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B-207169

AUGUST 15, 1983

RELEASED

The Honorable Charles McC. Mathias, Jr.
United States Senate



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Dear Senator Mathias:

Subject: Department of Commerce's Trade Adjustment
Assistance Program (GAO/NSIAD-83-42)

On January 31, 1983, you asked us to investigate allegations that the Trade Adjustment Assistance Program has not met the needs of several Maryland firms. Pursuant to discussions with your office on March 22, 1983, we confined our investigation to the particulars involving Hagerstown Leather Goods Company, Hagerstown, Maryland. We briefed your office on our initial results May 19, 1983, and provided a fact sheet on key points. The present report responds to your office's request for a summary of our observations.

The two issues in the Hagerstown case are whether (1) delays in delivery of technical assistance were exclusively attributable to the administrators of the program and (2) there was justification for requiring Hagerstown's recertification when the firm wanted to extend its eligibility period past a 2-year limit.

We concluded that Hagerstown Leather did not receive technical assistance in an effective and efficient manner because of delays created by all parties. Also, an update of its economic status appears necessary because

--36 months elapsed between the firm's certification and its inquiry about the requirements for obtaining further technical assistance, and

--the latest request was for technical assistance which differed from the original, approved adjustment plan.

Recertification under these circumstances appears to be an appropriate course of action.

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We performed our review in accordance with generally accepted Government audit standards. In making our assessment we met with personnel of the Department of Commerce in Washington, D.C., and the Mid-Atlantic Trade Adjustment Assistance Center in Philadelphia and with the president of Hagerstown Leather Goods Company. We reviewed records from these sources, and developed a detailed chronology of the Hagerstown case. We also developed an overview of changes affecting the Trade Adjustment Assistance Program. The following sections highlight the circumstances surrounding the Hagerstown case.

BACKGROUND

The Trade Adjustment Assistance Program is administered by the Office of Trade Adjustment Assistance (OTAA) within the International Trade Administration (ITA) of the Department of Commerce. Under the Trade Act of 1974 (19 U.S.C. 2101 *et seq.*), a firm certified as import-impacted is eligible to apply for adjustment assistance, financial and/or technical. Once certified, a firm has 2 years to apply for assistance, generally provided with the help of non-Federal grantees called Trade Adjustment Assistance Centers (TAAC). Currently 13 such centers help import-impacted firms with preparing certification petitions, adjustment plans, and loan applications and with diagnosing problems and potential for recovery.

On August 20, 1979, Hagerstown Leather Goods Company was certified as eligible for assistance. The Mid-Atlantic TAAC assisted the Company in developing an adjustment plan which was accepted on January 20, 1981. On October 9, 1981, the Company was presented with an agreement to share the costs of the proposed technical assistance with ITA. It declined to sign the agreement, which caused OTAA to suspend assistance to the Company on November 30, 1981. Approximately 36 months after certification, the Company on August 4, 1982, requested clarification of its status regarding eligibility for further assistance. The Certification Division of OTAA denied the Company a continuation of technical assistance because its eligibility period had expired and because the adjustment plan originally approved was not completed. Further adjustment assistance was conditioned on recertification.

DELAYS IN TECHNICAL ASSISTANCE TO HAGERSTOWN LEATHER CAN BE ATTRIBUTED TO ALL PARTIES

An accumulation of delays, program changes, and unfortunate circumstances related to all the parties--ITA, the Mid-Atlantic TAAC, and the Company--prolonged the technical assistance process. The full responsibility cannot be placed on any one entity. About 17 months elapsed from certification to the development of an

acceptable adjustment plan, and it took about 9 more months to develop the contractual arrangements to carry out the approved plan. All parties agree that this process was extraordinarily lengthy.

The transition of the Trade Adjustment Assistance Program from the Economic Development Administration to ITA within the Department of Commerce also generated delay and initial confusion until ITA established normal operating patterns. This transition, taking place from mid-1979 through 1981, produced numerous changes: new cost-sharing requirements were established, operating guidelines were changed, and all final decisions about assistance were centralized.

The Mid-Atlantic TAAC was also subject to a great deal of change during this period. First, the original Mid-Atlantic TAAC grantee, PENJERDEL Regional Foundation, was replaced by the Council for Revitalization of Employment and Industry on June 1, 1980. The Council had served as a subcontractor to PENJERDEL and delivered most of the services. Second, the Mid-Atlantic TAAC assumed responsibilities of the Pennsylvania TAAC, which had closed. The records show a strained relationship existed between these two agencies, creating a communication breakdown and affecting technical assistance services. Third, the Baltimore sub-office was closed when the Council took over and most of the caseload, including Hagerstown Leather, was distributed first to a Pittsburgh sub-office and then to the main office in Philadelphia.

The president of Hagerstown Leather also contributed to delays by his many letters and vacillations in proposed adjustment strategy which required TAAC responses. Moreover, he was reluctant to have the Mid-Atlantic TAAC monitor consulting contracts, refused to sign the requisite cost-sharing agreement, and did not properly comply with Federal requirements for advertising bids. For instance, the Company hired two consultants to implement the adjustment plan while the Mid-Atlantic TAAC was seeking consultant bids to perform these same services. The Company acted without the knowledge of the TAAC, so a new proposal had to be solicited from one of these consultants, requiring 2 months of additional effort. In the end, it was the Company's refusal to sign the cost-sharing agreement that caused the suspension of assistance to the firm.

COMPANY WAS DENIED FURTHER
ASSISTANCE PENDING RECERTIFICATION

The Company's position is that delays regarding certification, initial assistance, and the awarding of contracts on the

part of the Mid-Atlantic TAAC and OTAA took up the bulk of its eligibility period before it ever received substantive assistance. Therefore, the Company believed it should have the 2-year eligibility limit waived.

Conversely, ITA's position was based on the following facts. First, the Company's 2-year eligibility period had expired and an update of the original production, sales, and employment data (via the recertification process) was essential. Second, the Company, in effect, had declined the technical assistance approved in the original adjustment plan package by refusing to sign a mandatory cost-sharing agreement. ITA considered the option of amending the previous adjustment plan as opposed to recertification but decided against this option since the second request involved a type of assistance (production) which was not part of the original, approved plan. Lastly, ITA's legal counsel's view was that the Company should be recertified.

GUIDELINES REGARDING MAXIMUM
LENGTH OF ELIGIBILITY TO
RECEIVE ASSISTANCE NOT CLEAR

The Hagerstown Leather Goods Company case involves an unsettled issue about ITA's eligibility guidelines. The Trade Act simply says that once a firm is certified it has 2 years to apply for assistance. The law does not specify a maximum eligibility period. However, ITA's interpretation of the law, as presented in its technical assistance guidelines, is that a firm's eligibility may be terminated if the firm submits an acceptable adjustment plan but fails to complete its application for assistance within a reasonable period of time and the 2-year period has ended. Another section of the guidelines states that a firm would lose its eligibility if it submits an acceptable adjustment plan but its subsequent applications for financial and technical assistance are not approved and the 2-year eligibility period has expired.

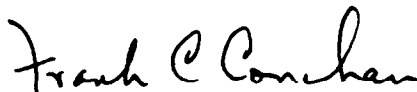
The fact is that ITA does not have standard, clear guidelines for the maximum length of a firm's eligibility or criteria for revising the existing adjustment plan. ITA is aware of the situation as cited in memoranda to the Deputy Assistant Secretary for Trade Adjustment Assistance. According to these memoranda, the lack of a limit implies that the firm is eligible to modify or update its plan and thereby apply for adjustment assistance for an unspecified period of time. ITA is working to clarify the guidelines.

The contents of this letter were discussed with the President of Hagerstown Leather Goods, an official of ITA and an

official of the Mid-Atlantic TAAC and their comments were considered in preparing the final letter.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days from the date it is issued. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in cursive script that reads "Frank C. Conahan".

Frank C. Conahan
Director