United States General Accounting Office

GAO

Report to the Honorable
John Heinz, U.S. Senate

September 1990

TRADE ADJUSTMENT

Funding Status of Commerce's Trade Adjustment Assistance Program

GAO/NSIAD-90-247

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-207169

September 6, 1990

The Honorable John Heinz
United States Senate

Dear Senator Heinz:

As you requested, we have evaluated certain aspects of the Department of Commerce's Trade Adjustment Assistance Program.

This program, through its 12 Trade Adjustment Assistance Centers located throughout the United States, provides technical assistance to U.S. firms that have been injured by import competition. You expressed concern that the centers might not receive adequate operating funds in fiscal year 1990 and that reported funding shortfalls would affect the centers' ability to provide effective and timely services to firms seeking assistance.

In an attempt to clarify the adequacy of program funding, the Department of Commerce was directed to prepare a report to Congress[1] specifying the sources and amounts of Trade Adjustment Assistance Program funds during fiscal year 1990. The objectives of our review were to (1) evaluate the adequacy of the funding for the Trade Adjustment Assistance Centers, (2) assess the accuracy and usefulness of Commerce's February 22, 1990, report to Congress, (3) determine whether the report complied with the requirements of the conference report, and (4) identify the operational constraints besetting the program during fiscal years 1989 and 1990.

Results in Brief

Disagreement exists over whether the 12 Trade Adjustment Assistance Centers received adequate funding for fiscal year 1990. On the one hand, Trade Adjustment Assistance Program officials maintained that the $4.6 million initially appropriated to the Trade Adjustment Assistance Program in fiscal year 1990 was not sufficient to meet the demand for program services. On the other hand, Commerce budget officials contended that this appropriation, combined with carryovers, deobligations, and reserves accumulated from prior years, exceeded historical

[1]Conference Report No. 101-299 Making Appropriations for the Departments of Commerce, Justice, and State, the Judiciary and Related Agencies for the Fiscal Year Ending September 30, 1990, and for Other Purposes, October 20, 1989.

the type of assistance the firm should receive from the program. Once the program office approves the proposed plan, the firm is then provided with the appropriate technical assistance, such as help in formulating a new business plan or devising a new marketing strategy.

Since 1982, the administration has repeatedly attempted to eliminate the Trade Adjustment Assistance Program on the basis that it is not cost-effective. Commerce officials argue that the program interferes with free market forces because it is designed to help "industrial losers." During his June 7, 1989, confirmation hearing before the Senate Finance Committee, the ITA Under Secretary summarized the Department's view of the program by stating that "the number of firms we help with this program is infinitesimal. We feel the net outcome in dollars expended does not warrant the outlays going into the program." Commerce's lack of support for the Trade Adjustment Assistance Program is best demonstrated by the fact that the Department has not requested any appropriations for the program for fiscal years 1982 through 1991.

Despite numerous recommendations from the administration to discontinue funding for the Trade Adjustment Assistance Program, Congress has continued to support it and has authorized it to operate through September 1993. However, the level of appropriations for the program has been reduced by almost 85 percent since 1982 (see table 1).

Table 1: Trade Adjustment Assistance Program Appropriations

Dollars in millions, fiscal years

	1982	1983	1984	1985	1986	1987	1988	1989	1990[a]
Technical assistance	$13.0	$13.0	$15.5	$16.5	$13.9	$13.9	$13.9	$3.9	$4.9
Finance assistance	12.5	12.5	7.5	6.5[b]	0	0	0	0	0
Administrative costs	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.2
Total	**$27.5**	**$27.5**	**$25.0**	**$25.0**	**$15.8**	**$15.8**	**$15.8**	**$5.8**	**$6.1**

[a]Includes a supplemental appropriation of $1.445 million made in May 1990

[b]Congress allowed the Financial Assistance Program to lapse in 1986

Source: Department of Commerce

In trying to judge the validity of these statements, we found that no uniform definition of "committed funds" is used among the centers when compiling quarterly financial reports. Hence, unliquidated obligations and close-out costs may be reported inconsistently by the various centers. Supporting this view, a February 1990 Commerce Inspector General audit of one of the centers found that the center was not recording its unliquidated obligations correctly, giving the impression that the center had more funds available than actually was the case. Program officials agreed that adequate guidance on how to prepare their financial reports has not been provided to the centers to ensure that unliquidated obligations and close-out reserves are uniformly and properly recorded and reported. Without this guidance, reports will continue to be prepared in an inconsistent manner.

Report to Congress Adds Further Confusion

The report to Congress was requested to clarify the sources and amounts of funds available for the Trade Adjustment Assistance Program during fiscal year 1990. Our review indicated that rather than removing some of the confusion surrounding the program's funding status, the report added to the confusion because of the manner in which the information was presented.

The conference report directed Commerce to identify the amounts available from ITA carryovers and deobligations as well as the "unexpended" balances held by the centers. It also allowed the Trade Adjustment Assistance Centers to use, for programmatic purposes, reserves previously held for potential close-out costs.

In response to this directive, Commerce submitted a report to Congress on February 22, 1990, identifying the sources and amounts of program funds. Table 2 shows the total funds Commerce reported available for the program for fiscal year 1990.

Table 2: Total Funds Commerce Reported Available for the Trade Adjustment Assistance Program (Fiscal year 1990)

Dollars in millions	
Fiscal year 1990 appropriation	$4 605
minus Gramm-Rudman-Hollings sequestration	(062)
	4 543
Unobligated carryover	737
Prior or current year deobligations	774
Unexpended balance held by Trade Adjustment Assistance Centers	7 018
Total funds available	**$13.072**

Source Department of Commerce

report to Congress. The deleted material would have indicated that the amount of funds made available to the centers in fiscal year 1990 affected center operations by making it difficult for the centers to implement previously approved adjustment proposals. The footnotes also would have alerted Congress that the centers would have to cut costs by terminating some staff employment and limiting firm assistance and, in some cases, beginning close-out operations. Some centers have experienced all of these problems in fiscal year 1990.

Delays in Releasing Appropriated Funds Caused Operating Problems

Delays in releasing 1989 and 1990 appropriated funds by Commerce caused service disruptions at some of the Trade Adjustment Assistance Centers. As a result, several centers were forced to terminate technical assistance agreements and lay off staff. Several center directors expressed concern that the lack of predictable and sufficient funding lowered their credibility in the business community and impaired their ability to provide quality service to firms seeking assistance.

In fiscal year 1989, the Trade Adjustment Assistance Program received an appropriation of $5.8 million, a reduction of $10 million from the $15.8 million appropriated in each of the 3 previous fiscal years. Of the $5.8 million, $3.9 million was earmarked for the Trade Adjustment Assistance Centers. Program officials planned to make the first award of that fiscal year appropriation to the centers by May 31, 1989. Funding requests had already been submitted by the centers, and proposed awards had been approved and processed, when ITA officials chose not to release the funds. The program office received no advance notification of this decision.

ITA officials determined, through analysis by the Office of Finance and Federal Assistance and the Commerce budget office, that the centers had sufficient funds remaining from the 1988 appropriation to continue operations through the remainder of the fiscal year. Although the centers' funding requests included detailed information on their current financial status, the analysis was based on information from 2-month-old financial statements and current Treasury cash balances to reach the conclusion that the centers did not need additional funding at that time. Treasury cash balances reflect both unobligated funds as well as obligations not paid for

Despite the objections of the program office, the cooperative agreements between the centers and ITA were allowed to expire on May 31, 1989. Because this action cut off their authority to operate, the centers had no the centers spent $3 million in the first quarter of the fiscal year utilizing residual fiscal year 1989 funds. By early January 1990, it became apparent that unless additional funds were made available, some of the centers would have to begin close-down procedures and stop providing services as early as April 30, 1990.

The program office prepared a report for the ITA Under Secretary on March 15, 1990, showing that 11 of the 12 centers had insufficient funds to meet the demand for program services and would run short of program funds before the end of the fiscal year. Center directors complained about having to cancel current and projected contracts, lay off experienced personnel, and ask remaining personnel to take cuts in pay or assume additional duties.

In contrast, officials from ITA's Office of Administration prepared a report on March 26, 1990, showing that the centers had sufficient funds to operate through the end of the fiscal year. Their conclusion was based on an analysis of historical spending rates, which included periods when the centers were cutting costs and preparing to cease operations. The analysis in this ITA report was repudiated 1 month later by a subsequent analysis by the same office showing that the centers needed an additional $1.445 million to remain open through September 30, 1990. Consequently, Congress approved a supplemental appropriation of $1.445 million in May 1990 to ensure the same level of operations through September 30, 1990.

Funding Confusion Corrected

Commerce's February 22, 1990, report to Congress indicated that a total of $13.072 million was made available to the program. This amount exceeded the $10.877 million maximum allowed by the 1990 Appropriations Act. In response to questions we raised about this overage, Commerce officials said the report was prepared in accordance with the language of the October 1989 conference report, which required that a minimum of $10.877 million be made available for the program. These officials said they did not realize that the language had been changed in the appropriations act to establish a ceiling, as opposed to a minimum amount. The inconsistency was resolved by language incorporated in the May 1990 supplemental appropriations act that removed the $10.877 million ceiling.

Please contact me at (202) 275-4812 if you or your staff have any questions concerning this report. Major contributors to this report were John Watson, Assistant Director; Stephen Lord, Evaluator-in-Charge; and Sui-Ying Gantt, Evaluator.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

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Recommendations

To improve the administration of the Trade Adjustment Assistance Program, we recommend that the Secretary of Commerce direct the Under Secretary of the ITA to do the following:

- Provide the Trade Adjustment Assistance Centers with additional guidance on how to prepare their financial reports to ensure that unliquidated obligations and reserves for contingencies are properly recorded and reported, and
- Separately itemize in any future reports to Congress on the status of Trade Adjustment Assistance Program funds the amount of unliquidated obligations and reserves being held for close-out purposes.

Scope and Methodology

We interviewed Commerce officials, including representatives of the Trade Adjustment Assistance Program, the Trade Adjustment Assistance Centers, and the Office of Administration. We also analyzed the centers' financial reports for fiscal year 1989 and 1990 and reviewed pertinent program office documents and guidance, including estimates of the centers' unliquidated obligations and directions for recording unliquidated obligations. We compared the program office estimates of unliquidated obligations to those reported to Congress. We performed our review between April and June 1990 in accordance with generally accepted government auditing standards.

As requested, we did not obtain formal agency comments on this report, however, we discussed it with appropriate Commerce Department officials and incorporated their comments where appropriate.

As arranged with your office, we plan no further distribution of this report until 30 days from the date it is issued, unless you publicly announce its contents earlier. At that time, we will send copies to the Secretary of Commerce and appropriate congressional committees. We will also make copies available to other interested parties upon request.

guarantee that costs incurred after this date would be reimbursed. Consequently, some centers began terminating all business in progress. Although authority to resume operations with no new funds was granted by means of a "no-cost extension" letter dated June 6, 1989, some center contracts had already been canceled and operations discontinued. Although center directors welcomed the authority to resume operations, several objected strongly to not receiving additional funds.

We were unable to obtain an explanation from Commerce as to why the cooperative agreements with the centers were not renewed in time to avoid this disruption of service. In addition, our review indicated that the decision to grant the "no-cost extension" was reached without advance notice to the centers or program office and was not approved by the senior manager for the program, the Deputy Assistant Secretary. The June 6, 1989, letter that was subsequently distributed to the centers informing them that no new funds would be immediately forthcoming was signed by an ITA acting assistant secretary who had no previous involvement with the program. The Deputy Assistant Secretary told us he refused to sign the letter because he considered it an intentional violation of a congressional directive to fund the centers.

In July 1989, part of the $3.9 million was released to those centers judged in most need of funds; however, several of the centers continued to report acute financial difficulties. In August 1989, faced with the possible close-down of several of the centers, the Office of Finance and Federal Assistance, at ITA's request, released the remainder of the 1989 appropriation. By this time, several of the centers had been forced to curtail expenditures, cut back on services, and lay off staff.

In fiscal year 1990, the Trade Adjustment Assistance Program received an appropriation of $4.6 million. Of the $4.6 million, Commerce designated $3.4 million for the centers and $1.2 million for the program's administrative costs. The fiscal year 1990 Appropriations Act was signed on November 21, 1989. The Office of Management and Budget apportioned the funds on December 19, 1989. The appropriation for the centers was disbursed on December 29, 1989, 2 days before the centers would have lost the authority to operate. Once again, the centers were faced with the possibility of having to terminate business transactions.

According to program officials and center representatives, the $3.4 million was insufficient to maintain a normal level of operations. This funding was supposed to last the centers through September 30, 1990. Despite the fact that fiscal year 1990 funds had not yet been provided, Based on our independent review of the centers' financial reports that are submitted quarterly to Commerce's Office of Finance and Federal Assistance, about $4.5 million of the $7.018 million reported as "unexpended balance held by Trade Adjustment Assistance Centers" was actually unliquidated obligations and close-out reserves. Commerce was specifically directed in the conference report to include unliquidated obligations and close-out reserves in the unexpended balance. However, the extent of unliquidated obligations and reserves was not made clear in the Commerce report because ITA officials deleted the explanatory footnotes included in the draft report prepared by the program office. The footnotes showed that, of the $7.018 million in the unexpended balance, $1.048 million was already committed to signed contracts; $1.946 million was being held in reserve by the centers for potential close-down expenses; and $3 million was committed to center expenses that had accrued during the first quarter of fiscal year 1990.

In sum, the deleted footnotes indicated that only $1.024 million of the $7.018 million reported was actually available for new program spending. By not clarifying the amounts of the unliquidated obligations and reserves, the report made the centers appear to have more funds available for program activities than was the case.

Although allowed to do so by Public Law 101-162 of November 1989 (the 1990 Appropriations Act) many center directors have resisted using their close-out reserves for programmatic purposes in 1990 because of the funding uncertainty the program has faced over the last several years. Close-out reserves are funds the centers set aside to cover costs they would be held liable for once a close-down began. Such close-out costs include rents, employee severance and annual leave pay, and equipment maintenance contracts.

Using close-out reserves for programmatic purposes is of particular concern to those centers not linked to universities or parent companies because the board of directors for these centers could be held personally liable for costs incurred. Program officials said that the centers would use close-out reserves for programmatic purposes only if the Department of Commerce agreed that sufficient, additional funds would be made available immediately to fully cover close-out costs.

Although the format of the report technically complied with the requirements of the conference report, we believe that some of the confusion surrounding the funding status of the program could have been avoided if the accompanying footnotes had not been deleted from the final

Disagreement Within Commerce Over Adequacy of Program Funding

A fundamental disagreement exists between Commerce's program office staff and other ITA officials over the adequacy of program funding. Program officials contend that appropriations for fiscal years 1989 and 1990 were inadequate to allow the centers to meet the demands for their services and provide a normal level of operations. In contrast, ITA officials said that the amount of funds given to the program was greater than anticipated when adding prior year carryovers and recoveries to appropriated funds. These officials also said that because the centers were aware of the program's funding situation early in the year, spending rates should have been managed accordingly. These officials insisted that the supplemental appropriation made for the program in May 1990 would not have been necessary if the centers had spent at a more conservative rate early in the fiscal year.

Program officials contend that other ITA officials have consistently overstated the amount of funds available to the centers. Program officials believe these balances are overstated because they include unliquidated obligations. According to program officials, ITA bases its statements of funding on Treasury reports reflecting the program's withdrawals and cash balances but not the outstanding debts. Also, because there is typically a time lag of several months between certification and actual implementation of an assistance plan, funds that are set aside for projected needs, and consultant fees for executed contracts, are not reflected in the Treasury account balances.

Furthermore, program officials are critical of the methodology used to forecast the centers' future funding needs because the methodology is based solely on historical spending averages and not on the future demand for program services. Using only historical spending rates to project funding needs can result in inaccurate projections. Inaccuracies occur when demand for services changes significantly or when past spending had been subject to spending constraints. Furthermore, basing future spending needs on past historical spending rates allows neither for inflation nor for increases in case loads.

From the opposite perspective, ITA officials believe that the centers artificially inflate their obligated balances by including unwarranted charges, such as projected rental expenses and anticipated consultant services that have not yet been contracted and awarded. These officials also say that the centers are experiencing funding shortages because the centers have been too responsive to the increasing demands for their services.

spending levels and was adequate to meet program needs. The disagreement within Commerce was not resolved and resulted in confusion over the adequacy of program funding.

Commerce's February 22, 1990, report to Congress detailing the funds made available to the program further added to the confusion. Although the report complied with the conference report request, the implications of the information for the program were not made clear, in that almost one-half of the reported "total funds available" consisted of unliquidated obligations—funds already committed but not disbursed—and contingency reserves held by the centers to meet one time costs to close the centers down. Footnotes explaining that these balances should not be considered available for programmatic purposes appeared in the original draft report prepared by the program office but were deleted by Commerce's International Trade Administration (ITA) officials before the final version was submitted to Congress.

We also found that centers were inconsistent in the way they reported "committed funds" when compiling quarterly budget reports. Program officials attributed these inconsistencies to a lack of adequate guidance on how to properly record and report unliquidated obligations and close-out reserves.

Various operational constraints continue to affect the centers' ability to provide timely and effective technical assistance to firms that qualify for program assistance. Among the most prevalent constraints are inadequate and delayed funding and lapses in the centers' authority to incur additional costs.

Background

The Trade Adjustment Assistance Program was established in 1962. Within the Department of Commerce, the ITA's Office of Trade Adjustment Assistance administers the program. This office oversees the operations of the 12 Trade Adjustment Assistance Centers that work directly with eligible firms in their geographical areas. These centers are not federal agencies, but receive federal funds through cooperative agreements with the Department of Commerce.

Before certifying a firm's eligibility for assistance under the Trade Adjustment Assistance Program, program officials must conduct a diagnostic survey that determines the extent of the firm's problems and assesses the chances of the firm's recovery. If a recovery appears viable, an adjustment proposal is prepared outlining the recovery strategy and