CIN A-05-01-00082

Mr. James Simmons, President
West Humboldt Park Development Council
3601 West Chicago Avenue
Chicago, Illinois 60651

Dear Mr. Simmons:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services’ (OAS) report, entitled “Review of Urban and Rural Development Grant Number 90EE0322/01 awarded to the West Humboldt Park Development Council”. A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department’s grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.) As such, within ten business days after the final report is issued, it will be posted on the world wide web at http://oig.hhs.gov.

To facilitate identification, please refer to Common Identification Number A-05-01-00082 in all correspondence relating to this report.

Sincerely,

[Signature]
Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:
Carolyn Jager-Burnett, Director
Division of Financial Integrity
Room 702, Aerospace Building
370 L’Enfant Promenade S.W.
Washington D.C. 20447
Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF URBAN AND RURAL DEVELOPMENT GRANT NUMBER 90EE0322/01

WEST HUM BOLDT PARK DEVELOPMENT COUNCIL
CHICAGO, ILLINOIS

JANET REHNQUIST
Inspector General

APRIL 2002
CIN A-05-01-00082
NOTICES

THIS REPORT IS AVAILABLE TO THE PUBLIC
at http://oig.hhs.gov

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.
Mr. James Simmons, President
West Humboldt Park Development Council
3601 West Chicago Avenue
Chicago, Illinois 60651

Dear Mr. Simmons:

This letter report provides you with the results of our audit of discretionary grant number #90EE0322/01 awarded to the West Humboldt Park Family and Community Development Council (Council), Chicago, Illinois. The grant provided $350,000 to purchase and rehabilitate a deteriorating community shopping center. The primary objective was to create at least 60 new full-time jobs with 75 percent being filled by low-income individuals and at-risk youth. Our review focused on the grantee’s performance in achieving the project objectives and complying with the terms and conditions of the grant project.

Although the Council successfully solicited a real estate developer to purchase and renovate the shopping center, it (i) did not meet the employment goals included in the approved grant proposal, (ii) has not required the real estate developer, or the tenants of the shopping center, to hire individuals meeting the low-income requirements of the grant, and (iii) has not filed a lien with appropriate authorities to protect the Federal government’s interest in the shopping center.

In its response, dated March 27, 2002, the Council contended that the employment objectives of the grant were met but did not provide support for the generation of new low-income or at-risk youth employment and did not respond to our recommendation to record appropriate liens against the real property improved, in part, with Federal funds.

INTRODUCTION

BACKGROUND

The Council was awarded an Urban and Rural Economic Development grant by the Department of Health and Human Services, Administration for Children and Families. The grant was for a three-year period, September 30, 1997 thru September 29, 2000, at a Federal share of $350,000. The primary purpose of the grant was to increase employment opportunities for low-income residents of the neighborhood by purchasing and rehabilitating the Chicago/Kedzie Shopping Mall in Chicago’s West Humboldt area.
The grant was intended to (i) reduce the shopping center’s vacancy rate to 10% or less by developing space for five new tenants, and (ii) create at least 60 new full-time jobs with 75 percent being filled by low-income residents of the community, including public assistance recipients and at-risk youth.

The shopping center was about ten years old and showed signs of neglect and deferred maintenance. Five storefronts were vacant which represented about 30 percent of the leasable space. The prior owner of the center had refused to invest in the types of improvements that would retain current tenants or attract new ones.

OBJECTIVES, SCOPE AND METHODOLOGY

Our audit was conducted in accordance with generally accepted governmental auditing standards. The purpose of our audit was limited to an assessment of the grantee’s performance in achieving project objectives and complying with the terms and conditions of the grant award. To accomplish our audit objectives, we: (i) interviewed the real estate developer and Council board members, (ii) reviewed grant award material, correspondence, and other records made available by the Council and the developer, and (iii) reviewed an ACF consultant’s report, dated September 17, 1999, regarding this grant. We also made site visits to the shopping center in June 2001 and January 2002 to gain a first hand perspective of the project. Our field work was completed in January 2002.

FINDINGS AND RECOMMENDATIONS

The Council successfully recruited a real estate developer and helped secure financing for the redevelopment project. The shopping center was purchased for $3,500,000. An additional $1,000,000 ($350,000 Federal share) was provided to renovate and redesign the entire mall and parking lot. Renovations attracted new tenants including, a municipal payment center, a military recruiting office, a check cashing service, and a restaurant. Renovations also generated the expansion of a grocery store. In addition, the developer has recently completed a new freestanding building on an out lot and is currently negotiating leases with two new tenants. The mall purchase and rehabilitation was successful, but the grant’s employment objectives were not met.

EMPLOYMENT GOALS

Although the primary objective of the grant was to create at least 60 new full-time jobs, with 75 percent being filled by low-income residents of the community, including public assistance recipients and at-risk youth, neither the Council nor the tenants of the shopping center inquired whether job applicants met the low-income or at-risk youth requirements of the grant. The grant proposal stated that the Council would have a formal working agreement with STRIVE Employment Services, which would target jobs to AFDC/TANF recipients. The Council did not utilize the services of STRIVE as proposed and offered no reason.
During a site visit in January 2002, we obtained current employment information from the tenants and compared it to the employment statistics prior to the renovation of the shopping center. Five previously vacant stores now account for 25 full-time positions and one part-time position. However, sixteen of those full-time positions resulted from the transfer of twelve city employees and four military personnel from other locations within the city. These were not newly created jobs. Only one of the original tenants significantly increased its full and part time employment. Some of the remaining tenants increased employment, while others decreased employment resulting in no significant creation of jobs. Grantee could not document compliance with the grant’s employment goals of new employment substantially from the community’s low-income population.

PROPERTY LIENS

We also noted that the Council did not record liens or other appropriate notices of record that real property was acquired or improved with Federal funds. The grant states that the “grantee shall record liens of the appropriate notices of record that real property has been acquired, constructed or improved with Federal funds (Refer to CFR 74.37)”. Subpart.37 states:

…Real property, equipment, intangible property and debt instruments that are acquired or improved with Federal funds shall be held in trust by the recipients as trustee for the beneficiaries of the project or program under which the property was acquired or improved, and shall not be encumbered without the approval of the HHS awarding agency. Recipients shall record liens or other appropriate notices of record to indicate that real property has been acquired or constructed or, where applicable, improved with Federal funds, and that use and disposition conditions apply to the property…

The Council provided no explanation why the appropriate liens were not recorded.

Recommendations

We recommend that the Council:

- coordinate with the real estate developer and the tenants to document whether the newly created positions were filled by the expected portion of applicants meeting the low-income or at-risk youth requirements of the grant, and
- record liens, or other appropriate notices of record that real property was acquired or improved with Federal funds.

Grantee Comments

The Council contends that they have exceeded the employment objective of the grant but did not have time to provide the specific documentation regarding employment at the
mall. The Council’s letter did not address the issue of recording appropriate liens on the real property improved with Federal funds. The full text of the Council’s response is included as an appendix to the report.

**OAS Response**

Although we requested information supporting the employment objectives of the grant, the documents received did not support the Council’s claim that the employment objectives of the grant were achieved. Jobs that existed at the mall prior to the remodeling and positions transferred from other locations within the city cannot be considered newly created positions. Since increasing employment of the community’s low-income population was the primary objective of the grant, we believe that the grantee is obligated to provide the awarding agency adequate proof that the objective was met. Further, we continue to believe that appropriate liens should be recorded on the real property improved, in part, with Federal funds.

To facilitate identification, please refer to Common Identification Number A-05-01-00082 in all correspondence relating to this report.

Paul Swanson  
Regional Inspector General for Audit Services
APPENDIX
March 27, 2002

Mr. Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, Illinois 60601

RE: Common I.D. Number A-05-01-00082

Dear Mr. Swanson:

I am in receipt of your February 28, 2002 letter addressed to Mr. Jimmy Simmons, President of the West Humboldt Park Family and Community Development Council (the Development Council). By copy of this letter, I am responding to your letter in my capacity as Executive Director of the organization.

The Development Council is very pleased to have been awarded the $350,000 OCS grant, and we think we have used those dollars to the best advantage of all concerned. As was pointed out in our end-of-project report to HHS, more than 130 jobs were created at the Kedzie-Chicago mall as a result of leveraging the $350,000 grant into a total investment of $4.5 million. Since sending HHS the report, the developer has opened a new pavilion in the mall, adding 14 new full-time jobs. The new section will soon include a Chinese restaurant, which will bring 4 to 6 new employees to the mall, for a total of more than 150 jobs.

Beyond the foregoing information, the Development Council is does not have sufficient time to provide your office with the specific documentation regarding employment at the mall within the allotted 30 days. I am confident that not only have the promised 45 new jobs for low-income residents been created (i.e., 60 new jobs x 75%) since the mall’s completion, but this target has been exceeded — especially when one considers the ancillary jobs created in the wider community as a result of the rehabilitation of the mall. For instance, within one-half block of the mall, Interfaith Housing Development, Inc. is constructing 69 housing units that will lead to approximately 20 new jobs within the next 1.5 years. Directly across the street from the mall, Mobil has announced its intention to construct a full-service, around-the-clock gas station. The presence of the rehabilitated mall has been a significant factor in support of these and other projects in the area.
The $350,000 OCS award was the Development Council’s first, which explains the problems cited in your February letter. We at the Development Council and in the community in general remain very appreciative of the kind support provided by your agency. It is our intent to do everything necessary in order to remain in compliance with the terms of the award, and we are very much looking forward to doing business with HI-IS and OCS in the future.

Sincerely,

[Signature]

William D. Howard
Executive Director

cc: Board of Directors