

---

# AUDIT REPORT



CITY OF ST. LOUIS

COMMUNITY DEVELOPMENT BLOCK  
GRANT PROGRAM

ST. LOUIS, MISSOURI

99-KC-244-1002

SEPTEMBER 28, 1999

OFFICE OF AUDIT, GREAT PLAINS  
KANSAS CITY, KANSAS

---



Issue Date	September 28, 1999
Audit Case Number	99-KC-244-1002

TO: Ann Doody Wiedl, Director, Community Planning and Development, 7ED

*Roger E. Niesen*

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

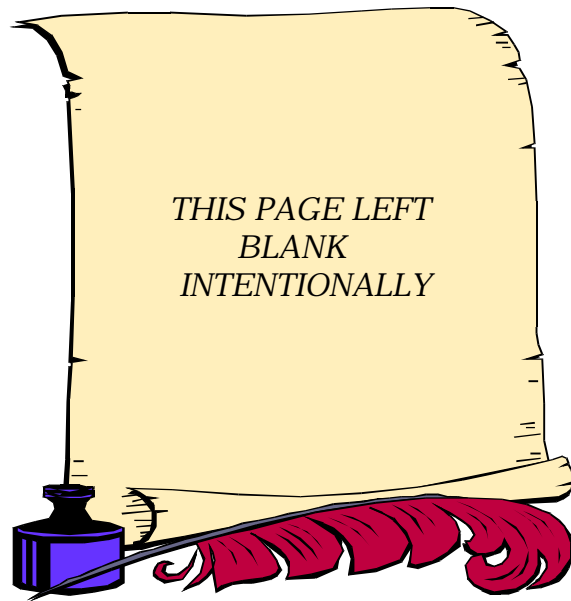
SUBJECT: City of St. Louis  
Community Development Block Grant Program  
St. Louis, Missouri

We completed a limited scope audit of the Community Development Agency of the City of St. Louis' (Grantee) administration of HUD's Community Development Block Grant program. The purpose of the examination was to determine if the Grantee carried out its activities in an economical, efficient and effective manner; complied with requirements, laws and HUD's regulations; and only charged eligible and reasonable costs to the programs.

We determined the Grantee and its subrecipients did an excellent job managing the housing programs we reviewed; however, the economic development programs did not always comply with program requirements, laws and regulations. The Community Development Agency could not adequately demonstrate that 10 of 16 economic development activities funded by \$2,427,000 of Community Development Block Grant monies met a national objective. One of 16 activities examined that had a grant for \$730,000, did not use the funds for an eligible purpose. Additionally, nine other assisted projects, with grants/loans totaling \$1,697,000, did not have adequate documentation to show that the use of funds was for an eligible purpose. This report contains one finding.

Within 60 days please furnish us, for each of the recommendations in this report, a status report on (1) corrective action taken, (2) the proposed corrective action and the date for its completion, or (3) why action is not needed. Also, please furnish us copies of any correspondence or directives issued related to the audit.

We appreciate the cooperation of your staff during the audit. Should you or your staff have any questions, please contact me at (913) 551-5870.



---

# Executive Summary

We completed a limited scope audit of the Community Development Agency of the City of St. Louis' (Grantee) administration of HUD's Community Development Block Grant Program. The purpose of the examination was to determine if the Grantee carried out its activities in an economical, efficient and effective manner; complied with requirements, laws and HUD's regulations; and only charged eligible and reasonable costs to the programs.

We determined the Grantee and its subrecipients did an excellent job managing the housing programs we reviewed; however, the economic development programs did not always comply with program requirements, laws and regulations. The Community Development Agency could not adequately demonstrate that 10 of 16 economic development activities funded by \$2,427,000 of Community Development Block Grant monies met a national objective.

---

## Housing Programs Were In Compliance

The Grantee's housing programs were in compliance with HUD's requirements. We did not identify any problems in our examination of the Grantee's Housing Development Program and the Targeted Assistance Program. Both programs were primarily implemented by two of the Grantee's in-house divisions. Housing Development included new construction and rehabilitation, while the Targeted Assistance Program was designed to assist low and moderate-income homeowners with deferred maintenance projects. As part of our review, we visited the Neighborhood Housing Services of St. Louis, Inc., that the Grantee had contracted with for the Strategic Home Repair Program and the Code Enforcement Revolving Loan Program. In our opinion, Neighborhood Housing Services was exceptionally well run.

## Low and Moderate-Income Jobs Not Adequately Documented

The Grantee contracted with a subrecipient, the St. Louis Development Corporation, to administer economic development activities. Neither the Grantee nor the subrecipient could demonstrate compliance with Community Development Block Grant requirements. Neither could support the number of low and moderate-income jobs created or retained as a result of programs conducted by assisted economic development activities. One of 16 activities examined that had a grant for \$730,000, did not use the funds for an eligible purpose. Additionally, nine other assisted projects, with grants/loans totaling \$1,697,000, did not have adequate documentation to show that the use of funds was for an eligible purpose. This problem occurred because the Grantee did not adequately

Recommendations

monitor the economic development activities to ensure the subrecipients were in compliance with HUD's guidelines. We also believe the subrecipients placed more emphasis on serving the assisted businesses, rather than benefiting low and moderate-income persons.

We recommend HUD assures that the Community Development Agency verifies all economic development participants have documentation to support their progress in job creation/retention for low and moderate-income persons according to executed agreements with the participants. We also recommend that the Agency repays HUD the amount of the grants and/or loans where economic development participants cannot support the jobs that should have been created or retained under the terms of their subrecipient agreements.

The results of our audit were discussed with Grantee and HUD officials during the course of the audit. We held an exit conference on September 23, 1999. The Grantee provided written comments to our finding. The complete comments are included in our finding. We considered the comments in preparing our final report.

---

# Table of Contents

---

---

Management Memorandum	i
-----------------------	---

---

Executive Summary	iii
-------------------	-----

---

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

---

## Finding

The Grantee Did Not Demonstrate Low To Moderate-Income Benefit	5
--	---

---

Management Controls	9
---------------------	---

---

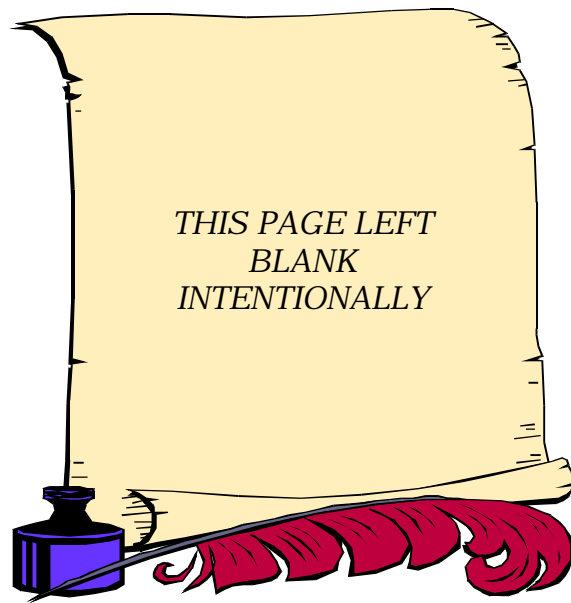
Follow Up On Prior Audits	11
---------------------------	----

---

## Appendices

A Schedule of Questioned Costs	13
--------------------------------	----

B Distribution	15
----------------	----



---

# Introduction

The Community Development Block Grant program was established by Title I of the Housing and Community Development Act of 1974 to assist entitlement grantees in the development of viable urban communities. Grantees use Community Development Block Grant funds to develop decent housing, a suitable living environment, and economic opportunity principally for low and moderate-income persons. The Department of Housing and Urban Development provides grants to states and local governments as determined by a statutory formula.

The Department of Housing and Urban Development's Community Development Block Grant regulations require funds be used for eligible activities that further at least one of the broad national objectives of the program: (1) benefit low and moderate-income persons, (2) aid in the prevention or elimination of slums and blight, and (3) meet community development needs having particular urgency.

---

## The City's Community Development Block Grant Program

The City of St. Louis passed Ordinance 56708 in 1974 which created the St. Louis Community Development Agency. The Agency was designed to administer all of the City's Community Development Block Grant funds. The Community Development Agency awards Community Development Block Grant funds to various subgrantees and City departments primarily for the benefit of low and moderate-income persons, and to provide public services to the community. By far, the subgrantee who received the largest amount of funding is the St. Louis Development Corporation. Since 1990, they have been co-located with the Community Development Agency to consolidate administrative activities.

## St. Louis Development Corporation

The St. Louis Development Corporation was organized in 1988 to improve the efficiency and effectiveness of economic development activities of the City. The St. Louis Development Corporation combined the administrative staffs of six independent development agencies for the purpose of providing staff and research work for all six agencies. The six component agencies included the Land Reutilization Authority, the Land Clearance for Redevelopment Authority, the St. Louis Industrial Development Authority, the Planned Industrial Expansion Authority, the Local Development Company, and the St. Louis Port Authority.



Community Development Agency/St. Louis Development Corporation Reorganization

The Community Development Agency and the St. Louis Development Corporation were in the process of a major reorganization at the time of our audit field work. The Mayor of the City of St. Louis appointed a reorganization committee to develop recommendations to improve the operating efficiency of the two agencies. This was done because there was confusion between the two agencies in terms of employee accountabilities, staff supervision, and overlapping roles that created broad perceptions the two agencies were duplicative, inefficient, unresponsive, and not user-friendly. In November 1998 the committee issued a report, The Restructuring of the Development Operations, that contained its recommendations to make the following changes:

1. Organizational Alignment of Development Operations.
2. Alignment in Governance Structures.
3. Re-instatement of Planning as a Core Competency.
4. Creation of New Funding Mechanisms.
5. Re-Engineering the Resource Allocation Process.

The City began implementation of the recommendations during our review.

Community Development Block Grant Funding and Low And Moderate-Income Benefits

The Community Development Agency received 1997 and 1998 Entitlement Grants \$28,490,000 and \$27,507,000, respectively. The Agency expended \$23,528,599 in 1997 and \$26,835,599 in 1998. The national objective of benefit to low and moderate-income persons was used as justification for 98 percent of the 1997 funds expended and 85 percent of the 1998 funds expended.

---

Audit Objectives

The purpose of our examination was to determine if the Grantee carried out its activities economically, efficiently, and effectively; complied with requirements, laws and HUD's regulations; and only charged the programs eligible and reasonable costs. We concentrated on two areas during the audit: (1) Economic Development Loans and Grants, and (2) Construction of single-family homes. For both areas, we determined whether the Community Development Agency activities met a Community Development Block Grant national objective and if program funds were used appropriately.

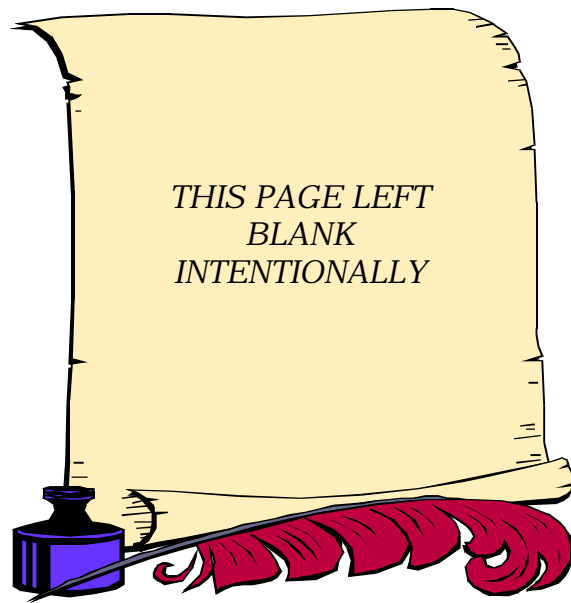
Audit Scope and  
Methodology

To accomplish our objectives, we:

- Interviewed HUD's St. Louis Area Office-Community Planning and Development Division staff and reviewed files pertaining to the Community Development Agency to obtain policy, procedures and background information on the Community Development Block Grant program and related activities.
- Interviewed Grantee and subgrantee officials and staff and reviewed records and files to determine the adequacy of Grantee management controls, and compliance with Community Development Block Grant regulations.
- Conducted site visits of activities to verify the status of projects and information reported to the Grantee and HUD.

We conducted our audit in accordance with generally accepted government auditing standards. Our audit covered the period January 1997 through December 1998. Where appropriate, we extended our review to cover other periods. We performed our on-site work during March through September 1999.

We provided a copy of this report to the Mayor of the City of St. Louis.



# The Grantee Did Not Demonstrate Low To Moderate-Income Benefit

The Community Development Agency could not adequately demonstrate that 10 of 16 economic development activities funded by \$2,427,000 of Community Development Block Grant monies met a national objective. The Community Development Agency did not adequately monitor the economic development activities to ensure that the activities actually created/retained jobs, or made them available to low and moderate-income persons as required by Title 24, Section 570.208, of the Code of Federal Regulations. Therefore, one of the 10 assisted projects was ineligible under the national objective it was supposed to meet, and HUD lacks assurance that the other nine projects were eligible. Also, program beneficiaries appear to be grant/loan recipients rather than low to moderate-income persons.

## Community Development Block Grant Regulations

Community Development Block Grant grantees are required to ensure that each eligible activity meets one of three national objectives in 24 CFR 570.208: (1) benefit to low and moderate-income persons; (2) aid in the prevention or elimination of slums or blight; and (3) meet a need having a particular urgency.

If grantees fund activities that create jobs, they must maintain documentation that at least 51 percent of those jobs will be held by, or made available to, low and moderate-income persons. For funded activities that retain jobs, there must be sufficient supporting documents that show jobs would have been lost without the Community Development Block Grant assistance and that one or both of the following applies to at least 51 percent of the jobs: the position is held by a low or moderate-income person; or the job can reasonably be expected to be filled by a low or moderate-income person within the next two years.

## Low And Moderate-Income Jobs Were Not Adequately Documented

We reviewed 16 economic development activities that used \$3,227,000 of Community Development Block Grant funding. Six of the activities receiving \$800,000 in assistance met the job goals and were adequately documented. Files on the remaining 10 activities (69 percent), including the largest ones, did not contain documentation that grants/loans met the national objective of benefit to low and moderate-income persons. This was the national objective selected by the Community Development Agency and reported to the

Department of Housing and Urban Development. Specifically, for the 10 files, the operating agency did not adequately document: jobs created or retained; site visits to the assisted businesses; or, in many instances, requests for job information from assisted businesses.

Community Development Block Grant funds were disbursed to the businesses between 9 and 27 months ago. This time was sufficient to show progress toward the goal to create 544 jobs and retain 704 jobs, where at least 51 percent of the jobs should have been held by, or made available to, low and moderate-income persons. Grantee files contained agreements between operating agencies and assisted businesses that committed the businesses to job goals. However, the agreements were not enforced.

Three of the largest assisted businesses in our review received \$1,255,000 in grants. These businesses were supposed to create 425 jobs and retain 700 jobs. The largest business received a \$730,000 grant. We evaluated this business in more detail to determine if the problem we identified was a documentation problem or if national objectives were not met. The business was supposed to create 365 jobs, but could not show that it hired any low and moderate-income persons.

The grant recipient appears to be the only clear beneficiary, not low and moderate-income persons as required by the national objective. As a result, the business should not have received Community Development Block Grant funds. The deficiency was not detected by the Community Development Agency because it did not effectively monitor the business.

Community Development Agency Did Not Adequately Monitor Progress

Ineffective Community Development Agency monitoring allowed grant funds to be expended without progress towards a national objective for one business. Also, HUD has no assurance on progress towards national objectives for other businesses. Under 24 CFR, Section 570.501, the Community Development Agency is given responsibility for ensuring that Community Development Block Grant funds are used in accordance with all program requirements. The Community Development Agency is also responsible for determining the adequacy of performance under subrecipient agreements. Section 570.506 specifies types of records businesses are to maintain. Among other requirements, these include family size and annual income of a person hired under a grant program.

The Community Development Agency management staff said the Agency had been going through a major reorganization. They said the Community Development Agency Monitoring Division lost a number of its program monitors during the reorganization. The staff position responsible for monitoring the operating agency's economic development activities had been vacant for approximately one year. Consequently, there was no one available to monitor and ensure that Community Development Block Grant funds were used in accordance with program requirements for economic development projects.

We believe, if the Community Development Agency is to continue to participate in the program, it has a responsibility to maintain adequate staffing that ensures program objectives are achieved. The Community Development Agency hired two new program monitors as of September 21, 1999.

---

#### Auditee Comments

On September 21, 1999, the grantee provided the following response to our draft finding:

“We concur with the statement that economic development activities were not adequately monitored by the Community Development Agency. As a result of reorganization efforts, the monitoring position related to economic development activities remained vacant for almost a year. In addition, a second monitoring position and the section's secretarial position were also vacant for a portion of that time, making it exceedingly difficult to carry out monitoring functions in an adequate manner. All of these positions have now been filled and monitoring functions are back to normal.

‘We are now monitoring SLDC {St Louis Development Corporation}to ensure that efforts are made to adequately document job creation/retention and SLDC is currently making efforts to obtain documentation related to ten of the economic development activities cited in the draft finding. We anticipate that SLDC will be able to adequately document job creation/retention efforts for these activities. The Union Pacific project, however, needs to be reclassified as an activity which aids in the prevention or elimination of slums or blight and we will make that change along with necessary changes to the Annual Performance Report.”

---

OIG Evaluation of  
Auditee Comments

We commend the Community Development Agency for hiring new staff for the Monitoring Division. This should greatly improve monitoring over economic development activities. We are familiar with the location of the Union Pacific offices and question whether the area, which is well-kept and only two blocks from City Hall, could be considered blighted. Since the grants for Union Pacific and the other nine assisted projects included in our finding were provided to create or retain jobs for low and moderate-income persons, if the intent of the program cannot be supported, the funds should be repaid to HUD.

---

Recommendations

We recommend the Director of the Community Planning and Development Division, St. Louis Office assures:

- 1A. The Community Development Agency verifies all economic development participants have documentation of their progress in job creation/retention for low and moderate-income persons according to the agreements executed with the participants.
- 1B. The Community Development Agency repays HUD the amount of the grants and/or loans where the economic development participants cannot support the jobs that should have been created or retained under their agreements with the operating agency.
- 1C. The Community Development Agency's actions to hire additional personnel have resulted in effective monitoring of subrecipients.

---

# Management Controls

In planning and performing our audit, we considered the management controls of the Community Development Agency of the City of St. Louis 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:

- Determining and documenting the number of jobs created or retained for low and moderate-income persons.
- Assuring housing activities will provide affordable housing to eligible recipients, including low and moderate-income persons, and/or aid in the prevention or elimination of slums and blight.
- Assuring compliance with laws and regulations.
- Adequately monitoring grant activities.

We assessed the relevant controls identified above.

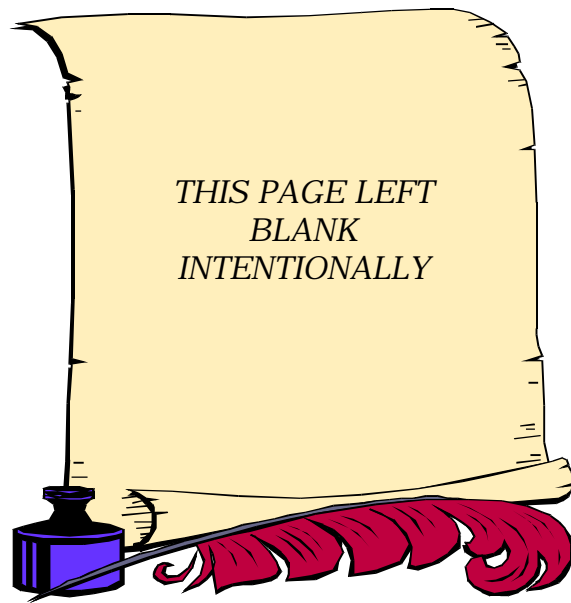
## Significant Weaknesses

It is a significant weakness if management controls do not provide reasonable assurance that control objectives are met.

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

- Inadequate controls to ensure that subgrantees complied with requirements for creating and retaining jobs for low and moderate-income persons (Finding 1).
- Inadequate system to ensure regular monitoring of subrecipients and timely corrective action to resolve noted deficiencies (Finding 1).



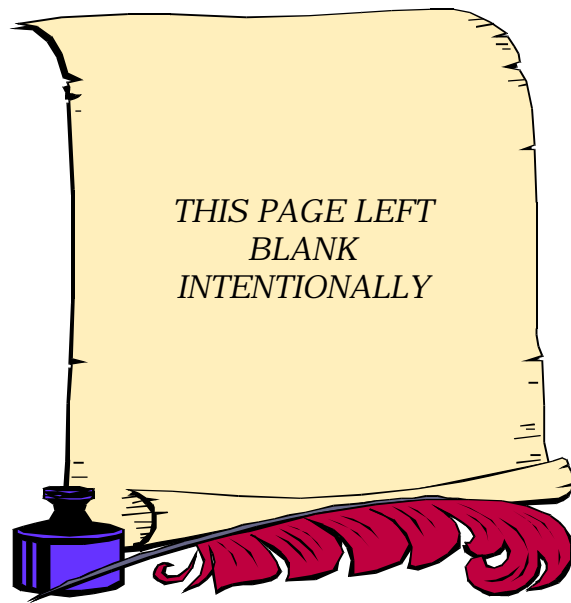


---

# Follow Up On Prior Audits

The Office of Inspector General last audited the Community Development Agency of the City of St. Louis (Grantee) in September 1991. That review concluded six activities did not qualify for inclusion in the low and moderate-income benefit computation. The exclusion of the six activities from the computation resulted in the Community Development Agency not spending the required percentage of aggregate Community Development Block Grant funds for the benefit of low and moderate-income persons. We recommended the Community Development Agency deposit, from nonfederal sources, \$3.7 million into the Community Development Block Grant program account. There are no unresolved findings from that report.

Also, the Grantee, as part of the City of St. Louis, was audited by an Independent Auditor for the year ended June 30, 1998. There was one finding in the Independent Auditor's report that related to the Community Development Block Grant program. The Independent Auditor's finding stated that the City did not have an effective system of internal controls in place to ensure compliance with the subrecipient monitoring compliance requirement. This same condition is included in our finding in this report.

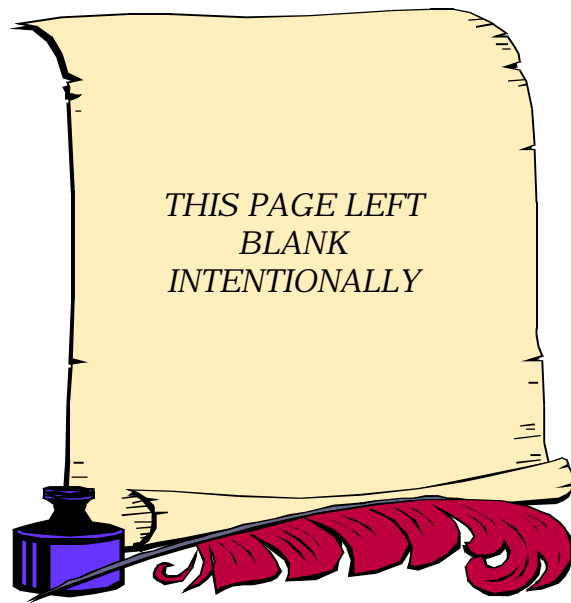


# Schedule of Questioned Costs

<u>Issue</u>	<u>Type of Questioned costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
Job Creation and Retention	\$730,000	\$1,697,000

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured 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 costs. 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.



# Distribution

Deputy Secretary, SD (Room 10100)  
 Chief of Staff, S (Room 10000)  
 Special Assistant to the Deputy Secretary for Project Management, SD (Room 10100)  
 Acting Assistant Secretary for Administration, S (Room 10110)  
 Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)  
 Senior Advisor to the Secretary, Office of Public Affairs, S (Room 10132)  
 Deputy Assistant Secretary of Administrative Services/Director of Executive Secretariat, AX (Room 10139)  
 Director of Scheduling and Advance, AL (Room 10158)  
 Counselor to the Secretary, S (Room 10234)  
 Deputy Chief of Staff, S (Room 10226)  
 Deputy Chief of Staff for Operations, S (Room 10226)  
 Deputy Chief of Staff for Programs and Policy S (Room 10226)  
 Director, Office of Special Actions, AK (Room 10226)  
 Deputy Assistant Secretary for Public Affairs, W (Room 10222)  
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
 Executive Officer for Administrative Operations and Management, S, (Room 10220)  
 Senior Advisor to the Secretary for Pine Ridge Project, W (Room 10216)  
 General Counsel, C (Room 10214)  
 Director, Office of Federal Housing Enterprise Oversight, O  
 Assistant Secretary for Housing/Federal Housing Commissioner, H (Room 9100)  
 Office of Policy Development and Research, R (Room 8100)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
 Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)  
 Government National Mortgage Association, T (Room 6100)  
 Assistant Secretary for Fair Housing and Equal Opportunity, E ( Room 5100)  
 Chief Procurement Officer, N (Room 3152)  
 Assistant Secretary for Public and Indian Housing, P (Room4100)  
 Chief Information Officer, Q (Room 3152)  
 Director, Office of Departmental Equal Employment Opportunity, U (Room 5128)  
 Director, Office of Departmental Operations and Coordination, I (Room 2124)  
 Chief Financial Officer, F (Room 2202)  
 Director, Enforcement Center, V (200 Portals Building)  
 Director, Real Estate Assessment Center, X (1280 Maryland Avenue, SW, Suite 800)  
 Director, Office of Multifamily Assistance Restructuring, Y (4000 Portals Building)  
 Secretary's Representative, Great Plains, 7AS  
 Senior Community Builder, Iowa State Office  
 Senior Community Builder, Omaha Area Office  
 Senior Community Builder, St. Louis  
 Community Planning and Development, 7AD  
 Community Planning and Development Division, 7DD  
 Community Planning and Development Division, 7ED  
 Deputy Chief Financial Officer for Finance, FF (Room 2202)  
 Director, Office of Budget, FO (Room 3270)

Community Planning and Development, DOT (Room 7220)  
Headquarters Audit Liaison Officer, Deputy Secretary, SD (Room 10126)  
Primary Field Audit Liaison Officer, 6AF  
Acquisitions Librarian, Library, AS, (Room 8141)  
Chairman, Committee on Governmental Affairs, 340 Dirksen Senate Office Building,  
United States, Senate, Washington, DC 20510  
Ranking Member, Committee on Governmental Affairs, 706 Hart Senate Office Building,  
United States, Senate, Washington, DC 20510  
Chairman, Committee on Government Reform, 2185 Rayburn Building, House of  
Representatives, Washington, DC 20515  
Ranking Member, Committee on Government Reform, 2204 Rayburn Building  
House of Representatives, Washington, DC 20515  
Subcommittee on Oversight and Investigations, Room 212, O'Neil House Office Building  
Washington, DC 20515  
Director, Housing and Community Development Issue Area, United States General  
Accounting  
Office, 441 G Street, NW, Room 2474, Washington, DC 20548  
Deputy Staff Director, Counsel, Subcommittee on Criminal Justice, Drug Policy & Human  
Resources, B373 Rayburn House Office Building, Washington, DC 20515  
Chief, Housing Branch, Office of Management & Budget, 725 17<sup>th</sup> Street, NW, Room 9226,  
New Executive Office Building, Washington, DC 20503  
Community Development Agency, City of St. Louis