

# EDA Is Not Fully Complying with All Its Disaster Relief Award Policies

FINAL REPORT NO. OIG-21-014-A

DECEMBER 21, 2020



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



December 21, 2020

**MEMORANDUM FOR:** Dana Gartzke  
Performing the Delegated Duties of the Assistant Secretary of  
Commerce for Economic Development  
Economic Development Administration

**FROM:**   
Frederick J. Meny, Jr.  
Assistant Inspector General for Audit and Evaluation

**SUBJECT:** *EDA Is Not Fully Complying with All Its Disaster Relief Award Policies*  
Final Report No. OIG-21-014-A

Attached for your review is our final report on the audit of the Economic Development Administration's (EDA's) disaster relief grants award administrative processes and oversight efforts. Our objective was to determine whether EDA's process for awarding disaster relief grants to applicants is adequate. Specifically, we focused on whether (1) EDA awarded grants on a competitive and merit basis and (2) the extent of EDA's compliance with the requirements outlined in the Bipartisan Budget Act of 2018 as well as its own policies and procedures for determining which applicants should receive disaster relief funds.

We found that EDA is awarding grants on a competitive and merit basis. However, EDA does not always comply with its own policies and procedures for determining which applicants should receive disaster relief funds. Specifically, we found that EDA did not

- I. ensure all applications documented a clear nexus and resilience principles;
- II. always use priority order of funding recommendations; and
- III. always meet its own internal review goals.

On October 20, 2020, we received EDA's response to our draft report. In response to our draft report, EDA did not concur with our three findings and two of the recommendations, and partially concurred with one recommendation. After considering EDA's comments, we maintain our findings and reaffirm our recommendations for EDA regional offices to (1) utilize a standard and measurable assessment tool to guide and document the evaluation of each application, (2) comply with the requirements of awarding grants based on a priority order of funding recommendations and implement controls to ensure that the established processes and procedures are monitored and consistently followed, and (3) monitor application review time goals and document and maintain written notifications and communications in grant files. We have summarized EDA's response and provided our comments in the report. EDA's complete response, which also included technical comments, is included within the final report as appendix C.

Pursuant to Department Administrative Order 213-5, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

We appreciate the cooperation and courtesies extended to us by your staff during our audit. If you have any questions or concerns about this report, please contact me at (202) 482-1931 or Monica Adamo, Director for Acquisition and Grants, at (202) 482-5185.

#### Attachment

cc: Dennis Alvord, Deputy Assistant Secretary for Economic Development and Chief  
Operating Officer, EDA  
H. Philip Paradice, Jr., Atlanta Office Regional Director, EDA  
Jorge Ayala, Austin Office Regional Director, EDA  
Linda Cruz-Carnall, Philadelphia Office Regional Director, EDA  
Deborah Haynes, Audit Liaison, EDA  
MaryAnn Mausser, Audit Liaison, Office of the Secretary



# Report in Brief

December 21, 2020

## Background

The U.S. Department of Commerce's Economic Development Administration (EDA) is the only federal government agency focused exclusively on economic development. Its 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 works directly with communities and regions to help them build the capacity for economic development based on local business conditions and needs. 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. Additionally, EDA provides economic development financial assistance to communities so they can encourage innovation and entrepreneurship.

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.

## Why We Did This Review

The objective of this audit was to determine whether EDA's process for awarding disaster relief grants to applicants is adequate. Specifically, we focused on whether (1) EDA awarded grants on a competitive and merit basis and (2) the extent of EDA's compliance with the requirements outlined in the Bipartisan Budget Act of 2018 as well as its own policies and procedures for determining which applicants should receive disaster relief funds.

## ECONOMIC DEVELOPMENT ADMINISTRATION

### EDA Is Not Fully Complying with All Its Disaster Relief Award Policies

OIG-21-014-A

## WHAT WE FOUND

We found that EDA is awarding grants on a competitive and merit basis. However, EDA does not always comply with its own policies and procedures for determining which applicants should receive disaster relief funds. Specifically, we found that EDA did not

- ensure all applications documented a clear nexus and resilience principles,
- always use priority order of funding recommendations, and
- always meet its own internal review goals.

## WHAT WE RECOMMEND

1. We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta and Philadelphia regional offices to utilize a standard and measurable assessment tool to guide and document the Investment Review Committee's evaluation of each application to ensure all applications meet the requirements of the *FY 2018 EDA Disaster Supplemental Notice of Funding Opportunity (NOFO)*.
2. We recommend that the Assistant Secretary of Commerce for Economic Development direct regional directors at the Austin and Philadelphia regional offices to comply with the *FY 2018 EDA Disaster Supplemental NOFO* requirements of awarding grants based on a priority order of funding recommendations and implement controls to ensure that the established processes and procedures for preparing the priority order of funding recommendations are monitored and consistently followed.
3. We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta, Austin, and Philadelphia regional offices to (a) monitor application review time goals and (b) document and maintain written notifications and communications in grant files.

# Contents

<b>Introduction.....</b>	<b>1</b>
<b>Objective, Findings, and Recommendations .....</b>	<b>4</b>
I. EDA Did Not Ensure All Applications Documented a Clear Nexus and Resilience Principles .....	4
Recommendation .....	6
II. EDA Did Not Always Use Priority Order of Funding Recommendations .....	6
Recommendation .....	7
III. EDA Did Not Always Meet Its Own Internal Review Goals .....	8
Recommendation .....	9
<b>Summary of Agency Response and OIG Comments .....</b>	<b>10</b>
<b>Appendix A: Objective, Scope, and Methodology .....</b>	<b>14</b>
<b>Appendix B: Flowchart of EDA’s NOFO 2018 Grant Process.....</b>	<b>17</b>
<b>Appendix C: Agency Response.....</b>	<b>18</b>

*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.*

# Introduction

The U.S. Department of Commerce's Economic Development Administration (EDA) is the only federal government agency focused exclusively on economic development. Its 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 works directly with communities and regions to help them build the capacity for economic development based on local business conditions and needs. 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. Additionally, EDA provides economic development financial assistance to communities so they can encourage innovation and entrepreneurship.

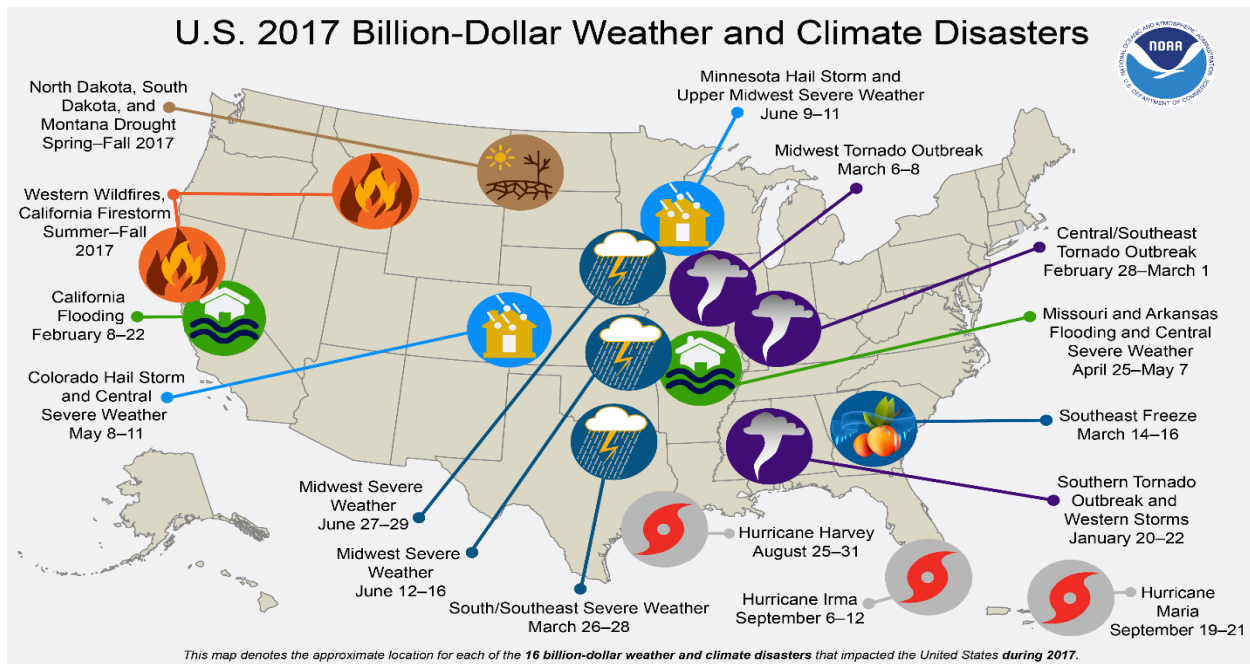
EDA's role in disaster recovery is to facilitate the timely and effective delivery of federal economic development assistance to support long-term community economic recovery planning and project implementation, redevelopment, and resiliency.<sup>1</sup>

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 (see figure 1). In response, the president signed into law the Bipartisan Budget Act of 2018,<sup>2</sup> which designated \$600 million to EDA for disaster relief and recovery efforts related to hurricanes, wildfires, and other 2017 natural disasters. Considering EDA's FY 2018 annual appropriation of \$262 million, the additional \$600 million in disaster relief funds represents a significant increase in funding and workload for the agency.

---

<sup>1</sup> 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.

<sup>2</sup> *The Bipartisan Budget Act of 2018* (Pub. L. No. 115-123) provided supplemental appropriations relating to certain disasters. 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 as a result of Hurricanes Harvey, Irma, and Maria, and 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.) (the Stafford Act), to remain available until expended. See 132 Stat. 64, 69-70.

**Figure I. U.S. 2017 Billion-Dollar Weather and Climate Disasters**

Source: U.S. Department of Commerce National Oceanic and Atmospheric Administration

In April 2018, EDA released the *FY 2018 EDA Disaster Supplemental Notice of Funding Opportunity (NOFO)*<sup>3</sup> as guidance for awarding investments in regions that experienced severe economic distress or other economic harm as a result of natural disasters that occurred in calendar year 2017. Disaster funds are eligible to district organizations, Indian Tribes, state, county, city, local government, higher education, or public or private non-profit organizations in areas declared a federal disaster under the Robert T. Stafford Disaster Relief and Emergency Assistance Act<sup>4</sup> and located in Federal Emergency Management Administration (FEMA) designated areas. EDA allocated a total of \$587 million in disaster supplemental program funds among its six EDA regional offices (see table I).

<sup>3</sup> U.S. Department of Commerce, Economic Development Administration, April 10, 2018. *FY 2018 EDA Disaster Supplemental Notice of Funding Opportunity*. Washington, DC: DOC EDA. The *FY 2018 EDA Disaster Supplemental NOFO* announced EDA's proposal and application submission requirements and review procedures for the review of proposals and applications received under EDA's Economic Adjustment Assistance disaster recovery program, as authorized by sections 2019 and 703 of the Public Works and Economic Development Act of 1965, as amended (42 U.S.C. § 3121 et seq.).

<sup>4</sup> The Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. §§ 5121-5207, section 401, states in part that "All requests for a declaration by the President that a major disaster exists shall be made by the governor of the affected state." The governor's request is made through the applicable FEMA regional office. Additional information is available online at [https://www.fema.gov/pdf/media/factsheets/dad\\_disaster\\_declaration.pdf](https://www.fema.gov/pdf/media/factsheets/dad_disaster_declaration.pdf) (last accessed April 30, 2020).

**Table 1. EDA's Allocation of 2018 Disaster Supplemental Funds**

EDA Regional Office	Disaster Funds Allocated
Atlanta	\$147,362,000
Austin	\$129,119,000
Chicago	\$8,005,000
Denver	\$17,435,000
Philadelphia	\$191,269,000
Seattle	\$93,810,000
<b>Total</b>	<b>\$587,000,000</b>

Source: FY 2018 EDA Disaster Supplemental NOFO

### EDA's Grant Award Process

To apply for disaster relief funds, applicants submit proposals or complete applications in accordance with the *FY 2018 EDA Disaster Supplemental NOFO*, to include documents such as the application, budget, and a current Comprehensive Economic Development Strategy (CEDS)<sup>5</sup> for the region. It is also required that all proposals and applications include a narrative describing the nexus between the project scope of work and disaster recovery and resilience efforts.<sup>6</sup> The strength of the nexus to the disaster is drawn from the intended outcome of the project that fulfills the community's post-disaster needs.<sup>7</sup>

Additionally, the *FY 2018 EDA Disaster Supplemental NOFO* requires applicants to incorporate or demonstrate the integration of resilience principles into the investment project itself.<sup>8</sup> Resilience is an essential component for mitigating the potential for future disaster-related losses and improves the region's capacity to recover more quickly from future disasters.<sup>9</sup> EDA's role in disasters is focused on long-term economic recovery and resilience. As such, the disaster recovery activities funded by EDA should help disaster-impacted communities and regions build back stronger and position themselves to better withstand and recover from future disasters.

See appendix B for a flowchart of EDA's grant award process.

<sup>5</sup> CEDS is a strategy-driven plan for regional economic development and is the result of a regionally owned planning process designed to build capacity and guide the economic prosperity and resiliency of an area or region.

<sup>6</sup> *FY 2018 EDA Disaster Supplemental NOFO*, section A.1.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*

<sup>9</sup> *Ibid.*



# Objective, Findings, and Recommendations

The objective of this audit was to determine whether EDA's process for awarding disaster relief grants to applicants is adequate. Specifically, we focused on whether (1) EDA awarded grants on a competitive and merit basis and (2) the extent of EDA's compliance with the requirements outlined in the Bipartisan Budget Act of 2018 as well as its own policies and procedures for determining which applicants should receive disaster relief funds. During our audit, we reviewed 41 disaster relief grants awarded by EDA's Atlanta, Austin, and Philadelphia regional offices, which totaled \$102 million.

We found that EDA is awarding grants on a competitive and merit basis. However, EDA does not always comply with its own policies and procedures for determining which applicants should receive disaster relief funds. Specifically, we found that EDA did not

- ensure all applications documented a clear nexus and resilience principles,
- always use priority order of funding recommendations, and
- always meet its own internal review goals.

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

## I. EDA Did Not Ensure All Applications Documented a Clear Nexus and Resilience Principles

The *FY 2018 EDA Disaster Supplemental NOFO* requires EDA to follow a two-phase review process for all proposals and applications.<sup>10</sup> In the first phase, a Proposal Review Committee (PRC) reviews all complete proposal packages to ensure they are sufficiently responsive to the *FY 2018 EDA Disaster Supplemental NOFO*.<sup>11</sup> Then in the second phase, an Investment Review Committee (IRC) reviews each complete application received and makes a group evaluation of merit based on factors including, but not limited to

- the strength of the *nexus*—a statement that applicants must include in their application package, not to exceed one page, describing the proposed project scope of work and disaster recovery and resilience efforts,<sup>12</sup>
- responsiveness to needs of the community and long-term economic recovery,<sup>13</sup>
- the project's feasibility and sustainability, and
- the extent to which the project will enable the community to become more resilient to disasters.

---

<sup>10</sup> *Ibid*, section D.

<sup>11</sup> *Ibid*, section E.1.

<sup>12</sup> *Ibid*, section E.2.a.

<sup>13</sup> The IRC reviews only construction and non-construction proposals for responsiveness to the needs of the community and long-term economic recovery.

We found that all three EDA regional offices use the two-phase review process; however, the Atlanta and Philadelphia regional offices did not use a consistent and measurable criteria for evaluating the nexus and resilience of each application. Of the 25 disaster relief grants awarded by EDA's Atlanta and Philadelphia regional offices, 4 grants totaling \$4.2 million did not document a clear nexus between the project's scope of work and desired outcome to the direct consequences of the relevant disaster (see table 2).<sup>14</sup> Additionally, the applicants of those 4 grants did not clearly document how the project incorporated resilience principles for mitigating the effects of future disaster-related losses for communities and regions.

**Table 2. Awards with Unclear Nexus and Resilience Principles**

Regional Office	Disaster Supplemental Grants Awarded	Unclear Nexus and Resilience Principles	Value of Awards with Unclear Nexus and Resilience Principles
Atlanta	13	3	\$2,506,649
Philadelphia	12	1	\$1,704,000
<b>Totals</b>	<b>25</b>	<b>4</b>	<b>\$4,210,649</b>

Source: OIG analysis based on EDA grant files

For example, the Atlanta regional office awarded a grant to develop a hub for small businesses, but when reviewing the disaster nexus it did not identify any of the specific impacts from the hurricane on the community and did not incorporate resilience principles for mitigating future disaster-related losses for the community. In another example, the Philadelphia regional office awarded a grant to develop a logistics park targeted at aerospace, energy, and transportation industries. The applicant's disaster nexus narrative noted the area was in a designated disaster zone for major flooding and significant infrastructure failings due to water, mudslides, and debris accumulation. However, the applicant did not describe how the logistics park addresses the consequences of the disaster and, similarly, how it would help the community be resilient to similar effects—such as flooding—of a future disaster. In contrast, other applicants included disaster impacts on the community within their disaster nexus narrative, as well as ways the project would make the community more resilient to similar disasters in the future.

In our review of the grant files, we found that the Atlanta and Philadelphia EDA staff did not ensure that grant applications demonstrated a clear nexus between the project scope of work or incorporated resilience principles for mitigating future disasters. The Atlanta EDA staff stated the nexus does not always make a direct connection to what happened because of the disaster, and that they instead consider the overall impact to people in the community. Additionally, Philadelphia EDA staff acknowledged that one applicant's nexus was not prepared well and was awarded based on the IRC's experience and knowledge of the disaster area. While we ultimately agreed with EDA's rationale for awarding these grants, the *FY 2018 EDA Disaster Supplemental NOFO* specifically states that applicants must

<sup>14</sup> All 16 grants awarded by EDA's Austin regional office documented a clear nexus and resilience principles.

describe the nexus in detail and the strength of the nexus is drawn from the consequences of the disaster and the project outcomes.

During our discussions with Atlanta and Philadelphia regional office staff, both offices provided their rationale for awarding disaster relief grants to these applicants. However, neither documented their rationale in the grant file for awarding disaster relief funds to the applicants. This occurred because these regional offices rely heavily on discussions and collective experience of the IRC to review the nexus and resilience of each application for recommendation to each respective regional director for approval or denial. While the Austin regional office staff implemented the merit discussion worksheet to guide and document the committee's evaluation of each application, the Atlanta and Philadelphia regional offices record the IRC meeting minutes; however, the documentation is vague and does not provide details of the discussion or rationale. Without a consistent and measureable assessment tool to guide the IRC's evaluation, it is difficult to capture the decision-making process that leads to an award. Discussions and staff experience are important elements of the IRC, but a measurable assessment tool would help guide and document EDA's evaluation of each application and help to ensure it is awarding disaster relief funds to the most-qualified and highest-priority applicants.

## Recommendation

- I. We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta and Philadelphia regional offices to utilize a standard and measurable assessment tool to guide and document the IRC's evaluation of each application to ensure all applications meet the requirements of the *FY 2018 EDA Disaster Supplemental NOFO*.

## II. EDA Did Not Always Use Priority Order of Funding Recommendations

In the second phase of EDA's review process, the *FY 2018 EDA Disaster Supplemental NOFO* states the IRC will make a group evaluation of the merits of each application based on the extent to which the application meets the program-specific award and application requirements.<sup>15</sup> In addition, the *FY 2018 EDA Disaster Supplemental NOFO* requires that for each competition the IRC will prepare a priority order of funding recommendations for the respective regional director.<sup>16</sup> The priority order of funding recommendations is prepared after each IRC review and helps the regional director award grants to the most-qualified and highest-priority candidates.

The IRC did not use a priority order of funding recommendations consistently for 28 disaster relief grants awarded by the Austin and Philadelphia regional offices—totaling approximately \$61 million—for the regional directors, as required by the *FY 2018 EDA Disaster Supplemental NOFO* (see table 3).

---

<sup>15</sup> *Ibid*, section E.2.a.

<sup>16</sup> *Ibid*.

**Table 3. Austin and Philadelphia Regional Offices Awards Without Priority Order of Funding Recommendations**

Regional Office	Number of Awards	Award Type	Total Value
Austin	8	Non-Construction	\$2,048,000
Austin	8	Construction	\$32,100,000
Philadelphia	7	Non-Construction	\$10,387,339
Philadelphia	5	Construction	\$16,954,361
<b>Totals</b>	<b>28</b>	<b>—</b>	<b>\$61,489,700</b>

Source: OIG analysis based on EDA grant files

This occurred because the amount of available funding exceeded the amount of projects deemed competitive; therefore, Austin and Philadelphia regional offices relied on the IRC's "first come, first served" individual recommendation of funding for applicants rather than a priority order of funding recommendation for the group of applicants reviewed for each IRC. Austin regional office staff stated that once funding is less than the amount of projects competing they will submit priority order of funding recommendations from the IRC to the regional director. Additionally, Philadelphia regional office staff stated that they were not focused on priority ranking given the significant funding allocation (four times the normal amount) and, because of the disaster recovery in Puerto Rico, they had already significantly vetted applicants before applications are submitted. They indicated that once disaster relief funds are down to \$65 million, they would start the priority order of funding recommendations. In contrast, the Atlanta regional office does prepare a recommendation of award in priority order after each IRC, as required by the *FY 2018 EDA Disaster Supplemental NOFO*.<sup>17</sup>

We recognize that EDA's regional offices have had a significant increase in funding; however, ranking projects by priority is an important internal control to ensure funds are awarded to the most-qualified and highest-priority candidates. The practice of awarding grants on a "first come, first served" basis rather than a priority order of funding recommendation does not comply with *FY 2018 EDA Disaster Supplemental NOFO* requirements. When the priority order of funding recommendation is not used, EDA could be awarding disaster relief funds on a "first come, first served" basis to lower-priority applicants rather than to the most-qualified and highest-priority candidates that need immediate disaster relief funds to rebuild the infrastructure of communities hit the hardest after a major disaster.

## Recommendation

2. We recommend that the Assistant Secretary of Commerce for Economic Development direct regional directors at the Austin and Philadelphia regional offices to comply with the *FY 2018 EDA Disaster Supplemental NOFO* requirements of awarding grants based on a priority order of funding recommendations and implement controls to ensure that the

<sup>17</sup> *Ibid.*

established processes and procedures for preparing the priority order of funding recommendations are monitored and consistently followed.

### III. EDA Did Not Always Meet Its Own Internal Review Goals

The Atlanta, Austin, and Philadelphia regional offices did not consistently meet the established application review goals outlined in the *FY 2018 EDA Disaster Supplemental NOFO*, which states that during Phase I, EDA intends to advise the applicant of the agency's determination within 30 calendar days of EDA's receipt of the proposal.<sup>18</sup> If the PRC determines the proposal to be responsive, EDA requests the applicant submit a full application. Then, for application reviews during Phase II, EDA's goal is to make a determination on an application within 60 days of EDA's receipt of the complete application.<sup>19</sup>

Specifically for Phase I, we identified 9 out of 41 proposal packets reviewed by EDA that exceeded the intended 30-day timeframe to review (see table 4). For example, the Austin regional office awarded a grant to facilitate the development and implementation of economic recovery strategies and projects. Review of the grantee's proposal took 56 days, exceeding the intended 30-day timeframe by 26 days. In addition, during our review of the Austin regional office, we were unable to determine the review time for 4 out of 16 proposal packets.

Application review times for 24 out of 41 application packets during Phase II exceeded the 60-day goal timeframe—ranging from 61 to 157 days—to review and make a determination of approval (see table 4). For example, the Atlanta regional office awarded a grant for a business incubator to provide start-up companies with a secure office location and to provide advice to future entrepreneurs on how to start a new business. Review of the grantee's application took 127 days, exceeding the 60-day goal timeframe by 67 days.

**Table 4. Internal Grant Review Goals Not Met by Regional Offices**

Regional Office	Phase I (Proposal Review)		Phase II (Complete Application Review)	
	Proposal Reviews Exceeding 30 Days	Time to Review Proposals (in days)	Application Reviews Exceeding 60 Days	Time to Review Applications (in days)
Atlanta	3	39–43	8	61–137
Austin	3	51–67	10	82–157
Philadelphia	3	38–44	6	62–147
<b>Totals</b>	<b>9</b>	<b>38–67</b>	<b>24</b>	<b>61–157</b>

Source: OIG analysis based on EDA's grant files

<sup>18</sup> *Ibid*, section D.

<sup>19</sup> *Ibid*.

All three regional offices stated that review times often exceed the goals due to wait time for the applicant to submit additional information during the proposal and application review phases. During Phase II, while EDA notified most applicants of the IRC outcome using a “merits further consideration” (MFC) letter, the letter often requested additional information from the applicant; thus further extending the review time while waiting for applicant submissions. Although this was the process for the regional offices when we performed our fieldwork, during our discussion with the Atlanta regional office, officials stated that the *FY 2019 EDA Disaster Supplemental NOFO*<sup>20</sup> does not follow the same review process and does not use the PRC phase; instead now goes directly to processing the application.<sup>21</sup>

Additionally, more than half of the applications exceeded the 60-day review goal, each with varying issues that contributed to the delays. Officials at the regional offices stated that delays occurred in the application process due to issues with real estate or match funding, as well as environmental or engineering reviews that require a 30-day public comment.

During our review of the Austin regional office, we were unable to determine all review times because the Austin regional office staff did not always maintain written notifications of review outcomes. Austin regional office staff stated that project officers were in regular communication with the applicants; however, we were unable to verify the communications because they did not maintain documentation in the grant files.<sup>22</sup>

When documentation is not maintained in the grant files, EDA cannot ensure applicants receive notifications in a timely manner. Furthermore, when EDA does not meet their review timeframe goals, they are delaying the approval and awarding of disaster recovery funds to applicants, thus causing further delays in providing much needed disaster recovery assistance to affected communities.

## Recommendation

3. We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta, Austin, and Philadelphia regional offices to (a) monitor application review time goals and (b) document and maintain written notifications and communications in grant files.

---

<sup>20</sup> DOC EDA, August 13, 2019. *FY 2019 EDA Disaster Supplemental Notice of Funding Opportunity*. Washington, DC: DOC EDA.

<sup>21</sup> *Ibid*, section E.1.

<sup>22</sup> The *Department of Commerce Grants and Cooperative Agreements Manual* requires Grant Office personnel to ensure that all pertinent correspondence, notes, reports, amendments, and other relevant information are included in the official award file. See DOC Office of Acquisition Management, January 25, 2018. *Department of Commerce Grants and Cooperative Agreements Manual (October 24, 2016)*, Interim Change 1 (January 25, 2018). Washington, DC: DOC OAM, 60.

# Summary of Agency Response and OIG Comments

We received EDA's response to our draft report on October 20, 2020. EDA did not concur with our three findings and two of the recommendations, and partially concurred with one recommendation. After considering EDA's comments, we maintain our findings and reaffirm our recommendations. We look forward to EDA's action plan that will provide details on the corrective actions to be taken. See appendix C for EDA's complete response and other technical comments.

We summarized EDA's response to each finding and recommendation and provided our comments within this section of the report.

## *I. Finding I. EDA Did Not Ensure All Applications Documented a Clear Nexus and Resilience Principles*

**EDA Response.** EDA does not concur with finding I. EDA believes that all project files contained adequate documentation of the project's disaster nexus and an adequate discussion of how the project would further the project region's disaster resiliency. EDA pointed out that the *FY 2018 EDA Disaster Supplemental NOFO* does not state that EDA's evaluation is limited to the content of the nexus statement and while some of the applicants submitted nexus statements that were not of the highest quality it is not a permissible reason alone to reject an application. If EDA is able to determine that an adequate nexus exists based on the whole application and EDA's knowledge of local circumstances, then it would serve no useful purpose and would be poor customer service to require the applicant to submit a revised nexus statement. EDA believes that one of the strengths of the IRC process is the deliberative evaluation of applications by experienced economic development professionals. EDA concurred with recommendation I to the extent of developing standardized documentation of the disaster nexus; however, it noted that the recommendation that EDA adopt a "standard and measurable assessment tool" merits further consideration.

**OIG Response.** During the audit, we specifically reviewed the nexus statement for adherence to section D.2 of the *FY 2018 EDA Disaster Supplemental NOFO*, which states that applicants must include a narrative describing in detail the nexus between their proposed project scope, disaster recovery, and resilience efforts. The strength of the nexus to the disaster is drawn from the consequences of the relevant disaster(s) and the intended project outcomes that fulfill the community's specific post-disaster needs. To be competitive, applications must clearly incorporate principles for enhancing the resilience of the relevant community/region or demonstrate the integration of resilience principles into the investment project itself. Resilience is an essential component of any strategy for mitigating the potential for future disaster-related losses and adverse economic impacts for communities. Therefore, inclusion of resilience principles in the project is a necessary step to improve the capacity of the region to recover more quickly from future disaster events.

As stated in our report, 4 out of 25 disaster nexus narratives did not clearly document how the project incorporated resilience principles for mitigating the effect of future disaster-

related losses for communities and regions. We did not state that not having a clear nexus statement under the *FY 2018 EDA Disaster Supplemental NOFO* is a reason to reject an application. In fact, our report never suggests that EDA should have rejected the applications. What our report states is that of the nexus statements we reviewed, we found four that were vague and were not clearly documented. When we met with the Atlanta and Philadelphia regional office staff, both offices verbally provided their rationale for awarding disaster relief grants to these applicants; however, the rationale for awarding the disaster relief funds to the applicants was not clearly documented in the official grant file. We communicated to EDA management and grant personnel during the exit conference that the grant files we reviewed did not contain adequate documentation of EDA's rationale for awarding disaster relief funds and the decision-making process should be clearly documented in the official grant file. The results of our review and recommendation for finding I remain unchanged.

2. *Finding II. EDA Did Not Always Use Priority Order of Funding Recommendations*

**EDA Response.** EDA does not concur with finding II and determined that all regional offices complied with EDA's longstanding interpretation of its policies regarding the priority order of funding recommendations, which does not require the IRC to produce a numerical ordering of projects recommended for funding. EDA stated that neither the *FY 2018 EDA Disaster Supplemental NOFO* nor EDA's policies require IRCs to create a numerical ranking of projects recommended for funding. EDA further explained that it is their longstanding policy that this requirement can be satisfied in numerous ways at the regional offices' discretion.

EDA states that one way some regional offices establish funding priorities is with numerical ranking, but another way is for the IRC to sort applications into three levels of priority, such as a recommendation for funding with a further consideration letter to the applicant, recommendation to hold for possible funding in the future, or a denial letter to the applicant. When the amount of available funding is insufficient to fund all recommended applications, the IRC may further sort the applications recommended for funding, but there is no requirement that the IRC produce a numerical ranking. EDA determined that both methodologies were acceptable and meet the intent of the priority order language in the *FY 2018 EDA Disaster Supplemental NOFO*. EDA does not concur with recommendation 2 and stated it will clarify the language in future *NOFOs* to make it clear that a numerical ordering of projects recommended for funding is not required.

**OIG Response.** The *FY 2018 EDA Disaster Supplemental NOFO* states the IRC will prepare priority order of funding recommendations for the respective regional director. In the report, we state that the IRC did not use priority order of funding recommendations consistently for 28 disaster relief grants awarded by the Austin and Philadelphia regional offices. The report does not state that a numerical ranking should be used. However, the report does note that some regional offices—such as the Philadelphia regional offices—were not focused on priority. Regardless of method, EDA should implement a consistent approach in the priority order of recommendations with thorough documentation recorded in the grant file. In our recommendation, we state that EDA should comply with the *FY 2018 EDA Disaster Supplemental NOFO* requirements of awarding grants based on a priority order of funding recommendations and implement controls to ensure that the established



processes are monitored and consistently followed. The results of our review and recommendation for finding II remain unchanged.

### 3. *Finding III. EDA Did Not Always Meet Its Own Internal Review Goals*

**EDA Response.** EDA does not concur with finding III. According to EDA, the OIG report miscalculated the time between receipt of application and notification of the applicant and the approximate timeframes in the *FY 2018 EDA Disaster Supplemental NOFO* for the processing of proposals and applications were intended for applicants' information only. EDA stated that the regional offices explained to the OIG that the 60-day timeframe for application review runs from the date a complete application is submitted and ends on the date a "merits further consideration" letter is sent to the applicant.

EDA acknowledges that, in some instances, more than 30 days passed between EDA's receipt of a proposal and notification to the applicants that the proposal was found responsive. In EDA's view, those (mostly small) delays only demonstrate that EDA's 30-day timeframe was unrealistic in the context of such a large disaster supplemental. EDA also acknowledges that complete documentation of applicant notifications was missing from some files in the Austin regional office, although EDA would again point out that documentation was only missing for a small number of files.

EDA also does not concur with recommendation 3, but will revise the language in future *NOFOs* to make clear that the timeframes may be exceeded when projects are complex, necessary information is unavailable, or significant issues are identified during due diligence. EDA has eliminated the proposal review process; therefore, the time period will not be an issue in future competitions and is currently working on improving its record management systems.

**OIG Response.** Our report stated that the Atlanta, Austin, and Philadelphia regional offices did not consistently meet the established review goals outlined in the *FY 2018 EDA Disaster Supplemental NOFO*. Personnel from all three offices that we interviewed stated that review times often exceed the goals due to the wait time for the applicant to submit additional information during the proposal and application review phases.

One of our objectives was to determine whether EDA followed its documented policies and procedures for the application review process which, during the time of the audit, was the *FY 2018 EDA Disaster Supplemental NOFO*. We acknowledged in our report that officials stated the *FY 2019 EDA Disaster Supplemental NOFO* does not follow the same review process and does not use the PRC phase, but instead now goes directly to the application.

We were cognizant during our review that every proposal and application will not adhere to a 'one-size-fits-all' approach. In cases where the "merits further consideration" letters requested additional information from the applicants, we did not consider that as a determination and instead used the letter of award. If the "merits further consideration" letter did not ask the applicant to submit additional information, we considered that to be a determination of Phase II.

For the proposals and applications that were submitted under a prior *NOFO* and then later moved under the *FY 2018 EDA Disaster Supplemental NOFO*, we did not use the actual date the proposals and applications were received. Instead, we took a more conservative

approach by using the waiver date—i.e., May 3, 2018<sup>23</sup>—because it allowed grant proposals and applications to be moved to a more recent NOFO, which significantly decreased the review timeframes.

EDA references the section of the *FY 2018 EDA Disaster Supplemental NOFO* which states that applicants should expect written notification from EDA regarding the outcome of the IRC within 60 days of EDA's receipt of their complete application. We note in our report that we used the section of the *FY 2018 EDA Disaster Supplemental NOFO* which states that "In Phase II, EDA's goal is to make a determination on an application within 60 days of EDA's receipt of the complete application."<sup>24</sup> Making a determination on an application is a final action and not just a notification where additional information is requested. Therefore, we considered the "merits further consideration" letter as a determination only if no additional information was requested. The results of our review and recommendation for finding III remain unchanged.

#### 4. *Other Technical Matters*

**EDA Response.** EDA believes the report's title should be revised to better reflect the report's findings. EDA expressed concerns that many of its stakeholders will read the title of the report without looking closely at its contents and those readers may be left with an impression that serious problems exist with EDA's award processes and that EDA will suffer reputational harm as a result. In EDA's view, the title should be revised to better reflect the contents within, including prominently reporting the finding that EDA's selection process is competitive and merit-based and characterizing the instances of policy noncompliance as not materially diminishing the quality of EDA's mission.

**OIG Response.** Based on our findings, we reported that EDA does not always comply with all its internal policies and procedures and all of our recommendations aim to improve compliance with internal policies and procedures as well as recordkeeping requirements. As such, the report title reflects the improvements that could be made to the program under audit and we disagree that the report title causes EDA reputational harm.

Our report does not state that EDA lacked diligence in processing its awards. In fact, we commend EDA for awarding grants on a competitive and merit basis. Our position is that EDA should clearly and consistently document their rationale for making grant award decisions and maintain the complete records of those decisions in the official grant file.

---

<sup>23</sup> On May 3, 2018, the Deputy Assistant Secretary for Regional Affairs Performing the Non-Exclusive Duties of the Assistant Secretary of Commerce for Economic Development issued a memorandum on waivers related to EDA's supplemental Appropriations for 2017 natural disasters. The memorandum states that EDA may waive non-statutory administrative and procedural conditions waivers for grant awards in an effort to expedite assistance as a result of a disaster.

<sup>24</sup> *FY 2018 EDA Disaster Supplemental NOFO*, section D. Original emphasis in cited document.

## Appendix A: Objective, Scope, and Methodology

The objective of this audit was to determine whether EDA's process for awarding grants to applicants was adequate. Specifically, we focused on whether (1) EDA awarded grants on a competitive and merit basis and (2) the extent of EDA's compliance with the requirements outlined in the Bipartisan Budget Act of 2018 as well as its own policies and procedures for determining which applicants should receive disaster relief funds.

To accomplish the objective, we did the following:

- Reviewed EDA disaster relief award practices against relevant policies and guidance, including:
  - Bipartisan Budget Act of 2018, dated February 9, 2018
  - *FY 2018 EDA Disaster Supplemental Notice of Funding Opportunity (NOFO)*, dated April 10, 2018
  - *Department of Commerce Grants and Cooperative Agreements Manual (October 24, 2016)*, Interim Change 1, dated January 25, 2018
  - *Interim EDA Grants and Cooperative Agreements Policy and Procedures Manual*, dated June 14, 2018
- Selected a sample using the EDA Operations Planning and Control System (OPCS)<sup>25</sup> to identify a total of 46 disaster grants awarded from April 10, 2018, through October 31, 2018. The 46 grants awarded were valued at \$114,706,125 and were primarily awarded from the Atlanta, Austin, and Philadelphia regional offices, as they cover areas affected by Hurricanes Harvey, Maria, and Irma. We judgmentally selected 41 disaster grants awarded by the Atlanta, Austin, and Philadelphia regional offices, which are valued at \$102,415,591 and account for 89 percent of the total universe of \$114,706,125.
- Tested the reliability of OPCS data by interviewing agency officials knowledgeable about the data and comparing the data with information from the grant files. We determined the data were sufficiently reliable for the purposes of the audit.
- Conducted interviews with EDA headquarters officials, as well as EDA officials at its regional offices in Atlanta, Austin, and Philadelphia, to gain an understanding of the grant award process and practices within each office. Specifically, we conducted interviews that included the following individuals:
  - EDA headquarters Director of Performance and National Programs, Director of Office of Economic Development Integration, Director of Budget, Deputy Chief

---

<sup>25</sup> OPCS is EDA's internal grant tracking database system that captures a limited number of data points on each grant award to facilitate monitoring and reporting requirements. During the award process, EDA uses OPCS to track project and applicant information and pre-approval milestones.

- Counsel, Regional Counsel, attorney advisor, senior program analyst, management analyst/audit liaison, and a public affairs specialist
- Atlanta regional office Regional Director, Area Director, and the Administrative Director
- Austin regional office Regional Director, Area Director, Administrative Director, attorney, and an Economic Development Representative
- Philadelphia regional office Regional Director, Area Director, Administrative Director, and legal counsel
- Obtained and analyzed disaster grant files from the Atlanta, Austin, and Philadelphia regional offices. Specifically, we analyzed documents in the grant files, such as proposals and applications, budgets, assurances, disaster nexus narratives, CEDS documents, PRC and IRC minutes, funding documents, and award letters, to determine whether EDA processed and awarded grants in accordance with the *FY 2018 EDA Disaster Supplemental NOFO*. In order to determine whether EDA met their review goals, we used the proposal responsiveness letter<sup>26</sup> to calculate review times of proposals and applications. Although not required by the *FY 2018 EDA Disaster Supplemental NOFO*, the proposal responsiveness letter was the most consistent form of documentation found in the grant files to evaluate when the proposal review period ended and the application review period began. If a proposal responsiveness letter was not used, we considered the MFC letter to be sufficient in notifying the applicant of review outcomes as well as a determination of proposal approval. However, we only considered the MFC letter to be a determination of application approval if it did not ask the applicant to submit any additional information. We gained an understanding of internal controls significant within the context of the audit objective by reviewing grant files and interviewing EDA regional office officials for evidence of internal controls. While we identified and reported on minor internal control deficiencies, no incidents of fraud, illegal acts, or abuse were detected within our audit. We identified no major internal control weaknesses regarding management's oversight of awarding disaster relief funds. We assessed the reliability of computer-generated data by interviewing EDA officials and reviewing documentation. We determined that the data were sufficiently reliable for the purposes of this audit report.

We conducted site visits at EDA regional offices located in Atlanta and Philadelphia. We did not conduct a site visit to EDA's Austin regional office because we were able to obtain their grant files electronically.

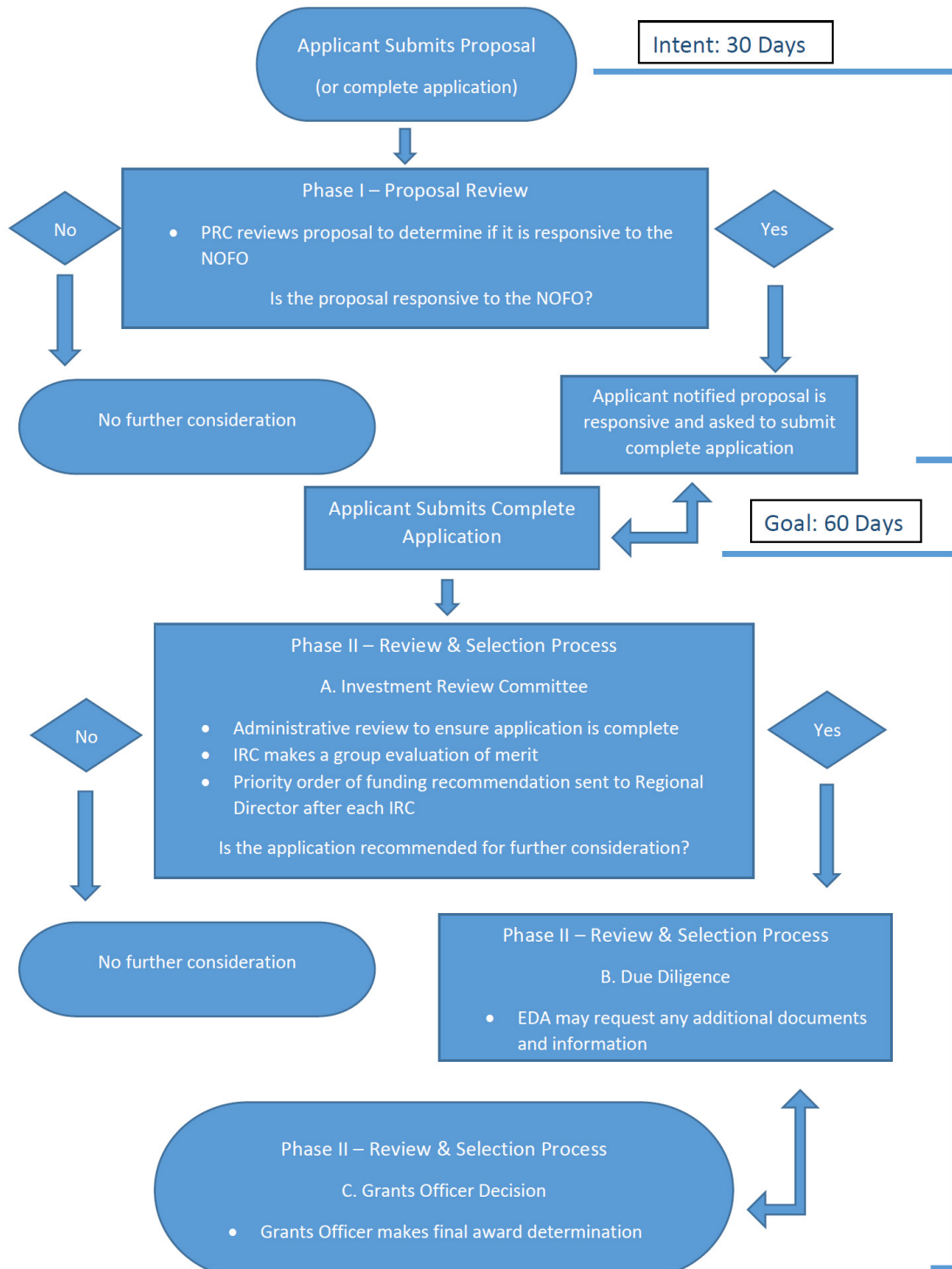
We conducted our review from November 2018 through March 2020 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, dated April 26, 2013. We performed our audit fieldwork at EDA headquarters in Washington, DC; EDA regional offices in Atlanta and Philadelphia; and at OIG offices in Atlanta and Washington, DC.

---

<sup>26</sup> Although the *FY 2018 EDA Disaster Supplemental NOFO* states the applicant will be asked to submit a complete application if the PRC determines their proposal is responsive, it does not require EDA to send a formal letter.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

# Appendix B: Flowchart of EDA’s NOFO 2018 Grant Process



Source: OIG-created graphic based on FY 2018 EDA Disaster Supplemental NOFO

# Appendix C: Agency Response



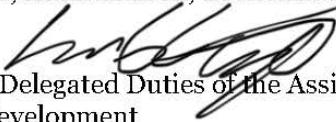
UNITED STATES DEPARTMENT OF COMMERCE  
Economic Development Administration  
Washington, D.C. 20230


## MEMORANDUM

October 20, 2020

TO: Frederick J. Meny, Jr.  
Assistant Inspector General for Audit and Evaluation

THRU: Deborah Haynes, Audit Liaison, Economic Development Administration

FROM: Dana Gartzke   
Performing the Delegated Duties of the Assistant Secretary of Commerce  
for Economic Development

Dennis Alvord  Digitally signed by Dennis Alvord  
Date: 2020.10.20 15:53:19 -04'00'  
Deputy Assistant Secretary for Economic Development  
and Chief Operating Officer  
Economic Development Administration

SUBJECT: Response to Draft Report - *EDA Is Not Fully Complying with All Its  
Disaster Relief Award Policies (Sept. 21, 2020)*

We have received and considered the draft report on the audit of the Economic Development Administration's (EDA's) disaster relief grants award administrative processes and oversight efforts. EDA recognizes that responses of agency officials to Office of Inspector General (OIG or Office) findings and recommendations are a critical part of the evaluation process. Thank you for the opportunity to respond.

EDA's responses to the report's findings are summarized briefly below. EDA's detailed reasons for its responses can be found in the remainder of this memorandum.

**Finding I:** EDA Did Not Ensure All Applications Documented a Clear Nexus and Resilience Principles

**Recommendation I:** We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta and Philadelphia regional offices to utilize a standard and measurable assessment tool to guide and document the IRC's evaluation of each application to ensure all applications meet the requirements of the FY 2018 EDA Disaster Supplemental NOFO.

**EDA's Response:** EDA does not concur with Finding I. As explained in section II, below, EDA believes that all project files contained adequate documentation of the project's disaster nexus and an adequate discussion of how the project would further the project region's disaster resiliency. EDA concurs with Recommendation I insofar as it suggests standardizing documentation of the disaster nexus. EDA will further consider

the recommendation that EDA adopt a “standard and measurable assessment tool,” but has not completed its analysis of the issue at this time.

**Finding II:** EDA Did Not Always Use Priority Order of Funding Recommendations

**Recommendation II:** We recommend that the Assistant Secretary of Commerce for Economic Development direct regional directors at the Austin and Philadelphia regional offices to comply with the FY 2018 EDA Disaster Supplemental NOFO requirements of awarding grants based on a priority order of funding recommendations and implement controls to ensure that the established processes and procedures for preparing the priority order of funding recommendations are monitored and consistently followed.

**EDA’s Response:** EDA does not concur with Finding II. As explained in section III, below, EDA has determined that all regional offices complied with EDA’s longstanding interpretation of its policies regarding the priority order of funding recommendations, which does not require the Investment Review Committee to produce a numerical ordering of projects recommended for funding. Because EDA does not concur with Finding II, it does not concur with Recommendation II. EDA will clarify the language of future Notices of Funding Opportunity (NOFO), however, to make clear that a numeric ordering of projects recommended for funding is not required.

**Finding III:** EDA Did Not Always Meet Its Own Internal Review Goals

**Recommendation III:** We recommend that the Assistant Secretary of Commerce for Economic Development direct the regional directors at the Atlanta, Austin, and Philadelphia regional offices to (a) monitor application review time goals and (b) document and maintain written notifications and communications in grant files.

**EDA’s Response:** EDA does not concur with Finding III. As explained in section IV, below, the time frames referenced in this finding were provided for the information of prospective applicants and do not represent EDA’s “internal review goals.” Because it does not concur in Finding III, EDA does not concur with Recommendation III. EDA will, however, clarify the language in the NOFO to indicate that the time frames are provided for reference only and that the time required to review an application may be longer in some cases.

EDA concurs that in some of the projects reviewed more than 30 days elapsed between the receipt of a proposal and notification to the applicant of the Proposal Review Committee’s decision. However, as explained in section V, below, the OIG miscalculated the time period for review of the complete application which, as stated in the FY 2018 EDA Disaster Supplemental NOFO runs from the time a “complete application” is received and ends when EDA notifies the applicant of the “outcome of the IRC.” Instead, the OIG’s calculations appear to be based on the time between the receipt of the application and EDA’s notification to the applicant that it has received an award. When the correct timeframe is applied, only one project exceeded the 60-day timeframe, and that project did so by only one day.



**I. EDA believes the report's title should be revised to better reflect the report's overall contents.**

EDA believes the report's title needs to be revised to better reflect the report's findings. According to the report (p. 4), the audit focused on "whether (1) EDA awarded grants on a competitive and merit basis and (2) the extent of EDA's compliance with the requirements outlined in the Bipartisan Budget Act of 2018 as well as its own policies and procedures for determining which applicants should receive disaster relief funds." Based on that language, EDA understands that the audit had two co-equal purposes.

With regard to the first focus of inquiry, whether EDA awarded grants on a competitive and merit basis, the report concludes that "EDA is awarding grants on a competitive and merit basis." Further, the report makes no negative findings on this topic or recommendations for improvement. That conclusion is a significant positive outcome for EDA that merits greater emphasis in the report and inclusion in the title.

With regard to whether EDA complied with its own policies and procedures, EDA does not agree with several of those findings, but even if those findings were accepted, the report also found a high level of compliance. For example, the report found that 90 percent of the files reviewed had adequate nexus statements. Further, the findings regarding time frames for processing awards show that many exceedances were minor and that many of the longer review periods were adequately justified by overriding programmatic concerns. As written, the title of the report could be interpreted to imply a higher level of noncompliance.

The wording of the title may seem like a minor issue, but it is a serious concern for EDA. Many of EDA's stakeholders will read the title of this report without looking closely at its contents, and those readers may be left with an impression that serious problems exist with EDA's award processes. EDA is concerned that it may unnecessarily suffer reputational harm as a result. In EDA's view the title should be revised to better reflect the contents within, including prominently reporting the Office's finding that EDA's selection process is competitive and merit-based and characterizing the instances of policy noncompliance as not materially diminishing the quality of EDA's mission fulfillment.

**II. EDA agrees with the report's finding that an adequate disaster nexus existed for all of the files reviewed. Contrary to the report, EDA believes that documentation of that nexus was adequate in all cases, but agrees that it would be helpful to document the disaster nexus in a uniform manner.**

In all cases reviewed, EDA verified that there was an adequate nexus to an eligible disaster and the OIG agreed with EDA's conclusion. In EDA's view, that is the important

finding that goes to the substance of EDA's decisionmaking process, and should be noted more prominently in the report.

The OIG's findings regarding documentation of the disaster nexus appear to misinterpret the role of the disaster nexus statement and EDA's responsibility for reviewing those statements. The FY2018 Disaster Supplemental NOFO required applicants to submit a separate disaster nexus statement with their application. Nexus statements are thus prepared and submitted by applicants, and EDA is not responsible for their contents. The purpose of the nexus statement is to assist the Proposal Review Committee (PRC) and Investment Review Committee (IRC) with their evaluations of the proposal/application. While some of the applicant-submitted nexus statements were not of the highest quality, that is not a permissible reason under the NOFO to reject an application. Rather, EDA is required to evaluate the merit of the application of which the nexus statement is a part. As such, nexus statements must be read in the context of the entire application and EDA's knowledge of the local situation. Importantly, the NOFO nowhere says that EDA's evaluation of the nexus is limited to the content of the nexus statement itself. If EDA is able to determine that an adequate nexus exists based on the application as a whole and EDA's knowledge of local circumstances, then it would serve no useful purpose—indeed, it would be poor customer service—for EDA to require the applicant to submit a revised nexus statement.

When considered in context, EDA does not agree that any of the four nexus statements the report identifies as deficient were in fact inadequate.<sup>1</sup> Importantly, the OIG appears to interpret differently from EDA an important element of resiliency that was a key feature of all four of the projects at issue. EDA disaster awards do not always respond directly to damage caused by the particular disaster; rather, EDA is equally interested in projects that diversify the local economy or create other resources to make the local economy more resilient.<sup>2</sup> For example, one of the Atlanta projects identified as having an insufficiently documented nexus was designed to diversify the local economy to improve ability of the economy to rebound in the event of future disasters, and that purpose was stated in the applicant's nexus statement. While that is not a direct response to the *damage* caused by the disaster, it is often a more effective means of recovery.

The report also notes that the IRC's evaluation of the disaster nexus was not always recorded in the Committee's minutes. As a preliminary matter, EDA notes that at the time these projects were considered, there was no requirement that evaluation of the

---

<sup>1</sup> Further explanation of EDA's evaluation of the nexus for these four projects is provided in the appendix.

<sup>2</sup> See FY 2018 Disaster Supplemental NOFO, p. 6 (listing "efforts to broaden the industrial base with diversification initiatives" among the examples of projects that EDA considers supportive of economic resiliency.)

nexus be recorded in the IRC minutes, and it therefore cannot be said that the Atlanta and Philadelphia IRC's did not comply with EDA policies by not discussing the disaster nexus in the IRC minutes. Historically, EDA's practice has been to record its evaluation of application requirements in a number of places in the project file, including the IRC minutes, the OPCS Project Summary, the EDR 101 document (if used), and the legal review memorandum. As long as the applicable requirements are captured in at least one of these places, EDA deems documentation of the requirement to be adequate.

Despite that historical practice, EDA agrees with the OIG that consistent documentation of the evaluation of the nexus in the IRC minutes would make it easier to locate that analysis in the project file and would provide better documentation of the IRC's decisionmaking process. Accordingly, EDA accepts the OIG's recommendation that the project nexus be recorded in the IRC minutes going forward.

The report also recommends that EDA require IRCs to "utilize a standard and measurable assessment tool to guide and document the IRC's evaluation of each application." EDA will further consider that recommendation but is not prepared to accept it at this time. The report's primary rationale for this recommendation is that "a measurable [sic] assessment tool would help guide and document EDA's evaluation of each application and help to ensure it is awarding disaster relief funds to the most-qualified and highest-priority applicants." The report does not explain why such a tool would have that effect, however, and EDA is not prepared to agree with that assessment in the absence of some additional understanding. EDA believes that one of the strengths of the IRC process is the deliberative evaluation of applications by experienced economic development professionals. The use of numeric tools to "guide" such deliberation may be harmful to that evaluation in that such tools may tend to restrict the range of discussion or to result in the IRC taking insufficient account of considerations that are unique to a particular application. If that were the case, use of such a tool could degrade the quality of the IRC's review. The report also suggests that use of a tool would better "capture the decision-making process that leads to an award." Again, EDA is not sure that statement is correct. By their nature, numeric tools constrain to some degree the range of considerations captured, and use of such a tool could just as easily omit important—perhaps decisive—aspects of the decision.

Although EDA is not prepared at this time to accept the recommendation regarding use of an assessment tool in its disaster or Public Works and Economic Adjustment Assistance programs, EDA does believe the recommendation merits further consideration. As always, EDA's evaluation of the recommendation will be guided by data, including the experience of its staff and data collected from third parties. To that end, EDA would be appreciative if the OIG would share any data it has that that would support its recommendations in this regard.

**III. Neither the FY 2018 Disaster NOFO nor EDA’s policies require IRCs to create a numerical ranking of projects recommended for funding. There was therefore no noncompliance.**

The report’s next set of findings relate to the provision in the NOFO that states, “the IRC will prepare a priority order of funding recommendations for the respective Regional Director.” (NOFO at p. 26.) The report apparently interprets that language as requiring the IRC to produce a numerically ranked list of recommendations for funding. As EDA explained to the OIG, however, that is not how EDA interprets the NOFO. Rather, it is EDA’s longstanding policy that this requirement can be satisfied in numerous ways in the EDA Regional Office’s discretion not exclusively through numeric rankings. One way that some Regional Offices establish funding priorities is with a numeric ranking, but another equally permissible way is for the IRC to sort applications into three levels of priority: recommended for funding with a further consideration letter to the applicant, recommended to hold for possible funding in the future (“carry forward” in EDA parlance), and not recommended for funding with a denial letter to the applicant. When the amount of available funding is insufficient to fund all recommended applications, the IRC may further sort the applications recommended for funding, but even in that circumstance, there is no requirement that the IRC produce a numerical ranking. EDA has found both methodologies acceptable and meet the intent of the “priority order” language in the NOFO. Further, both methodologies have yielded similar results in terms of identifying the best projects for funding.

EDA would like to emphasize at this point that EDA’s reasonable interpretation of its own policies is controlling. At points in the report, it appears that the OIG instead applied its own interpretation of EDA’s policies without clarifying that the OIG’s interpretation differs from EDA’s. Of course, if the OIG believes EDA’s interpretation is unreasonable, it may make a finding in that regard and explain its position. Similarly, if the Office concludes that the NOFO language could be improved to better reflect EDA’s policies, EDA would welcome that feedback. EDA disagrees, however, with the OIG making findings based on the OIG’s interpretation of the policy, when that was not the interpretation being applied by EDA at the time. Because all Regional Offices complied with the NOFO requirements as EDA interprets them, EDA disagrees with the report’s findings of noncompliance.

EDA also disagrees with the OIG’s suggestion that the Austin and Philadelphia Regional Offices apply a “first come, first served” approach to grant funding.<sup>3</sup> That

---

<sup>3</sup> It is unclear to what extent staff in the Austin or Philadelphia Regional Offices may have used the words “first come, first served,” but if they did it was merely in recognition of the fact that funding decisions are made first on applications submitted early in the process. It was not to suggest that applications received early benefitted from any substantial advantage. In any event, EDA does not endorse such a

characterization of the process by the OIG fundamentally misunderstands the nature of a rolling applications process. In a rolling process, applications are evaluated against a benchmark of successful past projects and consistent EDA expectations for return on the federal investment. Those projects that meet that standard are likely to be recommended for funding, taking into account additional considerations such as the geographic distribution of resources, the needs of the project region, and the capacities of the applicant. Applying early does not advantage an applicant if the project does not meet that test. When assessing merit, the IRC also considers the Regional Office's current and anticipated pipeline of applications, and the IRC's recommendations reflect its assessment of the overall universe of likely applications, including those that have not yet come to the IRC for review. Thus, early applications may be more likely to be held for further consideration until additional applications have been considered. Finally, in the disaster context, time matters. Projects that are ready for funding early are generally better projects for that very reason. Though it is not logically impossible, it is unlikely in EDA's experience that an application received 18 months after NOFO publication, when funds are nearly expended, would be more deserving of funding than a meritorious project submitted 2 months after publication, and if there were such a project, chances are that EDA would be aware of it and take account of the expected application as part of its evaluation of a project against the office's pipeline.

When an awarding agency uses a rolling application process, it is always possible that the agency will receive a highly meritorious application late in the process when insufficient funds remain to award the project. That is a disadvantage of a rolling process, but that disadvantage is offset by other advantages, such as the ability to award funds more quickly, greater flexibility for applicants, and a less cyclical workload for the agency. In fact, EDA believes it would be a great disservice to a meritorious applicant, particularly in a disaster context, to hold all early applicants until every application is received. Given the need to act as expeditiously as possible after a disaster, EDA believes it would rightly receive more criticism were it to wait to fund any particular application until some nebulous point in time when all possible applications were received. It would actually disadvantage a worthy project that applied early to have to wait while further suffering the impacts of the disaster while EDA is collecting more applications. No method of competition is perfect, and numerous awarding agencies throughout the federal government, including EDA, have decided that a rolling process best suits their programmatic objectives. EDA believes its rolling process works well and at present has no intention of making changes in that regard.

The report also asserts that "ranking projects by priority is an important internal control to ensure funds are awarded to the most-qualified and highest-priority candidates." As

---

characterization. After holding internal discussions with management in the Austin and Philadelphia Regional Offices, EDA is satisfied that its IRC review policies are being applied correctly.

explained above, that view is not necessarily correct. Preliminary funding decisions are made immediately following each IRC, and final decisions are made as soon as EDA is able to complete its post-IRC due diligence. Unless the dollar value of the projects in a Regional Office's pipeline exceeds the amount of funding available, the Regional Director will normally approve the projects recommended for funding, and the applicant will be notified of that decision. Thus, in the majority of cases, whether a project ranks at the top or the bottom of the list of recommended projects will not make a difference in whether it is funded. That is simply a consequence of a rolling application process.

It is also important to note that applications are considered separately at each IRC. If, near the end of a funding cycle, a Regional Director decides to hold or reject some application recommended for funding to conserve resources for remaining applications, the ranking of projects at one IRC may be of little help when the Regional Director has to make decisions among projects reviewed and ranked at multiple IRCS. Funding decisions at that point in the process may also tend to depend heavily on the geographic distribution of resources and similar factors, for which a numeric ranking may be irrelevant. A numeric ranking of applications is thus at best of marginal value, and only near the end of the funding cycle.

Because EDA's consideration of this issue in light of the report has reaffirmed its previous position that a numeric ranking of projects is neither necessary nor, in many cases, helpful, EDA will revise this language in future NOFOs to make clear that a numeric ranking of projects is not expected, though the IRC may choose to provide such a ranking when it expects that the number of projects recommended for funding will exceed available resources.

**IV. The approximate timeframes in the FY 2018 Disaster NOFO for the processing of proposals and applications were intended for applicants' information only. EDA agrees, however, that some reviews exceeded those timeframes and will revise the language in future NOFOs to make clear that the timeframes may be exceeded when projects are complex, necessary information is unavailable, or significant issues are identified during due diligence.**

The report's third finding, that "[t]he Atlanta, Austin, and Philadelphia regional offices did not consistently meet the established application review goals outlined in the FY 2018 EDA Disaster Supplemental NOFO," places undue emphasis on a piece of information provided in the NOFO primarily to give applicants an idea of the approximate timeframes for review of proposals and applications rather than setting any actual benchmark for EDA staff.

EDA agrees that in some cases (the exact number is unclear, see below) EDA's review of proposals or applications exceeded the approximate time periods set out in the NOFO.

As a result, the information provided to applicants may not have been as useful as intended. To better serve its customers, EDA intends in the future to clarify in the NOFO that time required to process applications<sup>4</sup> may be significantly longer in some cases, including when projects are usually complex, when necessary information is unavailable, or when EDA's due diligence identifies serious issues that need to be resolved prior to award.

## **V. The Report Miscalculates the Time Between Receipt of Applications and Notification of the Applicant.**

EDA disagrees with the numbers of proposals and applications reported to have exceeded the timeframes and the number of days by which they are reported to have exceeded them. On March 12, 2020, the OIG emailed the Atlanta, Austin, and Philadelphia Regional Offices with spreadsheets listing the projects that the OIG had identified as exceeding the time frames and requested explanations for the delays. In the Regional Office responses, it was explained that the 60-day timeframe for application review runs from the date a complete application is submitted and ends on the date a "Merits Further Consideration" letter is sent to the applicant. The NOFO states this point clearly: "Applicants should expect written notification from EDA regarding the *outcome of the IRC* within 60 days of EDA's receipt of their complete application" (emphasis supplied). The outcome of the IRC is the determinative date, not the date of award notification.<sup>5</sup> The spreadsheets provided by the OIG, by contrast, appear to have calculated the period from receipt of a complete application until the time the applicant was mailed a final notice of award. When that error is corrected, the majority of the applications identified in the spreadsheets were processed within the NOFO timeframe. For example, all of the Philadelphia Regional Office's applications met the time frame,<sup>6</sup>

---

<sup>4</sup> EDA has eliminated the Proposal Review phase of its application process, so that timeframe will not be relevant to future NOFOs.

<sup>5</sup> Accordingly, the following sentence from the report (p. 8) should be revised because it incorrectly states the relevant timeframe: "Then, for application reviews during Phase II, EDA's goal is to make a determination on an application within 60 days of EDA's receipt of the complete application." Additionally, EDA suggests that the following sentence on page 9 requires more context: "During Phase II, while EDA notified most applicants of the IRC outcome using a "merits further consideration" (MFC) letter, the letter often requested additional information from the applicant; thus further extending the review time while waiting for applicant submissions." The MFC letter is the event that ends the 60-day timeframe for reviewing applications. While it is true that an additional due diligence period takes place after the applicant is notified of the IRC results, it does not "further" extend the review time in the context of the 60-day timeframe because at that point the 60-day period has ended.

<sup>6</sup> The spreadsheet sent by the OIG to the Philadelphia Regional Office on March 12 only identified two applications that did not meet the 60-day timeframe. Inexplicably,

as did all but one of the Atlanta Regional Office's applications,<sup>7</sup> and the IRC results for that application were transmitted 61 days after receipt of a complete application. EDA provided responses to the OIG that clarified the relevant dates and provided correct calculations of the review periods. The OIG did not include this additional information, but instead provided its original, inaccurate calculations in the report. The table on page 8 should therefore be corrected prior to finalization of the report to avoid reporting mistaken information to the public.

The Austin Regional Office applications identified as exceeding the NOFO timeframes were a special case, in that several of these projects were initially considered under EDA's regular program (the FY 2018 EDAP NOFO), but were subsequently moved to the disaster funding stream. EDA met the NOFO timeframes for review of these projects when they were being considered for EDA's regular program. Once the projects were moved to the disaster program, however, new PRC and IRC reviews of the projects were required. Because full applications were already in-hand, the PRC and IRC reviews were conducted simultaneously. For that reason, only a Merits Further Consideration Letter (i.e., the result of the IRC review) was sent. It was unnecessary to provide a PRC review letter, because a project that receives a Merits Further Consideration letter is necessarily responsive, and sending two letters might be confusing for applicants. Additionally, the change from regular program to disaster caused the time between the initial receipt of the application and the second disaster IRC to exceed the 60-day timeframe. In EDA's view, the NOFO timeframes simply do not account for this situation and cannot be applied. Inasmuch as EDA believes the Austin Regional Office's actions were appropriate and in accordance with EDA's policies, EDA is not concerned that more than 60 days may have elapsed between the initial receipt of the application for consideration under regular funding and EDA's notification to the applicant that the project merited further consideration under the disaster NOFO.

EDA acknowledges that in some instances more than 30 days passed between EDA's receipt of a proposal and notification to the Applicant that the proposal was found responsive. In EDA's view, those (mostly small) delays only demonstrate that EDA's 30-day timeframe was unrealistic in the context of such a large disaster supplemental.

---

however, the report identifies six such applications. EDA assumes the report contains a typographical error that will be corrected before the report is finalized.

<sup>7</sup>Three of the Atlanta Regional Office's projects that were identified as exceeding the 60-day timeframe were actually reviewed by the PRC and IRC prior to publication of the FY 2018 Disaster Supplemental NOFO. (In other words, they were initially received through EDA's regular program.) As permitted by the Memorandum from Dennis Alvord dated May 3, 2018, the Atlanta Regional Office decided to reconsider those projects under the FY 2018 Disaster Supplemental NOFO. That change created the appearance of a delay because the OPCS record reflected the dates of the original PRC/IRC, not the reconsideration PRC/IRC under the new NOFO.



Because EDA has eliminated the proposal review process, that time period will not be an issue in future competitions.

EDA also acknowledges that complete documentation of applicant notifications was missing from some files in the Austin Regional Office, although EDA would again point out that documentation was only missing for a small number of files.<sup>8</sup> EDA is currently working on improving its record management systems. Once EDA's new customer relations management system is online (expected within the next several months), documentation of this kind will be easier to track and maintain. A modernized grants management system, which is also an EDA priority, will further reduce these record keeping gaps.

In conclusion, EDA notes that the report makes no findings that EDA lacked diligence in processing its awards and makes no recommendations for reducing award processing times.

---

<sup>8</sup> The Austin Regional Office notified applicants that their applications were being reconsidered under the FY 2018 Disaster NOFO by email, rather than by letter.

## APPENDIX—

## EDA's Evaluation of the Disaster Nexus in the Four Projects Identified in the Report

Benedum Airport Authority (01-79-14830)

The Applicant's nexus statement (attached) identifies the damage from the disaster as "significant infrastructure failings, such as road and bridge destruction due to water, mudslides, and debris accumulation," and later in the statement notes that the proposed infrastructure park will be "[l]ocated safely outside the floodplain." Although the applicant could have made the connection more explicit, a reasonable reader would link those two statements and conclude that the proposed project would respond to the disaster by funding infrastructure for the location of employers outside the floodplain. Given EDA's expertise and knowledge of the local situation, that nexus was readily apparent, and EDA viewed it as quite strong. EDA also noted that nexus in the OPCS Project Summary and Approval document for this project.

Southwest Florida Regional Planning Council (04-69-07298)

In the first paragraph of the nexus statement, the applicant notes that experts at the University of Florida Institute of Food and Agricultural Sciences "estimated that southwest Florida may have suffered over \$2 billion of financial losses in agriculture from Hurricane Irma." In the next paragraph, the applicant relates that "[a]fter the Hurricane, the Southwest Florida Regional Planning Council began a \$30,000 agriculture sustainability study . . . to determine what can be done to help these farms become more resilient to future disasters." Finally, the nexus statement concludes by stating:

The project being proposed to EDA involves taking the next steps to implement the strategies developed by the [agriculture sustainability] study and includes the entire six county region. . . . The systems and partnerships created through this project will reduce these farm's recovery time during the next economic shock. This increased productivity will give growers a higher margin-for-error when dealing with future disaster events.

In other words, the applicant identified damage from an eligible disaster and clearly explained how the proposed project would respond to that damage and assist the regional economy to be more resilient in the face of future disasters. It is difficult to see what more could be required of a nexus statement. EDA recorded the disaster nexus for this project in the OPCS Project Summary and Approval Document.

City of Hinesville Development Authority (04-79-07284)

In the nexus statement, the Applicant indicated that the proposed incubator project would assist small businesses to recover from future disasters by providing an "out-of-

home location” and “a secure location to store company records and important data.” The nexus statement also notes that in the event of future disasters, “the incubator can aid with the resiliency of the businesses by having incubator staff bring together information on the recovery effort being offered by local, state, and federal governments.” Finally, the nexus statement notes that by supporting start-up businesses, the incubator will promote diversification of the local economy. As previously noted, EDA considers economic diversification to be an important disaster preparation and mitigation strategy. Given these statements, the applicant’s vision for how the project would respond to the disaster was readily discernable from the nexus statement and, in EDA’s view, no more was required. The disaster nexus for this project was recorded in the OPCS Project Summary and Approval Document.

Annie E. Casey Foundation (04-79-07292)

Although the nexus statement for this project was more high-level than most other projects, it nevertheless was sufficient to explain how the proposed project would respond to the disaster. As reported in the nexus statement, “Fulton County was one of the counties that was impacted by Hurricane Irma . . . .” The statement also reflected EDA’s position on the importance of diversifying economies’ recovery from disasters by noting that “[s]trengthening the local and regional economies of metro Atlanta may lessen the negative impacts of future natural or manmade disasters for this area. The statement then describes how the propose project would further that goal by stating that the project was designed “to provide regional diversification, which will lead to sustainable economic growth should another disaster impact the area.”

Admittedly, that statement relies on the reader to connect the dots and understand that promoting economic diversification is a key resiliency strategy for economies subject to disasters. That connection may not be apparent to the general reader, but the applicant was writing for an expert audience—EDA’s professional economic development staff—that would already be aware of those connections. The applicant was also writing with knowledge that EDA considers economic diversification to be an appropriate resiliency strategy. For those reasons, additional detail was not necessary.

In the OPCS Project Summary and Approval Document, EDA made the connection clear by finding that the project would “provide regional diversification, which will lead to sustainable economic growth should another disaster impact the area.”