

EDA Needs to Improve Oversight of CARES Act Revolving Loan Funds to Ensure Loans Are Made to Eligible Borrowers and Used as Intended

FINAL REPORT NO. OIG-25-019-A

APRIL 30, 2025



U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation



April 30, 2025

MEMORANDUM FOR: Ben Page
Acting Assistant Secretary
U.S. Economic Development Administration

A handwritten signature in cursive script, reading "Analee Striner-Brown".

FROM: Analee Striner-Brown
Acting Assistant Inspector General for Audit and Evaluation

SUBJECT: *EDA Needs to Improve Oversight of CARES Act Revolving Loan Funds to Ensure Loans Are Made to Eligible Borrowers and Used as Intended*
Final Report No. OIG-25-019-A

Attached is the final report on our audit of the U.S. Economic Development Administration's Coronavirus Aid, Relief, and Economic Security Act-funded Revolving Loan Fund grants. We will post the report on [our website](#) per the Inspector General Act of 1978, as amended (5 U.S.C. §§ 404, 420).

Within 60 calendar days, please provide an action plan addressing the report's recommendations, as required by Department Administrative Order 213-5.

Any nongovernmental organization or business entity specifically identified in this report can submit a written response to clarify or provide additional context on any specific reference (Pub. L. No. 117-263, § 5274). The response must be submitted to Kelley Boyle, Division Director at kboyle@oig.doc.gov and OAE_Projecttracking@oig.doc.gov within 30 days of the report's publication date. We will post the response on our website as well. If the response contains any classified or otherwise nonpublic information, the organization should identify the information and provide a legal basis for redacting it.

We appreciate your staff's cooperation and professionalism during this audit. If you have any questions or concerns about the report, please contact me at (202) 893-8759 or Kelley Boyle, Division Director, at (202) 253-0856.

Attachment

cc: David Ives, Deputy Director, Performance, Research and National Technical Assistance Division, Economic Development Administration
Heather Feldman, Executive Director, Georgia Mountains Regional Commission
Nino Chiappetta, Senior Vice President, Chief Financial Officer, Invest Atlanta

Megan Choate, Director of Economic Development, Upper Cumberland Development District

Leonard Bentz, Executive Director, Southern Mississippi Planning and Development District, Inc.



Report in Brief

April 30, 2025

Background

In March 2020, the President declared the COVID-19 pandemic a national emergency and signed into law the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) to respond to the pandemic and its impact on the economy, public health, state and local governments, individuals, and businesses.

The U.S. Economic Development Administration's (EDA's) role in disaster recovery is to facilitate the timely and effective delivery of federal economic development assistance. EDA provides investments through its Economic Adjustment Assistance program to support a wide range of activities, including revolving loan funds (RLFs).

Through the RLF program, EDA provides grants to eligible recipients (also referred to as "RLF operators") to operate a lending program that offers low-interest loans primarily to small businesses in the geographic areas that these organizations support that cannot get traditional financing (for example, from banks).

EDA sent invitations to existing RLF operators to apply for RLF program supplemental financial assistance awards. By the end of September 2023, RLF operators used these awards to issue 5,484 loans, totaling approximately \$595 million in CARES Act RLF funding.

Why We Did This Review

Our objective was to determine whether costs claimed by CARES Act RLF grant recipients were allowable, allocable, and reasonable. Specifically, we determined whether (1) RLF recipients of CARES Act awards ensured that funds were loaned to eligible borrowers and (2) borrowers used the RLF loans for the intended purpose.

U.S. Economic Development Administration

EDA Needs to Improve Oversight of CARES Act Revolving Loan Funds to Ensure Loans Are Made to Eligible Borrowers and Used as Intended

OIG-25-019-A

WHAT WE FOUND

Overall, we found that loan costs claimed by the RLF operators were not allowable, allocable, and reasonable. Specifically, we found that the four operators awarded 11 of the 19 loans (58 percent), totaling \$4,020,050, to ineligible borrowers that did not meet the eligibility criteria in the operators' respective RLF operational plan, and borrowers did not use the RLF funds for the purpose intended by the CARES Act. As a result, we are questioning \$4,020,050 in loan funds. In addition, we found RLF operators with 20 percent or more loans that were delinquent, in default, or written off, and EDA did not identify this as an area of concern.

WHAT WE RECOMMENDED

We recommend that the Acting Assistant Secretary of Commerce for Economic Development instruct the Director, Performance, Research and National Technical Assistance Division (or designee, including the Interim RLF Coordinator), to:

1. Review and make a determination regarding the allowability of the \$4,020,050 in questioned costs with the respective RLF operators' loans that were made to ineligible borrowers and not used for their intended purposes.
2. Take appropriate actions for all noncompliances identified, such as suspending or terminating the RLF operator's grant if not in compliance with federal regulations and their RLF plans.
3. Ensure EDA provides oversight of the RLF operators to ensure loans are made to eligible borrowers and used for their intended purposes.
4. Develop procedures to ensure that the Risk Analysis System identifies areas of concern (such as high delinquent, default, or write off rates) and require that appropriate corrective actions are taken to address these areas of concern.

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Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.

Background

In March 2020, the President of the United States declared the COVID-19 pandemic a national emergency and signed into law the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act)¹ to respond to the pandemic and its impact on the economy, public health, state and local governments, individuals, and businesses. The CARES Act appropriated a total of \$1.5 billion to the U.S. Department of Commerce's U.S. Economic Development Administration (EDA) "to prevent, prepare for, and respond to the coronavirus, domestically or internationally, including . . . responding to economic injury as a result of coronavirus."²

EDA's role in disaster recovery is to facilitate the timely and effective delivery of federal economic development assistance to support long-term community economic recovery planning and project implementation, redevelopment, and resiliency. According to EDA, it is uniquely positioned to coordinate federal support for regional disaster recovery efforts in partnership with its extensive network of Economic Development Districts,³ university centers, and other stakeholders in designated impact areas. EDA provides investments through its Economic Adjustment Assistance (EAA) program to support a wide range of activities, including revolving loan funds (RLFs).

Through the RLF program, EDA provides grants to eligible recipients⁴ (also referred to as "RLF operators") to operate a lending program that offers low-interest loans primarily to small businesses in the geographic areas that these organizations support that cannot get traditional financing (for example, from banks). The loans enable the businesses to grow and generate new employment opportunities with competitive wages and benefits, help retain jobs that might otherwise be lost, create wealth, and support minority- and women-owned businesses. In May 2020, EDA released an addendum to an EAA notice of funding opportunity (NOFO)⁵ announcing the availability of CARES Act RLF funding. In addition, EDA sent invitations to existing RLF operators to apply for RLF program supplemental financial assistance awards to alleviate sudden and severe economic dislocation caused by the coronavirus pandemic.

¹ Pub. L. No. 116-136, 134 Stat. 281 (2020).

² *Id.* at 510.

³ Economic Development Districts are multijurisdictional entities, commonly composed of multiple counties and in certain cases, cross state borders. They help lead the locally based, regionally driven economic development planning process that leverages the involvement of the public, private, and non-profit sectors to establish a strategic blueprint for regional collaboration.

⁴ Eligible recipients include: (1) city, or other political subdivision of a state; (2) state; (3) institutions of higher education; (4) public or private non-profit organization or association acting in cooperation with officials of a political subdivision of a state, (5) district organizations; (6) Indian Tribes or a consortium of Indian Tribes; or (7) private individual or for profit organization as listed in 13 C.F.R. § 300.3.

⁵ EDA. May 7, 2020. *Fiscal Year 2020 Public Works and Economic Adjustment Assistance Programs Notice of Funding Opportunity (NOFO) and Cares Act Addendum to the NOFO.*

These awards would be made in the public's interest and would be awarded on a noncompetitive basis. Further, the awards included additional funding for administrative expenses to facilitate rapid and prudent lending to respond to the pandemic. By the end of September 2023, RLF operators used these awards to issue 5,484 loans, totaling approximately \$595 million in CARES Act RLF funding (see table I for the status of the loans).

**Table I. RLF Loan Status as of
September 30, 2023**

Status	No. of Loans	Amount
Fully Repaid	382	\$40,494,609
Current	4,674	\$522,766,926
Delinquent	228	\$19,853,355
In Default	133	\$9,558,606
Written Off	67	\$2,530,219

Source: Office of Inspector General (OIG)-generated
from CARES ACT-funded RLF loan information
obtained from EDA

Objectives, Finding, and Recommendations

Our objective was to determine whether costs claimed by CARES Act RLF grant recipients were allowable, allocable, and reasonable. Specifically, we determined whether (1) RLF recipients of CARES Act awards ensured that funds were loaned to eligible borrowers and (2) borrowers used the RLF loans for the intended purpose. Our scope included CARES Act-funded loans closed by RLF recipients, or operators, between July 1, 2020, and September 30, 2023. Appendix A provides a more detailed description of our scope and methodology.

We judgmentally selected and reviewed 19 loans, totaling approximately \$11 million, issued by four RLF operators from EDA's Atlanta Regional Office, including Georgia Mountains Regional Commission (GMRC), Upper Cumberland Development District (UCDD), Southern Mississippi Planning and Development District (SMPDD), and the City of Atlanta (Invest Atlanta). Overall, we found that loan costs claimed by the RLF operators were not allowable, allocable, and reasonable. Specifically, we found that the four operators awarded 11 of the 19 loans (58 percent), totaling \$4,020,050, to ineligible borrowers that did not meet the eligibility criteria in the operators' respective RLF operational plan, and borrowers did not use the RLF funds for the purpose intended by the CARES Act. As a result, we are questioning \$4,020,050 in loan funds (see appendix B). In addition, we found RLF operators with 20 percent or more loans that were delinquent, in default, or written off, and EDA did not identify this as an area of concern.

I. EDA Did Not Ensure That RLF Operators Loaned CARES Act Funds to Eligible Borrowers and That RLF Loans Were Used for Their Intended Purpose

EDA did not ensure RLF funds were loaned in accordance with federal regulations⁶ and RLF plans. Specifically, we found that four RLF operators awarded 11 loans totaling \$4,020,050 to ineligible borrowers that did not meet the operators' RLF plan eligibility requirements and borrowers did not use the funds as intended by the CARES Act.

Each RLF operator submits an RLF plan for EDA approval based on the needs of the regions serviced by the operator. Therefore, the requirements of one plan may not be the same as the requirements of another plan. We found that RLF operators did not follow their own plans and loaned CARES Act funds to:

- An ineligible business that was not impacted by COVID-19,
- businesses that were outside of the operator's service areas,
- borrowers that used the funds to refinance existing debt, and
- borrowers that were not otherwise eligible for the loans.

⁶ Code of Federal Regulations, Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and 13 C.F.R. 307, Subpart B, *Revolving Loan Fund Program*.

Table 2 shows the borrower number, RLF operator, amounts we are questioning, and the RLF plan requirements that were not met.

Table 2. RLF Fund Loans Not in Compliance with RLF Operator Plans

Borrower	RLF Operator	Amount Questioned	RLF Operator Plan Noncompliance
1	GMRC	\$300,000	Did not meet definition of small business; loan made to ineligible business
2	UCDD	\$869,000	Funds used outside of the service area
3	SMPDD	\$1,000,000	Funds used outside of the service area
4	SMPDD	\$800,000 ^a	Funds used to refinance existing debt
5	SMPDD	\$771,000 ^b	Funds used to refinance existing debt
6	Invest Atlanta	\$50,000	Ineligible startup company, credit report deficiencies, and not current on its financial obligations
7	Invest Atlanta	\$39,850	Ineligible startup company and credit report deficiencies
8	Invest Atlanta	\$15,000	Ineligible startup company and credit report deficiencies
9	Invest Atlanta	\$25,200	Ineligible startup company and credit report deficiencies
10	Invest Atlanta	\$50,000	Ineligible startup company, credit report deficiencies, outstanding tax lien
11	Invest Atlanta	\$100,000	Ineligible home-based business

Source: OIG analysis of RLF loan information obtained by EDA

^a Actual loan amount questioned is \$799,528, we rounded up to \$800,000.

^b Actual loan amount questioned is \$771,213, we rounded to \$771,000.

An ineligible business that was not impacted by COVID-19

Loaned funds must be used within an approved lending area that has been defined within each of the RLF operator's plans in accordance with EDA's RLF standard terms and conditions and federal regulations.⁷ Specifically, GMRC's CARES Act RLF plan states it will help finance existing small, local businesses throughout 13 counties⁸ in Northeast Georgia that were impacted by COVID-19. GMRC's traditional plan defines a small business as a company that has a net worth of \$8.5 million or less. GMRC did not follow its CARES Act RLF plan by loaning \$300,000 to a company (borrower 1) that is a subsidiary of a

⁷ 2 C.F.R. § 307.18(a)(1).

⁸ The 13-county region consists of Banks, Dawson, Forsyth, Franklin, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, and White counties.

multinational corporation with a net worth of approximately \$13 million. In addition, an executive from the borrowing company confirmed that it is a subsidiary of a multinational company, it was not impacted by COVID-19, and it experienced an increase in business activities during the pandemic (see figure 1). The borrower received the loan despite GMRC's CARES Act RLF plan requirement of a documented loss in revenue, jobs, or other significant impact since the start of COVID-19.

Figure 1. Ineligible Business that Received CARES Act Funds



Source: OIG photo

GMRC stated it does not typically loan to businesses of that size but did not provide any additional explanation as to why the loan was made. GMRC's board approved the loan as part of GMRC's traditional RLF portfolio; however, it was later transferred to its CARES Act-funded RLF portfolio. According to GMRC, EDA approved the loan transfer to the CARES Act portfolio after GMRC stated it was "having a hard time" finding applicants to take the loans because there were other options available to borrowers that were more attractive, such as the Small Business Administration-issued Payroll Protection Program loans. Because this borrower did not meet the small business definition in GMRC's RLF plan and it was not economically injured by COVID-19, we are questioning the \$300,000 loaned to borrower 1.

Businesses that were outside of the operator's service areas

UCDD and SMPDD loaned a total of \$1,869,000 to two businesses (table 1, borrowers 2 and 3) for equipment purchases that provided benefits outside of the RLF plan operator's service areas. UCDD's RLF plan states that its RLF loan program will help existing local small businesses throughout a 14-county upper Cumberland region⁹ in Tennessee recover from the COVID-19 pandemic. Federal regulations¹⁰ and RLF plans require that loans be made within specific geographical areas serviced by the RLF operators. However, UCDD

⁹ The upper Cumberland region is comprised of 14 counties: Cannon, Clay, Cumberland, DeKalb, Fentress, Jackson, Macon, Overton, Pickett, Putnam, Smith, Van Buren, Warren, and White counties in Tennessee.

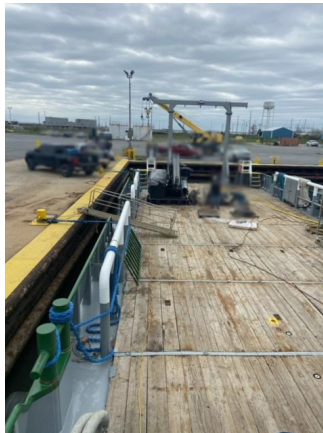
¹⁰ 13 C.F.R. § 307.18(a).

loaned CARES Act funds to a borrower (borrower 2) that planned to purchase equipment from a failing business located in a county outside of UCDD's service area. The borrower planned to buy land in the RLF operator's geographical area and relocate the equipment to the new site. However, the borrower's land purchase fell through, and the relocation did not occur; instead, the borrower was operating its business where the equipment was purchased, which was outside of the service area. UCDD did not take remedial action when the borrower became noncompliant with the original intent of the loan to relocate the equipment to the UCDD region.

UCDD stated that it did not intend to loan funds outside of its geographic area; however, UCDD stated that it believed the profit and growth of the business would generate revenue in the UCDD region. Further, UCDD stated that the loan allowed the borrower to expand its business by acquiring additional equipment to make parts not otherwise available during the pandemic due to supply chain issues. We found, however, that having employees and purchased equipment operating outside the UCDD service area does not comply with the RLF's plan requirement to benefit UCDD's region. As a result, we are questioning \$869,000 of the \$1,100,250 UCDD loaned to borrower 2.

Similarly, SMPDD loaned \$1 million in RLF funds to a business (borrower 3) that operates outside of its Mississippi service area. SMPDD's CARES Act RLF plan states that it would provide loans to small businesses impacted by the pandemic in its 15-county district in Mississippi.¹¹ However, the borrower used funds to purchase and install specialized deck equipment for offshore supply vessels that are not in SMPDD's service area (see figure 2).

Figure 2. Specialized Deck Equipment on a Vessel



Source: SMPDD

¹¹ SMPDD's 15-county region consists of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne counties in Mississippi.

According to the business owner, the borrower's corporate offices were headquartered in Louisiana and its fleet operations and employees were not in the SMPDD service area. The part of the business within the service area was an office rented for one of the owners to use, with no evidence of other employees or vessels. SMPDD claimed that the loan helped retain jobs in the SMPDD service area, but the borrower refused to provide corroborating evidence of employees working within its service area, due to confidentiality of employee information. In addition, the borrower stated that the company was minimally impacted by the pandemic and that the SMPDD director had informed the borrower of the opportunity for a low-interest rate loan.

Because the funds were loaned to companies that were (1) outside the approved service area and (2) not able to demonstrate the retention of employees in the region, we are questioning (borrowers 2 and 3 totaling \$1,869,000) the use of funds as loans to ineligible borrowers that did not meet the intent of federal regulations¹² and the RLF operator's plan.

Borrowers that used funds to refinance existing debt

SMPDD issued \$2,000,000 to two borrowers (borrowers 4 and 5) that used \$1,571,000 of the funds to refinance existing debt. Federal regulations¹³ and SMPDD's RLF plan prohibit loans from being used to refinance existing debt unless the borrower "sufficiently demonstrates in the loan documentation a 'sound economic justification' for the refinancing[.]"¹⁴ SMPDD did not agree that loans were used to refinance existing debt and stated that both borrowers had construction loans that were "coming due" and needed "permanent financing." SMPDD also stated that not all the loaned funds were used to pay off existing debt, and that some of the funds were used for capital investment. However, both loan agreements for borrowers 4 and 5 showed the loan purpose was to obtain permanent financing. SMPDD provided documentation showing the majority (77 to 80 percent) of the two RLF loans were used to refinance existing loans. Details below outline how each of the two borrowers improperly used the funds to refinance existing loans without sufficiently documented sound economic justification.

- **Borrower 4:** Prior to the RLF loan, borrower 4 received a 20-year bank loan in May 2020 with an interest rate of 4.25 percent, for approximately \$800,000, for a restaurant construction project. Based on RLF loan documentation reviewed, we found that the borrower began construction on the new restaurant prior to the RLF loan application. SMPDD included a statement in the loan approval documentation citing how the loan would help the business recover from the impact of COVID-19 because the business was in a pandemic-impacted industry (i.e., restaurants) even though the borrower stated its business was not impacted. Borrower 4 applied for

¹² 13 C.F.R. § 307.18(a).

¹³ 13 C.F.R. § 307.17(c)(6). An example of a "sound economic justification" is that the refinancing will support additional capital investment intended to increase business activities. Still, this must be sufficiently demonstrated in the loan documentation.

¹⁴ 13 C.F.R. § 307.17 (c)(6).

the RLF loan, with an interest rate of 1 percent, in August 2020, and the loan closed in October 2020.

- **Borrower 5:** The loan agreement for borrower 5 shows that the loan was for the purpose of permanent financing following the purchase and improvements of commercial real estate for the operation of an RV park/campground. SMPDD provided an appraisal for the purchase and improvements dated 2019, which shows these renovations were identified prior to the closing of the CARES Act-funded loan. Borrower 5's loan settlement statement showed approximately \$771,000 of its \$1 million RLF loan paid off an existing debt and the remaining amount of the loan was cash provided to the borrower. SMPDD did not provide invoices or receipts for how the remaining funds were spent.

SMPDD stated that there was sound economic justification to provide permanent financing for the existing loans. However, SMPDD did not have sufficiently documented sound economic justification, as required by federal regulations.¹⁵ SMPDD also stated that additional funds were provided to support additional capital investments to increase business activities. However, the majority of the loans to borrowers 4 and 5 were not for additional capital investments. In addition, the businesses did not provide evidence as to how the refinancing resulted in additional capital investment to increase business activities. Thus, the loans should have been denied as ineligible, and we are questioning \$1,571,000 of the loaned \$2 million (or 78.5 percent) as unallowable.

Borrowers that were not otherwise eligible for the loans

Invest Atlanta approved six loans (loans to borrowers 6 through 11) for a total of \$280,050 to ineligible borrowers. Specifically, five borrowers were startup businesses, and one borrower was a home-based business. Invest Atlanta's CARES Act RLF plan was created to provide a public benefit to small and local businesses engaged in trade, industry, and commerce to address an economic shock to the business ecosystem or a disaster in the areas identified in Atlanta.¹⁶ The plan further states ineligible applicants include startups and home-based businesses.

Invest Atlanta stated that it did not consider borrowers 6 through 10 as startups, or ineligible, because the applicants had historical financial statements and business activity when they applied. As part of the application process, these companies provided documentation, such as lease agreements and financial documents to show they were in business. However, we found that none of the five companies had a full-year financial statement. In addition, we found that Invest Atlanta accepted incomplete financial documentation and unvalidated business income as proof of financial statements and considered actions such as signing leases and registering with the Secretary of State as evidence of prior business activities.

¹⁵ Id.

¹⁶ Invest Atlanta defined its target area as the entire commercial area in the City of Atlanta or within the city limits of Fulton and DeKalb counties.

We found that four of the five startups' (borrowers 6, 7, 8, and 10) business plans and applications specifically stated that they were either a startup, were starting new businesses, or had just registered as a new business in the Atlanta area. For borrower 9, we found that the loan application was submitted the same month as the business plan. Also, borrowers 7 through 10 did not have commercial businesses within the City of Atlanta when they applied for RLF loans.¹⁷ Borrowers provided lease agreements to Invest Atlanta. After reviewing the lease agreements, we found that borrower 7 signed a commercial lease agreement the day after the loan application was submitted. In addition, borrowers 8, 9, and 10 signed leases 12 days to 4 months after applying for the loans. Based on the financial and supporting documentation received, indicating that these businesses were startups, we are questioning \$180,050 as these borrowers were not eligible for the loans per Invest Atlanta's CARES Act RLF plan.

Borrower 11 operated as a home-based business. We noted that in the loan documentation, the borrower listed multiple addresses as part of its business operation. Upon further review, we found that one address was in a residential area, and another was a UPS mailbox store. In addition, the borrower provided a lease agreement on the residential location and signed as both the tenant and the landlord.¹⁸ Invest Atlanta could not explain why borrower 11's loan was approved because the individual that processed the loan was no longer employed with the RLF operator. Based on the lack of a commercial business location, we are questioning \$100,000 as the borrower was not eligible for the loan per Invest Atlanta's CARES Act RLF plan.

Operators with delinquent, default, or written off loan rates of 20 percent or more

In addition to finding that RLF operators did not comply with their RLF plans and federal regulations, we found one operator had a high number of loans in default. According to an EDA official, typically, a loan is in default after 90 days of nonpayment. Of 15 Invest Atlanta's CARES Act RLF loans, 5 (or 33 percent) were in default (borrowers 6 through 10). These five loans contained additional RLF plan noncompliance and credit worthiness concerns that may have contributed to a higher default risk. According to Invest Atlanta's EDA-approved RLF plan, prospective borrowers are required to have good credit history, the ability to repay the loan, and no outstanding tax liens. Invest Atlanta stated that it considered credit history and ensured accounts were in current repayment status; however, these companies had credit deficiencies and past due balances at the time of loan application. Furthermore, borrower 10 had an outstanding tax lien. As of March 2024, all five of the Invest Atlanta's defaulted loans with credit deficiencies were in collections.

Based on our sample findings, we reviewed the total number of RLF CARES Act loans that were delinquent, in default, or written off as of September 2023. We found that 140 of 332 (42 percent) operators that issued CARES Act RLF loans across EDA's six regions had issued loans that were delinquent, in default, or written off. Specifically, we found that 30 operators had loans that were delinquent, 13 in default, and 3 with loans written off that

¹⁷ Invest Atlanta's RLF plan requires that to receive CARES ACT RLF loans, the company must be an existing for-profit corporation with activities representing at least 51 percent of its annual revenue in the defined lending area.

¹⁸ The lease period started in April 2022; however, the loan agreement was signed and dated April 2021.

were 20 percent or more of their total number of loans. *The EDA Grants Manual* established a threshold of 20 percent, which is now included as a metric in EDA's Risk Analysis System.¹⁹ The details of the number of loans and their status, by operator, are shown in table 3.

**Table 3. Number of Delinquent, in Default, or Written Off Loans
20 Percent or More of the Region's Total Number of Loans**

Region	Award	Del. ¹ No.	Default No.	WO ² No.	Total Loans Issued	Del. Rate	Default Rate	WO Rate
8	5506	1	-	-	1	100%	0%	0%
1	14991	4	-	-	4	100%	0%	0%
6	6327	2	-	-	4	50%	0%	0%
1	15013	2	-	-	4	50%	0%	0%
4	7530	4	-	-	11	36%	0%	0%
7	7606	4	-	-	12	33%	0%	0%
1	14981	4	-	-	12	33%	0%	0%
1	15019	5	-	-	15	33%	0%	0%
1	15012	2	-	-	7	29%	0%	0%
7	7623	13	-	-	50	26%	0%	0%
8	5404	2	-	-	8	25%	0%	0%
5	6000	1	-	-	4	25%	0%	0%
6	6211	2	-	-	8	25%	0%	0%
6	6238	2	-	-	8	25%	0%	0%
4	7508	3	-	-	12	25%	0%	0%
7	7608	1	-	-	4	25%	0%	0%
7	7703	2	-	-	8	25%	0%	0%
1	15002	7	6	-	28	25%	21%	0%
1	15017	3	1	-	12	25%	8%	0%
4	7524	13	-	1	53	25%	0%	2%
4	7546	5	-	-	21	24%	0%	0%
4	7528	3	-	-	13	23%	0%	0%
4	7529	5	-	-	24	21%	0%	0%
4	7506	1	-	-	5	20%	0%	0%
4	7512	1	1	-	5	20%	20%	0%
4	7514	1	-	-	5	20%	0%	0%

¹⁹ EDA. August 24, 2022. *The EDA Grants Manual*, section 15.5.1, 244.

Region	Award	Del. ¹ No.	Default No.	WO ² No.	Total Loans Issued	Del. Rate	Default Rate	WO Rate
I	I5004	1	-	-	5	20%	0%	0%
I	I5006	2	-	-	10	20%	0%	0%
I	I5008	5	3	-	25	20%	12%	0%
I	I5028	1	-	-	5	20%	0%	0%
I	I4990	-	2	-	5	0%	40%	0%
5	5996	-	3	-	8	0%	38%	0%
I	I4976	-	2	2	6	0%	33%	33%
5	6017	-	2	-	7	0%	29%	0%
4	7543	-	4	-	14	0%	29%	0%
4	7533	-	4	-	15	0%	27%	0%
8	5412	3	8	-	31	10%	26%	0%
4	7513	1	3	-	13	8%	23%	0%
7	7601	1	4	1	19	5%	21%	5%
4	7541	-	1	-	5	0%	20%	0%
I	I5000	-	1	1	5	0%	20%	20%
7	7573	-	-	2	7	0%	0%	28%

Source: OIG-generated from CARES Act-funded RLF loan information obtained from EDA

¹Delinquent, ²Written off.

We also reviewed the corresponding total dollar amount of loans that were delinquent, in default, and written off compared to the operator total CARES Act loan amounts and found that 31 operators had delinquent, default, or write off rates 20 percent or more. See table 4 for details.

**Table 4. Delinquent, in Default, or Written Off Loan Amount Rates
20 Percent or More**

Region	Award	Del. ¹ Amount	Default Amount	WO ² Amount	Total Loans Issued	Del. Rate	Default Rate	WO Rate
8	5506	\$40,000	-	-	\$40,000	100%	0%	0%
I	I4991	\$235,000	-	-	\$235,000	100%	0%	0%
I	I5013	\$350,000	-	-	\$500,000	70%	0%	0%
4	7530	\$321,714	-	-	\$649,714	50%	0%	0%
6	6327	\$305,000	-	-	\$699,000	44%	0%	0%
I	I5004	\$400,000	-	-	\$933,000	43%	0%	0%

Region	Award	Del. ¹ Amount	Default Amount	WO ² Amount	Total Loans Issued	Del. Rate	Default Rate	WO Rate
6	6211	\$180,000	-	-	\$455,000	40%	0%	0%
8	5404	\$50,000	-	-	\$125,000	40%	0%	0%
1	15019	\$3,860,460	-	-	\$9,900,000	39%	0%	0%
7	7703	\$400,000	-	-	\$1,145,000	35%	0%	0%
1	15017	\$155,700	\$70,000	-	\$482,279	32%	15%	0%
4	7512	\$250,000	\$59,267	-	\$819,267	31%	7%	0%
4	7514	\$350,000	-	-	\$1,150,000	30%	0%	0%
5	6025	\$150,000	-	-	\$574,000	26%	0%	0%
5	6007	\$125,000	-	\$10,000	\$500,000	25%	0%	2%
5	6000	\$250,000	-	-	\$1,020,000	25%	0%	0%
4	7508	\$262,500	-	-	\$1,073,500	24%	0%	0%
7	7606	\$55,000	-	-	\$232,400	24%	0%	0%
1	15012	\$130,000	-	-	\$550,000	24%	0%	0%
7	7623	\$255,000	-	-	\$1,145,000	22%	0%	0%
5	6029	\$140,000	\$70,000	-	\$695,000	20%	10%	0%
5	5993	\$100,000	-	-	\$500,000	20%	0%	0%
1	15008	\$100,000	\$60,000	-	\$500,000	20%	12%	0%
5	5996	-	\$220,000	-	\$497,000	0%	44%	0%
1	14990	-	\$230,000	-	\$646,000	0%	36%	0%
5	6012	-	\$1,987,540	-	\$5,687,540	0%	35%	0%
1	14976	-	\$130,000	\$43,000	\$372,494	0%	35%	12%
1	15002	\$211,180	\$247,697	-	\$1,138,814	19%	22%	0%
4	7513	\$50,000	\$135,000	-	\$610,000	8%	22%	0%
8	5412	\$140,000	\$295,000	-	\$1,380,000	10%	21%	0%
7	7573	-	-	\$205,300	\$727,154	0%	0%	28%

Source: OIG-generated from CARES ACT-funded RLF loan information obtained from EDA

¹Delinquent, ²Written off.

EDA also terminated 14 CARES Act RLF loans, totaling approximately \$21 million, after they were awarded. RLF operators voluntarily requested that EDA terminate the awards after realizing they lacked the capacity to administer the awards or there was not enough interest in the community to expend all the awarded funds.

After working with the borrowers with delinquent and defaulted loans and exhausting all options to recover and liquidate any applicable collateral, a loan may be written off to

remove the loan from the operator's balance sheet. When loans are written off, the money is not available to be loaned to other potential borrowers (i.e., the purpose of revolving loans). High percentages of defaulted loans and especially written off loans are concerning because taxpayer funds are lost and are no longer available for future loans through the RLF program.

EDA stated that it expected some defaults, as is the case in any commercial lending business; however, more defaults may have resulted because EDA encouraged RLF operators to make loans more readily available and issue loans quickly to borrowers that were suffering from impacts of COVID-19. According to EDA, the CARES Act loans were riskier compared to traditional loans, but RLF operators should still exercise prudent business practices when approving loans.

The delinquent, default, and written off rates of 20 percent or more throughout the regions may indicate credit worthiness issues that should have been identified by operators before loans were issued, as was the case for Invest Atlanta. In addition, the high percentages may indicate that operators were not exercising prudent lending practices and being responsible stewards of taxpayer funds. As a result, the operators could be subject to enforcement actions allowable under 2 C.F.R. § 200.339, including withholding future federal funds. EDA needs to review delinquent, default, and written off rates to determine whether our audit findings regarding Invest Atlanta are occurring throughout the RLF program nationwide.

EDA did not provide oversight to ensure CARES Act funds were spent in accordance with federal regulations and RLF plans

EDA did not provide oversight to ensure that RLF CARES Act funds were spent in accordance with federal regulations and RLF plans. OIG has previously reported EDA's lack of oversight of the RLF program. Our 2015 report, *EDA Faces Challenges in Effectively Monitoring Its Revolving Loan Funds*,²⁰ states that EDA did not aggressively respond to noncompliant RLFs because of limited staff and available tools to allow for proper oversight. For example, the report states that EDA had not consistently required corrective action plans and milestones to address RLFs with high loan default rates.

In response to that report, EDA established a Risk Analysis System in 2018 to monitor and evaluate the RLF awards program and to identify whether operators are lending funds effectively and with appropriate controls. EDA program officials score RLF awards on 15 measures to produce a composite risk rating (e.g., A, B, or C)²¹ for each RLF award based on a scoring rubric with points earned between 15 and 45. EDA's Risk Analysis

²⁰ U.S. Department of Commerce, OIG. June 5, 2015. *EDA Faces Challenges in Effectively Monitoring Its Revolving Loan Funds*, OIG-15-031-A.

²¹ EDA considers a rating of A or B to be an operator in good standing. Each rating represents the following: A: RLF awards are soundly managed and are almost always in compliance with EDA policies and regulations; B: RLF awards are fundamentally sound, but some deficiencies are present and may take time to resolve; and C: RLF awards exhibit performance deficiencies requiring additional oversight and intervention by the RLF administrator or their designee. These RLF awards may exhibit material noncompliance with EDA policies and regulations, which may result in the RLF administrator having to propose formal enforcement actions, including corrective actions, suspension, transfer, or termination of the RLF award.

System was adopted from the regulatory banking industry standard of reviewing capital, assets, management, earnings, liquidity, and strategic results as an approach to examine financial institutions under different categories of performance. EDA suspended, temporarily, the use of four risk factors (net RLF income, default rate, default rate over time, and leverage ratio) from May 2020 to June 2023 to not penalize operators for lending funds to riskier borrowers impacted by the pandemic. However, the related data from the suspended risk factors was still reported to EDA to inform performance management and monitor potential financial risks.

EDA uses RLF financial reports (ED-209), progress reports, and the Risk Analysis System to monitor RLF operators. RLF financial reports are a certified, self-reported summary of RLF operators' portfolio of all loan information including financial status, loan summary, number of loan defaults and write-offs, risk scoring measures, and a management summary. Progress reports identify an overview of accomplishments, benefits, impacts, and challenges on the RLF operator's projects and activities. Further, the ED-209 contains the operator's total dollar value of defaults and write-offs, with a corresponding percentage of the total loan activity. However, these reports do not include details on the recipient's activities or expenditures to determine if the loan purpose meets RLF plan and federal regulation requirements.

According to EDA, learning the results of this audit was the first time EDA heard of borrower details because EDA is normally concerned only with award management. Specifically, the primary focus of EDA's oversight was on providing grant administration duties such as increasing staffing to facilitate additional grant-making capacity, training, and IT systems development. EDA stated that the borrower/lender relationship is between the operators and the borrower. Additionally, EDA stated that it avoids underwriting, loan monitoring, customer service/collection, foreclosure, loan modification, and any loan-related decisions to avoid any possible accusation of liability by a debtor.

However, federal regulations²² require that RLF plans be approved by EDA and that RLF operators follow the plans when administering loans. EDA relied on operators to ensure compliance with federal regulations and RLF plans by requiring RLF operators to self-certify that loan documents are in place and adequate to support awarding the loan and they comply with the terms and conditions of the RLF grant and federal regulations.²³ In addition, RLF operators are required by federal regulations²⁴ to ensure that loan recipients are aware of and comply with federal requirements and that loan agreements incorporate the requirements and adopt procedures to diligently correct any instances of noncompliance.

A variety of agencies have identified increased fraud risk when self-certifications are relied upon to determine eligibility and receiving benefits. Validating self-reported information is a key fraud risk management leading practice. In *A Framework for Managing Fraud Risks in*

²² 13 C.F.R. § 307.9, *Revolving Loan Fund Plan*.

²³ 13 C.F.R. § 307.11(a)(1)(ii), 307.14(b).

²⁴ 13 C.F.R. § 307.10(b).

Federal Programs,²⁵ the “[Government Accountability Office] calls for agencies to take steps to verify reported information, particularly self-reported data and other key data necessary to determine eligibility for enrolling in programs or receiving benefits.”²⁶

EDA stated that if it became aware of any misuse of funds, then EDA would meet with the operator and may consider those funds that were misused as questioned costs if needed. Additional remedies mentioned by EDA consisted of changing risk ratings, requiring additional reporting, requiring amendments to RLF plans and internal operations, and using any enforcement action allowable under 2 C.F.R. § 200.339. This federal regulation includes options to disallow the costs and wholly or partly suspend or terminate the federal award if the deficiency cannot be corrected by imposing additional conditions. EDA stated that it has a process for this course of action.

Although EDA had a process to address noncompliant RLF operators, this process was not sufficient to identify that loans did not comply with federal regulations and RLF plans. We found that RLF operators were not following their RLF plans and, consequently, were not in compliance with federal regulations. For instance, loans were made to an ineligible business not impacted by COVID-19; businesses not within the operator’s service area; and startup and home-based businesses, which were not eligible to receive the loans per the operator’s plans. RLF operators are required to certify compliance with their RLF plans, but EDA’s current process did not include a step for verifying whether RLF operators were complying with these requirements and only relied on the operator’s self-certification. This oversight weakness allowed RLF operators to loan funds to ineligible borrowers and funds to be used for purposes contrary to the CARES Act and RLF operator plans.

EDA stated that RLF operators did not need to provide a specific link to pandemic impacts to be eligible for CARES Act funding because impacts of the pandemic were so pervasive and because a noncompetitive process was used. EDA also stated that the CARES Act RLF program, like the Economic Adjustment Assistance program, was designed to increase employment and foster economic development in regions affected by the coronavirus pandemic. However, language from the CARES Act, the addendum to the NOFO, and EDA’s invitation to apply for the RLF funding, supports that the intent of the funding was to prevent, prepare, and respond to COVID-19 or recover from economic injury as a result of it. The addendum stated that:

[t]o be eligible for funding under EDA’s CARES Act Recovery Assistance, applicants must explain clearly in their application how the proposed project would ‘prevent, prepare for, and respond to coronavirus’ or respond to ‘economic injury as a result of coronavirus.’ This explanation is required to assist reviewers in understanding how a proposed project aligns with the goals of EDA’s CARES Act Recovery Assistance.

²⁵ U.S. Government Accountability Office. July 28, 2015. *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP. <https://www.gao.gov/assets/gao-15-593sp.pdf> (Accessed October 4, 2024).

²⁶ As reported in U.S. Department of Commerce, OIG. July 10, 2023. *Management Alert: NTIA’s Reliance on Self-Certifications Increased Fraud Risk for the Tribal Broadband Connectivity Program*, OIG-23-022-M, 2-3.

EDA's invitation to apply for the funds included language from the CARES Act that stated RLF operators needed to submit a project narrative that described how the proposed RLF and administrative activities would help the lending area "to prevent, prepare for and recover from the coronavirus" or respond to "economic injury as a result of coronavirus."²⁷ Further, we found that RLF operators' CARES Act Plan purposes stated that the program was to help its associated area impacted by the pandemic. For example, GRMC's RLF plan stated that the COVID-19 (CARES Act) Loan Program will help finance existing local small businesses recover from the COVID-19 crisis. Therefore, based on the RLF operator's plans, loans should have gone to borrowers responding to, or economically injured by, the pandemic.

EDA also needs to revise its method of oversight so delinquent, default, and written off rates of 20 percent or more are followed up on and addressed with RLF operators. Prior to a revision of its policies and procedures, EDA regional offices would send written notices to the RLF operators with default rates of 20 percent or more and request an analysis of loans in default and actions taken to collect past due amounts. However, since the Risk Analysis System has been in place, EDA does not take any action, unless the operator's overall score is a C. The current rating system enables operators to achieve a higher rating than a C while having delinquent, default, or write off rates of 20 percent or more. Table 5 lists operators that received A and B ratings while having default rates or write off ratios of 20 percent or more.

**Table 5. A and B Ratings with Default and Write Off Ratios
20 Percent or More**

Region	Award	Default Rate	Write Off Ratio	Score	Rating
4	7513	56%	0%	33	B
5	5996	43%	0%	35	B
8	5412	41%	0%	37	B
I	14990	40%	0%	36	B
4	7541	21%	100%	38	B
4	7533	20%	0%	41	A
I	14999	20%	27%	34	B
I	14976	14%	100%	32	B
I	15000	12%	100%	34	B
7	7573	0%	100%	36	B
4	7520	0%	67%	31	B

²⁷ The CARES Act, Pub. L. No. 116-136, 134 Stat. 510 (2020).

Region	Award	Default Rate	Write Off Ratio	Score	Rating
4	7547	10%	56%	36	B
7	7601	14%	50%	34	B

Source: OIG-generated from CARES ACT-funded RLF loan information obtained from EDA

Invest Atlanta (award No. 7533) received an A rating despite the significant deficiencies identified during our audit. This is an indication that the rating system may not be efficiently and effectively identifying recipients that require attention. According to EDA's grants manual,²⁸ recipients of RLF awards that are assigned an A rating may be allowed to administer awards and resolve issues without significant EDA involvement. The manual further states that EDA administrators will provide additional oversight and attention to assist RLF recipients in improving performance when a B rating is received.²⁹ Finally, EDA requires corrective action plans when a C is received.³⁰

In contrast, as discussed previously, prior EDA policy³¹ required specific action from EDA regional offices when RLF recipients achieved a default rate of more than 20 percent. EDA stated that based on the Risk Analysis System, defaults are not always a clear indicator of an issue. EDA explained that other risk factors that also score low would indicate an issue with the operator's portfolio. As of September 2024, EDA had approximately \$16.5 million of the CARES ACT RLF loans in default and approximately \$5.5 million that had been written off. Once a loan is written off, it reduces the amount of funding available to other recipients through the RLF program.

Conclusion

We are questioning \$4,020,050 in RLF loans because we found that EDA did not provide oversight to ensure that (1) loans were provided to eligible borrowers and (2) the loans were used as intended. Other eligible businesses that needed assistance may not have been given the opportunity to benefit from the CARES Act and EDA's RLF program. Furthermore, all operators that did not comply with RLF plans and federal regulations³² should be subject to remedies for noncompliance, such as increased reporting requirements and repayment of ineligible loans or other costs.

²⁸ *The EDA Grants Manual*, section 15.5.2, 243.

²⁹ *Id.*

³⁰ *Id.* at 244.

³¹ EDA, *Fiscal Year 2011 RLF Program Policy and Operational Guidance*, "III. Default Rate Monitoring," 8.

³² 13 C.F.R. § 307.21, *Remedies for noncompliance*.

Recommendations

We recommend that the Acting Assistant Secretary of Commerce for Economic Development Administration instruct the Director, Performance, Research and National Technical Assistance Division (or designee, including the Interim RLF Coordinator), to:

1. Review and make a determination regarding the allowability of the \$4,020,050 in questioned costs with the respective RLF operators' loans that were made to ineligible borrowers and not used for their intended purposes.
2. Take appropriate actions for all noncompliances identified, such as suspending or terminating the RLF operator's grant if not in compliance with federal regulations and their RLF plans.
3. Ensure EDA provides oversight of the RLF operators to ensure loans are made to eligible borrowers and used for their intended purposes.
4. Develop procedures to ensure that the Risk Analysis System identifies areas of concern (such as high delinquent, default, or write off rates) and require that appropriate corrective actions are taken to address these areas of concern.

Summary of Agency Response and OIG Comments

On March 3, 2025, we received EDA's response to our draft report (see appendix C). EDA agreed with our recommendations and will review and assess the allowability of the 11 loans identified in our report, including investigating whether further sound economic justifications exist in determining the allowability of the loans. EDA provided comments on the draft report. We considered these comments and revised the final report where appropriate. We also determined it was appropriate to address some of the comments as outlined below.

Finding Section: An ineligible business that was not impacted by COVID-19

EDA Response: EDA stated that it never had an EDA-imposed requirement for RLF borrowers to show how they had been impacted by COVID-19 to be eligible for an EDA CARES Act RLF loan, because the American economy, as a whole, had been hurt by the pandemic. In addition, EDA stated that each RLF operator's plan included self-imposed restrictions beyond EDA's regulations and policy requirements.

OIG Comment: As discussed in the body of our report, language from the CARES Act, the addendum to the NOFO, and EDA's invitation to apply for the RLF funding supports that the intent of the funding was to prevent, prepare, and respond to COVID-19 or recover from economic injury as a result of it. Furthermore, some RLF operators required and obtained COVID-19 impact statements from borrowers as part of their loan application process. Despite the references to the pandemic, overall, we questioned loans that did not meet the RLF operators' plan requirements.

Finding Section: Businesses that were outside of the operator's service areas

EDA Response: As cited in the draft report on page 5, Georgia Mountains Regional Commission's (GMRC's) CARES Act RLF plan "states it will help finance existing small, local businesses throughout 13 counties in Northeast Georgia that were impacted by COVID-19." Per this language in the RLF plan, the impact to the 13 counties provided eligibility for businesses within each county—not the impact to borrowers. GMRC's RLF plan does not clearly require that each borrower demonstrate direct negative impacts from COVID-19.

OIG Comment: Although we agree that GMRC's RLF plan identified the 13 counties served by GRMC, we disagree that there was not a specific requirement on each borrower to demonstrate negative impacts from COVID-19. GMRC's RLF plan states, "documentation providing evidence of a loss in revenue, jobs, or other significant impact since the start of the COVID-19 pandemic will be required."

EDA Response: EDA requested changes to our discussion of the two instances of RLF operators making loans to businesses who purchased equipment located outside of the lending area. EDA stated that the borrower's original intent was to benefit the service area, and for one loan, it became noncompliant when the borrower changed its business plans and the RLF

operator did not take remedial action. For the second loan, EDA requested that we add clarifying language that OIG did not find any evidence that the benefits of the business operations accrued to the lending area.

OIG Comment: We do not agree that the loans were originally intended to benefit the associated service area in UCDD and SMPDD. For the UCDD loan, we found no evidence to support a confirmed property location for the purchased equipment to be relocated. Under the SMPDD loan, the owner of the business confirmed that the company's business and employees were located outside of the service area. We added clarifying language in the report for both examples.

Finding Section: Borrowers that used funds to refinance existing debt

EDA Response: EDA provided statements regarding the eligibility of RLF loans used to refinance existing debt. EDA asked if OIG would be willing and able to consider other facts about these loans, which would provide a more comprehensive explanation for why the RLF loans were used to refinance existing debt. Alternatively, EDA stated it would be useful to acknowledge that EDA should investigate whether further sound economic justifications exist in determining allowability.

OIG Comment: We agree that EDA should investigate further each noncompliance identified in our draft report (see recommendation 1). During our audit, EDA did not ask OIG to consider other facts or provide any additional information to consider about these loans. As part of our audit, we requested all relevant information used in approving the loans. We considered all the information provided during the audit and made our conclusions based on the information provided. As outlined in the report on page 7, the documentation provided did not demonstrate sound economic justification. If EDA has access to other documentation, it should have been used for EDA's determination of whether costs were allowable and made readily available for our review.

Finding Sections: EDA did not provide oversight to ensure CARES Act funds were spent in accordance with federal regulations and RLF plans

EDA Response: EDA stated that to the extent any RLF plan self-imposes restrictions beyond what EDA's regulations and policies require, EDA is not responsible for monitoring and enforcing those restrictions—that function rests squarely with the RLF operator. EDA also stated that if it ultimately finds that the RLF operator was out of compliance with a self-imposed restriction, it is likely that EDA's solution would not be to disallow the costs, but rather, to see if the RLF operator wants to remove the self-imposed restriction from its RLF plan. EDA also stated that RLF operators are tasked with prudent management of RLFs as indicated in 13 C.F.R. § 307.15, *Prudent management of Revolving Loan Funds*. EDA stated that it is currently preparing proposed regulatory revisions; however, in light of EDA's ongoing capacity and resource constraints, EDA is not well-positioned to perform underwriting for RLF operators.

OIG Comment: We disagree. EDA is responsible for oversight of the RLF program. In accordance with 13 C.F.R. § 307.9(b)(3), *Evaluation of RLF Plans*, EDA is required to evaluate

plans to verify that they provide sufficient administrative procedures to ensure accountability of RLF operators, safeguarding of assets, and compliance with federal and local laws. As outlined in the report on page 13, OIG has previously reported on EDA's lack of oversight of the RLF program in our 2015 report, *EDA Faces Challenges in Effectively Monitoring Its Revolving Loan Funds*, to which EDA acknowledged and concurred. In response to that report, EDA established a Risk Analysis System in 2018 to monitor and evaluate the RLF awards program and to identify whether operators are lending funds effectively and with appropriate controls.

Overall, EDA is responsible for all business management and administrative aspects of a federal award³³ and the oversight and management of EDA's programs.³⁴ If EDA does not hold RLF operators accountable and ensure compliance with the plans and intent of appropriated funds, EDA and RLF operators are at a disadvantage as the lack of accountability potentially exposes the program to mismanagement of federal funds, including misuse and loss of funds. Therefore, EDA must be good stewards of federal funds and prevent fraud, waste, and abuse.

Finding Section: Operators with delinquent, default, or written off loan rates of 20 percent or more

EDA Response: EDA stated that to the extent that our draft report concludes that a borrower's credit status rendered it ineligible under the subject RLF plan, it may be helpful for the report to provide further details or remove the assertion entirely. EDA also stated it is not clear that questioning credit status is necessary, given the potential other issues already identified.

OIG Comment: As stated in our draft report on page 9, Invest Atlanta's RLF plan defined credit factor considerations to ensure loans could be repaid. We did not make any changes to the report as RLF operators should still exercise prudent business practices when approving loans.

Appendix C contains the full text of the bureau's response. We are pleased that the bureau concurs with our recommendations, and we look forward to reviewing its action plan for implementing the recommendations.

³³ U.S. Department of Commerce. April 20, 2021. *Department of Commerce Grants and Cooperative Agreements Manual*, section 3.B., 10.

³⁴ *The EDA Grants Manual*, section 5.1, 49-50.

Appendix A: Objective, Scope, and Methodology

Our objective was to determine whether costs claimed by CARES Act RLF grant recipients were allowable, allocable, and reasonable. Specifically, we determined whether (1) RLF recipients of CARES Act awards ensured that funds were loaned to eligible borrowers and (2) borrowers used the RLF loans for the intended purpose. Our scope included CARES Act-funded loans closed by RLF recipients, or operators, within EDA's Atlanta Regional Office between July 1, 2020, and September 30, 2023.

To accomplish our objectives, we performed the following actions:

- Reviewed relevant federal, departmental, EDA, and RLF operator regulations, policies, and procedures including:
 - Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 134 Stat. 281 (2020)
 - 2 C.F.R. § 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
 - 13 C.F.R. § 107.50, *Start-up Financing*
 - 13 C.F.R. Part 300, *Definitions*
 - 13 C.F.R. Part 307, *Subpart B, Revolving Loan Fund Program*
 - *Department of Commerce Grants and Cooperative Agreements Manual*, April 20, 2021
 - *Fiscal Year 2020 Public Works and Economic Adjustment Assistance Programs Notice of Funding Opportunity (NOFO) and Cares Act Addendum to the NOFO*, May 7, 2020
 - *The EDA Grants Manual*, August 24, 2022
 - *Economic Development Administration's Revolving Loan Fund Standard Terms and Conditions*, April 30, 2019, and November 12, 2020
 - Waivers and correspondence memorandums related to EDA's fiscal year 2020 COVID-19 supplemental appropriations
 - RLF operators' legacy RLF plans and CARES Act RLF plans/addendums
- Interviewed EDA headquarters officials to gain an understanding of how EDA CARES Act RLF grants are administered and monitored.
- Interviewed and held meetings with RLF operators and borrowers to gain an understanding of how loans were approved, used, and monitored.

The overall scope of this audit included 5,484 CARES Act-financed RLF loans totaling approximately \$595,203,715 closed by RLF operators between July 1, 2020, and September 30, 2023.

Specifically, we:

- Judgmentally selected 19 loans totaling approximately \$11 million within EDA's Atlanta Regional Office's area to satisfy the audit objectives. Because the selection was based on a judgmental or non-statistical sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of costs.
- Completed an analysis of initial and follow-up document requests for each sampled loan.
- Compared the loan purpose, as stated on the application, to the applicable RLF plan/CARES Act addendum.
- Reviewed the state's Secretary of State website, partnership, and corporation documents to verify that the borrower is a legitimate business.
- Reviewed documentation (such as invoices, receipts, bank statements) to verify that the borrower used the loan proceeds for the purpose stated on the loan application.

We gained an understanding of EDA and RLF operators' internal control processes within the context of the audit objective by interviewing EDA and RLF operators and reviewing documentation for evidence that EDA and RLF operators carried out internal control procedures. We reported the internal control weaknesses in the Objective, Findings, and Recommendations section of this report. We identified and reported on internal controls deficiencies, and we detected specific instances of possible fraud during our audit. We reported the possible fraudulent instances to the Office of Inspector General's Office of Investigations.

We did not rely solely on computer-processed data to perform this audit. We assessed the reliability of data by comparing data provided with source documentation and interviewing personnel knowledgeable about the data. Based on these efforts, we believe the data was sufficiently reliable for this report.

We conducted our audit from October 2023 to January 2025 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401–24), and Department Organization Order 10-13, as amended October 21, 2020. We conducted site visits to RLF operator and borrower locations in Georgia, Tennessee, and Mississippi.

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 to provide 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.

Appendix B: Potential Monetary Benefits

Finding and Recommendation	Questioned Costs
Finding I, and Recommendation I	\$4,020,050
Total Potential Monetary Benefits	\$4,020,050

Source: OIG analysis of RLF loan information obtained by EDA

Appendix C: Agency Response

The bureau's response begins on the following page.



MEMORANDUM FOR: Arthur L. Scott, Jr.
Assistant Inspector General for Audit and Evaluation
Audits

FROM: Ben Page
Acting Assistant Secretary
Economic Development Administration
Performing the non-exclusive duties of the
Assistant Secretary for Economic Development

BENJAMIN PAGE

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BENJAMIN PAGE
Date: 2025.03.03 16:09:45
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SUBJECT: Response to Draft OIG Audit Report (January 31, 2025): *EDA Needs to Improve Oversight of CARES Act Revolving Loan Funds to Ensure Loans are Made to Eligible Borrowers and Used as Intended*

DATE: March 3, 2025

We have received and reviewed the above-entitled Office of the Inspector General (OIG) Draft Report evaluating the allowability, allocability, and reasonableness of costs claimed by the Economic Development Administration's (EDA's) Coronavirus Aid, Relief, and Economic Security (CARES) Act Revolving Loan Fund (RLF) recipients. EDA recognizes that agency responses to OIG are a critical part of the OIG's evaluation process. Thank you for the opportunity to review and respond to the Draft Report.

The OIG's finding in this case is that EDA did not ensure that RLF recipients (also referred to as "RLF operators") loaned CARES Act funds to eligible borrowers and that RLF loans were used for their intended purpose. The OIG has proffered four specific recommendations to address this finding and EDA agrees with all four. Below, however, EDA respectfully suggests a handful of minor adjustments to the Draft Report's presentation of the facts underlying the finding. EDA also responds to each of the four recommendations.

EDA wants to specifically recognize that the OIG, through this Draft Report, has spurred EDA to review and consider improvements to EDA's existing Risk Analysis System (RAS) for its RLF awards. The RAS provides an objective, risk-based method for assessing RLF performance efficiently. In conjunction with your findings and recommendations in the Draft Report, EDA is carefully re-examining the framework and weighted factors of the current RAS structure, with the goal of increasing efficient and effective oversight of RLF loan expenditures.

I. OIG Finding and EDA's Requests for Adjustments to Specific Factual Statements Used to Support OIG's Finding

Finding: EDA Did Not Ensure That RLF Operators Loaned CARES Act Funds to Eligible Borrowers and That RLF Loans Were Used for Their Intended Purpose.

EDA Response: While EDA does not object to this finding or its characterization, EDA does have concerns with the framing of certain factual statements in the Draft Report:

A. Eligible RLF Recipients

The Draft Report states that EDA “provides grants to nonprofit organizations (also referred to as ‘RLF Operators’) to operate a lending program...” (p. 1) and explains at footnote 4 that “[n]onprofit organizations include state and local governments, development districts, and regional commissions.” EDA suggests a minor change to this language to ensure accuracy and clarity.

Eligible RLF recipients/operators are defined at 13 CFR § 307.8, which references the definition of Eligible Recipient at [13 CFR § 300.3](#):

Eligible Recipient means any of the following:

- (1) City or other political subdivision of a State, including a special purpose unit of State or local government engaged in economic or infrastructure development activities, or a consortium of political subdivisions;
- (2) State;
- (3) Institution of higher education or a consortium of institutions of higher education;
- (4) Public or private non-profit organization or association, including a community or faith-based non-profit organization, acting in cooperation with officials of a political subdivision of a State;
- (5) District Organization;
- (6) Indian Tribe or a consortium of Indian Tribes; or
- (7) Private individual or for-profit organization, but only for Training, Research and Technical Assistance Investments pursuant to [§ 306.1\(d\)\(3\) of this chapter](#).

It is confusing for the Draft Report to characterize “state and local governments, development districts, and regional commissions” as nonprofits. They are typically units of local government, not non-profits. A simple solution would be to delete the footnote and simply state that EDA provides grants to nonprofit organizations, development districts, state and local governments,

and Indian Tribes to operate a lending program....” This would more accurately reflect the range of RLF operators and not mischaracterize their respective legal status.

B. *Statements regarding the impact of COVID-19 on borrowers’ eligibility to obtain loans from EDA CARES Act RLF operators*

1. EDA did not require that RLF borrowers have suffered specific harm from COVID-19.

The Draft Report contains statements indicating or implying that RLF borrowers are required to have been specifically impacted by COVID-19 in order to be eligible for an EDA CARES Act RLF loan. (*See, e.g., pp. 3-4*). But that was never an EDA-imposed requirement. The American economy, as a whole, was hurt by the pandemic. Consequently, EDA’s statutorily authorized mission with CARES Act funds was to boost the American economy generally in the wake of COVID-19’s detrimental impacts. Under that framework, any business that could increase private investment or retain staff was eligible, *even if the business was not specifically negatively impacted by the pandemic*. Businesses receiving loans from CARES Act-funded RLF awards did not need to demonstrate individualized harm from COVID-19 in order to receive a loan. If a business was able to demonstrate a specific harm from COVID-19 when applying for a CARES Act RLF loan, such harm would’ve have weighted the loan application favorably, but it was never a requirement that EDA imposed on RLFs. Rather, EDA was endeavoring to spur robust economic development during the relevant timeframe since so much of the U.S. economy ground to a halt during the pandemic.

That strategic decision is reflected in EDA’s two written invitations for CARES Act RLF funding: (1) competitive funding through EDA’s addendum to its FY20 Public Works and Economic Adjustment Assistance Notice of Funding Opportunity (FY20 PWEAA NOFO); and (2) noncompetitive funding via invitation certain recipients of then-existing EDA-funded RLF awards.

With respect to EDA’s competitive CARES Act RLF awards, the language of EDA’s CARES Act Addendum to its FY20 PWEAA NOFO stated in relevant part:

To be eligible for funding under EDA’s CARES Act Recovery Assistance, applicants must explain clearly in their application how the proposed project would “prevent, prepare for, and respond to coronavirus” or respond to “economic injury as a result of coronavirus.”

In other words, the applicants themselves (RLF operators, not RLF borrowers) needed to demonstrate how the RLF overall would respond to *the lending region’s* economic injuries. The application criteria did not contain a direct or indirect requirement that an RLF borrower must demonstrate COVID-19 impacts.

Similarly, EDA’s invitations for its noncompetitive CARES Act RLF awards did not contain any such requirement. EDA’s written invitation for those awards stated: “certain current recipients of existing EDA-funded Revolving Loan Fund (RLF) awards to apply for a supplemental RLF award to help respond to the unusual and compelling urgency of the coronavirus pandemic.” It went on to request that the application explain “[h]ow the proposed RLF and administrative activities will help the lending area ‘prevent, prepare for, and respond to coronavirus’ or respond to ‘economic injury as a result of coronavirus.’” Again, there was no express or implied requirement that an *RLF borrower* demonstrate economic injury – conversely, the economic injury must be viewed through the lens of the “lending area.”

Accordingly, to the extent that the Draft Report states or implies that language from the CARES Act, EDA’s notices of funding opportunity, or invitation letters also broadly imposed this requirement across EDA RLFs generally (*see* Draft Report at pp. 15-16), EDA fundamentally disagrees with this statement and strongly urges the OIG to adjust the Draft Report’s language to remove any such implication.

2. To the extent that an RLF Plan required specific harm from COVID-19 as an eligibility requirement, that was a self-imposed requirement by the RLF operator, and the RLF Plan language is sometimes vague.

The Draft Report notes that some RLF Plans required that RLF borrowers be specifically impacted by COVID-19 in order to be eligible for an RLF loan. (Pp. 3-4). Where an RLF operator’s RLF Plan contained that self-imposed requirement but the RLF operator made loans to borrowers who could not demonstrate such an impact, EDA understands that the RLF operator was noncompliant with its own RLF Plan. At least one of the RLF operators’ RLF Plans as cited in the Draft Report appears to contain this requirement, but the language in the RLF Plan is vague and open to interpretation. The Draft Report at p. 4 says that Georgia Mountain Regional Commission’s (GMRC’s) CARES Act RLF Plan “states it will help finance existing small, local businesses throughout *13 counties* in Northeast Georgia *that were impacted* by COVID-19.” (Emphasis added.) Per this language in the RLF Plan, it was the impact to the 13 counties that provided eligibility for businesses within each county – not the impact to borrowers. GMRC’s RLF Plan does not clearly require that each borrower demonstrate direct negative impacts from COVID-19.

Again at p. 16, the Draft Report says “we found that RLF operators’ CARES Act Plan purposes stated that the program was to help its associated area impacted by the pandemic. For example, GRMC’s RLF Plan stated that the COVID-19 (CARES Act) Loan Program will help finance existing local small businesses recover from the COVID-19 crisis. Therefore, based on the RLF operator’s plans, loans should have gone to borrowers responding to or economically injured by the pandemic.”

The phrases “respond to” or “responding to” the pandemic (as used by EDA in both its competitive and noncompetitive CARES Act funding opportunities for RLF awards, and as used by RLF operators in their RLF Plans) necessarily encompasses increasing private investment or other activity that boosted businesses’ resiliency within the lending region. Responding to the pandemic does not inherently require that borrowers needed to demonstrate individualized harms from the pandemic.

To avoid improperly conflating negative impacts to the lending region with negative impacts to the RLF borrower, EDA strongly urges the OIG to ensure that the Draft Report clearly distinguishes between RLF Plan-specific requirements for COVID-19 impacts to borrowers, versus EDA’s requirement that the RLF address economic injuries in areas affected by the pandemic. EDA also requests that to the extent an RLF Plan required borrowers to “respond to” economic injuries caused by the pandemic, the Draft Report be clarified to indicate that the business itself need not have been individually injured. These alterations may, at the margins, change the amount of questioned costs.

C. Statements regarding eligibility of loans to businesses outside of the RLF operator’s lending area

The Draft Report cites two instances of RLF operators making loans to businesses who purchased equipment physically located outside of the lending area. The first example (*see* Draft Report at p. 6), involves Upper Cumberland Development District’s (UCDD’s) loan to a business who purchased equipment physically located outside the lending area but with the intention to relocate the equipment within UCDD’s lending area. EDA notes that the loan was proper at the time of origination, though it failed to remain compliant when the condition subsequent (*i.e.*, relocation) failed to happen. The borrower’s original intent was to benefit the service area. EDA requests that OIG consider adding this fact to the Draft Report’s analysis, in order to more accurately describe the ultimate compliance issue. In its current form, the Draft Report seems to imply that the loan was not proper at the time of origination, which was not the case. Instead, it became noncompliant when the borrower changed its business plans and the RLF operator did not take remedial action.

The second such example in Draft Report (*see* p. 6) is of a loan issued by Southern Mississippi Planning and Development District (SMPDD). In that instance, the RLF borrower purchased equipment and performed its business operations entirely outside of the lending area. EDA suggests that OIG clarify the Draft Report to specifically state that OIG did not find any evidence that the benefits of the business operations accrued to the lending area. This would help demonstrate that a borrower purchasing equipment outside of the lending area might be allowable, *if* the benefits of the business operations accrue back to the lending area.

D. Statements regarding eligibility of RLF loans used to refinance existing debt

The Draft Report mentions two loans from SMPDD's RLF to borrowers who then used those loans to refinance existing debt. EDA's regulation at [13 CFR § 307.17\(c\)\(6\)](#) only permits such use of the RLF loan if the RLF recipient demonstrates in the loan documentation "a sound economic justification" for the refinancing. Lowering the cost of financing, on its own without other indicia, does not constitute a sound economic justification. *See id.* For the two loans that OIG references, EDA asks whether any other factors were present, such that a sound economic justification existed for using the RLF loans to refinance existing debt. The above-referenced regulation gives one express example of "sound economic justification" in the form of refinancing that supports additional capital investment intended to increase business activities. *Id.* But that is just one specific example, and is not a mandatory criterion for demonstrating sound economic justification. To the extent that OIG is willing and able to consider other facts from these loans, that would provide a more comprehensive picture of why the RLF loans were used to refinance existing debt. Alternatively, it would be useful to acknowledge that EDA should investigate whether further sound economic justifications exist in determining allowability.

E. Statements regarding RLF operators' self-imposed restrictions on borrowers' eligibility for RLF loans

The Draft Report identifies instances where specific loans were perhaps not compliant with RLF Plans' stated rules or specifics. As a threshold matter, EDA notes that when we receive an RLF Plan that comes in for review, EDA's focus and concern is on how the RLF Plan serves to bolster economic activity in the lending region. To the extent any RLF Plan self-imposes restrictions beyond what EDA's regulations and policies require, EDA is not responsible for monitoring and enforcement of those restrictions – that function rests squarely with the RLF operator.

As a result, EDA requests that any discussion within the Draft Report about RLF Plan requirements that are not based on EDA policy or regulation be qualified with a statement that this is a lender oversight issue, not an EDA oversight issue. EDA's regulations specifically task RLF operators, not EDA, with prudent management of RLFs. [13 CFR § 307.15](#). As explained in further detail below at Section II of this response memo—and as OIG acknowledges at p. 13 of the Draft Report—EDA has limited staff (and that limitation seems likely to become further constrained, in light of the current hiring freeze and reduced abilities to backfill positions at this time). EDA strongly disagrees with any implication or expectation that EDA must vet/audit RLF loans prior to origination to determine loan eligibility under the relevant RLF Plan.

Regarding the specifics of the Draft Report in this regard, p. 8 cites six loans that RLF operator Invest Atlanta made to "startup businesses," despite the fact that Invest Atlanta's RLF Plan states that ineligible applicants include startups and home-based businesses. If the final version of the

Report will contain this discussion, EDA respectfully requests that the Draft Report expressly indicate that this requirement is not from an EDA regulation or policy; in other words, Invest Atlanta's exclusion of startups is based solely on Invest Atlanta's RLF Plan, not on any EDA requirements. Additionally, the Draft Report does not address whether and how Invest Atlanta's RLF Plan defined "startup" or "home-based." For example, does a business with existing locations in other states but new to the lending area qualify as a "startup" under the specific requirements of Invest Atlanta's RLF Plan? Adding detail such as this would help focus OIG's factual findings on instances of clear misalignment between an RLF operator's RLF Plan and the specific loan discussed in the Draft Report.

It is important to note that if EDA ultimately finds that the RLF operator was out of compliance with a self-imposed restriction, it is likely that EDA's solution would not be to disallow the costs, but rather to see if the RLF operator wants to remove the self-imposed restriction from its RLF Plan. EDA would either work with the RLF operator to modify the RLF Plan or suggest to the RLF operator that the operator and the RLF borrower work out the discrepancy if at all possible, in order to bring the loan into compliance with the RLF Plan.

Notwithstanding the above, EDA acknowledges that its Risk Analysis System would benefit from a restructuring that enables EDA to more efficiently and effectively identify issues with RLF operations. Please refer to Section II below for additional detail on EDA's intentions and activities in this regard.

F. Statements regarding RLF borrowers' credit deficiencies

At p. 4 and p. 9 of the Draft Report, EDA appreciates that the OIG has removed charts related to OIG's understanding of why certain RLF borrowers had credit deficiencies. However, the Draft Report still contains the assertions that certain borrowers lacked good credit, absent indicia as to why OIG reached its conclusion in this regard. Note that EDA's RLF awards are designed to service businesses that cannot otherwise obtain traditional bank financing (see EDA's [RLF Webpage](#)), so a lack of "good" credit does not necessarily indicate that a lender was ineligible under EDA's RLF regulations or policies, or, for that matter, under the terms of the RLF operator's RLF Plan. To the extent that the Draft Report concludes that a borrower's credit status rendered it ineligible under the subject RLF Plan, it may be helpful for the Draft Report to provide further detail or remove that assertion entirely. It is not clear that questioning the credit status is necessary given the other issues already potentially identified.

G. Statements regarding EDA's reliance on RLF operators' self-certifications to determine loan eligibility

At pp. 14-15, the Draft Report states that "[a] variety of agencies have identified increased fraud risk when self-certifications are relied upon to determine eligibility and receiving benefits." EDA

regulations expressly require RLF operators to self-certify pre-disbursement requirements ([13 CFR § 307.11](#)) and to self-certify “that the RLF is operating in accordance with the applicable RLF Plan and that the information provided is complete and accurate.” [13 CFR § 307.14](#).

EDA is currently preparing proposed regulatory revisions. In light of EDA’s ongoing capacity and resources constraints (which do not appear likely to improve in the near future) and general long-term uncertainty in light of current government-wide efficiency actions, EDA is not well-positioned to perform loan underwriting for RLF operators. EDA respectfully requests that OIG take this into consideration when preparing the final Report.

II. OIG Recommendations and EDA’s Responses

OIG Recommendation 1: Review and make a determination regarding allowability of the \$4,025,050 in questioned costs with the respective RLF operators’ loans that were made to ineligible borrowers and not used for their intended purposes.

EDA Response: EDA’s Atlanta Regional Office (ATRO) currently is working to identify recommended actions to take with respect to the RLF operators identified in the Draft Report as making ineligible loans under their RLF Plans. ATRO commits to reviewing each of the 11 loans identified in the Draft Report and assessing the allowability of the loan in the context of the applicable RLF Plan and EDA’s RLF regulations.

OIG Recommendation 2: Take appropriate actions for all noncompliances identified, such as suspending or terminating the RLF operator’s grant if not in compliance with federal regulations and their RLF Plans.

EDA Response: EDA agrees with the need to address instances each instance of noncompliance identified in the Draft Report (including both noncompliance under EDA regulations and also under the respective RLF Plans). Consistent with EDA’s RLF regulations at [13 CFR § 307.15](#), EDA relies on RLF operators to examine lending area eligibility and other criteria for eligibility under their RLF Plans, as EDA did not (and still does not) have capacity to perform underwriting due diligence on each individual RLF loan made under each EDA RLF award. That said, ATRO commits to evaluating appropriate enforcement actions for instances of noncompliance.

OIG Recommendation 3: Ensure EDA provides oversight of the RLF operators to ensure loans are made to eligible borrowers and used for their intended purposes.

EDA Response: EDA agrees that oversight of RLF operators is essential to ensuring the allowable use of EDA funds. To that end, ATRO is currently reviewing all RLF awards (not only its CARES Act RLF Awards) and going through RLFs with default/write-off rates over 20% to track these and get to the root cause of any issues with the possibility of terminations or putting RLF operators on corrective action plans as needed. In addition, EDA’s RLF Working Group (“RLFWG”)—comprised of RLF Administrators from each EDA Regional Office and Headquarters RLF Program management—is considering standardizing the RLF Award reviews (including whether and to what extent individual loans are reviewed) across EDA, so that

different regions are not following different review procedures. In so doing, RLFWG is contemplating the development of specific guidance on types of documents and policies for RLF operators to implement when performing individual loan reviews.

Specifically, EDA is contemplating whether to prepare and issue standard RLF Plan guidance (perhaps which could be issued directly to RLF applicants) and standard RLF Plan review processes for internal use, including with an internal checklist for all RLF Administrators to use to ensure consistency across regions. These measures would have the added benefit of allowing EDA to more easily monitor its RLF portfolio within EDA's existing Salesforce portal.

EDA also notes that its [RLF Community of Practice](#) (operated by Grow America) is an initiative designed to enable RLF operators to work collaboratively to improve RLF operations. The RLF Community of Practice will put on a workshop webinar at the end of April 2025, addressing portfolio management focused on non-performing loans and delinquencies. The workshop will also identify best practices for RLF operators to classify and collect on delinquent loans.

In terms of EDA's overall oversight capabilities, EDA again cites the aforementioned staffing and resource constraints as a real barrier to more nuanced, detailed EDA-led reviews of individual loans within RLF operators' portfolios. To prevent EDA from having to review and compare procedures in an RLF Plan against actual evidence via loan documents, one option under consideration is to have RLF operators include a "compliance review" component in audit engagement letters with their own auditors (such that these outside auditors, paid for out of RLF funds, can assess whether the RLF is in compliance with its own RLF Plan. Then, if the RLF operator receives an audit finding as part of that audit review, EDA could impose corrective actions as deemed appropriate. Additionally, EDA is considering how to adjust due diligence prior to making an RLF award (for example, to more deeply assess applicant capacity and capabilities) in order to remove some post-award noncompliance risk.

OIG Recommendation 4: Develop procedures to ensure that the Risk Analysis System identifies areas of concern (such as high delinquent, default, or write off rates) and require that appropriate corrective actions are taken to address these areas of concern.

EDA Response: EDA agrees that its Risk Analysis System (RAS) would benefit from an overhaul, designed to improve focus on fewer, but more impactful, key performance indicators. Pre-dating the issuance of this Draft Report, the RLFWG has been strategizing to identify where and how to make changes to the RAS. In fact, EDA was able to implement a number of RAS changes that did not require a corresponding regulatory change – EDA refers to these as "Phase 1" RAS changes and they were implemented in September 2024. The Phase 1 RAS changes included removing five measures from the RAS that, in EDA's experience, were not qualitative indicators of performance and risk management. EDA removed: (1) Capital Base Index; (2) Tenure; (3) Loan Write-Off Ratio; (4) Default Rate Over Time; and (5) Cash Percentage Over Time. The decision to remove these measures was based on extensive interviews with RLF Administrators, RLF operators, and the RLF Community of Practice, who indicated that all five measures were quantitatively statistically insignificant indicators of performance and risk management. The public facing memo detailing these changes and rationale can be found here:

https://www.eda.gov/sites/default/files/2024-08/RAS_Revisions_Memo_for_Grantees.pdf

In devising Phase 2 changes, EDA intends to streamline the remaining measures to eight (from the current nine after Phase 1 implementation) and to adjust the scoring to a 0 or 1 score for each measure. To be compliant with the RAS, an RLF will need to achieve 5/8, otherwise they will be placed on a Corrective Action Plan. These changes will effectively weight the Assets Metrics (Default Rate and Dollars Written-Off) and Management Metrics (Financial Control and Timely and Complete Reporting) more heavily than they were in previous iterations of the RAS, making up four of eight measures. By streamlining the RAS down from its original fifteen measures, EDA will be able to focus more on the key performance indicators that are statistically significant and grounded in data driven assessments to monitor award performance and monitor risk management more effectively. EDA also plans to require all RLFs to report semi-annually, reducing the lag time in identifying potential risks to the portfolio. Utilizing the business intelligence tools provided by Salesforce, and by having data more up to date, EDA will be better positioned to identify any early warning indicators that may present a risk to the federal interest in the RLF award.

Note that some of the proposed Phase 2 changes may require regulatory changes before EDA can implement them. As a result, the timeline for implementation is uncertain at this point.

Although this Recommendation focuses on write-offs and defaults, EDA notes that the focus on these two factors might be too narrow and therefore missing the opportunity for a broader recommendation that is more impactful over time. It is unclear to EDA whether 20% defaults or write-offs are inherently problematic, because factors such as the total number of loans within the RLF operator's portfolio could color that analysis. Rather than selecting an arbitrary percentage of write-offs or defaults, EDA would like to analyze and identify an appropriate threshold.

REPORT

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