

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF THE DEPARTMENT OF ENERGY'S GRANT FOR
ECONOMIC DEVELOPMENT AT THE MOUND PLANT

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ECONOMIC DEVELOPMENT AT THE MOUND PLANT

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OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

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Audit Report Number: ER-B-97-02 February 14, 1997

SUMMARY

The downsizing of the Department of Energy's (Department) facilities as a result of the end of the Cold War had a negative impact on communities that were heavily dependent on the Department's operations for economic stability. To lessen the impact, the Department provided financial assistance to local communities through Federal grants and cooperative agreements. The objective of this audit was to determine whether funding provided for economic development at the Mound Plant was used for the Department's intended purposes.

Overall, we found that the Department's funds were used for their intended purposes. However, contrary to Federal regulations, the Department advanced the City of Miamisburg, Ohio (City) \$2.6 million more than the minimum funds needed to meet immediate cash requirements, and the City kept the majority of the funds in non-interest bearing accounts. The funds were provided to fulfill commitments previously made to the City by senior Department officials, and the Department did not require the City to comply with Federal regulations or grant terms regarding cash advances. As a result, the City held a cash advance of \$2.6 million for more than a year and remitted only \$10,000 in interest earned on the advance.

Management agreed with the finding and recommendations and initiated the appropriate corrective actions.

_____/s/_____
Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

Section 3161 of the National Defense Authorization Act of Fiscal Year 1993 (Section 3161) required the Department of Energy (Department) to develop programs to mitigate the

consequences of downsizing on workers and affected communities. In response to Section 3161, the Department awarded a grant to the City of Miamisburg, Ohio (City) for the transition of the Mound Plant from a defense production facility to commercial operations. The objective of this audit was to determine whether funding provided for economic development at the Mound Plant was used for the Department's intended purposes.

SCOPE AND METHODOLOGY

The audit was performed from April 24, 1995, through June 30, 1996, at the Department's Office of Worker and Community Transition in Washington, D.C., and the Ohio Field Office and Miamisburg Area Office in Miamisburg, Ohio. To accomplish the audit objective, we:

- o Evaluated Departmental guidance for economic development activities;
- o Reviewed Federal regulations governing grants awarded to state and local governments;
- o Examined grant files and supporting documentation;
- o Reviewed the Miamisburg Mound Community Improvement Corporation's financial statement at September 30, 1995; and
- o Interviewed Departmental and City personnel responsible for administering the grant.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits, and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed significant internal controls related to the Department's administration of the City's grant. Because our review was limited, it would not necessarily have identified all internal control deficiencies that may have existed. Also, we did not conduct a reliability assessment of computer processed data because only a very limited amount of computer-processed data was used during the audit.

On November 22, 1996, management formally concurred with the finding and recommendations, stating that it had initiated the appropriate corrective actions. Therefore, no exit conference was held.

BACKGROUND

In September 1993, the Department awarded a grant to the City for the transition of the Mound Plant to commercial operations. The grant was originally awarded for \$200,000, and by September 30, 1995, had increased to \$14,150,000. According to the terms

of the grant, payments were to be made to the City by cash advances unless the Department determined that the City had not demonstrated the willingness and ability to minimize the time elapsed between the transfer of funds from the U.S. Treasury and their disbursement. Also, the grant stated that advances in excess of \$10,000 would be promptly returned to the Department unless the funds were disbursed within 7 days.

PRIOR AUDIT REPORTS

The Office of Inspector General (OIG) issued two prior reports dealing with work force restructuring at the Mound Plant. In Report DOE/IG-0328, Audit of Mound Plant's Reduction in Force, we concluded that the lack of Departmental guidelines contributed to excessive costs for the Mound Plant's FY 1992 reduction in force and the approval of inconsistent employee benefits among Departmental sites. In Report DOE/IG-0360, Audit of the Transfer of Government-Owned Property at the Mound and Pinellas Plants, we determined that the Department planned to transfer or otherwise make available to economic development initiatives personal property that had Defense Program requirements or had not been properly screened for other needs.

In addition, the OIG has issued several reports dealing with work force restructuring at other Departmental sites. In Report ER-B-95-06, Audit of Work Force Restructuring at the Oak Ridge Operations Office, we concluded that the Oak Ridge Operations Office had not achieved the Department's goals for worker retraining and outplacement assistance, and it had awarded a small grant to a local nonprofit organization whose primary function appeared to be lobbying. In Report ER-L-96-01, Audit of Work Force Restructuring at the Pinellas Plant, we determined that the early retirement incentives provided to workers under the Pinellas Plant's reduction in force were consistent with the plant-closing terms of the contract and in compliance with Federal regulations. In Report ER-B-96-01, Audit of Work Force Restructuring at the Fernald Environmental Management Project, we concluded that the Fernald Environmental Management Project's restructuring was not effective in reducing staffing levels or improving the mix of workers' skills. Most recently, in Report ER-B-97-01, Audit of Economic Development Grants and a Cooperative Agreement with East Tennessee Not-for-Profit Organizations, we determined that a portion of the funds provided to a grantee was not used for intended purposes. Also, the Department advanced more funds than needed to meet the grantee's immediate cash requirements and then allowed the grantee to hold interest earned on the funds provided.

In addition to OIG reports, the U.S. General Accounting Office (GAO) issued two reports dealing with community assistance and work force restructuring. The report entitled Energy Downsizing: Community Assistance Criteria Needed (GAO/RCED-96-36) stated that the Department had not established specific criteria for identifying and evaluating the economic effects of closing its facilities. Also, the Department had not established specific criteria for deciding what types and amounts of assistance were

appropriate to help offset these effects. The report entitled Value of Benefits Paid to Separated Contractor Workforce Varied Widely (GAO/RCED-97-33) stated that the value of benefits offered to separated workers varied considerably among locations, reflecting the considerable discretion given to each facility in determining how best to reduce its work force.

In our opinion, the matters discussed in this report identified a material internal control weakness that should be considered when preparing the yearend assurance memorandum on internal controls.

PART II

FINDING AND RECOMMENDATIONS

Cash Advance to the City of Miamisburg

FINDING

Federal regulations require that cash advances be limited to the minimum amount needed to meet grant recipients' immediate cash requirements, that each advance be kept in interest bearing accounts, and that interest earned on cash advances be promptly deposited in the U.S. Treasury. However, the Department advanced the City of Miamisburg (City) at least \$2.6 million more than the minimum funds needed to meet immediate cash requirements and the City kept the majority of the funds in non-interest bearing accounts. The funds were provided to the City to fulfill commitments previously made by senior Department officials, and the Department did not require the City to comply with Federal regulations and grant terms regarding cash advances. As a result, the City held a cash advance of \$2.6 million for more than a year and earned and remitted only \$10,063 in interest.

RECOMMENDATIONS

We recommend that the Manager, Ohio Field Office:

Ensure that any cash advances made under economic development grants are needed for immediate disbursement and maintained in interest bearing accounts;

Require that any interest earned on cash advances be promptly returned to the Department for remittance to the U.S. Treasury; and

Require the City of Miamisburg to refund excess cash advances in accordance with Federal regulations and grant terms.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and stated that the appropriate corrective actions were initiated. Management's comments are summarized and addressed in Part III of this report.

DETAILS OF FINDING

REQUIREMENTS FOR GRANTS TO STATE AND LOCAL GOVERNMENTS

Title 10 of the Code of Federal Regulations (Title 10) establishes rules to be followed by the Department in providing cash advances to grantees and in recovering interest earned on cash advances. Title 10 requires that cash advances be limited to the minimum amount needed by the receiving organization in carrying out the purpose of the program or project. The timing and amount of cash advances are to be as close as is administratively feasible to the actual disbursements by the recipient organization for program or project purposes. Further, Title 10 requires that recipients maintain advances of Federal funds in interest bearing accounts, and that interest earned on the advances be promptly remitted to the U.S. Treasury.

FUNDS ADVANCED TO THE CITY OF MIAMISBURG

The Department gave the City a \$3.6 million cash advance without requiring the City to justify that the entire amount was needed immediately for program outlays. Additionally, the Department did not require the City to place the funds in interest bearing accounts and remit the interest earned to the U.S. Treasury.

The City requested the funds for loan guarantees and new business start-up costs, but provided no specifics as to who would receive the funds or when they would be disbursed. Upon review, the contracting officer requested that the City provide justification for the advance and requested that no funds be advanced without additional justification. Nevertheless, the Department advanced \$3.6 million to the City without additional justification.

In addition, the Department allowed the City to hold \$2.6 million for over a year. In total, the Department disbursed about \$4.3 million to the City between October 1993 and August 1994. Although the City proposed to spend \$2 million for loan guarantees and start-up money for commercial ventures through September 30, 1995, it actually spent only about \$116,000 for those activities. It spent about \$600,000 for personnel and administration and about \$660,000 for consultant and contractual services, primarily for facilities assessments, marketing support, and architectural and engineering services. As of September 30, 1995, the City had an unexpended balance of \$2.6

million. Almost all the funds were maintained in non-interest bearing accounts.

COMMITMENTS BY SENIOR DEPARTMENT OFFICIALS

On two occasions, senior Department officials publicly announced that funding would be made available to the City prior to the City showing an actual need for the funds. Initially, the Department announced it would give the City \$4 million in January 1994. However, the City did not submit its application until June 1994. In October 1994, the Department presented the City with a \$10 million sample check at a public ceremony at which additional funds were promised. Again, however, the City did not submit its revised plan for spending the additional \$10 million until March 1995.

GRANT REQUIREMENT NOT ENFORCED

In addition to disbursing funds to meet public commitments rather than a showing of the City's needs, the Department did not enforce the grant's requirement for the prompt return of cash advances and interest earned on cash advances. These violations of the grant terms were reported to the City by its independent accounting firm for the year ended December 31, 1993, and reported to the Ohio Field Office by its Financial Review Team in April 1995. However, the Department had not initiated action to recover the excess cash advance as of September 30, 1995, and had received interest payments of only \$10,063 from the City.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Management concurred with the audit finding and recommendations, stating that all necessary actions to comply with the three recommendations have been taken. Management initiated a program whereby grant funds are advanced on a quarterly basis. The amount of the advance is tied directly to a budget detailing how the funds will be disbursed during that quarter. In addition, management directed the City to deposit all advances in interest bearing accounts.

We consider management's actions to be responsive to the recommendations.

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