends that the City provide documentation to support that \$22,608 of Empowerment Zone funds spent between March and December, 1997, benefitted Zone residents, the City requests that the OIG reverse this finding. The City maintains that it has offered documentation that is more than adequate to satisfy reasonable reporting requirements based on the scope of activities and objectives of this program. If the OIG chooses to maintain its position that the City did not adequately support services to Zone residents, the City would further request that the OIG specify precisely what additional documentation would satisfy its demand for support.
- D. Where the OIG recommends that the City provide documentation to support amounts invoiced in January and February, 1998, the City's response is identical to that in (C) above, and the City requests that this finding be reversed as well.
- E. Where the OIG recommends that the City provide documentation to support that future expenditures of Empowerment Zone funds benefit Zone residents, the City requests clarification from the OIG. The City has already provided the OIG a copy of the Empowerment Zone Strategic Plan that details how the initiative was to be directed to support the Empowerment Zone; and projections and performance objectives included in the Performance Review report accomplish the same.

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As detailed above, reimbursements to administering agencies are consistently limited to that which can be supported. The City can provide the OIG with extensive documentation to support that payments have been denied to contract providers based on non-compliance with reporting requirements or other contract terms.

- F. Where the OIG recommends that City staff responsible for preparing the Performance Review report are knowledgeable of HUD's reporting requirements, a mandatory three-hour training was held on May 18, 1998, for all Empowerment Zone staff, and HUD

Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and is now aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

- G. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is currently re-evaluating its assignment of responsibility for the coordination of the Performance Review report. However, the City will ensure that, in the future, actual data is reflected where required.
- H. Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City maintains that the Contracts Dept. has sufficient controls and procedures to verify the accuracy of its information. In the future, however, the City will ensure that this department is consulted for data on activities under contract prior to the preparation and submission of the Performance Review report.

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**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "The Multipurpose Athletic Field Activity
Expenditure and Reporting Controls Were Inadequate"**

The OIG reports in this finding that the City spent \$30,280 of Empowerment Zone funds over the approved budget amount and that the City did not accurately report the actual status and progress of the activity. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG states that the City overspent the approved budgeted amount of Empowerment Zone funds for this activity by \$30,280. The City agrees with this assessment.

The OIG's reported explanation for this error is largely correct. The former Fiscal Director for the Mayor's Office of Community Services executed an Initiation and Funding Approval form in May, 1997, to authorize the expenditure of \$150,000 of Empowerment Zone funds to the City's Recreation Department for implementation of this project. The transaction was not communicated or recorded internally prior to the Director's leaving MOCS in August, 1997. MOCS accountants, when presented with a request for \$31,785 against this project in September, 1997, approved the disbursement as their records indicated the entire budgeted amount was still available.

However, the OIG also states that the City's Recreation Department was able to bypass MOCS' controls and access \$148,495 of Empowerment Zone funds for the project without notifying MOCS of the disbursement. This is not the case. As the OIG has explained in its finding, MOCS Fiscal Director did have knowledge and gave his authorization for the transaction which, due to the controls exercised by the City, could not have occurred without his knowledge and approval. The controls were established, and the proper procedure for an inter-departmental transfer of funds was followed. The over-expenditure was strictly due to the failure to communicate this transaction within the Fiscal Department.

- (2) The OIG states that the City reported \$50,000 in Empowerment Zone funds committed to this project, thereby under-reporting funds by \$ 1 00,000. The City disagrees with this assessment. The June 30, 1997, Performance Review report lists \$150,000 as the actual expenditure of Empowerment Zone funds, and the approval of the increase in funds for the project is also noted on the Template in the narrative section for that activity.

The City does agree that it under-reported City funds committed to the project by \$111,000. It is, in fact, noteworthy that the City leveraged the Empowerment Zone

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funds for this project with nearly three dollars for every EZ dollar. The City would not intentionally neglect to report that benefit.

The \$290,000 cash and \$39,000 in-kind contributions reported were projections made by community members and City advisors involved in project planning. The error in reporting occurred, however, when the projections for the activity were erroneously placed in the "actual" column of the Performance Review Template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the Philadelphia Empowerment Zone did not provide HUD with a realistic picture of actual progress for the activity, it was strictly as a result of mis-formatting the Performance Review Template. The City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

Moreover, it should be added that the City has been consistently forthcoming in responding to HUD requests for information. The Empowerment Zone management team meetings have been attended by HUD representatives since the Zone administration was established, and it follows that HUD has had access to up-to-date, accurate information on the progress of this initiative. The City has been equally forthcoming with auditors from the Office of Inspector General, and the City has provided unlimited access to extensive internal files and records detailing information related to benchmark activities.

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- (3) The OIG states that the City reported that 500 elementary school children from a nearby school would have access to the ball field where, in fact, there are 720 children enrolled at the school who would have access to the field. The City agrees that the number of children having access to the ball field was under-reported.

The 500 children identified was a soft projection made by the committee of the Community Trust Board during benchmark development. The reporting error occurred when the projection was erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above.

- (4) The OIG states that the City incorrectly reported a performance milestone indicating that project construction began June 1, 1997, rather than August 8, 1997, the date of the notice to proceed. The City agrees with this assessment. The reporting error occurred when the projected construction start date was erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above.
- (5) The OIG states that the City incorrectly reported the participating entities for this activity. The City agrees with this assessment. The reporting error occurred when the committee's projections were erroneously placed in the "actual" column of the Performance Review Template. The reason for the error is stated above.

The City's response to the specific recommendations of the OIG is as follows:

- A. Where the OIG recommends that the City reimburse the Empowerment Zone program with non-Federal funds for the excess costs charged against this activity, the City takes the position that all expenditures associated with property acquisition and construction of the ball field, a federally approved project, are justifiable expenditures, and that the use of federal funds is permissible for this purpose.

The City will, nonetheless, identify a source of additional funds in order to reimburse the Empowerment Zone account.
- B. Where the OIG recommends that the City establishes procedures and controls to ensure the disbursement of Empowerment Zone funds can only occur with the approval of the MOCS Fiscal Dept., it is the City's position that these procedures and controls are already in place. The disbursement of Empowerment Zone funds to the City's Recreation Dept. occurred only because the Recreation Dept. received prior authorization from MOCS Fiscal Dept. The OIG can be assured, however, that MOCS current Fiscal Director will not approve such interdepartmental transfers in the future without giving full notification to the Empowerment Zone accountants so they may properly record the transaction.
- C. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is

Page 3 of 4

reevaluating its assignment of responsibility for the coordination of the Performance Review report. However, the City will ensure that, in the future, actual data will be reflected where required.

Where the OIG recommends that the City establish internal controls and procedures to verify the accuracy of information submitted, the City will conduct a thorough assessment to determine what additional action is required to comply with the recommendation. While the City is confident that the Contracts unit has exercised adequate oversight to

ensure the accuracy of its data, it recognizes that similar controls and procedures need to be extended to activities not under the oversight of that department.

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Philadelphia Empowerment Zone
Mayor's Office of Community Services
One Parkway
1515 Arch St.
Philadelphia, Pa. 19102

Heath Wolfe, Senior Auditor

U.S. Dept. of Housing and Urban Development
Office of Inspector General
Ohio State Office, Midwest
Room 334
200 North High St.
Columbus, OH 43215-2499

Via Facsimile and U.S. Mail

23 July 1998

Dear Mr. Wolfe;

Attached is the City of Philadelphia response to the seventh and eighth draft audit findings submitted by the Office of Inspector General.

We apologize for the delay in submitting the response to the seventh draft finding, and greatly appreciate your willingness to grant us additional time.

If you have any additional need for information, please feel free to call me at my new number: 215-683-0462.

Sincerely,

Carlos Acosta
Executive Director
Philadelphia Empowerment Zone

**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Dept. of Housing and Urban Development
Stating "Results of Community Capital Institution Were Incorrectly
Reported"**

In its draft finding, the Office of Inspector General states that the City of Philadelphia did not

accurately report the actual status and progress of the Community Capital Institution activity. The City's response to the specific issues cited by the OIG is as follows:

- (1) The OIG states that the City's Performance Review over-reported the Community Capital Institution's leveraged funding. The City agrees with the finding of the OIG. This error occurred when the person responsible for preparing the report erroneously placed projections, made by community members during benchmark development, in the "actual" column of the Performance Review template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the Philadelphia Empowerment Zone did not provide HUD with a realistic picture of actual progress for the activity, it was strictly as a result of mis-formatting the Performance Review Template. The City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress

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has been made in the period since receiving the Empowerment Zone designation.

- (2) The OIG states that the City incorrectly reported the Capital Institutions Performance Milestones. The City agrees with the OIG's assessment. The reason for the reporting error is stated above.
- (3) The OIG also states that the City did not accurately report the Institution's Participating Entities. The City agrees with the OIG's assessment. The reason for the reporting error is stated above.

As to the recommendations of the Office of Inspector General:

- A. Where the OIG recommends that the City provide training on HUD's reporting requirements to staff who are responsible for preparing the report, the City did provide such a mandatory training for staff on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and was made aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since carrying out these activities, the City has been notified by HUD that the reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- B. Where the OIG recommends that the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will consistently reflect actual data where required.
- C. Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information provided to HUD, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that its Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department.

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**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Dept. of Housing and Urban Development
Stating "Life-Long Learning and Training Center Was Not
an Approved Zone Activity and Its Status Was Incorrectly Reported"**

The Office of Inspector General states that the Life Long Learning and Training Center, included by the City of Philadelphia in the June 30, 1997, Performance Review report, was not an approved Empowerment Zone activity, and that the City incorrectly reported performance measures and leveraged funding. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG states that the City incorrectly reported that the Life-Long Learning and Training Center was an Empowerment Zone activity. The City agrees with this assessment. While it is an Empowerment Zone activity in the sense that it was included in the Strategic Plan, and the community is actively engaged in its planning, the benchmark has not yet received formal approval for the release of funds from the Community Trust Board or the necessary governmental entities. This activity was mistakenly included in the June 30, 1997, Performance Review report.
- (2) The OIG states that the City has also included inaccurate information on performance measures and funding in the June, 1997, Performance Review. The City agrees with this assessment. The inaccuracies are due to the fact that the preparer of the report erroneously placed projections in the "actual" column of the Performance Review template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the

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projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the Philadelphia Empowerment Zone did not provide HUD with a realistic picture of actual progress for the activity, it was strictly as a result of mis-formatting the Performance Review Template. The City is proud of the actual

accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

The City's response to the recommendations of the OIG is as follows:

- (A) Where the OIG recommends that the City establishes procedures and controls to appropriately report Empowerment Zone activities to HUD, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. It is likely that the result of this assessment will include managerial-level review of future reports prior to submission.
- (B) Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information provided to HUD, the City will conduct a thorough assessment to determine what additional action is required to comply with this recommendation. While the City is confident that its Contracts Unit has exercised adequate oversight to ensure the accuracy of its data, the City also recognizes that similar procedures and controls need to be extended to activities not under the oversight of that department. Moreover, the City will exercise due diligence in the future to ensure that accurate information has been utilized in its reporting.

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*Philadelphia Empowerment Zone
Mayor's Office of Community Services
One Parkway 1515 Arch St. 9th Floor
Philadelphia, Pa. 19102*

Heath Wolfe, Senior Auditor

U.S. Department of Housing and Urban Development
Office of Inspector General
Ohio State Office, Midwest
Room 334
200 North High St.
Columbus, OH 43215-2499

7 August 1998

Dear Mr. Wolfe;

Attached is the City of Philadelphia's response to the last three draft findings of the Office of Inspector General.

This process has been a valuable learning experience for the Empowerment Zone, and we have appreciated the spirit of cooperation offered by you as well as the auditors on site. It has been a pleasure working with you all.

We look forward to seeing you at the exit conference on August 19" in the City's Municipal Services Building, 16th floor, conference room "X." If you have any additional questions or concerns in the meantime, the Empowerment Zone staff remains at your disposal.

Sincerely,

Carlos Acosta
Executive Director
Philadelphia Empowerment Zone

**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "Accomplishments of the Revolving Capital Fund
Were Incorrectly Reported"**

In its draft finding, the Office of Inspector General states that the City of Philadelphia inaccurately reported the actual status and progress of the Revolving Capital Fund in its June 30,

1997, Performance Review. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG states that the City incorrectly reported the performance measures for the Revolving Capital Fund. The City agrees with this assessment as to the error in reporting, but disagrees with the OIG's conclusions as to the level of actual activity as of June 30, 1997, as well as its assessment of performance measures to be reported.

First, the City agrees that the June, 1997, Performance Review report states that 30 businesses had been assisted by the Revolving Capital Fund, and further agrees that the report was incorrect. The error in reporting occurred when benchmark projections were erroneously placed in the "actual column" of the Performance Review template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of Policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

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If, as the OIG states, the Philadelphia Empowerment Zone did not provide HUD with a realistic picture of actual progress for the activity, it was strictly as a result of mis-formatting the Performance Review Template. The City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

However, as to actual activity, the City disagrees with the OIG's definition of "assistance" to businesses, where the OIG concluded that the correct performance measure was assistance to seven businesses where seven loans were closed as of June 30, 1997. To the contrary, one of the approved activities of the Capital Fund is to provide technical

assistance or referrals for alternative financing to businesses/applicants. As of June 30, 1997, the North Philadelphia Financial Partnership provided assistance or referrals to 18 businesses in addition to the seven businesses that were provided with financing..

Where the OIG states that the City did not report each loan made under the Revolving Capital Fund as required by HUD, the City maintains that it is not required by HUD to report each loan. In fact, the City made a request to HUD for additional guidance on this point on May 19, after the issue was initially raised by OIG auditors. HUD's response to the City's request is that it has never been HUD's intent that the City should report on individual loans made under the lending institutions; rather, HUD had informed the City early in the process that it was acceptable for the City to report on loans in the aggregate. It is also the City's understanding that HUD will further clarify this issue when the OIG's report is issued.

Finally, the OIG has stated that the City failed to report job creation and retention projections based on the Capital Fund's lending activity. First, this is inconsistent with the OIG's overall findings that the City has failed to report *actual* data in the Performance Review report. Second, the HUD-approved benchmark does not list job creation as a performance measure; rather, the activity's objective is to assist businesses with capital financing needs. Where job creation and retention is a secondary, but important, benefit to the increased availability of business financing in the Zone, the City has asked the lending institutions to provide this information voluntarily for the purpose of data collection and evaluation of the Empowerment Zone initiative's impact overall. Similarly, the City has requested like information from all recipients of Empowerment Zone funds, including non-profits receiving grants for quality-of-life programs. However, where job creation or retention is not specifically listed in the benchmark as a performance measure, the City would not be inclined to report it as such in that format.

- (2) Where the OIG states that the City incorrectly reported the Capital Fund's funding, the City agrees with that assessment. The Capital Fund was capitalized at \$7 million as noted by the OIG. However, the North Philadelphia Financial Partnership did actually receive a \$9.6 million contract with the City, with the additional \$2.6 million reflecting funds

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allocated for loans to support other benchmarked projects.

The City also agrees that it incorrectly reported the leveraged funding as of June 30, 1997. The error occurred when the projections were erroneously placed in the actual column of the Performance Review template. The reason for the reporting error is stated above.

- (3) The OIG also states that the City incorrectly reported the Capital Fund's performance milestones. The City agrees with this assessment. The error in reporting occurred when projections made during benchmark development were erroneously placed in the actual column of the Performance Review template. The reason for the error is stated above.

- (4) The OIG has also stated that the City incorrectly reported the activity's Participating Entities. The City agrees with this assessment. The reporting error occurred when benchmark projections were incorrectly placed in the actual column of the Performance Review template. The reason for the error is stated above.

The City's response to the specific recommendations of the OIG is as follows:

- A. Where the OIG recommends that the City provide training on HUD's reporting requirements to staff who are responsible for preparing the Performance Review report, the City did provide such a mandatory training on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and was made aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since carrying out these activities, the City has been notified by HUD that the reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- B. Where the OIG recommends that (1) the City establish procedures and controls to ensure the preparer of the report utilizes actual accomplishments for each activity, the City is in the process of re-evaluating its assignment of responsibility for the coordination of the Performance Review report. The City will ensure that, in the future, the report will consistently reflect actual data where required. However, where the OIG recommends that the City prepares a template on each loan made under a commercial loan program, the

Page 3 of 4

City maintains that this is not necessary, and that HUD is satisfied to have loan activity reported in the aggregate.

- C. Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information reported, it is the City's position that the Contracts Dept. did, in fact, have accurate information on the level of activity under the Revolving Capital Fund benchmark by virtue of its contract reporting requirements with the North Philadelphia Financial Partnership. However, in the future, the City will ensure that this information is communicated to HUD vis-a-vis the Performance Review report, and will not repeat its error of only including projected activity in the report.

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**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "Accomplishments of the Youth Landscape Training Program
Were Inaccurately Reported"**

The Office of Inspector General reports that the City of Philadelphia inaccurately reported the accomplishments of the Youth Landscape Training program. The City's response to the specific issues raised by the OIG is as follows:

- (1) The OIG states that the City incorrectly reported the program's performance measures. The City agrees with this assessment. The reporting error occurred when activity projections, formulated by community members during benchmark development, were erroneously placed in the actual column of the Performance Review template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of Policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

If, as the OIG states, the Philadelphia Empowerment Zone did not provide HUD with a realistic picture of actual progress for the activity, it was strictly as a result of mis-formatting the Performance Review Template. The City is proud of the actual accomplishments of the Zone initiative thus far, and recognizes that significant progress has been made in the period since receiving the Empowerment Zone designation.

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It is important to note that, where the OIG reports that the administering entity for the program could not provide documentation to support the program activities and could not ensure that the goals of the Strategic Plan were being achieved, the City terminated its contract with that entity without the disbursement of any Empowerment Zone funds.

- (2) The OIG states that the City over-reported the funding received by the program. The City agrees with this assessment. As noted above, the City released no Empowerment Zone funds to the administering entity. The funding attributed to the Private Industry Council was a two-year projection made by the community during project development. The

reporting errors occurred when projections were erroneously placed in the actual column of the Performance Review template. The reason for the errors is stated above.

- (3) The OIG also states that the City Inaccurately reported the activity's Performance Milestones. The City agrees with this assessment. The reason for the reporting errors is stated above. Again, it is important to note that, where the City could obtain no documentation of program activity from the administering entity, the City terminated the contract for this program without releasing any Empowerment Zone funds.
- (4) The OIG states that the City did not report the program's obstacles in the June 30, 1997, Performance Review report. The City agrees that it did not detail obstacles in relation to carrying out the Strategic Plan on the Performance Review template. The City did report, however, that the contract for this project was terminated due to non-compliance on the part of the provider, and that the reallocation of the Empowerment Zone funds was under committee review.

The City's response to the recommendations of the OIG is as follows:

- A. Where the OIG recommends that the City establishes procedures and controls to ensure the person who prepares the Performance Review report utilizes actual accomplishments for each activity, the City is currently re-evaluating assignment of responsibility for coordination of the report. However, the City will ensure that, in the future, actual date will be utilized where required.
- B. Where the OIG recommends that City staff responsible for preparing the report are knowledgeable of HUD's reporting requirements, the City did provide a mandatory training on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant

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Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and was made aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since carrying out these activities, the City has been notified by HUD that the reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- C. Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information reported, it is the City's position that the Contracts Dept. did, in fact, have accurate information on the level of activity (none) for the Landscape Training program by virtue of its contract reporting requirements with the administering entity, and terminated that contract accordingly. However, in the future, the City will ensure that this information is communicated to HUD vis-a-vis the Performance Review report, and will not repeat its error of only including projected activity in the report.
- D. Where the OIG recommends that the City establishes procedures and controls to ensure that the goals of the Strategic Plan are met, the City's position is that additional procedures and controls are not necessary. Is illustrative in this case, the City's procedures and controls vis-a-vis its contract monitoring and payment processes worked precisely as they should, in that this contract was terminated without disbursement of Empowerment Zone funds due to the administering entity's failure to meet the program goals.

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**City of Philadelphia Response to Draft Finding
of the Office of Inspector General
for the U.S. Department of Housing and Urban Development
Stating "Controls Over the Lead Abatement Program
Were Not Adequate"**

The OIG states in pertinent part that the City did not exercise adequate controls over the Lead Abatement program and that the City did not monitor the program; therefore, Empowerment Zone funds were not used efficiently and effectively. The City's response to

specific issues raised by the OIG is as follows:

- (1) The OIG states that the City did not have adequate controls over Zone funds used for this program. The City did not monitor this program as it was structured as a benchmarked loan to be provided through the Empowerment Zone Revolving Capital Fund for North Central Philadelphia. The City believed that the responsibility for monitoring the loan was that of the North Philadelphia Financial Partnership, the party with whom Sea Change had its loan agreement. While the City was unaware that Sea Change was using its loan funds to provide lead abatement services outside the Empowerment Zone, even if it did have knowledge, it is arguable whether the City had a legal right to intervene in the contractual relationship between Sea Change and NPFP. However, the City agrees that, in this case, Empowerment Zone funds were not used efficiently or effectively.
- (2) The OIG states that the City inaccurately reported the program's Performance Measures. The City agrees with this assessment. The reporting error occurred when activity projections, formulated by community members during benchmark development, were erroneously placed in the actual column of the Performance Review template.

Although we agree that the HUD Guidelines for the Performance Review Template are clear on paper, the implementation of this reporting format presented a problem for the Empowerment Zone as to the agreement with the Commonwealth of Pennsylvania and its administration of the Empowerment Zone grant. Where the Commonwealth had based its agreement with the City on the format previously used for benchmark activities, there was an initial resistance by the State to accept the new format. The Commonwealth's concern was that the City should only invoice against a specific activity within an approved projected time line: if an invoice was presented to the State for an activity for which the projected time line expired, the reimbursement would be denied.

The Commonwealth's resistance was resolved in a conference call coordinated by Marek Gootman of HHS, which included the former HUD Assistant to the Secretary for Community Empowerment, the Commonwealth Title XX Grant Administrator, and the former Coordinator of Policy and Planning for the Philadelphia Empowerment Zone. The

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result of this dialogue was an agreement that the "actual" column of the template would be used to amend benchmark activity projections and, further, that amendments to the projections would be explained in the narrative section at the end of each template. *Thus, the former Coordinator of policy and Planning understood the Performance Review as an invoicing and planning tool rather than an evaluation mechanism that would be used for the purpose of audit.*

- (3) The OIG also states that the City inaccurately reported the program's Performance Milestones. The City agrees with this assessment. The reporting errors occurred when the projections formulated by the community during project development were erroneously

placed in the actual column of the Performance Review template. The reason for the reporting errors is noted above.

- (4) The OIG states that the City over-reported the program's funding by \$39,000. The City agrees with this assessment. The reporting error occurred when benchmark projections formulated by the community during project development were erroneously placed in the actual column of the Performance Review template. The reason for the error is stated above.

The City's response to the recommendations of the OIG is as follows:

- A. Where the OIG recommends that the City instructs agencies responsible for administering activities to maintain documentation to support services, and to provide services only to Zone residents, these are practices that the City enforces in all its contractual relationships with administering agencies.

Where a contract exists between the City and a service provider, the City has consistently instructed service providers to provide services and/or products only to Empowerment Zone residents. Every Empowerment Zone contract between the City and a provider has this specific term included. In addition, all new provider's attend a full-day briefing session coordinated by the Zone's Contracts Dept. where the providers receive specific instruction on Zone residency verification processes and submission of documentation of services to Zone residents, in addition to other instruction on contract deliverables, fiscal audit requirements, seeking required leverage, and more. Finally, payment is not made for services performed under any contract unless the required documentation is presented with the invoice.

However, in this case, the City had no contractual relationship with Sea Change or the Lead Abatement program. The City's contractual relationship was with the North Philadelphia Financial Partnership, which is required to monitor its loans in accordance with lending industry standards and to provide loans within the North Central Empowerment Zone. However, where Sea Change may be considered a third-party beneficiary to the contract between the City and NPFP, the City's ability to enforce

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reporting requirements against that third party, absent a direct contractual relationship, presents a legal question for which the City will seek counsel prior to committing to a course of action.

- B. Where the OIG recommends that the City establish procedures and controls to monitor activities funded under the Empowerment Zone grant to ensure that monies are used efficiently and effectively, the City maintains that it has adequate procedures and controls to monitor those parties with whom it has a contractual relationship. As indicated above, the City's authority to monitor activities of a party without a contractual agreement with that

party is a legal question for which the City will seek guidance prior to committing to a course of action.

- C. Where the OIG recommends that the City reimburse \$83,310 from non-federal funds for the lead abatement services that were inappropriately provided to non-Zone households, the City agrees that the Empowerment Zone account should be reimbursed for this amount. The City will seek legal counsel to first explore its ability to recover these funds.
- D. Where the OIG recommends that the City provide documentation to support \$3,534 in administrative expenses paid for with Empowerment Zone funds, the City will attempt to solicit the documentation from both the lending institution and Sea Change. If the documentation is not obtained within a reasonable period of time, the City will seek counsel to explore its ability to recover the full amount questioned, and will reimburse the Empowerment Zone account with any monies recovered.
- E. Where the OIG recommends that the City ensures its staff is knowledgeable of HUD's reporting requirements, the City did provide a mandatory training on May 18, 1998, for all Empowerment Zone staff, and HUD Guidelines were addressed in detail. This training included a step-by-step analysis of several Performance Review Templates that had been correctly formatted upon the City's being made aware of the reporting errors. The Contracts Manager has since met with staff members individually as they have begun work on the June, 1998, Performance Review report. Additionally, a full-day meeting was held on May 20 with the Commonwealth Grant Administrator for the Empowerment Zone program. During that meeting, the Grant Administrator was presented with a copy of the HUD Guidelines for the first time, and was made aware of the HUD-mandated format for the Performance Review Templates. Each Template was reviewed individually with the Grant Administrator to ensure his understanding of the changes to be made.

However, since carrying out these activities, the City has been notified by HUD that the reporting format is being changed, and that HUD plans to train staff on the new format sometime in the Fall of 1998.

- F. Where the OIG recommends that the City establishes procedures and controls to ensure that the preparer of the report uses the actual accomplishments for each activity, the City

Page 3 of 4

is currently re-assessing its assignment of responsibility for coordination of the Performance Review report. The City will ensure, however, that actual data is utilized where required.

- G. Where the OIG recommends that the City establishes procedures and controls to verify the accuracy of information presented to HUD, the City maintains that the Contracts Dept. has sufficient procedures and controls through its contract monitoring process to ensure the accuracy of all data associated with Empowerment Zone contractual relationships. However, as in this case, the City also maintains that its authority to monitor the activity of

parties outside a contractual relationship with the City presents a legal question for which the City will seek counsel prior to committing to a course of action.

- H. Where the OIG recommends that the City monitor Empowerment Zone activities to ensure they are fulfilling Empowerment Zone objectives, the City again maintains that its authority to monitor the activities of parties outside a contractual relationship with the City presents a legal question for which the City will seek guidance prior to committing to a course of action.

PHILADELPHIA EMPOWERMENT ZONE
RESPONSES TO SUMMARY FINDINGS OF THE
OFFICE OF INSPECTOR GENERAL FOR THE U.S. DEPARTMENT
OF HOUSING AND URBAN DEVELOPMENT
SEPTEMBER 22, 1998

I. Introduction

The City of Philadelphia and the Philadelphia Empowerment Zone submit the following responses to the Summary Findings of the Office of the Inspector General (OIG) at the Department of Housing and Urban Development (HUD). The City and the Empowerment Zone have chosen to submit a formal written response in order to refute, on a point by point basis, the allegations of the Summary Findings, which can only be characterized as shockingly inaccurate and unfair.

From its inception, the Philadelphia Empowerment Zone has worked tirelessly and with great effectiveness to build hope, economic opportunity and the chance for thousands of low-

income Philadelphians to share a meaningful stake in the future for themselves, their families and our City as a whole. Moreover, the City determined that, in the spirit of the legislation that created the Empowerment Zones throughout the nation, it would work in partnership with the residents of the Zone communities to build a neighborhood-based network of governance for the Zones.

As a result, Philadelphia's three Empowerment Zone communities -- American Street, West Philadelphia and North Philadelphia -- have developed strong Community Trust Boards that help manage and promote growth in these neighborhoods. The Trust Boards, comprised of Zone residents and representatives of local businesses working together with City economic development officials, also have fostered the development of effective community-based loan programs that have assisted in the attraction or retention of scores of businesses in the Zone communities. These community representatives, together with Empowerment Zone officials and the City's elected and appointed leaders, have triggered a rebirth of economic opportunity and hope for the future in the Zone communities. Indeed, that has been the primary goal of the \$79 million Philadelphia Empowerment Zone program since the awarding of the Zone first was announced by HUD on December 22, 1994. Almost four years later, there remains much work to be done, but it is fair to say that in Philadelphia, the Empowerment Zone has been a tremendous success, having created or retained 1,400 jobs in communities that desperately need them, while at the same time helping to rebuild those neighborhoods to encourage further economic development.

Since the day that Philadelphia's award first was announced, the City also has been steadfast in its determination to work cooperatively with HUD officials to guarantee that Zone funds would not be wasted, and that the programs created and resources expended in the Zone communities would be managed efficiently and effectively to benefit Zone residents. As a result, the City and HUD worked to define reporting procedures and to set measurable performance goals to monitor the progress of the Empowerment Zone program in Philadelphia.

No one disputes that the process put in place to monitor Zone activities has helped City and federal officials quantify the substantial progress that the Philadelphia Empowerment Zone has made. Philadelphia Empowerment Zone has worked diligently, efficiently, and with measurable success to achieve the goals of the Empowerment Zone program. The OIG's conclusions no doubt were based on the fact that local Zone officials worked with HUD, representatives from the Department of Health and Human Services (HHS) and a variety of State economic development representatives to guarantee that monitoring reports submitted to the OIG and to State inspectors conformed to all relevant reporting requirements. In fact, the Performance Review Report upon which the OIG bases its Summary Findings was completed in consultation with these officials

Given the City's commitment to insure full and accurate reporting, City officials were shocked to discover that -- despite having worked closely with HUD, HHS, and State officials to submit reports of Empowerment Zone activities *as directed* by these agencies -- the OIG's Summary Findings alleged irregularities in one-third (or four) of the 12 Philadelphia Empowerment Zone activities it monitored during the course of a five-month investigation conducted by three full-time investigators earlier this year. In addition, the OIG found that the

Performance Review Report -- prepared and submitted at HUD's direction -- had been completed incorrectly, and therefore mischaracterized the accomplishments of the Zone.

These allegations are wrong, and worse, they unfairly tarnish the accomplishments of the Philadelphia Empowerment and those who worked diligently to complete the report in the manner contemplated by HUD officials. The fact is that during the period in which the OIG tested activities in the Philadelphia Empowerment Zone, the Zone expended \$16 million in Zone communities, for economic development, education, housing, public safety, and critically needed infrastructure improvements in these neighborhoods. No one questions that these funds were spent to benefit the Zone and Zone residents. In fact, the OIG findings question less than one percent of all funds expended in the Zone during the period in question. The City maintains that all of these funds were spent to benefit Zone residents, as set forth more fully in following responses to each of the OIG's Summary Findings.

Response to OIG Summary Finding re: Incorrect Performance Review Report

As noted, the Performance Review Report dated June 30, 1997 was completed at the direction of HUD officials, together with representatives from HHS, and the Commonwealth of Pennsylvania. Representatives of these agencies worked with the City to ensure that the Philadelphia Empowerment Zone would fully disclose all of its planning and invoicing activities in the Zone. The goal, of course, was to provide a full and complete accounting of these activities. Interestingly, the parties could not reach a consensus on how best to recreate a "benchmarking" format in the Report that would satisfy the requirements originally imposed by HUD. Accordingly, HUD, HHS, State and City officials eventually agreed that the Performance Review Report would monitor only the planning and invoicing activities of the Zone communities; it would not, however, provide detailed reporting on the progress of the Zone. The City submitted the Performance Review Report with the full acceptance and approval of HUD and HHS. Since the Report was not intended to serve as a basis for measuring the progress of the Zone, it is equally true that the report could not have misled HUD about the progress of the Zone. **In fact, in several cases, the Report *underrepresented* accomplishments of the Zone.**

Having full knowledge of the contents (and the limitations) of the Performance Review Report, the OIG's continued reliance on the Report as the basis for its findings of reporting violations is both inaccurate and unfair. Earlier this year, HUD asked the Philadelphia Empowerment Zone to revise its reporting format to identify specific accomplishments. A corrected report was submitted to HUD in advance of the release of the OIG report. In addition, all local Empowerment Zone staff attended a full-day training session on HUD guidelines for Performance Review reporting on May 18, 1998. Despite the fact that the Philadelphia Empowerment Zone satisfactorily completed all of these measures, the OIG nevertheless chose to publicize findings that allege reporting violations. Under these circumstances, the City objects to this finding as unwarranted, unfair, and unsupported by the facts.

Response to OIG Summary Finding re: Supervised Child Playsites (R. W. Brown)

The OIG's finding with respect to the provision of supervised child playsites is wrong, and

as a result, the City strongly objects to its inclusion in the OIG Summary Findings.

At issue is whether the Philadelphia Empowerment Zone provided daycare services, identified as supervised child playsites, to 55 Zone children who were enrolled in the program. Provision of day care services was the primary goal of this activity, as evidenced by the Performance Review Report, as specified in the Request for Proposals, and as included in the terms of the contract with the daycare services provider. This goal was achieved by utilizing Empowerment Zone funds to pay for outreach and intake counseling that was essential to any meaningful provision of daycare services. By using Empowerment Zone funds to assist in the placement of children in daycare service programs offered through other funding services, the Zone fostered the placement of 55 children -- many of whose parents had no other realistic hope of obtaining daycare for their children -- in quality daycare programs.

The City also takes exception to the OIG assertion that controls over this activity were inadequate. The City and the provider both have voluminous documentation to support that the *contracted services*, necessary for the achievement of the performance objectives, have been provided. The City maintains an aggressive system of contract monitoring, and has sufficient documentation to demonstrate that the goals and objectives of this activity were achieved, including the objective of providing age-appropriate activities for 55 Zone children enrolled in day care. The OIG determination that insufficient documentation exists to support the intake process merely underscores the problem of reporting information that the provider is barred from providing, by virtue of its duty of confidentiality that arises as a result of its agreement with the State. As a practical matter, however, the OIG was provided with the names and addresses of the children identified as participating in the program, and the OIG was provided with more than enough information to independently verify the participation of these children in the daycare program.

Response to OIG Summary Finding re: Multi-Purpose Athletic Field

The OIG alleges that the Philadelphia Empowerment Zone overspent its \$150,000 budget for the construction of a Multi-Purpose Athletic Field in the American Street Zone by an estimated \$30,000. As a result, the OIG concluded that the City's expenditure and reporting controls were inadequate.

It is true that the cost of the ballfield exceeded budgeted estimates, but the City maintains that all costs for construction of the field were reasonable and necessary. It is also worth noting that the Empowerment Zone funding of the project was completed in partnership with the City, which appropriated \$800,000 toward the construction of the field -- a City/Zone match of nearly three to one -- in an area of the City where such recreation opportunities did not exist and were critically needed. Moreover, the construction of the field has been a tremendously successful project, standing as a focal point of the surrounding community and serving more than 700 Zone residents.

Response to OIG Summary Finding re: Safety and Security Program (Smoke Detectors)

The OIG alleges that there was insufficient documentation to verify that the Zone distributed \$6,792 worth of smoke detectors to Zone residents, and that an additional \$688 worth of smoke detectors were distributed to non-Zone residents.

This allegation is wrong, and moreover, it is not supported by the factual evidence provided to the OIG. The crux of this allegation is that the local Zone failed to provide documentation to support its distribution of the smoke detectors in question to Zone residents. Yet there is no question that the Zone was the target of a comprehensive outreach program conducted by the Zone and the Philadelphia Fire Department, to ensure that Zone residents received free smoke detectors to protect against the danger of business and residential fires. Further, there is *no evidence* -- **none** -- to show either that the smoke detectors were not distributed, or that there was any malfeasance on the part of the local Zone officials with respect to this equipment. In fact, all evidence points to the common sense conclusion -- volunteers were recruited to distribute smoke detectors, flyers were distributed in the various Zone neighborhoods, volunteers were clearly deployed to distribute in those neighborhoods on the days in question, and most significantly, routine inspections of the homes in question show that smoke detectors actually were installed. Further, local Zone officials who represented to the OIG that the smoke detectors in question *were* distributed can document the distribution of more than \$11,000 worth of smoke detectors. In this case, the evidence supports the conclusion that all of the smoke detectors in question were distributed as intended.

Finally, the OIG also questions the distribution of \$688 worth of smoke detectors to non-Zone residents. Yet these smoke detectors were distributed to homes immediately adjacent to the Zone -- in most cases, literally across the street. As such, they serve to protect the Zone itself from the danger of fire, and as federal regulations make clear, Empowerment Zone funds are not limited for use solely within the designated Zone census tracts. Instead, the relevant HHS regulations permit the local Zone community to define “residents” of the Zone and the benefits they receive in a manner that is consistent with the overall goal of providing benefit to the Zone community. Under the circumstances, the Philadelphia Empowerment Zone’s decision to provide smoke detectors to homes immediately adjacent to the Zone constituted a “zone benefit” that is consistent with the goals of the Empowerment Zone legislation.

Response to OIG Summary Finding re: Lead Abatement Program Controls

The OIG alleges that the Philadelphia Empowerment Zone used \$83,310 worth of Zone funds for lead abatement services in the North Philadelphia Empowerment Zone, to be performed by a company called Sea Change Environmental Services. As the OIG is aware, however, the Sea Change transaction was a loan. Therefore, the Zone has limited exposure should the contractor not be able to provide lead abatement services. Zone officials already have provided documentation to the OIG to demonstrate that Sea Change is current on its loan repayments to the Empowerment Zone. Once the loan is repaid the Zone may choose to re-issue these funds for additional lead abatement services.

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