



AUGUST 27, 1997

OIG REPORT NO. 97-43(H)

MEMORANDUM FOR: ELAINE DEWEY, PLANNER/CONTRACT SPECIALIST,
PRIVATE INDUSTRY COUNCIL OF CHAUTAUQUA, INC.,
JAMESTOWN, NEW YORK

SUBJECT: Memorandum Survey Report--Base Quality System Development
and Implementation Project, ARC Grant NY-11546-94-I-302-0411
(Contract 94-141)

PURPOSE

The purposes of our review were (1) to determine the allowability of the costs claimed under the ARC grant, (2) to determine if the grant objectives were met, and (3) to determine the current status of the project.

SCOPE

Our survey included procedures to review costs incurred and claimed for reimbursement under the grant as well as costs claimed as matching funds. The initial period of performance for the grant was September 1, 1994 through August 31, 1995; however, it was extended to May 31, 1996. We reviewed the grantee's reports, examined records, and held discussions with grantee officials in Jamestown, New York, June 19-20, 1997. As a basis for determining allowable costs and compliance requirements, we used the provisions of the grant agreement, Office of Management and Budget (OMB) Circulars A-87 and A-102, and the ARC Code.

BACKGROUND

ARC Grant NY-11546-94-I-302-0411 (contract 94-141) was awarded to the Private Industry Council of Chautauqua, Inc. to provide financial assistance in the implementation phase of a base quality manufacturing system that was to benefit nine businesses in Chautauqua County, New York. Residual training opportunities in Total Quality Management and ISO 9000 certification were also to be provided for additional employers through consortium training utilizing local expertise. The project was to offer training to "teams" from nine companies on how to: assess current manufacturing systems, develop new manufacturing plans for companies, develop quality procedures and policies and instructions, design implementation plans and train internal auditors. Specific tasks to be completed under the grant agreement included:

- 1) Assess (a) the stage of quality system development, (b) resources available to implement a system, and © management commitment;
- 2) Conduct in-plant employee orientations in each of the participating plants;
- 3) Form and provide training for a consortium of plant leaders from the various participating companies;
- 4) Assist company team members as they go through the steps of building their quality team, train their internal auditor, prepare their quality manual, develop methods for continual improvement, devise ways to document their departmental procedures, and develop work instructions; and
- 5) Provide total quality management team training.

The grant was awarded for \$148,950 or 39.2 percent of actual, reasonable, and eligible costs of the project. The grantee was to provide the non-Federal share of \$230,617 or 60.8 percent in cash, contributed services, on in-kind contributions as approved by ARC. ARC paid the grantee \$140,746.89 (36 percent) based on total project costs of \$386,885.44 and closed out the grant on December 23, 1996.

RESULTS

Project Costs

We reviewed the grantee's accounting records and selected a sample of expenditures for further review. Initially, we found that the total project costs were less than the amount claimed to ARC. However, during our visit, the grantee provided documentation for additional ARC project expenditures totaling \$8,300 that were posted to the wrong account. Subsequent to our visit, the grantee provided documentation for an additional \$6,310 in project expenses that were posted to the wrong account. We determined that total project expenditures, including those posted to the wrong accounts, were \$386,964 or \$79 more than the grantee reported to ARC. The grantee indicated that there had been some confusion as to where matching expenditures were to be reported. We understand that, subsequent to our visit, the grantee adjusted their internal policies to correct the problem. No deficiencies were noted as to the allowability or documentation of project expenditures.

Recommendation: We recommend that the grantee ensure that grant and matching costs are posted to the correct account(s) if they receive future ARC grants.

Grant Objectives

The grantee implemented a base quality manufacturing system as specified by the grant agreement. Work completed under the ARC project included preliminary site assessments, in-plant orientations, consortium training, in-plant consulting and procedure writing, and TQM team training. Nine companies participated in the program.

Grant Status

The companies that participated in the ARC project now have trained individuals in-house who can continue to improve their systems. The project also resulted in five individuals being trained to provide quality system consulting assistance and the grantee reported that they were working with additional companies subsequent to the end of the ARC project.



Hubert N. Sparks

Inspector General



November 25, 1996

Ms. Elaine Dewey
Planner/Contract Specialist
Private Industry Council of
Chautauqua, Inc.
200 Harrison Street
Jamestown, NY 14702-3358

re: ARC Contract 94-141, Grant NY-11546-94

Dear Ms. Dewey:

This letter provides advance notice of our intention to review the subject grant dealing with a base quality system development and implementation plan. I anticipate the work will be performed in the spring of 1997. However, we will contact you directly to finalize plans.

The review will include testing of the grantee's accounting and internal control systems effecting the grant, a comparison of available accounting records to financial status reports and other reports submitted to ARC, compliance with programmatic requirements of the contract, and results of the project. The auditor will review and utilize other available audit reports to the maximum extent deemed possible in order to avoid duplication of efforts. Essentially, the work will review available information on the status of the grant and the use of grant funds in line with ARC grant requirements.

We have included an internal control questionnaire and request that you have it completed and available for our review. Although it contains numerous questions, some of which may not apply to your organization, it will provide us with needed background information about your controls, policies, and accounting system.

Please call me if you have any questions.

Sincerely,

Handwritten signature of Hubert N. Sparks

Hubert N. Sparks
Inspector General

Handwritten number 97-43

Enclosure

cc: New York ARC State Alternate