

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF URBAN AND RURAL
DEVELOPMENT GRANT NUMBER
90EE0298/01**

**IMPACT SEVEN, INC.
ASHLAND, WISCONSIN**



**JANET REHNQUIST
INSPECTOR GENERAL**

**FEBRUARY 2002
A-05-01-00085**



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF **AUDIT** SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

February 22, 2002

REGION V
OFFICE OF
INSPECTOR GENERAL

Common Identification Number A-05-01-00085

Mr. William Bay, President
Impact Seven, Inc.
147 Lake Almena Drive
Almena, WI 54805

Dear Mr. Bay:

This letter report provides you with the results of our audit of discretionary grant number #90EE0298/01, awarded to Impact Seven, Inc., Almena, Wisconsin. The grant provided \$600,000 (Federal share) and \$3,102,000 from non-Federal sources to purchase land, rehabilitate buildings, construct new retail and manufacturing facilities for expanding businesses and industry, and develop low-income housing in Ashland, Wisconsin, while retaining and redeveloping two historical structures within the project area. Our review focused on the grantees performance in achieving the project objectives and complying with the terms and conditions of the grant project.

Although Impact Seven purchased, rehabilitated and constructed retail and business properties and low-income housing in the Ashland community, it (i) did not construct all of the retail and business properties proposed in the grant, (ii) has not met the grant employment goals, and (iii) is unable to document the percent of low-income individuals employed by the tenants benefiting from the grant. We are recommending that Impact Seven provide the granting agency with support of its construction and rehabilitation projects resulting in the retention of 24 jobs and the creation of 109 jobs of which at least 75 percent were filled by low-income residents of the community.

Impact Seven disagrees that it did not develop all of the properties proposed under the grant and did not meet the employment goals stated in the grant award. It did agree to assist in the development and preparation of documentation to support its compliance with the low-income employment requirements of the grant. The full text of Impact Seven's response is included as an attachment to the report.

INTRODUCTION

BACKGROUND

Impact Seven 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 \$600,000. The primary objectives of the grant were to (i) expand and create business opportunities through the development of retail, manufacturing, and incubator space for emerging businesses, (ii) create 109 jobs, with 75 percent of the created positions to low-income individuals, (iii) develop elderly/low-income housing, and (iv) save two historically significant buildings.

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 interviewed Impact Seven staff and the commercial tenants, occupying grant related space, and reviewed grant award material, correspondence, and other records made available by the grantee and the tenants. We also made a site visit to Ashland in July 2001 to gain a first hand perspective of the project. Our field work was completed in August 2001.

RESULTS OF AUDIT

GRANT ACCOMPLISHMENTS

Impact Seven successfully developed 42,000 square feet of manufacturing facilities and a 37,000 square foot grocery store. Further, the grant helped fund the development of 42 low-income housing units, exceeding the grant proposed 24 housing units. The eighteen additional low-income housing units were developed in a 12,000 square foot historically significant hospital, originally proposed as an incubator for emerging businesses.

Although the tenants, occupying the retail and manufacturing space, retained 24 jobs and created 82 full-time jobs, these employment totals fall short of the grant objective by 27 full-time positions.

EMPLOYMENT OBJECTIVE NOT MET

Under the grant, Impact Seven proposed to build retail and industrial buildings to stimulate employment in the central core of the Ashland community. The primary objective of the grant was to retain 24 current positions and create 109 new full-time jobs, with 75 percent of the newly created positions being filled by low-income residents of the community. Based on the tenants' employment records, we were able to identify 24 retained positions and 82 newly created positions. The creation of new positions falls

short of the grant proposal by 27 positions, in part, because Impact Seven did not (i) develop an incubator for emerging businesses, (ii) construct an additional 15,600 square feet of retail space, or (iii) find tenants for a 20,000 square foot speculative manufacturing facility or an additional historically significant building.

The Ashland Area Development Corporation (AADC) was included in the grant proposal as a proposed tenant for part of the 12,000 square foot business incubator building and was to actively recruit additional tenants. However, AADC decided to develop a business incubator of its own at another location, thus leaving the incubator space unoccupied. Impact Seven converted this space into 18 additional low-income housing units.

Although the grant proposal included a 15,600 square foot retail center to be built adjacent to the grocery store, Impact Seven was not chosen as the developer. Ultimately, a competing real estate developer constructed a medical center on the property.

Impact Seven substantially completed a 20,000 square foot manufacturing facility without a proposed tenant. This speculative facility is ready for final build-out, if and when, a tenant is located. In addition, Impact Seven continues to look for a practical use of another historical building in the project area.

If Impact Seven had built the additional retail and business incubator space and had secured a tenant for the unoccupied manufacturing facility, the proposed employment objective might have been met.

EMPLOYMENT OBJECTIVE NOT DOCUMENTED

Although the tenants filled the equivalent of 82 new full-time positions, neither the tenants nor Impact Seven maintained documentation to support whether low-income persons filled 75 percent of the newly created positions.

RECOMMENDATIONS

We recommend that Impact Seven:

- provide the granting agency with documentation that the grant supported construction and rehabilitation projects resulted in the retention of 24 positions and the creation of 109 positions, with at least 75 percent being filled by low-income residents of the community, and
- as the currently unoccupied space is leased, ensure that the new tenants comply with the low-income hiring requirements of the grant.

GRANTEE RESPONSE

Impact Seven does not agree with our conclusion that they did not rehabilitate or construct all of the retail and business properties included in the approved grant proposal. Further, it does not agree that the employment statistics reviewed during our field work correctly represents the full-time positions created under the grant. It stated a greater number of created positions had existed prior to our audit field work. Impact Seven has, however, agreed to assist its business partners to develop and prepare the documentation necessary to support compliance with the low-income employment requirements of the grant.

OAS RESPONSE

In its response to our conclusion that Impact Seven did not build or complete all of the rehabilitation and construction projects included in the approved grant proposal, they refer to new construction by a private developer and the rehabilitation of a building by another community organization. Both of these projects, although seemingly beneficial to the Ashland community, were not part of the approved proposal. Therefore, employment associated with those projects should not be included in grant created employment statistics. We reported the full-time positions created, at the grant constructed and improved facilities, as of the date of our field work. At that time, neither the grantee nor the businesses housed in the completed facilities indicated that there had been significant reductions in employment since the close of the grant period. Had such statements been made, we would have reported any documented employment figures as of the close of the grant and discussed the differences from the numbers identified during our field work. Impact Seven should submit to the action official any employment data that may better demonstrate that the job creation goals of the grant were met.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the action official within 30 day 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. It should be directed to the action official address sited below.

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 issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. (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-05-01-00085 in all correspondence relating to this report.



Paul Swanson
Regional Inspector General
for Audit Services

Direct Reply to Action Official:

Mr. Mike Hill, Director
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Room 702 Aerospace Building
370 L'Enfant Promenade S.W.
Washington D.C. 20447



'IMPACT SEVEN, INC.

A WISCONSIN DEVELOPMENT CORPORATION

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January 31, 2002

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

RE: Award #90ED0298/01 Audit Response

Dear Mr. Swanson:

Impact Seven, Inc. is pleased to have this opportunity to respond to your draft letter report of your audit on our Ashland industrial Center economic revitalization project in Ashland, Wisconsin. While your audit appears quite thorough and your draft letter report substantially complete, we believe a number of important clarifications, corrections and additions to the report are needed.

FIRST, your **report states** that the grant employment goals were not met. However, your audit took place approximately ten months after the end of our three-year grant/project period (10/01/1997 – 9/30/2000). Information is available to document that employment levels in at least two of the business properties were substantially higher in months prior to your audit. Had the audit been commissioned and occurred during those months, it **would have** shown that the grant employment goals were met, if not exceeded. We respectfully submit that your report should state only that at the time of the audit, employment levels, (as you counted them) were below the grant application goals. As alluded to above, the scope of the audit was not such that it was directed to determine whether or not the **employment** numbers had been met at a prior date-

In that regard, it is important to understand (and note in your report) that the economic **downturn**, which resulted in the recession our country is experiencing began in early summer of 2000 – about one year before your audit.

Economically distressed rural areas such as Ashland, Wisconsin – struggling, as documented in the grant application, **even** during the economic boom of 1990 to 2000 – are usually the first to suffer *from* downturns in the general economy **and** typically the last to recover. Accordingly, it would not be unexpected that grant employment levels – once meeting goals – might fall in times of economic decline as they did here. In **fact**, two significant manufacturing firms in Ashland (in which we were not involved) have recently declared bankruptcy. And, the employment level at one AIC property was previously at least double the number in that facility at the time of your audit.

Also related to your grant employment conclusion, is the matter of the actual number of jobs created **as** a result of our Ashland Industrial Center award. From discussions with your staff, including our exit interview, we understand and agree that, as a starting point, 24 jobs were retained and, at minimum, 82 jobs were created. However, we humbly submit that other jobs, which your audit indisputably found to exist but did not credit to one **Ashland** Industrial Center project, were in fact sufficiently connected to the Ashland Industrial Center developments to be counted toward the grant employment goals.

The “community economic development” process as defined and contemplated under the Urban and Rural and Economic **Development** Program of the **Office** of Community Services (HHS -Administration for Children and Families) involves the mobilization and partnering of public and private entities to bring together the necessary resources including capital and entrepreneurial skills needed to build the infrastructure, facilities and systems necessary to create and sustain employment opportunities. The Ashland Industrial Center grant application, as approved by OCS, was designed to undertake such community economic development utilizing public and private partners in the process. Accordingly, the grant was intended to be used **with funds** matched by Impact Seven and addressed in your report directly, the project resulted in leveraged funds more than twice the amount **projected**. Additionally, Ashland Industrial Center’s community partners, including the Ashland Area Development Corporation (**AADC**) and others partnered in providing leverage (capital) and in undertaking parts of the development planned in the grant application. In fact, **all of the retail** space (and more), all of the manufacturing space (and more), all of the incubator space (and more), and all of the low-income housing space (and more) – all **as** projected in the grant application -were developed/constructed. As a result of Impact Seven’s development of the grocery store (retail space), a private developer built a medical clinic and additional retail space in the location where

the 15,600 square feet of additional retail space was intended. The actual facility built is about 24,000 square feet and employs over 30 workers.

AADC acquired a building and was given an opportunity to develop a business incubator of about 55,000 square feet and did so resulting in 15-19 new jobs. Also, Impact Seven constructed an additional 18 units of housing, which with the 24 units projected resulted in numerous construction jobs. The National Association of Home Builders has concluded that each residential unit constructed supports 1.25 full time equivalent construction jobs, We respectfully submit that the audit report should give credit to Impact Seven for those additional jobs, which were not counted in the draft audit report.

Additionally, because other community partners undertook the incubator and additional retail space, it is noteworthy, that Impact Seven constructed a larger (20,000 square foot) spec industrial building and the additional units of housing. The industrial building awaits a tenant and when built out to its spec will mean that 52,000 square feet of manufacturing space was actually developed in conjunction with this grant. Occupancy of this building and the attendant job creation were, of course, also affected by the recent recession,

SECOND, your report concludes that Impact Seven did not construct all of the retail and business properties proposed in the grant. In fact, all of the properties proposed were constructed and more of each, for that matter. Impact Seven was not given the opportunity to construct the additional 15,600 square feet of retail space. Significantly, more private sector capital became available for that part of the project and resulted in an expanded project at that! Nevertheless, but for Impact Seven undertaking the grocery store space, assembling millions of investment dollars of capital and making all this land available, the private capital investor would never have built the 24,000 square foot clinic retail space next to it. Nor would it have been possible for the City of Ashland to construct a recreation complex consisting of a 12,000 square foot civic center, recreation fields with a volleyball court, two baseball fields, tennis courts and a track.

Also, when community partner AADC was given the opportunity to accept 55,000 square foot of donated incubator space compared to the 12,000 square feet in the project plan, Impact Seven deferred to its partner and increased its housing development from 24 to 42 units (75% increase) and its industrial space capacity by 25%. We were on the "horns of dilemma", but we rejoiced in AADC's accepting the 55,000 square feet of valuable incubator space while we redirect our efforts to equally important developments. Clearly, the project facility goals

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were exceeded, as was the **ultimate** goal – economic impact on the community. Furthermore, the foundation has been laid for economic impact – particularly job' creation – once economic **conditions improve** permitting the occupancy and build-out of the available 20,000 square feet of industrial space. Also, land will continue to be developed around the grocery store, more jobs and community asset building will take place. Historic renovation will continue and as is the case with many OCS projects, they will go on giving and giving, long after the award expiration.

Even as this response is being generated, Impact Seven is **having** a second historic structure report on the splendid **Wilmarth** Mansion. This study is being funded by private and leveraged dollars and upon its conclusion a major Wisconsin foundation will **provide a** matching grant for its restoration. And presently under construction is a 5,000 **square** foot building for the State of Wisconsin's Probation and **Parole** Office. The building will house 12 Department of Corrections personnel.

FINALLY, your report refers to documentation of the percentage of low-income employment. Impact Seven is willing to assist its **business partners** in the Ashland Industrial Center develop and prepare the documentation to satisfy this audit finding. Business partners have often conveyed frustration in their attempts to inquire into this sensitive subject matter with their employees. Anecdotal evidence from the businesses has been adequate to date to assure compliance with hiring criteria, but Impact Seven is prepared to work with the granting agency to obtain the documentation it needs.

Please permit some Urban and Rural Program development observations that we feel OCS has addressed but only recently if you consider the programs long history. There is the **need** for **teas&able** program **flexibility**; business opportunities and conditions do not remain constant and can be subject to swift and dramatic change. OCS has recognized that major economic development initiatives need more time to develop, not only because of the above, but many times because of the magnitude of the developments and the socio-economic conditions of the distressed communities to which they are targeted.

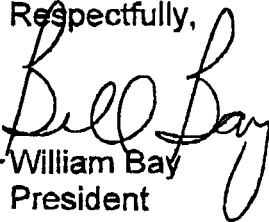
More importantly, as we related frequently during the audit, **OCS** has acknowledged, much after this **award** was made, that projects like this frequently if virtually not always, require a much longer gestation period. Now grant awards are made up to 5 years in recognition of such.

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In conclusion, we take no umbrage with the audit findings and would respectfully request consideration of **these** responses we submit pursuant to the consideration you have extended.

Thanking you I remain.

Respectfully,

A handwritten signature in black ink, appearing to read "Bill Bay", written over the printed name and title.

William Bay
President

:mmv