AUDIT REPORT

CANAL CORRIDOR INITIATIVE
HUD-ADMINISTERED SMALL CITIES
COMMUNITY DEVELOPMENT
BLOCK GRANT PROGRAM
SECTION 108 LOAN GUARANTEE PROGRAM
NEW YORK STATE

2001-NY-0001

MARCH 30, 2001

OFFICE OF AUDIT
NEW YORK/NEW JERSEY

audit report

Issue Date	March 30, 2001
Audit Case Number	2001-NY-0001

TO: Michael F. Merrill, Director, Community Planning and Development, 2CD

Alexander C. Malloy

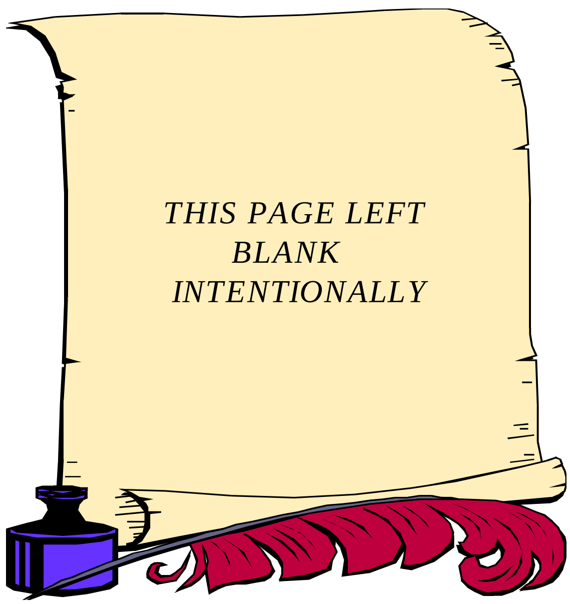
FROM: Alexander C. Malloy, District Inspector General for Audit, 2AGA

SUBJECT: Canal Corridor Initiative
HUD-Administered Small Cities
Community Development Block Grant Program
Section 108 Loan Guarantee Program
New York State

We performed an audit of the Canal Corridor Initiative, which involves grants from the Small Cities Community Development Block Grant Program (CDBG) and loans from the Section 108 Loan Guarantee Program to fund development activities related to the New York canal system. Our objectives were to assess progress towards achieving the objectives of job creation and economic revitalization for communities in upstate New York along the canal system and connecting waterways. The results of our audit are contained herein and include two findings with recommendations for corrective action.

Within 60 days please provide us, for each recommendation in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is not considered necessary. Also, please furnish us copies of any correspondence or directives issued related to this audit.

If you or your staff have questions, please contact William H. Rooney, Assistant District Inspector General for Audit, at (212) 264-8000, extension 3976.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Executive Summary

We performed an audit of the U.S. Department of Housing and Urban Development's (HUD) Canal Corridor Initiative to assess HUD's efforts in achieving the program's objectives outlined in the Notice of Funding Availability (NOFA) published in the Federal Register of December 3, 1996 (Volume 61, Number 233). The Initiative sought to revitalize the economic base of communities in upstate New York through development projects and job creation along the canal system and connecting waterways involving grants from the Small Cities CDBG Program and loans from the Section 108 Loan Guarantee Program. As such, our audit objectives were to: (1) evaluate HUD's award process to the Grantees; (2) assess the Initiative's progress; (3) determine whether the Initiative's goals are being met, especially the goal of job creation; and (4) determine whether HUD is adequately monitoring the Grantees' progress and expenditures.

Canal Corridor Initiative NOFA dated December 3, 1996

The Canal Corridor Initiative began with a NOFA dated December 3, 1996. Funding was provided to successful applicants in the form of Small Cities CDBG development grants and loans from the Section 108 Loan Guarantee Program, first in Fiscal Year 1997, and again, but to a much lesser extent, in Fiscal Year 1999. Our review did not disclose any improprieties regarding the award process. Essentially, all the Grantees located along the New York State waterways that requested funding were awarded funds.

Limited successes realized, but overall progress has been slow

While the Initiative has produced some limited successes by means of public improvement projects, most activities have been slow moving; thus, compromising the Initiative's ultimate success. HUD authorized over $100 million for the Initiative consisting of Section 108 Loans, Section 108 Grants and Small Cities CDBG Grants. However, four years after HUD introduced the Canal Corridor Initiative only $24.4 million has been expended and program objectives, such as, job creation are not being fully realized.

Grantees have had difficulties brokering 108 loans; and HUD monitoring is lacking

Not expending the funds jeopardizes a major objective of the Initiative that is to create jobs. Our site visits to 12 of the 53 funded Grantees disclosed that the 12 Grantees were to create 1338 jobs; however, at the time of our visits, only 153 jobs, which is less than 12 percent, were documented as created.

The audit showed that progress has been curbed because Grantees had little success brokering Section 108 Loans to third parties, and because HUD has not actively monitored Grantees; thus, allowing poor program performance to go undetected and unresolved.

Grantees have not always complied with financial management systems requirements

Additionally, our site visits showed that Grantees often did not comply with the financial management systems requirements contained in Title 24 Code of Federal Regulations (CFR) Part 85. Numerous financial management deficiencies were noted during the site visits. In fact, we determined that 10 of the 12 Grantees we visited were not in compliance with Title 24, CFR Part 85 financial management requirements. Again, the absence of adequate monitoring allowed deficiencies to go undetected and unresolved.

Falling short of full compliance with the financial management systems requirements raises concerns as to the capacity of Grantees to carry out the Canal Corridor Initiative.

Canal Corridor Initiative objectives may not be realized

Unless HUD is willing to implement corrective actions, such as, the recommended actions in this report, slow program progress may continue unabated, and the potential for realizing program goals and objectives will be in jeopardy.

Exit conference

On March 27, 2001, we held an exit conference with HUD officials of the Community Planning and Development Division in Headquarters and the Buffalo Office to discuss the draft findings and recommendations. A written response to our draft findings was provided to us on March 29, 2001.

The written responses are shown in Appendix A of this report.

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Abbreviations

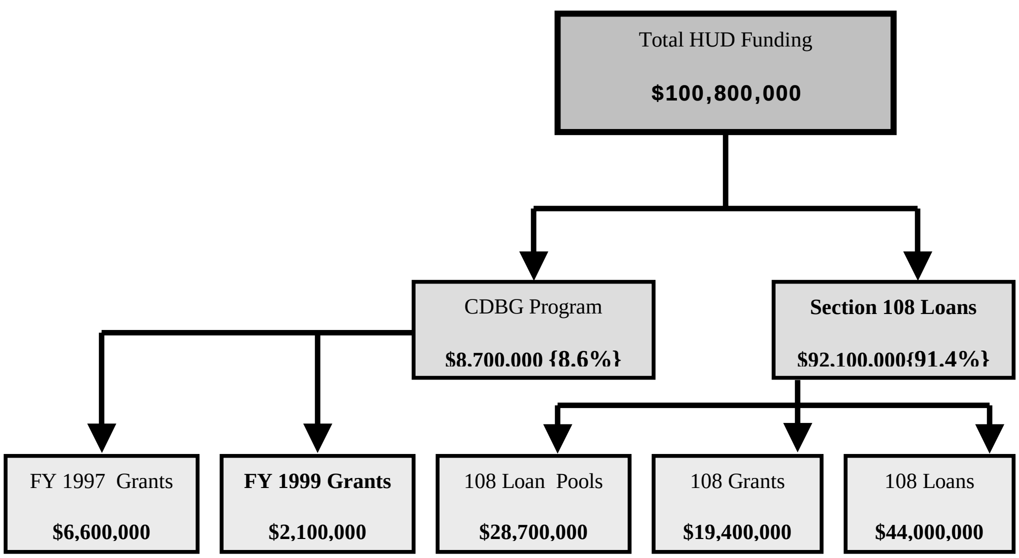
CCI	Canal Corridor Initiative
CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CPD	Community Planning and Development
HUD	U.S. Department of Housing and Urban Development
NOFA	Notice of Funding Availability
OMB	Office of Management and Budget

Introduction

The Canal Corridor Initiative commenced with a Notice of Funding Availability (NOFA) for Fiscal Year 1997 Small Cities CDBG development grants that was published in the Federal Register of December 3, 1996 (Volume 61, Number 233). The Notice announced the availability of Small Cities CDBG development grants and Section 108 Guaranteed Loans to fund eligible development activities related to the New York State canal system. This NOFA was the first NOFA applicable to the Initiative although another was issued for Fiscal Year 1999. The Initiative, which is a multiyear effort, was designed and implemented to revitalize the economic base of communities in upstate New York through development projects and job creation along the canal system and connecting waterways.

Background

Consistent with the NOFA, HUD funded the Initiative through a combination of resources including the HUD-Administered Small Cities CDBG Program and the Section 108 Loan Guarantee Program. Excluding HUD subsidies for Section 108 principal and interest payments, the Initiative awarded and authorized CDBG and Section 108 funds totaling $100,800,000.



As indicated above, the majority of funding for the Initiative was provided through the Section 108 Loan Program. However, in addition to traditional Section 108 Loans, which are normally associated with specific development projects, HUD also authorized a substantial amount of Section 108 Loan authority for business development loan pools and Section 108 Grants. In fact, more than half of all the Section 108 Loan authority authorized for the Initiative was earmarked for grants and business development loan pools. Although technically loans, the Section 108 Grants allow Grantees access to Section 108 funds that would be repaid from future Small Cities CDBG funds awarded by HUD.

Legal Opinion

Due to the unusual financing methods employed by HUD, including provisions to provide Grantees Section 108 Loans as Grants, we obtained a legal opinion as to the legality of HUD's actions. The opinion provides that some HUD officials referred to the Grants as Section 108 Grants, although there is no such term. The opinion provides that grants under the Small Cities CDBG Program may be awarded for the purpose of paying amounts due on debt obligations guaranteed under the Section 108 Loan Program.

As such, despite the legality of HUD's funding implementation, and notwithstanding any benefits derived from its design, the extensive use of the Section 108 Loan Program has clearly leveraged future Small Cities CDBG allocations while adding uncertainties to the program's planning efforts. The constraints and uncertainties are particularly important because in September 2000, the administration of the Small Cities CDBG Program in New York was assumed by the State.

Audit Objectives

The foremost objective of our audit was to determine the effectiveness and impact of HUD's Initiative that sought to revitalize the economic base of communities in upstate New York through development projects and job creation along the canal system and connecting waterways. Specific audit objectives were to evaluate:

- HUD's award process to the Grantees.
- Assess the Initiative's progress.
- Determine whether the Initiative's goals are being met, especially the number of jobs created.

- Determine whether HUD is adequately monitoring the Grantees' progress and expenditures.

Audit Procedures, Scope and Methodology

To achieve our audit objectives we performed the following audit steps.

- Obtained and reviewed the NOFA establishing the Initiative.
- Interviewed appropriate HUD Officials located in Washington, D.C., Buffalo, New York., and Albany, New York.
- Reviewed guidelines and regulations applicable to the Initiative.
- Evaluated pertinent financial files and documentation applicable to the Initiative.
- Reviewed HUD's award and funding process.
- Visited 12 of the 53 Grantees participating in the Initiative.

Grantee site visits were conducted

The Grantees selected for site visits were generally those that received larger funding authorizations. In fact, those 12 Grantees received about 42% or $42,000,000 of the Initiative's total funding authorization.

Site Visit Objectives

The site visits were conducted to evaluate the Grantees administrative capacity and operational effectiveness concerning the Initiative's activities with specific emphasis placed on the Grantees:

- Program Progress.
- Administrative Capability.
- Compliance with Program Requirements.

Moreover, HUD monitoring efforts applicable to the Grantees and their programs were evaluated.

Site Visit Procedures, Scope, and Methodology

Audit procedures established to conduct evaluations at Grantees during site visits were as follows:

1. Interviews of appropriate Grantee officials.

2. Review of applicable financial transactions and bank records.

3. Analyses of Grantee operational functions.

4. Evaluations of pertinent Grantee controls and procedures.

5. Observations and verification of completed activities.

6. Reviews of applicable program correspondence and documentation.

7. Reviews of selected cash receipts and disbursements.

8. Reviews of prior audits and monitoring reports.

9. Reviews of Grantee applications.

10. Verifications of Grantee job creation documentation.

Audit Period

The audit fieldwork was conducted between July 2000 and March 2001. The audit covered the period from program inception, (December 3, 1996) through December 31, 2000.

The audit was conducted in accordance with generally accepted government audit standards.

A copy of this report was sent to the Director, Community Planning and Development, Buffalo Area Office.

Progress Under the Canal Corridor Initiative Has Been Slow and Program Objectives Are Not Being Realized

Although some activities funded under HUD's Canal Corridor Initiative have been completed, most activities have been slow moving; thus, compromising the Initiative's ultimate success. HUD authorized over $100 million for the Initiative consisting of Section 108 Loans, Section 108 Grants and Small Cities CDBG Grants. Although it has been four years since HUD introduced the Canal Corridor Initiative only $24.4 million has been expended and program objectives, such as, job creation are not been fully realized. We attribute the Initiative's slow progress and lack of job creation to: (1) HUD's program design and implementation, which has caused Grantees to only realize little success in brokering Section 108 Loans to third parties; and (2) HUD's inadequate monitoring, which allowed poor program performance to go undetected and unresolved.[1]

Background

In December 1996, HUD introduced the Canal Corridor Initiative to revitalize communities along the Erie Canal and related waterways in upstate New York. HUD was the sponsor of this Initiative because in 1996, HUD was administering the State of New York's Small Cities CDBG Program. Subsequently, in September 2000, the State of New York agreed to administer the Small Cities CDBG Program while HUD continues to administer the Canal Corridor Initiative.

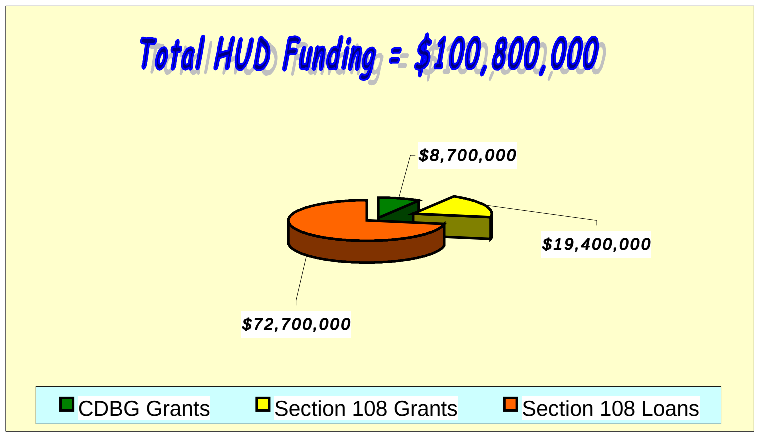
The Initiative seeks to promote tourism that will spark economic development across upstate New York with emphasis on job creation. The Initiative is authorized by the Housing and Community Development Act of 1974, and is designed to provide grants and loan guarantees to communities along the waterways for economic development projects. To fund this Initiative HUD authorized over $100 million, consisting of Section 108 Loans, Section 108 Grants and Small Cities CDBG Grants. Repayment of the Section 108 Grants will be provided from future Small Cities CDBG Grants.

[1] The issue regarding inadequate monitoring is discussed in Finding 2.

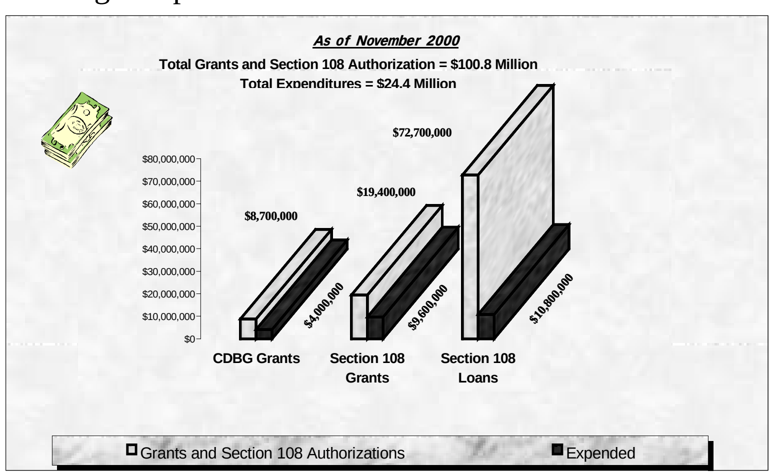
Audit Objectives

Our audit objectives were to: (1) evaluate HUD's award process to the Grantees; (2) assess the Initiative's progress; (3) determine whether the Initiative's goals are being met, especially the number of jobs created; and (4) determine whether HUD is adequately monitoring the Grantees' progress and expenditures.

Our review did not disclose any improprieties regarding the award process. Essentially, all the Grantees located along the New York State waterways that requested funding were awarded funds. In this regard, HUD authorized 53 New York State Grantees to spend $100.8 million on the Initiative. This amount is spread among the following three components: Section 108 Loans, Section 108 Grants, and Small Cities CDBG Grants. The following chart illustrates the total amount of funds HUD authorized per component.



As of November 2000, the 53 Grantees had expended $24.4 million of the total amount that HUD authorized for the Initiative. The following chart illustrates the amount per funding component.



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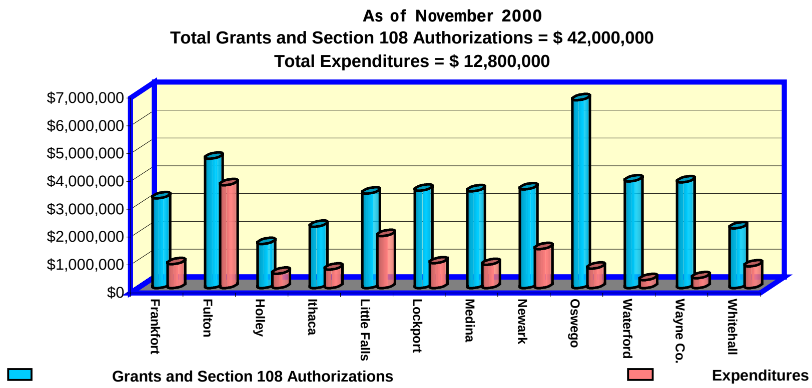
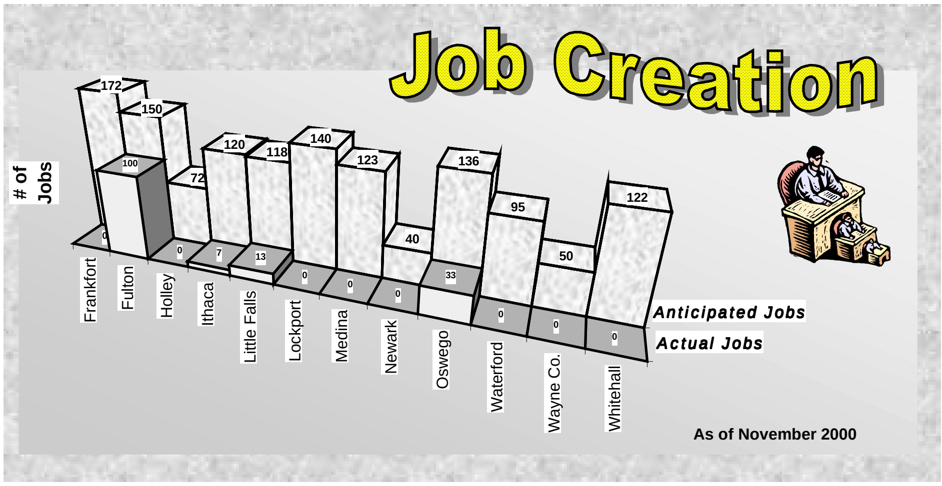
To assess the Initiative's progress, we performed site visits at a judgmentally selected sample of 12 of the 53 Grantees that are funded under the Initiative. The 12 Grantees selected were authorized more than $42 million or about 42 percent of the amount authorized by HUD for the Initiative. We found that after four years, these 12 Grantees had expended only $12.8 million of the $42 million authorized.



Not expending the funds jeopardizes a major objective of the Initiative, which is to create jobs. During our site visits to 12 Grantees, we obtained the number of jobs created and compared it to the number of jobs planned. We observed that one Grantee created 100 jobs, representing nearly two-thirds of its planned job creation total, while at least eight other Grantees did not create any jobs. Overall, the 12 Grantees were to create 1338 jobs; however, at the time of our site visits only 153 jobs (less than 12 percent) were documented as created.



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We attribute the slow progress in expending the funds and creating jobs to: (1) HUD's design and implementation of the Initiative; and (2) HUD's inadequate monitoring of Grantees.

Problems with HUD's Design and Implementation of the Initiative

Problems with Design of Initiative

HUD used a unique approach in designing the Initiative in that HUD elected to use the Section 108 Loan Program, in part, as a grant program. Specifically, HUD awarded Section 108 Loan Program funds to the Grantees to be used, almost exclusively, for public improvements. HUD officials referred to these specific Section 108 Loans as Section 108 Grants. In effect, the Section 108 Grants became similar to CDBG Grants from the perspective of the Grantees. HUD agreed to provide the Grantees with future Small Cities CDBG Grants over a five to six year period to repay those Section 108 Loans that are called Section 108 Grants. Generally, the Small Cities CDBG Grants are determined through competition; however, under the Initiative the future funding of Small Cities CDBG Grants are to be awarded to the Grantees on a non-competitive basis. We obtained a legal opinion on this matter, which states that HUD could pledge future Small Cities CDBG Grants to finance the Section 108 Grants made under this Initiative.

In conjunction with public improvements, Grantees were authorized to make conventional Section 108 Loans to third parties; thus, the area would be revitalized and jobs would be created.

In summary, HUD designed the Initiative around three funding components: Section 108 Loans, Section 108 Grants, and Small Cities CDBG Grants. The Small Cities CDBG Grants and Section 108 Grants were to be used primarily to make public improvements to an area, as well as for some administrative costs. The Section 108 Loans were to be used primarily to entice businesses to the area and create jobs.

Initiative's Objectives Are Not Being Realized

The primary objectives of the Initiative were to revitalize the economic base of the communities that surround New

York State's waterways and create jobs. Our review disclosed that although funds have been used to make public improvement, Grantees are having trouble enticing businesses to the communities using Section 108 Loans. Thus, jobs are not being created and the Initiative's objectives are not being achieved.

Section 108 Grants*:*

$19.4 Million funded as Section 108 Grants

In funding the Initiative, HUD elected to award $19,400,000 of Section 108 Loans as grants (Section 108 Grants) to be used almost exclusively for public improvements. Our review noted two major concerns with this component of the Initiative. First, Grantees were allowed to spend the Section 108 Grants on public improvements with little or no progress regarding economic development activities; and second, four years after the announcement of the Initiative, less than half of the $19,400,000 set aside as Section 108 Grants have been expended.

The Initiative was designed to revitalize the economic base of communities in upstate New York through development projects and job creation. HUD decided to provide Section 108 Grants for public improvements and infrastructure improvements. Examples of some of the successful public improvements are illustrated in Appendix D of this report.

While we recognize that public improvements can be an integral tool to attract economic developments and create jobs, we found that many Grantees are making public improvements, but are not making progress on economic development projects. This undermines job creation, a primary objective of the Initiative.

Village of Frankfort, N.Y.

HUD awarded this Grantee an $850,000, Section 108 Grant for public improvements and authorized $2,325,000 in Section 108 Loan authority to entice various businesses to the area. As of November 2000, this Grantee had expended $812,000 of its $850,000 Section 108 Grant budgeted for public improvements. Although large expenditures were made on public improvements, the Grantee had not made any Section 108 Loans. Therefore, while the Grantee's

Initiative was targeted to create 172 jobs, no jobs had been created at the time of our site visit.

Village of Whitehall, N.Y

No Economic Development

Another example is the Village of Whitehall, New York. In 1997, HUD awarded this Grantee a $630,000 Section 108 Grant for public improvements and authorized $1,295,000 of Section 108 Loan authority to entice various businesses to the area. The Initiative was expected to provide 122 jobs. As of November 2000, the Grantee had expended $570,000 of the $630,000 Section 108 Grant. During our site visit, we observed that the Grantee awarded one $150,000 loan from its Section 108 Loan authority; however, the Grantee had not determined or documented if any jobs had been created. In addition, Grantee representatives told us that the Grantee has no current plans for expending any of its remaining Section 108 Loan authority. As a result, the Grantee has been allowed to expend $570,000 of the Section 108 Grant on public improvements without creating any jobs.

These are not isolated situations, during our site visits, we observed that a number of other Grantees expended monies on public improvements, but made little progress regarding economic development/job creation.

HUD Agrees With This Concern

HUD Buffalo Officials concurred that this issue is a concern but stated that Grantees are aware that they must make a concerted effort to create jobs.

Notwithstanding the aforementioned issue, we noted that the overall progress of the Section 108 Grant Program is slow, with less than half of the authorized $19,400,000 of Section 108 Grants having been expended as of November 2000. In fact, after more than three years since funding approval, 15 of the 44 Grantees that were awarded Section 108 Grants, have not spent any of their Section 108 Grants. In some instances Grantees have not expended the Section 108 Grants because of concerns that they will not be able to award Section 108 Loans to any businesses. Thus, jobs will not be created and Grantees could be questioned for not meeting a CDBG national objective.

Section 108 Grants Overall Progress is Slow

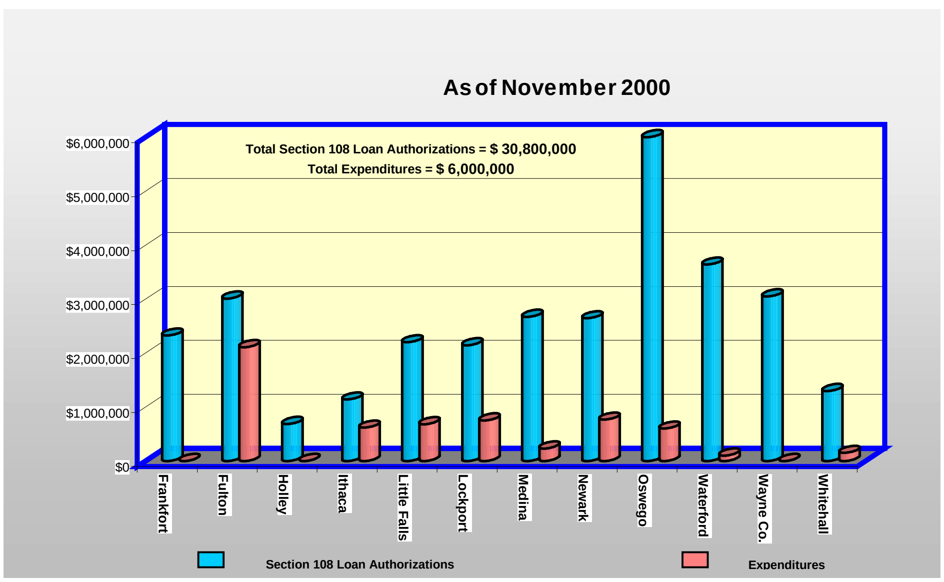
We suggest that HUD ascertain the amount of Section 108 Grants that have not been expended and determine whether Grantees have viable plans for using the Grants in the near future. For those Grantees that do not have viable plans, HUD should consider rescinding the Section 108 Grant authority.

Section 108 Loans

$72.7 Million In Section 108 Loans Authorized

HUD authorized a total of $72,700,000 for Section 108 Loans. We conclude that this is the most important component of the Initiative because funds are to be loaned to private businesses for economic development and job creation. However, as of November 2000, four years after the commencement of the Initiative, only $10,800,000 (or 15%) of the loan authority has been expended.

For the 12 Grantees that we visited, the Section 108 Loan authority totaled $30,800,000, but, as of November 2000, only $6,000,000 had been expended. Furthermore, these 12 Grantees were expected to create at least 1338 jobs; however only 153 jobs have been created.



Grantees Lacked Section 108 Loan Experience and Expertise

During our review, we attempted to determine the reasons that the Grantees were not utilizing the Section 108 Loan Program. We concluded that although Grantees generally have extensive experience administering Small Cities CDBG Grants, they were ill prepared to deal with the complexities of the Section 108 Loan Program. During our site visits, many Grantees made negative comments about their experiences involving the Section 108 Loan Program. The most common comment was that Section 108 Loans are not conducive to the small business loans that many upstate New York Grantees typically administer. In addition, Grantees cited the high fees and the inordinate amount of time needed to close a Section 108 Loan as the primary reasons that small businesses are less interested in the Section 108 Program than they are in a loan from the Small Cities CDBG Program. Thus, more than four years after the Initiative's inception, Grantees have made very little progress closing Section 108 Loans. As a result, HUD's objectives of economic revitalization and job creation are not being realized to the fullest extent possible.

The following three examples illustrate the extent of the problems that Grantees are having utilizing the Section 108 Loan Program.

Village of Holley, N.Y.

HUD awarded this Grantee Section 108 Loan authority totaling $685,000 to be used as a business development loan pool, i.e., a pool of funds available to make loans to entice businesses to the area, or to expand existing businesses. The Grantee estimated that 72 jobs would be created. Our review disclosed that the Grantee has not issued any loans from the business development loan pool. Although a specific reason was not given, the Grantee representative told us that the Grantee has no intention of using any of the Section 108 Loan authority.

Village of Medina, N.Y.

HUD awarded this Grantee Section 108 Loan authority totaling $2,669,620 for economic development projects to create 123 jobs. As part of the $2,669,620 Section 108 Loan authority, the Grantee set aside $1,880,000 as a business development loan pool. The remaining $789,620 was for four specific loans.

No Jobs Created

Our review disclosed that the four specific loans did not materialize, and that only $230,000 (two loans) from the $1,880,000 business development loan pool had been made as of November 2000. Moreover, jobs were not created, and the Grantee did not have plans for the remaining balance of the Section 108 Loan authority. Grantee representatives stated that the process to close the two Section 108 Loans was time consuming and that HUD was very slow in reviewing the Section 108 Loan documentation.

City of Oswego, N.Y.

HUD awarded this Grantee Section 108 Loan authority totaling $6,000,000 for economic development projects to create 136 jobs. As part of the $6,000,000 Section 108 Loan authority, the Grantee set aside $1,800,000 as a business development loan pool.

Our review disclosed that the Grantee awarded one loan for $600,000 leaving a balance of $5,400,000 of the Section 108 Loan authority. Grantee representatives told us that they do not have any active plans to use the remaining Section 108 Loan authorization. Although the entity that received the $600,000 loan created 32[2] full or part time jobs, this number is far below the 136 jobs that were projected for the overall Initiative.

Grantee Cites Section 108 Loan Program as Reason for Slow Progress

The Grantee had anticipated that the entire Initiative would have been completed by November 2000. Grantee representatives stated that progress has been slow because the Grantee lacked experience with the Section 108 Program. Specifically, the Grantee representatives mentioned the long processing time it takes HUD to approve a loan.

Grantee Seeks CDBG for Small Business Loans in Lieu of Section 108 Loans

In fact, Grantee representatives believe that the Section 108 Loan Program is not conducive to processing small business loans in their community. Consequently, in FY 1999, the Grantee applied to HUD and received a Small Cities CDBG Grant of $300,000 to provide smaller loans ranging from $20,000 to $100,000 to entice various business entities to the community. The Grantee's application to HUD provides in part, that funds from the Small Cities CDBG Program would be used to provide smaller loans, unlike the Section 108 Loan Program, at low interest rates and applications for the small business loans would be approved within 14 to 30 days.

[2] Through the Initiative, 33 jobs were created;32 as a result of a Section 108 Loan and one as a result of a loan from 1999 Small Cities funds.

Officials of the HUD Buffalo Office agreed that the Initiative's progress has been slow with respect to the number of specific Section 108 Loans. Consequently, on November 1, 2000, HUD issued a letter to all Grantees that have been experiencing slow progress stating that the Grantees must submit Section 108 Loan applications to HUD by September 30, 2001. The Grantees that do not submit their applications by this date will lose their Section 108 Loan authority.

HUD's letter to the Grantees is an important and positive step in addressing the slow progress issue. However, the letter does not address the fact that Grantees are not making loans from the Grantees' business development loan pools. Specifically, HUD authorized $28,700,000 of the $72,700,000 Section 108 Loan authority to be used for business development loan pools. Our analysis showed that as of November 2000, only 11 percent of the business loan pools funds has been used. Moreover, our site visits disclosed that many Grantees have made little progress utilizing their business development loan pools and do not have viable plans for making loans in the foreseeable future. In addition to the loan pool problems, we noted instances where Grantees had Section 108 Loans committed for specific business activities, but the activities were cancelled and the Grantees have no additional plans to utilize the loan authority. For example, a Grantee (Oswego, N.Y.) had HUD approval to provide a $3,000,000 Section 108 Loan for a hydro-electric plant project. The project was subsequently cancelled and the Grantee has no further plans for the $3,000,000.

Although this Initiative started when HUD was administering the Small Cities CDBG Program for the State of New York, in September 2000, the State agreed to administer the Program while HUD continues to administer the Canal Corridor Initiative.

State of New York Concerns

During the audit we met with officials from the Governor's Office for Small Cities and the New York State Division of Housing and Community Renewal. We discussed their concerns regarding the impact of HUD's Initiative on the State's ability to administer the Small Cities CDBG Program. Specifically, the State is concerned about

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uncertainties associated with funding requirements arising from possible Section 108 Loan defaults. Also, the officials believe that uncertainties could be reduced, if HUD revoked any unspent Section 108 Loan authority and, as an alternative, allow Grantees to apply for grant funds from the State when the Grantees are ready to proceed with any planned activities.

Auditee Comments

The information in the finding is useful feedback and will assist the Office of Community Planning and Development (CPD) in its future decisions with respect to the Canal Corridor Initiative. However, to ensure that readers of the report have a complete understanding of the facts, the following comments are offered.

- Initial funding approvals occurred in September 1997; therefore, Grantees had funding available to them for approximately 36 months, not four years as mentioned in the finding.

- Due to the extensive nature of the "permitting process" associated with the canal development, the first building season of 1998 was spent seeking the approval of required permits.

- Many Grantees have some experience with the CDBG program and their expectations were based in large measure on that experience.

- Section 108 loans vs. grants are materially different; for example, the review process is more extensive, the underwriting process adds to the processing time and some Grantees do not have full time attorneys; therefore, HUD had to review the promissory notes.

- Compliance with credit related requirements take more time.

- Processing time should improve because HUD has added eleven economic development specialists, streamlined the Section 108 loan application and trained Public Trust Officers on packaging Section 108 loan applications.

- Also in November 2000, for those Grantees that were considered slow performers, HUD sent the Grantees a letter asking for a formal response to determine actions needed.

OIG Evaluation of Auditee Comments

The finding disclosed that progress under the Canal Corridor Initiative has been slow; thus, program objectives such as job creation have not been realized. As mentioned, we attribute the cause of the slow progress and lack of job creation to HUD's design of the Initiative and to Grantees having little success brokering Section 108 loans to third parties. CPD seems to agree that the Grantees have been having problems processing Section 108 loans. Our specific comments regarding the above bullets follow:

- CPD mentions that Grantees had funding approval for approximately 36 months not four years as mentioned in the finding. We used the NOFA announcement date (December 3, 1996) as our starting point to calculate the four years. We recognized that funding did not occur until September 1997. However, it does not make a difference whether we should have used four or three years, because at the time of our on site visits many Grantees did not have viable plans for making Section 108 loans in the foreseeable future.

- CPD mentions problems with the extensive nature of the "permitting process"; Grantees officials have some experience with the CDBG program and their expectation was based on that experience; Section 108 loan reviews are more extensive, underwriting procedures add to the processing time, and compliance with credit requirements take more time. Also, HUD has taken actions to improve processing time. These are the same issues that Grantee Officials cited during the review and it is noteworthy that HUD is taking positive steps to improve the processing of the Section 108 loan applications.

- CPD mentions that as of November 2000, HUD sent a letter to those Grantees that HUD considered slow performers and asked for a formal response. We recognized this in the finding; however, as we pointed out in the finding, the letter did not address the business development loan pool problem, i.e. HUD did not ask for a formal response as to how the Grantees plan to use the business development loan pool funds ($28.7 million authorized and only 11 percent expended).

Recommendations

We recommend that HUD:

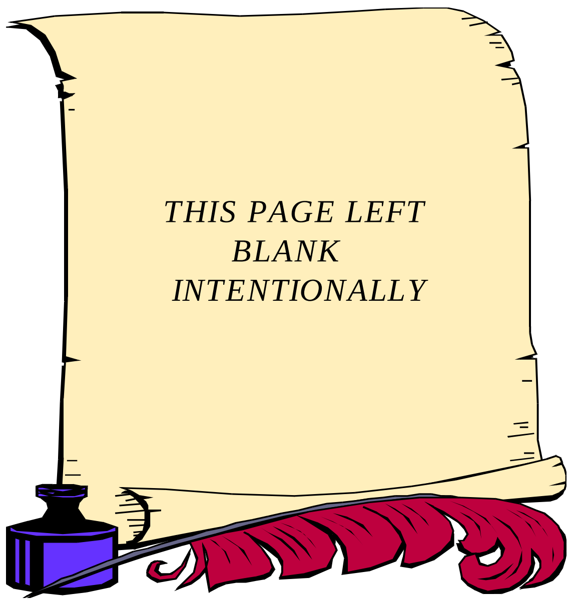
1A. Rescind Section 108 Grant authority if the Grantees have not expended the Grants within an agreed upon time.

1B. Ensure that Grantees are making adequate progress towards the Initiative's objectives of economic revitalization and job creation. For those Grantees that are not making progress, HUD must decide if just making public improvements constitutes eligible activities that meet a CDBG national objective.

1C. Review all of the Section 108 Loan authority that has been set aside for the Initiative's economic development loans and job creation. If the Grantees have not made any loans from these authorizations within an agreed upon time, HUD should rescind the Section 108 Loan authority.

In addition, If HUD rescinds any Section 108 Loan authority, and there is a future need for loans, we recommend that:

1D. HUD coordinate with the State of New York, to provide Small Cities CDBG Grants to those Grantees that have worthy canal related projects.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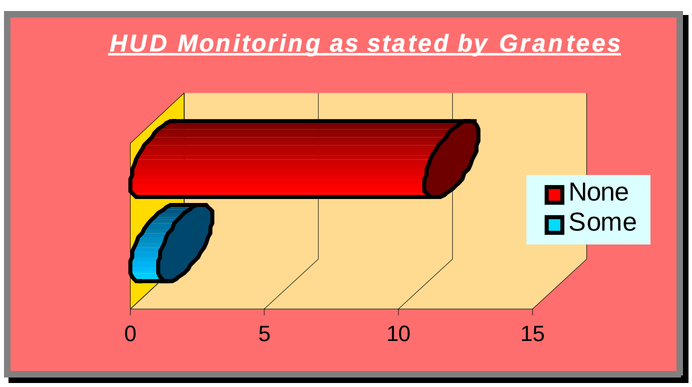
HUD's Monitoring of the Canal Corridor Initiative Needs Improvement

As mentioned in finding 1 of this report, the Initiative's slow progress and lack of job creation occurred for the most part because Grantees have had little success brokering Section 108 Loans to third parties. In addition, our review also disclosed that HUD did not adequately monitor the Grantees. As a result, poor program performance went undetected and unresolved. Notwithstanding, if HUD's own guidelines and those provided for in Title 24 Code of Federal Regulations (CFR), Part 570 had been followed, monitoring observations would have shown that some Grantees lacked sound fiscal controls over their financial management systems.

Monitoring

Monitoring is not sufficient

For all 12 Grantees visited, we interviewed pertinent officials and reviewed available documentation pertaining to HUD's monitoring of the Grantees. Officials at eleven Grantees told us that HUD has not monitored their Initiative.



Criteria

Title 24 CFR Part 570.902 provides, in part; that HUD will review the performance of each HUD-Administered Small Cities recipient to determine whether each recipient is carrying out its CDBG assisted activities in a timely manner.

In addition, HUD Handbook 6509.2 REV-4, Community Planning and Development Monitoring, contains detailed procedures applicable to monitoring Grantees including those participating in the HUD-Administered Small Cities Program. Chapter 3-2 of the handbook addresses monitoring review objectives and provides, in part; that monitoring requires an assessment of whether the Grantee is carrying out both individual activities and its program as a whole in a timely manner. This assessment will be an important element in determining whether the Grantee has a continuing capacity to carry out the program in a timely manner.

Grantee deficiencies have not been addressed

HUD Officials told us that although CDBG representatives did not perform specific monitoring visits to the Grantees, HUD's Community Builders made site visits. Grantee representatives confirmed this during our site visits. However, our interviews with HUD Community Builders disclosed that contrary to conducting typical monitoring reviews, Community Builders' main functions regarding the Canal Corridor Initiative were to provide technical assistance, foster publicity, promote the program, and serve as liaisons for interactions between the Grantee, HUD and other parties.

Accordingly, Community Builders were not involved in formal monitoring activities, and monitoring reports were not created as required by HUD Handbook 6509.2 REV-4. It is therefore evident that little, if any, scrutiny has been provided by HUD regarding Grantee fiscal controls, and processing of approved program activities. As a result, operational weaknesses have not been detected or resolved and slow program progress has not been addressed.

We provided examples of some of the slow progress in the previous finding. Following are examples of fiscal control problems observed during our site visits that we believe HUD should have detected through its formal monitoring program.

Financial Management

Deficient financial management systems

Our site visits disclosed that Grantees often did not comply with the financial management systems requirements contained in Title 24 CFR, Part 85.

Criteria

According to Title 24 CFR Part 85 Grantee financial management systems **must** meet certain standards including, but not limited to:

- Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

- Grantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities.

- Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

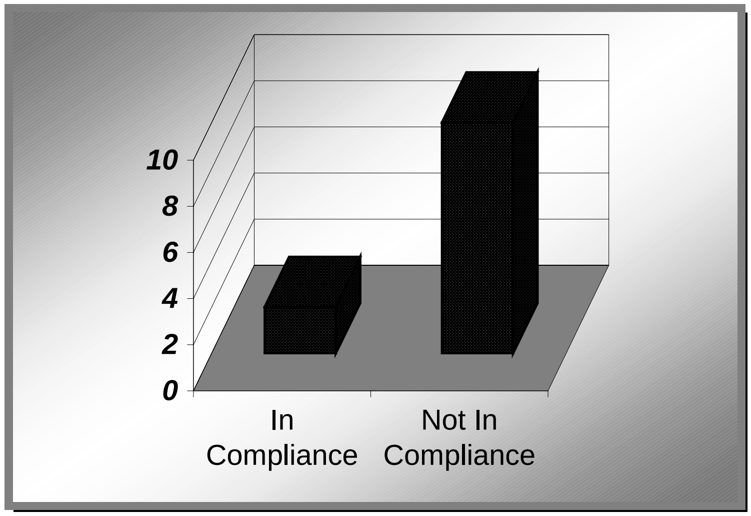
- Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

- Applicable Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

- Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subcontract award documents, etc.

Specific financial management deficiencies

Numerous financial management deficiencies were noted during our site visits. In fact we determine that 10 of the 12 Grantees that we visited were not in compliance with Title 24, CFR, Part 85 requirements.



Examples of typical deficiencies that we observed are detailed as follows:

City of Little Falls, N.Y.

Although, in our opinion, this Grantee was one of the better performing Grantees, the following fiscal management deficiencies were noted:

- Billings did not always contain adequate descriptions to support disbursements. For example, detailed descriptions were not provided to support a $75,163.73 real estate purchase transaction, and adequate documentation was not available to support a Section 108 Loan disbursement of $110,000.

- Loan records did not always contain required documentation. For instance, the Grantee made a $70,000 Section 108 Loan but the applicable files contained no evidence to support a $15,000 equity investment that had been claimed by the applicant. In addition, the Grantee did not maintain documentation to evidence that private equity was provided regarding a Shoppers Square Mall project that was to be part of the Initiative.

City of Fulton, N.Y.

This Grantee made reasonable progress under the Initiative. For example, two thirds of the expected jobs were created and two thirds of its Section 108 Loan authority had been expended. However, notable deficiencies were identified regarding controls over cash disbursements, including:

- Funds were expended for non-Initiative costs.
- Duplicate costs were incurred and paid with Initiative funds.
- Costs were charged to the wrong budget control account.
- Invoices that lacked adequate support for services provided were paid.

Noncompliance with requirements has impeded progress

Financial management deficiencies similar to those cited above existed at most of the Grantees that we visited. Falling short of full compliance with the requirements outlined above raises concerns as to the capacity of Grantees to carry out the Canal Corridor Initiative.

Auditee Comments

CPD mentions that HUD has and will continue to monitor the program progress of Canal Corridor Initiative Grantees. In addition, the following comments were offered:

- The problems and concerns noted in finding 1 (Grantee progress) were generally not a result of a lack of monitoring, but occurred because of time-consuming steps in the Section 108 process itself, i.e., securing, underwriting, permitting, etc.
- It should be noted that the audit report appears to limit the scope of monitoring to on-site activities, referencing HUD Handbook 6509.2 Rev. 4, dated 1991. It is our position that off site monitoring, in conjunction with selective on site monitoring, plays a significant role in the ability to assess Grantee progress.

- Program performance of Canal Corridor Initiative Grantees is continually gauged through an ongoing monitoring process that is assessed over a period of time. A strategic approach to assessment is guided through planning and analysis tools such as; the Business Operating Plan, Annual Comparative Review process and Grant Management System.

- Assessment processes are driven through formalized HUD procedures.

- As a result of continual assessment, technical assistance was ongoing by the field and was adjusted to address the needs of individual communities current progress.

- A community profile was developed and continually updated on all Canal Corridor Initiative Grantees. These profiles provide updated status on activities and indicate performance issues. Although Grantees' on site record keeping cannot be addressed remotely, other financial aspects of grant management can be addressed remotely through HUD financial systems.

- On site monitoring of Canal Corridor Initiate Grantees began in FY 2001 with plans to visit 10 Grantees.

OIG Evaluation of Auditee Comments

Although HUD contends that slow Grantee progress was generally not a result of a lack of monitoring, our review and visits to the Grantees clearly showed that program progress was slow. As stated in the finding, if HUD's own guidelines and those provided for in Title 24 Code of Federal Regulations (CFR) Part 570 had been followed, monitoring observations would have shown that some Grantees lacked sound fiscal controls over their financial management systems. In addition, on site monitoring would have indicated to HUD that Grantee program progress was slow and that corrective actions were needed.

As for HUD's contention that remote monitoring and assessments of program performance for Canal Corridor

Initiative Grantees is continually gauged and ongoing, we believe the finding clearly shows that such efforts have not been successful in detecting or addressing the issues raised.

HUD concurs that on site record keeping cannot be addressed remotely. As such, the conditions identified in the finding regarding Grantee noncompliance with the financial management systems requirements could only be detected through on site monitoring efforts. Compliance with the financial management systems requirements contained in Title 24 CFR Part 85 is important because failing to do so raises concerns as to the capacity of Grantees to carry out the Initiative.

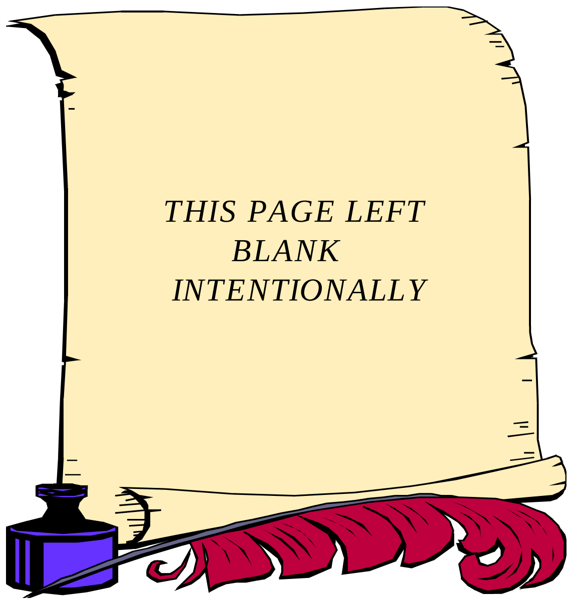
In accordance with our recommendation 2-A, we are pleased that HUD on site monitoring of Canal Corridor Initiative Grantees began in FY 2001 with plans to visit 10 Grantees.

Recommendations

We recommend that HUD:

2A Perform monitoring reviews of the Grantees involved with the Canal Corridor Initiative and document the reviews as required by HUD Handbook 6509.2 REV-4.

2B Ensure that Grantees are complying with the financial management system requirements promulgated in Title 24, CFR Part 85, during monitoring reviews.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Management Controls

In planning and performing our audit, we obtained an understanding of the management controls that were relevant to our audit. Management is responsible for establishing effective management controls. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure 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

Relevant Management Controls

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

- Program Operations - Controls to ensure that the Canal Corridor Initiative award process was appropriate and in accordance with the NOFA.

- Validity and Reliability of Data – Controls over HUD monitoring of Grantee(s) performance , such as job creation and program progress, to ensure that Canal Corridor Initiative goals and objectives are being achieved.

- Compliance with Laws and Regulations – Controls to ensure that the implementation of the Canal Corridor Initiative was within HUD's legal authority.

- Safeguarding Resources – Controls over HUD monitoring of Grantee(s) to ensure that Canal Corridor Initiative Grantees are using funds in full compliance with all regulatory and financial management requirements.

We assessed all of the relevant controls identified above. The scope of our assessment is identified in the Introduction Section of this report.

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

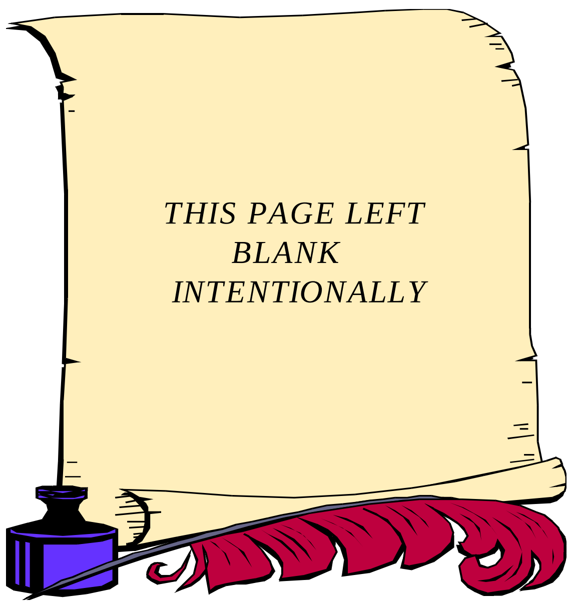
Based on our review, we believe that significant weaknesses exist in the following management controls.

- HUD did not monitor Grantee performance (such as job creation and program progress) to ensure that the Canal Corridor Initiative goals and objectives are being achieved, Audit Finding 1 and 2 (Validity and Reliability of Data).

- HUD did not monitor Grantees to ensure that use of Canal Corridor Initiative funds is in full compliance with all regulatory and financial management requirements, Audit Finding 2 (Validity and Reliability of Data) (Safeguarding Resources).

Follow Up On Prior Audits

This was the first OIG audit of the HUD-Administered Canal Corridor Initiative.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Auditee Comments

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

MAR 2 9 2001

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

MEMORANDUM FOR: Alexander C. Malloy, Office of Inspector General, 2AGA

FROM: Donna M. Abbenante, Acting General Deputy Assistant Secretary, D

SUBEJCT: Comments on Draft Audit of the Canal Corridor Initiative (CCI)

Thank you for your willingness to have the exit conference on the audit of the CCI in headquarters, rather than in the field. We thought it would be particularly useful to have headquarters staff responsible for the Section 108 program and field monitoring at the meeting, since those were the main issues raised in the draft report. Our comments on the report's findings are as follows:

Audit Report Finding: Progress for the Canal Corridor has been Slow and Program Objectives have not been Realized.

HUD's Comments: The information obtained in this finding is useful feedback and will assist the Office of Community Planning and Development (CPD) in its future decisions with respect to the CCI. However, in order to ensure that readers of the final report have a complete understanding of the facts, the following comments are offered:

1. The CCI recipients had funding commitments available to them for approximately 36 months at the audit end date of November 2000, not the four years suggested in this report. (The first funding approvals were issued by HUD on September 27, 1997.)

2. It should also be noted that due to the extensive nature of the "permitting process" associated with canal development, the first building season of 1998 was spent seeking the approval of required building permits, regulatory agency permission and site control. The "permitting process" associated with canal development involves no less than ten (10) regulatory agencies or commissions, and involves no

less than several months and most commonly six (6) months to a year. In some cases, the approval requests are still pending after almost 36 months.

3. The issues noted in several of the communities in the draft report can be explained, in large measure, by the difficulties experienced by CCI participants in adjusting to the requirements of the Section 108 program.

4. Many of the CCI participants have some experience with the Community Development Block Grant (CDBG) program and their expectations were based in large measure on that experience.

5. While Section 108 is inextricably linked to the CDBG program in many respects (e.g., eligibility rules, citizen participation, national objectives), it is materially different (loans vs. grants) in the following ways, as explained below:

   5.1. The review of Section 108 applications for compliance with eligibility and national objective requirements is more extensive than the review of grant applications; in a number of cases Buffalo field office or headquarters staff had to request additional information before determinations of compliance could be made.

   5.2. Section 108 is a loan credit subsidy program that requires each guaranteed loan to be underwritten so as to ensure that it is (i) an acceptable financial risk and (ii) consistent with the Section 108 subsidy rate under the *Credit Reform Act of 1990*. This underwriting process adds to the processing time and was a factor in two of the examples cited - the Village of Medina and the Village of Holley. In both cases, the projects initially submitted were not adequately collateralized and required extensive negotiation with the borrowers.

   5.3. HUD had to review promissory notes, loan agreements, etc., to ensure that the loans from the communities to the local borrowers were adequately documented, because many of the CCI participants do not have full time attorneys.

6. Obviously, compliance with these credit related requirements (that don't exist with grant assistance) takes more time; in some cases, as in the Village of Holley, some projects could not be approved due to inadequate collateral. (Despite the assertion by the Village of Holley representative, the community apparently intends to use Section 108 for a project.)

7. Processing time should improve significantly for those communities that acquire experience in financing projects under the Section 108 program.

8. A total of eleven economic development (ED) specialists have been added to our field staff to assist in Section 108 processing. One of them is located in our New York State office in New York City (NYC). The ED specialist in NYC services Buffalo, and consequently the CCI.

9. A streamlined sample Section 108 application form is now available on a HUD web-site for use by CCI grantees and others.

10. HUD recently streamlined and clarified Section 108 underwriting guidelines to give applicants an improved ability to comply with all the credit subsidy requirements.

11. In October 2000 HUD trained Public Trust Officers (PTO) and ED specialists in the field on packaging of Section 108 loan guarantee applications.

Audit Report Finding: HUD's Monitoring of the Canal Corridor Initiative Needs Improvement

HUD's Comments: We have and will continue to monitor the program performance of CCI and other grantees. The facts contained in our response to the finding above on the reported lack of grantee progress help to explain why certain situations were noted during the audit. The problems or concerns noted were generally not a result of a lack of monitoring, but occurred because of time-consuming steps in the Section 108 process itself, i.e., securing, underwriting, permitting, etc..

It should be noted that the audit report appears to limit the scope of monitoring to on-site activities, referencing HUD Handbook 6509.2 Rev. 4, dtd 1991. It is our position that off-site monitoring, in conjunction with selective on-site monitoring, plays a significant role in the ability to assess grantee progress.

Some of the specific events involved in monitoring the CCI grantees and other CPD grantees, including determining which would be subjected to on-site monitoring visits, are described below:

1. Program performance of CCI grantees is continually gauged through an ongoing monitoring process which is assessed over a period of time. From initial awarding of funds to final closeout, grantees' performance is evaluated through a variety of means utilizing both remote analysis and on-site monitoring. A strategic approach to assessment is guided

through planning and analysis tools such as; the Business Operating Plan, Annual Comparative Review process and Grant Management System.

2. The approach used to assess performance varies throughout the term of the grant and may be influenced by such factors as progress, capacity, and past performance. These, along with other influencing factors which relate specifically to CCI grantees, lead us to a strategic approach for performance assessment. As previously mentioned, awards were made late in 1997 resulting in a lost construction season in the first year. Considering the earliest start up activities may not have begun until 1998, emphasis on assessment was placed on utilizing a combination of remote monitoring tools, on-site visits and guidance.

3. We engaged in activities which would strive to promote activities, improve program performance and foster continued economic development. During the initial two years of managing the CCI grants, CPD staff paid continual visits to the CCI communities serving as a conduit to promote development activities. Such visits were supplemented by Section 108 loan information meetings held in canal communities.

4. Assessment processes are driven through formalized HUD procedures. These procedures provide for a structured assessment of HUD's grantees through the Annual Comparative Review (ACR). As part of the ACR, a risk analysis is conducted yearly for all HUD's grantees, including those participating in the CCI, to assist in determining the grantees to be scheduled for on-site monitoring. Those grantees and activities which represent the greatest vulnerability to fraud, waste, and mismanagement are monitored within the resources available.

5. As a result of continual assessment, technical assistance was ongoing by field and adjusted to address the needs of individual communities and their current progress. The <u>Permitting Guidebook</u> was developed as a form of technical assistance to address needs of CCI grantees. Documented forms of assessment are evidenced through Performance Assessment Reports which have been traditionally used in the past as a form of remote monitoring for Small Cities grantees. These reports were also submitted by CCI grantees and assessments were made by CPD staff.

6. A community profile was developed and is continually updated on all CCI grantees. These profiles provide updated status on activities and indicate performance issues. Although grantees' on-site record keeping cannot be addressed remotely, other financial aspects of grants management can be addressed remotely through HUD financial systems.

7. As a result of continuing the assessment process, further analysis resulted in letters to those CCI recipients in November 2000 where performance may have been considered slow. A formal response was required to determine what actions are needed, as well as any necessary strategic adjustments on the part of HUD.

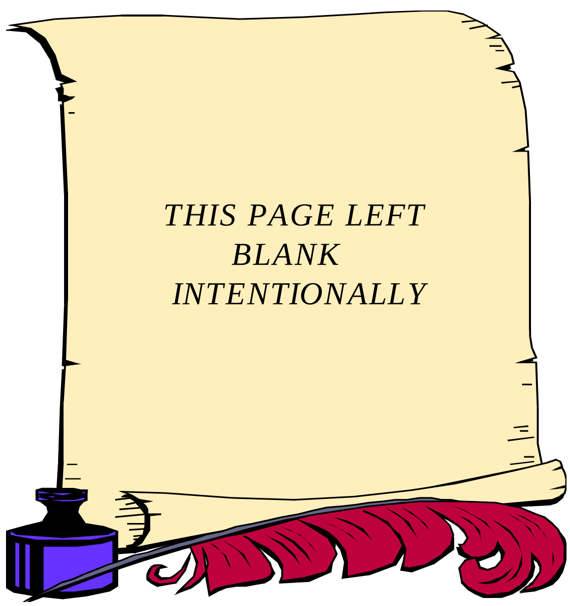
8. In addressing the overall strategy used for CCI grantees, a decision was made for combining performance improvements and results oriented grants management, which capitalize on monitoring tools that take advantage of both remote and onsite techniques. The basis for this strategy and guiding principles are set forth in two HUD publications which address specific GAO concerns on monitoring policies and procedures. They include; HUD Handbook 1840.1, Rev. 3, chapter 7 and HUD Monitoring, Desk Guide.

9. Within the framework of the ACR process, we choose to monitor a percentage of the total grantees based on their overall risk score, while taking into account our available resources to perform onsite monitoring. The process used included the following factors to assess risk; a.) program complexity b.) program progress c.) capacity d.) citizen complaints e.) financial management f.) other influencing factors.

These factors also included subfactors which were numerically weighted, resulting in additional emphasis on; the complexity and number of activities, slow progress, grantees lack of capacity, reporting requirements and other factors. When considering these risk factors in conjunction with the a.) timing of CCI awards b.) mitigating factors related to limited construction seasons c.) difficulties experienced by participants in adjusting to 108 requirements d.) grantees previous experience with the Small Cities CDBG program and e.) strategies undertaken through staff visits and remote analysis.

10. On-site monitoring of CCI grantees began in FY 2001. The ACR process included the risk analysis of 329 Small City Grantees which included the CCI communities. Our Business Operating Plan set forth a goal of 7% of all competitive grantees are to be monitored on site. As a result of this risk analysis 23 grantees were chosen for onsite monitoring which included 10 CCI communities. Since there a total of 54 CCI communities, approximately 1 out of every 5 is scheduled for onsite monitoring this fiscal year.

11. CPD developed a monitoring training module to be used by all field office staff responsible for the Section 108 program.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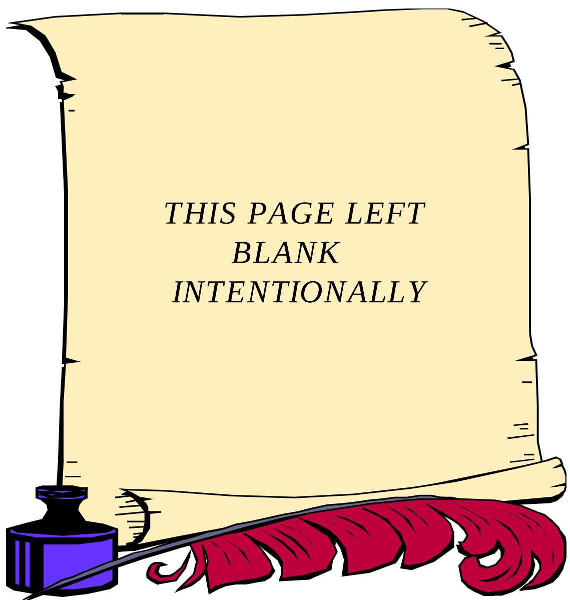
Total HUD Funding for the Canal Corridor Initiative – All Grantees

Grantees	CDBG Grants (1)	Section 108 Grants	Section 108 Loans	Total Funding
Albany County	$30,000	$660,000	$1,980,000	$2,670,000
Albion	420,000	480,000	895,600	1,795,600
Alexandria	600,000	0	0	600,000
Amsterdam	52,000	150,000	748,000	950,000
Arcadia	32,100	20,000	500,000	552,100
Canajoharie	252,800	800,000	1,390,000	2,442,800
Cayuga County	30,000	380,000	2,330,000	2,740,000
Clyde	30,000	270,000	1,705,000	2,005,000
Esopus	29,350	140,000	2,000,000	2,169,350
Fort Edward	32,000	595,000	2,350,000	2,977,000
Frankfort	50,000	850,000	2,325,000	3,225,000
Fulton	36,687	1,600,000	3,010,000	4,646,687
Galen	36,500	0	0	36,500
Green Island	700,000	0	0	700,000
Greene County	24,950	425,000	1,466,100	1,916,050
Holley	560,000	340,000	685,000	1,585,000
Hudson	15,000	217,000	425,000	657,000
Ilion	225,000	270,000	500,000	995,000
Ithaca	359,243	700,000	1,140,000	2,199,243
Kingston	25,000	436,000	1,914,052	2,375,052
Little Falls	350,000	850,000	2,200,000	3,400,000
Lockport	360,000	1,000,000	2,144,000	3,504,000
Lyons	0	0	700,000	700,000
Macedon	136,250	130,000	435,000	701,250
Madison County	175,000	725,000	1,150,000	2,050,000
Medina	15,750	790,000	2,669,620	3,475,370
Newark	25,000	875,000	2,645,000	3,545,000
North Tonawanda	38,000	60,000	525,000	623,000
Ogdensburg	300,000	0	0	300,000
Oneida County	750,000	150,000	500,000	1,400,000
Ontario County	465,000	90,000	150,000	705,000
Oswego	330,000	420,000	6,000,000	6,750,000
Oswego County	25,000	675,000	1,805,000	2,505,000
Palmyra	165,800	600,000	1,235,000	2,000,800
Phoenix	771,500	40,000	90,000	901,500
Plattsburgh	10,000	450,000	1,000,000	1,460,000
Port Henry	24,250	250,000	545,058	819,308
Rensselaer County	20,000	0	700,000	720,000
Schenectady County	20,000	0	940,000	960,000
Schuyler County	40,000	485,000	912,750	1,437,750
Schuylerville	19,000	290,000	900,000	1,209,000
Seneca County	20,000	880,000	2,275,000	3,175,000
Sullivan	30,000	30,000	2,700,000	2,760,000
Sylvan Beach	29,000	0	2,490,000	2,519,000
Ticonderoga	220,000	120,000	250,000	590,000
Tompkins County	20,000	0	1,200,000	1,220,000
Warren County	40,000	130,000	750,000	920,000
Waterford	16,365	180,000	3,640,100	3,836,465
Watervliet	50,000	40,000	1,400,000	1,490,000
Wayne County	29,400	720,000	3,050,000	3,799,400
Westport	389,960	190,000	242,000	821,960
Whitehall	220,000	630,000	1,295,000	2,145,000
Yates County	20,000	300,000	840,000	1,160,000
Totals Actual	**$8,665,905**	**$19,433,000**	**$72,742,280**	**$100,841,185**
TOTAL Rounded (2)	**$8,700,000**	**$19,400,000**	**$72,700,000**	**$100,800,000**

(1) Includes grants awarded for Fiscal Years 1997 and 1999.
(2) Column totals have been rounded for consistency throughout the report.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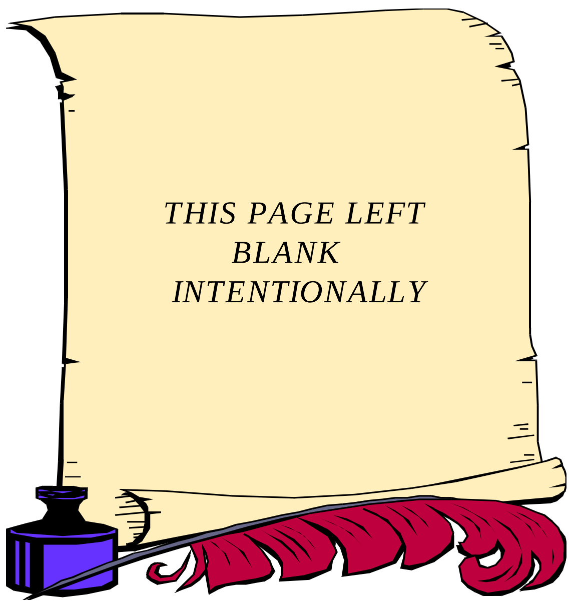
Total HUD Funding for the Canal Corridor Initiative – Applicable to Grantees Visited by the OIG

Grantees	CDBG Grants (1)	Section 108 Grants	Section 108 Loans	Total Funding
Frankfort	$50,000	$850,000	$2,325,000	$3,225,000
Fulton	36,687	1,600,000	3,010,000	4,646,687
Holley	560,000	340,000	685,000	1,585,000
Ithaca	359,243	700,000	1,140,000	2,199,243
Little Falls	350,000	850,000	2,200,000	3,400,000
Lockport	360,000	1,000,000	2,144,000	3,504,000
Medina	15,750	790,000	2,669,620	3,475,370
Newark	25,000	875,000	2,645,000	3,545,000
Oswego	330,000	420,000	6,000,000	6,750,000
Waterford	16,365	180,000	3,640,100	3,836,465
Wayne County	29,400	720,000	3,050,000	3,799,400
Whitehall	220,000	630,000	1,295,000	2,145,000
Total	**$2,352,445**	**$8,955,000**	**$30,803,720**	**$42,111,165**

Total (Rounded) $42,000,000

(1) Includes grants awarded for Fiscal Years 1997 and 1999.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Canal Corridor Initiative – Public Improvement Successes

Holley, N.Y.

Public Improvements - Canal Wall and Dock.

Fulton, N.Y.

Public Improvements - Reopening Main Street.

Canal Corridor Initiative – Public Improvement Successes

Fulton, N.Y.

Public Improvements - Canal Wall and Surrounding Areas.

Little Falls, N.Y.

Public Improvements - Canal Park Reception Area.

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