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Audit Case Number	99-CH-259-1003

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 Detroit
Empowerment Zone Program
Detroit, Michigan

We completed an audit of the City of Detroit'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 10 of the 73 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 accurate reporting of the Program's accomplishments. The City: inaccurately reported the accomplishments of its Empowerment Zone activities to HUD; overstated the amount of leveraged funds for the Program; and incorrectly reported a program as an Empowerment Zone activity when it was not. The City also used Zone funds that did not benefit Zone residents. The amount of funds not properly used was small (\$2,789); however, the problem was easily identifiable and could cause more significant problems in the future if not corrected.

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.

Executive Summary

We completed an audit of the City of Detroit'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 correctly report the accomplishments of its Empowerment Zone Program to HUD and in one instance used a small amount of Empowerment Zone funds that did not benefit Zone residents. Specifically, the City: inaccurately reported the accomplishments of its Empowerment Zone activities to HUD; overstated its leveraged funding by more than \$460 million; and incorrectly reported a program as an Empowerment Zone activity when it was not. The City also used Zone funds that did not benefit Zone residents. The amount of funds not properly used was small (\$2,789); however, the problem was easily identifiable and could cause more significant problems in the future if not corrected.

The City Incorrectly Reported The Accomplishments Of Its Zone Activities

The City of Detroit incorrectly reported the actual status and progress for nine of the 10 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: seven activities' performance measures; eight activities' funding; and three activities' performance milestones. The inaccuracies occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the City did not provide HUD with an accurate description of its Program accomplishments.

The City Overstated The Amount Of Leveraged Funds By Over \$460 Million

The City of Detroit overstated the amount of estimated leveraged funds in the June 1997 Performance Review. The Review's Executive Summary estimated that the City's 73 Empowerment Zone activities should leverage over \$3 billion. However, supporting documentation included with the Review showed the 73 activities should leverage only \$2,539,479,690. The problem occurred because the Detroit Empowerment Zone Development Corporation used information provided by the City's Planning and Development Department and did not verify the accuracy of the information included in the Performance 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 benefit.

The City Incorrectly Reported An Activity As An Empowerment Zone Activity

The City of Detroit incorrectly reported that the Industry Specific Training on Health Care program included in its June 30, 1997 Performance Review was an Empowerment Zone Program activity. The program was included as a benchmark in the City's Strategic Plan; however, the program was established prior to the City's Zone designation. Because the program was included in the Performance Review, the City incorrectly reported that 54 individuals benefited and \$8,956,200 of cash and in-kind contributions were leveraged funds. The Deputy Director of the City's Planning and Development Department could not explain why the program was reported as an Empowerment Zone activity in the Performance Review. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

The City Did Not Have Adequate Control Over Zone Funds

The City of Detroit did not maintain adequate oversight over Empowerment Zone funds. One of the 10 activities we reviewed, the Community Self Sufficiency Centers program, used a small amount (\$2,879) of Empowerment Zone funds that did not benefit Zone residents. The problem was easily identifiable; however, the problem occurred because the Detroit Empowerment Zone Development Corporation did not perform on-site monitoring reviews to ensure the use of Zone funds benefited Zone residents. As a result, Empowerment Zone funds were not efficiently and effectively used.

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 Detroit 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 Detroit Empowerment Zone Development Corporation, the Deputy Director of the City's Planning and Development Department, and HUD's staff during the audit. We held an exit conference with the Director and Deputy Director of the City's Planning and Development Department on September 10, 1998. The City provided written comments to our draft findings. We included

excerpts of the comments with each finding. The complete text of the comments are included in Appendix C.

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Introduction

The City of Detroit 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's residents; (2) creating sustainable community development; (3) building broad participation among community-based partners; and (4) describing a strategic vision for change in the community.

The Empowerment Zone Program was authorized by the Omnibus Budget Reconciliation Act of 1993. The Reconciliation Act provided funding for the Program under Title 20 of the Social Security Act. The Empowerment Zone Program was designed to provide \$250 million in tax benefits with \$100 million of Social Services Block Grant funds from the Department of Health and Human Services. As of June 30, 1998, the City of Detroit drew down \$7,312,049 in Empowerment Zone funds from the Social Services Block Grant and had spent \$6,492,088.

The City of Detroit is a municipal corporation governed by a mayor and a city council. The City's fiscal year is July 1 through June 30. The City's Planning and Development Department contracted with the Detroit Empowerment Zone Development Corporation, a non-profit organization, to administer the City's Empowerment Zone Program.

The Mayor of the City of Detroit is the Honorable Dennis W. Archer. The Executive Director of the Detroit Empowerment Zone Development Corporation is Denise Gray. The Director of the City's Planning and Development Department is Paul A. Bernard. The Corporation's Empowerment Zone books and records are located at One Ford Place, Detroit, Michigan.

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, the Detroit Empowerment Zone Development Corporation, and administering entities of the City's Zone activities. Based upon the activities' funding and reported accomplishments, we judgmentally selected 10 of the City's 73 activities reported in the June 30, 1997 Performance Review. The following table shows the 10 activities reviewed:

<i>Activity</i>
1. Mexican Welcome and Retail Center
2. Southwest Detroit Contaminated Site Redevelopment Demonstration Project
3. Neighborhood Partnership Academy
4. Recreation Facilities Enhancement Project
5. Arts Access
6. Hemoglobin Immune-deficiency Virus Prevention and Intervention Strategy
7. Mercy Education Project
8. Male and Female Responsibility Program
9. Community Self Sufficiency Centers
10. Industry Specific Training on Health Care

To evaluate the City's Empowerment Zone Program, we reviewed records maintained by HUD, the City, the Detroit Empowerment Zone Development Corporation, and the administering entities. We reviewed: HUD's guidance and instructions for the Program; the City's June 1997 Performance Review, the Corporation's 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 the 10 activities selected to review their documentation, reports, and correspondence.

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 Detroit Empowerment Zone Development Corporation, and the Director of the City's Planning and Development Department.

The City Inaccurately Reported The Accomplishments Of Its Empowerment Zone Activities

The City of Detroit incorrectly reported the actual status and progress for nine of the 10 activities we reviewed from the June 30, 1997 Performance Review. The Review contained inaccuracies related to: seven activities' performance measures; eight activities' funding; and three activities' performance milestones. The inaccuracies occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the City did not provide HUD with an accurate description of its Program accomplishments.

HUD's Requirements

Page 3 of the December 21, 1994 Memorandum of Agreement between HUD and the City of Detroit 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. 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.

City's Contract Requirements

The contract dated April 16, 1997, between the City of Detroit and the Detroit Empowerment Zone Development Corporation, states that in the performance of its monitoring responsibilities, the Corporation should: (1) review and analyze performance reports received from implementing agencies and/or supporting partners and all other documentation obtained, submissions received, and information obtained; and (2) perform on-site monitoring reviews.

The City Incorrectly Reported The Progress Of Empowerment Zone Activities

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

<i>Activity</i>	<i>Measures</i>	<i>Funding</i>	<i>Milestones</i>	<i>Page Number</i>
Mexicantown Welcome Center		X		26
Contaminated Site Redevelopment	X		X	27
Neighborhood Partnership Academy	X	X		29
Recreation Facilities Enhancement	X	X	X	31
Arts Access	X	X		34
Prevention Strategy	X	X		36
Mercy Education Project	X	X	X	38
Male and Female Program	X	X		41
Community Self Sufficiency Centers	—	X	—	43
Totals	7	8	3	

The City Inaccurately Reported Activities' Performance Measures

The City incorrectly reported the performance measures for seven activities. Performance measures are the final products produced or other measurable outcomes of the activity. For example, the City reported in the June 1997 Performance Review that the Male and Female Responsibility Program served 6,000 individuals as of June 30, 1997. However, records maintained by the Detroit Urban League, the Program's administering entity, showed that 3,936 individuals received services. The net affect was an overstatement of 2,064 individuals. In the case of the Arts Access Activity, the City did not report any actual progress made, even though the City's files contained information that showed 24 contracts had been completed and seven performances conducted.

The City Over Reported The Activities' Funding By Over \$14 Million

The City incorrectly reported funding for eight activities 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 eight activities included \$23,347,323; however, the activities' funding included only \$8,967,840 as of June 30, 1997. The net affect was an over reporting of \$14,379,483. The City also overstated the projected leveraged funding for its Empowerment Zone Program by over \$460 million (see Finding 2). The following table shows the incorrect reporting by activity:

Activity	Amount Reported	Amount Supported	Over/Under Reported
Mexicantown Welcome Center	\$2,180,000	\$2,400,000	\$ (220,000)
Neighborhood Partnership Academy	456,240	280,000	176,240
Recreation Facilities Enhancement	6,400,000	875,000	5,525,000
Arts Access	2,794,750	3,450,750	(656,000)
Prevention Strategy	4,818,845	858,128	3,960,717
Mercy Education Project	304,988	278,133	26,855
Male and Female Program	6,392,500	0	6,392,500
Community Self Sufficiency Centers	<u>0</u>	<u>825,829</u>	<u>(825,829)</u>
Totals	<u>\$23,347,323</u>	<u>\$8,967,840</u>	<u>\$14,379,483</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 the performance milestones for three activities. Performance milestones are the key interim actions that will result in the completion of the activity. For example, the City's June 1997 Performance Review showed the Mercy Education Project provided educational services to 120 girls and 108 families attended the nurturing program. However, the Project's documentation showed that 91 Empowerment Zone girls were provided educational services and only 12 Zone families attended the nurturing program.

The incomplete and inaccurate reporting occurred because the Detroit Empowerment Zone Development Corporation did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the City did not provide HUD with an accurate description of its Program accomplishments.

Auditee Comments

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

The City of Detroit and the Empowerment Zone Development Corporation agree with the recommendations and will refine their procedures to verify the accuracy of information submitted.

Empowerment Zone Development Corporation staff reported funding amounts and commitments it received from the implementing agencies on a phone log to complete the HUD annual Performance Review. The Corporation did not have adequate computer equipment or staff to perform on-site monitoring of all Empowerment Zone activities. New equipment has been installed and additional staff has been hired.

To verify the information it receives from the implementing agencies, the Corporation established the following procedures:

- The Corporation has completed a series of reporting forms to chart program activities.
- The Corporation will implement an internal evaluation system to track performance, hire a consultant who will assist in identifying measurable indicators, and hire additional staff to ensure that on-site monitoring is performed on all Empowerment Zone programs.
- The Corporation has designed a five-point quality assurance program, which redefines its performance monitoring process.

The City of Detroit and the Empowerment Zone Development Corporation are committed to adhering to the Inspector General's recommendations to ensure that all reports will be accurate.

OIG Evaluation of
Auditee Comments

The City indicated it will take corrective actions. The actions include hiring additional staff, acquiring new equipment, and implementing new procedures to verify the accuracy of information submitted to HUD. The City did not provide the specific details of its planned actions with its comments.

Recommendations

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

- 1A. Establishes procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- 1B. Establishes procedures and controls to verify the accuracy and completeness of information submitted to HUD for the Empowerment Zone Program.

The City Overstated Estimated Leveraged Funding

The City of Detroit overstated the amount of estimated leveraged funds in the June 30, 1997 Performance Review by approximately 18 percent or over \$460 million. The Review's Executive Summary estimated that the City's 73 Empowerment Zone activities should leverage over \$3 billion. However, supporting documentation included with the Review showed the 73 activities should leverage only \$2,539,479,690. The problem occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, used information provided by the City's Planning and Development Department and did not verify the accuracy of information included in the Performance Review. Since the amount of leveraged funding is an important indicator of the Empowerment Zone Program's success, accurate information needs to be presented to clearly establish the Program's benefit.

HUD's Requirements

Page 4 of the June 23, 1997 EZ/EC Performance Review instructions issued by HUD state that 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 73 Empowerment Zone activities by over \$460 million. The City reported in the Executive Summary of the June 1997 Performance Review that the estimated leveraged funding for the activities was over \$3 billion. However, the supporting documentation included with the Review showed that the leveraged funds for the activities totaled only \$2,539,479,690. The difference of \$460,520,310 is an 18 percent overstatement of leveraged funds.

The problem occurred because the Detroit Empowerment Zone Development Corporation used information provided by the City's Planning and Development Department that showed the Empowerment Zone Program leveraged over \$3 billion. The Corporation did not verify the accuracy of information included in the Performance Review. Since the Empowerment Zone Program largely depends on leveraged funding as a measure of the success of the Program, it is imperative to accurately report the funding commitments that are provided to the Program. Inaccurate information presents a false impression of the Program's benefits.

Auditee Comments

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

The City of Detroit and the Empowerment Zone Development Corporation agree with the recommendations and will refine their procedures to verify the accuracy of information submitted.

While the City of Detroit did not provide enough supporting documentation to justify the \$4 billion amount in leverage funds, the City has not given a false impression of the benefits of the Empowerment Zone. Since the City of Detroit received its Empowerment Zone designation, there has been a significant amount of private investment in these distressed areas of the City.

The City of Detroit and the Empowerment Zone Development Corporation are committed to adhering to the Inspector General's recommendations to ensure that all reports will be accurate.

**OIG Evaluation of
Auditee Comments**

We reviewed the City's June 1997 Performance Review and determined that the City overstated the estimated amount of leveraged funds for its Empowerment Zone Program. The City reported that its 73 Zone activities should leverage over \$3 billion; however, the supporting documentation with the Review showed the 73 activities would leverage approximately \$2.5 billion. The City needs to establish procedures and controls to accurately report funding amounts and commitments in its Performance Reviews as required by HUD's instructions.

Recommendations

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

2A. Establishes procedures and controls to follow HUD's instructions and report current funding amounts and commitments in Performance Reviews.

The City Incorrectly Reported An Activity As An Empowerment Zone Activity

The City of Detroit incorrectly reported that the Industry Specific Training on Health Care program included in its June 30, 1997 Performance Review was an Empowerment Zone Program activity. The program was included as a benchmark in the City's Strategic Plan; however, the program was established prior to the City's Zone designation. Because the program was included in the Performance Review, the City incorrectly reported that 54 individuals benefited and \$8,956,200 of cash and in-kind contributions were leveraged funds. The Deputy Director of the City's Planning and Development Department could not explain why the program was reported as an Empowerment Zone activity in the Performance Review. As a result, the accomplishments of the City's Empowerment Zone Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

HUD's Requirements

The June 23, 1997 EZ/EC instructions for Performance Review reporting, page 1, state the Performance Review System is designed to measure the performance of Empowerment Zone activities. Page 3 of the instructions allows Zones to add, modify, or delete individual Strategic Plan benchmarks.

City Incorrectly Reported A Program As Zone Activity

The City of Detroit incorrectly reported that the Industry Specific Training on Health Care program included in the June 1997 Performance Review was an Empowerment Zone activity. The program was included as a benchmark in the City's Strategic Plan; however, the program was scheduled prior to the City's Zone designation. HUD's instructions are designed to gather information on activities resulting from the Empowerment Zone Program. The instructions contain procedures to change benchmarks. Because the City included the program in the Performance Review, it incorrectly reported that its Empowerment Zone efforts resulted in 54 individuals being trained, 40 of the 54 individuals subsequently were employed, and \$8,956,200 of cash and in-kind contributions were leveraged funds.

The leveraged funds consisted of: (1) \$750,000 of projected Federal funds; (2) \$1,111,200 of committed City funding; (3) \$545,000 of projected funding from the Community Foundation of Southeast Michigan; (4) \$50,000 of projected Detroit Medical Center funding; (5) \$200,000 of planned funding from national and local foundations; and (6) \$6.3

million of projected in-kind contributions. Funding for the program did not involve Empowerment Zone monies.

The Program Manager for New Beginnings, the administering entity of the Industry Specific Training on Health Care, said New Beginnings provided information to the City to show support for the City's Empowerment Zone Program. However, he said New Beginnings did not make any changes to its program as a result of the Empowerment Zone Program. The Industry Specific Training on Health Care program was established in 1993, prior to the City's designation as an Empowerment Zone.

The Deputy Director of the City's Planning and Development Department could not explain why the program was reported as an Empowerment Zone activity in the Performance Review. Additionally, the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not review the Performance Review for accuracy. Since the program was not initiated as a result of the Zone, the City should not have reported it as an Empowerment Zone activity. 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 Detroit's comments on our draft finding follow. Appendix C contains the complete text of the comments.

The City of Detroit and the Empowerment Zone Development Corporation agree with the recommendations and will refine their procedures to verify the accuracy of information submitted.

The City of Detroit and the Empowerment Zone Development Corporation are committed to adhering to the Inspector General's recommendations to ensure that all reports will be accurate.

**OIG Evaluation of
Auditee Comments**

The City did not provide specific details on what its refined procedures will entail. The City's refined procedures should

include controls to appropriately report Empowerment Zone activities to HUD.

Recommendations

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

- 3A. Establishes procedures and controls to appropriately report Empowerment Zone Program activities to HUD.

The City Did Not Have Adequate Control Over Zone Funds

The City of Detroit did not maintain adequate oversight of Empowerment Zone funds. One of the 10 activities we reviewed incurred inappropriate expenditures of Zone funds. The City inappropriately used \$2,879 of Empowerment Zone funds that did not benefit Zone residents. Although the amount of funds involved is small in comparison to the program funds spent (\$770,135), the problem was easily identifiable and is indicative of a situation that could cause more significant problems in the future if not corrected. The problem occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews to assure Zone funds were used appropriately. As a result, Empowerment Zone funds were not used efficiently and effectively.

United States Code

Title 20 of the United States Code, Section 2007(c)(1)(B) requires Empowerment Zone funds to be used to 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(f) states activities included in the Strategic Plan may be funded from any source which provides assistance to the nominated area.

City's Contract Requirements

The contract dated April 16, 1997, between the City of Detroit and the Detroit Empowerment Zone Development Corporation, states that in the performance of its monitoring responsibilities, the Corporation should: (1) review and analyze performance reports received from the implementing agencies and/or supporting partners and all other documentation obtained, submissions received, and information obtained; and (2) perform on-site monitoring reviews.

Inappropriate Job
Readiness Training Was
Paid Using Zone Funds

The City inappropriately used Empowerment Zone funds to reimburse Warren/Connor Development Coalition for job readiness training. The Coalition provided child-care services as part of the job readiness training. From December 1, 1997 to January 31, 1998, the Coalition paid 100 percent of a Child-Care Worker's salary, payroll taxes, and health insurance benefits. However, the Coalition's records showed that only 21 (26 percent) of the 82 residents who received job readiness training were Zone residents. The City's Strategic Plan and the Coalition's agreement required the training to be provided to Zone residents. The Coalition used \$2,879 of Empowerment Zone funds to pay for the 61 non-Zone residents (74 percent) who received child-care services.

The amount of funds used to provide services to non-Zone residents (\$2,879) was small in comparison to the program funds spent (\$770,135). However, the error was easily identified and is indicative of a situation that could cause more significant problems in the future if not corrected. The Detroit Empowerment Zone Development Corporation did not detect the problem because it had not conducted on-site monitoring reviews.

Auditee Comments

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

The City of Detroit will recapture the \$2,879 from Warren/Connor Development Coalition, the implementing agency of the Community Self Sufficiency Center, in order to reimburse the Empowerment Zone Program for monies misspent.

OIG Evaluation of
Auditee Comments

While the City agreed to reimburse the Empowerment Zone Program for the inappropriate use of Zone funds, the City did not address what controls it plans to implement to ensure effective and efficient use of Zone funds. We believe the City should establish procedures and controls over the use of Zone funds.

Recommendations

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

- 4A. Reimburses the Empowerment Zone Program \$2,879 from non-Federal funds for the child care services that were inappropriately provided to the non-Zone residents.
- 4B. Establishes procedures and controls to ensure that Empowerment Zone Program monies are used efficiently and effectively.

Management Controls

In planning and performing our audit, we considered the management controls of the City of Detroit in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

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

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

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

Significant Weaknesses

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

- Program Operations.

The City did not use all Empowerment Zone funds to benefit Zone residents (see Finding 4).

- Validity and Reliability of Data.

The City: incorrectly reported the actual status and progress for nine of the 10 activities we reviewed from the June 30, 1997 Performance Review; overstated the estimated amount of leveraged funding; and inaccurately reported one program as an Empowerment Zone activity when it was not (see Findings 1, 2, and 3).

- Compliance with Laws and Regulations.

The City did not follow the United States Code and HUD's regulations. Empowerment Zone funds were used that did not benefit Zone residents (see Finding 4).

- Safeguarding Resources.

The City inappropriately used \$2,879 for services that did not benefit Empowerment Zone residents (see Finding 4).

Follow Up On Prior Audits

This is the first audit of the City of Detroit's Empowerment Zone Program by HUD's Office of Inspector General. The latest single audit for the City covered the fiscal year ended June 30, 1997. The report contained nine findings. None of the findings related to the Empowerment Zone Program.

Schedule Of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs Ineligible 1/</u>
4A	<u>\$2,879</u>
Total	<u>\$2,879</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.

Activities Reviewed

This appendix contains the individual evaluations for the activities we reviewed. We judgmentally selected 10 of the City of Detroit's 73 activities reported in the June 30, 1997 Performance Review. We found that the City inaccurately reported the accomplishments of its Empowerment Zone Program to HUD for 9 of the 10 activities and inappropriately used Zone funds for the tenth. The following table shows the 10 activities that had problems, the location of their evaluation in this report, and the finding(s) they relate to:

Activity	Page	Finding
1. Mexicantown Welcome and Retail Center	26	1
2. Southwest Detroit Contaminated Site Redevelopment Demonstration Project	27	1
3. Neighborhood Partnership Academy	29	1
4. Recreation Facilities Enhancement Project	31	1
5. Arts Access	34	1
6. Hemoglobin Immune-deficiency Virus Prevention and Intervention Strategy	36	1
7. Mercy Education Project	38	1
8. Male and Female Responsibility Program	41	1
9. Community Self Sufficiency Centers	43	1 and 4
10. Industry Specific Training on Health Care	11	3

Funding for the Mexicantown Welcome and Retail Center was Inaccurately Reported

The City of Detroit did not accurately report to HUD the leveraged funding amount for the Mexicantown Welcome and Retail Center project in the 1997 Performance Review. The City reported that the project had planned funding of \$2,180,000 from HUD's Community Development Block Grant program. However, the Mexicantown Community Development Corporation, the project's administering entity, provided a report showing that the project received \$2.4 million in Block Grant funds as of June 30, 1997. The net effect was an understatement of \$220,000 in funding. The problem occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, lacked adequate controls over its reporting process. As a result, the City provided HUD with an incorrect picture of the funds that were applied to the Mexicantown Welcome and Retail Center project.

Funding For The Project
Was Understated By
\$220,000

The City's June 1997 Performance Review showed the project's planned funding from HUD's Community Development Block Grant program was \$2,180,000. The project's officials provided a report to the City, prior to the June 1997 Performance Review, that showed the project received \$2.4 million in Block Grant funds. The understatement of the project's funding occurred because the Detroit Empowerment Zone Development Corporation did not verify the information included in the Performance Review. The Corporation reported the same funding information for the project in the 1997 Review that was reported in the June 1996 Performance Review. However, HUD's instructions require that Zones report the status of commitments at the time the Review is submitted.

Because of inaccurate reporting, HUD was provided with the impression that less funds were available to the project than actual. The Empowerment Zone Program is intended to leverage outside sources of funds. When the funding data is inaccurate, HUD cannot make a proper assessment of the Program's progress.

Accomplishments for the Southwest Contaminated Site Redevelopment Project Were Incorrectly Reported

The City of Detroit incorrectly reported the actual status and progress of the Southwest Detroit Contaminated Site Redevelopment Demonstration Project in the June 30, 1997 Performance Review. The Review contained inaccuracies related to performance measures and milestones. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not verify the accuracy of the information included in the Performance Review. As a result, HUD was not provided an accurate picture of the Project's accomplishments.

The City Did Not Report The Project's Actual Performance Measures

The City's June 1997 Performance Review did not show the Project's actual performance measures. The Review showed that six contaminated sites were projected to be cleaned up. However, based upon documentation in the Detroit Empowerment Zone Development Corporation's files, we determined the clean up of one site, Rockwell Construction, was completed as of June 30, 1997.

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: (1) the Project was in the process of organizing its steering committee; and (2) the cleanup of site one and the investigation of sites two through four was not applicable to the Project. However, based upon documents provided by the Project to the City prior to June 30, 1997, the Project had completed the organizing of the steering committee. Also, the Project's documentation showed that the clean up of site one and the investigation of sites two through four was started. As a result, the City did not provide HUD with an accurate description of the Project's accomplishments.

In preparation of the June 1997 Performance Review, the Detroit Empowerment Zone Development Corporation's Executive Director said each activity was provided a copy of the June 1996 Review to update. However, the Corporation did not use the updated information that was in its files to report the progress of the Southwest Contaminated Project. No one from the Corporation knew why the information in its

files was not used to prepare the Review or could not explain what information was used.

The Corporation's Executive Director said on-site monitoring visits were not performed because of a shortage in staff. She said that the Corporation's Coordinators mainly relied on information provided by the Project and they did not verify the information. We believe it is the responsibility of the City and the Empowerment Zone Development Corporation to ensure it has adequate staff to properly monitor the Empowerment Zone Program. On-site monitoring is important to ensure the reporting process is accurate and meets the requirements of the City's contract. We determined the Corporation reported the same information in the June 1997 Review that it reported in the June 1996 Review.

Accomplishments for the Neighborhood Partnership Academy Were Incorrectly Reported

The City of Detroit incorrectly reported the accomplishments of the Neighborhood Partnership Academy program. The City: incorrectly reported the number of workshops the program held; could not support \$241,240 of in-kind contributions reported as received for the program; and under reported the amount of State of Michigan funds it received by \$65,000. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform an on-site monitoring review or verify the accuracy of the information included in the Performance Review. As a result, HUD was not provided an accurate picture of the program and the impression exists that the benefits of the program are greater than achieved.

The City Incorrectly Reported The Program's Workshops

The City reported the Neighborhood Partnership Academy completed 13 workshops for organizational and leadership development. However, in a July 31, 1997 report to the City, the program reported that it completed only seven workshops. The report was received by the City prior to the submission of the Performance Review. Our on-site review of the program found that even the number reported by the program was inaccurate. Only two workshops were held and paid for prior to June 30, 1997.

The Program Manager for the Neighborhood Partnership Academy said the program completed three workshops, not seven as reported to the City. Two workshops were held prior to June 1997 and one was held subsequent to the June 1997 Performance Review. The Program Manager said the person responsible for the inaccurate reporting no longer worked at the Academy, and the Manager could not explain why seven workshops were reported as completed. The Executive Director of the Detroit Empowerment Zone Development Corporation said on-site monitoring visits were not performed to verify the accuracy of information received from administering officials because of a shortage in staff.

We believe shortage of staff is not a valid explanation. The Corporation's staffing was established to be 13 persons to handle 80 activities. As of June 30, 1997, the Corporation spent \$128,039 of Empowerment Zone administration funds for eight staff (62 percent of planned) who were responsible for monitoring 49 activities (61 percent of planned). The Corporation did not do any on-site monitoring of activities.

It is the responsibility of the City and the Empowerment Zone Development Corporation to ensure it has adequate staff to properly monitor the program. On-site monitoring is important to ensure the reporting process is accurate and meets the requirements of the City's contract.

The City Could Not Support \$241,240 Of In-Kind Contributions

The City reported the program received \$241,240 of in-kind contributions. The Academy did not have any documentation to support the contributions and the Program Manager said the Academy has not received the in-kind contributions pledged for the program. Although the \$241,240 is expected to be received in the future, the City's reporting of it as received gives the impression that the program is making more progress than actual. Since an overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged private funding and contributions, it is imperative that the City verifies the accuracy of reported funding.

The City Under Reported State Funding

The City under reported the amount of State funds it received by \$65,000. The City reported that it received \$215,000 in State of Michigan funding; however, the program had received a \$280,000 grant, effective September 1, 1995, from the State. The grant was issued to the Local Initiatives Support Coalition, the program's implementing agency, and earmarked especially for the program. We could not find any information to support the \$215,000 or how it was calculated.

The City Incorrectly Reported the Accomplishments of the Recreation Facilities Enhancement Project

The City of Detroit incorrectly reported the performance measures for the Recreation Facilities Enhancement Project in the June 30, 1997 Performance Review. The City's Recreation Department reported improvements to a swimming pool as part of its Empowerment Zone Program; however, the pool was located outside the Empowerment Zone and did not primarily serve Zone residents. No Empowerment Zone funds were used for the pool's improvements. The City also incorrectly reported the Project's funding and performance milestones. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the accomplishments of the City's Recreation Facilities Enhancement Project were not accurately reported to HUD, which created the impression that the benefits of the Project were greater than actually achieved.

The Pool Did Not
Primarily Serve Zone
Residents

The City's Recreation Department reported the completion of the Kronk Pool as a benefit of the Empowerment Zone; however, there was no documentation as of June 30, 1997 to support what extent, if any, the pool benefited Zone residents. The pool was located outside of the Empowerment Zone. As of December 1997, only 22 of 189 (11.6 percent) of the Pool's members were Zone residents. Monthly reports prepared by the Project did not report that the pool was outside the Zone or explain to what extent the pool served Zone residents.

The City of Detroit did not follow its Strategic Plan or the Interdepartmental Agreement for the Recreation Facilities Enhancement Project. The City's Strategic Plan showed the Project would improve community recreation centers within the Empowerment Zone. Additionally, the Interdepartmental Agreement between the City's Planning and Development Department and the Recreation Department requires that: (1) the Project be carried out pursuant to the terms of the Strategic Plan; and (2) recreational facilities be located within the Empowerment Zone or located at or near the edge boundaries when the facility primarily services Zone residents.

The Detroit Empowerment Zone Development Corporation's Executive Director said on-site monitoring visits were not performed because of a shortage in staff. She said that the Corporation's Coordinators mainly relied on information provided by the Project and they did not verify the information. We believe it is the responsibility of the City and the Empowerment Zone Development Corporation to

ensure it has adequate staff to properly monitor the Empowerment Zone Program. On-site monitoring is important to ensure the reporting process is accurate and meets the requirements of the City’s contract.

The City Over Reported The Project’s Funding

The City inaccurately reported the Project’s funding in the June 30, 1997 Performance Review. The City reported that the Project’s funding consisted of: \$2.3 million of Federal funds; \$3.5 million from the State of Michigan; and \$600,000 from private entities. However, as of June 1997, the City’s documentation showed that the Project had only received State funds of \$830,000 and private funding of \$45,000.

The following table shows that the net effect of the inaccurate reporting was an overstatement of over \$5.5 million:

Funding	Amount Reported	Amount Supported	Amount Overstated
Federal	\$2,300,000	\$ 0	\$2,300,000
State	3,500,000	830,000	2,670,000
Private	<u>600,000</u>	<u>45,000</u>	<u>555,000</u>
Total	<u>\$6,400,000</u>	<u>\$875,000</u>	<u>\$5,525,000</u>

The Corporation’s Coordinator who prepared the 1997 Performance Review said he did not have the funding information available when he prepared the 1997 Review; therefore, he simply reported the projected funding information from the 1996 Review. Since the overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged funds, we believe correct, up-to-date reporting of funding is necessary to provide an accurate picture of the benefit of the Empowerment Zone.

The City Incorrectly Reported Performance Milestones As Complete

The City incorrectly reported two performance milestones as complete when they were still on-going. The two milestones were to seek funding for renovations and renovate recreation facilities. The status reports prepared by the City’s Recreation Department, prior to the June 1997 Performance Review, showed that funding sources were not yet finalized and the renovation of all recreational facilities

was not complete. The inaccuracies occurred because the Corporation reported information it received in a telephone conversation with the Recreation Department's Business Manager, and did not verify the accuracy of the information prior to including it in the 1997 Performance Review.

The Arts Access Accomplishments Were Not Properly Reported

The City of Detroit did not accurately report its funding commitments or the progress made for the Arts Access project in the June 30, 1997 Performance Review. The City under reported its funding commitments by \$656,000 and did not report that 24 contracts had been completed and seven

performances had been held. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the accomplishments of the Arts Access were not accurately reported to HUD, and the City created the impression that Arts Access had made less progress than actually achieved.

The City Under Reported Arts Access Funding

The City inaccurately reported the project’s funding in the June 30, 1997 Performance Review. The City under reported its committed funding by \$656,000. The Performance Review showed Arts Access had commitments for \$2,794,750, while supporting documentation showed committed funding totaled \$3,450,750. The following table shows the various categories of commitments:

6/30/97 Status	Commitments	
Source of Funds	Committed	Supported
Governments-	\$ 200,000	\$ 465,150
Local/State Participating Entities	89,750	690,750
In-kind Received	5,000	0
In-kind Committed	<u>2,500,000</u>	<u>2,294,850</u>
Totals	<u>\$2,794,750</u>	<u>\$3,450,750</u>
Amount Under Reported	\$656,000	

The Detroit Empowerment Zone Development Corporation’s Coordinator who prepared the 1997 Performance Review said he did not have the funding information available when he prepared the 1997 Review; therefore, he reported the projected funding information from the 1996 Review. The Corporation’s Executive Director said verification of the information reported in the June 30, 1997 Performance Review was not done. Since the overall success of the Empowerment Zone Program is primarily dependent upon leveraged funds, we believe correct, up-to-date reporting of funding is necessary to provide an accurate picture of the benefit of the Program.

The City Did Not Report Progress Made

The City’s Performance Review reflected that no progress had been made against the performance measures established for Arts Access. The City showed that Arts Access planned to develop and implement an Arts Program resulting in 900 artistic contracts and 180 other arts activities that would positively affect Empowerment Zone residents by the year 2005. The City did not report any

actual progress had been made, even though the City's files contained information that showed that 24 contracts had been completed and seven performances conducted.

The inaccuracy occurred because the Detroit Empowerment Zone Development Corporation reported information it received in a telephone conversation with the Business Manager for the City's Recreation Department, and did not verify the accuracy of the information prior to including it in the 1997 Performance Review.

Accomplishments of the HIV Prevention and Intervention Strategy Were Incorrectly Reported

The City of Detroit inaccurately reported the accomplishments of the Hemoglobin Immune-deficiency Virus (HIV) Prevention and Intervention Strategy. The City incorrectly reported that the Strategy received \$4,028,613 in commitments for in-kind contributions, and did not report that the Strategy received \$67,896 for emergency financial assistant services to 259 Empowerment Zone residents. The City also could not support that most of another \$790,232 of in-kind contributions for the Strategy's counseling, testing, case management services, and risk reduction education program actually benefited Zone residents. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring

reviews or verify the accuracy of the information included in the Performance Reviews. As a result, HUD was not provided an accurate picture of the activity and the impression exists that the benefits of the Strategy are greater than achieved.

The City Inaccurately Reported That The HIV Strategy Received \$4,028,613

The City of Detroit's Performance Review showed the Strategy had commitments for \$4,818,845 of in-kind contributions. The Executive Director of the implementing agency, the Wellness House of Michigan, said all of the in-kind contributions were received. The providing organizations estimated the value of the counseling, testing, education, and case management services totaled \$790,232. Therefore, \$4,028,613 of in-kind contributions was erroneously reported.

The Executive Director of the Wellness House of Michigan said he had no idea what information the Detroit Empowerment Zone Development Corporation used when it prepared the Performance Review. The individuals who prepared the 1997 Performance Review no longer work at the Corporation. Personnel at the Corporation said they also did not know where the reported figures came from. Since the Strategy did not receive Empowerment Zone funds, they believed it was not necessary to monitor the activity or verify the accuracy of the information reported. However, since the overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged private funding and contributions, we believe it is imperative that the progress of Zone activities be monitored and verified.

The City Did Not Report Assistance Valued At \$67,896 Was Provided

The City did not report that emergency assistance valued at \$67,896 was provided to 259 Zone residents under the Strategy's Health Emergency Lifeline Program. The Program pays for services such as rents, security deposits, medical prescriptions, and utilities. The Program helps those who are in jeopardy of becoming homeless, or having their utilities turned-off. It also provides funding for residents with insufficient funds to purchase medicines.

The City Could Not Support Benefits To Zone Residents

For the \$790,232 of in-kind services that were provided, the City reported that 6,176 Empowerment Zone residents received HIV risk reduction education, 457 Zone residents received HIV counseling and testing, and 758 Zone residents received case management services. The Detroit Empowerment Zone Development Corporation and the

implementing agency did not have records to validate the number of residents served through the three activities. Of the three activities, only one had records to show its services benefited Zone residents. HIV counseling and testing was provided to 457 Zone residents at a total cost of \$60,324.

As a result, HUD lacks assurance that \$729,908 (\$790,232-\$60,324) actually benefited Zones residents. The Executive Director of the Wellness House of Michigan said the lack of records occurred because there was no money to support coordinated, collaborative efforts, especially for special projects related to assessment and data collection. We believe that if the City is going to report information as resulting from Zone activities, then it needs to have a method to verify the accuracy of the information reported.

Accomplishments of the Mercy Education Project Were Incorrectly Reported

The City of Detroit inaccurately reported the actual status and progress of the Mercy Education Project in the June 30, 1997 Performance Review. The inaccuracies related to performance measures, funding, and performance milestones. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews or verify the accuracy of the information included in the Performance Review. As a result, the accomplishments of the Project were not accurately reported to HUD, which created the impression that the benefits of the Project were greater than actually achieved.

The City Did Not Report
The Project's Performance
Measures

The City of Detroit did not report the progress made by the Project in the June 1997 Performance Review. The Review showed that the Project planned to increase by 50 percent the educational and family support services to at-risk families over the 1994 level. The Project's records indicated that a 76 percent increase for women and 36 percent increase for girls was achieved as of June 30, 1997. However, the City did not report this in the Performance Review.

The City also inaccurately reported the Project's performance measures in the 1997 Performance Review. The City reported that 30 women received educational and family support services. However, records maintained by the Mercy Education Project showed that 44 women from the Empowerment Zone were served as of June 30, 1997.

The Detroit Empowerment Zone Development Corporation's Executive Director said on-site monitoring visits were not performed because of a shortage in staff. She said the Corporation's Coordinators mainly relied on information provided by the Project and they did not verify the information reported. We believe it is the responsibility of the City and the Empowerment Zone Development Corporation to ensure the Corporation has adequate staff to comply with the terms of its contract to monitor the Empowerment Zone Program. On-site monitoring is important to ensure the reporting process is accurate and meets the requirements of the City's contract.

The City Over Reported
The Project's Funding By
\$26,855

The City inaccurately reported the Project's funding in the June 30, 1997 Performance Review. The Review showed that the Project: (1) received \$132,488 from the Sisters of Mercy; (2) had a projected commitment of \$140,000 in contracted services to support the Project; (3) received \$6,000 from the Raymond O'Leary Fund; (4) received no funding from the Conrad Hilton Fund for Sisters; (5) received \$1,500 from New Detroit, Incorporated; and (6) received \$25,000 from private foundations. However, as of June 1997, the Project's documentation showed that: (1) only \$117,711 was received from the Sisters of Mercy; (2) no commitment existed for the contracted services of \$140,000; (3) \$12,700 was provided by the Raymond O'Leary Fund; (4) \$17,300 was received from the Conrad

Hilton Fund; (5) \$7,000 was provided by New Detroit; and (6) \$123,422 was provided by various private foundations.

The following table shows that the net effect of the inaccurate reporting was an overstatement of the Project's funding by \$26,855:

Source of Funding	Amount Reported	Amount Supported	Amount Overstated
Sisters of Mercy	\$132,488	\$117,711	\$14,777
Contracted Services	140,000	0	140,000
Raymond O'Leary	6,000	12,700	(6,700)
Conrad Hilton	0	17,300	(17,300)
New Detroit	1,500	7,000	(5,500)
Private Foundations	<u>25,000</u>	<u>123,422</u>	<u>(98,422)</u>
Total	<u>\$304,988</u>	<u>\$278,133</u>	<u>\$26,855</u>

The Corporation's Coordinator who prepared the 1997 Performance Review said he did not have the funding information available when she prepared the 1997 Review; therefore, she simply reported the same funding information from the 1996 Review. Since the overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged funds, we believe correct, up-to-date reporting of funding is necessary to provide an accurate picture of the benefit of the Empowerment Zone.

The City Incorrectly Reported The Project's Performance Milestones

The City incorrectly reported the Project's performance milestones in the June 1997 Performance Review. The Review showed that 120 girls received educational services and 108 families attended the nurturing program. However, the Project's documentation showed that 91 Empowerment Zone girls were provided educational services and only 12 Zone families attended the nurturing program. Since the overall success of the Empowerment Zone Program is to assist Zone residents, we believe that it is imperative that the City accurately reports the performance of its activities.

Accomplishments of the Male and Female Responsibility Program Were Incorrectly Reported

The City of Detroit inaccurately reported the actual status and progress of the Male and Female Responsibility Program in the June 30, 1997 Performance Review. The inaccuracies related to performance measures and funding. The Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not verify the accuracy of the information included in the Performance Review. As a result, the accomplishments of the Program were not accurately reported to HUD, which created the impression that the benefits of the Program were greater than actually achieved.

The City Over Reported
The Number Of
Individuals Served By The
Program

The City of Detroit over reported the number of individuals served by the Male and Female Responsibility Program in the June 1997 Performance Review. The Review showed that 6,000 individuals were served by the Program as of June 30, 1997; however, records maintained by the Detroit Urban League, the Program's administering entity, showed that only 3,936 individuals received services. The net affect was an overstatement of 2,064 individuals.

The inaccurate reporting occurred because the Detroit Empowerment Zone Development Corporation did not use information provided by the Detroit Urban League which showed the correct number of individuals served as of June 30, 1997. The Corporation reported the number of individuals that was projected to be served by the Program.

The City Over Reported
The Program's Funding
By Over \$6 Million

The City inaccurately reported the Program's funding in the June 30, 1997 Performance Review. The Review showed that the Program had projected funding of: (1) \$2 million in non-Empowerment Zone Federal funds; (2) \$3,840,870 from the United Way; and (3) \$551,630 from the Kellogg Foundation. However, as of June 1997, the Program did not have a commitment for the \$2 million of Federal funds or the funding from the Kellogg Foundation. Also, the United Way funds were not specifically dedicated to the Program and the Detroit Urban League could not provide documentation that showed the funds were used for the Program. As a result, the Program's funding was overstated by \$6,392,500.

The Corporation's Coordinator who prepared the 1997 Performance Review said he did not have the funding information available when she prepared the 1997 Review. Therefore, she reported the same funding information as reported in the 1996 Review. Since the overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged funds, we believe correct, up-to-date reporting of funding is necessary to provide an accurate picture of the benefit of the Empowerment Zone.

Controls Over the Community Self Sufficiency Centers Program Were Not Adequate

The City of Detroit did not maintain adequate controls over the Community Self Sufficiency Centers program. The City inappropriately used \$2,879 of Empowerment Zone funds that did not benefit Zone residents. Although the amount of funds involved is small in comparison to the program funds spent (\$770,135), the problem was easily identifiable and is indicative of a situation that could cause more significant problems in the future if not corrected. The City also inaccurately reported the program's funding in the June 30, 1997 Performance Review. The problems occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews 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 financial position.

The City Did Not Have Adequate Controls Over Zone Funds

The City of Detroit executed an agreement with Warren/Connor Development Coalition, the administering entity of the program, to provide job readiness and health and human services to Empowerment Zone residents for the period of July 31, 1996 to December 31, 2004. The contract required that services be provided to support the goal of assisting Zone residents for employment opportunities. However, services were provided to non-Zone residents.

The amount of funds used to provide services to non-Zone residents (\$2,879) was small in comparison to the program funds spent (\$770,135). However, the error was easily identified and is indicative of a situation that could cause more significant problems in the future if not corrected. The Detroit Empowerment Zone Development Corporation did not detect the problem because it had not conducted on-site monitoring reviews.

Inappropriate Job Readiness Training Was Paid Using Zone Funds

The City inappropriately used Empowerment Zone funds to reimburse Warren/Connor Development Coalition for job readiness training. The Coalition provided child-care services as part of the job readiness training. From December 1, 1997 to January 31, 1998, the Coalition paid 100 percent of a Child-Care Worker's salary, payroll taxes, and health insurance benefits. However, the Coalition's records showed that only 21 (26 percent) of the 82 residents who received job readiness training were Zone residents. The City's Strategic Plan and the Coalition's agreement required the training to be provided to Zone residents. The Coalition used \$2,879 of Empowerment Zone funds to pay for the 61 non-Zone residents (74 percent) who received child-care services.

The City Did Not Report The Funding Received By The Program

The City did not report the funding received by the program in the June 1997 Performance Review. The Review showed that the program was allocated \$8 million in Empowerment Zone funds and had projected funding of \$111,120 from the City's Employment and Training Department. However, the City's records indicated that \$770,135 of Zone funds were provided to the Coalition as of June 30, 1997. Additionally, the Coalition's records showed that the program received \$55,694 from the City's Employment and Training Department as of June 1997.

The Detroit Empowerment Zone Development Corporation did not obtain the program's funding information for the June 1997 Performance Review. The Corporation simply reported the same funding information from the 1996 Review. Since the overall measure of success of the Empowerment Zone Program is primarily dependent upon leveraged funds, we believe correct, up-to-date reporting of funding is necessary to provide an accurate picture of the benefit of the Empowerment Zone.

Auditee Comments

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City of Detroit
Planning & Development Department

September 21, 1998

Heath Wolfe
Senior Auditor
Department of Housing and Urban Development
Office of Inspector General
Columbus, Ohio 43215

Dear Mr. Wolfe:

Attached please find the City of Detroit's response to the audit findings for the June 30, 1997 Performance Review.

Sincerely,

Paul A. Bernard
Director

kh

cc: Joseph Vassallo, P&DD
Charlayne Parker, P&DD
Sylvia Robinson, P&DD
Leonard Artola, P&DD
Denise Gray, EZDC

Finding #1 – Inaccurate reporting of accomplishments

The following program’s accomplishments were incorrectly reported in the City of Detroit’s June 30,1997 Performance Review:

1. HIV Prevention and Intervention Strategy
2. Neighborhood Partnership Academy
3. Southwest Contaminated Site Redevelopment
4. Recreation Facilities Enhancement Project
5. Mercy Education Project Were Incorrectly Reported
6. Arts Access
7. Male and Female Responsibility

RECOMMENDATIONS for HIV Prevention and Intervention Strategy

We recommend that the Director of the Community Planning and Development, Michigan State Office, assures that the City of Detroit:

- A. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

RECOMMENDATIONS for Neighborhood Partnership Academy

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

- A. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

RECOMMENDATIONS for Southwest Contaminated Site Redevelopment Project

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

- A. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- B. Establish procedures and controls to ensure the person who prepares the City’s Performance Review to HUD uses actual accomplishments for each Empowerment Zone activity provided by the administering officials.

- C. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

RECOMMENDATIONS for Recreation Facilities Enhancement Project

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

- A. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

RECOMMENDATIONS for Mercy Education Project

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

- A. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

RECOMMENDATIONS for Male and Female Responsibility Program

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

- A. Ensure that staff, who are responsible for preparing the Performance Review to HUD, use the actual accomplishments for each activity.
- B. Establish procedures and controls to verify the accuracy of information submitted to HUD for the Empowerment Zone Program.

Finding #2 - The City incorrectly reported a program as an Empowerment Zone Activity.

The following program's accomplishments were incorrectly reported as an Empowerment Zone Activity in the City of Detroit's June 30, 1997 Performance Review:

1. Industry Specific Training on Health Care

RECOMMENDATIONS for Industry Specific Training on Health Care

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

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

Finding #3 – Overstatement of Leveraged Funds

The City of Detroit overstated the amount of estimated leveraged funds in the June 30, 1997 Performance Review by over \$460 million. The Review's Executive Summary estimated that the City's 73 Empowerment Zone activities should leverage over \$3 billion. However, supporting documentation included with the Review showed the 73 activities should leverage only \$2,539,479,690. The problem occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, used information provided by the City's Planning and Development Department and did not verify the accuracy of information included in the Performance 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 benefit.

RECOMMENDATIONS

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

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

Finding #4 – Lack of Control of EZ funds.

The City of Detroit did not maintain adequate controls over the Community Self Sufficiency Centers program. The City inappropriately used \$2,879.00 of Empowerment Zone funds that did not benefit Zone residents. Although the amount of funds involved is small in comparison to the program funds spent (\$770,135), the problem was easily identifiable and is indicative of a situation that could cause more significant problems in the future if not corrected. The City also inaccurately reported the program's funding in the June 30, 1997 Performance Review. The problems occurred because the Detroit Empowerment Zone Development Corporation, which the City contracted with to administer its Empowerment Zone Program, did not perform on-site monitoring reviews 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 financial position.

1. Community Self Sufficiency Center

RECOMMENDATIONS

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

- A. Reimburse the Empowerment Zone Program \$2,879.00 from non-Federal funds for the job readiness training that was inappropriately provided to the non-Zone residents.
- B. Establish procedures and controls to ensure that Empowerment Zone Program monies are used efficiently and effectively.
- C. Establish procedures to ensure on-site monitoring visits are conducted of all Empowerment Zone Program activities as required by the contract with the Detroit Empowerment Zone Development Corporation.
- D. Establish procedures and controls to verify the accuracy and completeness of information submitted to HUD for the Empowerment Zone Program.

RESPONSE TO ALL FINDINGS

The City of Detroit and the Empowerment Zone Development Corporation (EZDC) agrees with the recommendations and will refine its procedures to verify the accuracy of information submitted.

EZDC staff reported funding amounts and commitments it received from the implementing agency on a phone log to complete the HUD annual performance review. All projects were informed that the information was for the HUD annual performance review. EZDC did not have adequate computer equipment or staff to perform on-site monitoring of all Empowerment Zone activities, at that time. New equipment has been installed and additional staff has been hired.

To verify the information it receives from the implementing agencies, EZDC established the following procedures:

- EZDC has completed a series of reporting forms to chart program activities.
- EZDC will implement an internal evaluation system to track performance, hire a consultant that will assist in identifying measurable indicators, and hire additional staff to ensure that on-site monitoring is performed on all Empowerment Zone programs.
- EZDC has designed a five-point quality assurance program, which redefines its performance monitoring process.

The City of Detroit will recapture the \$2,879.00 from Warren/Connor Development Coalition, the implementing agency of the Community Self Sufficiency Center, in order to reimburse the Empowerment Zone Program for monies misspent.

While the City of Detroit did not provide enough supporting documentation to justify the four billion dollar amount in leverage funds, the City has not given a false impression of the benefits of the Empowerment Zone. Since the City of Detroit received its Empowerment Zone designation there has been a significant amount of private investment in these distressed areas of the City. Since 1996, General

Motors has invested \$227 million dollars in upgrading their equipment and machinery at their Cadillac Plant and another \$137 million dollars has just been committed. These investments have resulted in the retention of 3,800 jobs.

The Chrysler Corporation's investments have been even greater. Since 1996, Chrysler has begun investing what will eventually be over \$1.4 billion dollars in their Mack Engine Plants. In 1997, they began a \$504 million dollar investment at their Jefferson North Assembly Plants. These investments have resulted in the creation and retention of over 5,400 jobs.

In May 1997 construction began on a new 400,000 square foot facility in the southwest region of the Empowerment Zone. Renaissance Global Logistics (RGL) an OJ Group Company was awarded a contract from the Ford Motor Company's Complete Knockdown Design. RGL plans on consolidating and exporting over 30 million cubic feet annually of vehicle production components from North America to South America and the Asia/Pacific Region. Its first shipment is scheduled to be released in November 1998. This investment has resulted in the creation of over 150 jobs.

Another Detroit Empowerment Zone success is the Empowerment Zone Financial Institution Consortium (EZFIC), which is comprised of eleven financial institutions that established a private partnership to develop alternative lending programs for the Empowerment Zone. Between the years 1995 and 1997, EZFIC made \$665,099,701 in loans within the Empowerment Zone. This has resulted in over a 300 % increase in loans made in that area prior to the Empowerment Zone designation. In the first two quarters of 1998, EZFIC has surpassed their goals for entire year.

The City of Detroit and the Empowerment Zone Development Corporation (EZDC) are committed to adhering to the Inspector General's recommendations to ensure that all reports will be accurate and that the residents of the Empowerment Zone benefit from the program.

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