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TO: Nancy Peacock, Director, Community Planning and Development, 2CD

FROM: *Edgar Moore*
Edgar Moore, Regional Inspector General for Audit, 2AGA

SUBJECT: The City of Rome, New York, Did Not Administer Its Economic Development Activity in Accordance with HUD Requirements

HIGHLIGHTS

What We Audited and Why

We audited the City of Rome, New York (City), pertaining to its administration of the economic development activity known as General Cable under its Community Development Block Grant (CDBG) program. We selected the activity for review because of issues identified during our initial audit of the City's CDBG program. The objective of our audit was to determine whether the City (1) administered its economic development activity known as General Cable effectively, efficiently, and economically in accordance with applicable U.S. Department of Housing and Urban Development (HUD) rules and regulations and (2) expended related CDBG funds for eligible activities that met a national objective of the program.

What We Found

The City did not always carry out its activities effectively, efficiently, and economically in compliance with HUD regulations. Further, it expended CDBG funds for an activity that did not meet a national objective of the program. Specifically, the City failed to (1) develop a plan to ensure that the required job creation goal would be achieved, (2) adequately address known concerns about the activity's progress, and (3) maintain adequate supporting documentation. As

a result, no jobs were created, and there was no assurance that activity costs were necessary, reasonable, and in accordance with federal regulations. Consequently, the City did not use CDBG funds to address community needs.

What We Recommend

We recommend that the Director of HUD's Buffalo Office of Community Planning and Development require the City to implement procedures and controls to ensure that funded economic development activities are feasible and can be completed in a timely manner to meet a national objective of the CDBG program. We also recommend that HUD require the City to (1) establish a schedule for documenting completion of the activity and the jobs retained and/or created at the site and (2) reimburse HUD any portion of the more than \$2.95 million in CDBG funds expended on the activity for costs that do not qualify as meeting the job creation requirement.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We discussed the results of our review during the audit, provided a copy of the draft report to City officials, and requested their comments on April 9, 2009. City officials generally agreed with our finding and provided their written comments during the exit conference held on April 23, 2009. The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVES

The Community Development Block Grant (CDBG) program was established by Title I of the Housing and Community Development Act of 1974 (Public Law 93-383). The program provides grants to state and local governments to aid in the development of viable urban communities. Governments are to use grant funds to provide decent housing and suitable living environments and to expand economic opportunities, principally for persons of low and moderate income. To be eligible for funding, every CDBG-funded activity must meet one of the program's three national objectives. Specifically, every activity, except for program administration and planning, must

- Benefit low- and moderate-income persons,
- Aid in preventing or eliminating slums or blight, or
- Address a need with a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community.

The City of Rome (City) is a CDBG entitlement recipient that administers more than \$1 million in CDBG funds annually. These funds are available to support a variety of activities directed at improving the physical condition of neighborhoods by providing housing or public improvements and facilities, creating employment, or improving services for low- and/or moderate-income households. The City is responsible for overseeing, monitoring, and supporting its CDBG activities. The files and records related to the City's CDBG programs are maintained in City Hall, located at 198 North Washington Street, Rome, New York.

The redevelopment of the former General Cable manufacturing site began in 1994. The project site contained five large-scale, deteriorated, and partially collapsed structures with failed infrastructure systems, contributing to what was considered one of the most blighted neighborhoods in the city. The site is strategically located adjacent to the Erie Canal to the south, Mill Street to the north, and private industrial and commercial sites to the east. In the mid-1990s, an 18-acre section of the industrial site was selected for redevelopment as a business park, East Rome Business Park, with no specific plans for the remaining 200 acres. The goal was to concentrate on the smaller area to begin the reversal of the site's negative value and stimulate redevelopment of the entire site for industrial and commercial purposes. The project includes land acquisition, building demolition, and construction of a new access road through the site.

We audited the City's administration of its economic development activity known as General Cable based on the results of a review of the City's CDBG program. The City has conducted very little economic development and/or job creation apart from this large activity. The objective of our audit was to determine whether the City (1) administered its economic development activity known as General Cable effectively, efficiently, and economically in accordance with applicable U. S. Department of Housing and Urban Development (HUD) rules and regulations and (2) expended related CDBG funds for eligible activities that met a national objective of the program.

RESULTS OF AUDIT

Finding 1: The City Did Not Administer Its Economic Development Activity in Accordance with HUD Requirements

The City did not ensure that an economic development activity known as General Cable was administered effectively in accordance with HUD requirements. Specifically, the City failed to (1) develop a plan to ensure that the required job creation goal would be achieved, (2) adequately address known concerns about the activity's progress, and (3) maintain adequate supporting documentation. As a result, there was no assurance that the project costs were necessary, reasonable, and in accordance with federal regulations. Consequently, since the City did not use CDBG funds to address community needs, we consider more than \$2.95 million in activity costs as unsupported pending a HUD eligibility determination.

A Plan for Meeting the National Objective of Job Creation Was Not Developed

Since 1996, the City had expended \$2.95 million in CDBG funds on an economic development activity known as General Cable without meeting the required national objective of job creation. The City invested more than \$6 million from all funding sources at the site, completing such work as an access road, demolishing old buildings, and general cleanup of the old industrial site to attract private commercial investment. While such a large investment is commendable, the City failed to adequately plan for job creation in accordance with regulations at 24 CFR (*Code of Federal Regulations*) 570.203, which pertain to special economic development activities and require the City to provide a public benefit. Further, 24 CFR 570.209 provides the guidelines for evaluating and selecting economic development activities.

Concerns about the Progress of the Activity Were Not Adequately Addressed

The City failed to adequately address HUD's concerns about meeting the national objective in a timely manner. The General Cable activity started in 1996. In August 2002, HUD reminded the City that as a rule, it would allow up to five years for most economic development projects to meet the job requirements, thereby meeting the national objective of creating and/or retaining jobs for low- to moderate-income persons. The City was further informed by HUD that since the General Cable activity had been granted CDBG funds for the past six years, the City should already have met some of the job creation requirements. Officials for the City admitted that the activity had progressed much more slowly than expected

and that they hoped to create 60 jobs. In 2005, HUD again expressed concern about the lack of progress at the General Cable site. Despite the use of nearly \$3 million in CDBG funds and HUD's approval of the activity based upon the City's projection of job creation, no jobs had been created in nine years. In June of 2008, HUD advised the City that the CDBG funds expended over a 10-year period at the General Cable site had not met the national objective and would be subject to recapture if the City could not provide documentation supporting their eligibility. City officials attributed the slow progress to its difficulty in cleaning up the property site, as the required removal of asbestos in old buildings at the site before demolition had become time consuming and costly. However, the length of time that had elapsed since the project's inception demonstrates that the City failed to appropriately plan to meet the national objective in a timely manner.

Activity Costs Were Not Adequately Supported

The vast majority of the CDBG expenditures pertaining to the General Cable activity occurred before 2002. The most recent voucher and payment, made in September 2003 in the amount of \$350,000, was paid to the City as reimbursement for the remediation contracts related to demolition at the site. The reimbursement was made to the City's capital account from CDBG funding. However, the \$350,000 payment was not supported by documentation reflecting what costs were reimbursed to the City. The standards for financial management systems, as provided at 24 CFR 85.22, require the City to maintain adequate source documentation to support the specific use of grant funds. However, since this was not done, these costs are considered to be unsupported.

There Had Been Recent Progress at the Project Site

Recently, the City was able to attract a local steel plate distributor business to relocate to a building the City was constructing at the General Cable site. The steel producing plant was undergoing construction and was tentatively scheduled to open in the spring of 2009. A total of 35 jobs were targeted to be created and/or retained. The City hoped the new steel plant would spur additional job creation and business development at the site. Although these jobs would be the first created at the site, the City had not determined how many of these jobs would qualify as being available to low- to moderate-income individuals. Moreover, the City was required to create or retain at least 25 additional jobs to fully comply with the national objective benchmark of creating at least 60 jobs.

In accordance with 24 CFR 570.209(b)(3)(i)(A), HUD requires that at least one full-time-equivalent, permanent job be created or retained for each \$50,000 in funding. HUD also requires that at least 51 percent of the jobs be held by or made available to low- and moderate-income individuals.

Conclusion

The City did not adequately administer its economic development activity, as a plan for meeting the national objective of job creation was not developed, concerns about project progress were not adequately addressed, and project costs were not adequately supported. We attribute these deficiencies to the City's failure to develop adequate controls to ensure compliance with all HUD regulations and safeguard funds. While the City was realizing some progress at the General Cable site, no jobs had been created or retained. As a result, we consider the more than \$2.95 million in CDBG funds expended at the General Cable site as unsupported costs pending a HUD eligibility determination. City officials should strongly consider partnering with a national group or a consultant that assists entities with economic development planning activities to achieve the national objectives. In accordance with 24 CFR 570.209(b)(3)(i)(A), the City will be required to create or retain at least 60 jobs and then determine how many of these jobs will be available to low- and moderate-income individuals.

Recommendations

We recommend that the Director, Buffalo Office of Community Planning and Development, require the City of Rome to

- 1A. Implement procedures and controls to ensure that all funded economic development activities are feasible and can be completed in a timely manner to meet a national objective of the CDBG program.
- 1B. Establish a schedule for documenting completion of the General Cable activity and the jobs retained and/or created at the site and reimburse HUD any portion of the \$2,953,754 in CDBG funds expended on the activity for costs that do not qualify as meeting the job creation requirement.

SCOPE AND METHODOLOGY

Our review focused on whether the City complied with HUD regulations, procedures, and instructions related to the administration of its economic development activity known as General Cable. To accomplish our objectives, we reviewed relevant HUD regulations, guidebooks, and files to obtain an understanding of and identify HUD's concerns about the City's operations. In addition, we reviewed the City's policies, procedures, and practices and interviewed key personnel responsible for the administration of the City's economic development program.

For CDBG program years 1996 through 2003, the City expended more than \$2.95 million in CDBG funds on the General Cable activity. We reviewed the most recent expenditures and related supporting documentation relating to the General Cable activity to determine whether the expenditures met CDBG requirements, were reasonable, and complied with the primary and national objectives. We also examined the City's internal controls over its CDBG program.

The review covered the period April 1, 2002, through March 31, 2008, and was extended as necessary. We performed audit work from October 2008 through February 2009 at the City's offices located at City Hall, 198 North Washington Street, Rome, New York. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations, as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal 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 of resources – Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

- The City did not have adequate controls over its program operations when it did not establish adequate administrative controls to ensure that costs associated with the General Cable activity were eligible and met a national objective of the CDBG program (see finding).
- The City did not have adequate controls over compliance with laws and regulations, as it did not always comply with HUD regulations while disbursing CDBG funds (see finding).
- The City did not have an adequate system to ensure that resources were properly safeguarded when it did not maintain adequate supporting documentation for costs charged to the activity (see finding).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Unsupported 1/
1B	\$2,953,754

1/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a 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.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

JAMES F. BROWN
Mayor



Diane Shoemaker
Director

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April 23, 2009

Mr. Edgar Moore
Regional Inspector General for Audit
Office of Inspector General
26 Federal Plaza, Room 3430
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Dear Mr. Moore:

Audit RESPONSE

General Cable Site History

Though abandoned and vacant for nearly 40 years, the redevelopment of the former General Cable Manufacturing site, located along the Erie Canal, essentially began in 1994 as a project included in a Request for Proposals issued by the Planning Department for a total master plan effort for the Erie Canalway. The RFP was later amended to include just a focus on a 200-acre industrial area known as the General Cable property, located along the Canal.

The project area contained a variety of private properties and buildings and five very large-scale, deteriorated and partially collapsed General Cable structures, with failed infrastructure systems, on nearly seven acres. The seven acres contributed to what most residents considered to be one of Rome's most blighted neighborhoods. Unfortunately, the site is strategically located adjacent to the Erie Canal to the south, Mill Street (major entrance to the city from Utica) to the west, Railroad Street (East Rome Main Street Commercial Corridor) to the north and private industrial/commercial sites to the east. The site is very visible and, since the sixties, was very unpopular to residents, neighboring businesses and visitors, as a constant reminder of the failed industrial giant and a major blight to the neighborhood.

An 18-acre section of the industrial site was selected by the City to be redeveloped as a business park - East Rome Business Park, with no specific plans for the rest of the 200-acre site. The goal was to concentrate on a smaller area to begin the reversal of the entire site's negative value and to stimulate

Comment 1

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 1

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redevelopment for industrial and commercial purposes. The immediate project would include land acquisition, building demolition and construction of a new access road through the site.

General Cable and CDBG

Chosen as one of the first U.S. Environmental Protection Agency Brownfield Demonstration Projects, the City was enabled to perform site assessments and investigations, and the core areas went through the DEC Voluntary Cleanup Program. Since the City believed that they had adequate funding for the environmental issues and site clearance, in the City's 1995 Five Year Consolidated Plan, "job creation" (not slum and blight) was cited as the next priority and national objective. The City opened a General Cable Capital Account and was able to acquire funding from a variety of sources, including CDBG and the general fund, to move the project forward.

The 1995 closing of Griffiss Air Force Base resulted in the loss of five thousand jobs which meant Rome would need to start an immediate diversification process and General Cable was considered to be a logical means to that end. CDBG funds were allocated (annually) to the industrial redevelopment of the site, though no formal plan was ever developed.

The proposed Rome Industrial Park, to be completed in phases, included demolition of the existing buildings, construction of an access road and installation of utilities. It was expected that the job creation national objective would be satisfied after the Industrial Park was cleared and the land could be sold or leased to developers. However, the developers never came and by 1998, the economy in Rome and the region was at its lowest point. It was decided that improvements along the City's right-of-way in mid to late 1999, including the construction of an access road through the site, would be necessary to help market the property. Modern utilities, lighting, sidewalks, curbing and landscaping were installed. And, by 2005, the City had removed all of the five huge, unsightly and unsafe structures, leaving just foundations and basements, which unfortunately turned out to be the next stumbling block to development. Despite years of aggressive marketing, and the expenditure of over \$3million in CDBG funding, it was determined that "shovel ready" would mean removal of the building foundations with an estimated price tag "in the millions" for just 15+/- acres. The lack of available funding for this new and major demolition project created a new roadblock for the City that stood in the way of any commercial development and achieving the job creation national objective. The land was cleared but still had a negative value because it could not support new construction without rubbleization of the foundations and filling of the basement voids.

Positive General Cable Site Developments

In 2006, through a joint effort between the State and the City, via the NYS RESTORE Grant program, an additional \$1.2 million in funding was used for removal and remediation, finally transforming seven acres of the General Cable site into a cleaner, safer and financially feasible site for commercial development. Consistent with Rome's Master Plan, and its Consolidated Plan, the City employed concentrated demolition, clearance and planned development to improve property values and the tax base.

In 2008, the 7-acre site was sold and today a sixty thousand square foot building sits on the site as the future home of American Allied Steel (AAS) and up to 40 jobs by the end of 2009. The AAS project

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AUDITEE COMMENTS AND OIG'S EVALUATION

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Auditee Comments

Comment 1

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spurred the sale of a privately-owned adjacent property and two large commercial buildings that had fallen into disrepair. The new owner, Beach House Properties, has completed over \$200,000 in improvements to the buildings and has landed several tenants, resulting in additional jobs. The owner's goal is to acquire the adjacent 6-acre Rod Mill site, which the City owns, to broaden his redevelopment project. The City is working with the Canal Corporation to install docking at the Rod Mill site (which sits along the Canal) for additional commercial waterway opportunities.

Additionally, the \$3 million in HUD funding used for components of this ever-evolving project provided program matches to leverage many more dollars in funding for not only the RESTORE Grant project but many other community and economic development projects, including:

- NYS Transportation Bond - \$1.2 million for the Canalway Trail - adjacent to the site.
- NYS DOT - \$1.2 million for the Mohawk River Trail - adjacent to the site
- NYS EPF - \$50,000 for re-use plan for the DPW Facility(to include marketing plan); \$30,000 for a redevelopment plan for the Rod Mill site adjacent to General Cable.
- NYS EPF & DOT funding - \$80,000 for Urban Design Plan for commercial corridors to the site
- NYS Quality Communities funding - \$75,000 for downtown development on E. Dominick Street
- NYS EPF Funding - \$100,000 Mill Street Development
- Canalway Corridor funding - \$360,000 Bellamy Harbor Park
- EPA/DEC funding \$1million+ for 5 new ERP sites in the vicinity of the property
- NYS BOA funding - \$235,000 with General Cable in the Center of the BOA Area

Auditee's Response

Comment 2

- 1) Though the City may not have had a plan in place at the time the activity was established, we have since completed a number of planning efforts to revitalize underserved neighborhoods, remove eyesores, mitigate environmental hazards, and remove the barriers to job creation and economic development. The original HUD General Cable property project involved the recovery of acres of contaminated, hulking relics of the industrial revolution and actual costs far exceeded early estimates. Over the past five years, our approach to planning and securing grant funding and our efforts to develop partnerships with private investors has taken on a whole new dynamic. We have been very successful in using state, federal, and private money - with little to no impact on our general budget - to finally get things done and ultimately save the neighborhood. The Governor's Office, making opportunities available for small cities like Rome to clean up industrial areas, has been a consistent project partner in this planning and economic development effort.

Comment 3

- 2) Though, in the past, the City may not have adequately or formally addressed known concerns regarding the activity's progress, we were and are fully aware that goals have not been met. As indicated in the historical review of the project, this has been a test of perseverance and positive attitudes, with no one ready to declare defeat. For the past two years, Department of Community and Economic Development staff have been working with HUD Buffalo to determine how to remedy the situation, while at the same time working innovatively to continue the project in an effort to meet the national objective.

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OIG Evaluation of Auditee Comments

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AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Comment 3

Comment 4

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We are encouraged by the Federal, State and Local support we have received and know we have a team in place to make this project a success for all involved. As indicated, a number of support projects are in implementation stages, and all provide potential for job creation. In particular, Rome's NYS Brownfield Opportunity Area (BOA) project is underway with the former General Cable (now AAS) in the Center of the redevelopment and marketing plan. We are optimistic that recent developments at the site will result in successful completion of the project.

- 3) The present City staff has been working with HUD Buffalo to establish effective policies and procedures to adequately monitor its projects and to provide necessary supportive documentation to assure activity costs are necessary, reasonable and in accordance with federal regulations. The City has closed the General Cable activity and has reallocated all remaining funds to other eligible activities. Staff will continue to work with HUD Buffalo to establish a schedule for completion of the General Cable activity including the documentation of jobs created.

Please advise if you need additional information. We appreciate your assistance and look forward to a successful relationship in the future.

Sincerely yours,



Diane Shoemaker
Director

CC: Karen A. Campbell
Assistant Regional Inspector General for Audit

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OIG Evaluation of Auditee Comments

- Comment 1:** City officials provide historical background on the General Cable project and the recent positive developments at the project site.
- Comment 2:** City officials generally agree with the finding and state that they have since completed a number of planning efforts to revitalize underserved neighborhoods, remove eyesores, mitigate environmental hazards, and remove the barriers to job creation and economic development. We commend the officials for accelerating their efforts to develop the project site and the surrounding area.
- Comment 3:** City officials acknowledge the facts and conclusions in the report and explain that they are working towards achieving the national job creation objectives with support from the federal, state, and local levels. We encourage City officials to continue to work with HUD, along with state and local partners to resolve the issues identified in the report and to complete the project.
- Comment 4:** City officials agree to work with HUD to implement the report recommendations and comply with the national objective of the project. Further, the officials have closed the activity and reallocated all remaining funds to other eligible activities. Overall, the City agrees with the audit report finding, conclusions, and recommendations of the audit report. The actions taken by the officials are responsive to our finding.