



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***ECONOMIC DEVELOPMENT
ADMINISTRATION***

***Aggressive EDA Leadership and Oversight
Needed to Correct Persistent Problems
in RLF Program***

Audit Report No. OA-18200-7-0001 / March 2007

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UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 30, 2007

MEMORANDUM FOR: Sandy K. Baruah
Assistant Secretary of Commerce
for Economic Development

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Audit Report
*Aggressive EDA/Leadership and Oversight
Needed to Correct Persistent Problems in
RFL Program (OA-18200-001)*

As follow up to our February 27, 2007, draft report, we are pleased to provide you with the final report on our performance audit of EDA's Revolving Fund (RLF) program. This report presents the results of our recent audit of EDA's oversight, monitoring, and management of the RLF program.

Our review found that EDA (1) failed to ensure efficient capital utilization by RLF grantees, (2) did not ensure grantee compliance with critical reporting requirements, (3) does not have an adequate tracking and oversight system, and (4) does not utilize single audit reports to improve grantee monitoring. As a result, EDA is operating the RLF program without some of the basic information needed to provide adequate oversight and management. In addition, much of the information available to EDA is not current, complete or accurate.

We offer a number of specific recommendations on pages 14, 15 and 19. We believe that the implementation of our recommendations will substantially improve the management and operation of the RLF program, notwithstanding EDA's assertion that additional statutory authorities and accompanying regulatory and operational measures are required to enable a more rigorous oversight of portfolio management. We are pleased to note that EDA, in its written response to our draft report, concurred with our recommendations and stated their intent and commitment to address the significant problems facing the RLF program. We request that you provide us with an action plan within 60 calendar days describing the actions you have taken or plan to take in response to the recommendations.

We appreciate the cooperation and courtesies extended to us during our review by EDA headquarters and regional office personnel. If you would to discuss this report or the requested action plan, please call me at (202) 782-4661 or John M. Seeba, Assistant Inspector General for Auditing, at 202-482-5910.

Attachment



cc: Benjamin Erulkar, Deputy Assistant Secretary for Economic Development
Mary C. Pleffner, Deputy Assistant Secretary for Management Services and
Chief Financial Officer
Anita Sanders, EDA Audit Liaison

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SUMMARY

For over 40 years, Commerce's Economic Development Administration has fostered job growth in distressed communities across the United States by promoting entrepreneurship and business development and investing in infrastructure to attract private capital and higher-skill, higher-wage jobs to these areas. The revolving loan fund (RLF) program, established in 1975, has been a staple in EDA's menu of offerings designed to accomplish these goals.

The RLF program provides grants to state and local governments, political subdivisions and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients typically must contribute matching dollars to capitalize the fund. As loans made from this original pool are repaid (with interest and other fees), the fund is replenished and new loans are extended to qualified businesses. Entities interested in administering an RLF must present EDA with a comprehensive economic development strategy that demonstrates how the loan fund fits specific economic development goals. The RLF funds retain their federal character in perpetuity. In other words, the grant recipient's obligation to the federal government continues as long as the federal interest in RLF assets exists.

EDA reported in June 2003 that it had a portfolio of over 600 grants representing a combined federal and nonfederal investment estimated to be approximately \$1 billion—an amount roughly four times the size of EDA's FY 2006 program budget. Staff assigned to monitor and manage the RLF program averages about one person per region.

Given the size of the federal investment, the RLF program has been an ongoing source of concern for EDA management. In 1999, EDA created the Revolving Loan Fund Task Force to consider comments and suggestions from the RLF community to strengthen the program and make it more responsive to the needs of grantees, borrowers, accounting professionals, and EDA staff. The task force found that the RLF reporting process needed major improvements because the system in place was cumbersome for grantees and not particularly effective for EDA. In addition, several task force members representing regional offices noted that RLF reports from grantees did not receive ample review and consideration because staff was spread too thin and had too many competing responsibilities. The task force recommended that EDA develop a new grantee reporting system that obtains grantee information via the Internet and concluded that electronic reporting should be EDA's number one priority for improving the RLF program. To date, an electronic reporting system has not been implemented.

The RLF program has also been a continuing focus of the work of our office. During the period January 1, 2001, to September 30, 2006, the OIG issued 50 audit reports on individual RLF recipients. These audits consistently found problems with grant recipients (1) inappropriately retaining excess cash, (2) having inadequate annual single audits, (3) violating RLF program requirements by charging costs to the RLF that were not allowable, (4) having inadequate loan documentation, and (5) filing inaccurate status reports.

This report presents our audit of EDA's oversight, monitoring and management of the RLF program. It concurrently assesses EDA management's handling of the aforementioned problems, in the areas of excess cash, grantee reporting, and single audits, that have been highlighted in prior individual OIG audit reports. Our audit covered the period September 2004 through September 2005, with limited extension of the audit period to include the 2006 sequestration of funds and receipt of reports from grantees not filing required reports for September 30, 2005. We performed field work at each of the six EDA regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia and Seattle) during May through September 2006. As a result of this work, we found that despite the issues consistently raised in OIG audit reports over a period of nearly six years and EDA's recognition of serious management problems and needed improvements, EDA has not addressed significant problems that were previously identified.

Among other things, as discussed in detail in the report, we found that EDA management did not ensure efficient capital utilization by grantees. To promote efficient use of the money provided RLF grantees, EDA has established a capital utilization standard of 75 percent intended to ensure that the money provided the grantees is actively used to make loans. In addition, EDA may implement a higher capital utilization rate for larger RLFs. If a grantee repeatedly fails to maintain the appropriate capital utilization rate, EDA may recover the unused funds through a process known as sequestration and, after a period of time, either transfer the funds to other RLF recipients who have identified a demand for additional loans or return the funds to the U.S. Treasury.

We found that as of September 30, 2005, 236 out of 529 RLF grantees had a total of \$70.3 million in excess cash. Furthermore, EDA did not require grantees to sequester excess cash on an aggressive and consistent basis and only \$14.6 million of \$44.4 million in eligible excess funds was sequestered at September 30, 2005. Finally, EDA was not ensuring that larger RLFs were using appropriate capitalization rates. As a result of these deficiencies, EDA missed opportunities to ensure the efficient utilization of program funds and to put unused funds to better use either by increased lending or by recovering the funds and returning them to the U.S. Treasury.

EDA also failed to ensure grantees' compliance with critical financial reporting requirements. When such reports are filed late or not at all, EDA managers lack the information they need to make timely and informed decisions about a fund's capital utilization and excess cash; the agency risks losing control of RLF assets; and there is greater opportunity for fraud, waste, or abuse of federal dollars. We found that 78 out of 607 grantees failed to file required financial reports for the period ending September 30, 2005, and 38 percent filed reports over 90 days late. Because of the missing information, EDA cannot determine the status of RLF assets for many of the grantees not filing reports or the value of the entire RLF portfolio.

In addition, we found that EDA did not maintain a useful central database containing current, accurate information on RLF fund balances, and an adequate tracking and oversight system. EDA's current database basically includes only award and termination amounts and excludes operational changes in the fund. As a result, EDA does not have a system capable of determining the value of the RLF assets it is responsible for monitoring. EDA reported, in June 2003, that the total value of the RLF program was \$1 billion; however, we were only able to identify

\$716 million in program assets as of September 30, 2005. Lack of an adequate tracking and oversight system also makes it difficult for EDA regional staff to monitor grantees within their jurisdiction, and for EDA headquarters staff to monitor the regions' oversight of those grantees.

Finally, we found that EDA's lack of policy guidance for using single audit reports as a tool for managing the RLF program led to ineffective practices among the regions for ensuring that single audits are obtained and that RLFs are properly identified for single audit purposes.

As a result of these deficiencies, EDA is operating the RLF program without the basic information needed to provide oversight, management and monitoring. Also, much of the information available to EDA is not current, complete or accurate. The lack of leadership, oversight and direction by EDA management is a significant factor in the negative results presented in this audit report.

EDA senior officials must provide the needed leadership and direction to enhance the RLF program's effectiveness by developing a strategy and plan of action that addresses the RLF program's problems and challenges, and identifies opportunities for improvement. We recommend that the Assistant Secretary for Economic Development and EDA senior officials enhance the RLF program's effectiveness by taking the following actions:

1. Develop a strategy and plan of action that addresses the RLF program's problems and challenges, and identifies opportunities for improvement. This plan should be very precise in (1) assigning overall responsibility for the RLF program to an individual who can be held accountable for its operation and its successes or failures; (2) laying out a time frame, with specific milestones, for addressing the program's known problems and issues; and (3) establishing performance metrics that will allow the Assistant Secretary for Economic Development and other senior EDA and Commerce officials to better monitor the program.
2. Require written evaluations by EDA regional staff of appropriate capital utilization percentages for all RLFs with a capital base exceeding \$4 million and take appropriate action based on those evaluations where necessary.
3. Develop policies and procedures that promote a uniform approach to sequestering excess cash. Among other things, such policies and procedures should provide guidance regional managers can use to decide when they should require grantees to sequester excess cash held for at least two reporting periods; require regional managers to provide written justifications for not sequestering excess cash held for at least two reporting periods; establish a standard amount of time for sequestering excess cash, and require regional managers to justify in writing decisions to continue the sequestration for a longer period.

EDA headquarters should also periodically evaluate the appropriateness of justifications for not sequestering excess cash maintained for at least two reporting periods, and continuing sequestration beyond the agreed-upon period.

4. Monitor grantee operations by consistently collecting and evaluating required financial reports, and determine the status of the 47 RLFs not reporting as of September 30, 2005, and not providing subsequent reports in 2006, and document this status in writing in accordance with the *Commerce Grants and Cooperative Agreements Interim Manual*.
5. Develop and implement a database, including a standard grantee reporting and monitoring system that provides the critical information EDA needs to manage the RLF program and protect its assets. Among other things, the system should maintain information about original capitalization for all RLFs, as well as current information for all RLFs, including award amendments, deobligations, terminations, and other changes in fund balances. It should also track grantee reports due and EDA actions taken to obtain grantee compliance with reporting requirements.
6. Ensure that all RLF grant recipients undergo required single audits and file reports with the Federal Audit Clearinghouse, and that EDA staff uses the information contained in such reports to improve recipient monitoring. In addition, develop guidance and training for EDA staff on how to review single audit reports and use them as a tool for managing the RLF program.

The Assistant Secretary of Commerce for Economic Development agreed with the findings and recommendations in our draft report, and represented that the agency would aggressively implement the recommendations of this audit. He acknowledged EDA's ongoing concern about the RLF program and noted that he is fully committed to implementing remedial actions as well as a long-term strategy to address systemic RLF administrative and programmatic issues.

The response states that EDA will develop a detailed action plan with milestones, reconcile the EDA portfolio with the OPCS database, increase emphasis on RLF program management and issuance of final policy and operational guidance. EDA also indicated that it intends to pursue additional mechanisms to strengthen management and fiduciary oversight while maximizing the effectiveness of the intensive resources required to administering the program.

Refer to Appendix III for EDA's complete response.

EDA's response to our audit report shows a commitment to address the significant problems facing the RLF program. By implementing the above recommendations, \$29.8 million, as of September 30, 2005, could be put to better use by increasing the RLF program's lending. In addition, as discussed in detail beginning on page 8, had EDA taken action to sequester the full \$44.4 million eligible for sequestration at September 30, 2005, rather than only a portion (\$14.6 million), approximately \$960,000 in interest on the federal share would be available to be put to better use.

INTRODUCTION

For over 40 years, Commerce’s Economic Development Administration has fostered job growth in distressed communities across the United States by promoting entrepreneurship and business development and investing in infrastructure to attract private capital and higher-skill, higher-wage jobs to these areas. The revolving loan fund (RLF) program, established in 1975, has been a staple in EDA’s menu of offerings designed to accomplish these goals.

The RLF program provides grants to state and local governments, political subdivisions and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients typically must contribute matching dollars to capitalize the fund. As loans made from this original pool are repaid (with interest and other fees), the fund is replenished and new loans are extended to qualified businesses. Entities interested in administering an RLF must present EDA with a comprehensive economic development strategy that demonstrates how the loan fund fits specific economic development goals. The funds retain their federal character in perpetuity. In other words, the grant recipient’s obligation to the federal government continues as long as the federal interest in RLF assets exists. Assets are in the form of cash, receivables, personal and real property, and notes or other financial instruments developed through the use of the funds.

EDA reported in June 2003 that it had a portfolio of over 600 grants representing a combined federal and nonfederal investment worth approximately \$1 billion—an amount roughly four times the size of EDA’s FY 2006 program budget. Staff assigned to monitor and manage the RLF program averages about one person per region (see table 1).

FY 2006 EDA Program Budget (\$ in millions)	
Public Works	\$ 164.4
Planning	24.2
Technical Assistance	8.3
Economic Adjustment	44.8
Trade Adjustment	11.8
Research	.5
Total	\$ 254.0

Source: EDA’s FY 2006 Budget In Brief

Table 1. Regional RLF Staff Resources

EDA Regions	Active RLFs ¹	Staff Assigned to Monitor RLFs
Atlanta Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee	90	1.3
Austin Arkansas, Louisiana, New Mexico, Oklahoma, Texas	43	1.0
Chicago Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin	107	1.2
Denver Colorado, Iowa, Kansas Missouri, Montana, North Dakota, Nebraska, South Dakota, Utah, Wyoming	94	1.2
Philadelphia Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Puerto Rico, Virgin Islands	179	1.0
Seattle Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington, American Samoa, Northern Mariana Islands, Guam, Federated States of Micronesia, Rep. of Marshall Islands, Rep. Of Palau	95	.5
Total	608	6.2

Source: OIG analysis of EDA data

¹ Active RLFs are those that have not been terminated in accordance with Commerce Grants manual policy.

Given the size of the federal investment, the RLF program has been a continuing focus of our audit work and an ongoing source of concern for EDA management. EDA created the Revolving Loan Fund Task Force in 1999 to consider comments and suggestions from the RLF community to strengthen the program and make it more responsive to the needs of grantees, borrowers, accounting professionals, and EDA staff. The task force found that the RLF reporting process needed major improvements because the system in place was cumbersome for grantees and not particularly effective for EDA. In addition, several task force members representing regional offices noted that RLF reports from grantees did not receive ample review and consideration because staff was spread too thin and had too many competing responsibilities.

The task force recommended that EDA develop a new grantee reporting system that obtains grantee information via the Internet. According to the task force, the benefits would include the creation of an RLF database, push-button reporting for grantees, and the ability to flag problems thereby making more efficient use of limited EDA staff resources. The task force concluded that electronic reporting was imperative and should be EDA's number one priority for improving the RLF program. To date, an electronic reporting system has not been implemented.

OIG Focus on Troubled RLF Program

During the period of January 1, 2001, to September 30, 2006, the OIG conducted 50 audits of revolving loan funds to determine whether the RLFs were properly managed and operating in accordance with federal requirements (see Appendix I). In 17 of the 50 audits, we reviewed the startup phase of the RLF program, that is, how grantees initially drew down RLF funds and made loans in the community. We identified numerous issues with grantees' handling of these aspects of RLF administration, and identified a total of \$5.8 million in funds to be put to better use.

For most of the remaining 33 audits, we focused our review on the revolving aspect of the loan fund, that is, whether grantees met EDA's 75 percent capital utilization requirement and did not inappropriately maintain excess cash. The 33 RLF recipients were generally selected for audit through our survey of active RLFs while a few were chosen in response to a specific request by EDA management. During this phase, we identified an additional \$32.9 million in funds to be put to better use. Overall, the recommended funds to be put to better use totaled \$38.7 million. These audits identified a number of persistent problems shared by many RLF grantees, including:

- Thirty percent of the RLFs maintained excess cash for prolonged periods.
- Twenty-seven percent had inadequate single audit coverage.
- Twenty-seven percent violated RLF program requirements by charging costs to the RLF that were not allowable.
- Thirty-nine percent had inadequate loan documentation.
- Forty-two percent filed inaccurate status reports.

In June 2003, as our audits were proceeding, EDA's then Assistant Secretary testified before the House Subcommittee on Economic Development, Public Buildings, and Emergency Management that the Inspector General was reporting significant problems for RLFs in every region of the nation, and with many different local, state, and regional development

organizations. He stated that EDA believed it was both necessary and appropriate to implement critical management reforms to ensure the effectiveness and accountability of these funds. In recognition of the long-standing problems EDA has noted in the RLF program, the persistent weaknesses identified by our audits, and the Assistant Secretary's statement that change was essential, we conducted an audit to assess the agency's progress in addressing these issues, and determine whether its oversight, monitoring, and management of the RLF program is adequate.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to assess the following:

1. EDA's oversight, monitoring, and management of the RLF program and, concurrently, its handling of certain problems we have highlighted in audit reports issued since 2001; excess cash, grantee reporting, and inadequate single audits.
2. Current levels and status of excess cash in the RLFs.
3. EDA's use of RLF grantees' independent audit reports as a monitoring tool.

Our audit covered the period September 2004 through September 2005, and certain events occurring after September 30, 2005, namely (1) the sequestration of funds by the Atlanta, Denver, and Seattle regional offices in March and August 2006, and (2) the filing of 2006 financial reports for 31 of 78 RLFs that failed to file for the September 30, 2005 reporting period. We performed fieldwork at each of the six EDA regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle) from May through September 2006. For full details about objectives, scope and methodology, see Appendix II.

FINDINGS AND RECOMMENDATIONS

I. EDA Has Not Effectively Managed the RLF Program

This review of the RLF program revealed that problems identified over the years by our prior audits and by the EDA RLF task force have not been resolved. This situation suggests a lack of leadership and direction by senior EDA management which has allowed ineffective and inefficient practices to persist in many RLF operations. Specifically, during the period reviewed, we found that EDA:

- (1) Did not ensure efficient capital utilization by grantees.
- (2) Did not ensure grantees' compliance with critical financial reporting requirements.
- (3) Did not maintain a central database containing current, accurate information on RLF balances and fund changes, and an adequate tracking and oversight system.

These deficiencies have resulted in the agency lacking some of the most basic data it needs to effectively monitor and manage the RLF program. For example, EDA does not know the status of RLF assets for 78 out of 607 recipients who did not file reports at September 30, 2005. In addition, without a central database containing all periodic RLF fund changes and current balances, EDA has no system to accumulate information on the current dollar value of the RLF assets to be monitored. Using annual reports filed by grantees, we computed the total dollar value of the RLF program assets as of September 30, 2005, at \$716 million. We were unable to determine the value of the 78 RLFs for which reports are missing and therefore could not tell how much those funds would add to our calculation of the total RLF program value. However, \$716 million is significantly below the \$1 billion program value EDA reported in June 2003 and it appears unlikely that the 78 missing reports would account for the entire difference.

EDA senior officials must provide the leadership and direction to enhance the RLF program's effectiveness by developing a strategy and plan of action that addresses the program's problems and challenges, and identifies opportunities for improvement.

A. EDA Failed to Ensure Efficient Capital Utilization by RLF Grantees

To help achieve its goals of promoting business and job growth in distressed areas, EDA's RLF program provides grants to qualified entities to establish lending programs offering low-interest loans to businesses that cannot obtain traditional bank financing. To ensure efficient use of the money provided the grantees, EDA has established a capital utilization standard intended to ensure that the money provided the grantee is actively used to make loans. If a grantee repeatedly fails to maintain the appropriate capital utilization rate, EDA may recover the unused funds through a process known as sequestration and, after a period of time, either transfer them to other RLF recipients who need money to make additional loans or return them to the Treasury.

By (1) failing to ensure that recipients maintained required capital utilization rates, (2) failing to ensure the use of appropriate capital utilization rates by larger RLFs, and (3) failing to sequester unused funds consistently and aggressively, EDA missed opportunities to promote efficient utilization of program funds and to put unused funds to better use either by increased lending or by recovering the funds and returning them to the U.S. Treasury. Given our finding that grantees

persistently fail to meet capital utilization standards without consequence from EDA, it is clear that agency management has not fulfilled its federal and departmental responsibilities for managing the RLF program.

1. EDA Did Not Ensure Grantees' Compliance with Appropriate Capital Utilization Rates And Allowed Grantees to Retain Resulting Excess Cash on a Continuing Basis

EDA regulations² require that during a fund's revolving phase, RLF recipients must manage their repayment and lending schedules such that at least 75 percent of the fund's capital is loaned out or committed at all times. The regulations allow the agency to lower this percentage of capital utilization for RLFs that anticipate making large loans relative to the size of the capital base, and raise it for funds that have a capital base exceeding \$4 million.

EDA allowed grantees to underutilize capital and accumulate excess cash. When the percentage of capital loaned out by an RLF grantee falls below the applicable utilization standard, the resulting funds still on hand are referred to as excess cash. RLFs that continually accumulate excess cash are clearly failing to utilize the federal funds they have received for the purposes intended.

Using EDA's 75 percent criteria, we calculated excess cash from the reported fund balances and cash available amounts in all grantee financial reports submitted to EDA for the period ending September 30, 2005, and determined that 236 of 529 recipients had a combined total of \$70.3 million in excess cash (see table 2), \$56.6 million of which was the federal share. The actual amount is likely higher because there were no reports filed for 78 RLFs (see table 5).

Table 2. RLF Excess Cash and Fund Balance at September 30, 2005

EDA Regions	Number of RLFs	Total Excess Cash	Federal Share Of Excess Cash	Total # RLF Repts Filed	Fund Balance	Federal Share of Fund Balance
Atlanta	43	\$10,922,618	\$8,494,863	90	\$133,978,891	\$107,244,424
Austin	24	3,430,517	2,920,681	43	41,926,748	35,816,330
Chicago	48	11,494,903	8,929,075	97	119,469,401	85,761,298
Denver	28	2,136,991	1,574,862	92	72,037,693	52,395,068
Philadelphia	48	18,986,483	13,680,418	121	216,523,437	158,158,316
Seattle	45	23,304,476	21,009,876	86	132,010,858	105,131,605
Total	<u>236</u>	<u>\$70,275,988</u>	<u>\$56,609,775</u>	<u>529</u>	<u>\$715,947,028</u>	<u>\$544,507,041</u>

Source: OIG analysis of EDA data

This problem is not limited to the period ending September 30, 2005. Of the 236 recipients reporting excess cash at September 30, 2005, 116 also had excess cash at September 30, 2004,

² Our audit covered RLF recipient information through September 30, 2005, with limited application subsequent to that date. Title 13 of the Code of Federal Regulations (CFR), Part 308, was the applicable regulation through September 30, 2005. EDA issued new regulations in the form of an Interim Final Rule (70 Federal Register 47002), effective October 1, 2005, to reflect amendments to EDA's authorizing statute, the Public Works and Economic Development Act of 1965, by the Economic Development Administration Reauthorization Act of 2004. The final rule became effective on September 27, 2006 (71 Federal Register 56658). The substance of the new regulations in the areas of capital utilization and sequestration of excess funds is essentially the same as the previous regulations. The new RLF regulations appear in 13 CFR Part 307.

and 74 of these 116 had excess cash for the preceding reporting period (either March 2004 or September 2003, depending on whether they were required to report once or twice a year). The analysis of excess cash for RLFs located in five of the six EDA regions appears in table 3.

In summary, approximately 45 percent of RLFs had excess funds in the period we examined. For the RLF program to achieve its goals, the money it provides needs to be used to make appropriate loans and not allowed to sit inactive for extended periods in the recipients' bank accounts.

Table 3. RLFs Retaining Excess Cash on a Continuing Basis

EDA Regions ^a	# of RLFs	Total Excess Cash as of 09/30/05	Total Excess Cash as of 09/30/04	Prior Period Excess Cash ^c	
				03/31/04 Semiannual	09/30/03 Annual
Atlanta	29	\$ 9,002,921	\$ 6,749,817	20	4
Austin	15	2,627,385	1,861,482	8	0
Denver	16	1,479,336	2,017,654	4	5
Philadelphia ^b	27	10,197,232	7,731,368	10	1
Seattle	29	15,097,205	16,267,090	19	3
Total	116	\$38,404,079	\$34,627,411	61	13

Note: ^a Chicago was judgmentally excluded from this test.

^b The reports for 6 Philadelphia recipients failed to disclose excess cash percentages for prior periods, so we were unable to determine the amount, if any, of excess cash they maintained during those periods.

^c In accordance with EDA reporting requirements, the grantee disclosure of excess cash for periods prior to September 30, 2004, was given as a percentage only, without dollar amounts.

Source: OIG analysis of EDA data

EDA did not ensure appropriate capital utilization rates for larger RLFs. We found that EDA was not ensuring that larger RLFs were using appropriate capitalization rates. Determining an appropriate capital utilization percentage for RLFs with a capital base greater than \$4 million is an important part of managing RLF capital utilization and excess cash. Had EDA evaluated the rates for these larger RLFs, it likely would have required a higher capital utilization percentage for many of the grantees which, in turn, may have resulted in a corresponding increase in excess cash at September 30, 2005.

Based on the RLF recipient reports provided by EDA, we identified 23 RLFs that had a capital base of over \$4 million at September 30, 2005. The total capital base for the 23 RLFs totaled \$160 million while the total federal share of the capital base was \$130 million. We inquired of EDA regional management as to whether any of these RLFs had been evaluated for a higher capital utilization standard and were informed that only one of these RLFs, in the Atlanta regional office, had received such an evaluation. We strongly believe that EDA should evaluate the current capital utilization standard for all RLFs with a capital base exceeding \$4 million, document the results of such evaluations, and take appropriate action based on those results.

2. EDA Did Not Require Grantees to Consistently and Aggressively Sequester Excess Cash

EDA regulations provide that when a recipient fails to meet the capital utilization standard for two consecutive reporting periods, the agency may require the recipient to sequester excess funds--that is, deposit the funds in an interest-bearing account, remit the government's portion of the interest to the U.S. Treasury, and obtain EDA approval to withdraw sequestered funds from the account. However, no further guidance is provided as to specific factors that should be considered in making a sequestration decision. The regulations also state that an RLF recipient will normally be provided a reasonable period of time to lend the excess funds, but they do not define what constitutes a reasonable length of time. Finally, EDA regulations provide that the agency may suspend or terminate an RLF for persistent noncompliance with the capital utilization standard, but they do not indicate how to determine if noncompliance is persistent. As a result of the lack of clarity on these key issues, each regional office has developed its own way of handling sequestration decisions. The resulting practices are inconsistent across EDA regions and vary from recovering funds without sequestration to sequestering excess funds for extended periods of time.

We found that the Austin regional office does not sequester funds at all. Instead, if an RLF reports excess cash for two consecutive reporting periods, the regional office generally takes steps to terminate the award. The other regional offices consider excess cash cases individually, but not one documents the basis for its sequestration decisions. For example, the Atlanta and Denver regional offices stated that they generally send sequestration letters to recipients who have maintained excess cash for two consecutive reporting periods. The Atlanta regional office stated that it bases sequestration decisions on a business-type analysis considering such factors as recipient lending plans and the economic environment. The Chicago and Philadelphia regional offices stated that they contact grantees to discuss whether excess funds should be sequestered. And Seattle merely indicated that it makes sequestration decisions after semiannual reporting deadlines.

Moreover, none of the regional offices has a standard period for sequestering funds; nor do they document decisions to continue sequestration. We noted some sequestration periods that seem excessive. For example, the Atlanta regional office sometimes had funds sequestered for nearly four years, and we noted one case in the Seattle regional office in which funds had been sequestered for nearly three years.

While we recognize the need for some flexibility when it comes to sequestration decisions, it appears that the lack of clear guidance on appropriate criteria for making those decisions has contributed to the poor sequestration results we found when we examined that process. As part of our analysis of excess cash at five EDA regional offices at September 30, 2005, we found that \$44.4 million was eligible for sequestration, but only one third of that amount, or \$14.6 million, was actually sequestered (see table 4).

Table 4. Excess Cash Sequestered

EDA Regions ^a	Excess Cash Amount 9/30/2005 \$ (millions)	Amount Eligible for Sequestration ^b	Sequestered Amount 09/30/2005	Amount Sequestered After 09/30/2005
Atlanta	\$10.9	\$ 9.3	\$ 1.8	\$1.8
Austin	3.4	3.2	.0	.0
Denver	2.1	1.6	.0	0.6
Philadelphia	19.0	10.4	10.5	.0
Seattle	23.3	19.9	2.3	4.0
Total	\$58.7	\$44.4	\$14.6	\$6.4

Notes: ^a Chicago was judgmentally excluded from this test.

^b Amount eligible reflects total excess cash maintained by RLFs for at least two consecutive reporting periods as of September 30, 2005.

Source: OIG analysis of EDA data

The data in table 4 indicates that of the five EDA regional offices tested, four do not follow a consistent and aggressive policy for sequestering excess cash. While Philadelphia appears to have sequestered the full amount eligible, we cannot draw a conclusion on its sequestration practices because it failed to collect 57 of the 178 grantee reports due for September 30, 2005, (see table 5) and it is therefore unclear how much excess cash actually existed and whether the appropriate amount had been sequestered.

EDA's failure to sequester funds leaves the cash inactive and costs the federal government hundreds of thousands of dollars in interest payments that could be put to better use. For example, had EDA sequestered the full \$44.4 million eligible at fiscal year-end 2005, rather than only a fraction of that amount (\$14.6 million), the U.S. Treasury would have collected interest on \$24.0 million, the federal portion of the additional \$29.8 million. Interest on that amount at the current interest rate of 4 percent per annum³ would have yielded another \$960,000 in interest payments that year.

EDA should develop policies and procedures that promote a uniform approach to sequestering excess cash. Among other things, such policies and procedures should (a) provide guidance regional managers can use to decide when they should sequester excess cash maintained for two reporting periods, (b) require regional managers to provide written justifications for not sequestering excess cash maintained for at least two reporting periods, (c) establish a standard amount of time for sequestering excess cash before suspension or termination, and require regional managers to justify in writing decisions to continue the sequestration for a longer period. EDA should also periodically evaluate the appropriateness of justifications for not sequestering excess cash maintained for two reporting periods, and justifications for continuing sequestration beyond the agreed-upon period.

B. EDA Did Not Ensure Grantee Compliance with Critical RLF Reporting Requirements

EDA regulations require RLF recipients to submit semiannual reports to EDA on their operations, although RLFs whose operations appear sound after the first few semiannual reporting cycles may be permitted to move to an annual reporting schedule. RLF operators

³ Interest rate based on the current U.S. Treasury Current Value of Funds Rate.

receive a standard report format and instructions to report their cumulative loan activities through each semiannual or annual period, as appropriate. Grantees have about 30 days after the end of a reporting period to submit their reports: November 1 is the deadline for annual reports for the fiscal year ending September 30; semiannual reports are due May 1 for the period ending March 31, and November 1 for the period ending September 30. It is essential that RLF operators submit these reports and do so on time so that EDA can use them to monitor grant projects and ensure that operators are managing funds in accordance with their RLF plans and the agency's administrative requirements. We found that EDA was not ensuring that RLF grantees complied with this critical reporting requirement.

The *Department of Commerce Grants and Cooperative Agreements Interim Manual* details responsibilities for managing Commerce grants and describes options such as suspension or termination available to grant managers if recipients fail to meet their obligations under the awards. Submitting annual and semiannual reports within prescribed time frames is one such obligation that EDA managers are responsible for enforcing. The EDA regions have a poor record of ensuring that grantees comply with reporting requirements.

1. EDA Failed to Obtain Required Reports

We found that the EDA regional offices have different practices for managing and monitoring grantee compliance with agency reporting requirements. This inconsistency is partially a function of inadequate oversight by headquarters, which should have standard operating procedures for ensuring grantee compliance. But it also indicates that RLFs are not a priority for some regional offices, and so they do not aggressively follow up on grantees who fail to report.

As set forth in Table 5, we found that all regions had problems with late reporting and that several had problems obtaining reports at all. Procedures for obtaining required reports varied substantially among the regions, with one region (Seattle) having no monitoring system in place to track report submission at all. Even regions that had developed positive practices resulting in a high number of report submissions still had problems obtaining those reports on time. For example, the Atlanta regional office developed its own report tracking system, a report processing log to show reports due and the procedures employed to bring grantee reporting into compliance. The region uses the prospect of suspending fund activity as leverage to obtain reports. Atlanta collected all 90 reports due for September 30, 2005. But 33 percent of these reports were filed late.

The Denver regional office generally sends warning letters to its grantees 15 days after the report due date. It collected 92 of the 94 reports due for September 30, 2005, but 25 percent were late. The Austin regional office—the only one with a web-based grantee reporting system—collected all 43 reports due, but 30 percent of the reports were late.

The other regions had more serious problems obtaining required reports. The Philadelphia region collected only 121 of 178 reports due for September 30, 2005, and 36 percent of those collected were late. Seattle collected 86 of the 95 reports due, but 70 percent were late. Chicago collected 97 of 107 reports, 37 percent of which were late.

Table 5. Grantee Reports Due September 30, 2005 - Not Filed or Filed Late

EDA Regions	Reports Due ^a	Number Not Filed	Percent Not Filed	Reports Filed	Number Filed Late ^b	Percent Filed Late
Atlanta	90	0	0	90	30	33
Austin	43	0	0	43	13	30
Chicago	107	10	9	97	36	37
Denver	94	2	2	92	23	25
Philadelphia ^c	178	57	32	121	43	36
Seattle	95	9	9	86	60	70
Total	607	78	13	529	205	39

Notes: ^aThe number of reports due includes 25 reports for RLFs that were removed from the 2001 Operation Planning and Control System (OPCS) database. EDA has not provided information to support these deletions.

^b In addition to the 205 reports filed late, we identified 52 reports that were not dated: 24 at Philadelphia, 15 at Denver, 8 at Chicago, 4 at Seattle, and 1 at Atlanta. We were unable to determine how many of the 52 were filed late.

^c Philadelphia has 179 RLFs (see table 1). However, one RLF grant was awarded during the six-month period ending September 30, 2005, and did not have a report due for that period.

Source: OIG analysis of EDA data

Table 6 shows how late the reports were—a total of 38 percent of those that were filed were more than 90 days late. We even found 17 reports that were filed more than 200 days after the deadline.

Table 6. Grantee Reports Due September 30, 2005 – Days Late

Regions	-----Days Late-----				Total
	1-30	31-60	61-90	91+	
Atlanta	13	6	6	5	30
Austin	3	2	3	5	13
Chicago	8	3	0	25	36
Denver	5	1	1	16	23
Philadelphia	13	9	10	11	43
Seattle	37	6	1	16	60
Total	79	27	21	78	205
Percent	39%	13%	10%	38%	100%

Source: OIG analysis of EDA information

When reports are filed late or not at all, EDA managers lack the information they need to make timely and informed decisions about a fund’s capital utilization and excess cash, the agency risks losing control of RLF assets, and there is greater opportunity for fraud, waste, or abuse of federal dollars.

2. EDA’s Failure to Obtain Required Reports Resulted in the Agency Lacking Critical Program Information.

As a result of its failure to ensure that all recipients submitted required reports, EDA lacked critical information needed to manage the RLF program. Among other things, with 78 reports missing, it lacked information about the current status of the non-reporting RLFs and about the total assets of the RLF program.

Status of many non-reporting RLFs is unknown. In an attempt to determine the current status of the 78 non-reporting RLFs, we reviewed data currently contained in EDA’s Operational Planning and Control System (OPCS) database, as well as information contained in the OPCS in

2001,⁴ and EDA regional office files. The OPCS is a management information system EDA uses to collect award information for its various grant programs. The database includes information on the pre-application and application process, milestone dates, award amounts, and termination information if applicable. The database is maintained by EDA headquarters, with information provided by EDA regional managers. According to the database manager, very little RLF information is entered into the system after a grant's final disbursement.

In examining the data contained in the OPCS in May 2006, we found that 25 RLFs were not listed in that database at the time of our review. Using the information contained in OPCS in 2001, we determined that these RLFs were in the system in 2001 and had been removed from it at some point between 2001 and May 2006. Ordinarily the only reason for removing a grantee from OPCS would be if the award was terminated. Yet we could find no official documentation indicating that these grants had been terminated. EDA files should contain, at a minimum, a letter to the recipient explaining the reasons for any termination for cause, or a memorandum of agreement or other written agreement between EDA and the recipient in the case of a termination for convenience. EDA's grant files did not contain any appropriate documentation of termination or any other official action taken with regard to these funds. Some files did contain documents describing the funds as being "closed," an informal designation that does not meet the documentation requirements of the *Commerce Grants and Cooperative Agreements Interim Manual*.

For the 53 non-reporting RLFs contained in the OPCS in May 2006, we sought any existing documentation or other information about them from EDA so that we might determine the status of each fund. We found no documentation of termination for any of the missing RLFs, or any other records to indicate their current status; nor could we determine when they had last filed an annual or semiannual report.

Subsequently, EDA was able to provide 2006 reports for 31⁵ of the 78 grantees that had failed to submit September 2005 reports. This leaves the agency with 47 RLFs that are not reporting at all. It is possible that many of the non-reporting RLFs lost assets through poor loans and inefficient operations and therefore have nothing to report. Nonetheless, EDA should take immediate action to determine the status of these non-reporting funds. Until it does, the agency has no way of assessing the success or failure of a substantial portion of the awards it has made under this program. The history and status of these RLFs should be documented in EDA's files, and not just in the memories of certain EDA managers.

⁴ In 2001 we obtained a printout of the information contained in the OPCS for use in audit planning.

⁵ 22 of the 31 reports were from the Philadelphia region; 5 were from Seattle; and 2 each from Chicago and Denver.

Table 7. RLFs Not Reporting for September 30, 2005

Region	Reports Not Filed	RLFs Listed Only in 2001 OPCS ^a	RLFs Listed in 2006 OPCS
Atlanta	0		0
Austin	0		0
Chicago	10	1	9
Denver	2		2
Philadelphia	57	24	33
Seattle	9		9
Total	78	25	53

Note: ^aThe number of reports due includes 25 reports for RLFs that were removed from the 2001 Operation Planning and Control System (OPCS) database. EDA has not provided information to support these deletions.

Source: OIG analysis of EDA data

Total Value of RLF Portfolio Is Unknown. Although EDA reported the total RLF program value as \$1 billion in 2003, using grantee annual reports, we were only able to identify program assets of \$716 million as of September 30, 2005. While some of this difference is due to the fact that 78 RLFs did not submit required reports for that period, it is likely that the missing reports will not account for the entire difference. EDA should take immediate action to determine the value of the non-reporting funds so that it can determine the current dollar value of program assets to be monitored. Without such information, the agency risks losing control of program assets, and there is an increased chance that such assets will be subject to fraud, waste or abuse.

C. EDA Does Not Have an Adequate Tracking and Oversight System

The lack of an effective, practical data system that gives EDA headquarters and regional office staff the ability to track the status of individual RLFs and oversee the RLF program is a key cause of many of the problems discussed throughout this report.

EDA's OPCS database contains some information related to the RLF program but does not have all of the data EDA needs to manage the program. While the OPCS database reflects the amount at which a fund was capitalized, it does not track changes which occur at each RLF after the initial capitalization, such as income, losses, and securitizations. As a result, EDA managers cannot use the OPCS to quickly determine the current value of the entire RLF portfolio or to make timely, informed decisions about recipient capital utilization and excess cash. To obtain such information, EDA staff must painstakingly go through annual reports submitted by RLF grantees to the regional offices. Such a process is time-consuming and ultimately not likely to yield definitive information, since, as noted previously, many such reports are submitted late, and a substantial portion are not submitted at all.

OPCS also does not include data for several RLFs that we found were still submitting semiannual/annual reports to EDA. Among others, this list of recipients includes the city of Baltimore, the state of Rhode Island, the Massachusetts Commonwealth Economic Development Corporation, the Commonwealth of Virginia and the West Virginia Office of Economic Development.

EDA also lacks a single, uniform system for monitoring grantees' compliance with RLF program requirements, as each regional office has its own way of monitoring RLF grantees. Without such a system, it is difficult for EDA headquarters' staff to monitor the EDA regional offices' oversight of grantees under their jurisdiction.

A properly designed online grantee reporting and monitoring system with mandatory use required of all grantees would eliminate many of the problems we noted. Such a system would facilitate the reporting process for grantees and should improve its timeliness. It would greatly enhance EDA's ability to manage and monitor RLF operations, despite limited staff resources, and strengthen internal controls over RLF assets, thereby reducing the risk of fraud, waste and abuse in the program. In an environment of lean staffing, efficient use of such a system is a good way to maximize staff resources and obtain the greatest return on the investment of management time.

Such a system could also have built-in edits designed to catch mathematical errors in grantee reports. As part of our review of the grantee reports for the period ending September 30, 2005, we tested the mathematical accuracy of those reports in certain EDA regions. We found that in Atlanta, 21 percent of grantee reports contained math errors, as did 17 percent of Austin's reports, 14 percent of Denver's, and 13 percent of Seattle's. Generally, the errors were not major. However, many could be eliminated through the use of simple edits in a database.

EDA should develop and implement a database, including a standard grantee reporting and monitoring system, that provides the critical information it needs to manage the RLF program and protect its assets. Among other things, the system should maintain information about original capitalization for all RLFs, as well as current information for all RLFs, including award amendments, deobligations, terminations, and other changes in fund balances. It should also track grantee reports due and EDA actions taken to obtain grantee compliance with reporting requirements.

D. Recommendations

We recommend that the Assistant Secretary for Economic Development and EDA senior officials provide the leadership and direction to enhance the RLF program's effectiveness by taking the following actions:

1. Develop a strategy and plan of action that addresses the RLF program's problems and challenges, and identifies opportunities for improvement. This plan should be very precise in (1) assigning overall responsibility for the RLF program to an individual who can be held accountable for its operation and its successes or failures; (2) laying out a time frame, with specific milestones, for addressing the program's known problems and issues; and (3) establishing performance metrics that will allow the Assistant Secretary for Economic Development and other senior EDA and Commerce officials to better monitor the program.
2. Require written evaluations by EDA regional staff of appropriate capital utilization percentages for all RLFs with a capital base exceeding \$4 million and take appropriate action based on those evaluations where necessary.

3. Develop policies and procedures that promote a uniform approach to sequestering excess cash. Among other things, such policies and procedures should provide guidance regional managers can use to decide when they should require grantees to sequester excess cash held for at least two reporting periods; require regional managers to provide written justifications for not sequestering excess cash held for at least two reporting periods; establish a standard amount of time for sequestering excess cash, and require regional managers to justify in writing decisions to continue sequestration for a longer period.

EDA headquarters should also periodically evaluate the appropriateness of justifications for not sequestering excess cash maintained for at least two reporting periods, and continuing sequestration beyond the agreed-upon period.

4. Monitor grantee operations by consistently collecting and evaluating required financial reports, and determine the status of the 47 RLFs not reporting as of September 30, 2005, and not providing subsequent reports in 2006, and document this status in writing in accordance with the *Commerce Grants and Cooperative Agreements Interim Manual*.
5. Develop and implement a database, including a standard grantee reporting and monitoring system, that provides the critical information EDA needs to manage the RLF program and protect its assets. Among other things, the system should maintain information about original capitalization for all RLFs, as well as current information for all RLFs, including award amendments, deobligations, terminations, and other changes in fund balances. It should also track grantee reports due and EDA actions taken to obtain grantee compliance with reporting requirements.

E. Agency Response and OIG Comments

In response to our draft report, the Assistant Secretary of Commerce for Economic Development stated that the agency found no material inaccuracies in the report that warrant correction. His response acknowledged that the deficiencies identified in the draft report are serious, and represented that EDA would immediately and aggressively implement the recommendations of this audit. The Assistant Secretary noted that he is fully committed to implementing remedial actions as well as a long-term strategy to address systemic RLF administrative and programmatic issues.

The Assistant Secretary's response also describes initiatives EDA says it has undertaken to improve the program, for example, obtaining new authority to streamline program administration by allowing multiple recipients to merge their operations, and the authority to simplify asset transfers to third parties in liquidation procedures. EDA also states that it has assigned responsibility for the RLF program to a senior headquarters official and hired a newly dedicated staff person, and established a new RLF task force. The taskforce will be responsible for developing recommendations for new standardized procedures for the administration, monitoring, and management of RLFs.

The response states that EDA will develop a detailed action plan with milestones, reconcile the EDA portfolio with the OPCS database, increase emphasis on RLF program management and issuance of final policy and operational guidance. EDA stated that it intends to pursue additional mechanisms to strengthen management and fiduciary oversight while maximizing the effectiveness of the intensive resources required to administer the program. EDA also stated that full resolution of the RLF program's problems will require not only implementation of the OIG's recommendations but additional statutory authorities and accompanying regulatory and operational measures to enable a more rigorous oversight of portfolio performance.

Finally, EDA attached a Matrix of Recommendations and EDA Actions that specifically addresses each recommendation. Refer to the matrix for a detailed description of our draft report's recommendations and EDA's detailed response (see Appendix III, pages 5 through 7).

Following the issuance of our draft report, EDA also provided copies of various grantee reports that were missing at the time of our audit field work. Fifteen additional reports for the period ended September 30, 2005, were provided and 31 additional reports for reporting periods ending in 2006 were provided for grantees who had not submitted reports for 2005. We incorporated the additional reports in our audit analysis, and have modified the tables and results presented in our final report as appropriate. Refer to Appendix III for EDA's complete response.

EDA's response to our audit shows a commitment to address the significant problems facing the RLF program. EDA has already initiated processes that, if carried through to completion, should greatly improve the management and monitoring of the program.

F. Funds to Be Put to Better Use

By implementing the above recommendations, \$29.8 million, as of September 30, 2005, could be put to better use by increasing the RLF program's lending. In addition, as discussed in detail beginning on page 8, had EDA taken action to sequester the full \$44.4 million eligible for sequestration at September 30, 2005, rather than only a portion (\$14.6 million), approximately \$960,000 in interest on the federal share would be available to be put to better use.

II. EDA Does Not Utilize Single Audit Reports to Improve Grantee Monitoring

The Single Audit Act Amendments of 1996 established uniform audit requirements for state, local, and tribal governments and nonprofit organizations receiving federal financial assistance. Under the act, nonfederal entities that expend \$500,000 or more in a year in federal awards from more than one agency must be subject to a “single” audit, conducted by an independent auditor, and the resulting audit report must be submitted to the Federal Audit Clearinghouse.⁶ Grantees’ annual and semiannual reports contain the information EDA needs to determine whether an RLF grantee is required to obtain a single audit.⁷ Specifically, these reports show a fund’s total capital base including the federal share. When the federal share of the capital base exceeds \$500,000, the grantee is generally required to obtain a single audit. Most RLF grantees are required to obtain single audits.

Single audit reports are an important mechanism for keeping managers informed of the financial health of an organization. They contain information about an auditee’s performance and are a valuable tool that EDA can use to ensure that organizations receiving RLF grants have appropriate internal controls in place to safeguard federal funds and that they are using funds in accordance with grant terms and conditions. OMB Circular A-133 establishes standards for federal agency use in implementing the Single Audit Act.

We found that EDA staff is not routinely obtaining single audit reports filed by RLF grantees from the Federal Audit Clearinghouse. We did find paper copies of some single audit reports in EDA regional files. In most instances, however, the reports had been provided by the grantee and not obtained from the Clearinghouse. By haphazardly collecting single audit reports from grantees and not routinely obtaining them directly from the Clearinghouse, EDA cannot be sure that all grantees required to obtain single audits are actually doing so. We compared the 2004 audit reports on file at the Clearinghouse with the information obtained from our analysis of RLF semiannual or annual reports at three of the six EDA regions, and found that a number of recipients had not submitted single audit reports to the Clearinghouse that year (see table 8).

⁶ The Federal Audit Clearinghouse serves as the central collection point and distribution center for all single audit reports. Its primary function is to receive the audit report and data collection form from the auditee, archive a copy of the report and the data collection form, and make available a copy of the audit report to each federal award agency that provides direct funding to the auditee when the report identifies a finding related to that agency’s awards. The clearinghouse also maintains an electronic database, accessible through the Internet, of information (obtained from data collection forms) about the auditors, recipients, federal awards, major programs tested, and audit results for all entities that submitted single audit reports beginning in 1997.

⁷ For RLFs, federal award funds expended are calculated as follows:

- (1) Balance of RLF loans outstanding at the end of the fiscal year, plus
- (2) Cash and investment balance in the RLF at the end of the fiscal year, plus
- (3) Administrative expenses paid out of the RLF during the fiscal year.

Only the federal share (excludes the matching fund share) of the RLF is used in this determination.

Table 8. Regional Compliance with Single Audit Requirement for 2004

EDA Region	Number of Recipients	Reports Required	Reports Filed with the Clearinghouse	Reports Not Filed with the Clearinghouse
Atlanta	82	82	70	12
Denver	72	65	51	14
Seattle	80	50	28	22
Total	234	197	149	48

Source: OIG analysis

EDA staff is also not routinely utilizing the data contained in single audit reports to help manage the program. EDA has no guidance to explain how regional staff can use such reports to improve recipient monitoring, and no requirement that they be used as a monitoring tool. As a result, managers do not routinely use the reports, and are therefore missing out on the opportunity to use the information they contain to obtain added insight into internal controls over RLF assets, grantee compliance with award terms and conditions, and the accuracy of information contained in annual and semiannual reports.

EDA's failure to review the single audit reports also means that staff are not identifying and dealing with deficiencies in those reports. Under OMB Circular A-133, recipients of federal grants are required to identify on the Schedule of Expenditures of Federal Awards all federal awards expended and the programs under which they were received. We found that in 33 out of 188⁸ reports we tested, the RLF was not included on the SEFA. Such an omission creates serious obstacles to obtaining a proper audit. For one thing, the auditor may not realize that the auditee even has an RLF grant. Failing to include the RLF on the SEFA may also mean that an RLF that should be considered a major program (see following discussion) is not identified as such and is therefore not subject to appropriate additional tests. If EDA staff were routinely reviewing single audits, it would be easy for them to note the omission of an RLF from the SEFA and bring that omission to the attention of the grantee and its auditors.

Under A-133, the auditor conducting the single audit must determine which programs being audited have a higher-risk for non-compliance. This part of the analysis is used to identify which of the auditee's programs are major programs. Major programs are subject to direct testing and additional audit procedures and reporting requirements relative to the auditor's consideration of internal control over compliance. This usually involves designing specific audit procedures to determine whether transactions are properly recorded and accounted for, the recipient is in compliance with laws and regulations, and the funds and other assets are safeguarded against loss. The failure to properly identify an RLF as a major program will have a negative impact on the quality of the information related to the RLF contained in the single audit report.

We compared single audit reports with RLF annual and semiannual reports and found that a significant number of the single audits (73 of the 188, or 39 percent) did not consider the RLF as a major program, even though the total capital base of the fund indicated that it should probably have been categorized as one.

⁸ We tested the 2004 audit reports found in EDA files, along with reports available from the Clearinghouse, for a total of 188 reports.

While we cannot say conclusively that all of those RLFs would ultimately qualify as major programs, it is likely that some were misclassified as non-major. If EDA staff were regularly reviewing these reports, they could have noted the failure to consider the RLF as a major program and asked questions of the grantees and their auditors to determine if those decisions were correct. If they had followed these simple steps, it is probable that they would have caught many instances where the RLF was incorrectly identified as a non-major program, and could have raised the issue with the grantees and their auditors so that the error could be rectified.

Some regional EDA officials we interviewed stated that they generally rely on the Office of Inspector General's review of single audit reports to alert them to audit findings at the recipient's organization. While OIG does play a role in the single audit process, we do not routinely review all reports. Along with EDA program officials, we are responsible for audit resolution and followup on negative findings in single audit reports. The review we perform is important and it does serve to bring needed information to the attention of EDA management, but it is limited in scope and not a substitute for the review that should be performed by EDA staff.

A. Recommendations

We recommend that the Assistant Secretary for Economic Development direct the appropriate EDA officials to

1. Ensure that all RLF grant recipients undergo required single audits and file reports with the Federal Audit Clearinghouse, and that EDA staff uses the information contained in such reports to improve recipient monitoring.
2. Develop guidance and training for EDA staff on how to review single audit reports and use them as a tool for managing the RLF program.

B. Agency Response and OIG Comments

The Assistant Secretary of Commerce for Economic Development's response to our draft report stated that EDA will develop a process to ensure that required single audits are filed with the Federal Audit Clearinghouse, and that RLFs are included as major programs when appropriate. The agency will also develop guidance and training for EDA staff on how to review and use single audit reports as a tool for managing the RLF program.

The Assistant Secretary's response demonstrates an intent and commitment to address the problems in EDA's use of the single audit reports. We believe that completion of the planned actions represents a positive step in correcting the problems we found in the single audit area.

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OIG Revolving Loan Fund Audits 01/01/01 to 09/30/06			
Date Issued	Recipient	Value of Funds Put to Better Use	Questioned Costs
Phase I RLF Drawdown Phase			
3/20/01	Tyler Economic Development Council TX	\$ 534,582	\$ -0-
3/28/01	Stark Development Board Finance Corp. OH	250,000	-0-
3/30/01	Jefferson Parish Econ Dev. Commission LA	286,686	-0-
3/30/01	North East Texas EDD	-0-	-0-
7/10/01	Monterey County CA	350,000	-0-
7/12/01	Panhandle Area Council ID	350,000	-0-
7/19/01	Hennepin and Ramsey Counties MN	880,954	-0-
8/16/01	Affiliated Tribes of Northwest Indians WA	-0-	-0-
9/21/01	Cumberland Plateau Plan. Dist. Commission VA	503,417	-0-
9/21/01	Gulf Coast EDD TX	500,000	-0-
9/21/01	Eastern Oklahoma Development District	350,000	-0-
9/24/01	Miami Area Econ. Dev. Service, Inc. OK	265,250	-0-
9/28/01	Cities of East Chicago, Gary, and Hammond IN	-0-	\$37,500
9/28/01	Southeast Idaho Council of Governments	225,000	-0-
10/30/01	Washington Assoc. of Minority Entrepreneurs WA	-0-	53,500
7/18/02	Eastern Oklahoma Development District	300,000	-0-
1/31/02	Economic Development Bank for Puerto Rico	1,000,000	-0-
	Total Phase I	\$ 5,795,889	\$ 91,000
Phase II RLF Revolving Phase			
3/21/01	Lower Chattahoochee Regional Development Ctr GA	\$575,247	\$ -0-
3/30/01	Community Development Commission LA County CA	-0-	-0-
3/30/01	East Los Angeles Community Union CA	45,000	-0-
3/30/01	East Los Angeles Community Union CA	-0-	-0-
2/27/02	City of Lake City SC	193,405	111
3/22/02	Jefferson Parish Economic Dev. Comm. LA	-0-	-0-
3/27/02	Economic Development Bank for Puerto Rico	204,276	22,283
3/27/02	Greater North-Pulaski Local Dev. Corp. IL	500,000	2,965
7/22/02	Detroit Economic Growth Corp. MI	749,430	-0-
7/31/02	City of East Cleveland OH	513,480	-0-
8/28/02	Northwest Arkansas EDD	400,899	-0-
8/30/02	Philadelphia Authority for Ind. Dev. PA	521,743	-0-
8/30/02	East Arkansas Plan. And Dev. District AR	808,229	-0-
9/05/02	City of New York	3,457,049	57,977
9/23/02	U.S. Virgin Islands	974,378	-0-
9/30/02	City of Milwaukee WI	1,492,626	-0-

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OIG Revolving Loan Fund Audits 01/01/01 to 09/30/06			
Date Issued	Recipient	Value of Funds Put to Better Use	Questioned Costs
2/06/03	Community Invest. Corp. of Decatur, Inc. IL	\$ 1,689,393	\$ 44,536
3/07/03	City and County of San Francisco CA	2,027,326	-0-
3/07/03	Northwest Regional Planning Comm. WI	260,236	-0-
3/25/03	South Carolina Jobs – Economic Dev. Authority	606,790	-0-
3/28/03	City of Baldwin Park CA	708,711	-0-
3/28/03	Alaska Village Initiatives	324,587	-0-
3/31/03	Anacostia Econ. Dev. Corp. DC	601,618	-0-
3/31/03	Empire State Dev. Corp. NY	7,929,294	145,583
7/22/03	High Plains Development Authority, Inc. MT	1,426,242	-0-
9/11/03	Southside Planning District Commission VA	1,136,348	57,196
12/23/03	Government of D.C. Dept. of Housing & Comm. Dev.	1,772,666	-0-
3/26/04	Pease Development Authority NH	146,123	-0-
3/31/04	North Central PA Regional Plan. & Dev. Commission	409,606	-0-
9/27/05	Erie County Industrial Development Agency NY	703,718	221,691
1/11/06	The EDC Fund, Inc., VT	94,013	-0-
3/28/06	Commonwealth of Pennsylvania	2,001,492	-0-
9/27/06	Shorebank Neighborhood Institute IL	648,654	142,018
	Total Phase II	\$32,922,579	\$694,360
	Total for 50 Reports Issued 1/01/01– 9/30/06	\$38,718,468	\$785,360

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to assess the following:

1. EDA's oversight, monitoring, and management of the RLF program and, concurrently, its handling of certain problems we have highlighted in audit reports issued since 2001: excess cash, grantee reporting, and inadequate single audits.
2. Current levels and status of excess cash in the RLFs.
3. EDA's use of RLF grantees' independent audit reports as a monitoring tool.

Our audit covered the period September 2004 through September 2005, and certain events occurring after September 30, 2005, namely (1) the sequestration of funds by the Atlanta, Denver, and Seattle regional offices in March and August 2006; and (2) the filing of 2006 financial reports for 31 of 78 RLFs that failed to file for the September 30, 2005 reporting period. We performed fieldwork at each of the six EDA regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle) from May through September 2006.

We interviewed agency officials and personnel, as appropriate, in EDA headquarters and regional offices. To assess the status of excess cash, we reviewed grantees' annual and semiannual financial reports. We also evaluated EDA management's control over the program, and the consistency of practices among the EDA regional offices. We compiled the results of our analysis of grantee reports, identifying excess cash balances⁹, excess cash sequestered¹⁰, and timeliness of report submissions¹¹. To assess EDA's use of RLF grantees' single audit reports as a monitoring tool, we asked each regional office how it uses the reports, whether it tracks receipt of the reports, and how it determines whether submitted reports are accurate and complete.¹²

⁹ Excess cash balances: We computed grantee fund balances as of September 30, 2004, March 31, 2005 and September 30, 2005, by obtaining grantee financial reports submitted to EDA for those periods and entering the fund balance and cash available amounts into an electronic spreadsheet. The spreadsheet compared the maximum allowable cash to the reported cash to calculate excess cash.

¹⁰ Excess cash sequestered: We determined, by examining the letters of sequestration in EDA's files, the amount of cash the EDA regional offices had sequestered for each RLF fund that had excess cash at September 30, 2005. We also determined the amount of time the cash had been sequestered. Sequestration is discussed in detail on page 8. It involves EDA requiring a recipient to place excess cash into a separate interest bearing account, and remit the federal share of the interest to the U.S. Treasury pending ultimate use of the cash for RLF Program purposes.

¹¹ Annual/semiannual reports: We determined, through inquiry, each EDA region's practice for tracking and monitoring grantee submission of required annual/semiannual financial reports. We tested the mathematical accuracy of the grantee reports for certain regions. We did not otherwise test the accuracy of the financial information provided by the grantees on annual/semiannual reports.

¹² Single audit reports: We queried the Federal Audit Clearinghouse database to determine whether the required 2004 audit reports were filed and accepted as complete. We also compared certain elements in the audit reports with information in recipients' annual or semiannual reports, to determine consistency among them and thus assess the accuracy and completeness of the audit reports.

Appendix II
Page 2 of 2

We relied on computer-generated data supplied by EDA as the basis for some of our audit findings and recommendations. We determined the validity and reliability of computer-processed data by direct tests of the data to supporting documentation. Based on our tests, we concluded that EDA's Operational Planning and Control System database (OPCS), which is maintained by headquarters, was sufficiently reliable for our objectives. We compared the information in the OPCS database with differences identified by EDA regional offices, and reconciled the database information provided to us in 2001 with information currently in the system. We identified RLFs eliminated from the database after 2001 that were not properly documented as terminations in EDA's regional files and assessed whether the current database is useful to the EDA regional offices. We obtained an understanding of the controls over information in the Federal Audit Clearinghouse database and noted nothing of concern regarding the credibility of that data.

We reviewed appropriate laws and regulations affecting EDA's operation of the RLF program: Title IX of the Public Works and Economic Development Act of 1965, as amended; the Economic Development Administration Reauthorization Act of 2004; Title 13 Code of Federal Regulations (CFR) Part 308¹³, Requirements for Economic Adjustment Grants; EDA's Revolving Loan Fund Standard Terms and Conditions; OMB Circular A-133; and *Department of Commerce Grants and Cooperative Agreements Interim Manual*, issued in February 2002.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹³ EDA has revised its regulations. The new regulations appear at 13 CFR Part 307. See footnote 2, page 6 for a detailed discussion.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

MEMORANDUM FOR: Johnny E. Frazier
Inspector General

FROM: Sandy K. Baruah *for SKB* MAR 29 2007
Assistant Secretary of Commerce
for Economic Development

SUBJECT: EDA Response to Draft Audit Report No. OA-18200-7-
0001, *Aggressive EDA Leadership and Oversight Needed*
To Correct Persistent Problems in RLF Program

The Economic Development Administration (EDA) has reviewed the draft audit report. In doing so, we have found no material inaccuracies that warrant correction and therefore accept the report's findings as the basis for EDA's response, which is set forth in the attached document. Set forth below are the three principles that govern EDA's response.

1. The RLF Program Faces Many Structural Constraints; EDA Has Begun to Remove Them.

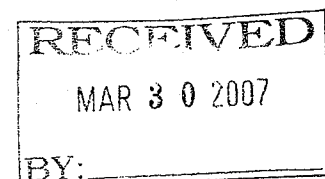
EDA acknowledges that the deficiencies identified in the Inspector General's draft audit report are serious and demand immediate attention. As your report states, EDA's senior management has since 2003 confronted the continuing challenges of administering a \$700 million federal loan fund portfolio that by law cannot amortize or shed its assets of their federal character, regardless of how many years have elapsed or how many times its capital base has been loaned to borrowers. EDA has achieved some statutory, regulatory and operational improvements to address the unique structural challenges of the RLF program. Clearly, however, much work remains to be done in all of these areas.

2. EDA Will Immediately and Aggressively Implement the Recommendations of this Audit.

EDA's attached response and timetable document fully the actions EDA has taken or will take immediately to ensure adequate fiduciary oversight of the program, implement the recommendations of the OIG, and resolve the deficiencies raised in the draft report. EDA will implement these actions with specific benchmarks, speed and diligence of execution and accountability.

3. Resolution of the RLF Program's Structural Problems Requires Additional Measures.

EDA appreciates the work of the Inspector General and your commitment to program improvement. However, implementation of all recommendations in this draft audit report will not alone fix the RLF program. Full resolution of the RLF program's structural problems will require additional statutory authorities and accompanying regulatory and operational measures to enable a more rigorous oversight of portfolio performance. These measures will enable EDA and its RLF stakeholders to strengthen and revitalize the RLF program as a vital element of EDA's array of economic development tools.



ECONOMIC DEVELOPMENT ADMINISTRATION
RESPONSE TO DRAFT AUDIT Report No. OA-18200-7-0001
*Aggressive EDA Leadership and Oversight Needed To Correct
Persistent Problems in RLF Program*

The Economic Development Administration (EDA) appreciates the efforts of the Office of Inspector General (OIG) for its thorough review and analysis of the EDA management and oversight processes and procedures for its Revolving Loan Fund (RLF) program, for identifying persistent problems, and providing sound recommendations for improvement.

IMPROVEMENT INITIATIVES EXECUTED PRIOR TO RECEIPT OF THE AUDIT.

The OIG has correctly noted that the RLF program has been an ongoing concern to EDA management. A significant number of the 50 audits performed since FY 2001 were at the behest of EDA management. However, EDA management also undertook policy and operational initiatives to improve the program as part of its FY 2004 reauthorization efforts.

- On May 15, 2003, the Department of Commerce (Department) submitted proposed legislation to the Congress to reauthorize EDA and make technical changes to improve program operations, including a number of proposals to improve the RLF program.
- On October 27, 2004, the following Department proposals to improve the RLF statutory authority were enacted as part of the Economic Development Administration Reauthorization Act of 2004.
 - New authority enabling the agency to streamline program administration by allowing recipients operating multiple RLFs to merge their operations, simplifying reporting both for the recipients and for EDA.
 - New authority simplifying the process of liquidating RLFs by authorizing EDA to transfer assets to third parties when EDA terminates an RLF for poor performance.
- On August 11, 2005 and September 27, 2006, EDA published new interim and final rules implementing the new statutory authority and making numerous other changes to improve program operations.
- From November 2005 to January 2006, EDA worked with the Department's Office of Acquisition Management and Financial Assistance to revise the Department's compliance supplement to OMB Circular A-133 to ensure that auditors have the specific EDA and RLF program guidance they need to perform the required audits.

EDA management's efforts also extended beyond legislative improvements:

- In April 2006, EDA secured OMB approval under the Paperwork Reduction Act for new reporting forms for the RLF program (ED-209S, ED-209A, and ED-209I) that made a number of improvements to the three forms, clarifying reporting requirements and improving tracking of the RLF capital utilization rates and the amount of funds expended during reporting periods.

- In June 2006, EDA management initiated an agency-wide effort to review, streamline and standardize all of its business processes and procedures, including EDA's processes and procedures for the RLF program.
- In November 2006, EDA issued comprehensive internal program and procedural guidance, specifying proper procedures and documentation for consolidating and recapitalizing RLF grants.
- In December 2007, EDA issued internal operational guidance that included basic requirements for RLF tracking and reporting.

EDA'S IMMEDIATE RESPONSE TO THE DRAFT AUDIT REPORT FINDINGS

The Assistant Secretary of Economic Development is fully committed to implementing immediate remedial actions as well as a long-term strategy to address systemic RLF administrative and programmatic issues. When informed of the preliminary results of this audit, EDA immediately initiated efforts to begin addressing the problems.

- A senior headquarters official, the Deputy Assistant Secretary for Management Services and Chief Financial Officer, was assigned responsibility for the RLF program, supported by current staff and a newly hired, dedicated staff person.
- EDA intensified its efforts to address RLF program concerns as part of its standardization efforts, which include business process reviews, streamlining, and standardization efforts to ensure consistent processes and adequate internal controls among all of the regional offices.
- A new RLF task force was established and recommendations for standard policies and procedures and electronic tracking system requirements were developed.
- A manual interim tracking and reconciliation system was put in place to facilitate regional office portfolio management and headquarters oversight of the program.
- A contract solicitation has been initiated for a new automated system, with a contract award (using full and open competition) anticipated for first quarter of FY 2008.
- Policy and operational guidance has been drafted and is currently under review.

CURRENT ACTIONS IN RESPONSE TO THE AUDIT RECOMMENDATIONS

Upcoming activities and actions to address program deficiencies include:

- development of a detailed action plan with milestones;
- a report of the 72 missing RLF annual or semi-annual reports;
- a report of the EDA-wide portfolio reconciled against the EDA Operational Program Control System (OPCS);
- issuance of final RLF program policy and operational guidance;
- increased emphasis on RLF program management in Regional Director performance plans;
- incorporation of RLF metrics in the update of the EDA Balanced Scorecard currently in process;
- development of a process to ensure that single OMB Circular A-133 audits are filed and include the RLF as a major program when appropriate; and
- development of guidance and training for EDA staff in how to review single audit reports and use them as a tool for managing the program.

The matrix that follows provides a detailed listing of the deficiencies and recommendations, and EDA's actions to address them. Appendix 1 provides a report of the 72 RLFs for which the OIG could not obtain annual or semi-annual reports, and identifies the funds for which we have been able to obtain reports since the close of field work for the audit.

FUTURE ACTIONS

The RLF program is highly valued by EDA's stakeholders and clientele, and there has been a broad outcry for a resurgence of activity. However, the portfolio exists in perpetuity with a continually increasing resource requirement for administration and oversight. EDA management intends to pursue additional mechanisms to strengthen management and fiduciary oversight while maximizing the effectiveness of the intensive resources required to administer the program.

Again, EDA appreciates the Office of Inspector General's review and analysis of the RLF program and its recommendations for improvement.

EDA's Response to Draft Audit Report No. OA-18200-7-0001, Aggressive EDA Leadership and Oversight Needed to Correct Persistent Problems in RLF Program

Matrix of Recommendations and EDA Actions

<u>IG recommendation</u>	<u>Date</u>	<u>EDA Actions Taken to Date</u>	<u>Date</u>	<u>EDA Actions to be Taken</u>
I.1. Develop a strategy and plan of action that addresses the RLF program's problems and challenges, and identifies opportunities for improvement. This plan should be very precise in (1) assigning overall responsibility for the RLF program to an individual who can be held accountable for its operation and its successes or failures; (2) laying out a time frame, with specific milestones, for addresses the program's known problems or issues; and (3) establishing performance metrics that will allow the Assistant Secretary for Economic Development and other senior EDA and Commerce officials to better monitor the program.	Apr-06	Reporting forms ED-209S, ED-209A, and ED-209I revised to clarify reporting requirements to allow improved analysis of RLF capital utilization rates and funds expended.	9-Apr-2007	Report on the status of the 72 missing reports identified by the OIG,
	27-Jul-06	Regional Director Standardization Team convened. The purpose of the team was to analyze, standardize and streamline EDA grant processes, including RLF processes.	9-Apr-2007	Report of the value of the RLF portfolio.
	1-Nov-06	DAS OMS/CFO assigned overall responsibility and accountability for the RLF Program.	23-Apr-2007	Action Plan Finalized. The Action Plan will include a strategy and plan of action that addresses the RLF program's problems and challenges, as outlined in the draft audit's first recommendation. The Action Plan will include metrics to document the results of the Action Plan.
	21-Nov-06	RLF Guidance for Consolidating and Recapitalizing Revolving Loan Fund Awards issued.	30-Apr-2007	Regional Director Performance Plans revised to increase emphasis on RLF Portfolio Management through use of a specific performance element versus use of an initiative within an element.
	1-Dec-06	EDA FY 2007 operational guidance issued. Section on the "Guidance on Management and Monitoring of Revolving Loan Fund Grants" is contained in the guidance.	15-May-2007	Final policy and operational guidance on the administration and management of the agency's RLF portfolio issued.
	1-Dec-06	RLF Task Force convened. The Task Force was assigned responsibility for developing recommendations for new standardized procedures for the administration, monitoring, and management of RLFs.	1-Oct-2007	New Balanced Scorecard Metrics implemented.
I.2. Require written evaluations by EDA regional staff of appropriate capital utilization percentages for all RLFs with a capital base exceeding \$4 million and take appropriate action based on those evaluations when necessary.		None.	15-May-2007	EDA will address this issue in final policy and operational guidance.

<u>IG recommendation</u>	<u>Date</u>	<u>EDA Actions Taken to Date</u>	<u>Date</u>	<u>EDA Actions to be Taken</u>
I.3. Develop policies and procedures that promote a uniform approach to sequestering excess cash. Among other things, such policies and procedures should provide guidance regional managers can use to decide when they should require grantees to sequester excess cash held for at least two reporting periods, require regional managers to provide written justifications for not sequestering excess cash held for at least two reporting periods, establish a standard amount of time for sequestering excess cash, and require regional managers to justify in writing decisions to continue the sequestration for a longer period. EDA HQ should also periodically evaluate the appropriateness of justifications to not sequester excess cash held for at least two reporting periods and to continue sequestration for longer than the agreed upon period.	1-Dec-06	The RLF Taskforce, which is composed of RLF Administrators from the regional offices, has formulated recommendations for policy and procedural guidance. The draft guidance is currently under review by senior management.	15-May-2007	EDA will address this recommendation in final policy and operational guidance. The guidance will include policies and procedures for Headquarters review and oversight responsibilities.
	7-Mar-07	In the interim, EDA has developed a manual system to collect and compile RLF capital utilization, sequestration, justification, reporting, and associated information to allow portfolio analysis and management at both the regional and headquarters level.		
I.4. Monitor grantee operations by consistently collecting and evaluating required financial reports; determining the status of the 72 RLFs not reporting as of September 30, 2005, and not providing subsequent reports in 2006; and document this status in writing in accordance with the Commerce grants manual.	7-Mar-07	EDA has created a standardized process to track the receipt of semi-annual and annual reports and to document actions taken to ensure grantee compliance. Data collected includes portfolio value and capital utilization information, receipt of audits, and documentation of actions taken to acquire missing or late audits. As of March 7, 2007, all regional offices had responded to the initial data call. A second data call has been issued to obtain additional portfolio information. In addition, the Deputy Assistant Secretary for Management Services is traveling to regional offices to conduct in-depth reviews of regional RLF portfolios.	15-May-2007	EDA will address this issue in final policy and operational guidance. The guidance will include policies and procedures for Headquarters review and oversight responsibilities.
			9-Apr-2007	EDA will continue to work to achieve grantee compliance and issue a final status report by April 9, 2007.

IG recommendation	Date	EDA Actions Taken to Date	Date	EDA Actions to be Taken
<p>I.5. Develop and implement a database, including a standard grantee reporting and monitoring system that provides the critical information EDA needs to manage the RLF program and protect its assets. Among other things, the system should maintain information about original capitalization for all RLFs, as well as current information for all RLFs, including award amendments, deobligations, terminations, and other changes in fund balances. It should also track grantee reports due and EDA actions taken to obtain grantee compliance with reporting requirements.</p>	<p>on-going</p>	<p>The RLF Taskforce has already formulated a list of system requirements, which will be reviewed by senior management and further refined in future RLF Taskforce meetings. A contract solicitation is in development.</p>	<p>30-Nov-2007</p>	<p>Contract award made for the development of a centralized, electronic RLF reporting, tracking and monitoring system that contains all of the critical information EDA needs to manage the RLF program and protect its assets. The system will allow for online grantee submission of RLF reports, send grantees automated late notices, flag reports that are late or missing, flag grantees with excess cash, document sequestration decisions, and document EDA actions taken to ensure grantee compliance with reporting requirements. The system will also maintain information on original capitalization amounts, award amendments, deobligations, terminations, and other changes in funds balances.</p>
			<p>30-Aug-2008</p>	<p>Implementation of the RLF Automated Tracking System.</p>
<p>II.1. Ensure that all RLF grant recipients undergo required single audits and file reports with the Federal Audit Clearinghouse and that EDA staff uses the information contained in such reports to improve recipient monitoring.</p>	<p>on-going</p>	<p>Discussions held with the RLF Taskforce and Regional Directors on corrective actions that will address the recommendations of the OIG, and are feasible within the resources available to EDA.</p>	<p>30-Jun-2007</p>	<p>A process will be instituted to routinely query the Clearinghouse to verify submission; and to retrieve copies of the reports for review and analysis.</p>
			<p>30-Jun-2007</p>	<p>The interim tracking system and final automated system will have key indicators for single audits.</p>
			<p>31-Jan-2008</p>	<p>The RLF reporting forms will be modified to include a certification that the single audits have been performed and filed.</p>
<p>II.2. Develop guidance and training for EDA staff in how to review single audit reports and use them as a tool for managing the RLF program.</p>		<p>None.</p>	<p>31-Aug-2007</p>	<p>EDA will work with OIG to develop training on how to review single audit reports and use them as a tool for managing the RLF program.</p>
			<p>31-Oct-07</p>	<p>EDA will establish a training curriculum for RLF Administrators in the Regional Offices, and will work with OIG to include a training component on how to review single audit reports and use them as a tool for managing the RLF program.</p>

Appendix 1—Status of RLFs with 09/30/05 reports listed as missing by the OIG

In the draft audit report the OIG noted that for the audit period, 93 grantees had failed to submit September 2005 reports. The OIG subsequently received 21 reports from EDA, bringing the number of missing September 2005 reports to 72.

Since the release of the draft audit report, EDA has received or located 18 of the 72 remaining missing September 2005 reports. In addition to these 18 reports, EDA has received subsequent reports for an additional 14 RLFs, indicating that these RLFs are still a going concern. The assets of 1 other non-reporting RLF were transferred in December 2006 to a more responsive grantee, leaving 39 RLFs who have not reported.

Revolving Loan Fund grantees not reporting as of end of field work	93
Additional 9/30/2005 reports provided to the OIG prior to the release of the draft report	21
Additional 9/30/2005 reports provided to the OIG subsequent to the release of the draft report	18
Subsequent reports provided to the OIG	14
Non-reporting RLF transferred to other grantee	1
Terminations – documentation provided to OIG	2
Terminations – in process	1
Projects closed-out – documentation pending	7
RLFs agreed to voluntary A-133 audits in lieu of submitting RLF reports	2
RLFs unaccounted for due to non-receipt of reports / lack of documentation	27

Some of the RLFs categorized as “non-reporting” by the OIG are, in fact, no longer active. Documentation for two terminations was provided to the OIG, and a third termination is in progress. An additional eight RLFs appear to have been closed out, although not in accordance with the Department’s interim grants manual. EDA is working to amend the OPCS records and project files accordingly.

EDA is taking aggressive measures to determine the status of the remaining 30 non-reporting RLFs, including suspending EDA payments and/or RLF lending until reports are filed, requesting an OIG audit of the RLF, and/or initiating termination proceedings.

09/30/05 reports have subsequently been received for the following RLFs:

Kentucky Department of Local Government	041901885
East Arkansas PDD	083902326
Fort Worth, City of	083902250
Fairmont, City of	061902305
Randolph County	063902388
Great Falls Development Authority, Inc.	054903319

Augusta County Industrial Development Authority	01190165340	[included on the report for project #011901630]
Taylor County Commission	011901348	
Monongalia County Development Corp.	01190181540	[included on the report for project #011901815]
EBCRC Technical Assistance Grant	077905424	
Northern Arizona CoG	073902823	
San Benito County/Hollister	073903348	
San Diego, City of	074902681	[report was on file during IG audit]
San Francisco, City/County	073902279	
Superior California EDD	073903859	
Cowlitz-Wahkiakum CoG	073902712	
Tacoma, City of	073902273	
Washington, State of	071902877	

EDA has provided copies of these reports to the OIG.

Although 09/30/05 reports have not been received, subsequent reports (for the period ending 03/31/06, 09/30/06, and/or 03/31/07) have been received for the following RLFs:

Hennepin County	064902821
Cleveland, City of	063901773
Kansas City Corporation Industrial Development	053901879.01
New Haven, City of	011902475
Brooklyn EDC	017907394
Burlington County	014903402
New Jersey Dept. of Commerce/Econ. Dev.	011963008
New Jersey Economic Development Authority	011902464
New Jersey Economic Development Authority	011902468
New Jersey Economic Development Authority	013901825
Central New York Regional Planning & Dev. Brd.	014903441
Seneca County Industrial Development Agency	014903685
Tier Info/Enterprise Res Incorporated	013902879
Federal Land Reuse Authority Buck	014903503

EDA has provided copies of these reports to the OIG.

EDA has requested an IG audit of the following RLFs:

Cleveland, City of	063901773
Oconto County Board of Supervisors	061902137

EDA has provided copies of the letters to the Denver IG office requesting these audits.

EDA is in the process of terminating the following non-reporting RLFs:

[Text deleted]

[Text deleted]

EDA has provided copies of documentation related to this ongoing termination effort to the OIG.

These RLFs were determined to have been terminated:

[Text deleted]

[Text deleted]

EDA has provided copies of the termination documentation to the OIG.

In addition, EDA transferred the assets of project #054902594B (a sub-grant administered by the Economic Development Corp. of Jefferson Co.) to St. Louis County, an RLF that filed its report for 9/30/06 on time. EDA has provided the OIG with St. Louis County's 9/30/06 report, as well as documentation of the transfer of funds.

These RLFs appear to have been closed out, albeit with insufficient documentation:

District of Columbia	013902020
Anacostia Economic Development Corporation	013918007
District of Columbia	013902166
Park Heights Development Corporation	013902248
Boston EDIC	013901977
Massachusetts Urban Reinvest Group	013902245
Harlem Commonwealth Council	013902237

These RLFs have agreed to voluntary (grant is less than \$500,000) A-133 audits in lieu of submitting RLF reports:

Affiliated Tribes of NW Indians	073903859
South Central Oregon EDD	077905182

These RLFs have been unresponsive to date:

Elkhart, City of	061902639
Hartford, City of	063902170
Berrien County	063901775
Montmorency County	061901986
Cleveland, City of	06390177301 [deficient report rec'd]
Ohio, State of/Akron	061901918
Ohio, State of/Toledo	061901918
Oconto County Brd of Supervisors	061902137
Springfield Business Development Fund	013902706

Jersey City Economic Development Corp.	013903033
Management Development Association	013902239
New York State Department of Commerce	011901474 [received report for one of two sub-grants]
New York State Science & Technical	013902338
Allegheny, County of	011902656
Letterkenny Industrial Development Authority	014903698 [incomplete report rec'd]
Letterkenny Industrial Development Authority	014903885 [incomplete report rec'd]
Philadelphia Industrial Development Corp.	011901612
Philadelphia Industrial Development Corp.	013902265
Scranton, City of	013903140
Providence Economic Development Corp.	013902446
Crater Planning District Commission	013902809
Norfolk, City of	014903642
Richmond Industrial Development Authority	013903359
Southwest Virginia Community Development Fund	013902987
Caguas, Municipality of	011902466
San Juan CDC	013918006
Los Angeles, City of	073902236



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