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OFFICE OF THE CITY MANAGER

July 2, 2007

A. Cynthia Leon, Regional Director
U.S. Department of Housing and Urban Development
Fort Worth Regional office, Region VI
801 Cherry Street (76102)
PO Box 2905
Fort Worth, Texas 76113-2905

Dear Ms. Leon:

**SUBJECT: City of El Paso's Response to Monitoring Letter dated June 4, 2007
El Paso Empowerment Zone (EZ) Project Number EZ-99-TX-0013**

This is in response to the monitoring review letter date June 4, 2007, for the on-site monitoring review of the City of El Paso Empowerment Zone (EZ) program. Please extend our thanks to Bob Carreras, Senior Community Planning and Development Representative, and Ms. Linda Barriga, Financial Analyst, who conducted the review, for their professionalism while conducting the review.

The City of El Paso will provide responses and support documentation for Concerns that were raised in the Monitoring Review Letter and provide responses and support documentation to clear many of the Findings contained in the Monitoring Review Letter. However, given the enormity of research required to adequately respond to several Findings, the City respectfully request an extension until August 31, 2007 to respond to specific findings.

Response to Concern 1:

The City of El Paso acknowledges it should maintain job information that shows the number of construction jobs and permanent jobs, how many of those are part-time or full-time, and how many of those jobs are filled by EZ residents. Included as Attachment A, is a list of all Empowerment Zone residents who are still employed as a result of the (PERMS G3.C2.P11), Restoration of Historical Downtown Theatre project. There are 46 Empowerment Zone residents that remain employed full-time as a result of the project.

Response to Finding 1:

Included, as Attachment B, is correspondence from the Downtown Lofts LP requesting an extension of the agreement until February 28, 2003 and a letter from the El Paso

Empowerment approving the requested extension. The project provided benefits to zone residents by increasing the number of residents living in the zone which provides an economic multiplier effect that ultimately leads in increased economic opportunities for zone residents and by the elimination of severe slum and blighted conditions which has a positive impact on quality of life for zone residents.

Response to Finding 2:

Enclosed as Attachment C, is the City of El Paso's "Sub-recipient Contract Monitoring Handbook". This document outlines the monitoring process for the City of El Paso, both fiscally and programmatically. Also included is the monitoring report for 2006 with all related correspondence. Also included are the following:

- **Fiscal Monitoring Evaluation checklist – This information is required to be filled out by agency being monitored, prior to monitoring taking place.**
- **Fiscal Monitoring Notes and Procedures – This is the checklist used by the fiscal monitor to document personnel and payroll, fiscal management, financial reporting and internal controls.**
- **Programmatic Monitoring Evaluation Form – The evaluation form used as part of the review period of January to December 2005, included the "Guide for Review of Round II EZ Strategic Plan Compliance" form provided in the "HUD Handbook 6509.2 REV-5, Community Planning and Development Monitoring Handbook" transmitted to CPD Program Participants/Grantees in September 2005. Although two findings were cited as part of this review, they were subsequently cleared on September 26, 2006 and December 20, 2006.**
- **The monitoring report**

Strict adherence to City of El Paso's Sub-recipient Contract Monitoring Handbook will ensure the proper management and oversight of EZ activities.

The monitoring report for 2006 is enclosed for your review, along with all correspondence related to this monitoring. The status of the findings is as follows:

Finding 1 – This finding is closed. The Board of Directors of the Empowerment Zone went back and ratified this loan and made all of the proper related party disclosures.

Finding 2 – This finding is closed. The Board member in question has resigned from the board. The employee that was married to him has also resigned.

Finding 3 – This finding is pending. A demand letter was send from the legal counsel of the El Paso Empowerment Zone Corp. requesting that these funds be repaid.

Finding 4 – This finding is pending. "The Board is concerned that the City believes such compensation to Mr. Romero is not allowable under the OMB Circular, which was presented to the Board. The Board ratified such compensation at its February 27, 2007 Board meeting. In light of the City's objection, the Board would like further detail from the City as to the City's particular reasons and documentation for such objection. With that information and materials in hand, the Board will closely review this issue further. Such review may likely include

further discussions with both the City and HUD. Upon finding that this additional compensation is not allowable, the Board intends to seek recovery of such amounts as may be necessary.”

Finding 5 – This finding is closed. There is no longer a segregation of duties issue as the Empowerment Zone grant has been transitioned to the City of El Paso, where proper internal controls are in place to properly manage the grant.

Finding 6 – Finding is pending.

Finding 7 – This finding is pending. A demand letter was sent from the legal counsel of the El Paso Empowerment Zone Corp. requesting that these funds be repaid.

Response to Finding 3:

Included as Attachment D, you will find a letter transmitting copies of the “Lead Hazard Information Pamphlet” as required by 24 CFR 35.130 to the Downtown Lofts LP for distribution to current and future tenants.

Response to Finding 4a:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 4b:

After a careful review of the detailed transactions that compromise the numbers in the 2006 audit, the following conclusions are made:

Expense for contract labor increased from \$12,232 to \$116,415. The reason for this increase is due to temporary staffing and contract labor, instead of full time permanent employees. Contract labor expense increased due to the use of temporary, part-time staff instead of full time permanent staff. Please find attached the consulting agreement between the El Paso Empowerment Zone Corp. and Ms. Teresa McGlone. The term of this agreement is September 2, 2005 to August 31, 2008. The El Paso Empowerment Zone Corp. Board of Directors approved this contract on August 23, 2005 and the vendor has not been compensated above the contracted amount. Please see the comparison below:

2005 – Salaries and contract labor together is \$348,601.

2006 – Salaries and contract labor together is \$339,191.

In summary, the Empowerment Zone has consistent charges for labor. The payroll taxes in the amounts of \$35,827 and \$35,673 is yet another indicator.

- Expense for consulting fees increased from \$4,661 to \$18,836. This increase is attributable to the hiring of Xiaohong Brouthers as an interpreter and program specialist for Asian business interests and the use of Lauterbach Technology for computer software and training.**

- **Expense for supplies increased from \$11,626 to \$15,067. Items charged to this account are for office supplies, check stock and imaging services (copy machine). It should also be noted that the FY 2006 figures are for 13 months as opposed to the FY 2005 audit that is for 12 months. If calculated, in FY 2005, the Empowerment Zone spent approx. \$969 a month in supplies in FY 2006 they spent approx. \$1,159 a month in supplies, which is a monthly increase of \$191. The expenses were eligible and used for the operation of the EZ. The City of El Paso will monitor the expenditures for office supplies to ensure they are reasonable and minimal.**
- **Expense for telephone costs increased from \$14,914 to \$20,532. Items reflected in these figures are for LAN lines at office, long distance service, cell phone and blackberry service, Muzicom (music on hold) and for website hosting fees. Once again it should also be noted that the FY 2006 figures are for 13 months as opposed to the FY 2005 audit that is for 12 months. If calculated, in FY 2005, the Empowerment Zone spent approx. \$1,243 a month in telephone costs in FY 2006 they spent approx. \$1,579 a month in telephone costs, which is a monthly increase of \$336. The expenses were eligible and used for the operation of the EZ. The City of El Paso will monitor the expenditures of telephone costs to ensure they are reasonable and minimal.**
- **Expense for training and education is for professional development and various dues to local organizations such as the Chamber of Commerce, the Hispanic Chamber of Commerce, the Downtown Business District, etc..... These expenses decreased from the prior year by \$19,069.**
- **Expense for travel and subsistence is for employee and board member travel and mileage reimbursements to employees. Once again it should also be noted that the FY 2006 figures are for 13 months as opposed to the FY 2005 audit that is for 12 months. If calculated, in FY 2005, the Empowerment Zone spent approx. \$995 a month; in FY 2006 they spent approx. \$957 a month, which reflects an overall decrease in these costs over the prior year.**

Analysis of Two Ton Creativity:

Documents in vendor file located by city staff:			
Invoice Date	Amount	Total Charges Reviewed:	Description of Work
12/09/05	\$15,000		Annual Report
1/23/06	\$2,500		Monthly Fees for February 2006
2/24/06	\$2,500		Monthly Fees for March 2006
3/28/06	\$3,000		Two Talking Points
Subtotal:		\$23,000	
Documents not in file:			
11/23/05	\$1,250		Monthly Fees for November 2005
12/05/05	\$2,500		Monthly Fees for December 2005
Subtotal:		\$3,750	
Total:		\$26,750	

The items listed in the chart above appear to be the only items charged to the general ledger since the inception of the Zone. The El Paso Empowerment Zone put out an RFP for advertising services in October 2005. The contract was awarded to Two Ton Creativity, Inc. The term of the consulting agreement was from November 14, 2005 through October 13, 2006 and was signed by both parties on November 22, 2005. The services outlined in the contract can be reviewed in the attached Contract Agreement, included herewith as Attachment E. The contract also includes a timeline and calls for payments on a monthly basis. The Scope of Services outlined in contract is all in support of eligible EZ activities. All questioned costs are eligible and allowable costs to the grant.

Lastly, the City of El Paso respectfully requests an extension until August 31, 2007 to conduct an analysis of all phone carrier charges.

Response to Finding 4c:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 5a:

According to an inventory conducted by the City of El Paso's Internal Audit Department, a copy of which is included as Attachment F, all CPU's are accounted for. Apparently the referenced CPU's were in storage. The information that "one Blackberry was in the possession of Phyllis is incorrect". The Blackberry is and has always been in possession of the EZ. The City of El Paso has begun to populate the

model numbers, serial numbers and all other required associated inventory information. Also included as Attachment G is a copy of the City of El Paso's Equipment Control Policies. These policies have been formally adopted in the City's Capital Assets Manual and address the timeliness of inventory accomplishments.

Response to Finding 5b:

The City of El Paso is committed to ensuring the elimination of unauthorized use of funds. Prior to the obligation of any EZ funds the Community and Human Development Director and the Empowerment Zone Coordinator, separately will review the proposed expenditure to ensure the proposed expenditure is an eligible expenditure in an approved Implementation Plan and is an eligible cost pursuant to HUD approved eligible activities. Expenditures will also be reviewed to ensure they are compliant with all statutory and regulatory procurement requirements and well as those of the City of El Paso. Upon approval a Purchase Order will be issued for the proposed use of funds. The City of El Paso also has the proper internal controls in place through segregation of duties and the budgeting system in our financial system, Peoplesoft.

Response to Finding 5c:

The City of El Paso is revising the Governance Plan for the administration of the Strategic Plan Implementation process. The City of El Paso will submit the Governance Plan for review and approval to HUD, no later than July 31, 2007.

The City of El Paso has policies and procedures in place to provide for the adequate segregation of duties. The City of El Paso has adequate staff to ensure segregation of duties and the financial and budgeting system used by the City of El Paso, Peoplesoft, has the proper internal controls in place through the system security setup. All transactions within the City take an initiator and an approver. This security provides for segregation of duties and allows approvers at the supervisory level to see all grant transactions prior to payment being made.

The Financial Services department of the City of El Paso has hired a Senior Accountant, Ms. Cynthia Delgado, to oversee the fiscal operations of the Empowerment Zone grant funds. Ms. Delgado has several years of grant experience and was a key staff member during the monitoring of the Empowerment Zone Corp.

Response to Finding 6:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 7:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 8:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 9:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

Response to Finding 10:

The City of El Paso respectfully requests an extension until August 31, 2007 to adequately respond to this finding.

In closing, I can not overemphasize that the City of El Paso understands the seriousness of the issues identified in the monitoring review report and the importance and significance of resolving these issues. I again reiterate my appreciation for the professionalism displayed by HUD staff in this matter.

Should you have any questions regarding this submission please contact Bill Lilly, Director, Community and Human Development at (915) 541-4241.

Sincerely,


Joyce Wilson
City Manager

Enclosures

cc: Deborah Hamlyn, Deputy City Manager
Bill Lilly, Director, Community and Human Development