

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



ECONOMIC DEVELOPMENT
ADMINISTRATION

Internal Controls over Consultant
Services Provided to Clients by
Trade Adjustment Assistance Centers

Audit Report No. STL-14322-1/September 2001

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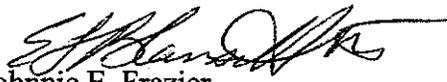


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

SEP 28 2001

MEMORANDUM FOR: David A. Sampson
Assistant Secretary
for Economic Development

FROM:

for 
Johnnie E. Frazier

SUBJECT: Trade Adjustment Assistance Centers'
Internal Controls over Consultant Services
Need Strengthening
Final Audit Report No. STL-14322-1-0001

As a follow up to our August 21, 2001, draft report, this is our final report on our audit of internal controls over outside consulting services provided to clients by Trade Adjustment Assistance Centers. We found that the centers could be better assured of consultant performance and client payment for services if a more structured monitoring process was implemented. By obtaining timely and clear notification of contract performance from both consultants and clients, the centers could reduce the instances of contract non-compliance and the number of follow-up actions that may be required of staff for contract disputes. Our findings and recommendations appear on pages 3 through 5. In EDA's response, which is included in its entirety as an attachment to this report, the agency agreed with all of the report's findings and recommendations.

We appreciate EDA's positive response to the draft audit report and the cooperation extended by EDA staff and the TAACs during the course of the audit. EDA's response contains a detailed Audit Action Plan as required by Department Administrative Order 213-5. We agree with the actions EDA has taken, as well as those it plans to take, and consider this audit to be resolved. Should you have any questions, please contact me at (202) 482-4661 or David Sheppard, Acting Regional Inspector General for Audits, at (206) 220-7970.

INTRODUCTION

The Trade Act of 1974, as amended, which authorized the President to negotiate international trade agreements, has resulted in three “Free Trade Agreements.” Recognizing that free trade policy can result in injuries to U.S. businesses through market, sales, and job losses, the act also created the Trade Adjustment Assistance (TAA) program to mitigate the negative effects on affected manufacturing companies by providing technical assistance.

The Economic Development Administration funds 12 regional Trade Adjustment Assistance Centers under cooperative agreements to provide business advisory services, which include problem diagnosis and recovery strategies, and implementation assistance, which includes the hiring of consultants to provide technical assistance. Each of the centers receives about \$600,000 to \$1,000,000 in EDA funds annually to pay administrative expenses and a share of the cost for technical assistance. The centers and clients share the cost of technical assistance on a 50-50 or 75-25 percent basis, up to a maximum limit of \$20,000 per client, without prior approval from EDA. The client pays the lesser share of the cost.

OBJECTIVES, SCOPE, and METHODOLOGY

Within the last year, the Northwest TAA Center experienced two instances of contract non-compliance: one in which the consultant failed to provide the contracted-for services, and one in which the client failed to pay its share of costs for consultant services. At EDA’s request, the Northwest Center reported these instances to the Office of Inspector General. We conducted a review to determine whether the internal controls at the Northwest Center adequately ensured that consultants provided agreed-to technical assistance and that clients paid for the technical assistance provided. We expanded our review to include the other 11 TAA centers in order to compare their internal control processes.

During May and June 2001, we conducted on-site work at the Northwest Center in Seattle, and contacted the other 11 centers by telephone. In conducting our review at the Northwest Center, we did not utilize computer-processed information, but obtained and verified relevant information from interviews, case files, annual reports submitted to EDA, and the TAA program Internet web page. Based on our field work, we concluded that the data was sufficiently reliable for use in meeting our review objectives.

This review was conducted in accordance with *Government Auditing Standards* and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

INTERNAL CONTROL PROCESSES NEED IMPROVING

As shown in Table 1 on page 4, although the 12 centers utilize different methods to monitor contract compliance by their clients and consultants, most methods generally rely upon notification by either the consultant or the client of any instances of non-compliance. EDA program guidance gives the centers the responsibility for monitoring implementation assistance, but does not require a specific process for tracking consultant service performance and client payment for services rendered. The guidance only describes a process that has the centers record client payments and monitor the contract to ensure that the client is current in its payments to the consultant.

Most Centers Need to Improve Contract Compliance Monitoring

In the two cases reported to us by the Northwest Center, its contract compliance monitoring process relied upon consultants reporting instances of client non-payment, and clients reporting dissatisfaction with consultants, and providing photocopies of their checks to consultants as proof of payment. According to center officials, their assurance process (1) did not result in timely notification of contract non-compliance, (2) required significant staff time in follow-up actions, and (3) resulted in threats of legal action against the center by both the consultants and the clients.

After expanding the scope of our review to include the other 11 centers, we found that the monitoring systems of many of the other centers also did not provide adequate assurance of contract compliance by consultants and clients. At 9 of the 12 centers, contract compliance monitoring relied on verbal notification to the centers, from either the consultant or the client, of contract compliance. Based upon this verification, the center paid its share of the contract payment.

Three Centers Have More Effective Compliance Processes

We found that three centers used a documented monitoring process consisting of written certifications that consulting services were adequate and client payments were made:

- At the Western Center, the consultant sends the invoice, on which the client certifies that the consultant's work was satisfactory and the client's share of the payment was made.

TABLE 1: TRADE ADJUSTMENT ASSISTANCE CENTERS

| NAME/ LOCATION | EDA FUNDING | CONTRACT COMPLIANCE MONITORING METHODS (methods that can be improved are in <i>italics</i>) |
|---|----------------|--|
| Western TAAC, Los Angeles, CA | \$ 990,000 | Consultant sends TAAC copy of invoice on which client certifies (1) consultant work was acceptable, and (2) client payment made. |
| Mid-America TAAC, Lee's Summit, MO | 847,000 | Client sends the consultant's invoice and client's share of payment (payable to TAAC) to TAAC. TAAC sends total payment to consultant. |
| New England TAAC, Boston, MA | 1,133,000 | Consultant sends invoice for TAAC share that includes a signed confirmation by client that its share has been paid. TAAC withholds 10 percent of amount until the contract is completed. |
| Northwest TAAC, Seattle, WA | 899,000 | <i>Consultant verbally notifies TAAC if the client's payment is not made. Client sends TAAC a photocopy of payment check to consultant.</i> |
| Rocky Mountain TAAC, Boulder, CO | 888,000 | <i>Consultant sends an invoice to TAAC for its payment. TAAC verbally verifies with client that the consultant's work is satisfactory and that the client has paid its share.</i> |
| Southwest TAAC, San Antonio, TX | 898,000 | <i>Consultant sends an invoice to TAAC for its share. TAAC verbally verifies with client that the consultant's work is satisfactory.</i> |
| Midwest TAAC, Chicago, IL | 1,018,000 | <i>Consultant sends written notification to TAAC that client payment made. TAAC verbally verifies with client that the consultant's work is satisfactory.</i> |
| Great Lakes TAAC, Ann Arbor, MI | 698,000 | <i>Consultant sends an invoice to TAAC for its share. TAAC verbally verifies with client that the consultant's work is satisfactory and that the client will pay its share.</i> |
| Southeastern TAAC, Atlanta, GA | 1,008,000 | <i>Consultant sends an invoice for TAAC share, and will include notice if client fails to pay. TAAC verbally verifies with client that the consultant's work is satisfactory.</i> |
| New York State TAAC, Binghamton, NY | 1,000,000 | <i>Consultant sends an invoice for TAAC share that includes a statement that the client has paid its share. TAAC verbally verifies with the client that the consultant's work is satisfactory.</i> |
| New Jersey TAAC, Trenton, NJ | 623,000 | <i>Consultant's invoice is sent by TAAC to client. TAAC obtains client's verbal "OK" to pay.</i> |
| Mid-Atlantic TAAC, Blue Bell, PA | 810,000 | <i>Consultant invoices the TAAC for its share. Client sends the TAAC a photocopy of both sides of client payment check to consultant. TAAC verbally verifies with the client that the consultant's work is satisfactory.</i> |

- At the Mid-America Center, the client sends the consultant's invoice and the client's share of payment, payable to the center. Upon receipt, the center sends the total invoice payment to the consultant.
- At the New England Center, the consultant sends the invoice, on which the client certifies that its share of payment has been made. The center then sends its share of the payment to the consultant, less 10 percent, which is withheld until the contract is completed.

CONCLUSION

More effective internal controls can be easily instituted to protect the government's interests. Specifically, obtaining written certifications or other documentation from consultants and clients on the receipt of payment and satisfactory services, respectively, as a contract monitoring process can protect the centers from contract non-compliance problems as encountered by the Northwest Center, and reduce follow-up actions by center staff. The methods used by the Western, Mid-America, and New England Centers provide a greater degree of assurance that both consultants and clients are complying with the contract without placing an undue burden of additional requirements on either party or the centers. The documentation also may provide support in defense of future threats of legal actions and reduce follow-up actions required of the centers.

RECOMMENDATIONS

We recommend that the Deputy Assistant Secretary for Program Operations:

1. Develop a uniform system of controls as part of the contract monitoring process that includes (a) client certifications that consultant work is satisfactory and (b) evidence that consultants have received client payments.
2. Ensure that these new controls are implemented at each center.

EDA COMMENTS

EDA concurred with the findings and recommendations contained in the draft audit report. A copy of EDA's response is included as an attachment to this report. The Assistant Secretary for Economic Development stated in the agency's response that EDA proposes to revise Section V "Cost-Sharing by Firms" of all future standard "Scope of Work" statements for each TAAC to comply with the intent of our recommendations. Although EDA did not propose to amend existing grants, the Assistant Secretary agreed to send a memorandum to all TAACs advising them of the upcoming change and encouraging them to begin implementing the new procedures immediately to avoid similar problems.

OIG COMMENTS

We appreciate EDA's positive response to the draft audit report and the cooperation extended by EDA staff and the TAACs during the course of the audit. EDA's response contains a detailed Audit Action Plan as required by Department Administrative Order 213-5. We agree with the actions EDA has taken, as well as those it plans to take, and consider this audit to be resolved.

Attachment

cc: David L. Temple, Jr., Deputy Assistant Secretary for Program Operations
Lewis Podolske, Acting Dir., Planning and Development Assistance Division
Gary G. Kuhar, Executive Director, NW TAAC, Seattle
Mary C. Pleffner, Acting Assistant Secretary for Economic Development
Patricia Flynn, EDA Audit Liaison, Director, Operations Review and Analysis
Division

Attachment



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

MEMORANDUM FOR Larry B. Gross
Acting Assistant Inspector General
for Auditing

SEP 21 2001

FROM: David A. Sampson.
Assistant Secretary
for Economic Development

SUBJECT: Trade Adjustment Assistance Centers' Internal Controls
Draft Audit Report No. STL-14322-1-XXXX

DISCUSSION:

Trade Adjustment Assistance Centers (TAACs) provide business advisory services to firms, which EDA has certified as having lost employment and sales or production due to increased imports of like or similarly competitive goods. The TAACs assist these certified firms in diagnosing problems, preparing adjustment proposals which serve as recovery guides, and in implementing technical assistance tasks outlined in the adjustment proposals. Private sector consultants, selected by the TAA certified firms, are usually hired under contracts to complete the technical assistance tasks. Typically, payments for consultants' fees are shared on an equal basis by the TAA certified firms and the TAACs

EDA has reviewed the subject draft audit, which resulted from EDA's instruction to the Northwest Trade Adjustment Assistance Center (TAAC) to report suspected cases of fraud to the Waste, Fraud, and Abuse Hotline maintained by the Office of the Inspector General (OIG).

Under current procedures, the TAACs are not supposed to pay their share of the consultants' fees until the TAA-certified firms are satisfied with the assistance received and have paid their own share of the consultants' fees. In this audit, the OIG reviewed the internal controls that the TAACs use to verify that TAA-certified firms have paid their share of the technical assistance costs to the consultants. The OIG found that many TAACs relied on verbal communications from the TAA-certified firms and the private sector consultants. The OIG recommended that EDA:

1. Develop a uniform system of controls as part of the contract monitoring process that includes (a) client certifications that consultants' services were satisfactory and (b) evidence that consultants have received client payments.
2. Ensure that these new controls are implemented at each TAAC.

EDA REVIEW AND CONCLUSION:

EDA has reviewed the draft audit report and agrees with the recommendations offered by

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the OIG. To implement these recommendations, EDA proposes to revise Section V "Cost-Sharing by Firms" of all future standard "Scope of Work" statements for each TAAC as follows:

If a consultant is used and the TAAC contracts with the consultant for only the TAAC's share of the cost of technical assistance to be provided to the firm, the consultant must contract with the firm for the balance. The TAAC must receive a copy of a contract between the firm and the consultant before it authorizes work to begin.

The TAAC monitoring of a consultant contract must assure that the firm is satisfied with the work of and current in its payments to the consultant. This assurance must be documented by written notices from 1) the firm that the consultant's work is satisfactory and that the firm has paid its share, and 2) the consultant that it has received the required payment from the firm. The TAAC must have these written notices before making a payment to the consultant. If a firm fails to meet its cost-share to the consultant or if the required certifications cannot be obtained, the technical assistance task should be suspended or terminated. In such cases, the TAAC must obtain EDA approval prior to paying its cost-share to the consultant.

The majority of the TAAC grants expire early in 2002 and EDA does not propose to formally amend those existing grants. However, EDA proposes to send a memorandum (Attachment A) to all TAACs advising them of this upcoming change and encouraging them to begin implementing these procedures immediately to avoid similar problems. The memorandum also notes that EDA staff will review compliance with these new procedures during all monitoring visits.

EDA will issue the memorandum provided in Attachment A and begin inserting the revised language in the "Scope of Work" in new TAAC awards.



DRAFT

MEMORANDUM FOR

TAAC Directors and Staff

FROM

Anthony J. Meyer
Coordinator, Trade Adjustment
and Technical Assistance

SUBJECT:

Cost-Share Agreements with Consultants

The Office of Inspector General (OIG) recently audited the internal controls of the Trade Adjustment Assistance Centers (TAACs) regarding payments to consultants for assistance provided to certified firms. OIG found that most TAACs lacked adequate controls to assure that clients were satisfied with the work performed by consultants and that certified firms had paid their shares of the technical assistance costs to the consultants.

OIG recommended that EDA: 1) develop a uniform system of controls as part of the contract monitoring process that includes (a) client certifications that consultants' services were satisfactory and (b) evidence that consultants have received client payments, and 2) ensure that these new controls are implemented at each TAAC. EDA has accepted OIG's recommendations, which will be implemented in the following manner:

Section V "Cost-Sharing by Firms" in the standard "Scope of Work" for all future EDA awards to TAACs will be revised to read as follows:

If a consultant is used and the TAAC contracts with the consultant for only the TAAC's share of the cost of technical assistance to be provided to the firm, the consultant must contract with the firm for the balance. The TAAC must receive a copy of a contract between the firm and the consultant before it authorizes work to begin.

The TAAC monitoring of a consultant contract must assure that the firm is satisfied with the work of and current in its payments to the consultant. This assurance must be documented by written notices from 1) the firm that the consultant's work is satisfactory and that the firm has paid its share, and 2) the consultant that it has received the required payment from the firm. The TAAC must have these written notices before making a payment to the consultant. If a firm fails to meet its cost-share to the consultant or if the required certifications cannot be obtained, the technical assistance task should be suspended or terminated. In such cases, the TAAC must obtain EDA approval prior to paying its cost-share to the consultant.

All TAACs, however, are encouraged to institute procedures consistent with the above guidance immediately in order to avoid this problem in the future. EDA staff will review TAAC compliance with these procedures during all monitoring visits.