



Report In Brief

U.S. Department of Commerce Office of Inspector General

March 30, 2007



Why We Did This Review

EDA reported in June 2003 that it had a portfolio of over 600 RLF grants representing a combined federal and non-federal investment of approximately \$1 billion. Given the size of the federal investment, the RLF program has been an ongoing source of concern for EDA management and our office. Between 2001 and 2006, OIG issued 50 audit reports on individual RLF recipients, which consistently found problems with grant recipients (1) inappropriately retaining excess cash, (2) having inadequate annual single audits, (3) charging costs to the RLF that were not allowable, (4) having inadequate loan documentation, and (5) filing inaccurate status reports. We conducted this current 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.

Background

For over 40 years, EDA has fostered job growth in distressed communities 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.

To view the full report, visit <http://www.oig.doc.gov/oig/reports/2007/EDA-OA-18200-03-2007.pdf>.

Economic Development Administration

Aggressive EDA Leadership and Oversight Needed to Correct Persistent Problems in RLF Program (OA-18200)

What We Found

Despite the issues consistently raised in OIG reports through the years and EDA's recognition of serious management problems, EDA has not addressed significant problems that were previously identified. EDA failed to do the following:

- ~ **Ensure efficient capital utilization** by grantees or the use of appropriate capitalization rates by larger RLFs. We found that as of September 30, 2005, 236 out of 529 RLF grantees had a total of \$70.3 million in excess cash. As a result, EDA failed to ensure the efficient utilization of program funds and to put unused funds to better use either by increased lending or by recovering and returning funds to the U.S. Treasury.
- ~ **Require grantees to aggressively sequester excess cash** and only \$14.6 million of \$44.4 million in eligible excess funds were sequestered at September 30, 2005.
- ~ **Ensure grantees' compliance with critical financial reporting requirements.** 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. Given the missing information, EDA doesn't know the status of RLF assets for many of the grantees not filing reports or the value of the entire RLF portfolio.
- ~ **Maintain a useful central database containing current, accurate information on RLF fund balances, and an adequate tracking and oversight system.** 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.

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

What We Recommended

EDA should, among other things,

1. Develop a plan of action that addresses the RLF program's problems and identifies opportunities for improvement.
2. Develop policies and procedures for a uniform approach to sequestering excess cash.
3. Monitor grantee operations by consistently collecting and evaluating required financial reports; determining the status of the 47 RLFs not reporting as of September 30, 2005 and not providing subsequent reports in 2006; and document this status.
4. Implement a database that provides the critical information EDA needs to manage the RLF program and protect its assets.
5. Ensure that all RLF grant recipients undergo required single audits and file reports with the Federal Audit Clearinghouse and that EDA staff uses these reports to improve recipient monitoring.

Implementing our recommendations could result in putting \$29.8 million, as of September 30, 2005, to better use by increasing the RLF program's lending.