

City of Syracuse

Department of Audit

Philip J. LaTessa

City Auditor

REPORT OF THE ELECTED CITY AUDITOR

To the: Honorable Mathew J. Driscoll, Mayor
Members of the Common Council
City of Syracuse, New York

The Department of Audit is responsible for reviewing the activities of all the departments of the City in accordance with generally accepted government auditing standards. Those standards require that we assess risk in determining the subject matter for audit.

In response to a request from Syracuse United Neighbors, Inc. we have reviewed the activity of the Department of Community Development with regard to the sale of a parking lot, located on the corner of South Salina and Onondaga Streets, known as Lot 7 (the Sale). This parcel was sold by the Syracuse Urban Renewal Agency (SURA) to MOLLY II Inc. (MOLLY).

Scope:

Our review was limited to conducting a review of the transaction from the authorizing Common Council directive to sell the real property to the SURA resolutions related to disbursements of the proceeds to determine that proceeds from the Sale were used consistently with the respective authorizations.

The actual review included examining the various resolutions and ordinances, the closing statement from the sale, deposits and disbursements. We examined and reviewed authorizing legislation and checked it against the disbursements and journal entries.

We interviewed various members of the Department of Community Development (the CD Department) on numerous occasions and spoke with the Mayor's office and Corporation Counsel.

The CD Department did use some of the funds generated by the Sale for payroll expenses that fell within the parameters of community development funding for Ida Benderson Center. It also used some of the funds for other outside non-profit organizations. We did not review this practice in this audit and

therefore express no opinion about the practice. Also, the appropriateness of SURA's decision to loan \$500,000 to SIDA is beyond the scope of this audit. In addition, the use of \$210,000.00 for Syracuse Neighborhood Initiative payroll and other administrative expenses is outside of this audit. The City Auditor does not express an opinion on the appropriateness of this expenditure.

FINDINGS:

- 1) On May 1, 2001 SURA and MOLLY signed a contract for sale of Lot 7.
- 2) On June 4, 2001, the Common Council passed Ordinance 361 authorizing SURA to sell Lot 7 for \$1,001,600. The Council Ordinance was silent regarding the use of the cash proceeds from the Sale. Without a specific directive from the Common Council, SURA appears to be governed by its own resolutions with respect to the disposition of the funds from the Sale.
- 3) On June 29, 2001 SURA authorized the Sale to MOLLY through Resolution 2997. Resolution 2997 stated "Be it further resolved, the Agency is hereby authorized to transfer the proceeds from this transaction to the City of Syracuse Industrial Development Agency for the purpose of HUD 108 loan repayment." (The City of Syracuse Industrial Development Agency (SIDA) is required to repay failed economic development loans it has advanced from funds provided by the U.S. Department of Housing and Urban Development (HUD) under Section 108 of the Housing and Urban Development Act of 1968.) Those repayments diminish the availability of Community Development Block Grant (CDBG) funds to meet local program needs.
- 4) On August 27, 2001 SURA wrote a check for back taxes to the City in the amount of \$17,769.82. On August 31, 2001 the City refunded back to SURA \$578.66 as an over payment of taxes.
- 5) On September 14, 2001 an agreement was signed by the Chairman of SURA and by MOLLY for the sale of Lot 7 for \$1,001,600 and the closing occurred between the parties. The closing statement listed the sale price of \$1,001,600 with adjustments for pro rata property taxes due to SURA. Also, the \$1,500 deposit from the purchaser to the SURA was credited, netting \$1,000,637.64. The Corporation Counsel forwarded to SURA three checks from MOLLY totaling \$1,000,637.64 for deposit.
- 6) SURA resolution 3008 authorized a loan to SIDA for \$500,000 for the development of a road for the Peat Street business park. This loan from SURA to SIDA was reversed on January 27, 2003 for the principal amount. The proceeds were deposited in the SURA account.

On May 1, 2002 SURA Resolution 3009 authorized the disbursement of \$310,000 to Community Development. This was to cover commitments made by Community Development that exceeded the 15% threshold of total HUD funding of CDBG programs. The \$310,000 went to offset the overage of \$105,000.00 already disbursed to agencies and to further disburse \$20,000 to Dunbar Senior Program, \$38,000 to Dunbar Youth Program and \$100,070.83 for the salaries at the Ida Benderson Center. The remaining \$30,929.17 was set aside in the SURA bank account.

The CD Department stated that it is their opinion that the subsequent SURA resolutions did amend 2997, however neither Resolution references amending the original Resolution (2997) which provided that all of the proceeds of the Sale should be used to repay the HUD 108 loans.

7) In June 2002, in spite of the fact that SURA Resolution 2997 specified that all the proceeds of the Sale should be used for HUD 108 loan repayment, the Agency transferred to SIDA only \$174,446.48 for that purpose.

8) The current balance of the SURA account shows \$530,929.17 remaining from the 2001 sale of the parking lot to MOLLY. We reviewed accounting records to confirm both the \$500,000 loan and the \$30,929.17 balance. The CD Department advised us that the balance will be disbursed as follows:

Foreclosure Intervention Program	\$ 200,000
Southeast Gateway CDC	90,000
SNI Administrative Support	210,000
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	\$ 500,000
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9) Allocations of community development funds, including the HUD Section 108 loan repayments are made by the CD Department in accordance with the Community Development Consolidated Budget Plan. The plan is adopted annually by the Common Council.

Recommendations:

- 1) The Sale was authorized by Common Council Ordinance 361. This Ordinance was silent as to the use of the proceeds of the Sale. The use of the proceeds of the sale has a direct impact on the availability of Community Development resources to meet current program needs. We recommend that the Common Council consider taking an active role in crafting legislation with the Executive Branch to assure that the disposition of such proceeds serves the best public interest in accordance with the budgetary authority of both the Common Council and the Mayor.

If it takes a more active role, the Common Council should be aware of the limitations imposed by HUD relative to CDBG funds. In this connection, it should be noted that SURA has not taken action yet to disburse the \$500,000 remaining from the proceeds of the Sale.

- 2) SURA Resolution 2997 stated "Be it further resolved, the Agency is hereby authorized to transfer the proceeds from this transaction to the City of Syracuse Industrial Development Agency for the purpose of HUD 108 loan repayment." Based on this Resolution, the entire proceeds from the Sale should have been used to pay down the HUD 108 loans.

Based on SURA Resolution 2997 we recommend that SURA transfers \$827,153.52 to pay down the HUD 108 loans, which represents the difference between the amount required by Resolution 2997 and the amount previously transferred to date. This will increase the amount of CDBG funds available to meet the local program needs in the future.

- 3) We recommend that the Common Council take an active role in approving the Community Development Consolidated Budget Plan and the CDBG budget, as a part of best business practices and actively monitor the implementation of the plan.

The Department of Audit wishes to thank the efforts of the staff from the CD Department for their assistance in this matter. We would also like to thank the Corporation Counsel's staff for their quick response to paper trail requests.

Subsequent Event:

It came to our attention that after a final review session with the Mayor a Syracuse Urban Renewal Agency (SURA) meeting took place on Monday, March 22, 2004, at 2:00 PM to commit the funds referred to under Scope, Number 8 above. This preemptive action limits the possibility of a review by the Common Council.

**City of Syracuse
DEPARTMENT OF AUDIT**

**Philip LaTessa
City Auditor**

March 23, 2004

