

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

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**PUBLIC  
RELEASE**

***ECONOMIC DEVELOPMENT  
ADMINISTRATION***

*EDA Research and Evaluation Program  
Funding Decisions Should Be Documented  
CFDA No. 11.312*

*Final Audit Report No. BTD-11548-9-0001/September 1999*

*Office of Audits, Business & Trade Audits Division*



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## EXECUTIVE SUMMARY

The Office of Inspector General conducted an audit of the fiscal year 1997 criteria, procedures, and practices for soliciting, reviewing, and selecting preliminary and full proposals for financial assistance under the Economic Development Administration's Research and Evaluation (R&E) program. The program is classified as No. 11.312 in the *Catalog of Federal Domestic Assistance* (CFDA). The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation.

Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of awards. Collectively, these programs involve a significant portion of the Commerce Department's budget and operations, approximately \$1 billion annually.

Through the R&E program, EDA provides financial assistance to private individuals, partnerships, corporations, associations, colleges and universities, and other suitable organizations with expertise relevant to economic development research who, in turn, conduct research and evaluation to assist EDA and other interested individuals and entities in (1) determining the causes of unemployment, underemployment, underdevelopment, and chronic depression in the nation; and (2) formulating and implementing national, state, and local programs to raise income levels and otherwise produce solutions to the problems resulting from the above conditions. During fiscal year 1997, the R&E program awarded five grants, totaling \$603,000.

Based on our review, we concluded that there was insufficient documentation on EDA's award procedures and practices for the R&E Program to determine whether they supported merit-based decisions and fully complied with OMB Circular A-123, Department Administrative Order 203-26, and Department of Commerce Financial Assistance Notice No. 17. Specifically, our audit disclosed that EDA:

- Developed evaluation criteria consistent with R&E Program objectives for use in evaluating proposals and applications for awards, as required by Section 4.02a of DAO 203-26, although EDA failed to document its application of these criteria, as required by Section 4.02h of DAO 203-26 (see pages 6 and 9).
- Properly published a solicitation notice in the *Federal Register* announcing the availability of funding and soliciting proposals and applications for fiscal year 1997 awards under the R&E Program, as required by DAO 203-26, Section 4.02b, and Financial Assistance Notice No. 17, Section .01. EDA further publicized the program by

posting the announcement on its web site and using other means to publicize the program, as is encouraged by Section 4.02f of the DAO. However, the solicitation notice did not provide potential applicants with a clear description of the procedures to be used in reviewing and selecting applications for funding, as required by Section 4.02b of the DAO and Section .03 of Financial Assistance Notice No. 17 (see page 7).

- Did not properly document its procedures and practices for reviewing and selecting proposals and applications for awards, as required by OMB Circular A-123. In the absence of such documentation, EDA cannot provide reasonable assurance that its review and selection procedures and practices comply with the requirements of Section 4.02h.1 of the DAO and support merit-based decisions (see pages 9 and 11).

We recommend that the Acting Assistant Secretary for Economic Development ensure that EDA's procedures and practices for the solicitation, review, and selection of Research & Evaluation program awards support merit-based decisions by ensuring that:

- Solicitation notices published in the *Federal Register* include all basic program information required by DAO 203-26, Section 4.02b.1 through 14, and Section .03 of Financial Assistance Notice No. 17.
- EDA's procedures for the review and selection of proposals and applications are documented and disseminated in a written policy statement, as required by OMB Circular A-123, and meet the minimum requirements for competitive review set forth in Section 4.02h.1 of DAO 203-26.
- EDA's practices for the review and selection of proposals and applications for funding under the R&E Program are properly documented, as required by OMB Circular A-123, and meet the minimum requirements for competitive review set forth in Section 4.02h.1 of DAO 203-26.

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In its response to the draft report, EDA agreed with our findings and recommendations. EDA requested that the final report reflect that EDA staff, not departmental staff as reported in the draft, conducted the preaward screening process (as discussed on page 12), and we have accordingly made minor changes to the report and Appendix I. Our recommendations are presented on page 12. EDA's complete response to the draft report is attached as Appendix II.

## INTRODUCTION

The Research and Evaluation (R&E) program was authorized by the Public Works and Economic Development Act of 1965, Public Law 89-136, as amended and in effect during the period audited (42 U.S.C. §§3151 and 3152), which enabled the Economic Development Administration to conduct a continuing program of study, training, and research. The program, described in the *Catalog of Federal Domestic Assistance* (CFDA) as No. 11.312, is administered by the Economic Development Administration.

Through the R&E program, EDA provides financial assistance to private individuals, partnerships, corporations, associations, colleges and universities, and other suitable organizations with expertise relevant to economic development research who, in turn, conduct research and evaluation to assist EDA and other interested individuals and entities in (1) determining the causes of unemployment, underemployment, underdevelopment, and chronic depression in the nation; and (2) formulating and implementing national, state, and local programs to raise income levels and otherwise produce solutions to the problems resulting from the above conditions. During fiscal year 1997, the R&E program awarded five grants, totaling \$603,000.

Discretionary assistance programs are those for which federal agency officials have the authority to decide (1) which eligible applicants will receive awards, and (2) how much will be awarded. The use of competitive selection procedures has been determined to be the most effective method of ensuring that financial assistance awards are made on the basis of merit. One of the primary purposes of the Federal Grant and Cooperative Agreement Act (31 U.S.C. §6301) is to encourage competition in the award of federal financial assistance to the maximum extent practicable, in order to fairly and objectively identify and fund, based on merit, the best possible projects proposed by applicants, and thereby more effectively achieve program objectives.

The Office of Management and Budget (OMB) has issued guidelines on administering competition-based financial assistance programs for use by federal agencies. An interagency study group, convened in 1979 by OMB to examine competition in financial assistance programs, determined that financial assistance award processes, to ensure effective competition, should include three basic elements. These elements, which were discussed in OMB's June 1980 report, *Managing Federal Assistance in the 1980's*, are:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations;
- Independent application reviews that consistently apply written program evaluation criteria; and

- Written justifications for award decisions that deviate from recommendations made by application reviewers.

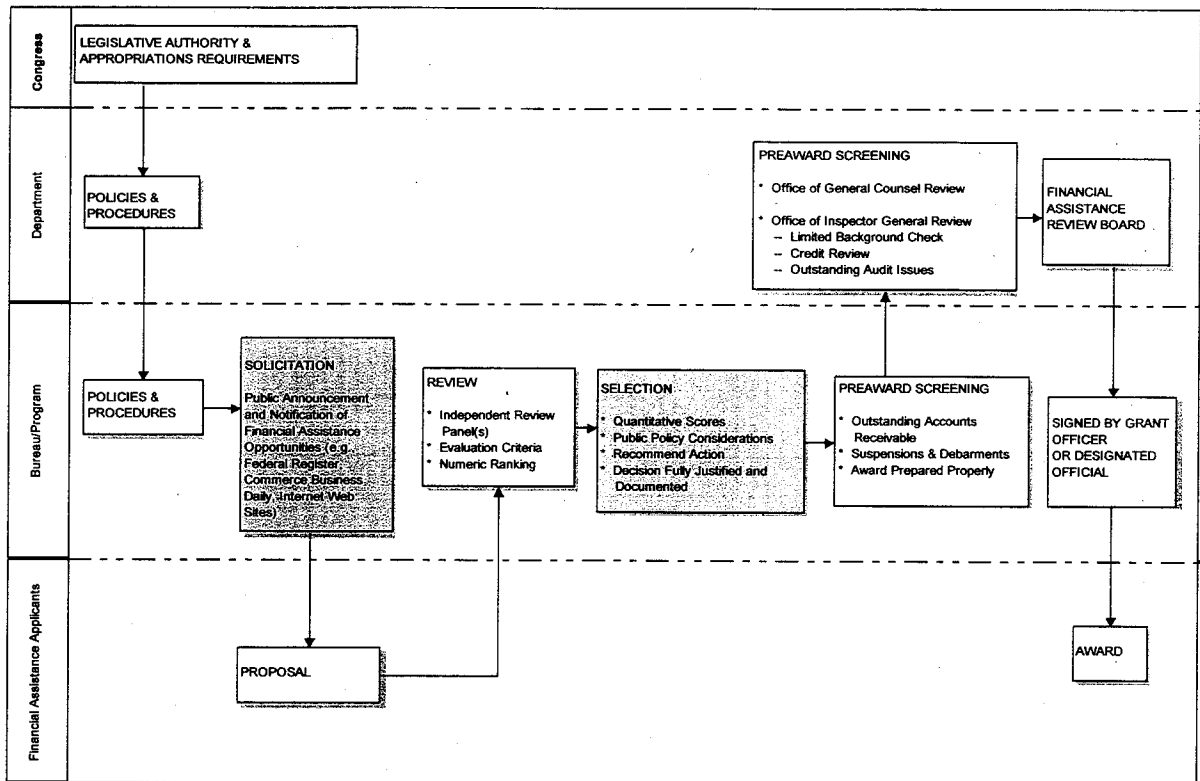
Also, OMB has issued the following circulars which set forth policies and procedures for administering federal financial assistance programs:

- OMB Circular A-89, *Federal Domestic Program Information*, implements the Federal Program Information Act (P.L. 95-220) requiring agencies to systematically and periodically collect and distribute current information to the public on federal domestic assistance programs, which is accomplished through the semiannual publication of the CFDA.
- OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires agencies to provide the public with advance notice in the *Federal Register*, or by other appropriate means, of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute. Under A-102, when time permits, an agency must provide the public with an opportunity to comment on funding priorities. Finally, A-102 requires all grant awards over \$25,000 to be reviewed for consistency with agency priorities by a policy-level official.
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other non-Profit Organizations*, requires agencies to provide the public with advance notice of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute.
- OMB Circular A-123, *Management Accountability and Control*, implements the Federal Managers' Financial Integrity Act (P.L. 97-255) requiring agencies to establish written procedures for all programs and administrative activities, including financial assistance programs, that provide reasonable assurance that activities are effectively and efficiently managed to achieve agency goals.

Commerce has relied upon these guidelines and circulars in developing and issuing policies and procedures for its discretionary funding programs. Department Administrative Order (DAO) 203-26, *Department of Commerce Grants Administration*, requires that (1) all Commerce financial assistance awards be made on the basis of competitive reviews unless a special waiver is obtained, (2) competitive review processes meet minimum standards outlined in the DAO, and (3) all Commerce agencies publish, at least annually, a notice in the *Federal Register* announcing the availability of funding, soliciting award applications, and specifying the criteria and the process to be used in reviewing and selecting applications for funding.

The chart presented below depicts the basic processes and controls for the solicitation, review, and selection of financial assistance awards as set forth in DAQ 203-26. The processes we reviewed during our audit are color-coded for this chart, and the EDA process chart is attached as Appendix I.

### Department of Commerce Financial Assistance Awards Process



## PURPOSE AND SCOPE

This audit was conducted as part of a comprehensive review of the Department of Commerce's discretionary funding programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation. The Chairman requested that the Inspectors General of the Departments of Commerce and Transportation and the National Science Foundation review the discretionary funding programs of their respective agencies to assess the manner in which discretionary funding decisions are made. More specifically, the Chairman requested that each IG review and report on the criteria developed, either statutorily or administratively, to guide agency officials in making discretionary spending decisions, and on the extent to which the criteria are appropriately applied.

We are conducting our Department-wide review in two phases: a survey phase and an individual program audit phase. During the survey phase, we identified and examined the body of laws, regulations, and other guidance applicable to the administration of federal financial assistance programs. We also examined the authorizing legislation, provided by Department officials, for each Commerce financial assistance program and classified each program as either a "full discretion" program or a "limited discretion" program, based on the extent to which the legislation limits the agency's authority to independently determine the recipients and funding levels of the awards made under the program. Finally, we examined the fiscal year 1997 appropriations legislation to identify all legislatively mandated awards. No legislatively mandated awards for the R&E program were found.

During the second phase of our review, we are conducting individual audits of the award solicitation, review, and selection processes of each program we have classified as a "full discretion" program, including EDA's R&E program. We are evaluating the adequacy of each program's established award procedures and criteria for evaluating individual applications. For those programs with procedures deemed to be adequate, we are ascertaining whether they were followed in making awards in fiscal year 1997. For those programs with procedures considered to be inadequate or lacking, we are reviewing how the fiscal year 1997 award decisions were made. Finally, we are examining the legislatively mandated projects identified for each program, if any existed, and determining their significance and impact on fiscal year 1997 award decisions. For programs where there have been substantial changes in selection procedures and practices since fiscal year 1997 and data for fiscal year 1998 is complete and available, we have expanded the scope of our work to include the solicitation, review, and selection process for fiscal year 1998. We plan to issue individual reports, with any appropriate recommendations, on each program, followed by a capping report summarizing the results of the individual audits and providing recommendations for the Department and/or its bureaus.

On July 21, 1998, the Acting Inspector General and the Chief Financial Officer and Assistant Secretary for Administration testified before the Senate Commerce, Science, and Transportation



Committee on the Department's discretionary funding programs. The Acting IG reported on the results of the survey phase of the OIG's review, and discussed some of the preliminary observations from the individual program audits.

This performance audit focused on awards made during fiscal year 1997 under the R&E program. Specifically, we:

- Reviewed the authorizing legislation provided by Departmental officials and information summarized in the CFDA to identify criteria for funding decisions.
- Reviewed Departmental and EDA policies and procedures for soliciting and reviewing proposals during fiscal year 1997 and selecting recipients for funding (see Appendix I for flowchart of process). We also reviewed the *Federal Register* notices for the R&E program. We assessed whether the procedures were adequate and whether they were in compliance with DAO 203-26 and Office of Federal Assistance Financial Assistance Notice No. 17, *Department of Commerce Guidelines for the Preparation of Federal Register Notices Announcing the Availability of Financial Assistance Funds – Requests for Applications*.
- Compared the Department's and EDA's award procedures with EDA's fiscal year 1997 award practices to determine if the process contained adequate internal controls to provide for competitive, merit-based awards.
- Examined pertinent documents in individual program award files to determine if departmental and EDA policies and procedures were followed.
- Interviewed EDA program office officials concerning EDA's solicitation, review, and selection procedures.
- Examined fiscal year 1997 appropriations legislation to identify legislatively mandated projects for this program.

We did not rely upon computer-based data supplied by EDA and the department, and cited in the report, during the audit, so we did not conduct tests of either the reliability of the data or the controls over the computer-based system that produced the data. We performed the review at EDA headquarters in Washington, D.C. during January and February 1999. We conducted the audit in accordance with generally accepted government auditing standards, under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

## FINDINGS AND RECOMMENDATIONS

We found that EDA developed and published criteria for evaluating preliminary and full proposals for awards that met statutory and departmental requirements and were designed to result in merit-based award decisions. However, EDA cannot verify that the panels properly applied the announced criteria, because the panels did not completely document their deliberations and recommendations. EDA's efforts to solicit proposals for R&E awards funded during fiscal year 1997 employed a widespread solicitation process and generated nationwide interest from numerous potential applicants. However, EDA did not comply with statutory and departmental requirements for providing all basic program information in its announcement of program availability. EDA officials also did not establish written procedures for the review and selection of R&E awardees for fiscal year 1997, nor did they document the actual review and selection process. Proposals were reviewed by EDA employees and outside reviewers, enhancing the objectivity of the selection process.

### **I. Research and Evaluation Program Developed Evaluation Criteria That Were Designed to Result in Merit-Based Decisions**

The R&E program developed evaluation criteria which were consistent with the program objectives to evaluate preliminary and full proposals for awards. For fiscal year 1997 awards, EDA published a notice, "Research and Evaluation, National Technical Assistance-Request for Proposals; Notice," in the May 12, 1997 issue of the *Federal Register*. The notice invited proposals for five R&E awards to conduct research and evaluation on:

1. Leveraging capital for defense adjustment infrastructure assistance,
2. State incentives evaluation,
3. Outmigration/population loss as indicator of economic distress,
4. Socioeconomic data needed for economic development practitioners, and
5. Micro-enterprise as an economic adjustment tool.

The announcement referred potential applicants to two sections in the *Code of Federal Regulations*, 13 CFR Chapter III, Parts 304.1 and 307.19, for the criteria to be used in evaluating proposals. The first such section, 13 CFR Chapter III, Part 304.1., "General Evaluation Criteria," states that all EDA proposals for financial assistance will be screened for the following:

- (a) conformance with statutory and regulatory requirements,
- (b) the relative severity of the economic problem of the area,

- (c) the quality of the scope of work proposed to address the problem,
- (d) the merits of the activity(ies) for which funding is requested, and
- (e) the ability of the prospective applicant to carry out the proposed activity(ies) successfully.

In addition, 13 CFR Chapter III, Part 307.19, "Evaluation Criteria," listed the following specific criteria for the R&E program:

- (a) Suitability of the subject,
- (b) Potential usefulness of the research to state and local economic development officials and specialists,
- (c) General quality and clarity of the proposal,
- (d) Soundness and completeness of the research methodology, and
- (e) Total cost and value of proposed product in relation to cost.

These criteria were designed to result in merit-based awards. However, as we discuss below, we found no documentation that EDA applied these criteria throughout the review and selection process, and therefore cannot verify that the criteria were used.

## **II. Solicitation Process Ensured Widespread Notice, But Did Not Notify Potential Applicants of Basic Program Information**

EDA's solicitation procedures and practices for the R&E program award met departmental requirements for widespread public notice of the intent to make financial assistance awards. As a result, EDA received 26 preliminary proposals from around the country for the awards funded during fiscal year 1997. Widespread solicitation of eligible applicants helps ensure that federal programs receive multiple proposals responsive to program objectives and provides potential applicants with an opportunity to apply for assistance. However, EDA did not meet requirements to include all basic program information in the public notice, including a clear description of the review and selection process and of the weights to be applied to each criterion.

Section 4.02 of Department Administrative Order (DAO) 203-26, *Department of Commerce Grants Administration*, provides the following solicitation criteria, in part:

- Annual Public Notice. To inform the interested public, each organization unit shall publish at least annually a notice in the *Federal Register* that includes basic information for each discretionary grant program.
- Other Solicitations of Applications. Further notice(s) in the *Federal Register* or other publications soliciting applications or preapplications must include information published in the Annual Public Notice.
- Minimum Notice. In order to provide the public reasonable notice, there must be a minimum of 30 days between the date of publication and the closing date for receipt of applications.

Section 4.02f of the DAO states, "To ensure widespread notification to the public, program officials are strongly encouraged to use publications in addition to the *Federal Register*, which, in their opinion, have a wide distribution among interested persons." For large, undefined applicant pools, such as those nonprofit institutions with an interest in the R&E awards, broad-based solicitation media such as the annual *Federal Register* notice, coupled with an announcement on the World Wide Web, are likely to reach a significant portion of the eligible community. The requirement for public notice in the *Federal Register* and encouragement for additional notice are repeated in Section .01 of Financial Assistance Notice No. 17.

EDA published the annual public notice of availability dated December 20, 1996, and a notice titled, "Research and Evaluation, National Technical Assistance-Request for Grant Proposals: Notice," in the *Federal Register* on May 12, 1997. The May 1997 notice invited preliminary proposals for awards to participate in economic development throughout the nation. EDA further publicized the availability of the awards by posting the announcement on its Internet web site. EDA also used program brochures and specialized periodicals to provide project information to potential applicants.

However, EDA did not comply with minimum requirements for publication of all basic grant information in the *Federal Register*. Section 4.02b.6 of the DAO and Section .03 of the Financial Assistance Notice require a description of the selection process or procedure in the notice. The May 1997 notice set forth the criteria for evaluation of proposals, and it informed applicants that EDA would consider preliminary proposals and advise successful proponents to submit full proposals for funding. However, the notice did not clearly set forth all procedures for reviewing preliminary and final proposals. Instead, the notice simply cited the following statement from 13 CFR Chapter III, Part 304.1: "Generally, proposals will be reviewed for relevance and quality by three or more technically knowledgeable EDA officials." This statement referred only generally to the review process for preliminary proposals for EDA funding. The notice did not include a more detailed description of the procedures to be followed

in reviewing preliminary proposals and inviting applicants to submit full proposals. Nor did it announce the procedures to be followed in reviewing and selecting full R&E proposals for funding.

Additionally, EDA did not specify whether the evaluation criteria would be weighted, with some weighted more heavily than others, or whether they would be of equal weight. Section 4.02b.7 of the DAO and Section .03 of the Financial Assistance Notice require that the notice of program availability in the *Federal Register* include the weight assigned to each criterion, if applicable, or an indication that all weights are equal. By not clearly describing the review and selection procedures and the weights applicable to the evaluation criteria, EDA failed to provide all information needed by potential applicants to submit proposals that would meet program objectives.

### **III. Written Procedures for Reviewing Proposals Were Not Established, and Practices for Reviewing Proposals Were Not Documented**

EDA has not established written procedures for reviewing preliminary and full proposals for R&E awards, as required by OMB Circular A-123. In practice, preliminary and full proposals for R&E awards were reviewed by panels, as required, and EDA expanded the review process by inviting reviewers from outside EDA and the Department to participate on some panels, thus enhancing the independence and objectivity of the award process. However, panel members did not document their deliberations to support their compliance with departmental requirements.

OMB Circular A-123 states “the documentation for transactions, management controls, and other significant events must be clear and readily available for examination.” To meet these requirements, agencies should document procedures for reviewing proposals for financial assistance in a publicly available formal policy statement or manual. EDA has not documented its R&E award procedures, as other Commerce operating units have,<sup>1</sup> and should do so before soliciting and reviewing future R&E proposals.

DAO 203-26, Section 4.02h.1, mandates that agency competitive review processes meet minimum requirements, such as the following:

- Applications are treated fairly under the review process;
- Each application receives an independent, objective review by one or more review panels qualified to evaluate the applications submitted under the program;

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<sup>1</sup> *Discretionary Funding Decision Process: Native American Business Development Center Program*, Report No. BTD-10955-9-0001, September 1998, <http://www.oig.doc.gov/reports/1998-9/1998-9-10955-01.pdf>.

- Each review panel uses the selection criteria that apply to the program covered by the application notice.

DAO 203-26, Section 4.02h.1.(d.) requires that each review panel include at least three persons, who may be employees of EDA and the Department. However, reviewers from outside EDA and the Department are permitted under the DAO. No other criteria for membership are listed; the R&E program director has broad discretion in the choice of members.

We found that EDA used reviewers from outside the Department, as well as EDA personnel, to review and rank R&E proposals. We believe EDA's efforts to enhance the independence and objectivity of the R&E proposal review process by using outside technical reviewers constitutes a best practice that should be used in other funding programs as appropriate.

EDA's review and selection practices are based on two paneling stages: (1) a first paneling stage, after which selected preliminary applicants are invited to submit full proposals, and (2) a second paneling stage, during which proposals are selected for awards. EDA used six panels in fiscal year 1997, each with six or more reviewers, to review the preliminary and full proposals for awards. Two of the six fiscal year 1997 panels included a reviewer from outside EDA and the Department. This procedure provided an independent review as required by the DAO. EDA agreed that the use of knowledgeable outside reviewers to evaluate proposals provided an independent perspective and enhanced the objectivity of the merit-based selection process.

However, there was no evidence in EDA files that reviewers on the panels addressed the criteria or verified that required standard forms and other elements of the application were present. Written comments on the applicants' qualifications were not retained in the files. Score sheets given to panel members by EDA officials for evaluations actually cited only three criteria, which were similar to, but did not restate, 3 of the 10 criteria listed in 13 CFR Part III, as shown below:

Criteria as stated on score sheets	Criteria as stated in 13 CFR Chapter III (with cite)
"Proposal Quality and Scope of Work Adherence"	"Quality of the scope of work proposed to address the problem" (13 CFR Chapter III, Part 304.1(c))
"Qualifications of the Applicant"	"Ability of the prospective applicant to carry out the proposed activity(ies) successfully" (13 CFR Chapter III, Part 304.1(e))
"Cost and Budget"	"Total cost and value of proposed product in relation to cost" (13 CFR Chapter III, Part 307.19(e))

Weights were assigned to each criterion on the score sheet (up to 50 points for the quality and scope of work, 25 points for the applicant's qualifications, and 25 points for cost and budget information); but EDA did not require the panel members to fill out the score sheets or use them in reviewing applicants. EDA told us that any score sheets filled out by panel members were not used during the review process and were destroyed. As a result, we could not verify that reviewers (1) either applied the merit-based criteria announced in the CFR or otherwise assessed the applicants, and (2) properly documented their reviews of each application.

#### **IV. Written Procedures for Selecting Awardees Were Not Established, and Practices for Selecting Awardees Were Not Documented**

During the first paneling stage, EDA received 26 preliminary proposals for fiscal year 1997, resulting in 9 applicants in fiscal year 1997 being invited to submit full proposals. EDA then held the second paneling stage, resulting in the selection of 5 R&E awards for fiscal year 1997. However, EDA did not establish written procedures to be used in the selection process, as required by OMB Circular A-123. Neither did the panels document their selections for fiscal year 1997 awards, and EDA therefore cannot verify compliance with the Department's requirements.

Under OMB Circular A-123, the procedures for selecting proposals for financial assistance should be written and disseminated in a publicly available formal policy statement or manual. EDA has not documented its R&E award selection procedures and should do so before selecting future R&E awardees.

DAO 203-26, Section 4.02h.1.(f)-(g.), mandates the following steps in ranking and selecting proposals for funding:

- After the review panel has evaluated the applications, the organization unit prepares a rank ordering of the applications based solely on the evaluations by the review panel; and
- The organization unit determines the order in which applications will be selected for funding based on the following factors:
  - (1) Any priorities or other program requirements that have been published in the *Federal Register* and apply to the selection of applicants for new awards; and
  - (2) The rank order of the applications established by the review panel on the basis of the selection criteria.

After consideration of the preliminary proposals, the panels documented their recommended selectees and those not selected (though not, as discussed above, in such a way as to document their application of the criteria for selection). But EDA did not maintain documentation of the individual panel members' recommendations of *final* proposals for awards. Therefore, we could not determine each member's ranking of the final proposals, or whether program officials accepted or deviated from the ranking, if any, established by the members.

The Deputy Assistant Secretary for Program Research and Evaluation properly documented her recommendations of funding on award documents. EDA staff conducted the preaward screening required under DAO 203-26. After the preaward screening was completed, the Assistant Secretary for Economic Development approved the five R&E awards totaling \$603,000 for fiscal year 1997.

## V. Recommendations

We recommend that the Acting Assistant Secretary for Economic Development ensure compliance with requirements for the merit-based solicitation, review, and selection of Research & Evaluation program awards by:

- Solicitation notices published in the *Federal Register* include all basic program information required by DAO 203-26, Section 4.02b.1 through 14, and Section .03 of Financial Assistance Notice No. 17.
- EDA's procedures for the review and selection of proposals and applications are documented and disseminated in a written policy statement, as required by OMB Circular A-123, and meet the minimum requirements for competitive review set forth in Section 4.02h.1 of DAO 203-26.
- EDA's practices for the review and selection of proposals and applications for funding under the R&E Program are properly documented, as required by OMB Circular A-123, and meet the minimum requirements for competitive review set forth in Section 4.02h.1 of DAO 203-26.

## VI. EDA's Response to Draft Report and OIG Analysis

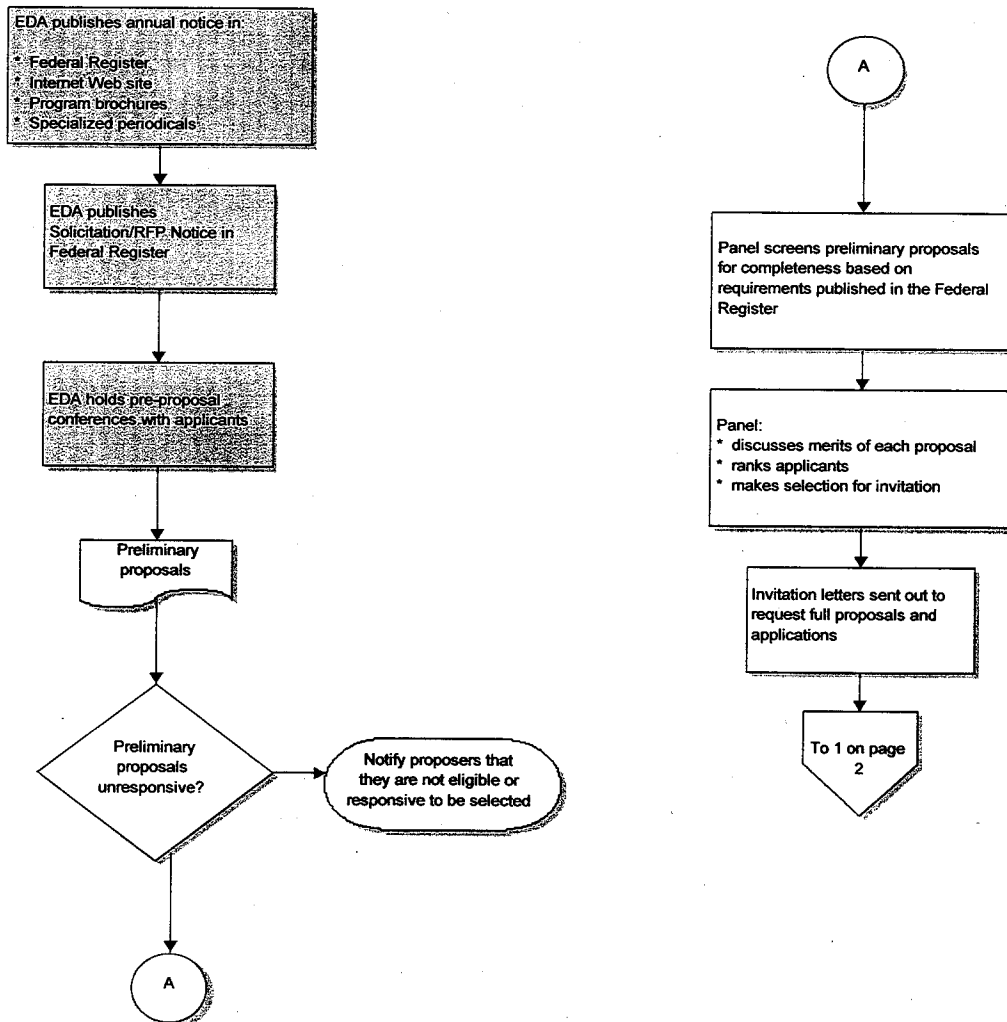
In its response to the draft report, EDA agreed with our findings and recommendations. EDA requested that the final report reflect that EDA staff, not departmental staff as reported in the draft, conducted the preaward screening process prior to approval of the awards by the Assistant Secretary. EDA also stated that during the preaward screening process, its staff verified that required forms and other elements of the application were present.



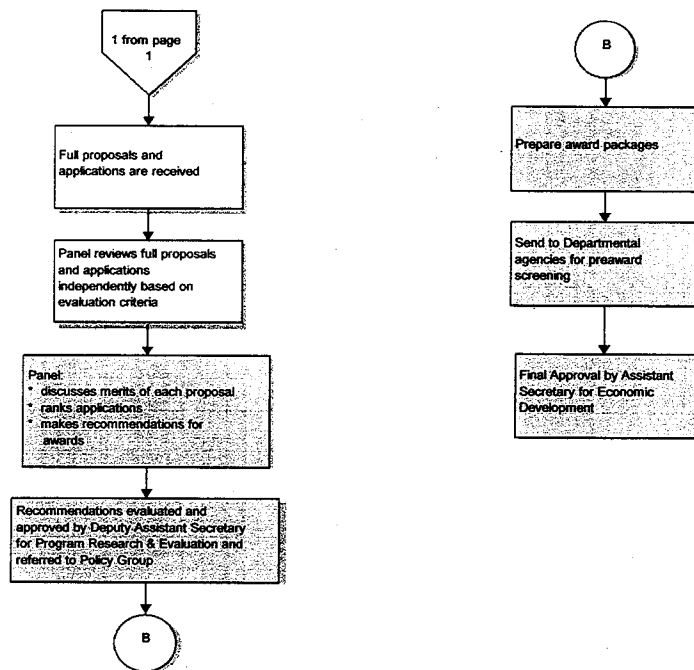
We agree with the requested changes with respect to the conduct of the preaward screening process by EDA staff, and have accordingly made minor changes to the report and Appendix I. However, although EDA staff verified that certain required application elements were present during the preaward screening process, EDA did not document its procedures and practices for the review and selection of awards. EDA's complete response to the draft report is attached as Appendix II.

Appendix I  
Page 1 of 2

EDA Procedures for Solicitation, Review, and  
Selection of Research and Evaluation Awards



EDA Procedures (Continued)





## APPENDIX II

UNITED STATES DEPARTMENT OF COMMERCE  
The Assistant Secretary for Economic Development  
Washington, D.C. 20230

SEP 22 1999

MEMORANDUM FOR George E. Ross  
Assistant Inspector General for Auditing

FROM: Chester J. Straub, Jr. *Chester J. Straub, Jr.*  
Acting Assistant Secretary  
for Economic Development

SUBJECT: EDA Research and Evaluation Program  
Draft Audit Report No. BTD-11548-9-XXXX

Thank you for the opportunity to comment on the above-referenced draft audit.

The OIG audit found that EDA put a system in place that was designed to result in merit-based award decisions. We believe this is in fact what happened in FY 1997. However, we concur with the OIG findings that the absence of full documentation at several stages of the process leaves an outside reviewer without the necessary evidence that EDA in fact did so. Consequently, for the Research and Evaluation program, we will take immediate action to ensure, as required by the Department and OMB, that:

- Solicitation notices published in the *Federal Register* include all basic program information;
- By December 15, 1999, EDA's procedures for the review and selection of proposals and applications are documented and disseminated in a written policy statement; and
- EDA's practices for the review and selection of proposals and applications for funding are properly documented.

In several instances, this draft does not accurately describe the actual selection process.

- Page 11, last paragraph, notes that "there was no evidence in EDA files that reviewers, during either the first or second paneling stage ... verified that required standard forms and other elements of the application were present."

In fact EDA had a three-stage review process. The first and second panels reviewed the preliminary and full proposals respectively. Then, when a full proposal was accepted, the EDA staff conducted the preaward application screening process, during which they verified that required forms and other elements of the application were present. The review panels did not conduct the preaward application screening process.

- Page 13, second paragraph, notes that “the successful proposals were sent to the Department’s preaward approval system. ...the Department approved the five R&E awards.”

When a full proposal was selected and recommended for funding, the EDA staff--not the Department--undertook the preaward application screening process. Components of that screening process included OIG and FARB reviews. When the EDA, OIG and FARB reviews were completed, the projects were approved by the Assistant Secretary for Economic Development, not the Department. The Appendix I flow chart page 2 has a number of changes that should be made to reflect this process.