

H300

110324

REPORT BY THE

Comptroller General

OF THE UNITED STATES

RELEASED

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

Measuring Accomplishments Under The Business Development Assistance Program--More Accurate Verification Recommended

Creating jobs through loans to businesses for expansion or location of new facilities is the primary objective of the Business Development Assistance Program under the Economic Development Administration. GAO evaluated the result of 48 loans and found that they contributed to saving or creating over 9,400 jobs.

In spite of this success, GAO concluded that improvements are needed in monitoring, evaluating, and reporting such accomplishments. The Economic Development Administration needs to

- develop guidelines for evaluating the reasonableness of job projections made by loan applicants
- establish procedures to find out whether unemployed workers actually are benefiting from these loans, and
- develop ways for verifying accomplishments reported.



110324

506540
 110324

CED-79-117

SEPTEMBER 6, 1979



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-189572

The Honorable Benjamin S. Rosenthal
Chairman, Subcommittee on Commerce,
Consumer and Monetary Affairs
Committee on Government Operations
House of Representatives

File 01501

Dear Mr. Chairman:

On February 1, 1979, you requested that we help the subcommittee with its ongoing evaluation of the Steel Loan Guarantee Program, administered by the Economic Development Administration (EDA), Department of Commerce. You also asked us to review certain issues relating to the effectiveness of EDA's Business Development Assistance Program.

Following your request, your office told us that because of higher priority work and limited activity in the steel program, the subcommittee was deferring its review. Accordingly, we were asked to direct our attention to those issues relating to the Business Development Assistance Program. They included: whether EDA compares and evaluates the number of jobs actually saved and created through the program with those projected; how EDA verifies the jobs saved and created; and how EDA assures that the jobs resulting from the program benefit the unemployed. You also asked us, in the event EDA does not adequately verify jobs saved or created, to select a group of businesses which received assistance and determine the correlation between the number of resulting jobs and the assistance received.

We found that problems exist in assessing the reasonableness of employment estimates businesses make on their applications and in monitoring and evaluating actual results after loan approval. Our findings on these issues are summarized in this letter and discussed in greater detail in appendix I.

EDA attempts, through its Business Development Assistance Program, to create permanent jobs in areas of high unemployment by helping businesses to expand or locate new facilities

in these areas. This help includes direct loans and guarantees of loans with private lending institutions. EDA has a goal that at least one permanent job result for each \$10,000 of assistance. As of June 30, 1979, EDA had made 736 direct loans valued at about \$672 million and had guaranteed 235 loans totaling about \$387 million.

Businesses are required to submit, as part of their application for assistance, a schedule showing the number of jobs which they expect to save and create and their minority employment goals. They are also required to certify that they will give preferential consideration to hiring the long-term unemployed and underemployed. However, EDA has not issued instructions or procedures for thoroughly and consistently evaluating the reasonableness of these projections. Our discussions with EDA staff making these evaluations disclosed that such assessments are being made primarily on the basis of individual judgment and experience. More consistency and direction is needed since about 75 percent of the businesses we reviewed had not achieved their projected employment.

EDA has not adequately monitored or verified project results. EDA's Office of Civil Rights is responsible for monitoring whether businesses are achieving their minority hiring goals, while its Office of Private Sector Investments is responsible for loan approval and the subsequent monitoring of overall program effectiveness. According to EDA officials, neither office has been able to carry out its monitoring responsibilities adequately because travel fund limitations and staff shortages have required that emphasis be placed on processing new loans and servicing loans to businesses experiencing difficulties. Also, neither office has monitored whether jobs created have been filled by the unemployed and underemployed.

We reviewed 48 loans and guarantees awarded to 35 businesses to assess the accuracy of EDA's reported accomplishments and also to compare jobs which actually resulted with original projections. We found that some jobs were reported as saved and created based on original projections rather than actual results, jobs were still being credited for liquidated loans on bankrupt companies, and certain businesses which received more than one loan had their employment counted twice. We found no indication that these problems were intentional; rather, they are the result of EDA not systematically monitoring the impact of its loans.

Despite EDA's inadequate monitoring, GAO found that the 48 loans contributed to the saving and creating of over 9,400 jobs. Although this falls short of original projections by about 13 percent, the average cost per job was \$6,700 which is well below the target maximum of \$10,000 set by EDA for individual projects.

EDA is aware of the problems cited above and is in the process of setting up the Operational Planning and Control System designed to improve management's ability to monitor and evaluate agency programs. Under this system, specific objectives are to be established for each of EDA's programs and linked to the agency's mission of reducing unemployment. Under the Business Development Assistance Program, goals will be established for creating a certain number of jobs within specified time frames.

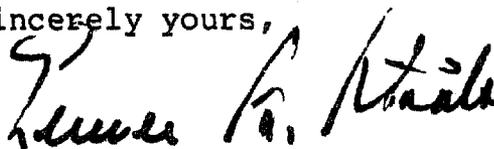
EDA plans to monitor and evaluate the program's performance through a combination of statistical and narrative reports. Businesses that expect to save or create 15 or more permanent jobs as a result of EDA's assistance would be required to submit annually, for 5 years, employment and payroll data. This information would be used by the Office of Civil Rights to monitor adherence to minority hiring commitments and by the Office of Private Sector Investments to evaluate overall program results. Through periodic reviews, EDA staff and outside consultants plan to verify employment reported by businesses.

While the Operational Planning and Control System represents a significant EDA initiative to improve the management of its programs, we believe several areas still need to be addressed regarding the Business Development Assistance Program. We are recommending that the Assistant Secretary for Economic Development issue guidelines for evaluating applicant job projections, assign responsibility and develop procedures for monitoring whether the business loans are benefiting the unemployed, and establish procedures for verifying jobs actually saved and created. We believe that if these actions are taken and the new system is effectively implemented, the problems noted in this review should be resolved.

EDA officials said the report accurately documented problems experienced by the agency in evaluating, monitoring, and verifying the employment impact of its business loans and guarantees. They concurred with the report's overall conclusions and stated that they intend to issue guidelines and procedures to implement the report's recommendations.

The details of our findings, conclusions, recommendations, and agency comments are in appendix I. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of the report until 7 days from the date of the report. At that time, we will send copies to the Secretary of Commerce, applicable legislative committees, and other interested parties.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas R. Staals". The signature is written in a cursive style with a large initial 'T'.

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
APPENDIX	
I	
IMPROVEMENTS NEEDED IN MEASURING ACCOMPLISHMENTS UNDER THE BUSINESS DEVELOPMENT ASSISTANCE PROGRAM	1
Background	1
Program accomplishments have not been systematically monitored or accurately reported	3
EDA has designed a better system to measure program accomplishments	11
Conclusions	14
Recommendations	15
Agency comments	16
II	
Form ED-612	17

ABBREVIATIONS

EDA	Economic Development Administration
GAO	General Accounting Office
OPCS	Operational Planning and Control System

IMPROVEMENTS NEEDED IN MEASURING
ACCOMPLISHMENTS UNDER THE BUSINESS
DEVELOPMENT ASSISTANCE PROGRAM

BACKGROUND

The Economic Development Administration (EDA), within the Department of Commerce, was established pursuant to the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121), as amended. A primary objective of the act is the creation and/or retention of jobs in areas with high unemployment, underemployment, or low family income. To achieve this and other economic development objectives, the act authorizes various types of program assistance. The Business Development Assistance Program, authorized under section 202 of the act, provides financial assistance to private industry to expand or locate new facilities in those areas designated as having economic problems. The program's primary objective is to achieve the long-range economic development goals of the act--creating jobs, increasing incomes, and diversifying local economies--and not to underwrite commercial ventures.

Before prospective businesses can obtain EDA financial assistance, they must show that assistance is not available from other sources. EDA's assistance consists of

- working capital loans or guarantees,
- fixed asset loans or guarantees, and
- building and equipment lease payment guarantees.

EDA makes direct loans at rates comparable to the Treasury borrowing rate and also guarantees up to 90 percent of loans made by private lending institutions. As of June 30, 1979, EDA had made 736 direct loans valued at about \$672 million and had guaranteed 235 loans totaling about \$387 million.

EDA administers its programs through its headquarters offices in Washington, D.C., and six regional offices located in Atlanta, Georgia; Austin, Texas; Chicago, Illinois; Denver, Colorado; Philadelphia, Pennsylvania; and Seattle, Washington. EDA headquarters has an Office of Private Sector Investments with Business Development Divisions in each regional office responsible for making and servicing business loans.

Functions and responsibilities
of the Office of Private
Sector Investments

The Office of Private Sector Investments helps prospective borrowers to prepare and process applications for business development loans and also administers and services loans after they have been approved.

Application preparation

Businesses interested in receiving financial assistance initially contact a representative of the applicable EDA regional office. The representative will discuss with the prospective applicant the nature of the proposed project and determine whether the project appears to comply with EDA's legal and policy requirements. If the project seems acceptable, a written project proposal is submitted to EDA. Following submission, an application development conference is arranged to discuss the proposal. If it is acceptable, the prospective applicant is advised of EDA's application process, including what information and documents are required.

Application evaluation and processing

Once submitted, an application is usually reviewed by a financial analyst. During this review the application is evaluated for the applicant's ability to repay the loan and the adequacy of the collateral which will secure EDA's financial commitment. Other factors considered include the number of jobs projected to be saved and created, compliance with environmental requirements, and the project's effect on existing businesses. If approved, the terms and conditions of the loan are set forth in a written agreement between EDA and the borrower.

Loan servicing

EDA's procedures divide loan servicing activities into two broad categories:

- "(1) Actions taken to keep informed as to loan repayment, borrowers' operations and financial status.
- (2) Actions taken as a result of requests from borrowers for changes in terms or conditions

of loans, or because of violations of the terms or conditions."

Financial analysts are responsible for performing these loan servicing functions and monitoring actual employment benefits derived from business loans and guarantees.

Scope of review

We reviewed EDA's procedures for administering the Business Development Assistance Program and discussed the program's operation with officials at their headquarters and regional offices in Philadelphia and Atlanta. From the program's inception in 1965 through June 30, 1979, these two regions had obligated about \$709 million or about 67 percent of the agency's total assistance.

We selected for detailed review 48 direct loans and guarantees made to 35 borrowers in the Philadelphia and Atlanta regions. We interviewed financial analysts responsible for administering these projects and examined the project files. We discussed with the analysts how they evaluate applicant employment projections and their procedures for following up on actual jobs saved and created. We visited projects, interviewed borrowers, and examined borrowers' employment records.

We discussed data requirements needed to establish an effective information reporting system with officials of the Office of Private Sector Investments and the Office of Civil Rights. We also analyzed the adequacy of output reports generated from EDA's current information system and considered how a newly designed system may improve EDA's program management.

PROGRAM ACCOMPLISHMENTS HAVE NOT BEEN SYSTEMATICALLY MONITORED OR ACCURATELY REPORTED

EDA has not maintained an information system with accurate data on the actual number of jobs saved and created through its Business Development Assistance Program. Our review of the 48 loans and guarantees disclosed numerous inaccuracies in program accomplishment data reported in the present information system. These errors preclude any overall analysis to determine whether the accomplishments being

achieved are commensurate with the investment being made or whether changes in program operations and/or funding levels should be made. Past problems can generally be traced back to deficiencies in program operating procedures and failure of EDA staff to adhere to these procedures.

EDA management has recently recognized past shortcomings in managing its program resources and has taken actions to correct them. Our findings regarding past problems, and EDA's actions to overcome them, are discussed below and on pages 11 to 13.

EDA's procedures have not been
adequate to monitor and evaluate
employment impact

Businesses are required to submit a detailed schedule (ED-612) with their applications, disclosing jobs which they expect to save and/or create. Included on the schedule are position categories, payroll data, and minority employment goals. (See app. II.) In addition, businesses are required to give written assurances that they will comply with the nondiscrimination requirements of the Civil Rights Act of 1964 and give preferential consideration, whenever possible, to hiring the area's long-term unemployed and underemployed.

Our review of Office of Private Sector Investments operating procedures disclosed that no criteria or guidelines exist for assessing the reasonableness of applicant job projections other than a \$10,000 job/cost ratio. This ratio, computed by dividing projected jobs into the amount of the loan, has ordinarily been considered the maximum acceptable for a particular loan.

We asked financial analysts how, in the absence of written criteria, they evaluate employment projections. Responses varied, however analysts stated that current employment and payroll data is used to verify jobs projected to be saved. For jobs projected to be created, analysts stated that they compare these jobs with projected sales data. For example, if an applicant expects his or her employment to double in 3 years, the analyst would expect to see a comparable projected growth in sales. Some analysts stated that when a business retains a consultant to help prepare the application, they will consider any resulting report that

addresses employment. From our discussions it would seem that these evaluations are made primarily on the basis of the experience and judgment of each analyst.

Minority compliance

EDA's Office of Civil Rights is responsible for assessing and monitoring compliance by businesses with provisions of the Civil Rights Act of 1964. Staff of this office review data provided on the ED-612 to assure that businesses have complied with the provisions of this act. If an applicant business complies with the civil rights requirements and receives financial assistance, the Office of Civil Rights is responsible for monitoring actual minority hiring practices.

Staff in the Office of Civil Rights stated that because of personnel and travel fund limitations, no postapproval monitoring of business compliance with civil rights provisions is performed. Also, we found that EDA has no procedures for monitoring whether jobs created are being filled by the area's unemployed or underemployed. Regional staff in the Business Development Division of the Office of Private Sector Investments considered such followup to be the responsibility of the Office of Civil Rights; it in turn said the Business Development Division was responsible.

Financial analysts are not adhering to loan servicing procedures

EDA's loan servicing procedures provide the following instructions for contacting businesses.

- A contact is to be made once a year by telephone for loans paid in full.
- Field visits are to be made once or twice a year for loans with adequate collateral and for which payments are being promptly remitted.
- Field visits are to be made at least quarterly for borrowers which are delinquent on payments and experiencing financial problems.

One purpose of making these contacts is to obtain employment and payroll data. This information is to be entered on a three-part report which is to be used to update project

statistics in EDA's computerized information system. However, specific instructions for evaluating employment data have not been included in the loan servicing procedures.

Financial analysts acknowledged that little loan servicing is performed and that generally most servicing consists of desk reviews of financial statements and the occasional solicitation of current employment primarily through telephone contacts or infrequent site visits. According to EDA officials, assistance to potential applicants and the processing of pending applications receive priority over loan servicing. Also, staffing and travel fund limitations mean that site visits are usually made only to solve technical problems or to process loan amendments for projects experiencing some difficulty. In the Philadelphia region, analysts have not used the three-part report to update employment since 1976. Our report 1/ points out similar loan servicing problems.

Errors in reporting program accomplishments

Since EDA has not systematically monitored employment resulting from its loans and guarantees, its present information system contains numerous reporting errors. Specifically, jobs are being reported as saved and created on the basis of projections rather than actual results; jobs were still being credited for liquidated loans on bankrupt companies; and borrowers who received more than one loan have had their employment counted twice. The following examples illustrate these problems.

Example 1--A meat processing company received a \$552,326 loan, a portion of which was used to modernize its equipment to comply with Department of Agriculture standards. Employment projections made on the application show 32 jobs being saved and 96 additional jobs being created within 2 years. At the time of our visit, 8 years and 7 months after the loan was approved, the company had 90 employees--the maximum employment achieved since the loan was approved.

1/Report to the Assistant Secretary for Economic Development, FGMSD-78-34, May 15, 1978, "Need to Improve Servicing of Direct Loans Under the Business Development Assistance Program."

EDA's information system reports 130 jobs resulting from the loan. While this figure approximates the original projection, it overstates actual accomplishments by 40.

Example 2--A \$2,405,000 loan was made to a county industrial development authority in July 1968 to construct a plant which a yarn manufacturer had agreed to lease. The application shows that 492 jobs were projected to be created within 14 months after the plant began operations.

The plant began operations in September 1969 and, although records were not available for us to determine whether the projected employment was achieved in 14 months, employment has steadily increased. At the time of our visit in March 1979, the plant had 819 employees. EDA's information system reports 492 jobs, which reflects estimated employment and understates actual results by 327 jobs.

Example 3--A pipe company received two loans from EDA in 1976 and 1977 totaling \$711,485. According to the applications, 65 jobs were to have been created through the first loan, and 52 jobs were to be saved, and 50 jobs were to be created from the second loan. About 4 months after the second loan was approved, the firm went bankrupt and was subsequently purchased by another company. This company retained about 35 original employees; however, EDA reports that 167 jobs resulted from its assistance.

Example 4--A business was awarded a fixed asset loan and a working capital guaranteed loan in December 1978. The company projected the saving of 112 jobs and the creation of 264 jobs. EDA's information system reports 376 jobs for each of the loans.

The tables on pages 9 and 10 summarize discrepancies between actual and reported employment for our sample of 35 businesses EDA assisted between 1966-78. We believe these businesses are reasonably representative of loan recipients in EDA's Philadelphia and Atlanta regions, considering variations in the following factors: size and type of loan, date of loan approval, projected cost per job at time of loan approval, and type of industry. Some of the comparisons are highlighted below.

--At time of approval, 10,833 jobs were projected to be either saved or created. As of March 1979, 9,453 jobs actually resulted--only 13 percent less than projected.

- As of March 1979, 9 businesses had exceeded their projected employment goals while 26 had not, even though they had operated for an average of about 6 years since receiving EDA assistance. The 26 businesses fell short of their projected employment by an average of 31 percent.
- EDA's information system reported 9,714 jobs as saved or created--a difference of only 261 from our March 1979 computation. However, when data for each business is compared, EDA overstated accomplishments in 22 cases and understated results in 13. Consequently, the totals are close as a coincidence of offsetting errors.
- Accomplishments reported by EDA vary by more than 20 percent with actual jobs saved and created as of March 1979 for 26 of the 35 businesses.
- For 19 businesses, EDA's reported accomplishments simply restate applicant projections.
- At the time of approval, the average projected cost per job was \$5,836, ranging from \$748 to \$26,765. As of March 1979, the actual average was \$6,688 with a range from \$1,788 to \$20,714, excluding the single extreme case in which the cost was \$120,408.

TABLE 1
EMPLOYMENT ANALYSIS FOR 35 FIRMS VISITED

Company number	Jobs projected to be saved and created (column 2)	Employment reported by EDA (column 3)	Number of jobs saved and created--March 1979		Number of months from loan approval as of March 1979
			Number of jobs	Difference from column 2	
1	250	250	a/ 81	-169	57
2	44	44	a/ 23	- 21	105
3	128	130	a/ 90	- 38	103
4	41	71	a/ 1	- 40	99
5	1,372	911	1,068	-304	78
b/ 6	186	275	a/ 102	- 84	63
b/ 7	290	290	a/ 230	- 60	30
b/ 8	167	167	a/ 35	-132	31
b/ 9	189	103	a/ 233	44	21
10	264	264	242	- 22	16
11	30	30	a/ 40	10	152
12	250	250	a/ 190	- 60	32
13	466	667	a/ 975	509	35
14	125	145	a/ 107	- 18	34
15	197	191	178	- 19	33
b/16	164	2	a/ 70	- 94	29
b/17	460	0	a/ 420	- 40	13
b/18	199	201	177	- 22	107
19	232	232	275	43	113
20	358	358	a/ 146	-212	88
21	56	56	46	- 10	82
b/22	1,612	1,600	a/1,140	-472	44
23	80	80	79	- 1	74
24	230	232	a/ 397	167	147
25	260	260	a/ 339	79	154
26	172	200	a/ 158	- 14	129
27	101	101	84	- 17	33
28	492	492	a/ 819	327	128
29	957	957	a/ 500	-457	106
b/30	115	115	a/ 88	- 27	35
31	135	141	a/ 6	-129	142
32	197	197	192	- 5	149
b/33	150	150	a/ 222	72	137
34	170	170	a/ 221	51	122
b/35	694	382	a/ 479	-215	77
Total	<u>10,833</u>	<u>9,714</u>	<u>9,453</u>	<u>-1,380</u>	80 (average)

a/Variance from column 3 greater than 20 percent.

b/Company received more than one loan or guarantee. Figures represent averages for all assistance received.

TABLE II
JOB/COST RATIOS FOR 35 FIRMS VISITED

Company number (1)	EDA assistance (2)	Projected number of jobs saved/ created (3)	Projected cost per job (4) (2)-(3)	Actual number of jobs saved/ created-- March 1979 (5)	Actual cost per job (6) (2)÷(5)
1	\$ 1,215,000	250	\$ 4,860	81	\$ 15,000
2	283,250	44	6,438	23	12,315
3	552,326	128	4,315	90	6,137
4	120,408	41	2,937	1	120,408
5	2,384,700	1,372	1,738	1,068	2,233
6	930,000	186	5,000	102	9,118
7	945,466	290	3,260	230	4,111
8	711,485	167	4,260	35	20,328
9	2,040,000	189	10,794	233	8,755
10	850,000	264	3,220	242	3,512
11	71,500	30	2,383	40	1,788
12	1,000,000	250	4,000	190	5,263
13	3,204,000	466	6,876	975	3,286
14	450,000	125	3,600	107	4,206
15	1,000,000	197	5,076	178	5,618
16	1,450,000	164	8,841	70	20,714
17	1,871,384	460	4,068	420	4,456
18	3,170,000	199	15,930	177	17,910
19	2,500,000	232	10,776	275	9,091
20	2,100,000	358	5,866	146	14,384
21	563,000	56	10,054	46	12,239
22	5,200,000	1,612	3,226	1,140	4,561
23	739,430	80	9,243	79	9,360
24	1,625,000	230	7,065	397	4,093
25	6,000,000	260	23,077	339	17,699
26	821,541	172	4,776	158	5,200
27	968,833	101	9,592	84	11,534
28	2,405,000	492	4,888	819	2,936
29	5,000,000	957	5,225	500	10,000
30	993,600	115	8,640	88	11,291
31	101,000	135	748	6	16,833
32	1,300,000	197	6,599	192	6,771
33	422,000	150	2,813	222	1,901
34	4,550,000	170	26,765	221	20,588
35	5,681,210	694	8,186	479	11,861
Total	<u>\$63,220,133</u>	<u>10,833</u>	\$ 5,836 (average)	<u>9,453</u>	\$ 6,688 (average)

Alternative reporting methods

We asked officials from the 35 companies whether they would object to furnishing EDA with employment data and how this information could be most conveniently provided. None objected, but many preferred that the amount of detail be kept to a minimum. Since businesses are required to furnish EDA with quarterly and annual financial statements, several officials suggested simply including relevant employment data with these statements. Others suggested providing a copy of the "Employer Information Report (EEO-1)" required by the Equal Employment Opportunity Commission. While this report provides adequate employment data, including numbers and types of minorities, its value to EDA is limited since it is only submitted by businesses with more than 100 employees. However, we noted that reporting periods can vary from year to year and data may be too old to be useful.

We also explored the possibility of businesses' providing copies of employment and payroll reports which all companies are required to submit to Federal and State departments for tax purposes. These reports contain current data, since they are generally submitted the month following the end of a quarter; however, they don't distinguish between part-time and full-time employees, and data on minorities is not classified separately. Thus, their usefulness to EDA for monitoring employment is also limited.

EDA HAS DESIGNED A BETTER SYSTEM
TO MEASURE PROGRAM ACCOMPLISHMENTS

EDA has designed an Operational Planning and Control System (OPCS) which should improve its ability to manage, monitor, and evaluate its programs. Since the system will not be fully operational until fiscal year 1980, we could not assess its performance. However, we did review documentation pertaining to the system and also discussed its design and proposed use with EDA officials. Based on this review and our discussions, we found the system to be comprehensive and believe that if it functions as expected, it should help correct past managerial problems such as those we observed in this review.

Operational Planning and
Control System

Work on OPCS began in November 1977 at the direction of the Assistant Secretary for Economic Development. The system

provides procedures and guidelines for establishing program objectives, allocating agency resources, setting performance standards, monitoring program operations, and evaluating program results.

Under OPCS, specific objectives are to be established for each of EDA's programs and linked to the agency's mission of reducing unemployment and improving local areas' economies. For example, under the Business Development Assistance Program, the creation of a specific number of jobs in a given fiscal year will be considered an output objective. To attain that objective, a certain number of loans and guarantees involving a specific level of funding has to be approved. Approving this quantity of projects by specific target dates would be an input objective. In addition, criteria have been established to facilitate the orderly progression of projects during a fiscal year. The criteria specify the percentage of a program's resources which, at the end of each quarter of a fiscal year, should be committed to projects in one of three stages--preapplication, processing, or approval. These percentages are more detailed input objectives and will be used periodically to inform EDA management of how much has been accomplished, how much remains to be accomplished, and how much is in the pipeline. It will also allow for the adjustment of regional allocations based on actual funding opportunities.

Under OPCS criteria have been developed to evaluate employment projections made on applications and time frames have been set for achieving these projections. According to the OPCS manual, the specific criteria and performance standards were developed based on past evaluation studies and staff experience in developing projects. EDA plans to revise the criteria and standards in accordance with operating experience, changing policies, and a changing economic development environment.

The criteria for evaluating employment projections consider the time projected by the applicant business to achieve its projected employment and also provide a means of converting part-time jobs to full-time equivalents. Largely because (1) long-term forecasting is less accurate than near-term forecasting, and (2) applicants may be overly optimistic in projecting employment to elicit EDA funding, the following formula has been established to discount applicant projections:

--Jobs to be saved by the firm staying in operation
are counted at 100 percent.

- Jobs projected to be created within 1 year after EDA approval are counted at 90 percent.
- Jobs projected within 2 years from approval are counted as 80 percent.
- Jobs projected 2 years or more after approval are counted as 75 percent.

To convert projected part-time employment to full-time equivalents, the average manufacturing wage for the area in which the business is located is to be divided into the aggregate wages projected to be paid to these employees. This operation will result in an estimation of full-time equivalent positions.

The following time frames have been established for realizing employment projections:

- 80 percent of projected employment should be achieved in the fiscal year immediately following the year of approval.
- 92 percent in the third fiscal year after approval.
- 100 percent by the seventh fiscal year following approval.

EDA plans to use a combination of statistical and narrative reports to monitor and evaluate actual program performance. New directives would require businesses that expect to save or create 15 or more permanent jobs to submit a revised ED-612 annually for 5 years. This report would initially be reviewed by the Office of Civil Rights for completeness and adherence to minority hiring commitments made on the original ED-612. Updated employment statistics would then be entered into the agency's computerized information system so that program accomplishments can be continually evaluated. Specific procedures and controls have been developed to assure reported data is accurately entered into the information system. At the completion of our review in July 1979, EDA was planning to seek approval from the Office of Management and Budget to require businesses to submit an updated ED-612 periodically. Office of Management and Budget approval is necessary because of the additional reporting burden placed on businesses.

EDA plans to verify reported employment as well as staff adherence to program operating procedures through regular reviews by agency staff and outside consultants. Results of these reviews are to be summarized in narrative reports.

CONCLUSIONS

EDA's business loan program was effective in saving and creating jobs for the 48 loans which we reviewed. These loans contributed to the saving and creating of over 9,400 jobs and the average cost per job was \$6,700 which is well below the target maximum of \$10,000 established by EDA for individual projects. However, EDA has not adequately monitored jobs resulting from the program. Consequently, its information system contained numerous errors on employment benefits derived from the 48 loans.

Projects have not been adequately monitored, according to EDA officials, because travel fund limitations and staff shortages have necessitated that emphasis be given to processing new loan applications and servicing projects experiencing difficulties. In addition, EDA has not required loan recipients to submit periodic reports on their progress in achieving employment goals.

Through OPCS, EDA is taking action to obtain the data necessary to monitor and evaluate program accomplishments. Pending Office of Management and Budget approval, businesses will be required to provide EDA with an annual update of their employment. We agree with the decision to use Form ED-612 to obtain this data, since we were unable to find an acceptable substitute among reports already being submitted by businesses to State and Federal departments. However, if the ED-612 is not approved, businesses should be required to furnish employment data with their annual financial statements. Provision of this data through either medium will provide a means to systematically monitor and evaluate program accomplishments and to revise performance standards established under OPCS.

Aside from the positive changes proposed under OPCS, several additional areas need to be addressed. Guidelines should be issued for evaluating applicant employment projections. While OPCS provides criteria for discounting projected employment, additional criteria are needed to assure evaluations made by financial analysts are consistent and thorough. The need to more critically evaluate projected

employment is evidenced by the fact that 26 of the 35 businesses fell short of their employment goal by an average of 31 percent.

After loans are approved, responsibility needs to be assigned and procedures developed for monitoring whether jobs resulting from business loans are being filled by the area's unemployed. Finally, instructions should be issued specifying those documents to be reviewed by agency staff and outside consultants to verify reported employment. Since the portfolio of outstanding loans will grow each year, and given reported staffing and travel fund limitations, verification will likely have to be performed through a sampling process.

If OPCS functions as expected and the above areas are addressed, problems noted in this review should be resolved. Resolution of these problems will place EDA in a better position to (1) make informed judgments on the overall effectiveness of the program, (2) determine whether program achievements are adequate compared to the investment being made, and (3) identify and follow up on projects whose progress has been unsatisfactory.

RECOMMENDATIONS

To complement changes proposed under OPCS, we recommend that the Assistant Secretary for Economic Development take the following actions:

- Develop and issue guidelines to be used by financial analysts in evaluating the reasonableness of job data submitted by loan applicants. These guidelines should be in addition to the criteria proposed under OPCS for discounting applicant employment projections. The guidelines might include a provision requiring a comparison of the applicant's projected employment with actual employment of similar size companies in the same industry.
- Assign responsibility and develop procedures to monitor whether unemployed workers are benefiting from business loans. Consideration might be given to having businesses indicate on the ED-612, or their annual financial statements, total jobs filled by previously unemployed workers and the average duration of their unemployment. Businesses could provide this information if they maintained a simple log for new

hires showing whether these individuals were previously unemployed and the duration of their unemployment.

- Establish procedures for periodically selecting a sample of projects to verify reported accomplishments. These procedures should specify which documents, such as payroll or tax records, to use in making this verification.

AGENCY COMMENTS

We asked the Assistant Secretary for Economic Development and other EDA officials responsible for administering the Business Development Assistance Program to review the draft report. Their comments were considered in preparing the final report.

EDA said the report was fair and accurately documented problems experienced by the agency in evaluating, monitoring, and verifying the employment impact of its business loans and guarantees. EDA concurred with the report's overall conclusions and stated it had initiated actions relating to the recommendation that they monitor whether unemployed workers are benefiting from agency assistance. A directive has been prepared which will encourage applicants for agency assistance to develop an employment plan linking job opportunities expected to result from the assistance with the long term unemployed. EDA is working with the Employment and Training Administration, Department of Labor, to develop a method for reporting and monitoring actual placements of the unemployed in EDA-assisted projects. In addition, EDA stated that it intends to issue guidelines and procedures to implement other recommendations of the report.

(069190)

17

FORM ED-612 (REV. 10-70)		U.S. DEPARTMENT OF COMMERCE ECONOMIC DEVELOPMENT ADMINISTRATION		Name and Address of Organization (OMM)		I. Check Appropriate Box <input type="checkbox"/> (PTY-1) Applicant <input type="checkbox"/> (PTY-2) Other Party Other Party (IRS No.) (IR#) _____		II. EDA Project Number (PRJ)		III. Project Completion Date (CED)		X. EMPLOYEES WHEN FULLY (FOD) OPERATIONAL DATE:							
CURRENT AND PROJECTED PERMANENT EMPLOYEE AND PAYROLL DATA																			
IV. JOB CATEGORIES	V. SEX	VI. PRESENT EMPLOYEES					VII. JOBS TO BE SAVED		VIII. NEW JOBS TO BE CREATED					IX. EMPLOYEES END OF 1ST YEAR		X. EMPLOYEES WHEN FULLY (FOD) OPERATIONAL DATE:			
	SEX	A. TOTAL EM-PLOYEES	B. BLACK	C. HISPANIC	D. ASIAN OR PACIFIC ISLANDER	E. AMERI-CAN INDIAN OR ALAS-KAN NAT	F. TOTAL EM-PLOYEES	G. TOTAL MINORITIES	H. TOTAL EM-PLOYEES	I. BLACK	J. HISPANIC	K. ASIAN OR PACIFIC ISLANDER	L. AMERI-CAN INDIAN OR ALAS-KAN NAT	M. TOTAL EM-PLOYEES	N. TOTAL MINORITIES	O. TOTAL EM-PLOYEES	P. TOTAL MINORITIES		
Officials and Managers	MF	F																	
	MM	M																	
Professionals	PF	F																	
	PM	M																	
Technicians	TF	F																	
	TM	M																	
Sales Workers	SF	F																	
	SM	M																	
Office and Clerical	OF	F																	
	OM	M																	
Craftsperson (skilled)	CF	F																	
	CM	M																	
Operatives (semi-skilled)	XF	F																	
	XM	M																	
Laborers (unskilled)	LF	F																	
	LM	M																	
Service Work and others	WF	F																	
	WM	M																	
TOTAL	AF	F																	
	AM	M																	

XI. Present annual total payroll (OAP) D _____ (PPM) \$ _____ (PPF) \$ _____ TOTAL MINORITIES FEMALE				XIII. Present temporary and part time employees (TMT) _____ (TMM) _____ (TMF) _____ (TMS) \$ _____ TOTAL NO. OF MINORITIES NO. OF FEMALES ANNUAL PAYROLL			
XII. Expected annual total payroll when fully operational (FOS) \$ _____ (OPM) \$ _____ (OPF) \$ _____ TOTAL MINORITIES FEMALES				XIV. Expected temporary and part time employees when fully operational (PTT) _____ (PTM) _____ (PTF) _____ (PTS) \$ _____ TOTAL NO. NO. OF MINORITIES NO. OF FEMALES ANNUAL PAYROLL			
XV. This form prepared by: _____ (TYPE NAME AND POSITION) (SIGNATURE) (DATE) (TELEPHONE NO.)				XVI. Authorized company official: _____ (TYPE TITLE OF OFFICER) (SIGNATURE) (DATE)			

No further monies or other benefits may be authorized under this program unless this report is completed and filed as required by existing law and regulations 42 U.S.C. 20000-1-3123-6709. E.O. 11246. 15 C.F.R. part 8. 28 C.F.R. part 42.

APPENDIX II

APPENDIX II



Single copies of GAO reports are available free of charge. Requests (except by Members of Congress) for additional quantities should be accompanied by payment of \$1.00 per copy.

Requests for single copies (without charge) should be sent to:

U.S. General Accounting Office
Distribution Section, Room 1518
441 G Street, NW.
Washington, DC 20548

Requests for multiple copies should be sent with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, DC 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. NOTE: Stamps or Superintendent of Documents coupons will not be accepted.

PLEASE DO NOT SEND CASH

To expedite filling your order, use the report number and date in the lower right corner of the front cover.

GAO reports are now available on microfiche. If such copies will meet your needs, be sure to specify that you want microfiche copies.

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS