



April 1, 2002

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director


SUBJECT: OIG Reports

Enclosed are copies of the following reports.

- 02-6(H) Grant CO-13398, Nature Conservancy 1/
- 02-17(H) Grant WV-12740, Marshall University 2/
- 02-19(H) Grant OH-10533, Ohio Fund for Appalachian Industrial Retraining 3/
- 02-20(H) Grant OH-7781, Ohio Consolidated Technical Assistance
- 02-26(H) Grant CO-12620, Central Appalachia Empowerment Zone of West Virginia
- 02-27(H) Grants WV-12587 and WV-13309, West Virginia Development Office

Notes:

- 1/ The auditors questioned billings of \$3,205 in excess overhead expense for fringe benefits. This matter should be resolved between ARC and the grantee.
- 2/ The auditor recommended improved supporting documentation for matching contributions of subgrantees.
- 3/ The auditors questioned \$11,535 submitted as matching contributions because the revenues were program fees from students, which should be used to reduce the grant or increase program activity. Also, \$18,000 awarded to a subgrantee was questioned because the subgrantee exceeded program guidelines with respect to the size of the recipient business. OIG will followup with ARC program staff regarding resolution of these issues.


Hubert N. Sparks
Inspector General

Enclosures

**MEMORANDUM REPORT ON REVIEW OF
OHIO DEPARTMENT OF DEVELOPMENT
COLUMBUS, OHIO**

OHIO FUND FOR APPALACHIAN INDUSTRIAL RETRAINING

ARC Grant Number: OH-10533-98

July 1, 1998 through December 31, 2000

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom on Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 2-19(H)

Date: March 25, 2002

**MEMORANDUM REPORT ON REVIEW OF
OHIO DEPARTMENT OF DEVELOPMENT
COLUMBUS, OHIO**

OHIO FUND FOR APPALACHIAN INDUSTRIAL RETRAINING

ARC Grant Number: OH-10533-98

July 1, 1998 through December 31, 2000

Prepared By:

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates, LLP
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report Number 2-19(H)

SUBJECT TO: Memorandum Review Report on Ohio Department Of Development, Ohio
Fund for Appalachian Industrial Retraining, ARC Grant Number OH-
10533-98

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Ohio Department of Development for its Fund for Appalachian Industrial Retraining (FAIR) were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number OH-10533-98 to the Ohio Department of Development for the period from July 1, 1998 through September 30, 1999. Two amendments to the grant award were approved by ARC, extending the grant period through December 31, 2000. The purpose of the grant was to provide funding to defray cost for worker training projects in the Appalachian region of Ohio. The ARC grant funding for OH-10533-98 was for a total not to exceed \$250,000. For complete and satisfactory performance of the grant agreement, as determined by ARC, Grantee shall be paid by ARC a sum not to exceed \$250,000 of actual, reasonable and eligible project costs. Grantee shall pay or cause to be paid the non-ARC share of \$250,000 in cash, contributed services, or in-kind contributions, as approved by ARC.

The FAIR Program was created in 1990 as a result of the economic distress of the Appalachian region in Ohio. The program will enable companies within Ohio Appalachia to provide their employees with the necessary training and upgraded skills required for these companies to effectively compete in the global marketplace. The FAIR program is necessary because

Appalachian companies typically have a more difficult time in creating new jobs. Because job creation is a major rating criteria under the Ohio Industrial Training Program (OITP), Appalachian companies with significant need were often left under served until the creation of the FAIR program. Funding will be provided by the FAIR program on a reimbursement basis for a portion of training expenses incurred, including but not limited to:

- Instructor costs (expenses incurred in training the instructor and the hourly cost of that instructor);
- Materials (textbooks, manuals, educational instructor materials); and
- Special needs (assessment, curriculum development, instructional software, facility rentals, etc.).

Since OITP requires at least a 50% hard match in company funds, the \$250,000 invested by ARC in FAIR coupled with the OITP \$250,000 would generate at least \$1,000,000 towards worker training investment.

SCOPE: We performed a program review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain review procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if the Ohio Department of Development had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Ohio Department of Development personnel. Our results and recommendations are based on those procedures and were conducted in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the Ohio Department of Development in Columbus, Ohio on March 4 through March 8, 2002.

A. Incurred Costs:

The Ohio Department of Development claimed total program costs of \$282,262 for grant OH-10533-98, of which they claimed direct reimbursable cost from July 1, 1998 through December 31, 2000 of \$135,578 from ARC and in-kind costs totaling \$146,684 from state OITP funds. The Ohio Department of Development reported that \$26,169,530 had been expended as the 50% hard match that was required by the 16 subgrantees that had received ARC and state funds. ARC deobligated the remaining balance of the grant totaling \$120,053 on May 29, 2001 before receipt of a revised final payment request dated June 1, 2001 totaling \$5,631. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported for the grant, except for the issues discussed below.

A Subgrantee Claimed Program Income and Direct Expense As Match

The Ohio Department of Development awarded a \$50,000 subgrant to the The Buckeye Manufacturing Consortium that required a 50% hard match by the subgrantee. We reviewed the match claimed that included Buckeye Career Center match totaling \$14,618, consortium match totaling \$15,131 and student match totaling \$11,535. We accepted the Buckeye Career Center and consortium match but identified student match totaling \$2,415 that had been direct billed to the ARC and state funding and program income from student fees totaling \$9,120 that was generated by the grant. The subgrantee stated that direct billed costs for student drug screen tests was mistakenly included as match. The program income was generated through requiring the students or a student sponsor pay tuition and work key testing to the Buckeye Career Center. The subgrantee was not aware that program income was not allowable as match.

The subgrant was to be used by The Buckeye Manufacturing Consortium to provide Preemployment Training for prospective entry-level production workers in the tri-county area. The consortium members will be committed to hiring first from a “just-in-time” training pool that they have identified following preemployment skills testing, drug screening and completion of an entry-level production training course.

Ohio’s Request for ARC Funding for the Fund for Appalachian Industrial Retraining Program for Federal Fiscal Year 1997 and State Fiscal Year 1998, Request For Continued Funding, paragraph two states:

“Since OITP requires at least 50% hard match in company funds, the \$250,000 invested by ARC in FAIR coupled with OITP \$250,000 would generate at least \$1,000,000 towards worker training investment.”

Grant Agreement OH-10533-98 between the Appalachian Regional Commission and the Ohio Department of Development, Part I, Special Provisions, 1. Statement of Purpose, incorporation of Proposal., Paragraph two states:

“This project shall be carried out in general accord with Grantee’s proposal, submitted to the ARC on August 31, 1998, as supplemented by covering correspondence from Randall Hunt to Thomas Hunter of the same date, which is incorporated by this reference as Supplement A to Part I. To the extent the Articles of this grant agreement conflict with the incorporated proposal, as supplemented, the Articles shall control.”

Part II, General Contract And Administrative Provisions, Article 14, Records Requirements, Audit, Adjustment, and Refunds, paragraph (4) states:

“If contractor has not provided either cash or contributed services of a value

determined by the Commission to be sufficient to support the payments made by the Commission, or has failed to obligate or disburse any such sums for the purpose of this contract, the final payment shall be reduced, or the contractor shall make an appropriate refund.”

Part II, General Contract And Administrative Provisions, Article 12, Contract-Related Income states:

“Contract-related income means gross income earned by contractor from contract supported activities and shall include, but not limited to, income from service fees, sale of commodities, or usage or rental fees. All contract-related income shall be reported to ARC in progress and final reports required by this contract.”

B. Internal Controls:

1. A Subgrant Was Awarded to an Unqualified Business

During our review of a selected sample of subgrants awarded by the Ohio Department of Development, we found that the Ohio Department of Development awarded a subgrant to a business employing more than 500 people worldwide. An \$18,000 subgrant was awarded for the purpose of expanding a customer service call center located in Reno, Ohio. The subgrant was to be used to train 50 additional employees for the facility.

In its proposal, and included as Exhibit “A” of the subgrant agreement, the subgrantee states, “this division employs over 2,700 persons in six (6) call centers throughout the United States including two (2) in Columbus, Ohio and the newest in Reno, Ohio.”

Grant Agreement Number OH-10533-98 between Appalachian Regional Commission and Ohio Department of Development, Part I Special Provisions paragraph 6 states:

“Special Conditions. In accordance with Grantee’s covering letter to its grant application,, ARC funding for this project will be limited as follows: (a) The maximum ARC contribution to any subgrant shall be \$15,000, except that awards of \$25,000 may be made for consortium-based training; and (b) subgrants will only be provided to businesses employing 500 people or less world-wide.”

2. The Ohio Department of Development Did Not Prepare 120 Day Progress Reports

The Ohio Department of Development did not prepare 120 day Progress Reports for its Fund for Appalachian Retraining Grant. Officials responsible for administration of the grant stated that they were not aware of the requirement to prepare 120 day progress reports and that no one from the ARC ever pointed out the need to prepare the progress reports.

Grant Agreement Number OH-10533-98 between Appalachian Regional Commission and Ohio

Department of Development, Part 1 Special Provisions paragraph 3 states:

“Reports. A progress report for each 120-day period and a final report are required under this agreement.”

RECOMMENDATIONS:

We recommend that the Ohio Department of Development more closely monitor subgrantees and their costs being claimed as direct and their matching requirements. We also recommend that ARC determine if the unmet subgrantee match would result in a need to return a portion of the ARC funds expended on this project and/or the availability of other eligible funds or contributions. Also, we recommend that ARC determine the eligibility of the \$18,000 grant and that the Ohio Department of Development obtain approval from the ARC before awarding subgrants to companies that do not meet the “Special Conditions” included in the grant agreement. Additionally, progress reports should be submitted in accordance with the grant agreement.

C. Program Results:

Our review of the Ohio Department of Development, ARC Grant Agreement Number OH-10533-98 indicated that the objectives of the grant had been met. However, \$114,422 in ARC funding went unused under the FAIR program. We also intended to review OH-10533-C7, which was funding for years 2000 and 2001 and had been extended through June 30, 2002 for this same FAIR Project. As of our fieldwork end date, March 8, 2002, only five drawdowns totaling \$30,000 had been made by the Ohio Department of Development. The ARC funding for the 2000-2001 year was \$250,000. The FAIR Project Coordinator assured us that the ARC funds would be expended by June 30, 2002.

RECOMMENDATION:

We recommend that the Ohio Department of Development more closely assess its needs based on the past funding that was deobligated by ARC before submitting any future application for the FAIR Program.

GRANTEE’S RESPONSE:

In response to the issue of a subgrantee claiming program income and direct expense as match, the Ohio Department of Development stated that as a pilot project, the grantee was a vocational school and not a for-profit business. Because a for-profit’s (company’s) match is generally provided by employee wages, capital investments in facilities, machinery and/or equipment, this match was to be provided by the partners engaged in this project to include: the member consortium businesses, the vocational school, the F.A.I.R. program and the students and charitable organizations. Student contributions could be derived from personal matches, TANF (Temporary Assistance to Needy Families, PRC (Prevention, Retention and Contingency funds)

all provided through the area's County Department of Job and Family Services. The intent of student financial investments was to increase the probability of their continued attendance and successful completion of this pre-employment training program. Final program results indicate that of the planned 60 people who were trained, 67 were actually trained and for the student placement rate (hired by participating business consortia members) the average placement rate for 4 Pre-Employment Training sessions = 63%.

In response to the issue of awarding a subgrant to an unqualified business, the Ohio Department of Development stated that this was an oversight on our part. In the future, any such potential F.A.I.R. projects will be subject to a waiver request to the ARC for approval to grant any funds to Appalachian businesses which exceed the 500 employee worldwide caveat.

In response to the issue of not preparing 120 day progress reports, the Ohio Department of Development stated that we were not aware that the 120-day report was an issue as based on the 1998 and 1993 on-site audit reviews.

TICHENOR & ASSOCIATES, LLP
Louisville, Kentucky
March 8, 2002



APPALACHIAN
REGIONAL
COMMISSION

*A Proud Past,
A New Vision*

Office of the Inspector General

April 1, 2002


Ms. Joy Padgett, Director
Governor's Office of Appalachia
77 South High Street, 28th Floor
P. O. Box 1001
Columbus, OH 43216-1001

re: OIG Reports 02-19(H) and 02-20(H);
ARC Grants OH-10533 and OH-7781

Dear Ms. Padgett:

Enclosed are copies of the subject reports.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosures