



*U.S. DEPARTMENT OF COMMERCE*  
*Office of Inspector General*

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**PUBLIC  
RELEASE**

*ECONOMIC DEVELOPMENT  
ADMINISTRATION*

*Defense Adjustment Assistance  
Program Is Well Focused*

*Audit Report No. DEN-9806-9-0001 / January 1999*

*Office of Audits, Denver Regional Office*



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

January 26, 1999

**MEMORANDUM FOR:** Phillip A. Singerman  
Assistant Secretary for Economic Development

**FROM:** Johnnie E. Frazier  
Acting Inspector General

**SUBJECT:** *Defense Adjustment Assistance Program Is Well Focused*  
Final Audit Report No. DEN-9806-9-0001

This is the final report on our review of EDA's Defense Adjustment Assistance Program. The report concludes that the program is well focused on the economic losses caused by cutbacks in defense spending, and nearly all grants had work scopes consistent with creation of economic growth in impacted areas. However, we did find that 4 of 196 grants reviewed were not adequately justified by defense-related economic dislocations or did not seem to significantly relate to creating jobs lost as a result of defense cutbacks which was the intent of the program.

Since our one finding was not significant enough to warrant a recommendation, no response is required from EDA. If you have any questions or need additional information, please call George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or William R. Suhre, Denver Regional Inspector General for Audits, at (303) 312-7650.

We appreciate the cooperation extended by EDA officials during our review.

### **Introduction**

During the 10-year period from 1987 to 1997, the Department of Defense (DOD) eliminated an estimated 550,000 military and 230,000 civilian jobs. In addition, more than 100 defense acquisition programs were recommended for termination, and a significant amount of military construction was curtailed. As a result, private industry suffered between 1 million and 1.5 million defense-related job losses.

In 1990, the Congress passed legislation to assist communities, businesses, and individuals suffering from DOD spending reductions and base closures. Defense conversion programs are intended to help communities and individuals cope with reductions in military spending and to support the defense technology and industrial base. These programs include training for displaced workers, separation incentives, extended health benefits, assistance to companies to develop dual-use technologies and promote the commercial use of defense-related technology, and assistance to communities in planning for economic development and diversification.

In November 1990, Congress provided funds to EDA for community economic adjustment assistance under Section 4103 of Public Law 101-510, the National Defense Authorization Act for Fiscal Year 1991. The purpose of the funds was to provide assistance to communities substantially and seriously affected by defense cutbacks by lessening their dependence on defense spending, thereby providing for their orderly transition to non-defense dependent businesses, employment, and revenue.

Section 4103(b) of the act provided \$50 million to EDA in fiscal year 1991 to provide the authorized assistance under Title IX of the Public Works and Economic Act of 1965 (PWEDA). The Congress appropriated an additional \$444 million through fiscal year 1997 for EDA to continue performing defense adjustment activities. During fiscal years 1994 - 1997, EDA also received \$82 million in transfers from the Departments of Defense and Energy to fund projects specifically within EDA's expertise.

As required by Public Law 101-510, EDA used PWEDA for guidance in establishing economic adjustment assistance programs and projects. EDA designed its program to provide defense-impacted communities with resources to develop and carry out programs that support implementation of a defense conversion strategy or base reuse plan. EDA carefully reviewed the economic dislocation incurred by each prospective grantee using information from the DOD, and applied either DOD criteria or the criteria from its Sudden and Severe Economic Dislocation (SSED) program within Title IX of PWEDA. Funded projects included grants for construction projects, revolving loan funds, and technical assistance.

From October 1, 1991, through August 7, 1997, EDA awarded 300 defense adjustment grants, providing program funds in excess of \$500 million. An additional \$75 million remained available for awards. EDA did not expand its staff to manage this large effort because EDA received no additional appropriated funding to administer the program.

### **Purpose and Scope of Audit**

The purpose of our audit was to determine whether the numerous diverse projects awarded by EDA with defense adjustment funds complied with the stated purpose of Public Law 101-510 and met EDA Title IX program objectives.

We reviewed selected grant files and interviewed program officials at six EDA regional offices. Our file reviews and interviews also assisted us in assessing the written criteria EDA used as the bases for evaluating the defense cutback related economic losses proposed in grant applications. We did not evaluate the program's overall effectiveness in creating jobs because over 75 percent of the projects consisted of construction grants, which require a long time to create permanent jobs.

On a judgmental basis, we reviewed 196 of the 300 grants (about 65 percent), representing \$435 million of the \$500 million awarded (about 87 percent). In selecting grant files for review, we did not use statistical sampling techniques; however, we selected grants to ensure inclusion of

differing award amounts, geographic dispersion, and differing types of grants. In examining each grant file, we reviewed the grant application, EDA's justification for the award, and supporting documentation.

We did not perform a review of the general and application controls of EDA's computer-generated program data. Our review of the data indicated that it was generally reliable.

Our review was conducted in accordance with generally accepted government auditing standards, and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended. We completed our review in June 1998.

### **Results of Review**

We concluded that the grants awarded by EDA assisted communities and businesses to convert from defense dependency, and that almost all the awards met DOD and EDA Title IX objectives to mitigate economic losses and create jobs, thereby fulfilling the requirements of Public Law 101-510. Moreover, the Defense Adjustment Assistance Program was well focused on the economic losses caused by defense cutbacks, and almost all the awards had work scopes consistent with transition to non-defense dependent businesses, employment, and revenue.

We did, however, find four grants (about 2 percent of the total reviewed) that did not demonstrate defense-related economic dislocations or did not significantly relate to creating jobs lost as a result of defense cutbacks which was the intent of the program.

#### Program Well Focused on Losses Caused by Defense Cutbacks

Almost all grants were awarded to recipients eligible in accordance with DOD criteria and/or PWEDA requirements. Our review disclosed that EDA appropriately utilized the employment, facility, and closure data provided by the Base Realignment and Closure Commission and the guidance required in PWEDA relative to sudden and severe economic dislocation in determining the eligibility of applicants for assistance. In cases where the grant applicant did not fully qualify for program funding, EDA provided waivers of requirements, as allowed by PWEDA, and provided adequate justifications for the waivers.

Our review also disclosed that EDA effectively awarded grants according to the needs of the community and the intent of Public Law 101-510. For example, the majority of the grants we examined, in terms of funding amount, were used for construction projects, primarily for converting military facilities to commercial facilities in accordance with plans to maximize the utilization of excess military facilities.

#### Few Questionable Grants Noted

Only 4 of the 196 grants we reviewed were not adequately justified by an existing defense-related economic dislocation or did not demonstrate significant job creation to correct economic

dislocations caused by defense cutbacks. In two instances, the job loss was so insignificant that EDA's waiver of eligibility requirements was questionable.

On July 25, 1995, EDA awarded a \$6 million grant to renovate an airplane hangar and construct a new educational facility at the W. K. Kellogg Airport in Battle Creek, Michigan. The grant recipient justified the award based on the loss of two jobs from the closure of the Fort Custer Army post.

In another project, EDA awarded \$1.6 million to acquire and renovate a building for a multi-tenant incubator in the Rochester, New York, area. The community lost 110 jobs due to the closure of an Army ammunition depot. For the recipient to qualify for EDA's SSED program, the recipient needed to demonstrate economic dislocations that resulted in at least 5,415 job losses. EDA waived the eligibility requirement based on a DOD disclosure that the community also lost 364 jobs due to a non-defense closure.

Our review also disclosed two projects where the permanent jobs to be created appear insignificant relative to the cost of the projects. On September 30, 1995, EDA awarded \$2.6 million to renovate and make improvements to Washington Square Park in Philadelphia, Pennsylvania. None of the improvements have the potential to create long-term jobs, nor was any expectation of jobs disclosed in the grant files. In another project, EDA awarded almost \$2.4 million to the City of Knoxville, Tennessee, to develop a gateway center – a multimedia facility to showcase past, present, and future innovators and pioneers. The project is expected to create only 35 permanent jobs at a cost of about \$69,000 each.

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Since these projects were minor exceptions to EDA's strong performance under the program, we do not believe that a formal recommendation for corrective action is warranted. However, we suggest that EDA management discuss this observation with its regional directors.