

**MEMORANDUM REPORT ON REVIEW OF THE
TENNESSEE DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT
NASHVILLE, TENNESSEE**

Customized Industrial Training

ARC Grant No: TN-12486-96-I-302-0611

October 1, 1996 through June 30, 1997

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Report Number: 98-19

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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. 98-19

SUBJECT TO: Memorandum Review Report on Tennessee Department of Economic
and Community Development (ECD), Customized Industrial Training,
Nashville, Tennessee. Grant No: TN-12486-96-I-302-0611, ARC
Contract No. 12486-96.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by ECD for its Customized Industrial Training program 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 had been met.

BACKGROUND: ARC awarded Grant Number TN-12486-96-I-302-0611 to ECD for the period October 1, 1996 through June 30, 1997. Total grant funding was for an amount not to exceed \$750,000, or 50 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$750,000 or 50 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made one progress payment to ECD totaling \$353,813. The remaining balance of \$396,187, had not been drawn down by ECD as of March 31, 1998. Grantee officials indicated that these funds would be deobligated and that other funds would be used to sustain training initiatives.

The purpose of this grant was to provide funds to expand the availability of targeted training programs to prospective and current employees of manufacturing firms in Appalachian Tennessee, and to increase the technical abilities of the existing workforce. The Grantee shall perform the following specific tasks:

- A. Offer some or all of the following through the Customized Industrial Training Program:
1. Pre-employment basic skills training;
 2. Job-specific training for production;
 3. System support instruction related to technology, quality control, and materials handling;
 4. Leadership training;
 5. Instructor certification training;
 6. ISO 9000 training;
 7. Total Quality Management (TQM);
 8. Development of company trainers; and,
 9. Development of instructional materials.
- B. Select proposals for customized worker training programs by businesses in Appalachian Tennessee, and submit selected proposals to ARC for approval.

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 agreed-upon procedures previously discussed with 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 ECD had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with ECD's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at ECD's offices in Nashville, Tennessee, on January 5 through 13, 1998.

A. Incurred Costs

ECD incurred total program costs of \$880,308, of which they claimed direct reimbursable costs from October 1, 1996 through June 30, 1997 of \$353,813. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we identified payments made to large corporations that were in direct violation of the application submitted by ECD. This issue is discussed in the program results section below.

B. Program Results

1. ARC Funds Were Used for Training at Large Corporations

Our review disclosed controls had not been established to determine the eligibility of companies to receive training funds. Consequently, we noted ARC and matching funds had been provided to large corporations that may not meet the Grantee established criteria which precludes the use of ARC funding for training to large corporations that have, or logically could be expected to have training programs supported with company funds. Based on our limited research with respect to company size, we questioned the eligibility of about \$429,000 in ARC and matching funds provided to 10 of the 30 companies receiving ARC funds during the initial grant year. The questioned amounts are as follows:

Company	ARC Funding	State Match	Total
1	\$ 78,384	\$ 78,384	\$156,768
2	51,912	51,912	103,824
3	6,812	8,726	15,538
4	6,988	6,988	13,976
5	1,625	3,791	5,416
6	15,452	36,055	51,507
7	25,957	22,111	48,068
8	192	48	240
9	7,428	7,428	14,856
10	5,795	13,520	19,315
Total	\$200,545	\$228,963	\$429,508

Note: Company identification is being provided under separate cover for information purposes.

Our research indicated that these companies, or their parent companies, had from 5,000 to 141,000 employees as of 1996/1997. These companies also had sales ranging from \$810 million to \$24.7 billion, which in our opinion, categorizes them as large corporations. Also, we noted Grantee data reported that operations in Tennessee for which training funds were approved ranged from 41 to 500 employees.

The Application for Federal Assistance from the Appalachian Regional Commission for Customized Industrial Training, Section V, Prohibited Activities, states, in part:

“Because ARC assistance is federal in nature, and because there is a growing concern about the appropriate use of ARC assistance, the following activities will not be practiced.

ARC funding will not be used to provide training to large corporations which have, or which logically could be expected to have, training programs supported with company funds. Instead, ARC assistance will be concentrated on small manufacturing firms which do not have the financial capability to provide the required training themselves.”

The ARC grant agreement states that the Grantee will carry out this project in general accord with the proposal submitted to ARC on June 5, 1996. We believe the emphasis in the grant proposal on prohibiting assistance under the circumstances noted above renders such prohibitions to be an integral part of the grant agreement.

GRANTEE'S RESPONSE

During our on-site visit, ECD officials stated that it was the State's policy to provide training to any company willing to expand and hire more Tennesseans, or any company willing to build a new facility in an ARC county where new jobs would be established. Officials noted they were following State policy and would comply with ARC decisions regarding report matters.

In response to the draft report, which cited three examples of large corporations for which training was provided, the Grantee noted that the three companies cited were not considered by the ECD/ITS staff as being large companies. This assumption was based on the relative size of

the Tennessee facility rather than the worldwide corporate size. Officials believed that program intent was met.

In subsequent discussion, the Grantee stated that numerous other companies had been trained but were not reported because the ARC funds and match had already been met. They inquired as to whether other companies could be substituted for larger companies identified during the review as being funded under the ARC grant. Also, it was indicated that the grantee intended to deobligate the remaining \$396,187 of grant funds and continue training activities using other fund sources.

ADDITIONAL STATEMENTS

We do not concur with the interpretation that the companies questioned did not fall within the definition of large companies that have, or could be expected to have, established training programs supported with company funds. Nothing in the application indicated such a criteria was applicable, and as a practical matter we do not believe the availability of company funds for training programs is dependent on the location of the facility. In addition, one case involved a company that closed their plant in Indiana, relocated to Tennessee, and intended to hire over 500 employees. Also, the grant application language specified that ARC assistance would be concentrated on small manufacturing firms which did not have the financial capability to provide the required training themselves. We do not believe the companies identified met this criteria.

With respect to the use of other state funds for training, we analyzed the information provided. The summary of expenditures for the ARC grant, including State match, disclosed total expenditures of \$842,276. The summary of all state expenditures for training totaled \$1,120,407. The difference of \$278,131 was reviewed to determine which companies received these funds. In four instances, funds were provided to companies not previously identified as receiving funds under the ARC grant. In 11 instances, the funds were for companies also receiving funds in connection with the ARC grant. However, in three of the 11 instances, funds totaling \$104,389 were provided to companies questioned above. Therefore, the remaining additional spending of \$173,742, in our opinion and pending ARC approval, could be used to off-set the questioned costs providing the companies receiving the funding are deemed to have met the eligibility criteria.

We also noted that the grantee had previously provided information to ARC identifying grant recipients but follow-up action had not been initiated by ARC.

RECOMMENDATIONS

We recommend that the Grantee establish controls and related procedures for determining company eligibility for ARC and related match funding in line with grant application criteria. Action should be initiated, in coordination with ARC, to determine the eligibility of recipients in line with criteria noted in the grant application. Any additional eligible expenses that can be considered matching funds should be provided to ARC as should training funds provided to other eligible companies for consideration of off-set against questioned costs. As necessary, refunds applicable to ineligible payments should be identified and resolved with ARC.

B. Internal Controls

We determined that ECD had the following internal control weakness, which affected compliance with the terms of the grant.

1. Quarterly Progress Reports Were Not Prepared

ECD did not prepare and submit quarterly progress reports to the ARC Project Coordinator as required by the grant agreement.

ARC Contract Number TN-12486-96, Article 2-9, states:

"Grantee shall prepare and submit to the ARC Project Coordinator quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period."

GRANTEE'S RESPONSE

A letter was submitted to ARC in which ECD requested permission to submit a final report instead of quarterly reports. The Grantee assumed this request had been approved since no denial of the request was received.

ADDITIONAL STATEMENTS

The Grantee's request for a change in reporting periods states that billings and related accounting records are not available until late in the fiscal year. It also states that training occurs throughout the period. The progress reports referred to include not only financial status, but narratives on the work accomplished, problems encountered and work to be

performed in the subsequent reporting period. ARC uses these reports to assess the project and to determine if the objectives of the project are being met before the grant period expires or the ARC funding is expended erroneously. Therefore, a request to change the reporting period for billings would not in our opinion, if approved, eliminate ECD's responsibility to submit quarterly progress reports. Also, quarterly progress reports may have identified the conditions noted in this report and permitted timely resolution of the eligibility issue.

RECOMMENDATION

The issues related to completion of progress reports should be resolved with ARC.

2. Grantee Did Not Perform All Specific Tasks

Our review of ECD's Customized Industrial Training grant indicated all of the objectives and specific tasks identified in Task A, and listed above, had been achieved. However, ECD officials did not perform Task B, which states the following:

"Select proposals for customized worker training programs by businesses in Appalachian Tennessee, and submit selected proposals to ARC for approval."

GRANTEE'S RESPONSE

During our on-site work, ECD officials stated that they were not aware that Task B was included in the agreement and were never told by the ARC Project Coordinator to submit proposals for approval. In response to the draft report, ECD stated that it is their understanding that as payment/reimbursements were submitted, single projects would be approved and reimbursed or rejected and payment denied. Therefore, the intent was complied with.

ADDITIONAL STATEMENTS

The requirement is that the proposals be submitted to and approved by ARC prior to the occurrence of the training. The payment/reimbursement request is submitted subsequent to the provision of the training. No pre-approval was sought from ARC as required.

RECOMMENDATIONS

ECD should resolve with ARC the procedures required to comply with Task B.

DISCUSSION:

We discussed the issues with ECD's management during the exit conference held on January 13, 1998. Management responded by stating it was following State policy and would comply with ARC decisions on these matters once they have been made.

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