



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

May 11, 2012

The Honorable Harold Rogers
Chairman, Committee on Appropriations
The Capitol, Room H-307
U.S. House of Representatives
Washington, DC 20515

The Honorable Norman D. Dicks
Ranking Member, Committee on Appropriations
The Capitol, Room H-307
U.S. House of Representatives
Washington, DC 20515

The Honorable Frank R. Wolf
Chairman, Subcommittee on Commerce,
Justice, Science, and Related Agencies
The Capitol, Room H-309
U.S. House of Representatives
Washington, DC 20515

The Honorable Chaka Fattah
Ranking Member, Subcommittee on Commerce,
Justice, Science, and Related Agencies
The Capitol, Room H-309
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Rogers, Ranking Member Dicks, Chairman Wolf, and Ranking Member Fattah:

This letter responds to the House Committee Report regarding the FY 2012 Commerce, Justice, Science, and Related Agencies Appropriations bill. The Committee directed us to review the administrative costs of Trade Adjustment Assistance Centers (TAACs), which administer the Trade Adjustment Assistance (TAA) for Firms program for the Economic Development Administration (EDA). We have evaluated the TAAC expenses and have made several observations regarding the reasonableness of administrative costs charged by the TAACs.

As part of the review, we obtained the most recent available expenditure data from three TAACs: New England (NETAAC), New York State (NYSTAAC), and Western (WTAAC). Our review focused on the use of federal funds provided by EDA and was limited to an analysis and comparison of expenses among the TAACs as well as interviews with EDA staff. We did not verify expenses; test internal controls; or test compliance with laws, regulations, or contracts applicable to the TAAC program and do not express an opinion on the expense information provided by EDA or the TAACs.

Background

EDA's Trade Adjustment Assistance for Firms program is authorized under chapter 3 of title II of the Trade Act of 1974, as amended. The TAA program exists to provide technical assistance to U.S. firms experiencing a decline in sales and employment, resulting in part from the increase in imports of like or directly competitive articles, to become more competitive in the global marketplace. EDA funds and works in partnership with a national network of 11 TAACs, which provide firms that seek to be certified as eligible to apply for trade adjustment assistance with no-cost support in completing and submitting petitions to EDA.



As described in EDA's most recent budget submission, within 2 years of the date of its certification of eligibility to apply for trade adjustment assistance, a firm must submit an adjustment proposal (AP) to EDA. Typically, the TAAC works with the firm to prepare the AP, and the firm must pay at least 25 percent of the preparation costs. The AP analyzes the strengths, weaknesses, threats, and opportunities of the firm; compares it with other firms in the same industry; and outlines specific technical assistance tasks to assist the firm in regaining its economic competitiveness in the global marketplace. EDA must approve the AP; thereafter, the firm and TAAC work together to locate suitable consultants. A firm must pay between 25 and 50 percent of the total consultant costs to implement the technical assistance tasks outlined in the AP, and EDA and the TAAC fund the remaining costs.

Summary of Findings

We did not determine the level of administrative costs of the three TAACs to be unreasonable, based on our recalculations of EDA-provided data. Table 1 contains the OIG-calculated administrative expenses as a percentage of total expenses for three TAACs.

Table 1: OIG-Calculated Administrative Expenses as a Percentage of Total Expenses by Funding Year

	2007	2008	2009	2010	Average
NETAAC	21.43%	20.32%	14.36%	11.44%	16.89%
NYSTAAC	25.84%	19.69%	20.93%	14.41%	20.21%
WTAAC			15.69%	14.72%	15.21%

Source: OIG from expenditure data provided by NETAAC, NYSTAAC, and WTAAC. Data for 2007 and 2008 were not available for WTAAC because it did not track expenses by activity until funding year 2009.

Note: Values in table have been rounded to the nearest 0.01%.

However, we noted that

- EDA cannot readily determine the true TAAC program activity costs and
- EDA has not considered options beyond existing TAACs for executing the TAA program.

Our detailed analysis of TAAC program activity costs is provided in appendix B.

EDA cannot readily determine the true TAAC program activity costs

A General Accounting Office (GAO) December 2000 review of the TAA program from 1995 through 1999 found the TAACs used 39 percent of total expenses for contractual expenses and 61 percent of total expenses for administration and operations of the 12 TAACs.¹ Contractual expenses fund technical assistance from third-party consultants. All other expenses

¹ U.S. General Accounting Office, December 2000. *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear*, GAO-01-12. Washington, D.C.: GAO.

are administrative or operational and are associated with helping firms with the initial certification process, developing business recovery plans for certified firms, and funding day-to-day operations. An analysis of more recent budgeted expenses for the 11 current TAACs shows a similar ratio to that identified by GAO (see appendix A).² However, we found that comparing these numbers may not be the most effective way to measure administrative and programmatic cost performance for the TAACs.

EDA considers programmatic expenses to be all expenses incurred by the TAACs in working with actual and potential clients. TAACs provide EDA with information on programmatic expenses by cost category, including personnel, fringe benefits, travel, equipment, supplies, contractual, construction, and “other” (see appendix A). We found that the TAACs have now also begun tracking certain expenses by more specific *program* activities such as outreach, petition development, AP development, and implementation, with all other costs falling under TAAC administration. This information was not available when GAO conducted its earlier review. However, although this level of clarity is available, the TAACs do not appear to be consistent in how each one allocates costs among these activities.

We obtained expenditure data from NETAAC, NYSTAAC, and WTAAC for the most recent four grant funding years, including any allocation of expenses by the TAACs into the specific program activities the TAACs now identify (outreach, petition development/certification, AP development, implementation, and administration). We allocated all remaining expenses to the program activities (see appendix B). We then identified significant differences in the level of calculated expenses for each activity among the different TAACs. For example, as shown in appendix B, table 3, NETAAC averaged less than 1 percent of total expenses for outreach activities, while NYSTAAC averaged approximately 13 percent and WTAAC approximately 18 percent. AP development and implementation expenditures (including contractual expenses) comprised approximately 81 percent of NETAAC’s total expenses, 62 percent of NYSTAAC’s total expenses, and 45 percent of WTAAC’s total expenses.

EDA does not require TAACs to provide a complete breakdown of all expenses by activity and therefore cannot monitor this activity or conduct comparative programmatic analyses. EDA only requests that TAACs track and report salary expenses by activity. As a result, EDA does not know the true total cost of TAAC program activities, including the amount of administrative expenses. Improved and more consistent tracking of expenses by activity from the TAACs would allow EDA to better monitor the composition of expenses for each TAAC and determine whether they are reasonable.

EDA has not considered options beyond existing TAACs for executing the TAA program

As we confirmed with EDA staff, there is generally no turnover among the organizations operating the TAACs. Each of the current TAAC operators has been in existence and receiving TAA funds for at least several decades. Review of the *Federal Register* suggests there has been no competition for operating the TAACs since at least 1994. While EDA has announced

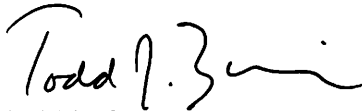
² At the time of the GAO review, 12 TAACs operated the TAA program for EDA. There are currently 11 TAACs, as the New Jersey TAAC no longer exists. The TAA program for the State of New Jersey was incorporated into the territory of the MidAtlantic TAAC.

multiple federal funding opportunities since that time, the opportunities identified in our search were limited to existing TAACs.³ EDA should periodically determine whether there are other organizations that can achieve the program's desired results more efficiently or effectively. Furthermore, EDA has not fully explored whether cost savings can be achieved in the TAA program through another service delivery method, such as operating the program from the EDA regional offices with EDA staff. Although additional staff with different skill sets would likely be required, we believe that EDA should formally consider whether this, or another approach, can achieve cost savings while meeting the objectives of the program.

This letter was also sent to the Senate Committee on Appropriations and Subcommittee on Commerce, Justice, Science, and Related Agencies.

If you have any questions, require further analysis, or if we can be of further assistance, please do not hesitate to contact me at (202) 482-4661, or Ann Eilers, Principal Assistant Inspector General for Audit and Evaluation, at (202) 482-2754.

Sincerely,



Todd J. Zinser

Attachments

cc: Members of the Subcommittee on Commerce, Justice, Science, and Related Agencies
Scott Quehl, Chief Financial Officer and Assistant Secretary for Administration
Matthew S. Erskine, Acting Assistant Secretary of Commerce for Economic Development

³ Federal funding notices have been expressly limited to existing TAACs, including notices published in 1994, 1995, 2002, 2003, 2006, 2007 and 2008. We also found that EDA published a notice and request for proposals to administer the TAA program for the State of New Jersey for a portion of FYs 2004 and 2005, but this TAAC no longer exists.

Appendix A: Total Budgeted Expenses by TAAC, for All TAACs, Funding Years 2007–2011

	GL TAAC	Mam TAAC	MA TAAC	MW TAAC	NE TAAC	NW TAAC	NYS TAAC	RM TAAC	SE TAAC	SW TAAC	W TAAC	Total	% of Total
Personnel	\$2,373,260	\$1,597,484	\$1,689,397	\$2,593,158	\$1,245,930	\$2,161,118	\$1,276,952	\$2,818,845	\$2,146,798	\$2,222,320	\$2,100,177	\$22,225,439	28.9%
Fringe Benefits	673,965	477,610	845,906	1,027,767	297,180	892,998	491,368	780,145	545,659	560,943	580,675	7,174,216	9.3%
Travel	74,616	192,000	86,063	121,128	72,500	196,106	67,168	63,417	140,476	248,041	92,602	1,354,118	1.8%
Equipment	–	–	22,600	51,474	41,750	36,974	33,200	42,700	–	–	9,300	237,998	0.3%
Supplies	74,945	175,000	35,462	31,980	20,000	27,166	50,800	57,917	120,495	78,600	39,450	711,815	0.9%
Contractual	2,253,577	3,016,408	4,206,671	3,410,428	5,319,775	2,668,515	2,609,512	2,433,911	2,354,628	2,679,438	1,230,456	32,183,318	41.8%
Construction	–	–	–	–	–	–	–	–	–	–	–	–	0.0%
Other	94,009	293,000	920,258	787,140	396,500	1,091,053	253,842	401,769	–	138,391	202,800	4,578,761	5.9%
Total Direct Charges	5,544,373	5,751,502	7,806,357	8,023,075	7,393,635	7,073,930	4,782,842	6,598,703	5,308,056	5,927,733	4,255,460	68,465,666	88.9%
Indirect Charges	1,663,311	906,152	–	–	–	–	496,383	991,203	1,903,359	673,825	1,905,233	8,539,465	11.1%
Total Federal Expenses	\$7,207,683	\$6,657,654	\$7,806,357	\$8,023,075	\$7,393,635	\$7,073,930	\$5,279,225	\$7,589,906	\$7,211,415	\$6,601,558	\$6,160,693	\$77,005,131	

Source: OIG from budget data provided by EDA

GLTAAC: Great Lakes TAAC, operated by the Regents of the University of Michigan.

MamTAAC: Mid-America TAAC, operated by the Curators of the University of Missouri-Kansas City.

MATAAC: MidAtlantic TAAC, operated by the MidAtlantic Employers' Association.

MWTAAC: Midwest TAAC, operated by Applied Strategies International, Ltd.

NETAAC: New England TAAC, operated by the New England Trade Adjustment Assistance Center, Inc.

NWTAAC: Northwest TAAC, operated by the Trade Task Group.

NYSTAAC: New York State TAAC, operated by the Research Foundation of the State University of New York.

RMATAAC: Rocky Mountain TAAC, operated by the Regents of the University of Colorado.

SETAAC: Southeastern TAAC, operated by the Georgia Tech Research Corporation.

SWTAAC: Southwest TAAC, operated by the University of Texas at San Antonio.

WTAAC: Western TAAC, operated by the University of Southern California.

Appendix B: Detail of Actual Expenses by TAAC (NETAAC, NYSTAAC, and WTAAC) for Funding Years 2007–2010

Table 2: Calculated Actual TAAC Expenses by Activity (in dollars)

		2007 ^a		2008 ^a		2009			2010		
		NETAAC	NYSTAAC	NETAAC	NYSTAAC	NETAAC	NYSTAAC	WTAAC	NETAAC	NYSTAAC	WTAAC
Outreach	Direct ^b	\$7,749	\$ 81,134	\$ 7,578	\$ 90,645	\$ 10,947	\$ 61,508	\$ 126,308	\$ 5,332	\$ 86,372	\$ 100,482
	Allocated ^c	3,906	40,332	2,995	37,403	4,789	23,361	102,857	1,668	36,482	85,105
Petition Development / Certification	Direct	9,620	20,360	17,532	20,678	21,815	44,754	139,126	14,781	35,361	120,132
	Allocated	4,849	10,117	6,930	8,926	9,545	17,662	113,295	4,625	15,196	101,747
AP Development ^d	Direct	21,076	70,096	37,135	55,960	76,762	89,893		108,468	85,611	
	Allocated	10,623	15,516	14,678	13,706	33,586	13,495		33,939	10,120	
Implementation ^d	Direct	866,013	262,646	823,858	478,519	1,337,000	390,670	395,310	1,480,485	678,386	399,302
	Allocated	1,130	52,840	4,183	48,233	12,425	39,256	93,201	9,856	39,986	125,646
Administration	Direct	167,763	127,887	167,210	128,147	175,760	128,920	99,517	163,219	116,125	87,142
	Allocated	<u>84,560</u>	<u>64,767</u>	<u>66,093</u>	<u>56,679</u>	<u>76,900</u>	<u>51,236</u>	<u>81,040</u>	<u>51,070</u>	<u>50,119</u>	<u>73,806</u>
Total		\$1,177,288	\$745,695	\$1,148,193	\$938,895	\$1,759,528	\$860,754	\$1,150,653	\$1,873,444	\$1,153,759	\$1,093,362

Source: OIG from expenditure data provided by NETAAC, NYSTAAC, and WTAAC. Funding years extend from July 1–June 30.

^a Data for 2007 and 2008 were not available for WTAAC because it did not track expenses by activity until funding year 2009.

^b Direct expenses are those identified by the TAACs as being specific to an activity (primarily salary and contractual expenses). If they were not included by the TAACs, we allocated fringe benefits in proportion to salary expenses. NYSTAAC included additional expenses as direct costs, some of which did have a reasonable basis for allocation. We removed those expenses from the direct allocation and allocated them with the remaining expenses.

^c OIG allocated indirect costs and all other costs not attributed to a specific TAAC activity. Indirect costs were allocated based on the costs included in the indirect cost rate. All other costs were pooled and allocated by percentage of salary expenses.

^d WTAAC included AP development expenses with Implementation expenses.

Table 3: Calculated Actual TAAC Expenses by Activity (in percentages)

		2007		2008		2009			2010		
		NE TAAC	NY STAAC	NE TAAC	NY STAAC	NE TAAC	NY STAAC	W TAAC	NE TAAC	NY STAAC	W TAAC
Outreach	Direct ¹	0.66%	10.88%	0.66%	9.65%	0.62%	7.15%	10.98%	0.28%	7.49%	9.19%
	<u>Allocated</u>	<u>0.33%</u>	<u>5.41%</u>	<u>0.26%</u>	<u>3.98%</u>	<u>0.27%</u>	<u>2.71%</u>	<u>8.94%</u>	<u>0.09%</u>	<u>3.16%</u>	<u>7.78%</u>
	Total	0.99%	16.29%	0.92%	13.64%	0.89%	9.86%	19.92%	0.37%	10.65%	16.97%
Petition Development / Certification	Direct	0.82%	2.73%	1.53%	2.20%	1.24%	5.20%	12.09%	0.79%	3.06%	10.99%
	<u>Allocated</u>	<u>0.41%</u>	<u>1.36%</u>	<u>0.60%</u>	<u>0.95%</u>	<u>0.54%</u>	<u>2.05%</u>	<u>9.85%</u>	<u>0.25%</u>	<u>1.32%</u>	<u>9.31%</u>
	Total	1.23%	4.09%	2.13%	3.15%	1.78%	7.25%	21.94%	1.04%	4.38%	20.29%
AP Development	Direct	1.79%	9.40%	3.23%	5.96%	4.36%	10.44%		5.79%	7.42%	
	<u>Allocated</u>	<u>0.90%</u>	<u>2.08%</u>	<u>1.28%</u>	<u>1.46%</u>	<u>1.91%</u>	<u>1.57%</u>		<u>1.81%</u>	<u>0.88%</u>	
	Total	2.69%	11.48%	4.51%	7.42%	6.27%	12.01%		7.60%	8.30%	
Implementation	Direct	73.56%	35.22%	71.75%	50.97%	75.99%	45.39%	34.36%	79.02%	58.80%	36.52%
	<u>Allocated</u>	<u>0.10%</u>	<u>7.09%</u>	<u>0.36%</u>	<u>5.14%</u>	<u>0.71%</u>	<u>4.56%</u>	<u>8.10%</u>	<u>0.53%</u>	<u>3.47%</u>	<u>11.49%</u>
	Total	73.66%	42.31%	72.12%	56.10%	76.69%	49.95%	42.46%	79.55%	62.26%	48.01%
Administration	Direct	14.25%	17.15%	14.56%	13.65%	9.99%	14.98%	8.65%	8.71%	10.06%	7.97%
	<u>Allocated</u>	<u>7.18%</u>	<u>8.69%</u>	<u>5.76%</u>	<u>6.04%</u>	<u>4.37%</u>	<u>5.95%</u>	<u>7.04%</u>	<u>2.73%</u>	<u>4.34%</u>	<u>6.75%</u>
	Total	21.43%	25.84%	20.32%	19.69%	14.36%	20.93%	15.69%	11.44%	14.41%	14.72%

Source: OIG from expenditure data provided by NETAAC, NYSTAAC, and WTAAC. Data for 2007 and 2008 were not available for WTAAC because it did not track expenses by activity until funding year 2009. Funding years extend from July 1–June 30.

Note: Values in table have been rounded to the nearest 0.01%. Therefore, column totals may not sum to 100%.