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Audit Case Number	99-CH-259-1002

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 Chicago  
Empowerment Zone Program  
Chicago, Illinois

We completed an audit of the City of Chicago'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 26 of the 84 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 \$670,417 of Empowerment Zone funds and was billed \$121,590 that did not benefit Zone residents; did not have documentation to show that another \$892,484 of Zone funds paid and \$120,012 billed to the City benefited Zone residents or were reasonable and necessary expenses; inaccurately reported the accomplishments of its Empowerment Zone activities; and reported to HUD 15 projects as Empowerment Zone activities when they were 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 Chicago'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 \$670,417 of Empowerment Zone funds and was billed \$121,590 that did not benefit Zone residents; did not have documentation to show that another \$892,484 of Zone funds paid and \$120,012 billed to the City benefited Zone residents or were reasonable and necessary expenses; inaccurately reported the accomplishments of its Empowerment Zone activities; and reported 15 projects as Empowerment Zone activities when they were not.

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## The City Did Not Have Adequate Control Over Zone Funds

As previously mentioned, the City of Chicago did not maintain adequate oversight over Empowerment Zone funds. Nine of the 26 activities we reviewed incurred inappropriate or unsupported 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; and encouraged an administering entity to provide services outside of the Zone.

## The City Overstated The Amount Of Leveraged Funds By Over \$143 Million

The City of Chicago overstated the amount of estimated leveraged funds in the June 1997 Performance Review. The Review's Attachments estimated that the City's 84 Empowerment Zone activities should leverage \$176.1 million. However, supporting documentation included with the Review showed the 84 activities would only leverage \$36.6 million, a difference of \$139.5 million. The information was presented so it appeared that the \$176.1 million shown in the Attachments was the total of the supporting documentation. The City also overstated the projected funding by \$3.7 million for 12 of 49 activities for which the City requested funding confirmations. As a result, the City overstated the projected leveraged funding by \$143.2 million (\$139.5 million + \$3.7 million). The problem occurred because: (1) the City's reporting process lacked effective oversight and controls to ensure the accuracy of information presented in the Performance Review; and (2) the City's staff used outdated information to complete the financial sections of the Review. Since the amount of leveraged funding

Activities Were  
Incorrectly Reported As  
Empowerment Zone  
Activities

is an important indicator of the Empowerment Zone Program's success, the inaccurate information presented a false impression of the Program's benefits.

The City of Chicago incorrectly reported that 15 of 84 activities in its June 30, 1997 Performance Review were Empowerment Zone Program activities. The 15 activities were not located within the City's Federally-designated Empowerment Zone and received funding from the State of Illinois' Enterprise Community grant. Because the City included the 15 activities in the Performance Review, over \$7 million in funding was incorrectly reported as leveraged funds. The problem occurred because the City's reporting process lacked effective oversight and controls to ensure the validity and reliability of the information included in the Performance Review. As a result, the City did not accurately report to HUD its Empowerment Zone Program's accomplishments, which created the impression that the benefits of the Program were greater than actually achieved.

The City Incorrectly  
Reported The  
Accomplishments Of Its  
Zone Activities

The City of Chicago incorrectly reported the actual status and progress for 11 of the 26 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: nine activities' performance measures; nine activities' funding; six activities' performance milestones; and two activities' participating entities. The inaccuracies occurred because the City did not: (1) use the actual accomplishments submitted by the activities' administering entities; (2) verify the accuracy of the information included in the Performance Review; or (3) obtain the status of the activities from the administering entities.

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 Chicago 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 Executive Director of the City's Empowerment Zone Program and HUD's staff during the audit. We held an exit conference with the City's Executive Director on August 18, 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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# Table of Contents

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Management Memorandum	i
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Executive Summary	iii
-------------------	-----

---

Introduction	1
--------------	---

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## Findings

1	The City Did Not Have Adequate Control Over Empowerment Zone Funds	5
---	--	---

2	The City Overstated Estimated Leveraged Funding By Over \$143 Million	17
---	---	----

3	Activities Were Incorrectly Reported As Empowerment Zone Activities	21
---	---	----

4	The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Activities	25
---	---	----

---

Management Controls	31
---------------------	----

---

Follow Up On Prior Audits	33
---------------------------	----

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## Appendices

A	Schedule of Questioned Costs	35
---	------------------------------	----

B	Activities Reviewed	37
---	---------------------	----

C Audit Comments	81
D Distribution	105

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# Introduction

The City of Chicago was 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 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 Empowerment Zone Program under Title 20 of the Social Security Act. The Program was designed to provide \$250 million in tax benefits with \$100 million of Social Services Block Grant funds from the Department of Health and Human Services. As of June 30, 1998, the City of Chicago drew down \$11,297,031 in Empowerment Zone funds from the Social Services Block Grant and had spent \$10,855,045.

The City of Chicago is a municipal corporation governed by a mayor and a city council. The City's fiscal year is January 1 through December 31. The City's Department of Planning and Development administers its Empowerment Zone Program.

The Mayor of the City of Chicago is the Honorable Richard M. Daley. The Executive Director of the City's Empowerment Zone Program is Avery L. Goodrich, Jr. The Commissioner of the City's Department of Planning and Development is Christopher R. Hill. The City's Empowerment Zone books and records are located at 20 North Clark, Chicago, Illinois.

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## 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 August 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 26 of the City's 84 activities reported in the June 30, 1997 Performance Review. The following table shows the 26 activities reviewed:

<i>Activity</i>
<b>1. Mexican Fine Arts Museum Expansion</b>
<b>2. Job Link Program</b>
<b>3. Family Life Community Network</b>
<b>4. 21<sup>st</sup> Century Community Learning Centers</b>
<b>5. Better Days for Youth and Nuevos Futuros</b>
<b>6. Employer Assisted Housing Program</b>
<b>7. Northwest Industrial Corridor</b>
<b>8. Community Services West Workforce and Life Preparation</b>
<b>9. The Storehouse Distributions Center</b>
<b>10. Arts Business Incubator</b>
<b>11. Chicago Neighborhood Plan Program</b>
<b>12. Self-Sufficiency Project</b>
<b>13. Holistic Connection</b>
<b>14. Youth Economic Alternatives</b>
<b>15. Linking to the Service Delivery Network</b>
<b>16. Brownfields Redevelopment Institute</b>
<b>17. Woodworker/Shipping Training</b>
<b>18. Expansion of Services for Connections of Adult Learning Center</b>
<b>19. Fresh Start Program</b>
<b>20. Comprehensive Service Delivery Network</b>
<b>21. Street Intervention Program</b>
<b>22. Duncan YMCA Children's Arts &amp; Education</b>
<b>23. Vocational Education &amp; Community Development Program</b>
<b>24. Violence Prevention Program</b>
<b>25. Community Youth Development Activity Network</b>
<b>26. West Side Residential Rehabilitation</b>

To evaluate the City's Empowerment Zone Program, we reviewed records maintained by HUD, the City's Department of Planning and Development, 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 the administering entities for 11 of the 26 activities to review their documentation, reports, and correspondence. We did not conduct site visits to the remaining 15 activities since the activities were not related to the City's Empowerment Zone Program (see Finding 3).

The audit 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 Commissioner of the City's Department of Planning and Development. We also provided a copy of this report to the Acting Director of the Office for Civil Rights, Department of Health and Human Services.

# The City Did Not Have Adequate Control Over Empowerment Zone Funds

The City of Chicago did not maintain adequate oversight over Empowerment Zone funds. Nine of the 26 activities we reviewed incurred inappropriate or unsupported expenditures. The inappropriate or unsupported expenditures accounted for 49.2 percent of the Empowerment Zone funds allotted to the 26 activities. The City: (1) inappropriately used \$670,417 of Empowerment Zone funds and was billed another \$121,590 for services that did not benefit Zone residents; and (2) lacked documentation to show that \$892,484 of Zone funds paid and \$120,012 billed to the City benefited Zone residents or were reasonable and necessary expenses. The problems occurred because the City: did not have an adequate monitoring system for its Empowerment Zone activities that ensured the use of Zone funds benefited Zone residents; and encouraged an administering entity to provide services outside of the Zone. 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 that Empowerment Zone funds 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 purpose 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 administrator 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 Chicago's Empowerment Zone Strategic Plan required that the following activities benefit Empowerment Zone residents: Mexican Fine Arts Museum Expansion project; Job Link Program; Family Life Community Network project; 21<sup>st</sup> Century Community Learning Centers; Better Days for Youth and Nuevos Futuros program; and the Employer Assisted Housing Program.

Oversight Of Zone Funds Was Not Adequate

The City of Chicago did not maintain adequate oversight for nine of the 26 activities we reviewed. Specifically, the City used \$670,417 of Empowerment Zone funds and was billed another \$121,590 for services that did not benefit Zone residents, and did not have documentation to support that \$892,484 Zone funds paid and \$120,012 billed to the City benefited Zone residents or were reasonable and necessary expenses. The following table shows the amount of inappropriate and unsupported Zone funds for the nine activities and the page number where a detailed summary of each activity is located:

Activity	No Benefit	No Support For Reasonableness And Necessity	Page Number
<b>Mexican Fine Arts</b>	\$186,396	\$ 607,606	38
<b>Job Link Program</b>	148,622	340,165	43
<b>Family Life Network</b>	123,321	3,717	48
<b>21<sup>st</sup> Century Centers</b>	114,755	0	52
<b>Better Days for Youth</b>	113,686	7,540	56
<b>Employer Housing</b>	43,653	8,468	61
<b>Northwest Industrial</b>	36,171	0	66
<b>Community Services West</b>	25,403	0	69
<b>Storehouse Distributions</b>	<u>0</u>	<u>45,000</u>	73
<b>TOTAL</b>	<u>\$792,007</u>	<u>\$1,012,496</u>	

Empowerment Zone Funds Did Not Benefit Zone Residents

The Mexican Fine Arts Museum Expansion project inappropriately expensed \$186,396 to the Empowerment Zone Program. The City paid the project \$148,756 of Empowerment Zone funds for services that did not benefit Zone residents. The Museum’s contract and the City’s Strategic Plan required the services to be provided to Zone residents. Specifically, the Museum used \$85,057 of Empowerment Zone funds to pay non-Zone youths through March 1998. The Museum also used \$63,699 of Zone funds to pay 100 percent of seven employees’ salaries and benefits when the employees did not spend all of their time working on the project. Additionally, the Museum submitted invoices totaling \$37,640 to pay non-Zone youths (\$24,654) and

employees' salaries (\$12,986) from April to June 1998. As of July 31, 1998, the invoices had not been paid.

The Job Link Program used \$148,622 of Empowerment Zone funds to pay for job placement services (\$60,769) and job skills training (\$87,853) to non-Zone residents. However, Job Link's contract and the City's Strategic Plan required Job Link to provide services to Zone residents.

The Family Life Community Network project used \$123,321 of Empowerment Zone funds to provide career and educational services to non-Zone youths. The City's Strategic Plan and the project's contract required the services to be provided to Zone residents. During a monitoring review in October 1997, the City's Department of Human Services identified that the project was not providing services to Zone youths as required. However, the Department did not take corrective action nor did it notify the appropriate City staff administering the Empowerment Zone Program. The City did not have policies or procedures to share information on problems identified by various City departments during monitoring reviews.

The 21<sup>st</sup> Century Community Learning Centers used \$114,755 of Empowerment Zone funds to establish learning centers at 10 schools not located within the Zone. The City's Strategic Plan and the Centers' contract required that the learning centers be established at schools within the Empowerment Zone. During the term of the contract, there were at least 33 additional schools in the Empowerment Zone that could have participated in the program. The City encouraged the Board of Education, the Centers' administering entity, to establish training centers at schools located outside of the Zone.

The City executed a contract with Chicago Commons Association, the administering entity for the Better Days for Youth and Nuevos Futuros program, to provide services to Empowerment Zone residents. However, the program used \$48,219 of Zone funds for career and educational services (\$47,294) and employment stipends (\$925) to non-Zone residents. Additionally, the program submitted invoices totaling \$65,467, which had not been paid, for additional educational services (\$37,023) and employment stipends (\$28,444) to non-Zone residents.

The Employer Assisted Housing Program inappropriately used \$25,170 of Empowerment Zone funds for home ownership services (\$22,170) and construction repairs (\$3,000). The services did not support the goal of promoting and supporting home ownership in the Zone as required by the Program's contract and the City's Strategic Plan. The construction repairs were made to a house not related to the Program. Additionally, the Program submitted invoices requesting \$18,483 of Zone funds to pay two of its employees when the two employees did not work on the Program during the time period of the invoices.

The Northwest Industrial Corridor program used \$30,107 of Empowerment Zone funds to pay for the services of an Administrative Assistant. However, the Assistant had never worked on the program. The City also inappropriately used \$6,064 of Empowerment Zone funds for lead abatement removal services that were not part of the Northwest Industrial Corridor program.

The City advanced Bethel New Life, the administering entity for the Community Services West Workforce and Life Preparation program, \$25,403 of Empowerment Zone funds. However, Bethel did not perform any of the services required by its contract with the City. Bethel New Life used the Empowerment Zone funds for operations that were not related to the program.

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

The Mexican Fine Arts Center Museum used \$502,078 of Empowerment Zone funds for 21 employees' salaries. However, there was no supporting documentation to show that the employees' services benefited the Empowerment Zone Program. Additionally, the Museum submitted an invoice requesting reimbursement for another \$105,528 for the 21 employees' salaries during April to June 1998. The invoice had not been paid as of July 31, 1998.

The City paid the Job Link Program \$340,165 of Empowerment Zone funds to provide services to Zone residents. The Program used Zone funds for job placement services (\$125,166), job skills training (\$1,515), and miscellaneous services (\$213,484). Neither the City nor the Program had documentation to show the services benefited Zone residents.

The City and the Family Life Community Network project did not have documentation to support that \$3,717 of Empowerment Zone funds were used to provide career and educational services to Zone residents. The City's Strategic Plan and the project's contract required the services to be provided to Zone residents.

The City and the Better Days for Youth and Nuevos Futuros program did not have documentation to show that Empowerment Zone residents benefited from \$1,524 in Zone funds used for the career and educational services (\$1,359) and employment stipends (\$165). Additionally, the program lacked supporting documentation to show that Zone residents were the recipients of \$6,016 in outreach services (\$1,064) and employment stipends (\$4,952) that had been billed to the City but not paid.

The Employers Assisted Housing Program requested \$8,468 of Empowerment Zone funds to pay 100 percent of the Program's Project Director's salary, payroll taxes, and health insurance benefits from January 1 to March 31, 1998. However, the Project Director did not spend all of her time working on the Program. The City and the Program did not have documentation to show the time spent by the Project Director on the Program.

The City reimbursed The Storehouse Distribution Center project \$45,000 for the Administrative Director, Warehouse Manager, and the Corporate Relations Manager's salaries. However, the City and the Distribution Center did not maintain documentation that identified the employees' time spent on the project or other activities.

The problems occurred because the City did not have an adequate monitoring system for its Empowerment Zone activities that ensured the use of Zone funds benefited Zone residents. The City also inappropriately encouraged an administering entity, the Chicago Board of Education, to provide services outside of the Zone.

Empowerment Zones  
Were Intended To Benefit  
Zone Residents

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 objectives, 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.

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### Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 81, contains the complete text of the comments.

The monitoring improvements being implemented reflect a policy of containment of problematic contracts from the Chicago Empowerment Zone's first funding cycle, introduction of new monitoring requirements for first funding cycle contracts that have not yet been executed; and, incorporation of new monitoring requirements up-front – as part of the application process – for the second funding cycle.

The specific improvements made to the original monitoring and reporting requirements include:

1. Clear procedures to tie distribution of funds to actual performance of subrecipients
2. Standardization of previously problematic definitions, such as primarily serving Empowerment Zone residents, leveraged funds, job creation, etc.
3. Increased coordination with and cooperation from lead agencies within the City regarding monitoring (i.e., increased utilization of existing expertise and relationships with subrecipients)
4. Budgeting for the hiring of two additional Empowerment Zone staff in Fiscal Year 1999 for monitoring activities
5. Revised procedures for granting advances, consistent with HUD's Cash Management Improvement Act
6. Immediate initiation of corrective actions against subrecipients who are out of compliance.

The Chicago Empowerment Zone staff currently is conducting site visits with all Empowerment Zone subrecipients. Those subrecipients that are not in compliance with their contracts face several possible consequences. Per the contract with the subrecipients, the City of Chicago may invoke any or all of the following remedies: the right to take over and complete the services; the right to terminate the agreement; the right of specific performance, and injunction or other appropriate equitable remedy; monetary damages; the right to deem the contractor non-responsible in future contracts awarded by the City; and the right to demand a refund of any funds not used in accordance with the terms of the agreement. When the results of the staff analyses are complete -- consistent with appropriate definitions of applicable terms -- we will initiate all necessary corrective actions.

#### OIG Evaluation of Auditee Comments

The City indicated that it is implementing improvements to: (1) tie the distribution of funds to the actual performance by subrecipients; (2) standardize problematic definitions; (3) increase coordination and cooperation from the City's lead agencies; (4) hire two additional Zone staff for monitoring activities; (5) revise procedures for granting advances; and (6)

initiate corrective actions against subrecipients who are out of compliance. The City's actions should improve the oversight of Empowerment Zone funds, if the City properly implements and enforces its improvements. The City's improvements to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

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### Auditee Comments

The HUD Inspector General audit team indicates that Empowerment Zone funds may be used only for the benefit of Zone residents. Chicago's Empowerment Zone, in consultation with HUD's Empowerment Zone Program Office, has proceeded on the basis that the use of Zone funds should benefit Zone residents primarily. HUD's Empowerment Zone Program Coordinator confirmed this interpretation at the audit exit conference in Chicago on August 18. In fact, the instruction distributed by HUD with the round II designation application forms, states all programs, services, and activities financed in whole or in part with round II funds must be structured to benefit Zone residents primarily; the programs, services and activities may also benefit nonresidents.

The initial working assumption of benefit shared by HUD and Chicago's Empowerment Zone as a round I designee has been confirmed in the round II instructions.

We believe that the auditors have too narrowly defined the term benefit. Two types of activities identified by the auditors as problematic – new housing development and the expansion of an important cultural institution in the Empowerment Zone – benefit Zone residents in numerous ways, including bringing new money into the local economy, new amenities into the neighborhood, and by improving previously undeveloped or under-used properties. In addition, both activities are consistent with the Strategic Plan for Chicago's Empowerment Zone. Under the audit team's overly narrow definition, these very real and meaningful benefits would not be considered to flow from the Empowerment Zone Program.

### OIG Evaluation of Auditee Comments

HUD's regulations and the City's contracts required the activities to benefit Empowerment Zone residents. For the

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purpose of this 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's administrators had control over who received the benefit of the services. Since the activities had control over who received the benefits of their services, they should have provided the services to Zone residents. HUD's Coordinator of the EZ/EC Initiative said his comments that Empowerment Zone funds should primarily benefit Zone residents does not relieve the City from its contractual obligations to serve just Zone residents. We adjusted our audit findings to remove the requirement that services be provided to only Zone residents.

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### Auditee Comments

The auditors assumption that the City lost the opportunity to use funds for other activities when first cycle subrecipients did not implement approved projects in a timely manner was in error. Chicago's Empowerment Zone did not allocate all available funds during the first funding cycle of the 10-year Empowerment Zone Program. No Zone activity has been stalled for lack of funding availability.

The auditors' opinion that commingling of funds is not allowed is inconsistent with the Office of Management and Budget's regulations which clearly allow subrecipients to combine funds for several different programs in one account provided the agency maintains an accurate account of project funds.

### OIG Evaluation of Auditee Comments

We determined that Bethel New Life, the administering entity for the Community Services West Workforce and Life Preparation program, used Empowerment Zone funds for services that were not related to the program. We explained in our finding that Bethel New Life commingled Zone funds with other funds; however, we did not take exception to this since Bethel properly accounted for the funds.

Our conclusion that the City lost the opportunity to use funds for other activities is based on the fact that the City inappropriately used Zone funds and until the funds are reimbursed to the Empowerment Zone Program, the funds are not available for appropriate Zone activities.

Auditee Comments

We disagree with the auditors' opinion that a subrecipient receiving funds for staff salaries must document that a specified percentage of a staff person's time funded by an Empowerment Zone grant was actually spent on the Zone project. In the case cited by the audit team, the subrecipient performed all tasks/deliverables in less time than it had anticipated. Barring an unreasonable estimate of time to perform agreed upon services, we should not seek to penalize staff of a subrecipient for being efficient. Empowerment Zone staff will, of course, be diligent in reviewing subrecipients' estimates of staff time needed to perform required tasks and produce required deliverables.

OIG Evaluation of Auditee Comments

We acknowledge that the subrecipient exceeded its deliverables; however, the administering entity could not support that the salary reimbursements were reasonable and necessary to provide the deliverables. We believe the City needs to provide documentation to support the reasonableness and necessity of the expenses paid with Zone funds or reimburse the Empowerment Zone Program from non-Federal funds.

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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 Chicago:

- 1A. Reimburses the Empowerment Zone Program \$645,014 from non-Federal funds that the Mexican Fine Arts Center (\$148,756), Job Link Program (\$148,622), Family Life Community Network (\$123,321), 21<sup>st</sup> Century Community Learning Centers (\$114,755), Better Days for Youth and Nuevos Futuros (\$48,219), Employer Assisted Housing (\$25,170), and Northwest Industrial Corridor (\$36,171) inappropriately used for services provided to non-Zone residents.
- 1B. Does not use \$121,590 of Empowerment Zone funds to reimburse the Mexican Fine Arts Center (\$37,640), Better Days for Youth and Nuevos Futuros (\$65,467), and Employer Assisted Housing (\$18,483) for services billed but provided to non-Zone residents.

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- 1C. Requires Bethel New Life to immediately initiate the Community Services West Workforce and Life Preparation program or reimburse the Empowerment Zone Program \$25,403 from non-Federal funds for the advance to Bethel.
  - 1D. Provides documentation to support that the Mexican Fine Arts Center Program (\$502,078), the Job Link Program (\$340,165), Family Life Community Network (\$3,717), the Better Days for Youth and Nuevos Futuros (\$1,524), and the Storehouse Distribution Center Program (\$45,000) used \$892,484 of Empowerment Zone funds to benefit Zone residents. If adequate documentation cannot be provided, then reimburse the Empowerment Zone Program from non-Federal funds.
  - 1E. Does not use \$120,012 of Empowerment Zone funds to reimburse the Mexican Fine Arts Center (\$105,528), Better Days for Youth and Nuevos Futuros (\$6,016), and Employer Assisted Housing (\$8,468) for services billed without documentation to support that the funds were used to benefit Zone residents.
  - 1F. Establishes procedures and controls to monitor activities under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.
  - 1G. Requires the activities' administering entities to maintain documentation to show that Empowerment Zone funds are used to benefit Zone residents.
  - 1H. Establishes procedures and controls to ensure that corrective action is taken in regard to grantees who do not provide the required services.

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# The City Overstated Estimated Leveraged Funding by Over \$143 Million

The City of Chicago overstated the amount of estimated leveraged funds in the June 1997 Performance Review. The Review's Attachments estimated that the City's 84 Empowerment Zone activities should leverage \$176.1 million. However, supporting documentation included with the Review showed the 84 activities would only leverage \$36.6 million, a difference of \$139.5 million. The information was presented so it appeared that the \$176.1 million shown in the Attachments was the total of the supporting documentation. The City also overstated the projected funding by \$3.7 million for 12 of 49 activities for which the City requested funding confirmations. As a result, the City overstated the projected leveraged funding by \$143.2 million (\$139.5 million + \$3.7 million). The problem occurred because: (1) the City's reporting process lacked effective oversight and controls to ensure the accuracy of information presented in the Performance Review; and (2) the City's staff used outdated information to complete the financial sections of the Review. Since the amount of leveraged funding is an important indicator of the Empowerment Zone Program's success, the inaccurate information presented a false impression of the Program's benefits.

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## HUD's Requirements

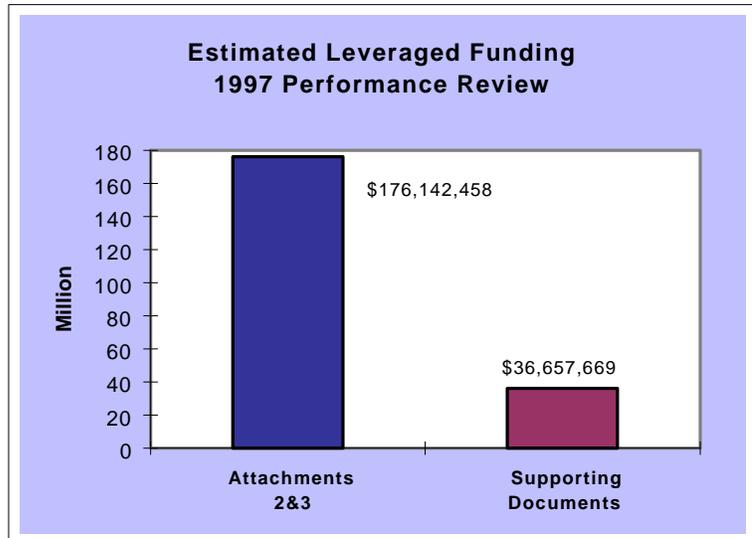
Page 4 of the June 23, 1997 EZ/EC Performance Review instructions issued by HUD states for funding, Empowerment Zones should describe the major sources of funding, the amounts, and the status of the commitment at the time the report is submitted.

## The City Overstated Estimated Leveraged Funds

The City overstated the amount of estimated leveraged funding for its 84 Empowerment Zone activities by \$143,230,803. The City reported, in Attachments 2 and 3 of the 1997 Performance Review, that the estimated leveraged funding for the activities was \$176,142,458. However, the supporting documentation included with the Review showed that the leveraged funds for the activities totaled only \$36,657,669, a difference of \$139,484,789. The Attachments were presented in a manner that lead the reader to conclude the total of the projected leveraged funds on Attachments 2 and 3 was a summarization of the supporting information.

Based upon the City's June 1997 Performance Review, HUD's Illinois State Office of Community Planning and Development used inaccurate information to assess the City's Empowerment Zone performance. HUD's progress report dated November 7, 1997 showed that \$43 million of Empowerment Zone funds would leverage \$176 million from public and private agencies.

The following graph shows the relationship between the total of leveraged funds in Attachments 2 and 3 and the total from the supporting documents:



In addition, the \$36,657,669 in leveraged funds reported in the supporting documentation was not accurate. The City sent a survey to 49 Empowerment Zone activities to confirm the status and funding source information for the Performance Review. The City could not explain why the survey was not sent to all 84 Zone activities. Thirty-eight of the 49 Zone activities submitted confirmations to the City. We compared the data in the confirmations with the information shown in the Review and identified inconsistencies for 12 of the 38 activities. The net effect of the inconsistencies was that the estimated leveraged funding was \$3,746,014 more than the amount of leveraged funds confirmed by the activities. As a result, leveraged funding was overstated a total of \$143,230,803 (\$139,484,789 + \$3,746,014). The City could not explain why the information in the Review did not agree with the confirmations for the 12 activities.

The Assistant Commissioner for the City’s Department of Planning and Development said the City did not verify the accuracy of any funding information submitted by the Zone activities because of staff shortages. We believe the City had adequate staff to verify the accuracy of information it presented in its Review. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and

had four more individuals working under an internship program.

Leveraged Funding  
Amounts Were Based On  
Outdated Information

The City's Program Coordinator said the leveraged funding amounts reported in the 1997 Performance Review were obtained from the activities' original proposals because they were the best source of funding information when the Review was prepared. However, the proposals were submitted to the City in December 1995. As of June 30, 1997, the funding information was at least nineteen months old and the confirmations of funding information that the City had received indicated some of the information was not accurate. The City also lacked adequate supervisory oversight to ensure the accuracy and reliability of the Performance Review.

Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 92, contains the complete text of the comments.

At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheet collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, subrecipients' reports will be verified by Empowerment Zone staff to ensure accurate reporting of leveraged funds.

Procedures and controls have been established to ensure accurate reporting of funding amounts and commitments consistent with HUD's instructions and to verify the accuracy of information submitted to HUD. The specific improvements made by the Chicago Empowerment Zone to the original monitoring and reporting requirements include training of all Empowerment Zone staff and lead agency staff involved in monitoring and reporting regarding HUD's reporting procedures.

OIG Evaluation of  
Auditee Comments

The City's actions to establish procedures and controls should improve reporting accuracy, if the procedures and controls adequately address HUD's Performance Review instructions

and require verification of the accuracy of information provided to HUD. The City's training should address HUD's instructions for reporting current funding amounts and commitments.

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**Recommendations**

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

- 2A. Establishes procedures and controls to follow HUD's instructions and report current funding amounts and commitments in Performance Reviews.
  
- 2B. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

# Activities Were Incorrectly Reported As Empowerment Zone Activities

The City of Chicago incorrectly reported that 15 of 84 activities in its June 30, 1997 Performance Review were Empowerment Zone Program activities. The 15 activities were not located within the City’s Federally-designated Empowerment Zone and received funding from the State of Illinois’ Enterprise Community grant. Because the City included the 15 activities in the Performance Review, over \$7 million in funding was incorrectly reported as leveraged funds. The problem occurred because the City’s reporting process lacked effective oversight and controls to ensure the validity and reliability of the information included in the Performance Review. As a result, the City did not accurately report to HUD its Empowerment Zone Program’s accomplishments, which created the impression that the benefits of the 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 Chicago requires the City to submit reports to HUD on the progress made in carrying out activities specified in the Strategic Plan for the Empowerment Zone Program.

**City Incorrectly Reported  
15 Projects As Zone  
Activities**

The City of Chicago incorrectly reported that 15 of the 84 activities in the June 1997 Performance Review were Empowerment Zone activities. The 15 activities were not located within the City’s Federally-designated Empowerment Zone. Because the City included the 15 activities in the Performance Review, over \$7 million in leveraged funding was incorrectly reported as leveraged Zone funds. The following chart lists the 15 activities and their reported funding levels:

	<i><b>Funding</b></i>
Arts Business Incubator	\$693,000

Chicago Neighborhood Plan Program	712,925
Self-Sufficiency Project	34,300
Holistic Connection	77,142
Youth Economic Alternatives	1,087,449
Linking to the Service Delivery Network	544,000
Brownfields Redevelopment Institute	602,188
Woodworker/Shipping Training	600,000
Expansion of Services for Connections of Adult Learning Center	91,300
Fresh Start Program	106,750
Comprehensive Service Delivery Network	250,931
Street Intervention Program	286,140
Duncan YMCA Children's Arts & Education	1,882,667
Vocational Education & Community Development Program	181,866
Violence Prevention Program	55,251
<b>Total</b>	<b><u>\$7,205,909</u></b>

The inaccurate reporting by the City also occurred in the June 1996 Performance Review.

The errors occurred because the individual who prepared the City's June 1997 Performance Review did not recognize that the Enterprise Community activities were not part of the Federally-designated Empowerment Zone Program. HUD's instructions cover both Federally-designated Empowerment Zones and Enterprise Communities; therefore, the City of Chicago included both Zone and Enterprise Community activities in the 1996 and 1997 Performance Reviews. The City's Performance Reviews to HUD should not have included the Enterprise Community activities since the activities were located outside of the Federally-designated Zone. The Assistant Commissioner for the City's Department of Planning and Development said the City's management staff, who was responsible for administering the Empowerment Zone Program and the State Enterprise grant, did not examine the Performance Reviews for accuracy. As a result, the accomplishments of the Empowerment Zone Program were not accurately reported to HUD and an impression was created that the benefits of the Program were greater than actually achieved.

**Auditee Comments**

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

Fourteen (not 15) of the 84 activities in the 1997 Performance Review were located in Chicago's three Enterprise Communities (not a designated Enterprise Community under the Federal program), rather than one of the three clusters of the Chicago Empowerment Zone. Evaluations conducted to date confirm that several of the 14 Enterprise Community activities benefit Empowerment Zone residents, based on clients served lists or the agency's reporting of the geographic area they served. Contrary to the audit team's report, the Chicago Empowerment Zone recognizes that the Enterprise Communities are not a part of the Empowerment Zone Program, hence: two sets of boilerplate contracts, two systems for assigning contract numbers, two systems for assigning fund numbers, two monthly expenditure reporting systems to the State, and two sets of community representatives on the Coordinating Council.

Procedures and controls have been established to ensure that only Empowerment Zone activities are reported to HUD and to verify the accuracy of information submitted to HUD. The specific improvements made by the Chicago Empowerment Zone to the original monitoring and reporting requirements include training of all Empowerment Zone staff and lead agency staff involved in monitoring and reporting regarding HUD's reporting procedures, and clear separation of activities funded by Federal Empowerment Zone dollars from Empowerment Zone and Enterprise Community activities funded by State dollars.

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## OIG Evaluation of Auditee Comments

The City did not indicate which one of the 15 activities that we reported as a non-Zone activity it believed was an Empowerment Zone activity. Our review showed that the City reported 15 State Enterprise Community activities as Empowerment Zone activities in the June 1997 Performance Review even though the activities were located outside of the Federally-designated Empowerment Zone area.

We agree that the City knew Enterprise Community activities were not part of the Empowerment Zone Program. However, the person who prepared the Performance Review did not recognize the difference. We adjusted the wording in our finding to indicate that the individual who prepared the Performance Review was unaware of the difference.

We do not disagree that an Enterprise Community activity that occurs within the Empowerment Zone may benefit Zone residents, or that the benefit can be reported as a positive action occurring in the Zone. However, the source of the benefit should be clearly shown so that HUD can accurately assess the progress of the Empowerment Zone Program. The City reported its Enterprise Community activities' funding and progress as if they were part of the Empowerment Zone Program.

The City's actions to establish procedures and controls should improve reporting accuracy, if the procedures and controls adequately address HUD's Performance Review instructions and require verification of the accuracy of information provided to HUD. The City's training should address HUD's instructions for reporting Empowerment Zone activities to HUD.

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## Recommendations

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

- 3A. Establishes procedures and controls to only 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.

# The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Activities

The City of Chicago incorrectly reported the actual status and progress for 11 of the 26 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: nine activities' performance measures; nine activities' funding; six activities' performance milestones; and two activities' participating entities. The inaccuracies occurred because the City did not: (1) use the actual accomplishments submitted by the activities' administering entities; (2) verify the accuracy of the information included in the Performance Review; or (3) obtain the status of the activities from the administering entities. As a result, the City did not accurately report the accomplishments of its Empowerment Zone Program to HUD. 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 Chicago 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; 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 Chicago inaccurately reported the accomplishments for 11 of the 26 activities we reviewed from the June 1997 Performance Review. The remaining 15 activities although reported as Empowerment Zone activities were not (see Finding 3). The following table

Finding 4

shows the incorrect reporting by performance category for the 11 activities and the page number where a detailed summary for each activity is located:

Activity	Measures	Funding	Milestones	Participating Entities	Page Number
Mexican Fine Arts	X	X			38
Job Link	X	X	X		43
Family Life Network	X		X		48
21 <sup>st</sup> Century Centers	X	X	X		52
Better Days/ Nuevos Futuros	X	X	X		56
Employer Assisted Housing	X	X	X	X	61
Northwest Industrial	X	X	X		66
Workforce/Life Preparation		X		X	69
Storehouse Distributions	X				73
Community Youth Network	X	X			76
West Side Rehabilitation	—	X	—	—	79
<b>Totals</b>	9	9	6	2	

The City Inaccurately Reported Activities' Performance Measures

The City incorrectly reported the performance measures for nine 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 Northwest Industrial Corridor program was expected to assist 105 individuals to obtain employment and place at least 100 Empowerment Zone residents in jobs. However, the two performance measures were being performed by another Empowerment Zone activity, the Job Link Program. Since the projections were reported by both programs, the impression exists that more individuals will be assisted than actually planned.

The Performance Review also showed that one of the Northwest Industrial Corridor program's performance measures was to advise 50 businesses of the wage tax credits available under the Empowerment Zone Program. As of June 1997, the City did not report any accomplishments for this measure. Bethel New Life, the program's administering entity, had documentation in its files that showed 17 businesses had been informed of the tax credits by June 30, 1997.

The City Over Reported  
The Activities' Funding  
By Over \$2 Million

The City over reported nine activities' funding in the June 1997 Performance Review. Funding consists of Empowerment Zone monies, non-Zone Federal funds, State and local funds, private donations, and in-kind contributions. The Performance Review showed that the funding for the nine activities included \$7,902,290; however, the activities' funding included \$5,674,238 as of June 30, 1997. The net affect was an over reporting of \$2,228,052. The City also overstated the projected leveraged funding for its Empowerment Zone Program by over \$143 million (see Finding 2). The following table shows the incorrect reporting by activity:

<i>Activity</i>	<i>Amount Reported</i>	<i>Amount Supported</i>	<i>Over/Under Reported</i>
<b>Mexican Fine Arts</b>	\$ 0	\$ 544,400	\$ (544,400)
<b>Job Link</b>	1,000,000	2,500	997,500
<b>21<sup>st</sup> Century Centers</b>	416,000	953,674	(537,674)
<b>Better Days/ Nuevos Futuros</b>	143,799	48,779	95,020
<b>Employer Assisted Housing</b>	\$210,000	\$0	\$210,000
<b>Northwest Industrial</b>	600,000	0	600,000
<b>Workforce/Life Preparation</b>	271,211	0	271,211
<b>Community Youth Network</b>	261,300	224,885	36,415
<b>West Side Rehabilitation</b>	<u>5,000,000</u>	<u>3,900,000</u>	<u>1,100,000</u>
<b>Totals</b>	<u>\$7,902,310</u>	<u>\$5,674,238</u>	<u>\$2,228,072</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 to leverage 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 six activities' performance milestones. Performance milestones are the key interim actions that will result in the completion of the activity. For example, the City inaccurately reported the 21<sup>st</sup> Century Community Learning Centers' performance milestones. The City did not report that 19 of 21 project milestones for the Community Learning Centers were completed. The Centers informed the City in the January 31, 1997 progress report that the 19 milestones were completed. As a result, HUD was not provided an accurate picture of the Centers' progress.

The City Incorrectly Reported Participating Entities

The City inaccurately reported two activities' participating entities. Participating entities are the major entities responsible for financing, managing, and operating an activity. The City reported that Heinz Neighborhood Development was a participating entity in the Employer Assisted Housing Program. However, the Vice President of Development for Bethel New Life, the Program's administering entity, said she was not familiar with Heinz Neighborhood Development. The City used information included in the Program's proposal to report the projected participating entities in the Performance Review.

The City also reported that the Polk Brothers Foundation, MacArthur Foundation, and Surdna Foundation were participating entities of the Community Services West Workforce and Life Preparation program. The Senior Vice President of Programs at Bethel New Life, the program's administering entity, said the three foundations were past contributors and showed interest in the program, but did not fund the program.

The incomplete and inaccurate reporting occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for the administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. As a result, the City did not accurately report the accomplishments of its Empowerment Zone Program to HUD. The impression exists that the benefits of the City's Empowerment Zone Program were greater than actually achieved.

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**Auditee Comments**

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 81, contains the complete text of the comments.

We acknowledge that mistakes were made in reporting in our July 30, 1997 Performance Report (covering the period July 1, 1996 through June 30, 1997). Fortunately, we became aware of those problems and started to implement solutions shortly after the 1997 Performance Report was filed – long before the audit was announced.

Improvements to our reporting system already have been implemented, which will result in accurate reporting of accomplishments. The reporting improvements being implemented by the Chicago Empowerment Zone are the introduction of new reporting requirements for first funding cycle contracts that have not yet been executed, and incorporation of the new reporting requirements up-front – as part of the application process – for the second funding cycle.

The specific improvements made to the original reporting requirements (“the new system”) include:

1. Clear communication of reporting requirements (both substantive and procedural) to subrecipients and lead agencies which have monitoring responsibilities
2. Creation and distribution of standardized monitoring and reporting forms -- to aid compliance and produce results that permit apples-to-apples analysis and reporting of accomplishments and leveraging
3. Site visits by Empowerment Zone staff to every subrecipient to determine/verify progress and status
4. Training of all Empowerment Zone staff and lead agency staff involved in reporting regarding HUD's reporting procedures.

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**OIG Evaluation of Auditee Comments**

We do not know when the City became aware of the inaccuracies in its June 30, 1997 Performance Review. However, the City took no action to inform HUD of the inaccuracies or to prepare a corrected Performance Review.

The actions the City says it has planned or taken should improve the reporting inaccuracies, if properly implemented and followed. However, the City needs to establish procedures and controls to ensure that the person who prepares the City's Performance Review to HUD uses the actual accomplishments for each activity as provided by the administering officials. The City also needs to amend the contract for the Northwest Industrial Corridor Program to accurately reflect the performance measures the administering entity is responsible to complete.

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**Recommendations**

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

- 4A. Establishes procedures and controls to ensure that the person who prepares the City's Performance Review to HUD uses the actual accomplishments for each activity as provided by the administering officials.
- 4B. Provides training on HUD's reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.
- 4C. Establishes procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.
- 4D. Amends the contract for the Northwest Industrial Corridor Program to accurately reflect the performance measures the administering entity is responsible to complete.

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# Management Controls

In planning and performing our audit, we considered the management controls of the City of Chicago 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.

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## 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 use all Empowerment Zone funds to benefit Zone residents or the Zone (see Finding 1).

- Validity and Reliability of Data.

The City: overstated the estimated amount of leveraged funding; inaccurately reported 15 activities as Empowerment Zone activities when they were not; and incorrectly reported the actual status and progress for 11 of the 26 activities we reviewed from the June 30, 1997 Performance Review (see Findings 2, 3, and 4).

- Compliance with Laws and Regulations.

The City did not follow the United States Code, HUD's regulations, and the City's Strategic Plan. Empowerment Zone funds were used that did not benefit Zone residents and without supporting documentation (see Finding 1).

- Safeguarding Resources.

The City: (1) inappropriately used \$670,417 for services from Empowerment Zone funds, and was billed \$121,590 for services provided, but the services did not benefit Zone residents; and (2) lacked documentation to show that \$892,484 of Zone funds paid and \$120,012 billed to the City benefited Zone residents or were reasonable and necessary expenses (see Finding 1).

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# Follow Up On Prior Audits

This is the first audit of the City of Chicago's Empowerment Zone Program by HUD's Office of Inspector General. The latest single audit for the City covered the fiscal year ended December 31, 1996. The report contained 25 findings. None of the findings related to the Empowerment Zone Program.

## Schedule Of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible</u> <u>1/</u>	<u>Unsupported</u> <u>2/</u>
1A	\$645,014	
1B	121,590	
1C	25,403	
1D		\$892,484
1E		<u>120,012</u>
Total	<u>\$792,007</u>	<u>\$1,012,496</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.

## Activities Reviewed

This appendix contains the individual evaluations for the activities we reviewed. We judgmentally selected 26 of the City of Chicago's 84 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 all 26 activities. The following table shows the 26 activities that had problems, the location of their evaluation in this report, and the finding(s) they relate to:

<i>Activity</i>	<i>Page</i>	<i>Finding</i>
<b>1. Mexican Fine Arts Museum Expansion</b>	<b>38</b>	<b>1 and 4</b>
<b>2. Job Link Program</b>	<b>43</b>	<b>1 and 4</b>
<b>3. Family Life Community Network</b>	<b>48</b>	<b>1 and 4</b>
<b>4. 21<sup>st</sup> Century Community Learning Centers</b>	<b>52</b>	<b>1 and 4</b>
<b>5. Better Days for Youth and Nuevos Futuros</b>	<b>56</b>	<b>1 and 4</b>
<b>6. Employer Assisted Housing Program</b>	<b>61</b>	<b>1 and 4</b>
<b>7. Northwest Industrial Corridor</b>	<b>66</b>	<b>1 and 4</b>
<b>8. Community Services West Workforce and Life Preparation</b>	<b>69</b>	<b>1 and 4</b>
<b>9. The Storehouse Distributions Center</b>	<b>73</b>	<b>1 and 4</b>
<b>10. Arts Business Incubator</b>		<b>3</b>
<b>11. Chicago Neighborhood Plan Program</b>		<b>3</b>
<b>12. Self-Sufficiency Project</b>		<b>3</b>
<b>13. Holistic Connection</b>		<b>3</b>
<b>14. Youth Economic Alternatives</b>		<b>3</b>
<b>15. Linking to the Service Delivery Network</b>		<b>3</b>
<b>16. Brownfields Redevelopment Institute</b>		<b>3</b>
<b>17. Woodworker/Shipping Training</b>		<b>3</b>
<b>18. Expansion of Services for Connections of Adult Learning Center</b>		<b>3</b>
<b>19. Fresh Start Program</b>		<b>3</b>
<b>20. Comprehensive Service Delivery Network</b>		<b>3</b>
<b>21. Street Intervention Program</b>		<b>3</b>
<b>22. Duncan YMCA Children's Arts &amp; Education</b>		<b>3</b>
<b>23. Vocational Education &amp; Community Development Program</b>		<b>3</b>
<b>24. Violence Prevention Program</b>		<b>3</b>
<b>25. Community Youth Development Activity Network</b>	<b>76</b>	<b>4</b>
<b>26. West Side Residential Rehabilitation</b>	<b>79</b>	<b>4</b>

## Controls Over the Mexican Fine Arts Museum Expansion Project Were Not Adequate

The City of Chicago did not maintain adequate controls over the Mexican Fine Arts Museum Expansion project. The City inappropriately used \$148,756 of Empowerment Zone funds that did not benefit Zone residents and did not have adequate documentation to support that another \$502,078 of services paid for with Zone funds benefited Zone residents. The City also inaccurately reported the actual progress of the project in the June 30, 1997 Performance Review. The inaccuracies related to performance measures and funding. The problems occurred because the City did not have an adequate monitoring system. The City also did not obtain the status of the project or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate description of the project's accomplishments.

The City Did Not Have Adequate Controls Over Zone Funds

The City of Chicago executed a contract with the Mexican Fine Arts Center Museum, the administering entity for the project, to provide career and educational services to Empowerment Zone residents for the period September 12, 1996 to September 30, 1998. The contract required that services be provided to support the goal of providing cultural diversity to Zone residents for employment opportunities. However, services were provided to non-Zone residents. The services were not in accordance with the Museum's contract and the City's Strategic Plan. The Museum used Empowerment Zone funds that did not benefit Zone residents. The City and the Museum also did not have adequate documentation to ensure that additional Zone funds were used for services that benefited Zone residents.

The following table shows the amount of Empowerment Zone funds that were inappropriately used by the Museum totaled \$148,756 and the amount of Zone funds that lacked supporting documentation was over \$500,000:

<i>Use of Zone Funds</i>	<i>Inappropriate</i>	<i>Unsupported</i>
<i>Non-Zone Youths</i>	\$ 85,057	\$ 0
<i>Museum's Employees</i>	<u>63,699</u>	<u>502,078</u>
<i>Total</i>	<u>\$148,756</u>	<u>\$502,078</u>

As of June 15, 1998, the Mexican Fine Arts Center Museum received \$1,102,736 in Empowerment Zone funds to provide

Empowerment Zone Funds Were Used To Pay Non-Zone Residents

career and educational services to Zone residents. The Museum's records showed that 16 (21.3 percent) of 75 youth interns employed were Zone residents. However, the City's contract required the Museum to employ Zone youths. The Museum used \$85,057 of Empowerment Zone funds to pay the non-Zone youths through March 1998. Additionally, the Museum submitted an invoice requesting \$24,654 of Zone funds to pay non-Zone youths from April to June 1998. As of July 31, 1998, the invoice had not been paid.

Inappropriate Or  
Unsupported Employee  
Salaries Were Paid Using  
Empowerment Zone  
Funds

The Mexican Fine Arts Center Museum also paid employees' salaries with Empowerment Zone funds when the services provided either did not benefit Zone residents (\$63,699) or there was no support to show that they benefited Zone residents (\$502,078). The Museum used Zone funds to pay 50 percent of one employee's and 100 percent of 17 employees' salaries, payroll taxes, and health insurance benefits between January 1997 and March 1998. Additionally, Zone funds were used to pay 100 percent of three part-time employees' salaries and payroll taxes during the same period.

During our audit, the Museum provided a schedule of the 21 employees' estimated time spent on the project and other activities. The Museum's schedule showed that seven of the 21 employees that were paid 100 percent from Empowerment Zone funds did not spend all of their time working on the project. The time spent by the seven employees on non-Zone activities was 20 percent by the Receptionist, 45 percent by the Custodian, 23 percent each by three part-time Custodians, 53 percent by the Publicist, and 45 percent by the Building Operations Manager. Based upon the Museum's schedule, \$63,699 of Empowerment Zone funds was used to pay the seven employees for non-Zone activities between January 1997 and March 1998. The Museum also submitted an invoice requesting \$12,986 of Zone funds to pay the seven employees for time spent working on non-Zone activities from April to June 1998. The invoice had not been paid as of July 31, 1998.

According to the Museum's schedule, the remaining 14 employees worked 100 percent of their time charged on Empowerment Zone activities. We interviewed two employees to verify whether they spent 100 percent of their time on Zone activities. The two employees were the Education Director and the Assistant Development Director. Both indicated that they did not spend 100 percent of their time on Empowerment

Zone work, but could not provide an estimate of the time they did spend working on Zone activities. The City and the Museum did not maintain documentation that accounted for the employees' time. Since the Museum's mission also involved providing similar services under other programs, HUD and the City lack assurance that \$502,078 in Empowerment Zone funds were spent to benefit Zone residents. Additionally, the Museum submitted an invoice requesting reimbursement for another \$105,528 for the services of the 21 employees from April to June 1998. The invoice had not been paid as of July 31, 1998.

The Assistant Commissioner for the City's Department of Planning and Development said the City did not monitor the project because it lacked sufficient monitoring procedures.

The City Did Not Report  
The Number Of Youths  
Employed By The Project

The City did not report that 16 Empowerment Zone youths obtained employment from the project as of the June 30, 1997 Performance Review. The project did not report the information to the City because the City only requested information related to funding and did not request information related to performance measures. HUD's instructions for the Performance Review required the City to report measurable outcomes of an activity. The Assistant Commissioner of the City's Department of Planning and Development said the City did not request the performance measure results because it did not have sufficient staff to verify the accuracy of the information. We believe the City had adequate staff to verify the accuracy of information. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and had four more individuals working under an internship program. The interns were hired to perform special projects. One intern's sole responsibility was to prepare the Performance Review.

The City Under Reported  
The Project's Funding By  
\$544,400

The City inaccurately reported the project's funding in the June 1997 Performance Review. The City reported that the project's only funding source was \$2.8 million of Empowerment Zone funds. The Performance Review did

not show that the project had commitments of: (1) \$60,000 from the State of Illinois; (2) \$61,400 from the City; and (3) \$423,000 from private entities. The private funding was provided by 25 organizations such as Kraft Foods, The Chicago Community Trust, MacArthur Foundation, and The Nathan Cummings Foundation. As a result, the City under reported the project's funding by \$544,400.

The incomplete and inaccurate reporting of performance measures and funding occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not review the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents and leverage funding, we believe it is imperative that the City accurately reports performance measures and funding of its activities.

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#### Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 97, contains the complete text of the comments.

It is important to note that the contract does not require 100 percent of Empowerment Zone resident participation for youth internships. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997).

#### OIG Evaluation of Auditee Comments

Federal law and the Museum's contract required the Museum to employ Zone youths. Since only 21.3 percent of the youth interns were Zone residents, the Museum did not primarily benefit Zone residents. For the purpose of this 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's administrators had control over who received the benefit of the services. In the case of the

Mexican Fine Arts Museum Expansion project, the Museum had control over who received the benefits of the internships.

While the City indicates that it used the best funding estimates to prepare the Performance Review, we found the Museum had updated funding information that the City did not request.

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### Auditee Comments

Procedures have been established requiring all subrecipients to maintain records documenting benefits to Zone residents. Source documentation has been requested to verify compliance with the contract and to substantiate staff involvement. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

### OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. Additionally, the City indicated that it established procedures to require subrecipients to maintain records to document benefits to Zone residents. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

## Controls Over the Job Link Program Were Not Adequate

The City of Chicago did not maintain adequate controls over the Job Link Program. The City inappropriately used \$148,622 of Empowerment Zone funds that did not benefit Zone residents and did not have documentation to support that another \$340,165 of Zone funds benefited Zone residents. The City also inaccurately reported the actual progress of the Program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, funding, and

performance milestones. The problems occurred because the City did not have an adequate monitoring system. The City also did not obtain the status of the Program or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate description of the Program's accomplishments.

The City Did Not Have Adequate Controls Over Zone Funds

The City of Chicago executed a contract with Bethel New Life to administer the Job Link Program. The Program was established to provide job placement services and job skills training to Empowerment Zone residents for the period of March 1, 1997 to February 28, 1999. On March 24, 1997, a contract modification was executed to change the administering entity to West Side Job Link. The contract required that services be provided to support the goal of training Zone residents for employment opportunities. However, services were provided to non-Zone residents. The services were not in accordance with Job Link's contract and the City's Strategic Plan. Job Link used Empowerment Zone funds that did not benefit Zone residents. The City and Job Link also did not have documentation to ensure that additional Zone funds were used for services that benefited Zone residents.

The following table shows the amount of Empowerment Zone funds that were inappropriately used by Job Link totaled \$148,622 and the amount of Zone funds that lacked supporting documentation was over \$340,000:

<i>Use of Zone Funds</i>	<i>Inappropriate</i>	<i>Unsupported</i>
<i>Job Placement Services</i>	\$60,769	\$125,166
<i>Job Skills Training</i>	87,853	1,515
<i>Miscellaneous Services</i>	0	213,484
<i>Total</i>	<u>\$148,622</u>	<u>\$340,165</u>

Inappropriate Or  
Unsupported Job  
Placement Services Were  
Paid Using Zone Funds

As of March 16, 1998, West Side Job Link received \$553,538 in Empowerment Zone funds to provide job placement services and job skills training to Zone residents. Job Link's records showed that only 43 (17.3 percent) of the 248 residents who received job placement services were Zone residents. However, the City's contract required Job Link to provide services to Zone residents. Job Link used \$60,769 of Empowerment Zone funds to pay for the services to the non-Zone residents between March 1997 and May 1998. The City and Job Link also lacked documentation to show that \$125,166 of Empowerment Zone funds used to provide job placement services to 138 individuals benefited Zone residents. The City and Job Link could not provide documentation which showed the 138 individuals' addresses.

Inappropriate Or  
Unsupported Job Skills  
Training Were Paid Using  
Zone Funds

West Side Job Link also used Empowerment Zone funds to pay for job skills training when the training either did not benefit Zone residents (\$87,853) or there was not support to show that they benefited Zone residents (\$1,515). Job Link's records showed that only 17 (22.4 percent) of the 76 individuals who received job skills training between March and November 1997 were Zone residents. However, the City's contract required Job Link to provide training only to Zone residents. The City and Job Link also could not provide documentation to show that one person who received training was an Empowerment Zone resident.

Unsupported Services  
Were Paid Using Zone  
Funds

Of the \$553,538 in Empowerment Zone funds provided to West Side Job Link, the City and Job Link lacked documentation to support the use of \$213,484, or the benefits provided to Zone residents. Since the City and Job Link did not have documentation to support the use of the \$213,484, there was no assurance that Zone funds were used in accordance with the contract and to benefit Zone residents. The Assistant Commissioner for the City's Department of Planning and Development said the City did not monitor the Program because it lacked sufficient monitoring procedures.

The City Did Not Report  
The Program's  
Performance Measures

The City did not report the fact that the Program provided Empowerment Zone residents with job skills training or that Zone residents obtained employment as of June 30, 1997. Job Link's records showed that nine Empowerment Zone residents received job skills training and three Zone residents were employed as of June 1997. However, this

was not reported in the City's June 1997 Performance Review.

The City also did not report the fact that four businesses in the Zone received information on wage and work tax credits available through the Empowerment Zone Program.

The Program did not report the information to the City because the City only requested information related to funding and did not request information related to performance measures. HUD's instructions for the Performance Review required the City to report measurable outcomes of an activity. The Assistant Commissioner of the City's Department of Planning and Development said the City did not request the performance measure results because it did not have sufficient staff to verify the accuracy of the information.

We believe the City had adequate staff to verify the accuracy of information. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and had four more individuals working under an internship program. The interns were hired to perform special projects. One intern's sole responsibility was to prepare the Performance Review.

The City Over Reported  
The Program's Funding  
By \$997,500

The City inaccurately reported the Program's funding in the June 1997 Performance Review. The City reported that the Program's projected private funding was \$1 million. However, Job Link provided a report to the City that showed only \$2,500 in private funds was received from First Chicago Bank as of June 30, 1997. The City's staff could not provide an explanation of where the reported funding information came from. As a result, the City over reported the Program's funding by \$997,500.

The City Did Not Report  
The Program's  
Performance Milestones

The City did not report the Program's performance milestones in the June 1997 Performance Review. The Review did not show when the Program planned to: (1) develop job linkages with commercial and industrial employers; (2) perform case management, placement, and referral services; and (3) monitor and improve the training system. The Director of West Side Job Link said the City

should have reported that the three performance milestones would be completed on February 28, 1999. The City also did not report in the June 1997 Performance Review that the Program had developed an organizational structure. The Director of Job Link said the organizational structure was developed on March 15, 1997.

The incomplete and inaccurate reporting of performance measures, funding, and performance milestones occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not review the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents and leverage funding, we believe it is imperative that the City accurately reports performance categories of its activities.

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Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 102, contains the complete text of the comments.

At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997).

OIG Evaluation of  
Auditee Comments

While the City indicates that it used the best funding estimates to prepare the Performance Review, we found the Job Link Program had provided the correct funding information to the City prior to the submission of the Performance Review.

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Auditee Comments

Procedures have been established requiring all subrecipients to maintain records documenting benefits to Zone residents. Source documentation has been requested to verify compliance with the contract and to substantiate staff involvement. If the subrecipient is not in compliance with

the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

## OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. Additionally, the City indicated that it established procedures to require subrecipients to maintain records to document benefits to Zone residents. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

# Controls Over the Family Life Community Network Project Were Not Adequate

The City of Chicago did not maintain adequate controls over the Family Life Community Network project. The City inappropriately used \$123,321 of Empowerment Zone funds that did not benefit Zone residents and did not have documentation to support that another \$3,717 of services paid for with Zone funds benefited Zone residents. The City also inaccurately reported the actual progress of the project in the June 30, 1997 Performance Review. The inaccuracies related to performance measures and milestones. The problems occurred because the City did not have an adequate monitoring system. The City also did not obtain the status of the project or verify the accuracy of the information included in the Performance Review. As a result,

Empowerment Zone funds were not used efficiently and effectively, and the City did not provide HUD with an accurate description of the project's accomplishments.

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The City Did Not Have Adequate Controls Over Zone Funds

The Boys and Girls Club of Chicago, the administering entity for the Family Life Community Network project, used \$123,321 of Empowerment Zone funds that did not benefit Zone residents. The City and the Club also did not have documentation to ensure that an additional \$3,717 of Zone funds was used for services that benefited Zone residents. The City executed a contract with the Boys and Girls Club to provide career and educational services to Empowerment Zone youths for the period January 1 to December 31, 1997. However, services were provided to non-Zone youths which was not in accordance with the City's Strategic Plan and the Club's contract. The contract required that services be provided to support the goal of preparing Empowerment Zone residents for employment. As of June 30, 1998, the City was in the process of executing a new contract with the Club to continue the program for a second year.

The Boys and Girls Club received \$166,615 in Empowerment Zone funds to provide career and educational services to Zone youths through December 31, 1997. The Club's records showed that 181 (23.8 percent) of 762 youths served were Zone residents and the Club did not have adequate records to show the residency of another 17 youths. Therefore, documentation supported that only \$39,577 of the Zone funds spent were related to services provided to Empowerment Zone youths. The City's Department of Human Services performed a monitoring review of the project in October 1997. The Department identified that the Club was not providing services to Zone youths as required, but it did not take corrective action against the Club nor did it notify the City's staff responsible for administering the Empowerment Zone Program. The City did not have policies or procedures to share information on problems identified by the various City departments during their monitoring reviews. As a result, Empowerment Zone funds were not used efficiently and effectively.

The City Did Not Report The Number Of Youths Served By The Project

The City did not report that nine Empowerment Zone youths were served by the project as of the June 30, 1997 Performance Review. The project did not report the information to the City because the City only requested

information related to funding and did not request information related to performance measures. HUD's instructions for the Performance Review required the City to report measurable outcomes of an activity. The Assistant Commissioner of the City's Department of Planning and Development said the City did not request the performance measure results because it did not have sufficient staff to verify the accuracy of the information. We believe the City had adequate staff to verify the accuracy of information. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and had four more individuals working under an internship program. The interns were hired to perform special projects. One intern's sole responsibility was to prepare the Performance Review.

The City Inaccurately Reported The Project's Performance Milestones

The City inaccurately reported the project's performance milestones in the June 1997 Performance Review. The City reported that the project's proposal was approved by the Coordinating Council on July 12, 1996. However, the City's files showed that the Council approved the project's proposal on June 4, 1996. The City also did not report the project's projected completion date for performance milestones related to: (1) career exploration; (2) improved access to health care; (3) social recreation; (4) community safety; and (5) educational opportunities for youths.

The incomplete and inaccurate reporting of performance measures and milestones occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not review the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents, we believe it is imperative that the City accurately reports performance measures and milestones of its activities.

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Auditee Comments

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

The contract for second year of this project is being renegotiated so that the services provided over the total contract period will, in fact, benefit the originally anticipated number of Zone residents. If the renegotiation is unsuccessful, the Empowerment Zone will take all necessary corrective actions to remedy the non-compliance issues.

Procedures have been established requiring all subrecipients to maintain records documenting benefits to Zone residents. Source documentation has been requested to verify compliance with the contract and to substantiate staff involvement. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Procedures and controls have been established to ensure that funds are used efficiently and effectively and that corrective action is taken against grantees who do not provide the required services. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

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### OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) corrective action is taken against grantees who do not provide the required services; (3) project accomplishments are accurately reported; and (4) information submitted to HUD is verified for accuracy. Additionally, the City indicated that it established procedures to require subrecipients to maintain records to document benefits to Zone residents. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

## The City Lacked Adequate Controls Over the 21<sup>st</sup> Century Community Learning Centers Project

The City of Chicago did not have adequate controls over the 21<sup>st</sup> Century Community Learning Centers. The City did not ensure that \$114,755 of Empowerment Zone funds benefited schools within the Zone. The City also inaccurately reported the actual progress of the Centers in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, milestones, and funding. The problems occurred because the City: (1) encouraged the Board of Education for the City of Chicago, the Centers' administering entity, to establish Community Learning Centers at non-Zone schools; (2) lacked an adequate monitoring system; and (3) did not use the actual accomplishments submitted by the Centers' administering entity or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate description of the Centers' progress.

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The City Did Not Have Adequate Controls Over Zone Funds

The Board of Education for the City of Chicago used \$114,755 of Empowerment Zone funds that did not benefit Zone schools. The City executed a contract with the Board of Education to establish learning centers at Empowerment Zone schools between July 1, 1996 and September 30, 1997. However, centers were established at non-Zone schools which was not in accordance with the contract and the City's Strategic Plan. The City's Plan required that learning centers be established at schools located within the Empowerment Zone.

The Board of Education received \$741,538 in Empowerment Zone funds to establish learning centers at 37 Zone schools through September 30, 1997. The Board's records showed that 10 (27 percent) of 37 schools that established learning centers were not located in the Empowerment Zone. Documentation showed that \$114,755 of the Zone funds spent were related to centers established at the 10 schools.

The City inappropriately encouraged the Board of Education to expand the 21<sup>st</sup> Century Community Learning Centers outside of the Empowerment Zone. In a letter dated February 13, 1996 to the Board, the City suggested that the activity include more schools, especially in the State of Illinois' Enterprise Communities. During the term of the contract, there were at least 33 additional schools in the Empowerment Zone that could have participated in the program.

The Assistant Commissioner for the City's Department of Planning and Development said the City knew that some of the schools were not located in the Empowerment Zone. The City believed the Centers met the guidelines established by its Empowerment Zone Coordinating Council that required 51 percent of the clients served be Zone residents. However, the City's Strategic Plan required that the Community Learning Centers be established at Zone schools. The Assistant Commissioner also said the City did not monitor the activity because it lacked sufficient monitoring procedures. As a result, Empowerment Zone funds were not used efficiently and effectively.

The City Incorrectly Reported The Centers' Performance Measures And Milestones

The City reported that the performance measures related to the Centers' summer camp program were expected to be

completed by September 1997 even though the measures related to the camp program were completed in 1996. The Centers reported in the September 30, 1996 progress report that the measures were completed. The Centers reported that it implemented the summer camp program at 20 schools and finished the performance measure.

The City also inaccurately reported the Centers' performance milestones. The City did not report that 19 of 21 project milestones for the Community Learning Centers were completed. The Centers informed the City in the January 31, 1997 progress report that the 19 milestones were completed. The City did not use the progress report to prepare the Performance Review or verify the accuracy of the data it reported in the Review. As a result, HUD was not provided with an accurate status of the Centers' progress.

The City Incorrectly Reported The Centers' Funding

The City inaccurately reported the funding for the 21<sup>st</sup> Century Community Learning Centers. The City reported the 21<sup>st</sup> Century Learning Centers were projected to receive \$416,000 of State/Local funds. However, the Centers' Director said the Community Learning Centers did not have a commitment or receive any State/Local funds. The Director also said her office did not receive a request from the City to confirm the Centers' funding amounts. The City's Performance Review also did not show the non-Zone Federal funds and private donations received by the Centers. As of June 30, 1997, the Centers' records showed that \$446,190 in Federal funds and \$507,484 of corporate and in-kind donations were received. As a result, the City under reported the Centers' funding by \$537,674 (\$446,190 + \$507,484 - \$416,000).

The incomplete and inaccurate reporting of the performance and financial information occurred because the City did not use the actual accomplishments submitted by the Centers' administering entity. The City also lacked adequate supervisory oversight to ensure the accuracy and reliability of the information reported.

Auditee Comments

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

Benchmarks are currently being reevaluated to confirm that the majority of the program participants were, in fact, Empowerment Zone residents even though 10 of the 37 facilities were not located within the Zone. If the project is not in compliance with the regulations, appropriate actions will be made, including using other sources of funds for this project.

The Chicago Empowerment Zone's actions were consistent with the spirit of the Zone initiative. Our advice was intended to promote similar benefits to Enterprise Community residents and did not encourage, condone, or authorize the inappropriate use of Zone funds. Source documentation has been submitted by the subrecipient to verify compliance with the contract. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take the necessary corrective actions to remedy any non-compliance issues.

Procedures and controls have been established to ensure that funds are used efficiently and effectively. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

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OIG Evaluation of  
Auditee Comments

The Center's contract and the City's Strategic Plan required the Center to establish training centers within the Zone. Since 27 percent of the training centers were located outside the Zone, the City did not enforce the requirements of the contract and the Strategic Plan. During the term of the Centers' contract, there were at least 33 additional schools in the Zone that could have participated in the project. We believe the City should reimburse the Empowerment Zone Program from non-Federal funds for the inappropriate use of Zone funds.

We do not agree that the City's actions were consistent with the Zone initiative. The City's Strategic Plan called for the training centers to be placed within the Zone. However, the City's February 13, 1996 letter to the Board of Education suggested that training centers could be located in the Enterprise Communities.

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and

effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate use of Zone funds.

## Controls Over the Better Days for Youth and Nuevos Futuros Program Were Not Adequate

The City of Chicago did not maintain adequate controls over the Better Days for Youth and Nuevos Futuros program. The City inappropriately used \$48,219 of Empowerment Zone funds that did not benefit Zone residents and did not have documentation to support that another \$1,524 of Zone funds benefited Zone residents. The City also inaccurately reported the actual progress of the program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, funding, and performance milestones. The problems occurred because the City did not have an adequate monitoring system. The City also did not obtain the status of the program or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate description of the program's accomplishments.

### The City Did Not Have Adequate Controls Over Zone Funds

The City of Chicago executed a contract with Chicago Commons Association, the administering entity for the program, to provide career and educational services to Empowerment Zone youths for the period January 1, 1997 to June 30, 1998. The contract required that services be provided to support the goal of providing outreach and assistance to Zone youths for advanced education and employment opportunities. However, services were provided to non-Zone youths. The services were not in

accordance with the Association’s contract and the City’s Strategic Plan. The Association used Empowerment Zone funds that did not benefit Zone residents. The City and the Association also did not have documentation to ensure that additional Zone funds were used for services that benefited Zone residents.

The following table shows the amount of Empowerment Zone funds that were inappropriately used by the Association totaled \$48,219 and the amount of Zone funds that lacked supporting documentation was \$1,524:

<i>Use of Zone Funds</i>	<i>Inappropriate</i>	<i>Unsupported</i>
<i>Youth Services</i>	\$47,294	\$1,359
<i>Youth Stipends</i>	925	165
<i>Total</i>	<u>\$48,219</u>	<u>\$1,524</u>

Inappropriate Or Unsupported Services Were Paid Using Zone Funds

As of January 23, 1998, the Chicago Commons Association received \$138,448 in Empowerment Zone funds to provide career and educational services to Zone residents. The Association’s records showed that 201 (64.2 percent) of 313 youths served were Zone residents. However, the City’s contract required the Association to provide services to Zone youths. The Association used \$47,294 of Empowerment Zone funds to pay for the services to the non-Zone youths between April and December 1997. The City and the Association also lacked documentation to show that \$1,359 of Empowerment Zone funds used to provide services to three youths benefited Zone residents. The City and the Association could not provide documentation to show the three youths’ addresses. The Association has submitted three invoices, which have not yet been paid, for \$37,023 in Empowerment Zone funds to pay for the services to non-Zone youths from January to May 1998. The Association also requested \$1,064 to pay for services to the three youths that lacked supporting documentation.

Inappropriate Or  
Unsupported Zone Funds  
Were Used To Pay  
Youths

The Chicago Commons Association also paid employment stipends to youths with Empowerment Zone funds when the stipends either did not benefit Zone residents (\$925) or there was no support to show that they benefited Zone residents (\$165). The Association's records showed that nine (47.4 percent) of 19 youths that were paid stipends between April and December 1997 were Zone residents. However, the City's contract required the Association to provide stipends to Zone residents. The City and the Association also could not provide documentation to show that two youths that received stipends were Empowerment Zone residents. The Association has submitted three invoices, which have not been paid, requesting \$28,444 of Zone funds to pay non-Zone youths from January to May 1998. The Association also requested \$4,952 to pay stipends to 13 youths; however, the Association did not have documentation to support that the youths were Zone residents.

The Assistant Commissioner for the City's Department of Planning and Development said the City did not monitor the program because it lacked sufficient monitoring procedures.

The City Did Not Report  
The Program's  
Performance Measures

The City did not report the fact that the program served Empowerment Zone youths or that Zone youths obtained paid internships as of June 30, 1997. The Association's records showed that 14 Empowerment Zone youths were provided career and educational services and seven Zone youths were employed as of June 1997. However, this was not reported in the City's June 1997 Performance Review. The program did not report the information to the City because the City only requested information related to funding and did not request information related to performance measures. HUD's instructions for the Performance Review required the City to report measurable outcomes of an activity. The Assistant Commissioner of the City's Department of Planning and Development said the City did not request the performance measure results because it did not have sufficient staff to verify the accuracy of the information. We believe the City had adequate staff to verify the accuracy of information. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and had four more individuals working under an internship program. The interns were

hired to perform special projects. One intern's sole responsibility was to prepare the Performance Review.

The City Over Reported  
The Program's Funding  
By \$95,000

The City inaccurately reported the program's funding in the June 1997 Performance Review. The City reported that the program's projected private funding was \$143,779. The private funding consisted of \$95,000 from the State of Illinois and \$48,779 from various private entities. However, the State funding was not dedicated specifically to the program and the Association could not provide documentation showing that the State funds benefited the program. As a result, the City over reported the program's funding by \$95,000.

The City Did Not Report  
The Program's  
Performance Milestones

The City did not report the program's performance milestones in the June 1997 Performance Review. The Review did not show when the Association's proposal was approved by the Coordinating Council. However, the City's files indicated the proposal was approved on September 3, 1996. The Review also did not show the program's planned completion date for the project milestones. The Association's Program Evaluator said the June 1997 Performance Review should have shown that the planned completion date for the project milestones would be March 31, 1998.

The incomplete and inaccurate reporting of performance measures, funding, and milestones occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents and leverage funding, we believe it is imperative that the City accurately reports the performance of its activities.

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Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 99, contains the complete text of the comments.

It is important to note that the contract does not require 100 percent of Empowerment Zone resident participation for

youth internships. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997).

#### OIG Evaluation of Auditee Comments

The program's contract and the City's Strategic Plan required the program to employ Zone youths. Since 35.8 percent of the youths served and 52.6 percent of youth stipends were provided to non-Zone residents, the program did not fully benefit Empowerment Zone residents. For the purpose of this 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's administrators had control over who received the benefit of the services. Since the Better Days for Youth and Nuevos Futuros program had control over who received the benefits of the services and the stipends, we believe Empowerment Zone funds were inappropriately used.

While the City indicates that it used the best funding estimates to prepare the Performance Review, we found the program had updated funding information that the City did not request.

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#### Auditee Comments

Procedures have been established requiring all subrecipients to maintain records documenting benefits to Zone residents. Source documentation has been requested to verify compliance with the contract and to substantiate staff involvement. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

#### OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately

reported; and (3) information submitted to HUD is verified for accuracy. Additionally, the City indicated that it established procedures to require subrecipients to maintain records to document benefits to Zone residents. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

## Controls Over the Employer Assisted Housing Program Were Not Adequate

The City of Chicago did not maintain adequate controls over the Employer Assisted Housing Program. The City inappropriately used \$25,170 of Empowerment Zone funds that did not benefit the Zone. The City also inaccurately reported the actual progress of the Program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, funding, performance milestones, and participating entities. The problems occurred because the City did not have an adequate monitoring system. The City also did not obtain the status of the Program or verify the accuracy of the information included in the Performance Review. As a result, Empowerment Zone funds were not used efficiently and effectively. The City also did not provide HUD with an accurate description of the Program's accomplishments.

**The City Did Not Have Adequate Controls Over Zone Funds**

The City of Chicago executed a contract with Bethel New Life, Incorporated, the administering entity for the Employer Assisted Housing Program, to provide services that would promote housing in the Empowerment Zone for the period October 23, 1996 to December 31, 1997. The contract required that services be provided to promote and support home ownership in the Zone. However, Empowerment Zone funds paid for services that did not benefit the Zone. The services also were not in accordance with Bethel's contract and the City's Strategic Plan.

The following table shows the amount of Empowerment Zone funds that were inappropriately used by Bethel totaled \$25,170:

<i>Use of Zone Funds</i>	<i>Inappropriate</i>
<i>Home Ownership Services</i>	\$22,170
<i>Construction Repairs</i>	3,000

**Total****\$25,170**

Inappropriate Services  
Were Paid Using Zone  
Funds

Bethel New Life used \$22,170 of Empowerment Zone funds to pay for the cost of three of its employees to provide home ownership services through the Program. The three employees were the former and current Administrative Assistants to the Vice President of Development and a Development Specialist. The costs included the employees' salaries, payroll taxes, and health insurance benefits from January 1 to September 30, 1997. However, the Administrative Assistants and the Development Specialist did not work on the Program.

Bethel has submitted three additional invoices, which have not been paid, for \$18,483 in Empowerment Zone funds to pay for the Program's Project Director from October 1 to December 31, 1997 (\$8,468) and the current Administrative Assistant from October 1, 1997 to March 31, 1998 (\$10,015). However, neither of the individuals worked on the Program during these time periods. Bethel also requested \$8,468 in Zone funds to pay 100 percent of the Program's Project Director's salary, payroll taxes, and health insurance benefits from January 1 to March 31, 1998. However, the Project Director said she did not spend all of her time working on the Program. The City and Bethel did not have documentation to support the time spent by the Project Director on the Program.

The Assistant Commissioner for the City's Department of Planning and Development said the City did not monitor the Program because it lacked sufficient monitoring procedures.

Inappropriate Zone Funds  
Were Used To Pay  
Construction Repairs

Bethel also used \$3,000 in Empowerment Zone funds to pay for repairs to a house not related to the Program. The City's staff acknowledged that they were aware of the inappropriate payment and had deducted \$3,000 from one of Bethel's invoices to correct the problem. However, we found that the deduction was not made. A Program Coordinator for the City's Empowerment Zone Program could not explain why the deduction was not made.

The City Did Not Report  
The Program's  
Performance Measures

The City did not report the Program's performance measures in the June 1997 Performance Review. As of June 1997, Bethel New Life's records showed that the Program: (1) identified and marketed 14 housing units; (2) sold one home in the Empowerment Zone; and (3) leveraged \$91,000 in mortgage funds. However, this information was

not reported in the Performance Review. The City also inaccurately reported the projected completion date for the Program's performance measures. The Review showed that the Program's performance measures were expected to be completed in September 1997. However, Bethel's Vice President of Development said the June 30, 1997 Review should have shown a planned completion date of December 31, 1997 for the performance measures.

The Program did not report the information to the City because the City only requested information related to funding and did not request information related to performance measures. HUD's instructions for the Performance Review required the City to report measurable outcomes of an activity. The Assistant Commissioner of the City's Department of Planning and Development said the City did not request the performance measure results because it did not have sufficient staff to verify the accuracy of the information. We believe the City had adequate staff to verify the accuracy of information. The City had all eight budgeted staff positions filled during the reporting year with the exception of one position that was vacant for two and one-half months. At the time the Review was prepared, the City was fully staffed and had four more individuals working under an internship program. The interns were hired to perform special projects. One intern's sole responsibility was to prepare the Performance Review.

The City Over Reported  
The Program's Funding  
By \$210,000

The City over reported the Program's funding in the June 1997 Performance Review. Based upon information provided by Bethel, the City reported that the Program planned to receive \$210,000 in private funding. However, Bethel's Vice President of Development said private funds were not involved in the Program. The Vice President of Development could not explain why Bethel inaccurately reported the Program's private funding to the City. The over reporting of the Program's funding occurred because the City did not verify the accuracy of the information provided by Bethel.

The City Did Not Report  
The Program's  
Performance Milestones

The City's June 1997 Performance Review did not show the progress made by the Program. The City did not report the Program's performance milestones that were completed as of June 30, 1997. For example, the Review showed the Program planned to identify financial institutions to

participate in the Program by December 16, 1996. However, Bethel's records showed that First Chicago Bank, the Program's first participating institution, was not identified until March 1997. The City's Performance Review also reported that workshops for home buyers were planned to begin in March 1997. However, Bethel's records showed that the first workshop was held on January 4, 1997. The City also did not report the fact that the Program held five workshops for home buyers as of June 30, 1997.

The City also inaccurately reported the Program's projected completion date for its performance milestones. The City's June 1997 Performance Review showed that the Program planned to: (1) identify employer groups to participate in the Program by December 16, 1996; and (2) complete the development of a spin-off program by June 16, 1997. However, Bethel's Vice President said the June 30, 1997 Review should have reported a planned completion date of December 31, 1997 for both performance milestones.

The City Inaccurately  
Reported The Program's  
Participating Entities

The City inaccurately reported the Program's participating entities. The June 1997 Performance Review showed that Heinz Neighborhood Development was a participating entity in the Program. However, Bethel's Vice President of Development said she was not familiar with Heinz Neighborhood Development. The City used information included in the Program's proposal to report the projected participating entities in the Performance Review.

The incomplete and inaccurate reporting of performance measures, funding, performance milestones, and participating entities occurred because: (1) inexperienced staff prepared the City's Performance Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents and leverage funding, we believe it is imperative that the City accurately reports the performance of its activities.

Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 101, contains the complete text of the comments.

At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997).

OIG Evaluation of Auditee Comments

While the City indicates that it used the best funding estimates to prepare the Performance Review, we found the City did not verify the accuracy of the information provided to HUD. The City was unaware the information was not accurate.

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Auditee Comments

Procedures have been established requiring all subrecipients to maintain records documenting benefits to Zone residents. Source documentation will be submitted by the subrecipient to verify staff involvement in the project. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Funding has been withheld until the necessary documentation is submitted. The \$3,000 in funds will be added to the advance total as a liability. Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. Additionally, the City indicated that it established procedures to require subrecipients to maintain records to document benefits to Zone residents. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment

Zone Program from non-Federal funds for the inappropriate or unsupported use of Zone funds.

## Controls Over the Northwest Industrial Corridor Program Were Inadequate

The City of Chicago did not have adequate controls over the Northwest Industrial Corridor program. The City inappropriately reimbursed Bethel New Life, the administering entity of the Northwest Industrial Corridor program, \$36,171 from Empowerment Zone funds for costs that were not related to the program. The City also did not accurately report the actual status and progress of the program in the June 30, 1997 Performance Review. The Review contained inaccuracies related to performance measures, funding, and performance milestones. The problems occurred because the City did not have an adequate monitoring system, and it lacked a reporting process with effective oversight and controls to ensure the reliability of the information included in the Performance Review. As a result, Empowerment Zone funds were not used effectively and efficiently, and the City did not provide HUD with an accurate description of the program's position and objectives.

### The City Did Not Have Adequate Controls Over Empowerment Zone Funds

Bethel New Life used \$30,107 of Empowerment Zone funds to pay for the cost of its Administrative Assistant to the Senior Vice President of Operations. The costs included the Assistant's salary and health benefits between January 1, 1997 and December 31, 1997. However, the Administrative Assistant had never worked on the Northwest Industrial Corridor program. The City also inappropriately used \$6,064 of Empowerment Zone funds to reimburse Bethel for other services not related to the program. The services related to lead abatement removal that were not part of the City's Empowerment Zone Program. The Assistant Commissioner for the City's Department of Planning and Development said the City did not monitor the program because it lacked sufficient monitoring procedures. As a result, \$36,171 of Empowerment Zone funds were not used efficiently and effectively.

### The City Inaccurately Reported The Program's Performance Measures

The City incorrectly reported the program's performance measures in the June 1997 Performance Review. The Review showed that the program was expected to: (1) assist 105 individuals to obtain employment; and (2) place at least 100 Empowerment Zone residents in jobs. However, Bethel's Vice President of Development said the two measures were being performed by another Empowerment

Zone activity, the Job Link Program. The Job Link Program included projections for the two measures as part of its Program. Therefore, the projections were reported twice and the impression exists that more individuals will be assisted than actually planned.

The Performance Review also showed that one of the program's performance measures was to advise 50 businesses of the wage tax credits available under the Empowerment Zone Program. As of June 1997, the City did not report any accomplishments for this measure. Bethel's files showed that 17 businesses had been informed of the tax credits by June 30, 1997.

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

The City over reported the program's funding in the June 1997 Performance Review. Based upon a worksheet provided by Bethel New Life, the City reported in the Performance Review that the program expected to receive \$600,000 in private funds. The City did not verify the accuracy of the information provided and Bethel New Life did not have documentation to support the reported private funding.

The City Inaccurately  
Reported The Program's  
Performance Milestones

The City reported that the Northwest Industrial Corridor program planned to establish an industrial training program by June 1, 1997 as contained in the contract with Bethel New Life. However, the Vice President of Development for Bethel said the training program was not expected to be established until March 1, 1998. The City did not request information related to performance milestones when it prepared the Performance Review.

The City also reported that the Northwest Industrial Corridor program would establish a job database by June 1, 1997 as required by the contract. However, the database was created by another Empowerment activity, the Job Link Program, and had been completed by June 30, 1997. Since the City did not verify the information it reported in its Performance Review, it did not detect that the database had already been created and it did not alter Bethel's contract to eliminate the requirement.

The incomplete and inaccurate reporting of performance measures, funding, and milestones occurred because: (1) inexperienced staff prepared the City's Performance

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Review; (2) the City did not request performance information; and (3) the City's management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. Since an important measure of success for the Empowerment Zone Program is the amount of assistance provided to Zone residents and leveraged private funding, we believe it is imperative that the City accurately reports the performance information for its activities.

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#### Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 95, contains the complete text of the comments.

Source documentation has been requested to substantiate staff involvement with the project. If the subrecipient is not in compliance with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Performance measures will be reestablished with the subrecipient to reflect the desired output. Funding has been withheld pending submission of the appropriate deliverables. Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

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#### OIG Evaluation of Auditee Comments

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate use of Zone funds.

## Controls Over Community Services West Workforce and Life Preparation Were Not Adequate

The City of Chicago did not maintain adequate controls over the Community Services West Workforce and Life Preparation program. The City advanced \$25,403 of Empowerment Zone funds to Bethel New Life, the program's administering entity, and no services were subsequently performed. Bethel New Life commingled the Empowerment Zone funds with funds from their other activities and used the Zone funds for operations that were not related to the program. The City did not adequately monitor the program to ensure services were provided. Additionally, the City inaccurately reported the program's funding and participating entities encountered in the June 30, 1997 Performance Review. The City reported the program had \$271,211 in private funds when it had none; and that the program had not encountered any obstacles when it had a significant obstacle. The inaccurate reporting occurred because the individual who prepared the Performance Review was inexperienced and the City did not examine the Performance Review for accuracy prior to submission. As a result, the City did not efficiently and effectively use the Empowerment Zone funds it advanced for the program. The City also did not provide HUD with a realistic description of the program's position to achieve its objectives.

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### Controls Over Advances Were Not Adequate

The City did not exercise adequate control over Empowerment Zone funds. The City advanced Bethel New Life \$25,403 of Empowerment Zone funds in April 1997, even though the contract between the City and Bethel did not have a provision for an advance. Bethel did not perform any services as required by the contract. Bethel New Life deposited the Empowerment Zone funds in an account and commingled them with funds from their other activities. From our review of the account's transactions, we determined that Bethel used the Empowerment Zone funds for operations that were not related to the program.

The Assistant Commissioner for the City's Department of Planning and Development said the problem occurred because the City did not adequately monitor the progress of Community Services West due to a shortage of staff. The Director of Contracts Management for Chicago Mayor's Office of Workforce Development said Bethel New Life did not submit quarterly progress reports, since they had nothing to report. The City did not recognize that the lack of reporting

reflected a lack of progress and the City had not performed any on-site verification.

The City advanced the funds to Bethel New Life as part of its standard operating procedure. Under the City's procedures, upon execution of a contract, subgrantees may request an advance amount based on 45 days of operations or 12 and one-half percent for a one-year contract. Since no action had been taken by Bethel New Life to meet the objectives of the program, it had no need for an advance. The City did not verify the need for a cash advance.

Since Bethel New Life commingled the Empowerment Zone funds and used the funds for operations that were not related to the program, the City lost the opportunity to use the funds on a project that was actively working to achieve Empowerment Zone objectives.

The City Incorrectly  
Reported The Program's  
Commitments and  
Participating Entities

In the June 30, 1997 Performance Review on the Community Services West Workforce and Life Preparation program, the City of Chicago incorrectly reported the program received \$271,211 in commitments from private investors. The worksheet provided to the City by Bethel New Life showed that there was no private funding for the program.

The City reported that the Polk Brothers Foundation, MacArthur Foundation, and Surdna Foundation were participating entities. A note on the worksheet stated the grants of the participating organizations had been exhausted prior to the program starting due to time delays. The Senior Vice President of Programs at Bethel New Life said the three foundations were past contributors and showed interest in the program, but did not fund the program. Therefore, the receipt of \$271,211 in private funding was erroneously reported. The lack of private funding is a major obstacle blocking the program from meeting its objectives.

The Assistant Commissioner for the City's Department of Planning and Development said the inaccurate reporting occurred because the Performance Review was prepared by inexperienced staff. She said the City's management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Review for accuracy.

Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 91, contains the complete text of the comments.

The contract has been extended to enable the subrecipient to fully implement the project. If the subrecipient does not comply with the contract, the Chicago Empowerment Zone will take necessary corrective actions to remedy any non-compliance issues. Advance procedures have been revised and are consistent with the Cash Management Improvement Act. Procedures and controls have been established to ensure that funds are used efficiently and effectively, and quarterly reports are received from all subrecipients. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

The City disagrees that the subrecipient incorrectly deposited Zone funds into an account with funds from other sources. According to the Office of Management and Budget's Circular A-110, separate depository accounts are not required for Empowerment Zone funds. The subrecipient acknowledges that the advance is a liability.

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OIG Evaluation of  
Auditee Comments

Our review questioned the use of Empowerment Zone funds. We determined that Empowerment Zone funds were used for services that were not related to the Community Services West program. We did not take exception to the subrecipient depositing Zone funds in an account with funds from other sources. The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; (3) information submitted to HUD is verified for accuracy; and (4) quarterly reports are received from all subrecipients. The City did not include the procedures or controls with its comments. The City's corrective actions to remedy any non-compliance issues need to include reimbursement by the City to the Empowerment Zone Program from non-Federal funds for the inappropriate use of Zone funds.

The Cash Management Improvement Act does not apply to the City. We adjusted our finding accordingly.

## Controls Over The Storehouse Distributions Center Project Were Not Adequate

The City of Chicago did not have adequate controls over The Storehouse Distributions Center project. The City reimbursed The Storehouse Distributions Center \$45,000 from Empowerment Zone funds for three of its employee's salaries; however, there was no documentation to support the reimbursement was a benefit to the Zone. The Storehouse's three employees were the Administrative Director, Warehouse Manager, and the Corporate Relations Manager. The City also did not report the actual status of the project's performance measures in the June 30, 1997 Performance Review. The problems occurred because the City did not have an adequate monitoring system. The City also lacked a reporting process with effective oversight and controls to ensure the reliability of the information included in the Performance Review. As a result, HUD lacks assurance that Empowerment Zone funds were used efficiently and effectively, and was not provided with an accurate description of the project's progress.

The City Did Not Have Adequate Controls Over Zone Funds

The City of Chicago could not support that \$30,000 of reimbursements for two of The Storehouse's employees' salaries benefited the Empowerment Zone. The City used Zone funds to pay the salaries of The Storehouse's Warehouse Manager and Corporate Relations Manager. The reimbursements were for 50 percent of the Managers' salaries between October 1, 1996 and September 30, 1997. However, the City and The Storehouse did not maintain documentation that showed the time the Managers spent on The Storehouse project or other activities.

The City also inappropriately used \$15,000 of Empowerment Zone funds to reimburse The Storehouse for 50 percent of its Administrative Director's salary. The City and The Storehouse did not maintain documentation to support the time the Administrative Director spent on The Storehouse project or other activities. Additionally, the City reimbursed another Empowerment Zone activity, the Job Link Program, for the Administrative Director's time. The Administrative Director provided training and enrollment services to the Job Link Program. In relation to the Administrative Director's training responsibilities, we were able to use training records to determine that the Administrative Director provided 48 hours of employment training under the Job Link Program. The Job Link Program used Empowerment Zone funds to reimburse The Storehouse \$1,000 for the Director's training services.

The City did not have an adequate monitoring system that required the review of supporting documentation and evaluation of the appropriateness of payments in all instances. Appropriateness of payments were not evaluated

when grantees were associated with more than one Empowerment Zone activity, but the activities were monitored by different City departments. The Mayor's Office of Workforce Development monitored the Job Link Program, and the City's Department of Planning and Development monitored The Storehouse Distributions Center.

The Assistant Commissioner for the City's Department of Planning and Development said the City needed to improve monitoring reviews. She also said the City needed to incorporate controls into its monitoring system to address the situation where grantees have multiple Empowerment Zone contracts that are monitored by different City Departments. As a result, HUD lacks assurance that Empowerment Zone funds were used efficiently and effectively.

The City Did Not Report  
The Project's Progress

The City did not report the actual progress of the project's performance measures in the June 1997 Performance Review. The Storehouse Distribution Center provided a report dated July 18, 1997 to the City that showed The Storehouse had exceeded its performance measures as of June 30, 1997. However, the Performance Review did not reflect that The Storehouse increased its membership by 221 members, the number of donors by 74 organizations, and the amount of its operation handling fees by \$82,803.

The Assistant Commissioner for the City's Department of Planning and Development said the Performance Review was prepared by an intern for the City. She also said the City's management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents, we believe it is imperative that the City accurately reports performance measures of its activities. As a result, the City understated the progress of The Storehouse project.

Auditee Comments

Excerpts from the City of Chicago's comments on our draft finding follow. Appendix C, page 94, contains the complete text of the comments.

The subrecipient agreement was based upon output as measured by the benchmarks. It is critical to note that the

subrecipient not only met, but exceeded, all the agreed upon benchmarks. Specifically, the subrecipient's planned benchmarks were: increase membership to 270 members (ACTUAL 409); increase donors to 75 (ACTUAL 110); and increase the amount of operation handling fees to \$75,000 (ACTUAL \$168,129). Therefore, the salary reimbursements were justified.

Procedures and controls have been established to ensure that funds are used efficiently and effectively. Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

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OIG Evaluation of  
Auditee Comments

We acknowledge that the project exceeded its deliverables; however, the administering entity could not support that the salary reimbursements were reasonable and necessary to provide the deliverables. The City needs to provide documentation to support the reimbursements, or reimburse the Empowerment Zone Program from non-Federal funds.

The City indicated that it has established procedures and controls to ensure that: (1) funds are used efficiently and effectively; (2) project accomplishments are accurately reported; and (3) information submitted to HUD is verified for accuracy. The City did not include the procedures or controls with its comments.

## Accomplishments of the Community Youth Development Activity Network Were Incorrectly Reported

The City of Chicago did not accurately report the actual status and progress of the Community Youth Development Activity Network program. The City's June 30, 1997 Performance Review

contained inaccuracies related to the program’s performance measures and funding. The inaccuracies occurred because the City’s reporting process lacked effective oversight and controls to ensure the validity and reliability of the information included in the Performance Review. As a result, HUD was not provided an accurate picture of the program.

**The City Did Not Report That 597 Youths Were Served**

The City of Chicago did not report the number of youths served by the program in the June 1997 Performance Review to HUD. The program served 597 youths as of June 30, 1997. The Network did not report the information to the City because the City only requested information related to investments and did not request information related to performance measures. The Assistant Commissioner of the City’s Department of Planning and Development said the City did not request the performance information because it did not have sufficient staff to verify the accuracy of the information. HUD’s instructions for the Performance Review required the City to report measurable outcomes of an activity. As a result, HUD was not provided an accurate picture of the benefit of the program.

**The City Overstated The Program’s Funding**

The City of Chicago’s Performance Review showed the program’s planned private funding was \$261,300. However, in a report provided to the City by the Executive Director of AGAPE Youth Development and Family Services, the entity administering the program, AGAPE estimated it would receive only \$138,695 in private funding.

AGAPE also reported that it received \$25,799 in State of Illinois funding and \$20,000 in City funds. The City did not report these amounts in the Performance Review. Additionally, AGAPE received \$40,391 of in-kind contributions but did not report this, since the City did not request the information. As a result, the City understated \$25,799 in State funding, \$20,000 in City funds, and \$40,391 of in-kind contributions for the program.

The following table shows that the net effect of the inaccurate reporting was an overstatement of \$36,415:

	<i>Over Reported</i>	<i>Under Reported</i>	<i>Net Effect</i>
<i>Private</i>	\$122,605		
<i>State</i>		(\$25,799)	
<i>City</i>		(20,000)	

<i>In-kind</i>	_____	(40,391)	_____
<i>Total</i>	<u>\$122,605</u>	<u>(\$86,190)</u>	<u>\$36,415</u>

The incomplete and inaccurate reporting of performance and financial data occurred because: (1) inexperienced staff prepared the City’s Performance Review; (2) the City did not request the performance information because, as previously mentioned, it did not have the staff to verify the information; and (3) the City’s management staff, who was responsible for administering the Empowerment Zone Program, did not examine the Performance Review for accuracy. Since the overall measure of success of the Empowerment Zone Program is to assist Zone residents by leveraging private funds and contributions, we believe it is imperative that the City accurately reports performance measures and funding of its activities.

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**Auditee Comments**

Excerpts from the City of Chicago’s comments on our draft finding follow. Appendix C, page 91, contains the complete text of the comments.

At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). Training will be provided for existing and future staff. Procedures and controls have been established to ensure that project accomplishments are accurately reported and to verify the accuracy of information submitted to HUD.

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**OIG Evaluation of Auditee Comments**

While the City indicates that it used the best funding estimates to prepare the Performance Review, we determined the City had updated funding information in its files which it did not use for the Review.

The City indicated that it has established procedures and controls to ensure that project accomplishments are accurately reported, and information submitted to HUD is verified for accuracy. The City did not include the procedures or controls with its comments.

## Funding for the West Side Residential Rehabilitation Project was Inaccurately Reported

The City of Chicago did not accurately report the leveraged funding amounts for the West Side Residential Rehabilitation project in the 1997 Performance Review to HUD. The City did not report the project had a \$1.1 million pending commitment from the City's Department of Housing. The City also over reported the project's planned private funding by \$2.2 million. The net effect was an overstatement of \$1.1 million in planned funding. The problem occurred because the City lacked adequate controls over its reporting process. As a result, the City

provided HUD with an unrealistic picture of the funds that will be applied to the West Side Residential project.

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Funding For The Project  
Was Overstated By \$1.1  
Million

The City's June 1997 Performance Review showed the project's planned funding from the City was \$1.1 million. The project's officials provided a report to the City, prior to the June 1997 Performance Review, that showed the project received \$1.1 million from the City and had the City's commitment for an additional \$1.1 million. The City did not include the additional \$1.1 million of committed funds because its procedures required that only actual funds provided should be reported, not commitments. However, HUD's instructions require that Zones report confirmed commitments.

The City's Performance Review also reported that the project's planned private funding was \$3.9 million. The project's report to the City showed that only \$1.7 million in private funding was planned. The private funding consisted of \$600,000 from the Resurrection Trust Fund and \$1.1 million from the First National Bank of Chicago. City officials could not provide an explanation for the inaccurate reporting of the project's private funding.

Because of inaccurate reporting, a false impression was created that more funds were committed to the project than actually were. The Empowerment Zone Program is intended to leverage outside sources of funds. When the planned funding data is inaccurate, HUD cannot make a proper assessment of the Program's progress.

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Auditee Comments

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

At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by subrecipients or from the investment worksheets collected from subrecipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). Procedures and controls have been established to ensure accurate reporting of leveraged funds and to verify the accuracy of information submitted to HUD.

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OIG Evaluation of  
Auditee Comments

While the City indicates that it used the best funding estimates to prepare the Performance Review, we determined the City had updated funding information in its files which it did not use for the Review.

The City indicated that it has established procedures and controls to ensure accurate reporting of leveraged funds, and the information submitted to HUD is verified for accuracy. The City did not include the procedures or controls with its comments.

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# Auditee Comments

September 2, 1998

Via Overnight Delivery

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

RE: Chicago's Empowerment Zone – Response to Draft Audit Findings

Dear Mr. Wolfe:

Thank you for the opportunity to respond to the draft audit findings promulgated by the audit team. We are glad to provide clarity about the Chicago Empowerment Zone's accomplishments and the improvements we have made to our original operations and procedures. We also appreciate the opportunity to point out items where we disagree with the interpretations employed and conclusions drawn by the auditors.

All efforts of Chicago's Empowerment Zone have been focused on the four key principles established by HUD at the inception of the Empowerment Zone initiative and underlying the formation of its strategic plan (per 24 CFR 597.200(c)):

1. Economic opportunity
2. Sustainable community development
3. Community-based partnerships
4. Strategic vision for change.

**Chicago's Empowerment Zone is proud of our progress to date. We remain committed to ever-increasing efficiency and effectiveness in reaching the critically important goals of the EZ initiative for the benefit of some of the neediest communities in our city.** A summary of the accomplishments of Chicago's EZ during its first funding cycle is attached hereto as **Exhibit A** and made a part hereof. Highlights of those accomplishments include:

- In the first funding cycle, the Chicago's EZ/EC Coordinating Council approved 73 programs and projects within seven Strategic Initiatives identified in Chicago's Strategic Plan. More than \$43 million of EZ funds have been committed to these programs and projects.
- The EZ is revitalizing industrial and commercial corridors, improving the

attractiveness of industrial areas and assisting small businesses through entrepreneurial training. Eleven programs are providing job training and placement services to EZ residents. Services provided through these programs include workforce readiness, specific skills training, and job placement follow-up.

- More than 400 housing units, including owner-occupied and rental property, and 100 units of single-room apartments are being constructed by seven community-based development organizations to help meet the needs of low and very-low income EZ residents.
- Six community-based health centers are increasing their capacity to serve EZ residents by building new facilities or expanding services at existing facilities.
- Five day care centers will be constructed in the EZ to provide safe, affordable, high-quality day care to more than 1,100 children. The parents of many of these children are returning to or entering the job market for the first time under welfare-to-work.

### **RESPONSE TO HUD AUDIT FINDINGS**

The audit team's findings fall into two basic categories: (1) inaccurate reporting and (2) improper or unsupported use of funds. The audit team identified three broad findings of inaccurate reporting – regarding actual progress and status of funded programs, non-Empowerment Zone activities, and leveraged funds. We acknowledge that mistakes were made in reporting in our July 30, 1997 Performance Report (covering the period July 1, 1996 through June 30, 1997). Fortunately, we became aware of those problems and started to implement solutions shortly after the 1997 Performance Report was filed – long before the audit was announced.

Despite some serious problems and setbacks which we experienced during the first three years of the program (including a complete overhaul of our coordinating council and the tenure of three different directors), we now are on the right track in both our substantive and administrative activities. We are confident that the specific improvements and corrections (detailed below) will address all of the problems experienced during the beginning phase of Chicago's EZ program and that our reporting hereafter will accurately reflect the actual progress and status of funded programs, only EZ activities, and all leveraged funds.

Regarding the allegations of improper or unsupported use of EZ funds, we detail below our disagreement with certain pertinent definitions and assumptions employed by the auditors and with certain conclusions derived therefrom that are relevant to these allegations. As explained below, efforts are underway by the EZ staff to determine compliance or non-compliance of each program and project on the basis of definitions and interpretations that are consistent with the

spirit of the EZ initiative and confirmed by the HUD EZ program office. When the analysis is complete, we will immediately take any necessary corrective actions.

**A. Improvements to our monitoring and reporting system already have been implemented, which will result in accurate reporting of accomplishments, EZ activities only, and leveraging in the future.**

The monitoring and reporting improvements being implemented by the Chicago EZ reflect a three-part strategy: first, a policy of “containment” of problematic contracts from the Chicago EZ’s first funding cycle; second, introduction of the new monitoring and reporting requirements for first funding cycle contracts that have not yet been executed; and, third, incorporation of the new monitoring and reporting requirements up-front – as part of the application process – for the second funding cycle.

The specific improvements made by the Chicago EZ to the original monitoring and reporting requirements (“the new system”) include:

1. Clear communication of reporting requirements (both substantive and procedural) to sub-recipients and lead agencies which have monitoring responsibilities
2. Creation and distribution of standardized monitoring and reporting forms -- to aid compliance and produce results that permit apples-to-apples analysis and reporting of accomplishments and leveraging
3. Clear procedures to tie distribution of funds to actual performance of sub-recipients
4. Standardization of previously problematic definitions, such as “primarily serving EZ residents,” leveraged funds, job creation, etc.
5. Site visits by EZ staff to every sub-recipient to determine/verify progress and status
6. Increased coordination with and cooperation from lead agencies within the City re: monitoring (i.e., increased utilization of existing expertise and relationships with sub-recipients)
7. Budgeting for the hiring of two additional EZ staff in FY 1999 for monitoring activities
8. Training of all EZ staff and lead agency staff involved in monitoring and reporting regarding HUD’s reporting procedures
9. Clear separation of activities funded by federal EZ dollars from EZ/EC activities funded by state dollars
10. Revised procedures for granting advances, consistent with HUD’s Cash Management Improvement Act
11. Immediate initiation of corrective actions against sub-recipients who are out of compliance, as required.

**B. Areas of Disagreement in Interpretation.**

1. EZ Funds Should Benefit EZ Residents *Primarily*.

The HUD IGA audit team indicates that EZ funds may be used only for the benefit of EZ residents. Chicago's EZ, in consultation with HUD's EZ program office, has proceeded on the basis that the use of EZ funds should benefit EZ residents primarily. HUD's EZ Program Coordinator confirmed this interpretation at the Audit Exit Conference in Chicago on August 18. In fact, the instruction distributed by HUD with the Round II Designation application forms (entitled Preliminary Guidelines Round II EZ/EC SSBG Grants for Empowerment Zones) specifically states:

Resident Benefit: All programs, services and activities financed in whole or in part with Round II EZ/EC SSBG funds must be structured to benefit EZ residents primarily; the programs, services and activities may also benefit nonresidents. (Emphasis added.)

The initial working assumption of "benefit" shared by HUD and Chicago's EZ as a Round I designee has been confirmed in the Round II instructions.

2. The Definition of "Benefit" Should Be Broader.

In addition, we believe that the auditors have too narrowly defined the term "benefit." Two types of activities identified by the auditors as problematic – new housing development and the expansion of an important cultural institution in the EZ – benefit Zone residents in numerous ways, including by bringing new money into the local economy, new amenities into the neighborhood, and by improving previously undeveloped or under-used properties. In addition, both activities are consistent with the Strategic Plan for Chicago's EZ. Under the audit team's overly narrow definition, these very real and meaningful benefits would not be considered to flow from the EZ program.

3. Appropriate Combination of Funds in One Account is Authorized.

The auditors' opinion that commingling of funds is not allowed is inconsistent with the Office of Management and Budget regulations which clearly allow sub-recipients to combine funds for several different programs in one account provided the agency maintains an accurate account of project funds. (See OMB Circular A-110, (i) (1))

4. Chicago's Empowerment Zone Did Not Lose Any Opportunity to Fund Other Activities.

The auditors assumption that the City lost the opportunity to use funds for other activities when first cycle sub-recipients did not implement approved projects in a timely manner was in error. Chicago's EZ did not allocate all available funds during the first funding cycle of the 10-year EZ program. No EZ activity has been stalled for lack of funding availability.

5. Chicago's EZ Has Focused on Deliverables Contained in Each Project's Contract.

We disagree with the auditors' opinion that a sub-recipient receiving funds for staff salaries must document that a specified *percentage* of a staff person's time funded by an EZ grant was actually spent on the EZ project. In the case cited by the audit team, the sub-recipient performed all tasks/deliverables in less time than it had anticipated. Barring an unreasonable estimate of time to perform agreed upon services, we should not seek to penalize staff of a sub-recipient for being efficient. EZ staff will, of course, be diligent in reviewing sub-recipients' estimates of staff time needed to perform required tasks and produce required deliverables.

**C. The Chicago Empowerment Zone will take all appropriate action to ensure that sub-recipients are in compliance with all contractual obligations.**

The Chicago EZ staff currently is conducting site visits with all EZ sub-recipients. Those sub-recipients that are not in compliance with their contracts face several possible consequences. Per the contract with the sub-recipients, the City of Chicago may invoke any or all of the following remedies: the right to take over and complete the services; the right to terminate the agreement; the right of specific performance, and injunction or other appropriate equitable remedy; monetary damages; the right to deem the contractor non-responsible in future contracts awarded by the City; and the right to demand a refund of any funds not used in accordance with the terms of the agreement. When the results of the staff analyses are complete -- consistent with appropriate definitions of applicable terms -- we will initiate all necessary corrective actions.

Please see **Exhibit B**, attached hereto and made a part hereof, for our specific responses to the draft audit findings and recommendations.

In conclusion, Chicago's Empowerment Zone is proceeding into the second phase of its 10-year life span having clarified our direction within the spirit of the EZ initiative, as confirmed with the HUD EZ program office. We invite anyone with questions about the audit or our response or the Chicago EZ program, in general, to contact me directly at (312) 744-9623.

Very truly yours,

Avery L. Goodrich, Jr.  
Empowerment Zone Director

c.c. The Honorable Richard M. Daley, Mayor  
Christopher R. Hill, Commissioner of Planning and Development

**EXHIBIT A:  
A Summary of Chicago Empowerment Zone  
Accomplishments During its First Funding Cycle**

**(By Strategic Initiative)**

**Economic Empowerment**

- The Fund for Community Redevelopment is developing a 75,000 square foot shopping center in the North Kenwood/Oakland communities using \$472,909 in EZ funds. The site will be anchored by a grocery store and bank and will be supported by smaller stores offering neighborhood goods and services.
- Gappie Development Corporation created a retail center at the intersection of King Drive and 35th Street. This is a \$1.7 million project receiving \$300,000 in EZ funds.
- The West Humboldt Park Community Development Council was awarded \$100,000 toward the revitalization of the Chicago Avenue Commercial Corridor from Kedzie to Pulaski.
- The Lawndale Coalition was awarded \$100,000 toward the revitalization of three commercial areas in the Lawndale community.
- The Eighteenth Street Development Corporation was awarded \$521,000 toward the revitalization of commercial areas in the Pilsen community.

**Affordable and Accessible Housing**

- The St. Edmund's Redevelopment Corporation received \$1.5 million to rehabilitate six multi-family buildings. This project will provide sixty-six new residential units for low and very-low income residents in the Washington Park community.
- The Fund for Community Redevelopment received \$1,272,990 to rehabilitate two vacant multi-family apartment buildings located at 811 E. 46<sup>th</sup> Street and 4001 S. Ellis Avenue in the Kenwood/Oakland area. This project will provide 102 units of affordable and accessible housing to low-income families.
- The Renaissance Corporation was awarded \$3 million dollars to rehabilitate the historically significant Wabash YMCA building in the Douglas community area. The project will provide 101 single-room occupancy units to serve homeless, elderly, mobility-impaired, and chronically mentally ill people. This project will also provide comprehensive health and human services to residents as well as community members at a well equipped, on-site health and recreational facility.

**Linking Health and Human Services**

- Six new child and family service centers, each receiving between \$1.2 and \$1.5 million, will be built in the Empowerment Zone in 1999 by the grantees listed below:

The Center for New Horizon will rehabilitate a portion of the historic Singer Mansion in the 4500 block of South Drexel.

El Hogar del Nino will expand existing day care services in the Pilsen/Little Village Cluster of the Empowerment Zone.

The Family Resource Center Partnership will assist in building a child care center in the Lawndale community.

The Westside Planning and Development Corporation will acquire and rehabilitate a 3-story building at 4920 West. Madison.

The YMCA will build a new child care center at 825 South Kedzie.

The Chicago Housing Authority will renovate the Charles Hayes Center at Robert Taylor Homes. In addition to the day care center, this site will also house the Family Investment Center which provides employment counseling, training, and placement through CHA's Resident Employment Development Initiative (REDI) Program.

- The Westside Primary Health Care Expansion Project is the result of a collaboration between four community health centers—Circle Family Care, Erie Family Health Center, Miles Square Health Center, and Sinai Family Health Center—operating six sites serving Empowerment Zone residents. This project will receive \$2,243,238 to expand access to health care by increasing staff, hours of operation, and outreach to the community.
- Komed Health Center, in cooperation with the Chicago Department of Public Health, will receive \$750,000 to build a new center to serve the Kenwood/Oakland and Grant Boulevard communities.
- Alivio Medical Center will receive \$1,700,000 to add six exam rooms to the current health center and to develop a second primary care center.
- St. Anthony Hospital, in partnership with The Resurrection Project, will receive \$997,049 to construct and operate a family health center as part of the larger Little Village Family Resource Center.
- Sinai Family Health Center will receive \$885,000 to relocate and expand services currently provided at its 3,000 square foot El Centro facility into a 15,000 square foot facility.

### **Building on Cultural Diversity**

- The Chicago Park District will receive \$1,458,700 to create a multi-purpose facility within

the historic Garfield Park Conservatory. This project will provide space to organizations for community meetings, receptions, lectures, large group training and other educational and cultural activities, and will also provide training and internships for community residents.

- Little Black Pearl received \$466,020 to develop a workshop to introduce African-American children to art as a means of personal expression and as a potential career path.
- St. Malachy School received \$550,900 to establish an arts education program that integrates intensive music training visual arts, wood workshops and dance with its existing academic curriculum.
- Tobacco Road, Inc. was awarded \$1,000,000 to develop a cultural center, including a theater, on 47<sup>th</sup> Street.

### **Youth Futures**

- The Community TV Network will receive \$154,140 to develop a training program for Zone youth at Garfield Alternative High School. This project will also provide low-cost production services to Empowerment Zone businesses and organizations.
- Cristo Rey High School in the Pilsen/Little Village Cluster of the Empowerment Zone will receive \$400,000 to create a school-to-work training program that places students at the work site one full day each week, with the remaining four days spent in the classroom.
- Community Services West will receive \$211,962 to develop a training program targeted to high school drop-outs.
- The Boys and Girls Club of Chicago will receive \$145,410 to establish a job center in the West Cluster of the Empowerment Zone that will provide school-to-work programs for high school students and employment programs for adults and out-of-school youth.
- Instituto del Progreso Latino was awarded \$543,724 to design and implement entry-level technical training and post-secondary technical training programs for Empowerment Zone youth in the Pilsen/Little Village Cluster of the Empowerment Zone.
- Chicago Youth Centers was awarded \$90,000 to expand the Elliot Donnelly Youth Center in the South Cluster of the Empowerment Zone.
- Allison Foundation for Better Living will receive \$430,000 to rehabilitate an 18,000 square foot building that will be used as a multi-functional youth center.
- The Youth and Family Resource Center will receive \$761,900 to expand their Youthnet

Program in the North Kenwood/Oakland communities.

- West Humboldt Park Family and Community Development will receive \$175,000 to develop an After-School Youth Center at 744 N. Monticello.

**EXHIBIT B:  
Chicago's Empowerment Zone's Response  
to Specific Draft Audit Findings**

**Draft Audit Finding : "Activities Were Incorrectly Reported As Empowerment Zone Activities"**

*Response: Fourteen (not 15) of the 84 activities in the 1997 Performance Review were located in Chicago’s three Enterprise Communities (not a designated EC under the Federal program), rather than one of the three clusters of the Chicago Empowerment Zone. Evaluations conducted to date confirm that several of the 14 EC activities benefit EZ residents, based on “clients served” lists or the agency’s reporting of the geographic area they served. Contrary to the audit team’s report, the Chicago EZ recognizes that the ECs are not a part of the EZ program, hence: two sets of boilerplate contracts, two systems for assigning contract numbers, two systems for assigning fund numbers, two monthly expenditure reporting systems to the State, and two sets of community representatives on the Coordinating Council. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Establish procedures and controls to only report EZ program activities to HUD.	<i>Procedures and controls have been established to ensure that only EZ activities are reported to HUD.</i>
B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “Funding for West Side Residential Rehabilitation project was inaccurately reported.**

*Response: At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from our sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of information. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Establish procedures and controls to follow HUD’s instructions for reporting activity’s investments in the Performance Review.	<i>Procedures and controls have been established to ensure reporting of activity’s investments according to HUD instructions.</i>
B. Establish procedures and controls to verify the accuracy of information	<i>Procedures and controls have been established to verify the accuracy of</i>

provided to HUD.	information submitted to HUD.
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**Draft Audit Finding: “Accomplishments of the Community Youth Development Activity Network were incorrectly reported.”**

*Response: At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds and project deliverables. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<b>Chicago Empowerment Zone’s Response</b>
A. Provide training on HUD’s reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>Training will be provided for existing and future staff.</i>
B. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
C. Establish procedures and controls to verify the accuracy of information provided to HUD.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding : “Controls over Community Services West Workforce and Life Preparation were not adequate.”**

*Response: The City disagrees with the auditors’ finding that the sub-recipient incorrectly deposited EZ funds into an account with funds from other sources. According to OMB Circular A110, separate depository accounts are not required for EZ funds. The sub-recipient acknowledges that the advance is a liability and the Chicago EZ has extended the contract to allow for full implementation of the project. In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, project deliverables, and obstacles encountered. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<b>Chicago Empowerment Zone’s Response</b>
A. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>

that monies are used efficiently and effectively.	
B. Require Bethel New Life to immediately initiate the Community Services West Workforce and Life Preparation Program or reimburse the Empowerment Zone Program \$25,403 from non-Federal funds for the advance to Bethel.	<i>The contract has been extended to enable the sub-recipient to fully implement the project. If the sub-recipient does not comply with contract requirements, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
C. Revise its procedures on giving advances of Empowerment Zone funds to be consistent with the Cash Management Improvement Act.	<i>Advance procedure has been revised and is consistent with the Cash Management Improvement Act.</i>
D. Establish procedures and controls to ensure quarterly progress reports or negative reports are submitted by grantees.	<i>Procedures and controls have been established to ensure quarterly reports from all sub-recipients.</i>
E. Provide training on HUD’s reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>Training will be provided for existing and future staff.</i>
F. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
G. Establish procedures and controls to verify the accuracy of information provided to HUD.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “The City overstated leveraged funding by over \$143 million.”**

*Response: At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Establish procedures and controls to follow HUD’s instructions and report	<i>Procedures and controls have been established to ensure accurate reporting of</i>

current funding amounts and commitments in Performance Reviews.	<i>funding amounts and commitments consistent with HUD instructions.</i>
B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “Controls over the Family Life Community Network project were not adequate.”**

*Response: The contract for the second year of this project is being renegotiated so that service provided over the total contract period will, in fact, benefit the originally agreed upon number of Zone residents. If the renegotiations are unsuccessful, the EZ will take all necessary corrective actions to remedy non-compliance issues. In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds and project deliverables. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Require the Boys and Girls Club to maintain documentation to show that Empowerment Zone funds are used to benefit Zone residents.	<i>Procedures have been established requiring all sub-recipients to maintain records documenting benefits to Zone residents consistent with appropriate definitions of “benefit to Zone residents.”</i>
B. Reimburse the Empowerment Zone Program \$123,321 from non-Federal funds for services inappropriately provided to non-Zone youths.	<i>Source documentation has been requested and will be verified for compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
C. Provide documentation to support that the \$3,717 of career and educational services which were paid with Empowerment Zone funds benefited Zone residents. If adequate documentation cannot be provided, then the City should reimburse the Empowerment Zone Program \$3,717 from non-Federal funds.	<i>Source documentation has been requested and will be verified for compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
D. Establish procedures and controls to ensure that: (1) Activities funded under the Empowerment Zone Program use	<i>Procedures and controls have been established to (1) ensure that funds are used efficiently and effectively, and (2) ensure that corrective</i>

<p>moneys efficiently and effectively; and (2) Corrective action is taken against grantees who do not provide the required services.</p>	<p><i>action is taken against grantees who do not provide required services.</i></p>
<p>E. Provide training on HUD’s reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.</p>	<p><i>Training will be provided for existing and future staff.</i></p>
<p>F. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.</p>	<p><i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i></p>
<p>G. Establish procedures and controls to verify the accuracy of information submitted to HUD</p>	<p><i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i></p>

**Draft Audit Finding: “Controls over the Storehouse Distributions Center project were not adequate.”**

*Response: The sub-recipient agreement was based upon output as measured by the contract benchmarks. It is critical to note that the sub-recipient not only met, but exceeded all agreed upon benchmarks. Therefore, the salary reimbursements were justified. Future contract provisions will address deliverables, rather than staff time required to meet the deliverables. In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of project accomplishments. Responses to the specific recommendations are:*

<p><b>HUD IG Recommendations</b></p>	<p><i>Chicago Empowerment Zone’s Response</i></p>
<p>A. Establish procedures and controls to ensure that activities funded under the Empowerment Zone Program use monies efficiently and effectively.</p>	<p><i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i></p>
<p>B. Provide documentation to support the salary reimbursements of \$45,000 for the Storehouses’s Administrative Director, Warehouse Manager, and the</p>	<p><i>The sub-recipient agreement was based upon output as measured by the benchmarks. The sub-recipient not only met, but exceeded, all agreed upon benchmarks. Specifically, the sub-</i></p>

Corporate Relations Manager. If adequate documentation cannot be provided, then reimburse the Empowerment Zone Program \$45,000 from non-Federal funds.	<i>recipient planned benchmarks were: increase membership to 270 members (ACTUAL 409); increase donors to 75 (ACTUAL 110); and increase amount of operation handling fees to \$75,000 (ACTUAL \$168,129). Therefore, the salary reimbursements were justified.</i>
C. Provide training on HUD’s reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>Training will be provided for existing and future staff.</i>
D. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
E. Establish procedures and controls to verify the accuracy of information submitted to HUD	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “Controls over the Northwest Industrial Corridor Program were inadequate.”**

*Response: Performance measures will be re-established with sub-recipient to reflect desired output. Administrative controls have been put in place by the EZ staff to address sub-recipient progress deficiencies. Funding has been withheld pending submission of appropriate deliverables. In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, performance measurements, and project accomplishments. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<b>Chicago Empowerment Zone’s Response</b>
A. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>
B. Reimburse the Empowerment Zone Program \$36,171 from non-Federal funds for inappropriate payment of the	<i>Source documentation has been requested to substantiate staff involvement with the project. If sub-recipient is not in compliance</i>

Administrative Assistance’s salary and health benefits and the lead abatement removal.	<i>with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
C. Amend the contract with Bethel New Life to accurately reflect the performance measures Bethel New Life is responsible to complete.	<i>Performance measures will be re-established with sub-recipient to reflect desired output.</i>
D. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
E. Establish procedures and controls to verify the accuracy of information submitted to HUD	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “The City lacked adequate controls over the 21<sup>st</sup> Century Community Learning Centers project.”**

*Response: Benchmarks are currently being reevaluated to confirm that the majority of the program participants were in fact EZ residents even though 10 of the 37 facilities were not located within the EZ. If this project is not in compliance, appropriate corrective actions will be taken, including using other sources of funds for this project. In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, performance measurements, and project accomplishments. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Do not advise administering entities to provided services to individuals and organizations outside of the Empowerment Zone.	<i>Our advice was intended to promote similar benefits to EC residents and did not encourage, condone, or authorize inappropriate use of EZ funds. We acknowledge that EZ funds will be used only for activities that benefit primarily Zone residents.</i>

B. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>
C. Reimburses the Empowerment Zone Program \$114,755 from non-Federal funds for the Community Learning Centers established at non-Zone schools.	<i>Source documentation has been requested of sub-recipient to verify compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
D. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses the actual accomplishments for each Empowerment Zone activity provided by the administering officials.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
E. Establish procedures and controls to verify the accuracy of information submitted to HUD	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “Controls over the Mexican Fine Arts Center Museum expansion project were not adequate.”**

*Response: Supporting documents will be submitted by sub-recipient to verify compliance with contract. The City will remedy any non-compliance issues once the review is complete. However, it is important to note that the contract does not require 100% EZ resident participation for youth internships. Funding has been withheld until these issues are resolved. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds and project accomplishments. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Require the Mexican Fine Arts Center Museum to maintain documentation to show that Empowerment Zone funds are used to benefit Zone residents.	<i>Procedures have been established requiring all sub-recipients to maintain records documenting benefits to Zone residents.</i>
B. Reimburse the Empowerment Zone Program \$148,756 from non-Federal funds for the inappropriate payments to the non-	<i>Source documentation has been requested to verify compliance with contract and to substantiate staff involvement. If sub-</i>

<p>Zone youth (\$85,057) and the cost of the seven employees (\$63,699) that were inappropriately paid with Zone funds.</p>	<p><i>recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i></p>
<p>C. Provide documentation to support that the \$502,078 of career and educational services that were paid with Empowerment Zone funds benefited Zone residents. If adequate documentation cannot be provided, then the City should reimburse the Empowerment Zone Program \$502,078 from non-Federal funds.</p>	<p><i>Source documentation has been requested to verify compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i></p>
<p>D. Do not use Empowerment Zone funds to reimburse the Mexican Fine Arts Center Museum \$62,294 for the cost of the non-Zone youths(\$24,654) and the Museums seven employees that worked on non-Zone activities (\$37,640) during April to June 1998.</p>	<p><i>Source documentation has been requested to verify compliance with contract and to substantiate staff involvement. Funding has been withheld until necessary documentation is submitted to EZ staff. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i></p>
<p>E. Require Mexican Fine Arts Center Museum to provide documentation to support the request for reimbursement of \$105,528 for the 17 employees during April to June 1998 benefitted Empowerment Zone residents. If documentation cannot be provided, the City cannot use Empowerment Zone funds to reimburse the Museum.</p>	<p><i>Source documentation has been requested to verify compliance with contract and to substantiate staff involvement. Funding has been withheld until necessary documentation is submitted to EZ staff. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i></p>
<p>F. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.</p>	<p><i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i></p>
<p>G. Provide training on HUD’s reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.</p>	<p><i>Training will be provided for existing and future staff.</i></p>
<p>H. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD obtains information on the actual accomplishments for each Empowerment Zone activity.</p>	<p><i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i></p>
<p>I. Establish procedures and controls to verify</p>	<p><i>Procedures and controls have been</i></p>

the accuracy of information submitted to HUD.	<i>established to verify the accuracy of information submitted to HUD.</i>
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**Draft Audit Finding: “Controls over the Better Days for Youth and Nuevos Futuros program were not adequate.”**

*Response: Response: Supporting documents will be submitted by sub-recipient to verify compliance with contract. The City will remedy any non-compliance issues once the review is complete. However, it is important to note that the contract does not require 100% EZ resident participation for youth internships. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, performance measurements, and project accomplishments. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone’s Response</i>
A. Require the Chicago Commons Association to maintain documentation to show that Empowerment Zone funds are used to benefit Zone residents.	<i>Procedures have been established requiring all sub-recipients to maintain records documenting benefits to Zone residents.</i>
B. Reimburse the Empowerment Zone program \$48,219 from non-Federal funds for the services inappropriately provided to non-Zone youths (\$47,294) and the stipends that were inappropriately paid to the non-Zone youths (\$925).	<i>Source documentation has been requested to verify compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
C. Provide documentation to support that the \$1,359 of career and educational services and \$165 of stipends that were paid with Empowerment Zone funds benefitted Zone residents. If adequate documentation cannot be provided, then the City should reimburse the Empowerment Zone Program \$1,524 from non-Federal funds.	<i>Source documentation has been requested to verify compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
D. Do not use Empowerment Zone funds to reimburse the Chicago Commons Association \$65,476 for the services provided to non-Zone youths (\$37,023) and the stipends paid to non-Zone youths (\$28,444) from January to May 1998.	<i>Source documentation has been requested to verify compliance with contract. Funding has been withheld until necessary documentation is submitted. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>

E. Require Chicago Commons Association to provide documentation to support the request for reimbursement of \$1,064 for the services provided to three youths and \$4,952 for the stipends paid to 13 youths from January to May 1998 benefitted Empowerment Zone residents. If documentation cannot be provided, the City cannot use Empowerment Zone funds to reimburse the Association.	<i>Source documentation has been requested and will be review by EZ staff. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
F. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>
G. Provides training on HUD's reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>Training will be provided for existing and future staff.</i>
F. Establish procedures and controls to ensure the person who prepares the City's Performance Review to HUD obtains information on the actual accomplishments for each Empowerment Zone activity.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
G. Establish procedures and controls to verify the accuracy of information submitted to HUD.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

**Draft Audit Finding: “Controls over the Employer Assisted Housing program were not adequate.”**

*Response: Administrative controls have been put in place to address subrecipient progress deficiencies. The contract was renegotiated and funding has been withheld pending submission of appropriate deliverables and documentation. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients' reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, performance measurements, project accomplishments, and participating entities. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<i>Chicago Empowerment Zone's Response</i>
A. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>
B. Reimburse the Empowerment Zone Program \$22,170 from non-Federal funds for Bethel New Life's three employees that were inappropriately paid from Zone funds.	<i>Source documentation will be submitted by sub-recipient to substantiate staff involvement in the project. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
C. Deduct the \$3,000 of construction repairs that were inappropriately paid with the Empowerment Zone funds from Bethel New Life's future reimbursements. If the City does not make the necessary deductions, then the City should reimburse the Empowerment Zone Program \$3,000 from non-Federal funds for the inappropriate use of Zone funds.	<i>\$3,000 in funds will be added to advance total as a liability.</i>
D. Do not use Empowerment Zone funds to reimburse Bethel New Life \$18,483 for the Administrative Assistant's (\$10,015) and the Project Director's (\$8,468) salary costs while they did not work on the Program.	<i>Source documentation will be submitted by sub-recipient to verify staff involvement in the project. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
E. Require Bethel New Life to provide documentation to support the request for the \$8,468 for the salary costs paid to the Program's Project Director from January to March 1998. If documentation cannot be provided, the City cannot use Empowerment Zone funds to reimburse Bethel.	<i>Source documentation will be submitted by sub-recipient to verify staff involvement in the project. Funding has been withheld until necessary documentation is submitted. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
F. Provide training on HUD's reporting requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>Training will be provided for existing and future staff.</i>
G. Establish procedures and controls to ensure the person who prepares the City's Performance Review to HUD obtains information on the actual	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>

accomplishments for each Empowerment Zone activity.	
H. Establish procedures and controls to verify the accuracy of information submitted to HUD.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

### 13 Draft Audit Finding: “Controls over the Job Link program were not adequate.”

*Response: Supporting documents will be submitted by sub-recipient to verify compliance with contract. The City will remedy any non-compliance issues once the review is complete. At the time the 1997 Performance Review was submitted, the best funding estimates available were either from the original proposals submitted by sub-recipients or from the investment worksheet collected from sub-recipients between the date HUD issued the Performance Review instructions (June 23, 1997) and the date the Performance Review was due to HUD (July 30, 1997). In the future, sub-recipients’ reports will be verified by EZ staff to ensure accurate reporting of leveraged funds, performance measurements, and project accomplishments. Responses to the specific recommendations are:*

<b>HUD IG Recommendations</b>	<b>Chicago Empowerment Zone’s Response</b>
A Require West Side Job Link to maintain documentation to show that Empowerment Zone Funds are used to benefit Zone residents.	<i>Procedures have been established requiring all sub-recipients to maintain records documenting benefits to Zone residents.</i>
B. Reimburse the Empowerment Zone Program \$148,622 from non-Federal funds for job placement services (\$60,769) and the job skills training that were inappropriately provided to the non-Zone residents (\$87,853).	<i>Source documentation has been requested to verify compliance with contract. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
Provide documentation to support that the \$125,166 of job placement services, \$1,515 of jobs skills training, and the \$213,484 of miscellaneous services that were paid with Empowerment Zone funds benefitted Zone residents. If adequate documentation cannot be provided, then the City should reimburse the Empowerment Zone Program \$340,165 from non-Federal funds.	<i>Source documentation has been requested and will be review by EZ staff. If sub-recipient is not in compliance with contract, the Chicago EZ will take necessary corrective actions to remedy any non-compliance issues.</i>
D. Establish procedures and controls to monitor activities funded under the Empowerment Zone Program to ensure that monies are used efficiently and effectively.	<i>Procedures and controls have been established to ensure that funds are used efficiently and effectively.</i>
E. Provide training on HUD’s reporting	<i>Training will be provided for existing and</i>

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requirements to the staff who are responsible for preparing the Empowerment Zone Performance Review.	<i>future staff.</i>
F. Establish procedures and controls to ensure the person who prepares the City's Performance Review to HUD obtains information on the actual accomplishments for each Empowerment Zone activity.	<i>Procedures and controls have been established to ensure that project accomplishments are accurately reported.</i>
G. Establish procedures and controls to verify the accuracy of information submitted to HUD.	<i>Procedures and controls have been established to verify the accuracy of information submitted to HUD.</i>

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