



November 6, 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 Generally Monitored Grants Awarded Under the FY 2019
EDA Disaster Supplemental Notice of Funding Opportunity
Final Report No. OIG-24-005-A*

This final report provides the results of our audit of the U.S. Economic Development Administration's (EDA's) monitoring of fiscal year (FY) 2019 disaster relief grants. Our objective was to determine whether grants awarded under the *FY 2019 EDA Disaster Supplemental Notice of Funding Opportunity (NOFO)*¹ are effectively and adequately monitored by EDA. Our initial objective was to determine whether EDA monitored grants to ensure (1) compliance with grant terms, conditions, and performance requirements, and (2) costs are allowable, allocable, and reasonable in accordance with federal cost principles. For the purposes of this audit, we limited our review to subobjective I. We plan to review costs in further detail when EDA has disbursed additional funds and progress on construction projects is further along.

See appendix A for further details on the scope and methodology of our audit.

Background

EDA's mission is to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. EDA's grant investments in planning, technical assistance, and infrastructure construction are designed to leverage existing regional assets to support the implementation of economic development strategies that make it easier for businesses to start and grow. EDA's role in disaster recovery is to facilitate the timely and effective delivery of federal economic

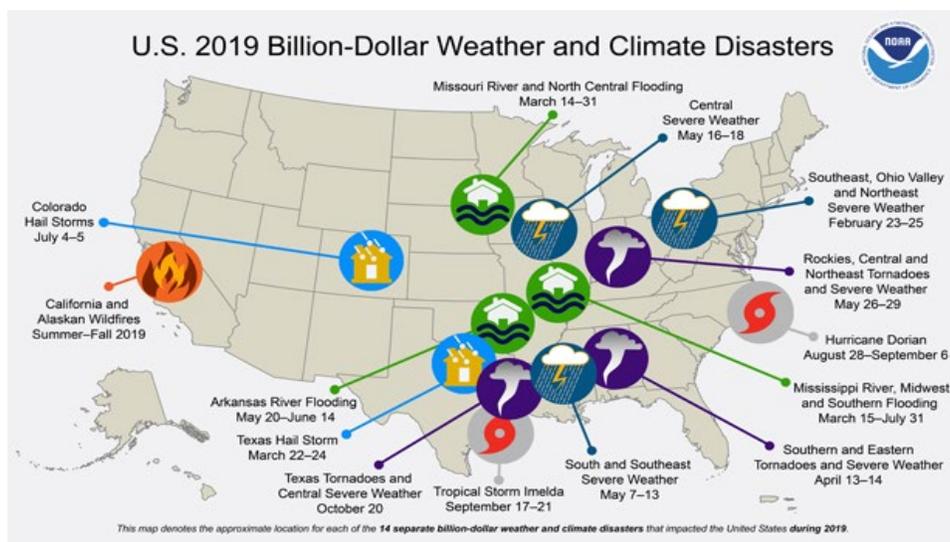
¹ U.S. Economic Development Administration, August 13, 2019. *FY 2019 EDA Disaster Supplemental Notice of Funding Opportunity*. Washington, DC: DOC EDA. The *NOFO* announced EDA's submission requirements and review procedures for applications received under the Economic Adjustment Assistance disaster recovery program, as authorized by sections 209 and 703 of the Public Works and Economic Development Act of 1965, as amended, Pub. L. No. 89-136 (42 U.S.C. § 3121 et seq.).

development assistance to support long-term community economic recovery and project implementation, redevelopment, and resilience.²

In 2017, the United States experienced a historic year of weather-related disasters: 16 separate billion-dollar disaster events, including severe weather, hurricanes, flooding, and wildfires. In response, the President signed into law the Bipartisan Budget Act of 2018³ on February 9, 2018, which designated \$600 million to EDA for disaster relief and recovery efforts related to these events.

On June 6, 2019, Congress passed the Additional Supplemental Appropriations for Disaster Relief Act, 2019, which provided EDA with \$600 million in additional Economic Adjustment Assistance Program funds for necessary expenses related to flood mitigation, disaster relief, long-term recovery, and restoration of infrastructure.⁴ These funds are available to areas impacted by Hurricanes Florence, Michael, and Lane; Typhoons Yutu and Mangkhut; wildfires; other calendar year 2018 disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act); and tornadoes and floods in calendar year 2019.

Figure I. U.S. Billion-Dollar Weather and Climate Disasters in 2019



Source: National Oceanic and Atmospheric Administration

² Used in this sense, *resilience* is broadly defined as the ability of a community or region to anticipate, withstand, and recover from various disruptions to its economic base, per the *FY 2019 EDA Disaster Supplemental NOFO*.

³ The *Bipartisan Budget Act of 2018*, Pub. L. No. 115-123, 132 Stat. 64, provided supplemental appropriations relating to certain disasters. Under this Act, EDA was appropriated \$600 million for “necessary expenses related to flood mitigation, disaster relief, long-term recovery, and restoration of infrastructure in areas that received a major disaster designation because of Hurricanes Harvey, Irma, and Maria, and because of wildfires and other natural disasters occurring in calendar year 2017 under the *Robert T. Stafford Disaster Relief and Emergency Assistance Act* (42 U.S.C. 5121 *et seq.*), to remain available until expended.” *Id.* at Division B, Subdivision I, Title II, 132 Stat. at 69.

⁴ *Additional Supplemental Appropriations for Disaster Relief Act, 2019*, Pub. L. No. 116-20, 133 Stat. 871, 875, Title II.

In August 2019, EDA released the *NOFO* to help communities and regions devise and implement long-term economic recovery strategies in areas where a Presidential declaration of a major disaster was issued under the Stafford Act. EDA allocated a total of \$587 million in disaster supplemental program funds among its six regional offices (see table 1).

Table 1. EDA’s Allocation of FY 2019 Disaster Supplemental Funds

EDA Regional Office	Disaster Funds Allocated
Atlanta	\$140,000,000
Austin	\$50,000,000
Chicago	\$50,000,000
Denver	\$107,000,000
Philadelphia	\$50,000,000
Seattle	\$190,000,000
Total	\$587,000,000

Source: *NOFO*

Project Monitoring

The *Department of Commerce Grants and Cooperative Agreements Manual*⁵ states the purpose of project monitoring is to ensure that recipients fulfill the terms and conditions of their awards. Project monitoring shall be the joint responsibility of the Grants Officer, Program Officer, award recipient, and/or their designees. Monitoring may include performing site visits, preparing written and/or oral reports, holding meetings, or any other form of communication deemed appropriate by the Grants Officer for keeping apprised of project progress. The *Interim EDA Grants and Cooperative Agreements Policy and Procedures Manual*⁶ (*EDA Manual*) supplements the U.S. Department of Commerce’s policy regarding the Project Officers’ execution of their project monitoring responsibilities.

Finding and Recommendation

Overall, we found that EDA generally monitored grants awarded under the *NOFO*.⁷ However, we found EDA could improve project monitoring activities by following up on late submissions of Federal Financial Reports (SF-425) and Project Progress Reports by the grantees. EDA was monitoring the financial and progress reports submitted by grantees; however, EDA had not yet

⁵ See (1) U.S. Department of Commerce, October 2016; Interim Change 1, dated January 2018. *Department of Commerce Grants and Cooperative Agreements Manual*. Washington, DC: DOC, Chapter 10, Section E; (2) DOC, April 2021. *Department of Commerce Grants and Cooperative Agreements Manual*. Washington, DC: DOC, Chapter 10, Section D.

⁶ EDA. *Interim EDA Grants and Cooperative Agreements Policy and Procedure Manual 2018*. Washington, DC: EDA, Chapter 10.

⁷ EDA, *NOFO*.

performed other monitoring activities such as site visits and status meetings because the projects were not yet in those phases.

EDA Did Not Always Follow Up on Late Submissions as Required

The *EDA Manual*⁸ states “all construction projects require grantees to submit Federal Financial Reports (Form SF-425) and Project Progress Reports, in accordance with the schedule outlined in the *Construction Standard Terms and Conditions* or as outlined in the applicable special award conditions and as outlined in Chapter 10.4, Monitoring Project Progress Reports.” Project Progress Reports provide a useful tool for Project Officers to ensure that an investment is on track and the required deliverables meet standards for quality and accuracy outlined in the *NOFO* announcement under which the award was made. Because Project Progress Reports provide key information on the status and direction of EDA investments, Project Officers must review all reports thoroughly to ensure that the information provided is accurate and consistent with regulations, policies, the scope of work, and the agreed-upon timetable for the project.

For the 31 grants we reviewed, the grantees were required to submit 115 progress reports and 49 Federal Financial Reports for the quarters between June 30, 2020, and June 30, 2021. Of these, we found grantees submitted 112 of 115 Project Progress Reports (97 percent) and 47 of 49 Federal Financial Reports (96 percent) as required (see table B-1 for details). Additionally, the reports that were not submitted (three Project Progress Reports and one Federal Financial Report) were related to only one grant. EDA acknowledged that these reports were not submitted and noted that the regional office opted not to take punitive action against the grantee due to the fallout of the COVID-19 pandemic.

Although most of the grantees submitted the required reports, we found they did not always submit them in a timely manner. For the submitted reports, 30 of 112 Project Progress Reports (25 percent) and 17 of 47 Federal Financial Reports (36 percent) were not submitted timely. The average number of days late for progress reports was 45 (one report was submitted 192 days late). For Federal Financial Reports, the average number of days late was 88 (one report was submitted 495 days late). According to the terms and conditions for all the grant awards we reviewed, grant recipients are required to submit Project Progress Reports quarterly (January 31, April 30, July 31, and October 31 for the quarter just ended) and Federal Financial Reports on a semiannual basis for the periods ending March 31 and September 30. Project Officers have the responsibility to follow up with the recipients when the reports are not submitted in a timely manner. According to the *EDA Grants Manual*,⁹

When reports are not submitted within 45 business days of the due date, Project Officers should follow-up with the recipient about the delinquent report in writing and should retain a copy of such communication in the official project file. In cases where the recipient’s report or communication confirms that the regulations or terms and conditions of the award are not being followed,

⁸ *EDA Manual*, Chapter 14.12.

⁹ EDA, June 16, 2021. *EDA Grants Manual*. Washington, DC: EDA, Chapter 10.4.2.

Project Officers must notify their respective Regional Counsel and their supervisors to determine how to proceed and must document the issue and actions taken appropriately in the official project file.

Of those reports submitted late, 8 of 30 Project Progress Reports and 6 of 17 Federal Financial Reports required follow-up by a Project Officer. We found EDA did not follow up with notifying the grant recipients of their delinquencies, which is not in compliance with Department policy. During our discussions with the six regional offices, EDA officials stated this occurred because of increased workload requirements due to the pandemic and EDA's focus on expediting the award of the funds. Untimely performance and financial reports do not provide timely visibility of the grant recipients' technical and financial progress, which could impede EDA's ability to ensure that the grant's terms and conditions are being met.

Recommendation

We recommend that the Deputy Assistant Secretary for Economic Development and Chief Operating Officer ensure that the Regional Directors do the following:

Strengthen monitoring procedures to ensure Project Officers follow up with the recipient about the delinquent reports in writing and retain a copy of such communication in the official project file.

Summary of Agency Response and OIG Comments

On October 3, 2023, we received EDA's response to our draft report. In response to our draft report, EDA concurred with our recommendation and described actions it has taken, or will take, to strengthen its grant monitoring procedures. We have included EDA's formal comments in appendix C.

In its formal response, EDA stated it strives to adhere to the *EDA Grants Manual* guidance: "When reports are not submitted within 45 business days of the due date, Project Officers should follow-up in writing with the recipient about the delinquent report and should retain a copy of communication in the official project file." EDA noted that while it works diligently to ensure this guidance is followed, it acknowledges there is room for improvement. EDA also stated that due to the significant increase in staff workloads from its increased appropriations to respond to the economic impacts of the pandemic, current EDA staff had to take on additional duties until new staff could be onboarded and trained. As a result, some projects with no-year funds were not tracked diligently as they would otherwise have been.

We are encouraged by EDA's statement that in the coming year, it will redouble its effort to increase oversight through internal communication and training. EDA has already taken key steps aimed at continuously improving its grant monitoring process, such as convening regular "Office Hours" sessions in which all EDA staff can learn best practices from each other and collectively address and solve challenges with monitoring grants. In addition, EDA is implementing a new grants management system with the goal of automating grant monitoring requirements. We look forward to reviewing EDA's action plan for implementing our recommendation.

Pursuant to Department Administrative Order 213-5, please prepare and submit to us an action plan that addresses the recommendation in this report within 30 calendar days. This final report will be posted on our website pursuant to the Inspector General Act of 1978, as amended, (5 U.S.C. §§ 404 & 420).

We appreciate the cooperation and courtesies extended to us by your staff during the audit. If you have any questions or concerns about this report, please contact me at (202) 577-9547 or Kelley Boyle, Director for Grants, at (202) 253-0856.

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

Appendix A. Objective, Scope, and Methodology

The objective of our audit was to determine whether grants awarded under the *NOFO* are effectively and adequately monitored by EDA. Our initial objective was to determine whether EDA monitored grants to ensure (1) compliance with grant terms, conditions, and performance requirements, and (2) costs are allowable, allocable, and reasonable in accordance with federal cost principles. During the scope of our audit, EDA disbursed \$10 million in reimbursements to the grantees out of \$287 million. The grants have a period of performance of 5 years and the grantee has 2 years after the grant is awarded to begin the project. At the time of audit, many of the construction projects were still in the planning phases. Therefore, we plan to review costs in further detail when EDA has disbursed additional funds and progress on construction projects is further along.

To accomplish our objective, we did the following:

- Reviewed the EDA disaster award practices against relevant policies and guidance, including
 - Additional Supplemental Appropriations for Disaster Relief Act, 2019, dated June 6, 2019
 - *Department of Commerce Grants and Cooperative Agreements Manual*, dated October 24, 2016, Interim Change 1, dated January 25, 2018; and dated April 20, 2021
 - *FY 2019 EDA Disaster Supplemental Notice of Funding Opportunity*, dated August 13, 2019
 - *Interim EDA Grants and Cooperative Agreements Policy and Procedures Manual 2018* and the *EDA Grants Manual*, dated June 16, 2021
 - *EDA Disaster Relief Appropriations Act Internal Control Augmentation Plan*, dated July 26, 2018
 - *EDA Standard Terms and Conditions for Construction Projects*, dated February 12, 2016
- Conducted interviews with EDA officials and staff (Director of Budget and Finance, Chief Counsel, regional directors, area directors, regional administrative directors, regional counsel, management analysts, and audit liaisons) at EDA headquarters and six regional offices to gain an understanding of the grant award and monitoring procedures within each office.
- Obtained a universe of grants awarded by EDA from August 13, 2019, through August 31, 2021. The universe consisted of 154 grants totaling \$450,037,134. Initially, we judgmentally selected 24 construction grant files to review. We later expanded our sample to include construction grant files with disbursements. As a result, our judgmental sample increased from 24 to 31 disaster relief construction grants awarded from the six EDA regional offices, totaling \$287,551,285.

We gained an understanding of the internal controls significant with the context of our audit objective by interviewing EDA officials and reviewing policies and procedures. For this audit, we

did not rely on computer-processed data. Instead, we reviewed grant documentation submitted by EDA officials; therefore, we did not test reliability of EDA's systems. We identified a weakness in internal controls as noted in the finding section of this report. We found no instances of fraud, waste, or abuse.

We conducted our audit from June 2021 through August 2022 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. §§ 401–424), and Department Organization Order 10-13, dated October 21, 2020. We performed our fieldwork remotely.

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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

Appendix B. Summary of Findings

Table B-I. Summary of Findings

Ct	Grant No.	EDA Regional Office	Grant Award Amount	Total Files w/Deficiencies	Results of Grant Files w/Deficiencies in PPRs				Results of Grant Files w/Deficiencies in FFRs			
					Required PPRs	PPRs Submitted	Not Submitted Timely	No Follow-up Within 45 Days	Required FFRs	FFRs Submitted	Not Submitted Timely	No Follow-up Within 30 days
1	04-79-07422	Atlanta	\$19,590,000	X	5	5			2	2		
2	04-79-07447	Atlanta	\$17,023,370	X	3	3			1	1		
3	04-79-07473	Atlanta	\$16,349,252	X	3	3	2	2	1	1	1	
4	04-79-07424	Atlanta	\$9,184,365	X	5	5	3		3	3	2	
5	06-79-05348	Austin	\$6,590,000	X	4	4	1		2	2	2	2
6	06-79-05375	Austin	\$4,467,977		3	3			1	1		
7	06-79-05368	Austin	\$3,790,000	X	5	5	1		2	2		
8	06-79-05396	Austin	\$3,790,000		3	3			1	1		
9	06-79-06171	Chicago	\$7,394,000	X	4	4			2	2	1	1
10	06-79-06186	Chicago	\$5,000,000	X	3	3	3	1	1	1	1	
11	06-79-06173	Chicago	\$6,246,100		3	3			1	1		
12	06-79-06179	Chicago	\$4,500,000	X	3	3			1	1	1	
13	05-79-05964	Denver	\$39,772,566	X	4	4			2	1		
14	06-79-05958	Denver	\$10,607,186		4	4			2	2		
15	05-79-05980	Denver	\$9,873,750	X	4	4	3		2	2	1	
16	05-79-06036	Denver	\$22,222,200	X	3	3	2		1	1		
17	01-79-15040	Philadelphia	\$20,000,000		2	2			1	1		
18	01-79-14910	Philadelphia	\$7,000,000	X	5	5			2	2		
19	01-79-14953	Philadelphia	\$6,455,300	X	3	3	1		1	1	1	
20	01-79-15051	Philadelphia	\$13,847,215		2	2			1	1		
21	07-79-07584	Seattle	\$13,301,107		3	3			1	1		
22	07-79-07542	Seattle	\$10,681,796	X	3	3	3	3	1	1	1	1
23	07-79-07626	Seattle	\$4,377,666	X	1	1	1		1	1	1	
24	07-79-07506	Seattle	\$2,158,020	X	5	5	3	2	2	2	2	1
25	06-79-05342	Austin	\$2,200,000	X	5	5	1		2	2		
26	06-79-05344	Austin	\$2,750,000	X	5	5	1		2	2	1	1
27	06-79-05350	Austin	\$2,500,000	X	4	4			2	2		
28	06-79-05379	Austin	\$2,500,000	X	4	4	4		2	2	1	
29	06-79-06170	Chicago	\$4,149,395		4	4			2	2		
30	05-79-05961	Denver	\$5,477,030	X	5	2			2	1		
31	05-79-05965	Denver	\$3,873,000	X	5	5	1		2	2	1	
Totals			\$287,551,285	23	115	112	30	8	49	47	17	6

Source: Office of Inspector General analysis

Appendix C. Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

MEMORANDUM

October 2, 2023

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

THRU: Ann Marie Maloney, Audit Liaison, Economic Development
Administration

FROM: Alejandra Y. Castillo
Assistant Secretary of Commerce for Economic Development

ALEJANDRA CASTILLO
Digitally signed by ALEJANDRA CASTILLO
Date: 2023.10.03 17:56:10 -04'00'

Dennis Alvord
Deputy Assistant Secretary for Economic Development
and Chief Operating Officer
Economic Development Administration

DENNIS ALVORD
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Date: 2023.10.02 13:39:46 -04'00'

SUBJECT: Response to Draft Report - *EDA Generally Monitored Grants Awarded Under the FY 2019 EDA Disaster Supplemental Notice of Funding Opportunity (August 30, 2023)*

We have received and considered the draft report on the audit of the Economic Development Administration's (EDA's) monitoring of grants awarded under the fiscal year (FY) 2019 Disaster Supplemental Notice of Funding Opportunity (NOFO). EDA recognizes that responses of agency officials to Office of Inspector General (OIG) findings and recommendations are a critical part of the OIG's evaluation process. Thank you for the opportunity to respond.

Please find EDA's response to the report's finding and recommendation below.

Finding: EDA Did Not Always Follow Up on Late Submissions as Required

Recommendation: We recommend that the Deputy Assistant Secretary for Economic Development and Chief Operating Officer ensure that the Regional Directors do the following:

Strengthen monitoring procedures to ensure Project Officers follow up with the recipient about the delinquent reports in writing and retain a copy of such communication in the official project file.

EDA's Response: EDA concurs with the OIG recommendation to strengthen monitoring procedures.

EDA appreciates that OIG found that EDA generally monitored grants awarded under the NOFO. The bureau strives to adhere to the following EDA Grants Manual guidance to which OIG refers in its report: *"When reports are not submitted within 45 business days of the due date, Project Officers should follow-up with the recipient about the delinquent report in writing and should retain a copy of such communication in the official project file."*

While EDA works with diligence to ensure this guidance is followed, we acknowledge that there is room for improvement. The administration and monitoring of grants made through this NOFO coincided with the pandemic and the significant and rapid increase in staff workloads resulting from EDA's large Coronavirus Aid, Relief, and Economic Security (CARES) and American Rescue Plan (ARP) Act supplemental appropriations to respond to the economic impacts of the pandemic.

While EDA moved quickly to recruit sufficient additional staff to address this significantly increased workload, it was necessary for current EDA staff to take on many duties that were additional to their current portfolios until new staff could be onboarded and trained. As such, some projects funded with no-year funds during this period were not as diligently tracked as they would otherwise have been.

In the coming year, EDA will redouble our efforts to address this through internal communication and training efforts. EDA has already taken key steps aimed at continuously improving its grant monitoring process, such as convening regular "Office Hours" sessions in which all EDA staff can learn best practices from each other and collectively address and solve challenges with monitoring grants, including ensuring timely grantee progress reports and their proper retention as noted in this OIG report. Additionally, EDA is implementing a new grants management system with a goal of automating grant monitoring requirements, including the collection and proper retention of grantee progress reports.

EDA appreciates OIG's suggestions for improving the monitoring of its FY 2019 Disaster Supplemental grant portfolio, concurs with the OIG recommendation to strengthen monitoring procedures, and thanks OIG for the opportunity to provide comments.

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