

GAO

Report to the Chairman, Subcommittee  
on Trade, Committee on Ways and Means,  
House of Representatives

November 2007

TRADE  
ADJUSTMENT  
ASSISTANCE

States Have Fewer  
Training Funds  
Available than Labor  
Estimates When Both  
Expenditures and  
Obligations Are  
Considered



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## Abbreviations

NEG	National Emergency Grant
TAA	Trade Assistance Act

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United States Government Accountability Office  
Washington, DC 20548

November 2, 2007

The Honorable Sander M. Levin  
Chairman  
Subcommittee on Trade  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

Manufacturing workers face an uncertain future as manufacturing employment declines—more than 3 million manufacturing jobs have been lost in this country since 2000 because of international trade as well as other factors. The Trade Adjustment Assistance (TAA) program, administered by the Department of Labor (Labor), is the nation’s primary program providing income support, job training, and other benefits for manufacturing workers who lose their jobs as a result of international trade. During the 3-year period from fiscal years 2004 through 2006, Labor certified nearly 4,700 petitions for TAA covering an estimated 400,000 workers. For fiscal year 2006, Congress appropriated about \$966 million for TAA, of which about \$220 million was for training trade-affected workers.

Each year, Labor initially allocates 75 percent of the training funds, or \$165 million, to states according to a formula developed by Labor. Labor holds the remaining 25 percent in reserve to distribute to states throughout the year as the need arises because of unexpected layoffs. To minimize year-to-year fluctuations in state funding, Labor uses a “hold harmless” policy that ensures that each state’s initial allocation is at least 85 percent of the initial allocation received in the previous year. States have 3 years to spend TAA funds—fiscal year 2006 funds must be used by the end of fiscal year 2008. In addition, to cover administrative costs, Labor allocates to each state an additional 15 percent of its training allocation. Labor can also provide states with supplemental funding to assist TAA participants through National Emergency Grants (NEG)—discretionary awards intended to temporarily expand service capacity in response to major layoffs.

During hearings held in June 2007, Labor asserted that, based on reported expenditures, all states had sufficient funds to provide training benefits to trade-affected workers. We reported in May 2007 that, in fact, 13 states used virtually none of their fiscal year 2006 training funds, even when considering both expenditures and obligations—that is, funds that have

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been committed but not yet paid.<sup>1</sup> On the other hand, we also reported that nine states had used virtually all of their fiscal year 2006 training funds. Our prior work on another key employment and training program—the Workforce Investment Act—found that expenditures by themselves do not provide a complete picture of spending activity.<sup>2</sup> Obligations must be considered to accurately gauge how much is available to provide services—such as training—to participants, and we recommended that Labor use obligations when estimating available funds. Recently, Labor’s Office of Inspector General has also concluded that obligations provide a more useful measure for assessing states’ funding status if the obligations accurately reflect legally committed funds and are consistently reported.

Because TAA reauthorization is rapidly approaching, Congress must have accurate information on whether current funding levels are meeting TAA training needs. You asked that we assess (1) the total amount of TAA training funds states actually had available in fiscal year 2007, (2) the process states use to obligate training funds and how they manage these obligations, and (3) the amount of National Emergency Grants (NEG) funds that have been awarded for TAA during the past 3 fiscal years. To address the first question, we obtained financial data from Labor for TAA training funds allocated in fiscal years 2005 through 2007. We analyzed states’ reported information on expenditures and obligations through March 31, 2007. We verified the reliability of Labor’s information by comparing it to other sources and assessing the accuracy of mathematical computations. We did not verify the accuracy of the expenditure and obligation data states reported to Labor. To address the second objective, we conducted a telephone survey of all 50 states and received responses from 45. These 45 states represent 85 percent of the TAA training funds allocated during fiscal years 2005 through 2007. Finally, to address the third objective, we collected information on NEG funds for TAA provided to each state for fiscal years 2005 through 2007. We performed our work between July and October 2007 in accordance with generally accepted government auditing standards.

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<sup>1</sup> GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States’ Ability to Provide Benefits and Services*, [GAO-07-701](#), [GAO-07-702](#) (Washington, D.C.: May 31, 2007).

<sup>2</sup> GAO, *Workforce Investment Act: States’ Spending is on Track, but Better Guidance Would Improve Financial Reporting*, [GAO-03-239](#) (Washington, D.C.: Nov. 22, 2002).

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On September 26, 2007, we briefed your staff on the results of our efforts. This report formally conveys the information provided during that briefing. Appendix I contains the briefing slides.

In summary, we found that as of March 31, 2007, states had about \$173 million of TAA training funds available compared with Labor's estimate of \$447 million.<sup>3</sup> The difference between our estimate and Labor's is due to several factors. First, Labor's estimate included about \$92 million in administrative funds, not intended to be used for training, that was awarded to states during fiscal years 2005 through 2007. Second, Labor included more than \$12 million that was provided to states in fiscal year 2006 to upgrade their management information systems. Third, Labor's estimate did not consider any of the approximately \$107 million of TAA training obligations states reported for funds allocated during fiscal years 2005 through 2007. Finally, Labor's estimate did not account for any of the TAA training expenditures states reported in fiscal year 2007, through March 31, 2007. These factors contributed to our estimate of available training funds being lower than Labor's. We also found that total funding available in 2007 varied widely from state to state, consistent with our earlier findings of fiscal year 2006 spending alone. For example, seven states reported spending or obligating all of the funds they had received during fiscal years 2005 through 2007. On the other hand, 21 states reported not spending or obligating any of their fiscal year 2007 TAA training funds—and, 6 of the 21 states had not spent or obligated any of their fiscal year 2006 TAA training funds as well. See appendix II for a complete listing of the amounts of TAA training funds states had available as of March 31, 2007.

Nearly all of the states responding to our telephone survey reported obligating TAA training funds when an actual commitment occurs, and most states reported actively managing their obligations, including de-obligating funds in a timely manner. Of the 45 states responding to our survey, 44 reported obligating funds when either a training contract is signed or when a participant is approved for, or enrolls in, training. For longer-term training, about one-third of the states reported obligating the entire amount of the training contract. Thus, if a participant enrolled in training that cost \$20,000 and covered 2 years, these states would obligate the entire \$20,000 at one time. On the other hand, about two-thirds of the

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<sup>3</sup> Labor actually submitted data showing that about \$453 million was available in fiscal year 2007, but this data included about \$6 million that was awarded after March 31, 2007.

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states would only obligate a portion of the \$20,000 needed for a specific period, such as the current fiscal year. Nearly 90 percent of the states responding to our survey also reported having procedures to de-obligate training funds in a timely manner, often as soon as the state is notified that the participant is no longer in training. Most of the states reported actively monitoring obligations to ensure that they are current and accurate, often through the use of training attendance records.

During fiscal years 2005 through 2007, 18 states received a total of \$32 million in NEGs for TAA participants. Approximately two-thirds of these funds were distributed in fiscal year 2005. In fiscal year 2006, only 5 states received NEG funds—about \$6 million—for TAA participants and only 6 states in fiscal year 2007—about \$4.5 million. See appendix III for the amount of NEG funds provided to states for TAA during fiscal years 2005 through 2007.

We provided a draft of this report to Labor for comment. In its response, Labor took issue with several of our findings. Labor noted that its estimate of \$453 million was intended to convey the total amount available for training expenditures over the entire fiscal year and not to represent funding availability as of March 31. In order to provide the most current and accurate information about the amount of training funds states had available, we deducted expenditures and obligations made by states through the first 6 months of fiscal year 2007. Even without considering any expenditures and obligations during fiscal year 2007, Labor's estimate would have overstated the amount of funds states had available for training. For example, Labor's estimate of available training funds included over \$104 million not intended for training, but rather for administrative expenses and for upgrading management information systems.

Labor states that it does not believe it is appropriate to subtract obligations when estimating available funds, saying that, even though the funds are obligated, they are still available. We disagree. As noted in our report, obligations are not available for other uses because they represent a true commitment to participants to cover their training costs. Labor also notes that, because some participants fail to complete training, including obligations for the full cost of training in our calculations will inflate the overall need for training dollars. It should be noted that some costs may accrue, even for participants who don't complete training. We agree that obligating funds for the full cost of longer-term training could inflate the estimate if states did not actively monitor obligations. However, we found that only one-third of the states reported obligating the full cost of the

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training contract at one time. Furthermore, nearly all states told us they have procedures in place to de-obligate training funds in a timely manner, and most states report actively monitoring obligations to ensure that the data are current and accurate.

Labor expressed concern that some findings were based on a telephone survey and suggested that a comprehensive audit should be performed. Given our limited time, we conducted a telephone survey of state officials to gather information on how states report managing the obligation of their training funds, and we obtained responses from 45 states. Our questions asked them to provide specific information on the processes they used to manage the program. We agree that a comprehensive evaluation should occur and believe that such an effort should be part of Labor's oversight and monitoring of the program.

Labor acknowledged that the report confirms the need to review the "hold harmless" provision used to allocate training funds, noting that the department has become concerned that several states carry a significant level of funds into the new year, while others have expended nearly all funds allocated.

Finally, Labor pointed out that states did not apply for National Emergency Grants because they had insufficient training money available. Rather states requested NEGs to allow them to provide "wrap-around" services, such as assessment, case management, and job search assistance. Indeed, of the 6 states receiving NEG funds in fiscal year 2007, 4 had more than \$4 million available in TAA training funds. Labor's entire comments are reproduced in appendix IV.

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We are sending copies of this report to relevant congressional committees and other interested parties and will make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff have any questions about this report, please contact me at (202) 512-7215. You may also reach

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me by e-mail at [scottg@gao.gov](mailto:scottg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Dianne Blank, Wayne Sylvia, Rebecca Woiwode, and Stuart Kaufman made key contributions to this report.

Sincerely,

A handwritten signature in black ink that reads "George A. Scott". The signature is written in a cursive style with a large, prominent "G" and "S".

George A. Scott  
Director, Education, Workforce, and  
Income Security Issues



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**Trade Adjustment Assistance (TAA)  
Training Fund Availability**

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**Briefing for  
Congressional Staff  
House Ways and Means Committee  
Trade Subcommittee  
September 26, 2007**

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## Introduction

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- During hearings held by this committee in June 2007, Department of Labor officials stated that all states had sufficient TAA training funds in fiscal year 2007.
- Our May 2007 report found that some states had used their fiscal year 2006 TAA training funds when considering both expenditures and obligations--funds that have been committed, but not yet paid--while other states had used virtually none. We recommended that Labor modify the process it uses to distribute the funds.<sup>1</sup>
- Because TAA is due to be reauthorized this year, the Subcommittee asked us to address the availability of TAA training funds.

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<sup>1</sup> GAO. *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability To Provide Benefits and Services*. GAO-07-702 (Washington, D.C.: May 31, 2007).

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## Objectives

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Our objectives were to:

- determine how much TAA training funds states had available in fiscal year 2007,
  - determine the process states use to obligate training funds and how they manage TAA training obligations, and
  - determine the amount of National Emergency Grant (NEG) funds that have been awarded for TAA during last 3 fiscal years.
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## Scope and Methodology

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To address our objectives, we

- obtained Labor's TAA financial data and NEG awards for fiscal years 2005, 2006 and 2007 (through March 31, 2007),
- analyzed TAA allocations, expenditures, and obligations by state by fiscal year, and
- used a telephone survey of state TAA coordinators to obtain information on their process for managing TAA obligations. We obtained responses from 45 of the 50 states that received any TAA funds in 2006.<sup>1</sup> These 45 states represent 85 percent of the TAA training funds awarded during fiscal years 2005-2007.

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<sup>1</sup> The District of Columbia receives no TAA training funds.

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## Summary of Findings

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- According to our analysis of Labor's data, states had about \$173 million in TAA training funds available as of March 31, 2007. Labor estimated \$447 million was available. The differences between the estimates primarily result from Labor including allocations for administrative funding and excluding states' training obligations.
  - Nearly all states report obligating funds when an actual commitment occurs, and most report actively managing obligations, including de-obligating funds in a timely manner.
  - During the last 3 fiscal years, Labor awarded more than \$32 million in NEGs to 18 states to be used for TAA participants.
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## Background

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- Approximately \$220 million of TAA training funds are distributed to states annually by Labor.
    - 75 percent is distributed at beginning of fiscal year based on Labor's formula, but each state is guaranteed to receive no less than 85 percent of the previous year's allocation.
    - Remaining 25 percent distributed on as-needed basis during fiscal year.
    - At the end of the fiscal year, Labor distributes any remaining reserve funds to all states that received funds during the year.
    - With each allocation of training funds, states are given an additional 15 percent to cover administrative costs.
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## Background (continued)

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- Labor must distribute current year's appropriation by the end of the fiscal year or the funds expire and are not available for any other use.
  - States have 3 years to spend TAA training funds. Labor may recapture any funds that states are unable to utilize within a reasonable period of time, but only after consultation with and appropriate notification to the state.
  - States report quarterly, on a cumulative basis, how much of TAA training funds have been expended and obligated.
  - NEGs may also be used to fund services, including training, for TAA participants. The grants may be funded in whole or in increments over a period of time.
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## Objective 1: TAA Training Funds

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# States Have Fewer Available TAA Training Funds Than Estimated by Labor

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- In June 2007, Labor submitted to the House Ways and Means Committee data showing that states had about \$447 million in TAA training funds available as of March 31, 2007<sup>1</sup>.
- We estimate that as of March 31, 2007, states had approximately \$173 million available.
- States vary widely in the amount of available training funds.

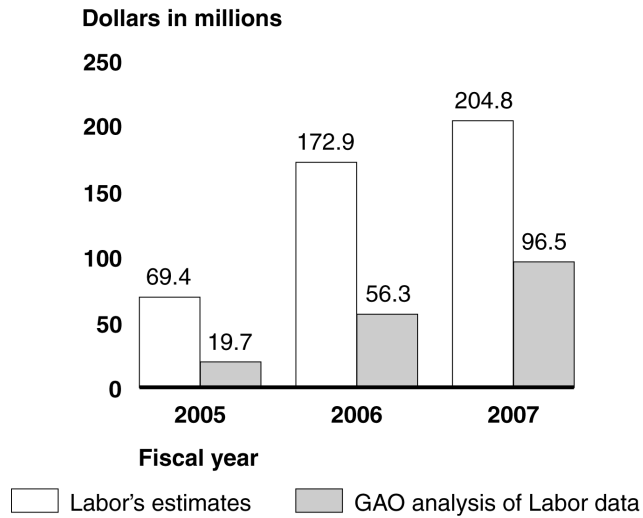
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<sup>1</sup>Labor submitted data showing that \$453 million was available in fiscal year 2007, but included about \$6 million awarded after March 31, 2007.



**Objective 1: TAA Training Funds**

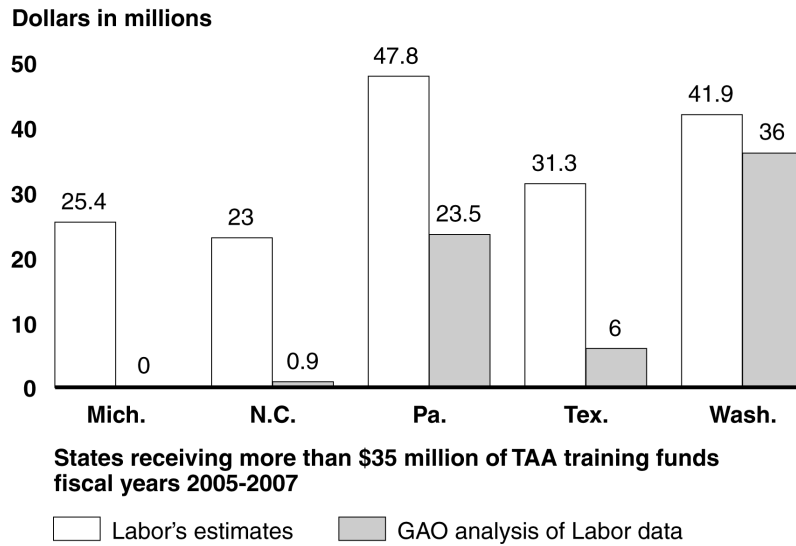
**Available TAA Training Funds in Fiscal Year 2007 by Year Awarded**



Source: Department of Labor and GAO analysis of Labor data as of March 31, 2007.

**Objective 1: TAA Training Funds**

**Available Training Funds for Five States with Larger Allocations**



Source: Department of Labor and GAO analysis of Labor information, as of March 31, 2007.

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**Objective 1: TAA Training Funds**

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**Reasons for Difference between Labor and GAO Estimates of Available Training Funds**

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- Labor's estimate included funds not intended for training:
    - approximately \$92 million of administrative funds allocated to states during fiscal years 2005 to 2007 and
    - more than \$12 million awarded to states in fiscal year 2006 to upgrade their management information systems,
  
  - Labor's estimate did not consider:
    - any of the approximately \$107 million states reported in unliquidated obligations during fiscal years 2005 to 2007, and
    - any expenditures reported by states in fiscal year 2007.
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**Objective 2: Obligation Process**

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**States Vary Widely in the Amount of Available Training Funds**

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As of March 31, 2007:

- 7 states had exhausted their TAA training funds—reporting that they had expended or obligated all of the funds they received in fiscal years 2005-2007.
  - 21 states reported not expending or obligating any of their fiscal year 2007 TAA training fund allocation.
    - 6 of these states also had not expended or obligated any of their fiscal year 2006 allocation.
    - These 6 states had more than \$50 million of unused fiscal year 2006 and 2007 training funds.
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**Objective 2: Obligation Process**

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**States' TAA Training Fund Obligations Reflect Actual Commitment**

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- 44 of the 45 states responding to our survey reported obligating funds when an actual commitment occurs:
    - 28 when a training contract is signed,
    - 10 when a participant is approved for training, and
    - 6 when a participant enrolls in or begins training.
  - 1 state obligates when funds are released to the local area.
  - For training that crosses over fiscal years:
    - one-third of states reported obligating the entire amount of the training upfront;
    - two-thirds of the states reported obligating only the portion of the total training cost needed for a specific period, such as the current fiscal year.
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**Objective 2: Obligation Process**

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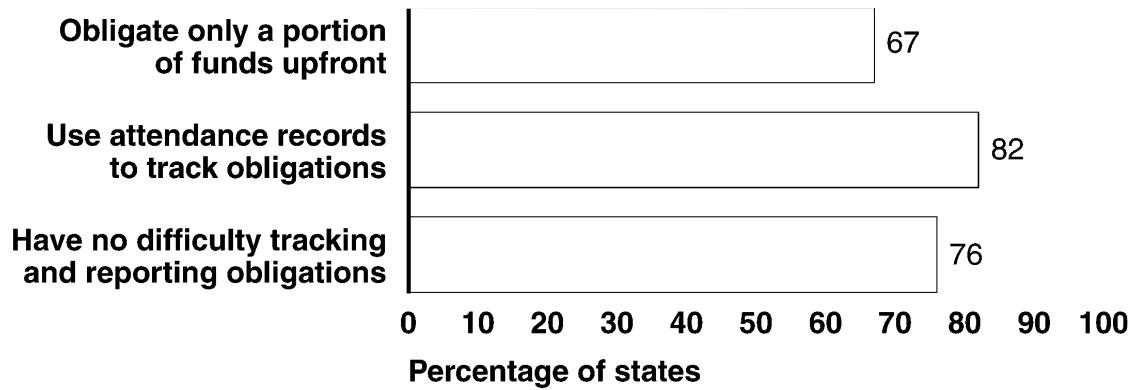
**States Report Actively Managing Obligations**

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- Nearly 90 percent of states reported having procedures in place to de-obligate funds in a timely manner, often as soon as the state is notified that the participant is no longer in training.
  - Most states reported actively monitoring obligations to ensure that they are current and accurate, often through the use of participants' training attendance records.
  - Over three-fourths of states reported having no difficulty in tracking or reporting obligations.
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**Objective 2: Obligation Process**

**State Processes for Managing Obligations, by Percentage of States**



Source: GAO analysis of survey responses.

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**Objective 3: National Emergency Grants**

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**NEG Funds Provided to States for TAA during Fiscal Years 2005 to 2007**

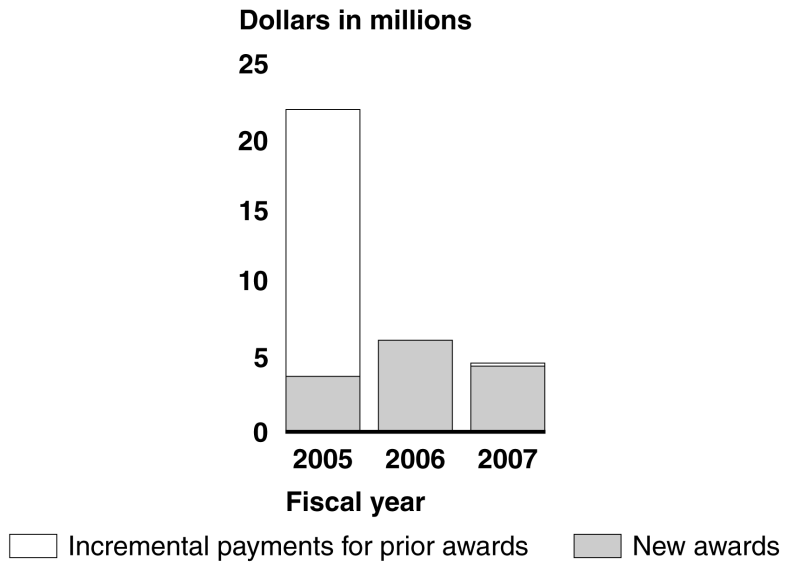
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- More than \$32 million of NEG funds were given to 18 states for TAA during fiscal years 2005 through 2007.
- The majority of the funds (about \$22 million) was distributed to 15 states in fiscal year 2005.
- Only 5 states received NEG funds for TAA in 2006 and 6 states in 2007.



**Objective 3: National Emergency Grants**

**Amount of NEG Funds Provided for TAA from Fiscal Years 2005 through 2007**



Source: Department of Labor and GAO analysis of Labor information.

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## Concluding Observations

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- States have far fewer funds available to provide TAA-funded training than Labor has suggested.
  - Labor's approach to distributing TAA training funds to states continues to be a concern. As in our 2007 TAA report, we found that several states have exhausted their funding, while others have spent little or none of their 2006 or 2007 funds.
  - Most states have developed processes to help them better manage expenditures and obligations. Nearly all states told us they actively manage obligations and routinely de-obligate funds when appropriate. This suggests that the information on obligations reported by states to Labor likely reflects a true commitment of funds.
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# Appendix II: TAA Training Funds Available in Fiscal Year 2007, by State

State	Total training funds awarded fiscal years 2005-2007	Cumulative expenditures as of March 31, 2007	Cumulative obligations as of March 31, 2007	Available balance as of March 31, 2007
Alabama	\$8,195,181	\$2,004,196	\$3,452,814	\$2,738,171
Alaska	\$1,433,731	\$760,634	\$79,679	\$593,418
Arizona	\$7,828,584	\$2,360,839	\$526,463	\$4,941,282
Arkansas	\$6,456,865	\$4,093,208	\$2,363,657	\$0
California	\$25,047,061	\$19,671,745	\$2,788,899	\$2,586,417
Colorado	\$4,953,707	\$1,954,143	\$1,879,097	\$1,120,467
Connecticut	\$5,501,021	\$3,900,933	\$1,105,571	\$494,517
Delaware	\$74,221	\$15,672	\$44,782	\$13,767
District of Columbia	\$0	\$0	\$0	\$0
Florida	\$8,006,934	\$368,967	\$0	\$7,637,967
Georgia	\$5,030,561	\$2,508,596	\$3,501,456	(\$979,491)
Hawaii	\$813,884	\$10,831	\$1,077	\$801,976
Idaho	\$7,695,483	\$2,796,569	\$31,668	\$4,867,246
Illinois	\$26,770,849	\$18,351,370	\$2,889,007	\$5,530,472
Indiana	\$20,784,317	\$18,144,273	\$2,640,044	\$0
Iowa	\$13,248,340	\$13,046,677	\$201,663	\$0
Kansas	\$5,428,878	\$1,120,875	\$0	\$4,308,003
Kentucky	\$14,083,818	\$11,608,500	\$534,754	\$1,940,564
Louisiana	\$1,968,150	\$56,943	\$108,884	\$1,802,323
Maine	\$13,996,493	\$5,972,080	\$335,840	\$7,688,573
Maryland	\$1,837,639	\$939,963	\$0	\$897,676
Massachusetts	\$18,040,564	\$12,181,017	\$1,437,510	\$4,422,037
Michigan	\$40,549,718	\$26,388,103	\$14,264,491	(\$102,876)
Minnesota	\$12,789,533	\$2,112,664	\$461,582	\$10,215,287
Mississippi	\$5,174,783	\$1,269,317	\$2,140,853	\$1,764,613
Missouri	\$14,736,635	\$8,241,790	\$3,088,139	\$3,406,706
Montana	\$3,652,112	\$1,789,375	\$0	\$1,862,737
Nebraska	\$1,687,832	\$570,758	\$378,945	\$738,129
Nevada	\$513,227	\$10,619	\$30,729	\$471,880
New Hampshire	\$1,771,447	\$1,137,377	\$155,893	\$478,177
New Jersey	\$5,787,388	\$3,965,843	\$0	\$1,821,545
New Mexico	\$1,929,494	\$976,519	\$32,576	\$920,400
New York	\$9,008,359	\$3,103,447	\$1,428,342	\$4,476,570
North Carolina	\$39,096,982	\$29,177,101	\$9,019,173	\$900,709

**Appendix II: TAA Training Funds Available in  
Fiscal Year 2007, by State**

<b>State</b>	<b>Total training funds awarded fiscal years 2005-2007</b>	<b>Cumulative expenditures as of March 31, 2007</b>	<b>Cumulative obligations as of March 31, 2007</b>	<b>Available balance as of March 31, 2007</b>
North Dakota	\$448,443	\$269,145	\$28,514	\$150,784
Ohio	\$21,648,217	\$17,069,186	\$4,579,031	\$0
Oklahoma	\$5,129,382	\$1,211,207	\$3,918,175	\$0
Oregon	\$17,846,771	\$12,033,344	\$1,089,528	\$4,723,899
Pennsylvania	\$56,535,245	\$19,646,291	\$13,349,337	\$23,539,618
Puerto Rico	\$114,186	\$0	\$6,808	\$107,378
Rhode Island	\$4,687,047	\$3,602,430	\$831,605	\$253,012
South Carolina	\$11,122,441	\$6,088,589	\$0	\$5,033,852
South Dakota	\$2,697,874	\$2,049,796	\$208,913	\$439,164
Tennessee	\$8,339,961	\$2,451,807	\$4,584,862	\$1,303,293
Texas	\$37,573,203	\$21,284,020	\$10,267,342	\$6,021,841
Utah	\$4,878,949	\$211,352	\$462,791	\$4,204,806
Vermont	\$1,552,740	\$1,001,541	\$0	\$551,199
Virginia	\$22,025,129	\$14,432,967	\$4,513,630	\$3,078,532
Washington	\$46,107,973	\$10,153,382	\$0	\$35,954,591
West Virginia	\$16,327,707	\$7,479,597	\$8,073,984	\$774,126
Wisconsin	\$26,912,615	\$18,791,272	\$112,249	\$8,009,094
Wyoming	\$89,533	\$79,611	\$1,553	\$8,369
<b>Grand Total</b>	<b>\$617,931,207</b>	<b>\$338,466,479</b>	<b>\$106,951,908</b>	<b>\$172,512,819</b>

Source: Department of Labor and GAO analysis.

# Appendix III: National Emergency Grants Received by States, Fiscal Years 2005 through 2007 for TAA

State	FY05	FY06	FY07	Total
Alaska		\$2,000,000		\$2,000,000
Idaho	\$24,000			\$24,000
Iowa	\$657,773		\$263,367	\$921,140
Maine	\$2,423,904		\$395,678	\$2,819,582
Maryland	\$265,500			\$265,500
Massachusetts	\$233,000	\$307,000	\$1,395,714	\$1,935,714
Missouri	\$1,088,249	\$1,030,535		\$2,118,784
Montana			\$300,000	\$300,000
New Hampshire	\$206,500			\$206,500
New York	\$615,750			\$615,750
North Carolina	\$6,611,688			\$6,611,688
Ohio		\$1,613,026		\$1,613,026
Oklahoma	\$484,700			\$484,700
Oregon	\$1,971,544	\$1,173,502	\$1,552,004	\$4,697,050
South Carolina	\$1,984,638			\$1,984,638
Tennessee	\$670,000			\$670,000
West Virginia	\$1,699,604			\$1,699,604
Wisconsin	\$2,685,970		\$676,452	\$3,362,422
<b>Total</b>	<b>\$21,622,820</b>	<b>\$6,124,063</b>	<b>\$4,583,215</b>	<b>\$32,330,098</b>

Source: Department of Labor and GAO analysis.

# Appendix IV: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for  
Employment and Training  
Washington, D.C. 20210



OCT 29 2007

Mr. George A. Scott  
Director  
Education, Workforce and Income Security Issues  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Scott:

Enclosed is the Department of Labor's response to the Government Accountability Office (GAO) Draft Report No. 08-165 entitled, "States Have Fewer Funds Available than Labor Estimates When Both Expenditures and Obligations are Considered." We appreciate the opportunity to comment on the draft.

The GAO report seems to imply that the \$453 million in Trade Adjustment Assistance (TAA) funds that the Department reported as available for expenditure at the beginning of FY 2007 were not actually available for states to spend. Two factors contribute to the difference between the GAO estimate of \$173 million and the Department's report, and these are explained below.

First, the GAO report subtracted expenditures through March 31, including funds hidden as obligations, from the total funds available. The Department's statement that there was \$453 million available for expenditure in FY 2007 was intended to convey the total amount available for expenditure over the entire fiscal year. In this report, GAO subtracted expenditures in the first half of FY 2007 from the reported amount of available funds; however, the Department did not characterize its report as fund availability as of March 31. The Department's point was that states carried a significant amount of unspent money into the fiscal year, providing a total of \$453 million that was actually available to be spent during FY 2007.

Second, the Department does not believe it is appropriate to subtract obligations when reporting on the amount of funds available for expenditure. Even though money is obligated, it is still available for expenditure. Presumably, the state obligations the GAO subtracted from the available funds will become expenditures in FY 2007. Subtracting the obligations, or planned expenditures,

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from what is reported as available for expenditure, has the effect of double counting the obligations.

In the past, states have used obligations as a main reason for needing training funds based on a belief that training services would be needed *in the future*. For instance, as reported by GAO, one third of the states consider the full costs of a training program to be obligated when a training contract is signed, whether or not services have been provided. Actual data provided by the states show that approximately 72 percent of training participants complete their training programs; therefore, obligations for the full costs of training for those who do not complete (28 percent of participants) will never materialize. Adding these obligations to expenditures results in an inflated estimate of the overall need for training dollars.

This report also failed to note that, over the past several fiscal years, total annual state expenditures have been less than the \$220 million available for training. For example, in FY 2006, the most recent fiscal year for which complete data are available, a total of \$159 million was actually expended on training. We believe this amount more accurately reflects the level of training activity in the states than adding expenditures to obligations.

We also have some concern with other findings included in this report. We believe that the methodology for determining whether states correctly manage their obligations should require more than a telephone survey. Based on this self-reporting, most states told the GAO that they were effectively managing their funds, including de-obligating funds in a timely manner. However, we would welcome a comprehensive audit of states' funding practices upon which funding decisions could reliably be based. This process would allow auditors to verify that states are managing obligations and de-obligations correctly.

We are pleased to see that this review addresses issues surrounding the TAA allocation formula adopted by the Department in fiscal year 2004 to more equitably fund state TAA needs. We are currently reviewing this formula to ensure that current year funds are allocated effectively to meet current year TAA training needs. Overall, we believe the adoption of a formula-based methodology for distributing TAA training funds has been a success. We know that, since adopting this formula approach, no state has ended the year without access to TAA training funds when they have been able to show that they have expended at least 50 percent of their current year allocation or have otherwise demonstrated need. Our policy of maintaining a 25 percent reserve for unanticipated need has made it possible to meet state needs for additional training funds through the end of the fiscal year.

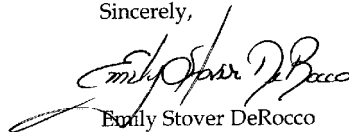
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The Department has, however, become concerned that several states carry a significant level of funds into the new fiscal year, while other states have expended nearly all funds allocated. The "hold harmless" formula provision, which guarantees a state 85 percent of its prior year base allocation, may be causing this imbalance, and this report seems to confirm the need to review that provision. In implementing the formula, the Department believed that the "hold harmless" provision was important to ensure funding stability while states were becoming accustomed to the new methodology. Now that states have experience with the formula and the reserve process, the Department believes it is appropriate to consider changes to this provision. However, we also believe that it would be prudent to delay any changes until we know the outcome of TAA reauthorization.

Finally, we would point out that since adopting the formula funding approach, the use of National Emergency Grants (NEGs) by states has not been because any state has had insufficient training money available. Rather, NEGs provide for "wrap-around" services to trade-affected workers, which include assessment, case management, job search assistance, and other services provided under the Workforce Investment Act that help workers transition into new employment, but are not payable using TAA funds. The need to use two funding sources to provide comprehensive, needed services to trade-impacted workers illustrates one of the program flaws in the currently authorized TAA program. The Administration has proposed addressing this program flaw in its principles for reform of TAA during reauthorization.

If you would like additional information, please do not hesitate to call me at (202) 693-2700. You may also contact Erica Cantor, Administrator, Office of National Response, at (202) 693-3500.

Sincerely,



Emily Stover DeRocco



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# Related GAO Products

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*Trade Adjustment Assistance: Program Provides an Array of Benefits and Services to Trade-Affected Workers.* [GAO-07-994T](#). (Washington, D.C.: June 14, 2007).

*Trade Adjustment Assistance: Changes Needed to Improve States' Ability to Provide Benefits and Services to Trade-Affected Workers.* [GAO-07-995T](#). (Washington, D.C.: June 14, 2007).

*Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services.* [GAO-07-701](#), [GAO-07-702](#). (Washington, D.C.: May 31, 2007).

*Trade Adjustment Assistance: New Program for Farmers Provides Some Assistance, but Has Had Limited Participation and Low Program Expenditures.* [GAO-07-201](#). (Washington, D.C.: December 18, 2006).

*National Emergency Grants: Labor Has Improved Its Grant Award Timeliness and Data Collection, but Further Steps Can Improve Process.* [GAO-06-870](#). (Washington, D.C.: September 5, 2006).

*Trade Adjustment Assistance: Labor Should Take Action to Ensure Performance Data Are Complete, Accurate, and Accessible.* [GAO-06-496](#). (Washington, D.C.: April, 25, 2006).

*Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Benefits.* [GAO-06-43](#). Washington, D.C.: January 31, 2006.

*Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain.* [GAO-04-1012](#). Washington, D.C.: September 22, 2004.

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