

**MEMORANDUM REPORT ON THE REVIEW OF  
NORTHERN TIER INDUSTRY & EDUCATION CONSORTIUM  
DIMOCK, PENNSYLVANIA**

**Workforce Development Project**

**ARC Grant No.: PA-12048-95-I-302-0420**

**October 1, 1995 through December 31, 1996**

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**Report No.: 97-40(H)**

**Date: September 23, 1997**

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October 1, 1995 through December 31, 1996

Prepared by:

Tichenor & Associates  
Certified Public Accountants  
Woodbridge, Virginia

Under Contract Number J-9-G-5-0010 with the  
U.S. Department of Labor  
Office of Inspector General  
Office of Audit

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

FROM: Tichenor & Associates  
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report No.: 97-40(H)

SUBJECT: Memorandum Review Report on Northern Tier Industry & Education  
Consortium, Workforce Development Project, Dimock, Pennsylvania.  
ARC Grant No.: PA-12048-95-I-302-0420; ARC Contract No.: 95-78.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Northern Tier Industry & Education Consortium (NTIEC) for its Workforce Development Project (the project) were expended in accordance with the ARC approved grant budget and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and, (c) the objectives of the grant were being met.

BACKGROUND: ARC awarded grant number PA-12048-95-I-302-0420 to NTIEC for the period October 1, 1995 through December 31, 1996. Total grant funding was for an amount not to exceed \$137,611, or 40.6 percent, of actual, reasonable and eligible project cost, whichever was less. NTIEC was to pay, or cause to be paid, the non-federal matching share of \$201,494, or 59.4 percent, of the project costs, in cash, contributed services or in-kind contributions, as approved by ARC.

ARC made four progress payments to NTIEC totaling \$113,850. As of the end of the grant period there was a balance of \$23,761 in obligated grant funds which had not been disbursed to NTIEC.

The funds from the grant were to provide for a Workforce Development Project to help youth in the transition between school and work. The project was to change how young people in the Northern Tier region prepared for entry-level jobs with business and industry. The specific tasks of the project, included in the grant agreement, were to:

- Increase the number of work-based learning opportunities for juniors and seniors in five target school districts by hiring a part-time program coordinator to be responsible for developing worksites, coordinating teacher and worksite mentor training, recruiting students to participate in the project, and marketing and promoting the project;
- Provide a one-year training program, the Workforce Enhancement Partnership, which targeted high school graduates and provided applied academics and work-based projects for three 3-month sessions and a 3-month cooperative education experience with local business or industry; and,
- Evaluate the project.

SCOPE: We performed a program review of the grant project as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain agreed-upon procedures previously approved by the ARC OIG. 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 NTIEC had complied with the requirements of the grant agreement. In addition, we discussed the project objectives and performance with NTIEC personnel. Our results are based on those procedures.

RESULTS: The following results were based on our review performed at the Northeastern Pennsylvania Industrial Resource Center (IRC) offices in Wilkes-Barre, Pennsylvania on April 9 through April 11, 1997.

**A. Incurred Costs**

NTIEC claimed total project costs of \$398,196, consisting of \$137,611 in ARC reimbursable costs and \$260,585 in non-federal matching costs. The claimed costs were as follows:

| Category             | ARC Amount | Match Amount | Total Costs |
|----------------------|------------|--------------|-------------|
| Personnel            | \$46,003   | \$224,774    | \$270,777   |
| Fringe Benefits      | 10,327     | 0            | 10,327      |
| Travel               | 8,644      | 919          | 9,563       |
| Equipment            | 17,397     | 0            | 17,397      |
| Supplies & Materials | 14,997     | 0            | 14,997      |
| Contractual          | 13,874     | 0            | 13,874      |
| Other                | 26,370     | 34,892       | 26,370      |
| Rounding             | (1)        | 0            | (1)         |
| Totals               | \$137,611  | \$260,585    | \$398,196   |

We reviewed the ARC and matching costs incurred and determined that the costs generally had been expended as reported by NTIEC. However, we determined that \$219 of project costs were not allowable in accordance with the grant agreement and the applicable OMB Circular. These costs are discussed below.

Unallowable Costs

NTIEC claimed costs which were not necessary for or related to the accomplishment of the grant objectives. Specifically, NTIEC claimed \$37 for a sympathy arrangement and \$182 for inspirational/motivational framed pictures for the training center built under the project. While these costs were immaterial in total, the inclusion of such expenses in the total project costs is not allowable and indicates a need to emphasize controls over the review of project expenses by NTIEC for allowability.

Costs which are not necessary for completion of the project objectives are unallowable in accordance with OMB Circular A-122, "Cost Principles for Nonprofit Organizations", Attachment A - General Principles, Paragraph A.3. - Reasonable Costs, which states:

"In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the organization or the performance of the award." (Emphasis added)

## **B. Internal Controls**

We reviewed the internal controls in place over the accounting and reporting of project costs. We did not review the internal controls in place at the target schools or at Keystone College. The Northeastern Pennsylvania IRC was subcontracted to perform the fiscal duties of accounting and reporting for NTIEC. The IRC has received numerous ARC grants directly, and has developed an acceptable accounting system to accumulate and report costs under a federal cost-reimbursable grant. The IRC also provided guidance to NTIEC on the allowability of costs and the documentation of project results. The responsibility for determining allowability and assuring the project was complete and results were documented, however, remained with NTIEC.

## **C. Program Results**

We discussed the project results with the fiscal agent, Northeastern Pennsylvania IRC, and requested additional written statements regarding the results from NTIEC. Based on review of the grant application, the grant agreement, the final program progress report, and the responses to our questions, we determined that NTIEC's final program progress report and their responses to our program questions clearly indicate that ARC funds were used to further a school-to-work program initiative and to aid in the work program which renovated the building at Keystone College, which was to become the training center. However, we were unable to distinguish from the information the status of the specific objectives and tasks of the grant application and grant agreement. We have summarized a portion of the information from the grant application, grant agreement, final program progress report, and questionnaire responses below for information purposes.

- The grant application outlined more specific tasks to be accomplished under the project than were included in the grant agreement. The grant application, which was incorporated into the grant agreement, stated that the Youth Apprenticeship Program was already in place in 1993. That program placed 10 students with five local companies in 1993 and 30 students in 15 local companies in 1994. The ARC grant was to compliment that program by implementing two activities: 1) increase the number of work-based learning opportunities for juniors and seniors in five target school districts, and 2) expand post-secondary involvement in the workforce training initiative. Specifically, the ARC funds were to be used to hire a program coordinator to develop 20 training worksites among local businesses and industries, coordinate teacher and worksite mentor training, recruit students through open house meetings with students and parents and coordinating student interviews and visits with potential employers, and market the program. In addition, funds were to be used to target high school graduates who might otherwise not attend college or who missed out on school-to-work opportunities while in high school by offering a program through Keystone College named "The Workforce Enhancement Partnership". This project included academic study, including an applied physics

curriculum and a work-based component during which a pre-determined project would be performed, and a three month cooperative education experience with local business or industry. A recruiter was to be hired to identify and recruit 20 potential students into this program, develop job sites, and market the program. Finally, a two-year Associate of Applied Science degree option was to be created at Keystone College.

- The final program progress report indicated that enrollment for the Youth Apprenticeship Program increased to 105 students and 39 work sites in the six county area and the number of school districts participating in this program increased from 12 to 20 schools. In addition, a conference was held with 800 attendees to discuss the school-to-work initiative, infrastructure was expanded, coordination of the ARC project with existing programs was developed, teacher education was conducted, and work on the college curriculum was performed. Also, selected high school students attended an orientation on team building, training plan instruction, portfolio planning, and workplace ethics and began cooperative education programs. The progress report also specifically addressed objectives of the ARC grant.
- NTIEC's responses to our program questions indicated that it was not the intention of NTIEC to separate ARC activities from other initiatives funded by the State. The ARC funds were used to build the program to a level which otherwise would not have been possible. The ARC funds were used to help in obtaining some office equipment that allowed NTIEC to operate in an organized manner, conduct mentor training programs, and market the program to new schools and worksites.

#### RECOMMENDATIONS:

We recommend that NTIEC implement procedures to assure that all costs are reviewed for allowability, including assuring the costs are reasonable and necessary for the accomplishment of grant objectives, prior to reporting the costs to ARC. In addition, we recommend that NTIEC clarify the objectives and specific tasks of their projects and specifically address the accomplishment of those objectives and tasks in their progress reports.

#### GRANTEE'S RESPONSE:

A copy of NTIEC's response to the findings and recommendations is attached to this report. NTIEC stated that they considered all expenses legitimate and necessary for the project, but agreed to return the costs associated with the sympathy arrangement.

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ADDITIONAL STATEMENTS:

We recommend that NTIEC obtain a determination of the allowability of the inspirational pictures from ARC.

*Tichenor & Associates*  
TICHENOR & ASSOCIATES  
Woodbridge, Virginia



# Procter & Gamble

The Procter & Gamble Paper Products Company  
P O Box 32, Mehoopany, Pennsylvania 18629

September 7, 1997

Deirdre M. Reed, CPA  
Tichnor and Associates  
12531 Clipper Drive Suite 202  
Woodbridge, Va. 72192

Dear Ms. Reed,

This is in response to your audit report dated August 29, 1997 concerning ARC contract 95-078; Grant PA-12408-95-I-302-0420-Workforce Development Project. I was disappointed that your visit was primarily a "paper audit" and time did not allow you to see first hand the tremendous results that the dozens of Northern Tier volunteers have achieved with the ARC grant help. It was difficult to capture in writing the positive changes in young peoples lives and the renewed commitment of the educators in our schools and colleges that we see from the ARC initiative.

Now with respect to your specific findings:

1. Non-Allowable Expense (\$37 Sympathy Arrangements) -

We could debate whether morale of volunteer team members is critical for success of the project, but this may be a stretch. This amount has been reimbursed to the ARC through NEPIRC (copy attached).

2. Non-Allowable Expense \$182 for inspirational/motivational framed pictures for student training center) -

I believe these are legitimate training materials which provide high impact definitions for teamwork, risk taking, success, etc. The at risk youth we are working with are learning to be successful manufacturing technicians in very competitive, high performance work systems. The daily re-enforcement of these key concepts is an integral part of the development process. As a matter of interest, these same definitions are posted in Procter & Gamble's training facilities.

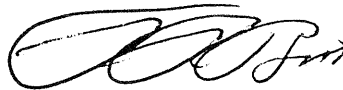
3. Program Results Reporting (separating out ARC Grant Impacts) -

We are clearly integrating resources to create a comprehensive School-to-Work System in N.E. Pennsylvania. Both volunteer and staff resources maintain a flexible approach and work on multiple projects every week. Based on an active, hands-on stakeholders group we adjust priorities quickly to maximize progress but the end objective is always to build an effective school-to-work system. We can, and will focus future ARC grant reports on the specific

project results versus goals to simplify your task. We also recommend an on-site visit to supplement the paper audit. To supplement our formal report, I have enclosed a few documents with observations concerning the school-to-work system building underway.

Ms. Reed thanks for your efforts in support of our regional school-to-work initiative. As always it is helpful to get objective perspectives to help us improve the quality of our systems. Please call if you have additional needs.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter R. Butler', with a stylized flourish at the end.

Peter R. Butler  
Engineering Manager  
717-833-3484

PRB/cls

Attachments