Report In Brief

JUNE 5, 2015

Background

The Revolving Loan Fund (RLF) program, established in 1975, is designed to provide grants to state and local governments, political subdivisions, and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients are required to manage their RLF according to their RLF administrative plan, a document that describes the lending strategy and administrative procedures for a specific RLF project.

As of September 2013, EDA had awarded approximately $555 million in grants for the 558 RLF programs then operating. Those awards had a capital base of approximately $843 million, including recipient contributions.

Why We Did This Review

In response to a 2007 OIG report on the program, EDA developed and began using the Revolving Loan Fund Management System (RLFMS) in April 2010. However, the system was unavailable to most EDA regions and to all RLF grantees since January 2012, due to a cybersecurity incident detected in December 2011. Most regional offices regained access to the system in August 2013 but, at that time, the system excluded semiannual reports and other current information and therefore could not be used effectively as a monitoring tool. Most regional offices created workarounds of various levels in lieu of having RLFMS, while others did not.

We conducted this audit of EDA's Revolving Loan Fund program as part of our fiscal year (FY) 2014–15 audit and evaluation plan to assess EDA's current oversight of RLF projects in three of the six regional offices. Our objectives were to determine whether EDA effectively responds to performance problems and changes to distressed or underserved communities within the RLF program.

ECONOMIC DEVELOPMENT ADMINISTRATION

EDA Faces Challenges in Effectively Monitoring Its Revolving Loan Funds

OIG-15-031-A

WHAT WE FOUND

We found that

EDA did not aggressively respond to noncompliant RLFs, exposing agency funds to misuse and economic loss. The agency did not address persistent noncompliance with capital utilization requirements; as of the semiannual reporting period that ended September 30, 2013, most of the RLFs we reviewed (30 of the 35) had two or more consecutive reporting periods of noncompliance with the capital utilization standard. Also, it has not consistently required corrective action plans or set milestones to address RLFs with high loan default rates. In addition, EDA did not ensure grantee compliance with semiannual reporting requirements; of the 210 semiannual reports we reviewed, we found 19 instances of past due reports without the region sending a past due notice to the RLF recipient. Further, at least two EDA regional offices do not use single audit report results to monitor RLF performance. Finally, the agency has not required grantees to submit updated RLF plans.

Inflexibility in current RLF regulations and limited resources reduce EDA's ability to effectively oversee problematic or underutilized RLFs. The sustained low utilization of some RLFs may be evidence that those RLFs are operating in communities that no longer need them or do not require an RLF of that size. With the significant effort it takes to adequately monitor a large portfolio of long-standing RLFs, EDA's limited staff time and tools currently available do not allow for proper oversight. EDA should explore opportunities to simplify or reform management of the program.

WHAT WE RECOMMEND

We recommend that the Assistant Secretary for Economic Development direct the appropriate EDA regional officials to do the following:

1. Reimplement RLFMS or a replacement system that includes standard grantee reporting, program monitoring, and file maintenance.
2. Develop an improved process for monitoring grantee sequestrations of excess funds, default rates, and semiannual reporting requirements, as well as timely corrective actions for noncomplying RLFs.
3. Document determinations on whether RLFs with multiple periods of excess funds should be terminated, transferred, or consolidated—or have funds partially deobligated or transferred from them.
4. Develop a staffing plan to balance the workload of RLF administrators.
5. Develop an improved process for identifying required single audits and enforcing the consequences of noncompliance.
6. Identify projects with RLF plans more than 5 years old and document determinations on whether those plans require modifications—including determinations on whether a need for the RLF still exists in a particular location or whether funds should be transferred.
7. Document considerations and potential consequences of possible RLF program adjustments, including defederalization of funds, transferring funds to other EDA programs, and sunset provisions.
8. Evaluate conditions related to the grantee identified in this report that executed a loan exceeding the maximum amount allowed in its RLF plan.