



May 24, 2023

**MEMORANDUM FOR:** Alejandra Y. Castillo  
Assistant Secretary of Commerce for Economic Development  
U.S. Economic Development Administration

**FROM:** Arthur L. Scott, Jr.  
Assistant Inspector General for Audit and Evaluation

**SUBJECT:** *EDA Implemented and Followed the Requirements for Awarding and Disbursing CARES Act Funding Through the Revolving Loan Fund Program*  
Final Report No. OIG-23-021-I

This memorandum provides the results of our evaluation of the U.S. Economic Development Administration's (EDA's) plan for the implementation of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) funding through its Revolving Loan Fund (RLF) program. Our objective was to determine whether EDA followed federal and U.S. Department of Commerce (Departmental) guidelines to award and disburse CARES Act funding through its RLF program. Specifically, we focused on (1) how EDA selected applicants to receive CARES Act funds through the RLF program, (2) whether EDA ensured that RLF pre-disbursement requirements were met prior to disbursing CARES Act funds, and (3) how EDA is monitoring CARES Act funds after they have been disbursed to RLF recipients.

See appendix A for details on our scope and methodology.

## Introduction

On March 27, 2020, the President signed into law the CARES Act to respond to the COVID-19 outbreak and its impact on the economy, public health, state and local governments, individuals, and businesses. The CARES Act appropriated the EDA a total amount of \$1.5 billion, to remain available until September 30, 2022. EDA allocated \$1.467 billion in CARES Act supplemental program funding to its offices (see table 1).

**Table 1. EDA's Allocation of CARES Act Funds**

EDA Headquarters and Regional Offices	CARES Act Funds Allocated
Atlanta	\$248,000,000
Austin	\$236,000,000
Chicago	\$225,000,000

<b>EDA Headquarters and Regional Offices</b>	<b>CARES Act Funds Allocated</b>
Denver	\$193,000,000
Philadelphia	\$259,000,000
Seattle	\$266,000,000
Headquarters	\$40,000,000
<b>Total</b>	<b>\$1,467,000,000</b>

Source: Fiscal Year 2020 CARES Act Recovery Assistance Addendum

Through the Economic Adjustment Assistance program, EDA provides immediate and long-term economic recovery assistance to communities impacted by COVID-19 by awarding construction and nonconstruction grants, including RLFs.

The RLF program provides grants to state and local governments, political subdivisions, and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. These loans enable small 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.

RLFs operate according to an RLF plan that is developed by the RLF recipient and approved by EDA. The RLF plan summarizes the recipient’s strategic focus and operational procedures and identifies the specific criteria that govern the RLF: lending area, interest rate, and anticipated loan size.

## Findings

Overall, we found that EDA

- had a process to select applicants and award CARES Act funds on a competitive and noncompetitive basis through the RLF Program.
- generally ensured that RLF pre-disbursement requirements were met before disbursing CARES Act funds.
- had a process for monitoring the CARES Act funds after the funds were disbursed.

We also identified opportunities to improve and clarify policy in the following areas:

- signing and dating the Federal Financial Reports (Form SF-425) and
- clarifying the need for approval of RLF plans by a board of directors.

We briefed details of these concerns to EDA officials on March 7, 2023. These issues did not impact our overall conclusions for this report. As such, we consider these issues closed.

## I. EDA Had a Process to Select Applicants and Award CARES Act Funds on a Competitive and Noncompetitive Basis Through the RLF Program

### *Competitive Awards*

Eligible applicants could apply through their respective EDA offices (headquarters or regional offices) for any project eligible under the RLF program. Eligible applicants included the district organization of an EDA-designated Economic Development District and state, county, city, and public or private nonprofit organizations acting in cooperation with a political subdivision of a state.<sup>1</sup> These applicants were required to submit their application documents to the appropriate EDA office. The responsible regional office then reviewed each application to determine its completeness. Next, the regional office convened an Investment Review Committee, which conducted a merit review<sup>2</sup> of each application and provided a recommendation to the grants officer for funding. Finally, the grants officer decided to award or deny an application.

### *Noncompetitive Awards*

EDA regional offices allowed existing RLF recipients with a Risk Analysis Rating of “A” or “B”<sup>3</sup> to apply for awards not to exceed \$10,000,000, plus up to an additional 10 percent in administrative costs. The maximum award amount would be approximately equal to the RLF recipient's capital base.<sup>4</sup> The 10 percent administrative funding was added, in part, to assist recipients by funding the hiring of additional staff and permitting very low-cost loans. The recipients who applied for funding submitted applicable documentation. EDA regional offices then reviewed the documentation for completeness and the grants officer awarded the grant.

## II. EDA Generally Ensured That RLF Pre-disbursement Requirements Were Met Before Disbursing CARES Act Funds

The Code of Federal Regulations<sup>5</sup> imposes certain pre-disbursement requirements on new RLFs, including (I) a certification that the recipient has an accounting system adequate to

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<sup>1</sup> The Fiscal Year 2020 Public Works and Economic Adjustment Assistance Notice of Funding Opportunity also lists Indian Tribes and institutions of higher education as eligible applicants. Our sample selection of RLF grants did not include these types of applicants.

<sup>2</sup> A merit review is a thorough, consistent, and independent examination of an application based on pre-established criteria by persons knowledgeable in the field of endeavor for which support is requested. A merit review must be conducted by an impartial, objective, unbiased individual who can evaluate or assess a proposal for its value, quality, and likelihood of success. One who conducts a merit review must not have a conflict of interest, or appearance of a conflict of interest, regarding any application under his or her review.

<sup>3</sup> This rating is computed from data derived from the RLF recipient's most recent RLF Financial Report (ED-209). The data is computed from 15 measures in the ED-209 regarding Capital, Assets, Management, Earnings, Liquidity, and Strategic Results.

<sup>4</sup> *RLF Capital Base* means the total value of RLF grant assets administered by the RLF Recipient. See 13 C.F.R. § 307.8.

<sup>5</sup> 13 C.F.R. § 307.11(a)(1).

identify, safeguard, and account for the entire RLF Capital Base, outstanding RLF loans, and other RLF operations; (2) a certification from the recipient’s legal counsel that the recipient’s standard loan documents are adequate and comply with the terms and conditions of the RLF Grant, RLF Plan, and applicable state and local law; and (3) evidence of fidelity bond coverage in an amount sufficient to protect the interests of EDA and the RLF. Because the supplemental RLF awards are being made to existing recipients who already provided certifications for their accounting systems and loan documents, EDA waived the first two pre-disbursement requirements to noncompetitive applicants.

EDA still requires noncompetitive and competitive recipients to provide evidence of fidelity bond coverage. We found that EDA generally complied with ensuring recipients provided evidence of bond coverage and updating RLF plans before funds were issued to recipients.

### III. EDA Had a Process for Monitoring the CARES Act RLF Funds After They Were Disbursed

According to EDA personnel, they monitor noncompetitive and competitive RLF awards by reviewing financial and progress reports and RLF disbursement rates, annually scoring each RLF’s risk rating, and regularly communicating with RLF grantees. For instance, EDA reduced CARES Act funds to RLF recipients with slow disbursement of funds. The initial progress reports submitted by some RLF operators stated that there were challenges such as attracting loan applicants because they were competing against funding from other federal and state sources that—unlike the RLF loan—did not have to be paid back. Regarding Form SF-425s, EDA was not consistent in signing and dating the form as required by its policy. In response to potentially slow disbursement rates, EDA proactively put the noncompetitive RLF recipients on a schedule (see table 2) that would return funds to EDA to be repurposed for competitive grants.

**Table 2. Reduction Schedule for Noncompetitive RLF Awards**

Reduction Date	Disbursement Shortfall	Reduction
EDA Reduction Action 1 <b>11/1/2021</b>	At least 25% of original award amount	Amount needed to achieve 25% disbursement of original award
EDA Reduction Action 2 <b>4/1/2022</b>	At least 75% of original award amount	Amount needed to achieve 75% disbursement of original award
EDA Final Reduction <b>Award End Date</b>	100% of original award amount	All remaining award funds

Source: EDA letter template—Subject: *Disbursement of Noncompetitive CARES RLF Award Number*

We are not requesting a formal response to this evaluation, as the findings were briefed to cognizant Department officials in advance of issuance. This evaluation will be posted to our public website.

We appreciate the cooperation and courtesies extended to us by your staff during the evaluation. If you have any questions or concerns about this report, please contact me at (202) 577-9547 or Monica Adamo, Director for Acquisition and Grants, at (202) 750-5045.

cc: Ann Marie Maloney, Audit Liaison, EDA  
Christiann Burek, Acting Deputy Chief of the Employment and Labor Law Division, EDA  
Jeff Roberson, Chief Counsel, EDA  
MaryAnn Mausser, Audit Liaison, Office of the Secretary

## Appendix A. Objective, Scope, and Methodology

The objective of this evaluation was to determine whether EDA followed federal and Departmental guidelines to award and disburse CARES Act funding through its RLF program. Specifically, we focused on (1) how EDA selected applicants to receive CARES Act funds through the RLF program, (2) whether EDA ensured that RLF pre-disbursement requirements were met prior to disbursing CARES Act funds, and (3) how EDA is monitoring CARES Act funds after they have been disbursed to RLF recipients. As part of our ongoing oversight of pandemic funds, we plan to audit EDA's administration and management of grants awarded with pandemic funds at a later date. Specifically, we will determine if costs claimed were allowable, allocable, and reasonable under the grant award.

To accomplish our objective, we performed the following actions:

- Conducted interviews and meetings with EDA officials and staff (regional directors, regional administrative directors, RLF administrators and managers, program analysts, Chief Counsel, and regional counsel) at EDA headquarters and regional offices to gain an understanding of how EDA CARES Act RLF grants are selected, administered, and monitored.
- Reviewed relevant federal and Departmental policies and guidance, including
  - Coronavirus Aid, Relief, and Economic Security Act, Public Law 116-136, March 27, 2020
  - 13 C.F.R. § 307, Economic Adjustment Assistance Investments
  - 2 C.F.R. § 200.329, Monitoring and Reporting Program Performance
  - *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
  - *Interim EDA Grants and Cooperative Agreements Policy and Procedures Manual*, June 6, 2018
  - EDA's RLF *Standard Terms and Conditions*, April 30, 2019
  - U.S. Department of Commerce *CARES Act Implementation Plan*, June 2020
  - EDA's *Disaster and CARES Act Internal Control Augmentation Plan*
  - Waivers and correspondence memorandums related to EDA's fiscal year 2020 COVID-19 supplemental appropriations
- Obtained a universe of 309 CARES Act RLF grants awarded by EDA from May 7, 2020, to January 31, 2021, totaling \$629,196,163. We then selected a judgmental sample of 30<sup>6</sup> grants totaling \$196 million (3 competitive and 27 noncompetitive) awarded during that

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<sup>6</sup> One grant was terminated and not reviewed.

time period. We used the results of our grant file review data to identify trends and verify whether EDA adequately followed procedures.

For this evaluation, we did not assess internal control procedures. We assessed the reliability of computer-generated data by interviewing EDA officials and reviewing documentation. We determined that the data was sufficiently reliable for the purposes of this report.

We conducted our review from December 2020 through March 2023 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 performed our fieldwork remotely.

We conducted this evaluation in accordance with *Quality Standards for Inspection and Evaluation* (January 2012) issued by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that the evidence supporting the evaluation’s findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objective.

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