

**MEMORANDUM REPORT ON THE REVIEW OF THE
NORTHEASTERN PENNSYLVANIA INDUSTRIAL RESOURCE CENTER**

Appalachian Workforce Development Project

**ARC Grant Nos: PA-11344-93-I-302-0427
and PA-11344-94-C1-302-0425
October 1, 1993 through September 30, 1996**

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Report Number: 96-16(H)

Date: December 21, 1995

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

FROM: Tichenor & Associates, CPAs
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REPORT FOR: The Federal Co-Chairman
ARC Executive Director

SUBJECT: Memorandum Review Report Number 96-16(H), Northeastern
Pennsylvania Industrial Resource Center. Program and Cost Incurred
Review - October 1, 1993 through September 30, 1996; ARC Grant
Numbers PA-11344-93-I-302-0427 and PA-11344-94-C1-302-0425.

PURPOSE: The purposes of our review were to determine that (a) all funds were expended in conformity with the approved budget and did not contravene any restrictions imposed by the terms and conditions of the grant, (b) the accounting, reporting and internal control systems provide for disclosure of pertinent financial and operating information, and (c) the objectives of the grant were being accomplished.

BACKGROUND: The Northeastern Pennsylvania Industrial Research Center ("Grantee") is a private not-for-profit corporation created by a consortium of private manufacturers, institutions of higher learning and local economic development agencies. The grantee is located in West Pittston, Pennsylvania and assists manufacturers in 13 Appalachian counties in Northeastern Pennsylvania in the development of their workforce.

The Grantee receives Federal funding from two agencies: the Department of Commerce and the Appalachian Regional Commission (ARC). The Grantee also receives State funding from two agencies: the Department of Commerce and the Department of Education. The focus of the Grantee's Industrial Resource Center (IRC) includes five objectives: business planning, manufacturing strategy, quality management, technological improvements, and work force development. These objectives are accomplished through the provision of services to small to medium sized manufacturing companies within the IRC's region.

The IRC is involved in a team approach to economic development within the area. The IRC, along with the two local development districts and the two local Small Business Development Companies meet monthly to discuss the best means of providing assistance to all companies which expressed interest in the area. The IRC also works with the Ben Franklin Partnership and the Pennsylvania Technical Assistance Program. While all of these parties are involved in training and economic development, the emphasis of the other agencies is different than that of the IRC.

The IRC began operation in 1988 and received its first ARC grant in 1991. The original grant allowed the IRC to expand its then existing workforce training/development program to manufacturers whose total employees exceeded 500. Prior to the award of that grant, the State had limited funding to companies with less than 500 employees. The IRC, however, felt it was important to provide services to these larger companies because the local economies were reliant on retaining these companies.

ARC has awarded grants to the IRC in each year since 1991. ARC awarded Grant numbers PA-11344-93-I-302-0427 and PA-11344-94-C1-302-0425 to the IRC on October 1, 1993 and October 1, 1994, respectively. The original period of performance under each grant was one year. However, there were five amendments to the first grant and two amendments to the second grant which extended the periods of performance to December 31, 1995 and September 30, 1996, respectively. The purpose of the grants were to (1) continue to assist manufacturers in 13 Appalachian counties in Northeastern Pennsylvania to become more competitive through the training of their workforce, and (2) assist industrial and manufacturing businesses in 15 Appalachian counties in Western Pennsylvania in a similar fashion. ARC grant number PA-11344-93-I-302-0427 was for the lesser of \$400,000 or 47 percent of actual, reasonable and eligible project costs. The other ARC grant was for the lesser of \$600,000 or 49 percent of actual, reasonable and eligible project costs. The remaining project costs were to be paid by the companies receiving workforce training assistance. ARC payments have totaled \$360,000 and \$170,674 under the first and second grants, respectively, and the most recent payments were made on March 15, 1995 and March 30, 1995, respectively.

Based on our review of the grant agreements and their amendments, we determined that the specific objectives of the grants were as follows:

- (1) Identify the training needs and opportunities for employing industries in Northeastern and Southwestern Pennsylvania.

- (2) Locate and examine the qualifications of training resources to implement specific training programs as follows:
 - (a) 25 programs under the first grant, 15 in Northeastern Pennsylvania and 10 in Southwestern Pennsylvania;
 - (b) 40 programs under the second grant, 25 in Northeastern Pennsylvania and 15 in Southwestern Pennsylvania.
- (3) Design, with the assistance of the employers and training resources, appropriate training programs and detailed budgets for submission to ARC for approval prior to implementation.
- (4) Provide training for regional local educational agencies (LEAs) in the 15-county region of Southwestern Pennsylvania, resulting in a comprehensive step-by-step approach and template to assess skills and training requirements for an existing employee or for an employee intended to be placed in a manufacturing environment.
- (5) Manage the training program.

SCOPE: Our review was based on our understanding of the grant agreements and amendments, and on the application of certain agreed-upon procedures previously discussed with the ARC OIG. In summary, we ensured that the objectives listed above were met, the accountability over ARC funds was sufficient as required by the OMB circulars and the grantee complied with the requirements of the grants. In addition, we discussed the program objectives and performance with grantee personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results are based on our review performed at the Grantee's office in West Pittston, Pennsylvania:

A. Incurred Costs

Finding

Allocation of Funding Miscalculated

Training courses provided by the Grantee are funded two-thirds by the recipient and one-third by ARC. The total training project cost is determined and a check is received by the Grantee

for the recipient share. The Grantee assures that the check is sufficient to cover the recipients share and then posts the balance to the ARC grant. We determined that the amount collected from the recipient had been understated for two training projects. Likewise the amount to be funded by the ARC grant had been miscalculated. The amounts claimed for ARC participation were overstated by a total of \$444. These amounts were considered immaterial and appeared to be errors in posting recipient checks. We recommended, and the Grantee concurred, to restate the amounts claimed for ARC participation in the final claim for reimbursement.

Finding

Interest Earned on Advances Miscalculated

The Grantee calculates the interest earned on ARC advances on a daily basis and remits the interest to ARC on a regular basis. We determined that the interest calculation for two periods contained errors. The amount of interest resulting from the errors was considered immaterial and was the result of errors in posting cancelled checks to the interest worksheet. We also noted that the interest earned since July 1995 has not been remitted to ARC. Therefore, we recommend that interest on unused ARC advances from July 1995 to the end of the grant period be calculated, adjusted for the errors in previous calculations, and remitted to ARC.

B. Internal Controls

Finding

Potential Misallocation of Personnel Costs

Grantee personnel are compensated on a salary basis. Overtime hours worked by the personnel are neither compensated nor recorded. This method of accounting could result in the overstatement of personnel costs as well as associated fringe benefits and indirect costs which are allocated based on personnel costs. In accordance with OMB Circular A-110, Attachment A, Paragraph A.4.a., costs should be allocated based on benefit. The proper method of cost accounting for personnel costs when overtime is not compensated is to divide the employee's salary for the period by the total hours worked (direct and indirect) to establish the effective hourly rate. The rate is then multiplied by the total hours for each program to allocate the total personnel costs. The Grantee stated that overtime hours are unusual and that the failure to record these hours would not affect the allocation of personnel or other indirect costs. We, however, recommend that Grantee personnel record all hours worked to assure the proper allocation of personnel costs.

C. Compliance

Finding

LEA Training Objective Not Completed

The scope of services of the first ARC grant included, as part of the Governor's Response Team activities, the training of Local Education Agencies (LEAs). The LEAs were to be trained in order to evaluate strategic business drivers and develop task-specific job description for local manufacturers and companies as the basis for determining skill and training requirements to adequately fill a position and execute effective training. The Grantee stated that the Governor's Response Team later decided not to pursue this objective. However, a grant amendment to delete this objective was not requested. We recommend that all modifications to the scope of work be approved by ARC through letter or grant amendment.

RECOMMENDATIONS

We discussed the above findings with the Grantee and recommended that the following be done:

1. Restate the amounts claimed for ARC participation in the final claim for reimbursement to adjust for errors in posting the amount of recipient checks.
2. Calculate the interest on unused ARC advances from July 1995 to the end of the grant period, adjust for the errors in previous calculations, and remitted the interest to ARC.
3. Record all hours worked to assure the proper allocation of personnel costs.
4. Obtain approval for all modifications to the scope of work be through letter or grant amendment.

In addition, we recommend that the Grantee obtain independent evaluations from participants in the training programs. These evaluations would be used to measure the effect of the Grantee's programs on the workforce. Currently, the Grantee only requests that an evaluation questionnaire be completed by each employer receiving training assistance to measure the effectiveness of the training programs. We do not question the value of employer satisfaction with the training program. However, it appears that it would also be important to measure the effect of the programs on the individual employees as well.

The findings and recommendations were not considered material or significant and therefore this memorandum report was not issued to the Grantee for comment. The Grantee however agreed to make the appropriate changes to the final claim for reimbursement and to update the interest calculations. In addition, the Grantee has agreed to consider changes to the timekeeping and program evaluation procedures.


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