



February 2014

ECONOMIC DEVELOPMENT ADMINISTRATION

Documentation of Award Selection Decisions Could Be Improved

GAO Highlights

Highlights of [GAO-14-131](#), a report to congressional committees

Why GAO Did This Study

The Department of Commerce's EDA provides financial assistance through grants to rural and urban communities experiencing substantial and persistent economic distress. EDA grants are intended to leverage existing regional assets to support the implementation of economic development strategies that advance new ideas and creative approaches to promote economic prosperity in distressed communities. House Report 112-463 included a mandate that GAO review grants EDA made under its Public Works and EAA programs from fiscal years 2006 through 2012. This report discusses (1) the extent to which EDA documented its funding decisions (2) the levels of economic distress and population density of counties where EDA funded projects, and (3) the types of projects EDA funded. GAO reviewed EDA regulations and guidance; analyzed EDA project data from fiscal years 2007 (the year in the period covered by the mandate in which EDA awarded the most grants), 2011 (the most recent year with reliable data), and 2012 (the year in which EDA implemented new documentation procedures), as well as other federal data; and interviewed EDA staff.

What GAO Recommends

To increase transparency in the award selection process, GAO recommends that EDA develop and implement procedures to ensure that EDA regional offices consistently complete the required template for each proposed project considered for funding. EDA agreed with the recommendation and described its plans to address it.

View [GAO-14-131](#). For more information, contact Cindy Brown Barnes at (202) 512-9345 or brownbarnesc@gao.gov.

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What GAO Found

The Economic Development Administration (EDA) implemented a new procedure in fiscal year 2012 that requires its regional offices to complete a standard template to document the results of committee meetings in which proposed projects are discussed and potentially recommended for funding. However, GAO found that for the Public Works and Economic Development (Public Works) program and the Economic Adjustment Assistance (EAA) program—EDA's two largest grant assistance programs—EDA regional offices had not completed the template consistently. GAO estimated that only 46 percent of all projects recommended for funding in fiscal year 2012 under these programs were documented using the complete template. EDA has a history of inconsistent documentation: for example, in 2000 the Department of Commerce's Inspector General reported inconsistencies in how EDA's regional offices documented the project review process. Standards for internal control in the federal government require all transactions and significant events to be clearly documented and available for examination. Until EDA takes steps to ensure that all of its regional offices consistently and fully complete the standard template for all proposed projects considered for funding, EDA will not have adequate assurance that its funding decisions are consistent and transparent.

GAO found that counties where EDA funded projects in fiscal years 2007 and 2011 under its Public Works and EAA programs generally had lower per capita income and higher unemployment rates than national and state averages. Furthermore, some projects that EDA funded under the Public Works and EAA programs in fiscal years 2007 and 2011 had an EDA-defined special need arising from actual or threatened severe unemployment or economic adjustment problems. In addition, GAO found that counties where EDA funded projects under Public Works and EAA were generally part of nonrural areas (areas with an urban center of more than 50,000 people). Specifically, in fiscal years 2007 and 2011, respectively, 52 percent and 67 percent of all of EDA's funded projects under the two programs were in nonrural areas.

GAO found that various types of economic development projects received funding under Public Works and EAA in fiscal years 2007 and 2011. The most common types of projects funded under Public Works involved constructing or repairing infrastructure (such as water, sewer, gas, and electrical systems) or constructing or renovating commercial buildings and industrial and business parks. The most common types of projects funded under EAA involved helping businesses get started, planning and research to support job creation and retention, and constructing or repairing infrastructure.

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Abbreviations

ACS	American Community Survey
BEA	Bureau of Economic Analysis
BLS	Bureau of Labor Statistics
EAA	Economic Adjustment Assistance
EDA	Economic Development Administration
EDAP	Economic Development Assistance Program
ERS	Economic Research Service
OIG	Office of Inspector General
PCI	per capita income
PWEDA	Public Works and Economic Development Act of 1965

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February 6, 2014

The Honorable Barbara Mikulski
Chairman
The Honorable Richard Shelby
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Frank Wolf
Chairman
The Honorable Chaka Fattah
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
House of Representatives

The Public Works and Economic Development Act of 1965 (PWEDA) authorized the creation of the Economic Development Administration (EDA) within the Department of Commerce (Commerce).¹ PWEDA, as amended, authorizes EDA to provide financial assistance through grants to rural and urban communities experiencing substantial and persistent economic distress. The two largest programs EDA uses to accomplish its mission are the Public Works and Economic Development (Public Works) program and the Economic Adjustment Assistance (EAA) program. In fiscal year 2012, Public Works projects comprised 48 percent (\$129.2 million) of EDA's total grant investment dollars, while EAA projects comprised 14 percent (\$38.5 million) of EDA's total grant investment dollars.

House Report 112-463 included a requirement that GAO review grants EDA made under the Public Works and EAA programs.² In response to

¹P. L. 89-136 (79 Stat. 552, codified at 42 U.S.C. §3121 et seq.).

²The language of House Report 112-463 directing GAO to conduct this review was slightly modified and approved by the Explanatory Statement that appears in the Congressional Record of March 11, 2013 (159 Cong. Rec. S1287, S1300 (daily ed. March 11, 2013)). The Explanatory Statement is the equivalent of the Conference Committee Report for the Consolidated and Further Continuing Appropriations Act of 2013 (Pub. L. 113-6), which contains EDA's fiscal year 2013 appropriations. See Pub L. 113-6, § 4.

the mandate, on September 13, 2013, we briefed your committee staffs on our preliminary observations and discussed the scope and methodology of our work.

This report examines (1) the extent to which EDA documented grant selection decisions; (2) the indicators of economic distress for counties with EDA-funded projects and how these funds have been distributed to rural and nonrural areas; and (3) the types of projects that have been funded by these programs. EDA awarded more than 1,500 grants under the Public Works and EAA grant programs in fiscal years 2006 through 2012 (the period of interest in the congressional mandate). In general, we focused our review on fiscal year 2007 because EDA awarded the largest number of grants in this year compared to the rest of the 7-year period and fiscal year 2011 because it was the most recent year during the period in which we considered data to be reliable. We also reviewed relevant statutes and EDA regulations, operational guidance, and federal funding opportunity announcements that defined the eligibility and other criteria for awarding grants under the Public Works and EAA programs. To address the first objective, we reviewed a nonprobability sample of 64 projects EDA funded across the six regions in fiscal years 2007 and 2011 and assessed the documentation its regional offices maintained on meetings related to the funding of these projects. We also reviewed a random and generalizable sample of 74 grant awards from fiscal year 2012, drawn from a sample population of 204 projects, to assess the extent to which EDA regional offices followed new procedures for documenting meetings related to funding of proposed projects during that year. All estimates from our review have a margin of error of no more than plus or minus 10 percentage points. In addition, we conducted structured interviews with officials from EDA's six regional offices to enable comparison of regional grant review and documentation practices. To address the second objective, we used Bureau of Economic Analysis (BEA) and Bureau of Labor Statistics (BLS) data, respectively, to calculate the 12-month per capita income and 24-month unemployment rate (calendar years) at the county level for each funded grant from fiscal years 2007 and 2011, and we compared the county data to national and state averages for the same time periods. We did not use the same procedures that EDA staff generally use to calculate per capita income and unemployment, and our findings are not intended to replicate EDA's

eligibility determinations.³ We also used EDA's data to identify and describe projects that were funded during the period based upon a special need. In addition, we used the U.S. Department of Agriculture Economic Research Service's (ERS) Rural-Urban Continuum Codes to identify the population density at the county level for each funded grant. To address the third objective, we categorized EDA's descriptions of the economic development activities funded by Public Works and EAA grants using GAO-defined project types.⁴

To assess the reliability of EDA data, we interviewed EDA officials knowledgeable about the electronic grants management database, reviewed relevant documentation, and conducted electronic data testing. We reviewed documentation from BEA, BLS, the Census Bureau, and ERS about how they compile their data. We determined that these data sources were sufficiently reliable for the purpose of describing the poverty, unemployment, and rural classifications of EDA project locations. See appendix I for a detailed description of our scope and methodology.

We conducted this performance audit from April 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

EDA's primary focus is to help regions experiencing long-term economic distress or sudden economic dislocation (brought about by, for example,

³In comparison with the methodology and data sources used in our analyses, EDA regulations require staff to base determination of economic distress on the most recent American Community Survey (ACS) published by the U.S. Census Bureau for the relevant geographic area. Where a recent ACS is not available, EDA staff must base their decision upon the most recent federal data from other sources. As described, our analysis is based upon BEA's per capita income data. ACS uses a different measure of per capita income than BEA (specifically, the ACS measure reflects wages and salaries only, while the BEA measure reflects additional components of income beyond wages and salaries, such as "in kind" income from Medicaid and Medicare, and employer contributions). Such differences in data sources may contribute to variations between our findings and EDA's determinations. (See appendix I for more details on EDA's and our methodologies.)

⁴See appendix II for more detail on these project types.

plant closure or natural disaster) through public infrastructure investments, technical assistance and research, and the development and implementation of comprehensive economic development strategies. EDA's two largest grant assistance programs are Public Works and EAA. The Public Works program is used to finance infrastructure-related activities that support job creation, such as water and sewer facilities, industrial parks and business centers, broadband facilities, port and rail improvements, and business incubator facilities. The EAA program is used to fund strategic planning and implementation activities, including the same activities eligible under Public Works grants.

PWEDA establishes criteria for the (1) types of entities that are eligible for assistance; (2) economic distress characteristics of geographic areas in which projects can be located, with specific thresholds for per capita income and unemployment rates; and (3) factors EDA must consider when awarding grants (see table 1). While proposed grant projects generally must be located in an area that is experiencing at least one of the distressed circumstances, applicants are not required to be physically located in these areas.⁵ EDA funds for the Public Works and EAA programs are publicly announced in annual Economic Development Assistance Program (EDAP) Federal Funding Opportunities (FFO) and competitively awarded to eligible entities, as shown in table 1. Grant-making authority is decentralized among the agency's six regional offices, whose primary responsibility is to review requests for EDA funding, provide technical assistance, and administer EDA grants.

⁵Applicant eligibility is determined by the entity type. (See table 1.)

Table 1: PWEDA Criteria for Eligible Entities and Projects, and Mandatory Award Factors

Types of eligible entities	<p>Eligible entities must be</p> <ul style="list-style-type: none"> • economic development districts; • Indian tribes; • State, a city, or other political subdivision of a state; • an institution or consortium of institutions of higher education; or • a public or private nonprofit organization or association acting in cooperation with officials of a political subdivision of a state.
Economic distress characteristics of geographic area in which the project is located ^a	<p>Project areas must meet one or more of the following</p> <ul style="list-style-type: none"> • per capita income of 80 percent or less of the national average; • most recently available 24-month unemployment rate at least 1 percentage point greater than the national average; or • a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions.^a
Criteria for assistance ^b	<p>Public Works projects must</p> <ul style="list-style-type: none"> • improve opportunities for the successful establishment or expansion of industrial or commercial plants or facilities; help create long-term employment opportunities; or primarily benefit the long-term unemployed and members of low-income families in the project area; • fulfill a pressing need of the area, or part of the area, where the project is located; • align with the area’s comprehensive economic development strategy (a plan for addressing an area’s economic problems and opportunities); and • adhere to the rule that not more than 15 percent of EDA funding for Public Works may be expended in any one state. <p>Economic Adjustment Assistance projects must</p> <ul style="list-style-type: none"> • help the area to meet a special need arising from— <ul style="list-style-type: none"> • actual or threatened severe unemployment; or • economic adjustment problems resulting from severe changes in economic conditions; and • align with the area’s comprehensive economic development strategy (with the exception of planning projects).

Source: PWEDA.

Note: According to EDA regulations, eligible projects can also include projects located within an Economic Development District in a region that does not meet the per capita income, unemployment, or special need criteria. Such projects would be eligible for investment assistance if EDA determines that the project will be of “substantial direct benefit” to a geographic area within the Economic Development District that meets one or more of the above criteria. For this purpose, a project provides a “substantial direct benefit” if it provides significant employment opportunities for unemployed, underemployed, or low-income residents of the geographic area within the Economic Development District. Although they represent a small portion of the fiscal year 2007 and 2011 projects we reviewed, we did not conduct separate analyses of the numbers or types of projects that were eligible based on this criterion because it was outside the scope of our review.

^aProjects generally must be located in an area that, on the date of submission of the application, meets one or more of these criteria.

^bEDA must determine that the project will meet all stated objectives.

EDA uses multiple levels of review to identify competitive economic development investment proposals:

- *Pre-application review* (optional). Regional office staff provides technical assistance to applicants prior to formal application.
- *Technical review*. Regional office staff assess the timeliness and completeness of applications, including whether the applications meet the eligible entity and economic distress criteria.
- *Project analysis review*. A regional representative assesses complete applications' responsiveness to the specific requirements set forth in the relevant FFO.
- *Investment Review Committee review*. After the technical and project analysis reviews, members of the Investment Review Committee (IRC) prioritize competitive applications that merit consideration for an award. Each office maintains an IRC that must include regional counsel, a specialist in environmental issues, and a representative from EDA headquarters. The final IRC voting panel consists of at least four voting members, excluding the regional counsel and Regional Director. According to EDA's 2012 operations manual, IRC recommendations must be developed with an aim of ensuring the balance of EDA's grant portfolio both in terms of geography and investment type, and recommendations must be balanced against the amount of funding each office is allotted for Public Works and EAA grants.
- *Grant officer's review*. Each office's regional director serves as the grant officer and is responsible for reviewing the IRC recommendations and making final award decisions. EDA's 2012 operations manual requires grant officers to document in writing the reasons behind decisions that disagree with the IRC's recommendation.

EDA staff also apply three types of criteria during review phases, as outlined by the EDAP FFO:

- *Economic distress criteria*. During the technical review phase, regional office staff apply economic distress criteria established by PWEDA to determine whether applications meet regulatory eligibility requirements.

-
- *Evaluation criteria.* During the project analysis review, regional office staff assess each application's responsiveness to evaluation criteria set forth in the relevant FFO.
 - *Selection criteria.* The IRC uses selection criteria to select the pool of competitive applications from which grants will be recommended for an award.

Table 2 describes these criteria in detail. According to EDA headquarters, the criteria used to review applications for Public Works and EAA grant funds have generally reflected EDA's investment priorities since the agency was established in 1965 and, thus, have not changed. However, officials said that the process for applying the criteria may change from time to time based upon, for example, a suggestion from Commerce's Office of General Counsel or a regional office. The 2011 EDAP FFO described two grant review procedures that were not part of EDA's 2007 EDAP FFO. Specifically, in fiscal year 2007, applications were only required to meet one out of five evaluation criteria, and EDA staff were not required to prioritize or rank competitive applications to help inform the grant officer's award decision. However, in fiscal year 2011, EDA policy required staff to apply specific weights, as shown in table 2, to five categories of evaluation criteria: (1) national strategic priorities; (2) economically distressed and underserved communities; (3) return on investment; (4) collaborative regional innovation; and (5) public/private partnerships.⁶ Next, staff were to categorize each grant application as "not competitive," "competitive," or "highly competitive" based upon the merit review. IRC panels were then required to make a ranked list of recommendations from the pool of "competitive" and "highly competitive" applications. The ranked list of applications would be considered by the grant officer for final grant award decisions. Table 2 illustrates the criteria and procedures used to assess Public Works and EAA grants in fiscal years 2007 and 2011.

⁶In other words, in 2011, the five evaluation criteria were to be specifically weighted during IRC discussions, while in 2007, IRC staff may have discussed and considered any one of the five evaluation criteria without limitation.

Table 2: Criteria and Procedures Used To Assess Public Works and Economic Adjustment Assistance Grant Applications in Fiscal Years 2007 and 2011

Evaluation criteria and procedures

FY 2007	FY 2011
<p>Proposed projects were to exhibit at least one of the following criteria:</p> <ul style="list-style-type: none"> • Market-based and results drive; • Strong organizational leadership; • Advance productivity, innovation and entrepreneurship; • Looks beyond the immediate economic horizon, anticipates economic changes, and diversifies the local and regional economy; • Demonstrate a high degree of local commitment 	<p>Proposed projects were evaluated using weighted criteria:</p> <ul style="list-style-type: none"> • National Strategic Priorities (30%) • Economically Distressed and Underserved Communities (25%) • Return on Investment (25%) • Collaborative Regional Innovation (10%) • Public/Private Partnerships (10%)

Selection criteria and procedures

FY 2007	FY 2011
<p>Applications that met technical and project analysis review requirements were selected for further consideration based on the following criteria:</p> <ul style="list-style-type: none"> • Whether proposals support or encourage one or more of the following funding priority considerations: <ul style="list-style-type: none"> • Long-term, coordinated, and collaborative regional economic development approaches; • Innovation and competitiveness; and • Entrepreneurship • Additional consideration was given to proposals that: <ul style="list-style-type: none"> • responded to sudden and severe economic dislocations; • enabled communities impacted by Base Realignment and Closures (BRAC) to transition to a civilian economy; • advanced the goals of Executive Order 13287, "Preserve America"; and • supported economic revitalization of brownfields^a 	<p>Applications ranked "competitive" or "highly competitive" were further evaluated based on the extent to which they addressed the following objectives:</p> <ul style="list-style-type: none"> • Relative economic distress; • Applicant's financial or management capacity; • Availability of program funds; • Geographic balance in distribution of program funds; • Diversity of project types across grant programs; • Diversity of organizations, populations, and regional territories receiving funding; • Applicant's performance under previous federal financial assistance awards; • Likelihood and/or time frame of job creation; or • Ability to enable BRAC-impacted communities to transition to a civilian economy

Source: EDA Economic Development Assistance Program Federal Funding Opportunities from 2007 and 2011.

^aBrownfields are defined as real properties of which the expansion, redevelopment, or reuse may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. EDA funds projects designed to prevent, assess, safely clean up, and reuse brownfields.

EDA Offices Did Not Consistently Document Funding Decisions

EDA has a history of inconsistently documenting the results of committee meetings in which proposed projects are recommended for funding. In December 2000, the Commerce Office of Inspector General (OIG) reported that it found inconsistencies in how EDA's regional offices documented the project review committee (now referred to as the IRC) process and recommended that EDA keep better documentation of actions by these committees.⁷ We also found inconsistencies in how EDA's regional offices documented the results of IRC meetings, based on our review of a nongeneralizable sample of the IRC meeting documentation for 64 Public Works and EAA projects EDA funded in fiscal years 2007 and 2011. For example, some IRC meeting documentation we reviewed provided limited information on the proposed projects and included only a discussion of the number of jobs and the amount of private investment that the project would generate. In contrast, we found other instances of IRC meeting documentation that provided detailed information on proposed projects reviewed, including positives and negatives associated with the project and recommendations to improve the project. EDA officials told us that the agency had policies and procedures in place for its regional offices to follow for awarding grants in fiscal years 2007 and 2011, but that copies of the 2007 policies and procedures could not be located and that the same policies and procedures effective in fiscal year 2010 were also applicable in 2011. Our review of EDA's 2010 policies and procedures found that there was no requirement that regional offices document IRC meeting discussions in a consistent manner. Similarly, EDA officials said that, prior to fiscal year 2012, discussions were not consistently documented.

In March 2012, EDA implemented new procedures in response to the Commerce OIG's December 2000 recommendations. According to the new procedures, regional offices were required to complete an IRC record for each proposed project reviewed using a standard template (see fig. 1). EDA guidance notes that the IRC should address several items using the template, including the (1) pros and cons of each project; (2) environmental/legal issues, if any; (3) project's fit with the agency's investment priorities; (4) notes on the reasonableness of reported

⁷U.S. Department of Commerce, Office of Inspector General, *Economic Development Administration: Financial Assistance Programs' Award Processes Promote Merit-Based Selection Decisions* CFDA Nos. 11.300, 11.303-11.305, and 11.307. Financial Audit Report No. DEN-11580/December 2000.

outcome data on jobs and private investment; and (5) recommendations for further action.

Figure 1: EDA Template for Investment Review Committee Record

INVESTMENT REVIEW COMMITTEE RECORD		
_____ REGIONAL OFFICE		
Date: _____		
Applicant(s) / State		
Control # _____		
Program _____		
Short Project Description:		

Funding Matrix:	EDA Amount:	\$ _____
	Local Share	\$ _____
	Total Project Cost	\$ _____
Discussion:		
Issues:		
Pros:		
Cons:		
Investment Priorities:		
ECS Milestone:		
Regional Investment Strategy:		
Voting Member Composition:		
IRC Recommendation:		
Regional Director Decision:		
Concurs _____ Does Not Concur _____		
"Does Not Concur" Comments (required): _____		
Signature _____		Date _____

Source: EDA Operational Guidance, March 2012.

Despite the new guidance and procedures, we found that EDA regional offices did not consistently complete the required IRC template in fiscal year 2012. We reviewed a random and generalizable sample of IRC record templates for 74 Public Works and EAA projects that EDA regional offices funded in fiscal year 2012, and we estimate that the regional offices filled out the template in its entirety for only 46 percent of all projects funded that year.⁸ We found that one of EDA's regional offices did not complete an IRC record template for any of the 20 projects we reviewed from this office. In addition, we estimate that 34 percent of the projects across all six regions did not include a discussion of pros and cons as required by EDA's new procedures and 35 percent did not indicate the investment priority or priorities the projects were designed to address. Further, EDA has yet to implement a means of monitoring the offices' use of the IRC template or assessing its effectiveness.

Standards for Internal Control in the Federal Government requires that all transactions and other significant events be clearly documented and the documentation be readily available for examination.⁹ Such documentation provides an entity with reasonable assurance that its operations are conducted effectively and efficiently and in compliance with applicable laws and regulations. Until EDA ensures that its regional offices consistently and fully complete an IRC record template for all proposed projects considered for funding, EDA will not have adequate assurance that its funding decisions are consistent and transparent.

⁸All estimates from our random sample have a margin of error of 10 percentage points.

⁹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Project Counties Were Generally Distressed Relative to National and State Averages and Located in Nonrural Areas

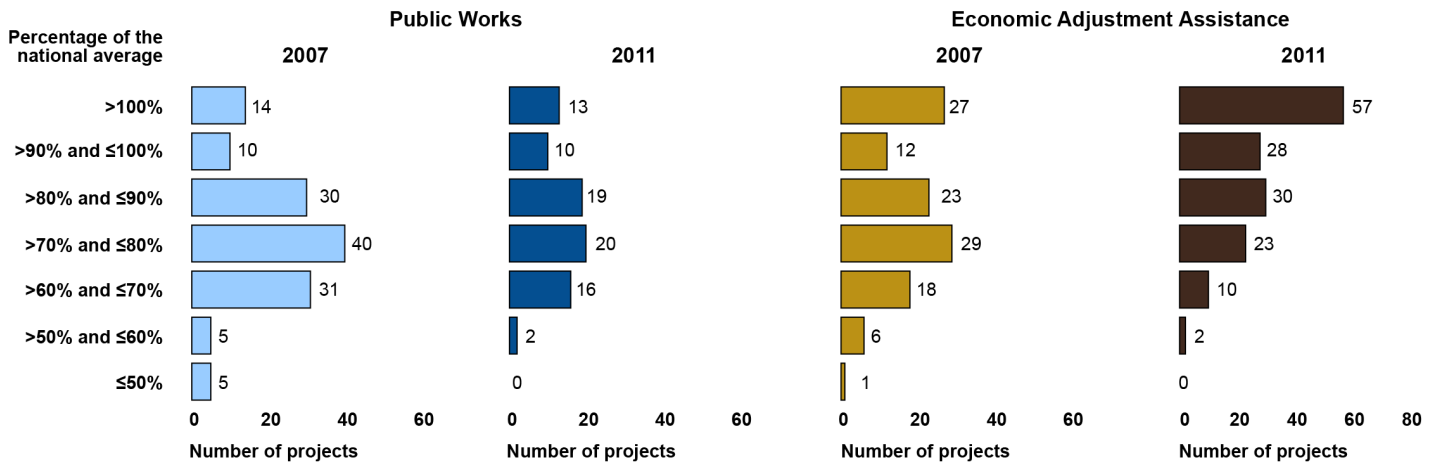
Based on our analysis of the economic distress characteristics of the counties where EDA funded projects under its Public Works and EAA programs in fiscal years 2007 and 2011, we found that counties where EDA funded projects generally had lower per capita income and higher unemployment rates than national and state averages. Furthermore, some projects that EDA funded under the Public Works and EAA programs in fiscal years 2007 and 2011 had a special need, as defined by EDA. In addition, we found that for fiscal years 2007 and 2011, more than half of the projects EDA funded were located in counties that were part of nonrural areas, or areas with an urban center of more than 50,000 people.

Project Counties Generally Had Lower Per Capita Income and Higher Unemployment Rates Compared with National and State Averages

Based on our methodology and data sources, counties where EDA funded projects in fiscal years 2007 and 2011 under its Public Works and EAA programs generally had lower per capita income and higher unemployment rates compared with national and state averages. As previously mentioned, we did not use the same procedures that EDA staff generally use to calculate per capita income and unemployment, and our findings are not intended to replicate EDA's eligibility determinations.

As figure 2 illustrates, in fiscal years 2007 and 2011, our analysis showed that EDA funded a number of projects in counties that had a per capita income at or less than the national average, particularly under the Public Works program. For example, 121 of the 135 projects (90 percent) EDA funded under the Public Works program in fiscal year 2007 and 67 of the 80 projects (84 percent) in fiscal year 2011 were located in counties with per capita income at or less than the national average. Under the EAA program, 89 of the 116 projects (77 percent) EDA funded in fiscal year 2007 and 93 of the 150 projects (62 percent) it funded in fiscal year 2011 were located in counties that had a per capita income at or less than the national average.

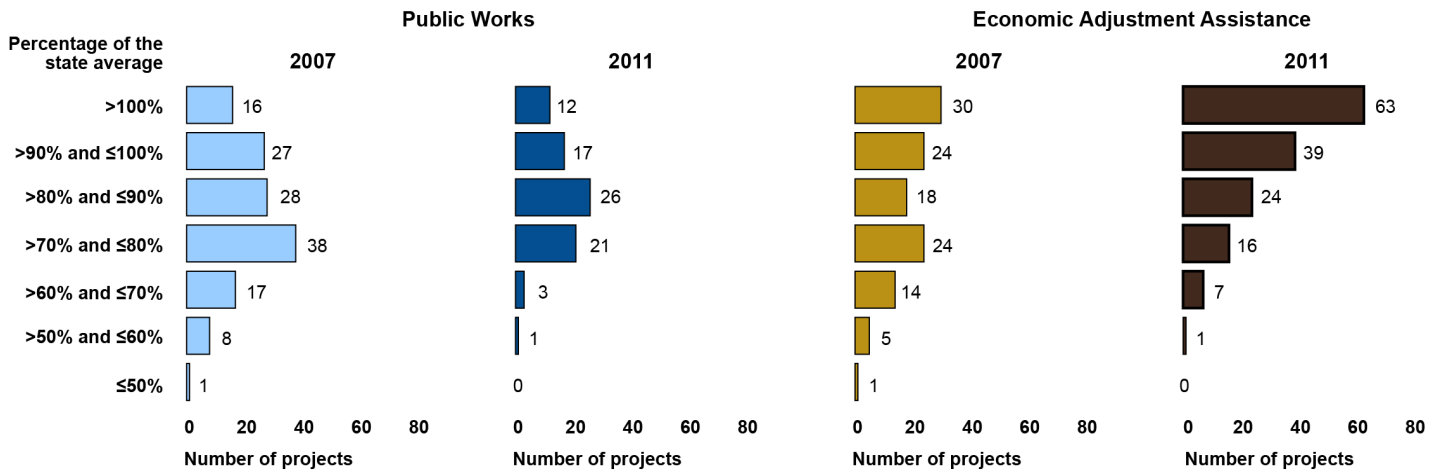
Figure 2: Project County Per Capita Income Levels Relative to National Averages, Fiscal Years 2007 and 2011



Source: GAO analysis of BEA and EDA data.

EDA also funded a number of projects in counties that had a per capita income at or less than the state average, as figure 3 shows. Specifically, under the Public Works program, 119 of the 135 projects (88 percent) EDA funded in fiscal year 2007 and 68 of the 80 projects (85 percent) EDA funded in fiscal year 2011 were located in counties with per capita income at or less than the state average. Under the EAA program, 86 of the 116 projects EDA funded (74 percent) in fiscal year 2007 and 87 of the 150 projects (58 percent) EDA funded in fiscal year 2011 were located in counties with per capita income at or less than the state average.

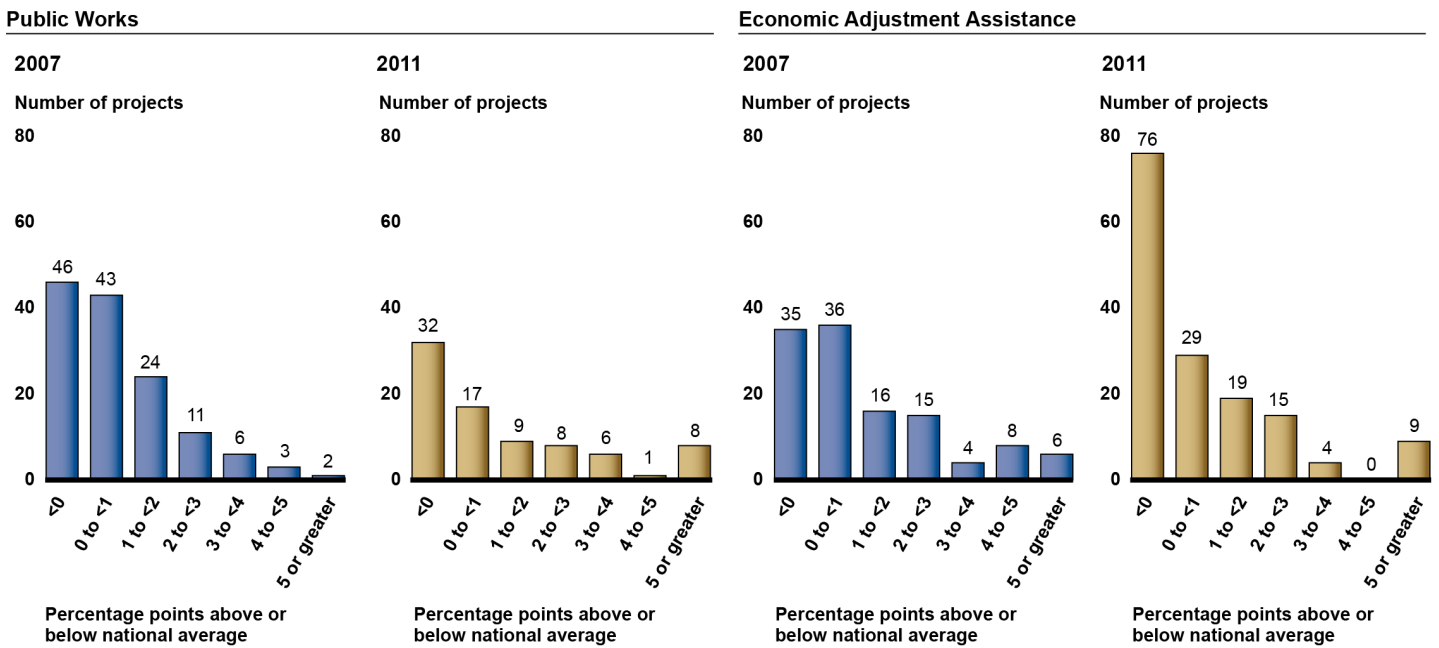
Figure 3: Project County Per Capita Income Levels Relative to State Averages, Fiscal Years 2007 and 2011



Source: GAO analysis of BEA and EDA data.

Our analysis also found that the 24-month unemployment rates of EDA-funded project counties were typically higher than national unemployment rates. In fiscal year 2007, 89 (66 percent) of 135 Public Works project counties and 85 (71 percent) of 120 EAA project counties had 24-month unemployment rates that met or exceeded the national average (see fig. 4). In fiscal year 2011, fewer Public Works and EAA project counties (49 projects, or 60 percent and 76 projects, or 50 percent, respectively) had unemployment rates meeting or exceeding the national average.

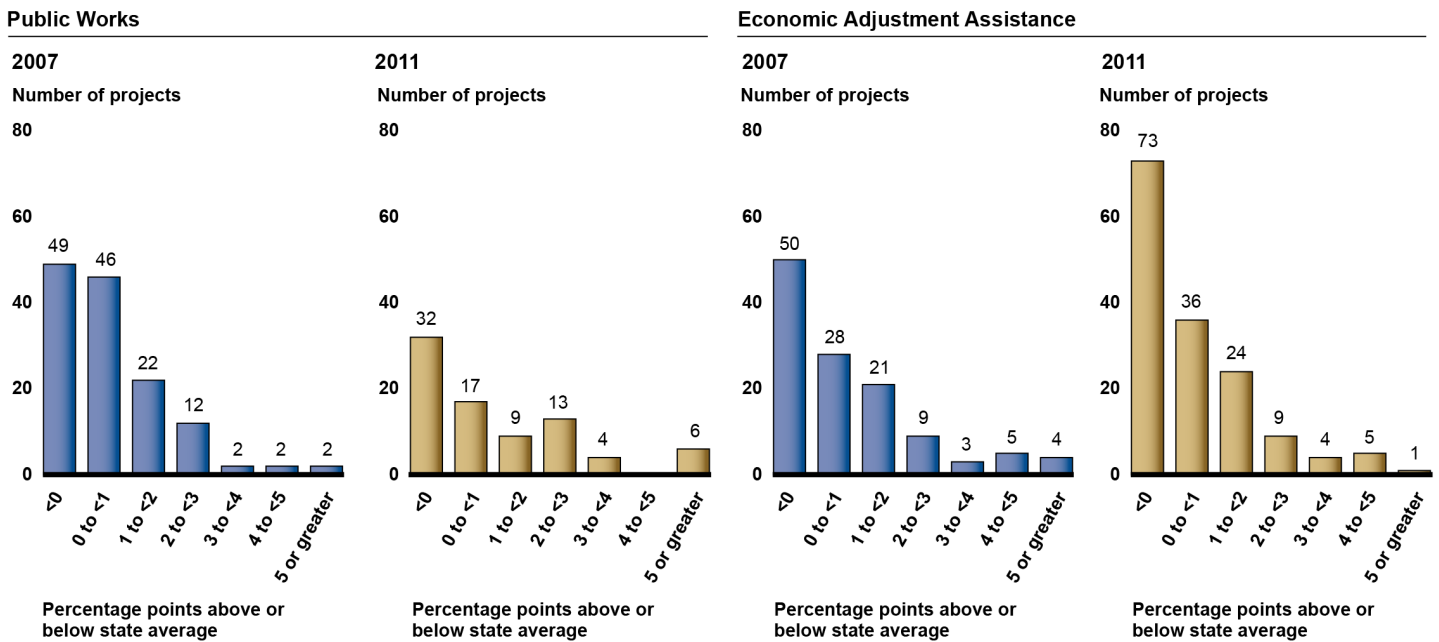
Figure 4: Project County 24-Month Unemployment Rates Relative to National Averages, Fiscal Years 2007 and 2011



Source: GAO analysis of BLS and EDA data.

Our comparisons of the unemployment rate in EDA-funded counties to the state unemployment rate produced largely the same results as the national comparisons. Specifically, EDA funded 86 projects (64 percent) in fiscal year 2007 and 49 projects (60 percent) in fiscal year 2011 under the Public Works program in counties that met or exceeded the state unemployment average. In addition, EDA funded 70 projects (58 percent) in fiscal year 2007 and 79 projects (52 percent) in fiscal year 2011 under the EAA program in counties that met or exceeded the state unemployment average (see fig. 5).

Figure 5: Project County 24-Month Unemployment Rates Relative to State Averages, Fiscal Years 2007 and 2011



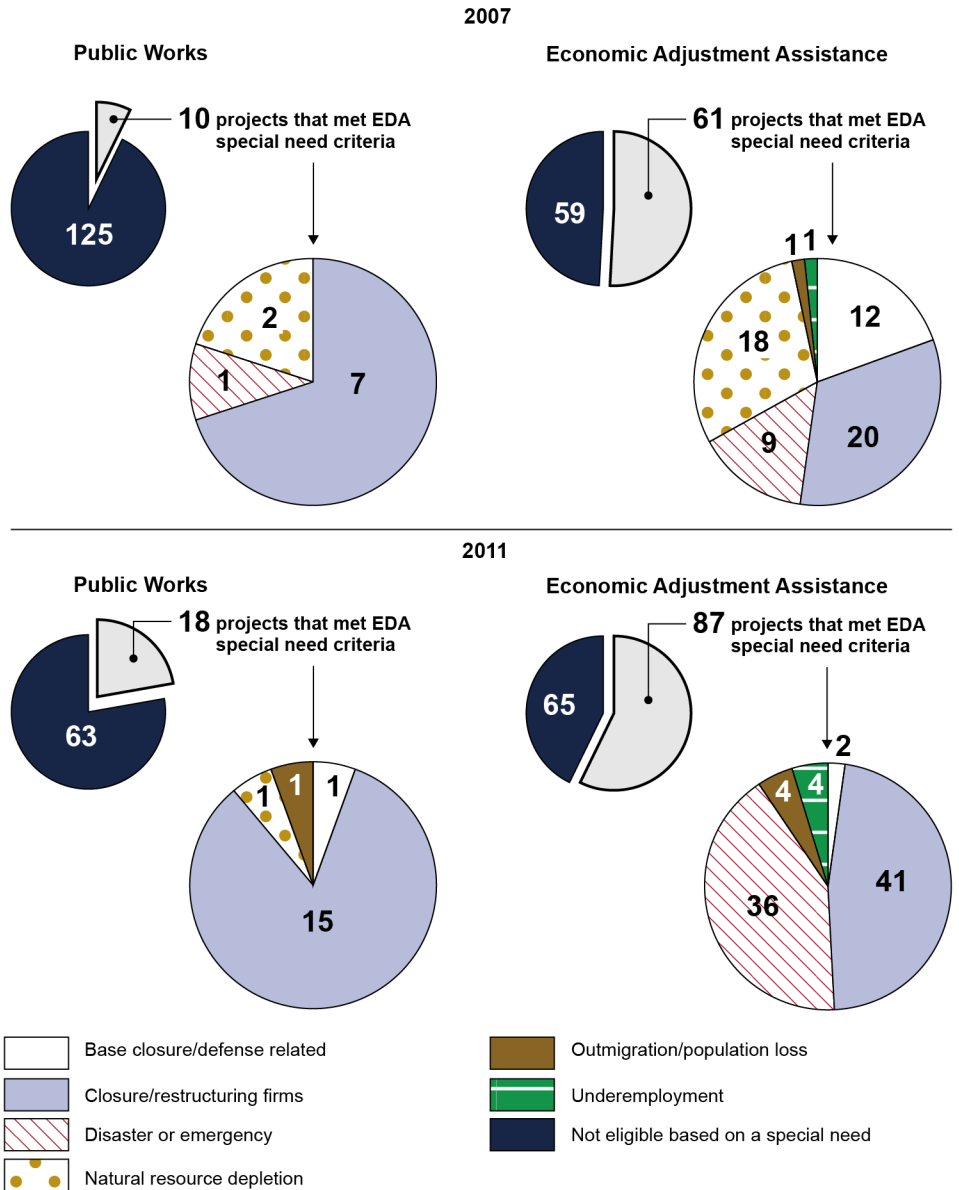
Source: GAO analysis of BLS and EDA data.

Some Project Areas Had an EDA-Defined Special Need

Our analysis of EDA’s data showed that EDA funded some projects located in areas with a special need (as defined by PWEDA and EDA regulations) under the Public Works and EAA programs in fiscal years 2007 and 2011 (see fig. 6). As previously discussed, EDA can determine a project to be eligible for funding based on a special need arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions. EDA funded a higher number of projects with a special need under its EAA program compared with its Public Works program in both fiscal years 2007 and 2011. Figure 6 also shows that, under both programs and in both fiscal years, firm closure/restructuring was the most commonly met special need criterion. In addition, EDA funded several projects under its EAA program that met the natural resource depletion special need criterion in fiscal year 2007 and the disaster or emergency special need criterion in fiscal year 2011. According to EDA officials, EDA received a large amount of supplemental no-year funding (additional funding that is available until expended and not tied to a particular fiscal year) in fiscal years 2008 and 2009 that could be used for disaster-related activities. Therefore, many of the special need projects eligible based on disasters or emergencies and funded in

fiscal year 2011 could have been identified in fiscal years 2008 or 2009. In addition, these officials stated that the economic conditions in fiscal year 2011 could have accounted for part of the increased number of special-need-eligible projects in that year because the national unemployment rate was higher than usual and the national per capita income level was lower than usual, making it more difficult for individual counties to meet the EDA thresholds for these measures.

Figure 6: Special Need Eligibility for Public Works and Economic Adjustment Assistance Projects, Fiscal Years 2007 and 2011



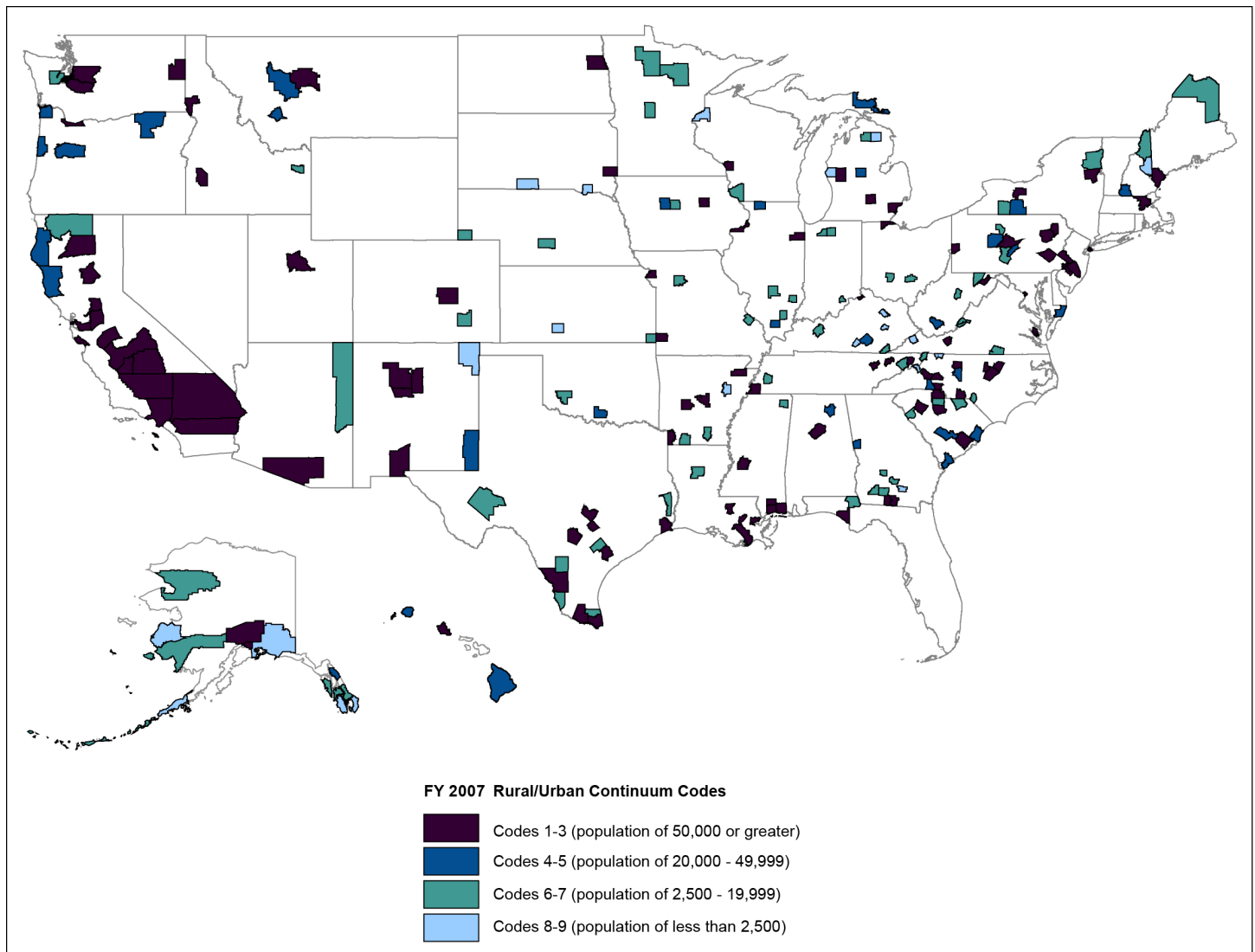
Source: GAO analysis of EDA data.

Many Projects Were Located in Nonrural Areas

With the exception of the Public Works program in fiscal year 2007, at least half of the funded Public Works and EAA projects in fiscal years 2007 and 2011 were located in counties that were part of nonrural areas. According to the U.S. Department of Agriculture Economic Research Service's Rural-Urban Continuum Codes, 52 percent of all EDA grants awarded in fiscal year 2007 and 67 percent of those awarded in fiscal year 2011 funded projects in nonrural areas.¹⁰ By program, 45 percent of Public Works grants awarded in fiscal year 2007 and 53 percent of those awarded in fiscal year 2011 funded projects in nonrural areas, while 61 percent of EAA grants awarded in fiscal year 2007 and 75 percent of those awarded in fiscal year 2011 funded projects in nonrural areas. By comparison, 85 percent of the U.S. population lived in such nonrural areas as of the 2010 Census. A small number of projects each year were located in completely rural counties (population less than 2,500). These projects represented 7 percent of combined Public Works and EAA projects in fiscal year 2007 and 2 percent of combined projects in fiscal year 2011. By comparison, about 1.5 percent of the U.S. population lived in completely rural areas as of the 2010 Census. Figures 7 and 8 show the population density of counties where projects were funded in fiscal years 2007 and 2011, respectively.

¹⁰According to the Economic Research Service, nonrural areas are part of metropolitan statistical areas, which the Office of Management and Budget defines as having at least one urbanized area of 50,000 or more population, plus adjacent territory that is highly integrated with the core as measured by commuting ties. Only one county in a metropolitan statistical area need have a population of 50,000 or more in order for every other county within that area to be considered nonrural. In both 2007 and 2011, some project counties in the nonrural category had populations of less than 50,000. For example, EDA funded a project in 2011 in a Florida county with a 2011 Census population estimate of about 27,000. However, the county is in the Jacksonville, Florida, metropolitan statistical area, which had a population of about 1.3 million as of the 2010 Census.

Figure 7: Rural-Urban Continuum Codes of Counties with EDA Public Works or Economic Adjustment Assistance Projects in 2007



Source: MapInfo.

Notes: In several cases, more than one project was located in a given county. In addition, this map excludes projects that occurred in more than one county.

As defined by the U.S. Department of Agriculture's Economic Research Service, the Rural-Urban Continuum Codes reflect the following population densities:

Code 1: Counties in metro areas of 1 million population or more

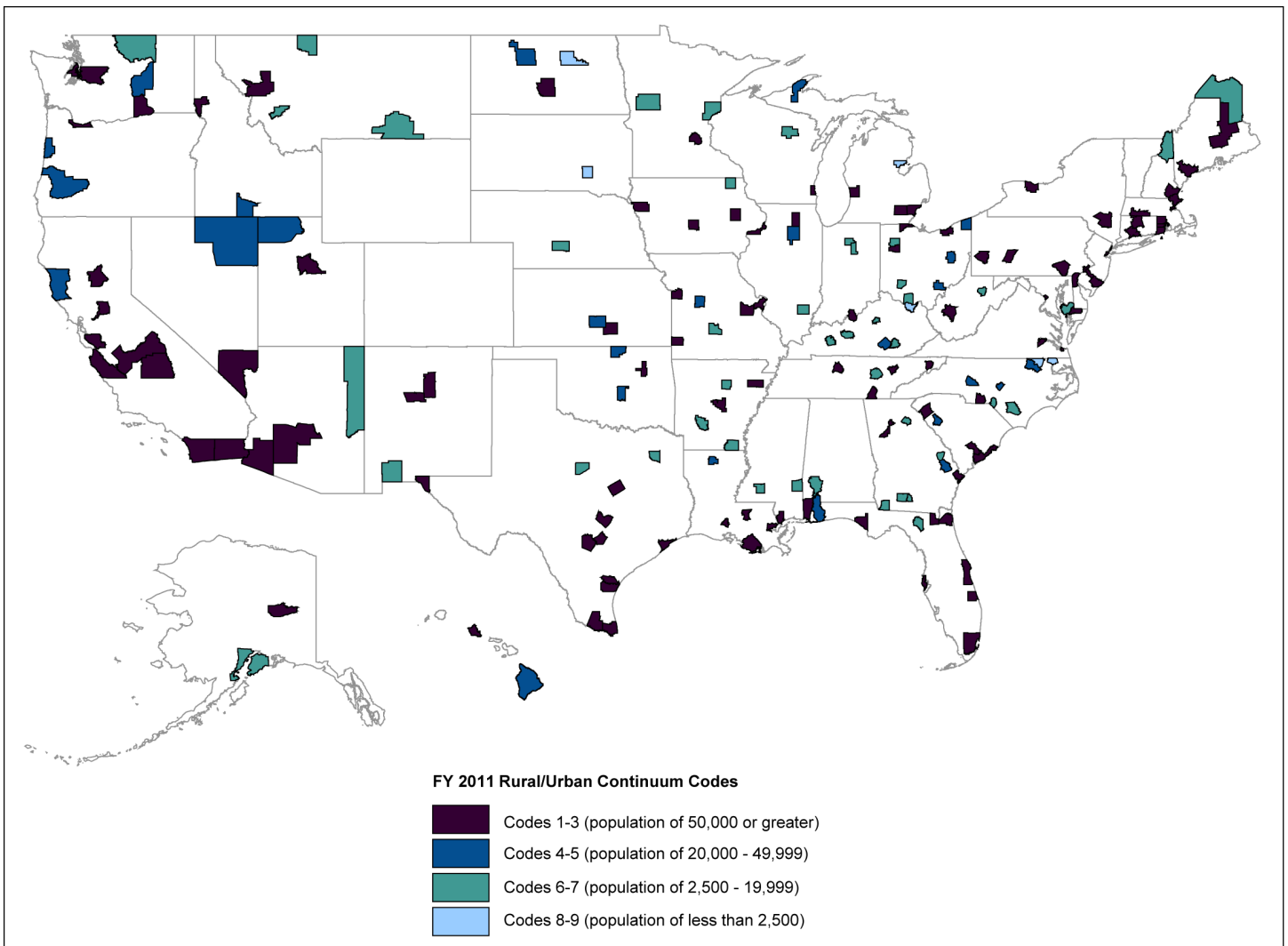
Code 2: Counties in metro areas of 250,000 to 1 million population

Code 3: Counties in metro areas of 50,000 to 250,000 population

Code 4: Urban population of 20,000 to 49,999, adjacent to a metro area

- Code 5: Urban population of 20,000 to 49,999, not adjacent to a metro area
- Code 6: Urban population of 2,500 to 19,999, adjacent to a metro area
- Code 7: Urban population of 2,500 to 19,999, not adjacent to a metro area
- Code 8: Completely rural or less than 2,500 urban population, adjacent to a metro area
- Code 9: Completely rural or less than 2,500 urban population, not adjacent to a metro area

Figure 8: Rural-Urban Continuum Codes of Counties with EDA Public Works or Economic Adjustment Assistance Projects in 2011



Source: MapInfo.

Notes: In several cases, more than one project was located in a given county. In addition, this map excludes projects that occurred in more than one county.

As defined by the U.S. Department of Agriculture's Economic Research Service, the Rural-Urban Continuum Codes reflect the following population densities:

Code 1: Counties in metro areas of 1 million population or more

Code 2: Counties in metro areas of 250,000 to 1 million population

Code 3: Counties in metro areas of 50,000 to 250,000 population

Code 4: Urban population of 20,000 to 49,999, adjacent to a metro area

Code 5: Urban population of 20,000 to 49,999, not adjacent to a metro area

Code 6: Urban population of 2,500 to 19,999, adjacent to a metro area

Code 7: Urban population of 2,500 to 19,999, not adjacent to a metro area

Code 8: Completely rural or less than 2,500 urban population, adjacent to a metro area

Code 9: Completely rural or less than 2,500 urban population, not adjacent to a metro area

EDA Funded Various Types of Projects under Its Public Works and Economic Adjustment Assistance Programs

Based on our analysis of EDA-funded projects, EDA provided funding for various types of economic-development-related projects under its Public Works and EAA programs in fiscal years 2007 and 2011. As figure 9 shows, EDA most often funded projects in two categories under its Public Works program:

- infrastructure (projects that involve, among other things, constructing and repairing various modes of transportation; constructing and repairing water, sewer, gas, and electrical systems; and developing telecommunications and broadband infrastructure) and
- commercial and industrial (projects that involve the design, construction, demolition, or renovation of commercial buildings and industrial and business parks, including infrastructure to support the parks and financial support to existing businesses).

Examples of Public Works projects from these categories that were selected from competitive applications include a grant of about \$2.0 million for improving water and wastewater systems (infrastructure) in Northampton County, North Carolina, which, according to our analysis, had per capita income of 72 percent of the national average and an unemployment rate 2 percentage points higher than the national average, and a grant of about \$1.2 million to expand an industrial park (commercial and industrial) in Beltrami County, Minnesota, which had per capita income of 72 percent of the national average.

Figure 9: Public Works and Economic Adjustment Assistance Projects by Category, Fiscal Years 2007 and 2011

	Projects Category	Public Works	Economic Adjustment Assistance	Total Number of Projects by Category
2007	Infrastructure	64	22	86
	Plans and Research		66	66
	Commercial and Industrial	36	6	42
	Business Development	13	18	31
	Training and Education	17	8	25
	Technical Assistance		6	6
	All Other Projects	8	3	11
	Total	138	129	267
2011	Infrastructure	41	21	62
	Plans and Research		30	30
	Commercial and Industrial	19	12	31
	Business Development	7	69	76
	Training and Education	10	11	21
	Technical Assistance		12	12
	All Other Projects	5		5
	Total	82	155	237

Source: GAO analysis of EDA data.

Figure 9 also shows that EDA most often funded projects in three categories under its EAA program:

- infrastructure (projects that involve, among other things, constructing and repairing various modes of transportation; constructing and

repairing water, sewer, gas, and electrical systems; and developing telecommunications and broadband infrastructure).

- business development (projects that support entrepreneurial efforts, help businesses get started, and promote the development of new markets for existing products); and
- plans and research (planning and strategy development efforts for job creation and retention and projects that support research of practices, principles, and innovations that foster effective economic development strategies).

Examples of EAA projects from these categories that were selected from competitive applications include grants of about \$150,000 for entrepreneurial training (business development) in Tulare County, California, which, according to our analysis, had per capita income of 68 percent of the national average; about \$200,000 for the development of an oil spill recovery plan (plans and research) in Lafayette County, Louisiana, which was awarded under the special need economic distress eligibility criterion; and about \$2.5 million for a road reconstruction project (infrastructure) in Washington County, Rhode Island, which was also awarded under the special need economic distress eligibility criterion.

Conclusions

While EDA took steps in fiscal year 2012 to address long-standing issues with its documentation of IRC decisions, we found inconsistencies in regional offices' use of the new template, including offices that did not include a discussion of the pros and cons associated with the projects being considered and one office that did not use the IRC template to document any of the discussions we sampled from its fiscal year 2012 records. Federal internal control standards require clear and accessible documentation of all program transactions and other significant events. Because EDA officials have not ensured that its regional offices fully and consistently document their IRC discussions in the template, EDA may not have adequate assurance that its funding decisions are consistent and transparent.

Recommendation

To increase transparency in the award selection process, the Secretary of Commerce should direct the Deputy Assistant Secretary for Economic Development to develop and implement procedures to ensure that EDA regional offices consistently complete the required Investment Review Committee record template for each proposed project considered for funding.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Commerce (Commerce) for review and comment. Commerce's Economic Development Administration (EDA) provided written comments, which are presented in appendix III. EDA agreed with our recommendation and requested that we provide additional clarification on our methodology for analyzing the economic distress characteristics and distribution of the economic development grant funds sampled in our study.

EDA agreed with our recommendation to develop and implement procedures to ensure that regional offices consistently complete the required Investment Review Committee (IRC) template. Further, the agency noted that it plans to implement updated grant procedures and operations manuals in fiscal year 2014. The agency stated that these manuals should more clearly delineate requirements for proper documentation of the IRC meetings and other grant review requirements. The agency also stated that it plans to provide training to EDA regional staff on both new manuals.

EDA officials also commented on our use of different data sources than EDA staff are required to use to determine the potential eligibility of funded projects. We note throughout the report that we did not use the same procedures that EDA staff generally use to calculate per capita income and unemployment, and that our findings are not intended to replicate EDA's eligibility determinations. We added language to clarify the difference between the American Community Survey's and Bureau of Economic Analysis' measures of per capita income. In addition, we deleted references to statutory thresholds to further distinguish our analysis from a compliance review.

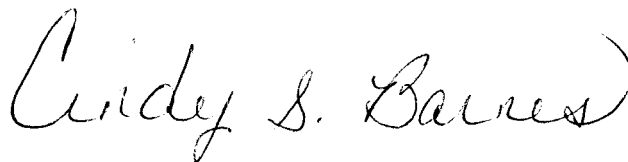
EDA officials also commented on our use of the Department of Agriculture's (USDA) Rural-Urban Continuum Codes for rural and nonrural classifications, compared to EDA's use of the Census definitions of these terms. We used Rural-Urban Continuum Codes to describe the population densities of the counties that received grants because, together, these nine codes provide a more nuanced picture of EDA's grant distribution across counties, while the Census classifies areas as either rural or urban. We agree that using the Census definitions of rural and urban would have provided a different perspective on the distribution of EDA grants to these areas, and we have clarified EDA's methods and our rationale for using USDA's classification system in the report.

Finally, EDA officials commented on our finding that the agency funded more projects under the special need criterion in fiscal year 2011 than in

fiscal year 2007, and commented that this was largely because the national unemployment rate was high during the recession at the time, making it more difficult for communities to meet the EDA thresholds for high unemployment or low per capita income. We have included these observations in the report.

We are sending copies of this report to appropriate congressional committees and to the Secretary of the Department of Commerce. In addition, this letter will be made available at no charge on the GAO website at <http://www.gao.gov>.

Should you or your staff have any questions concerning this report, please contact me at (202) 512-9345 or BrownBarnesC@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. GAO staff who made key contributions to this report are listed in appendix IV.



Cindy Brown Barnes
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines, for the Economic Development Administration's (EDA) Public Works and Economic Development (Public Works) and Economic Adjustment Assistance (EAA) programs, (1) the extent to which EDA documented grant selection decisions; (2) the indicators of economic distress for counties with EDA-funded projects and how these funds have been distributed to rural and nonrural areas; and (3) the types of projects that have been funded by these programs.

EDA awarded more than 1,500 grants under the Public Works and EAA grant programs in fiscal years 2006 through 2012 (the period of interest in the congressional mandate). For most of our review, we focused on fiscal year 2007 because EDA awarded the largest number of grants in this year compared to the rest of the 7-year period and on fiscal year 2011 because it was the most recent year during the period in which we considered data to be reliable. We did not focus on fiscal year 2012 data because some of the data from that year were not considered reliable due to an information technology event that shut down EDA's grant management system for several months. However, to assess the extent to which EDA staff followed documentation requirements that the agency introduced in fiscal year 2012, we used a list of 204 projects from that year provided by EDA to randomly select a generalizable sample. We found this 2012 data sufficiently reliable for the purpose of drawing a sample (see full description of this sample below).

To determine which fiscal year 2007 and 2011 EDA projects to review, we obtained extracts from EDA's Operations Planning and Control System, its electronic grants management system. These data extracts contained characteristics of each funded project for fiscal years 2007 and 2011, including the project number; relevant program; applicant name; project description; project state; project county; amount of EDA funding; total project funding; rural classification of the project location; whether the project was eligible for funding based on per capita income, unemployment, a special need, or other criteria; the maximum percentage of program costs the project was eligible to receive from EDA; and an open-ended field for a description of the geographic area.¹ The original

¹ We also received a list of fiscal year 2012 projects from EDA, but we did not assess all of the variables listed for fiscal years 2007 and 2011. Rather, we identified the project number, relevant program, applicant name, project description, and amount of EDA funding for a sample of fiscal year 2012 projects for which we requested meeting minutes from EDA.

data that EDA provided included 751 total projects from fiscal year 2007 and 711 total projects from fiscal year 2011. These projects reflected all of EDA's grant programs. We removed all projects except those funded under the Public Works and EAA programs, leaving 267 and 237 projects, respectively, from fiscal years 2007 and 2011. We excluded a small number of projects from all or some of our analyses as described below.

To describe the extent to which EDA documented grant selection decisions, we selected a nonprobability sample of 72 grant awards—36 from fiscal year 2007 and 36 from fiscal year 2011—across EDA's six regions. We received and examined 64 of the 72 requested records (33 from fiscal year 2007 and 31 from fiscal year 2011) of EDA grant review meeting minutes associated with these projects to summarize factors associated with funding decisions. The results of our analyses of the minutes from fiscal years 2007 and 2011 cannot be generalized to all EDA grant awards in these two or any other years. In addition, we reviewed a random and generalizable sample of 74 grant awards from fiscal year 2012 to assess the extent to which EDA staff followed newly required procedures for documenting grant review meetings that year. To select the probability sample, we started with a list of all 224 Public Works and EAA-funded projects from fiscal year 2012 and removed 20 projects that were not subject to EDA's standard grant review process. From the list of 204 projects, we randomly selected and requested grant review records for 76 projects, and we received 74 records.² With this probability sample, each member of the study population had a nonzero probability of being included, and that probability could be computed for any member. Our analysis of the fiscal year 2012 minutes provides a generalizable perspective (with a margin of error of plus or minus 10 percentage points) on the extent to which EDA staff followed the newly required documentation procedures in fiscal year 2012. As noted earlier, there were concerns over the reliability of fiscal year 2012 data. We created the sample frame out of the 2012 data extract that EDA provided. Later, we discovered that EDA listed 7 projects in its fiscal year 2012 annual report that were not included in the data extract and included 2

²According to EDA staff, grants awarded through EDA's Jobs and Innovation Accelerator Challenge and i6 Green Challenge are funded with EAA funds but are not subject to the normal review process by regional investment review committees. Therefore, we excluded the 20 projects funded under these programs from our potential population of 224 projects, reducing our population to 204 projects. In addition, when we sent our sample of 76 projects to EDA, minutes for two projects were unavailable, thus reducing our sample to 74 projects.

projects in the data extract that were not in the annual report. However, after discussion with the agency, we have a reasonable level of assurance that the fiscal year 2012 data that we used for our sampling purposes were sufficiently reliable. We also reviewed operational guidance that identified the eligibility and evaluation criteria for EDA staff to apply in determining projects to fund and conducted structured interviews with the six regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle) to enable comparison of regional grant review and documentation practices.

To describe the distress characteristics for counties with EDA-funded projects in fiscal years 2007 and 2011, we determined the 12-month per capita income and 24-month unemployment rate at the county level for each funded grant from fiscal years 2007 and 2011 (based on the EDA-defined date that the project record was created) using Bureau of Economic Analysis (BEA) and Bureau of Labor Statistics (BLS) data, respectively. We used the same data sources to calculate the national and state per capita income and unemployment rates for the same periods for each funded grant and compared them to the county level data. We chose the 12-month and 24-month periods because EDA's authorizing statute requires EDA staff to obtain "the most recent data available" for per capita income and the most recent 24-month period for which data are available for unemployment data. To determine the appropriate time period for the data, we referred to the date that the project record was created in EDA's electronic grants management system and used the BEA and BLS data from the previous 1 or 2 calendar years, respectively.³ We did not use the same procedures that EDA staff generally use to calculate per capita income and unemployment, and our findings are not intended to replicate EDA's

³Although we used the data extract that EDA provided for the majority of our analyses, we retrieved the project creation dates from the complete electronic database, which EDA also provided to us.

eligibility determinations.⁴ Some EAA project counties did not have relevant per capita income or unemployment data from the BEA or the BLS, respectively. In these cases, we dropped the projects from our analysis of per capita income or unemployment, as appropriate. Specifically, for 2007, we excluded 1 Public Works project and 4 EAA projects from the PCI analysis and 3 Public Works projects and 2 EAA projects from the unemployment analysis. For 2011, we excluded 2 Public Works projects and 3 EAA projects from the PCI analysis and 1 Public Works project and 1 EAA project from the unemployment analysis. These exclusions resulted in final counts of 135 Public Works projects and 116 EAA projects for the fiscal year 2007 per capita income analysis, 80 Public Works projects and 150 EAA projects for the fiscal year 2011 per capita analysis, 135 Public Works projects and 120 EAA projects for the fiscal year 2007 unemployment analysis, and 81 Public Works projects and 152 EAA projects for the fiscal year 2011 unemployment analysis. We also used EDA's data to identify and describe Public Works and EAA projects that were funded based upon a special need in fiscal years 2007 and 2011.

To describe the distribution of EDA Public Works and EAA funds among rural and nonrural areas in fiscal years 2007 and 2011, we used the U.S. Department of Agriculture Economic Research Service's (ERS) Rural-

⁴EDA regulations require staff to base determination of economic distress (for per capita income or unemployment) on the most recent American Community Survey (ACS) published by the U.S. Census Bureau for either the region where the project will be located, the geographic area where substantial direct project benefits will occur, or the geographic area of poverty or high unemployment, as applicable. Where a recent ACS is not available, EDA staff must base their decision upon the most recent federal data from other sources (including data available from the Census Bureau, BEA, BLS, the Bureau of Indian Affairs, or any other federal source determined by EDA to be appropriate). If no federal data are available, an eligible applicant must submit to EDA the most recent data available from the state. Because we could not determine what federal data sources would have been available at the time of eligibility determination for each project, we used the previous 1 or 2 years of BEA and BLS data (for 12-month per capita income and 24-month unemployment data, respectively) for all projects that we reviewed. Consequently, our results may differ from what EDA staff calculated for some projects, particularly with regard to per capita income, since the ACS and BEA use different definitions of this measure. Specifically, the ACS measure reflects wages and salaries only, while the BEA measure reflects additional components of income beyond wages and salaries, such as "in kind" income from Medicaid and Medicare, and employer contributions for health and pension plans. In addition, we excluded three projects (two from fiscal year 2007 and one from fiscal year 2011) from the per capita income analysis because BEA defined the relevant geographic areas differently than BLS and the U.S. Department of Agriculture (sources of the unemployment and rural classification data).

Urban Continuum Codes to identify the population density at the county level for each funded grant.⁵ These codes range from 1 (counties in metropolitan areas of 1 million or more people) to 9 (counties that are completely rural or less than 2,500 people, not adjacent to a metropolitan area). ERS regards counties falling into codes 1 through 3 as metropolitan (“nonrural”) and those with codes 4 through 9 as nonmetropolitan (“rural”). We determined the proportion of grants awarded in nonrural versus rural areas in accordance with these definitions. We excluded one Public Works project from the population density analysis for each of the two fiscal years because Rural-Urban Continuum Codes were not available for the relevant counties.

In fiscal years 2007 and 2011, there were 28 and 15 EDA projects, respectively, that EDA described as serving multiple counties. Three of the fiscal year 2007 multicounty projects only listed one county, so we treated these as single county projects. We completely removed 7 of the multicounty projects from our fiscal year 2007 sample and 2 from our fiscal year 2011 sample because the data extracts did not include the names of the relevant counties, which were necessary to obtain per capita income, unemployment, and rural classification data. For the multicounty projects for which the individual county names were available, we calculated a weight for each county by dividing its population for the most recent year for which data were available (using Census Bureau population estimates) by the total population for all counties in the project. We applied the population weight to each county’s 12-month per capita income or 24-month unemployment rate to arrive at an average per capita income or unemployment rate for the entire project. With regard to the Rural-Urban Continuum Codes for the multicounty projects, we determined that a weighted average would not be appropriate to apply to categorical data. Instead, we applied decision rules that resulted in the exclusion of 18 projects (10 projects from fiscal year 2007 and 8 projects from fiscal year 2011) from our rural classification analysis and assigned

⁵We used Rural-Urban Continuum Codes to describe the population densities of the counties that received grants because, together, these nine codes provide a more nuanced picture of EDA’s grant distribution across counties. The Census classification system, which EDA uses, classifies areas as either rural or urban. ERS updates the Rural-Urban Continuum Codes after each decennial census. The two most recent updates occurred in calendar years 2003 and 2013. We matched the 2003 continuum codes to the fiscal year 2007 project counties and the 2013 continuum codes to the fiscal year 2011 project counties to approximate as closely as possible the population densities of the relevant counties in the years the projects were awarded EDA funds.

one Rural-Urban Continuum Code to each of the remaining multicounty projects. Specifically, for each unique project serving two or more counties, we applied the following decision rules. First, if all of the counties in a multicounty project had the same code, we assigned that code to the entire project. Second, if there were only 2 codes and they were contiguous (for example, all 1s and 2s) we assigned the code that was most frequent to the entire project. Third, when there were 2 or more noncontiguous codes, if one code occurred two-thirds of the time or more, we assigned that code to the entire project. Finally, if none of the first three rules applied, we excluded the project from the rural classification analysis.

To describe the types of projects that EDA funded through its Public Works and EAA programs in fiscal years 2007 and 2011, we categorized EDA's descriptions of funded projects using GAO-defined project categories. Specifically, in a prior GAO report, we identified nine project categories for the Public Works and EAA programs, among other federal economic development programs.⁶ One staff member independently categorized the fiscal year 2007 and 2011 projects, another staff member reviewed the categorizations, and they addressed any discrepancies with the input of a third-party reviewer. After reviewing all project descriptions, we condensed the original nine categories into six major categories, as well as an "all other" category. (See app. II for a description of project categories.) For projects for which the EDA project descriptions were unclear, we conducted Internet research and obtained EDA input on 31 projects to complete our categorizations.

We assessed the reliability of the various electronic data sources used for this report, including project data from EDA's electronic grants management database; county, state, and national per capita income and unemployment data from BEA and BLS; county population estimates from the Census Bureau; and Rural-Urban Continuum Codes from ERS. To assess reliability, we interviewed EDA officials knowledgeable about the electronic grants management database, reviewed the data dictionary, and conducted electronic testing of the data extracts against the relevant fields in the full database. We reviewed documentation from BEA, BLS, the Census Bureau, and ERS about how they compile their data. We

⁶GAO, *Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported*, [GAO-06-294](#) (Washington, D.C.: February 24, 2006).

determined that these data sources were sufficiently reliable for the purpose of describing the poverty, unemployment, and rural classifications of EDA project locations.

We conducted this performance audit from April 2013 to February 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Description of Project Categories

Project categories developed by GAO include the following:

- **Business Development:** This category captures projects that support entrepreneurial efforts, help businesses get started, facilitate job placement, and promote the development of new markets for existing products.
- **Commercial and Industrial:** This category captures projects that involve the design, construction, demolition, or renovation of commercial buildings and industrial parks, including the infrastructure designed to support those structures, as well as financial support to existing businesses.
- **Infrastructure:** This category captures projects that involve the development of infrastructure, including constructing and repairing various modes of transportation (e.g., airports, roads, rail, and harbors); and water, sewer, gas, and electricity systems; as well as projects that support telecommunications and broadband infrastructure.
- **Plans and Research:** This category captures planning and strategy development efforts for job creation and retention, and projects that support research of the practices, principles, and innovations that foster effective economic development strategies.
- **Technical Assistance:** This category captures projects that provide business management and technical services including assistance with technical issues such as disaster mitigation and recovery, and biotechnology.
- **Training and Education:** This category captures projects that provide training and education services, including the construction of facilities and equipment needed to provide these services.
- **All Other Project Types:** This category captures projects that do not fit appropriately into any of the other categories (e.g., performance awards, base grant adjustments, tourism, and enterprise development).

Appendix III: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
Office of the Secretary
Washington, D.C. 20230

January 16, 2014

Ms. Cindy Brown Barnes
Director
Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Brown Barnes:

The Department of Commerce appreciates the opportunity to respond to the recommendations contained in the U.S. Government Accountability Office (GAO) final report entitled, *Economic Development Administration: Documentation of Award Selection Decisions Could Be Improved* (GAO-14-131).

EDA acknowledges GAO's finding that EDA regional offices did not consistently complete a standard template to document the results of investment review meetings in FY 2012. EDA takes its fiduciary duties seriously. The agency has worked hard to improve processes and procedures for documenting funding actions in order to provide the highest quality internal controls. Significant improvements have been made, as noted in the results of EDA's A123 internal control audit findings. Furthermore, in early FY 2014, EDA will be rolling out a new Grants Procedures/Best Practices Manual and a Policies and Operations Manual and training EDA regional staff on both. Together, the manuals will more clearly delineate requirements for proper documentation for Investment Review Committee meetings, among other grant review and Committee requirements.

Regarding GAO's other findings, it should be noted that GAO used different eligibility determinations, based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics, rather than follow EDA's regulations, which prioritize American Community Survey (ACS) data. As such, the distress numbers detailed by GAO would be, in many cases, substantially different if they had used ACS data. We request that GAO explicitly clarify upfront and throughout the document that the data they are using differ from our regulations, and show how the alternate data potentially skew the numbers as a result.

We also request that GAO further clarify in the report that GAO uses a rural/non-rural definition that differs from the one EDA uses and has used historically. In the report, GAO uses the Rural-Urban Continuum Codes definition from the U.S. Department of Agriculture's Economic Research Service. EDA uses the Census definition of rural/non-rural. Using the Census definition, EDA data for infrastructure and revolving loan funds (the largest segment of EDA funding) show that the split between rural and non-rural projects historically hovers around

Ms. Cindy Brown Barnes
Page 2

50-50. For example, in FY 2012, 62% of EDA's infrastructure and revolving loan funds were invested in rural areas, compared with 38% in non-rural areas.

GAO noted in the report that more Public Works and Economic Adjustment Assistance projects were funded under the special need criterion in FY 2011 than in FY 2007. The increase in the use of special need during this period is logical considering the state of the U.S. economy at the time. During the recession, the high national unemployment rate made it more difficult for economically struggling communities to meet the standard EDA higher unemployment and lower per capita income thresholds. Given that, the use of the "sudden and severe disruption" criterion for EDA's special need eligibility was appropriate.

Thank you for GAO's work on this report. If you have any questions, please contact me or Margaret Cummisky, Assistant Secretary for Legislative and Intergovernmental Affairs, at (202) 482-3663.

Sincerely,



Patrick Gallagher
NIST Director performing the duties
of the Deputy Secretary of Commerce

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Cindy S. Brown Barnes, (202) 512-9345 or brownbarnesc@gao.gov

Staff Acknowledgments

In addition to the individual named above, Marshall Hamlett, Assistant Director; Cynthia Grant; Tiffani Humble; May Lee; John McGrail; Andrew Moore; Lisa Reynolds; Beverly Ross; Max Sawicky; Jennifer Schwartz; Jena Sinkfield; Ardith Spence; and Shana Wallace made key contributions to this report.

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