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A Review of the South Carolina Special Schools Program

February 2000

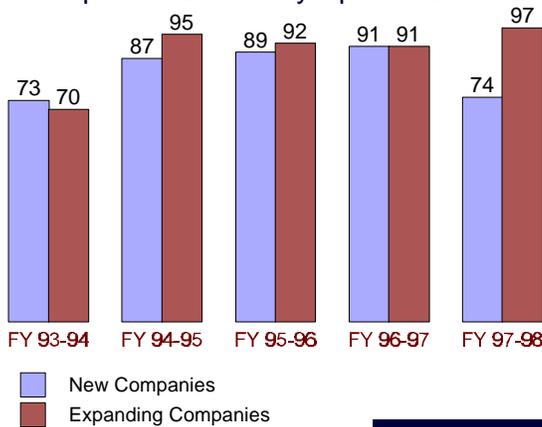
Members of the General Assembly requested that we audit the Special Schools program. Special Schools, a program of the State Board for Technical and Comprehensive Education (SBTCE), provides customized training for employees of new and expanding businesses. The training is 100% state funded; the main obligation of the businesses is that new jobs be created. We reviewed the Special Schools program in order to determine its compliance with state laws and regulations; how training is approved and monitored; whether appropriate safeguards are in place to ensure that tax dollars are prudently spent; and whether the outcomes of the program are evaluated.

One issue underlying the audit request was the training Special Schools conducted for the BMW Manufacturing Corporation located in Spartanburg County. Therefore, we reviewed Special Schools records involved with this project, as well as a sample of 43 Special Schools projects located throughout the state.

From its inception in 1961 to FY 97-98, Special Schools provided training for 189,433 students and 1,541 businesses and factories. Special Schools includes the following types of services to new and expanding businesses:

- Testing and screening job applicants through local Job Service offices.
- Pre-employment training so the company can select from qualified applicants.
- Post-employment or on-the-job (OJT) training for newly-hired workers.
- Training of company employees to become instructors for new or future workers.
- A training site if needed, as well as training materials, manuals, and videos.

Companies Served by Special Schools



FINDINGS IN GENERAL

Special Schools Laws

Applicable statutes and policies set only broad limitations on Special Schools and allow Special Schools officials considerable latitude in deciding how state funded training will be provided to businesses. A unique appropriations act proviso gives Special Schools additional funding when needed. This enables the program to be flexible and better serve the diverse needs of many companies and, more importantly, the trainees. However, such flexibility and lack of restrictions make the need for internal controls more critical.

The State Tech Board sets the basic requirements that companies must meet to receive Special Schools training, including:

- Companies from any industry may be eligible.
- Companies must offer competitive wages and benefits in the geographic area in which the company is locating and/or expanding.
- Companies must be creating new, permanent jobs.
- Companies must create real wealth.
- Companies must risk an adequate capital investment.

Approval of Training

The S.C. Department of Commerce routinely plays only a limited role in negotiating the level of training to be provided to a new or expanding business. Generally, the details of the training are not worked out until a company has made at least a verbal commitment to locate in South Carolina. However, the Department of Commerce was involved in determining the amount of funds committed for training to be provided to BMW. The State Tech Board also reviews all Special Schools projects regardless of project size or budget.

Soft Skills Training

Special Schools provides the same kinds of basic and specialized training to many companies. Training in “soft skills” such as communications and teamwork is also provided by Special Schools. According to a 1998 survey of the state’s businesses and industries, this kind of training is in demand by South Carolina employers. Therefore, we concluded that this kind of training is appropriate for Special Schools funding.

Evaluation of Special Schools’ Impact

According to Special Schools, satisfying the needs of the client company is the standard used to measure the success of the program. However, performance ratings by the companies that receive training have not been consistently analyzed and reported. Special Schools has no additional procedures in place for measuring the outcomes of its training programs and how well they support statewide economic development goals. For example, Special Schools does not compare or otherwise analyze program costs on an individual project or trainee basis. However, Special Schools collects data that could be used for evaluation. Although state economic development officials claim that the Special Schools program plays an important role in a company’s decision to locate in South Carolina, they could not support this assertion with data measuring the program’s impact on the number of jobs created or retained. Special Schools should develop and implement performance measures of program outcomes, and the SBTCE with the Department of Commerce should develop measures of the effectiveness of the Special Schools training program as an incentive to new businesses locating in the state.

Improvement of Internal Controls

While Special Schools complies with applicable laws and regulations, in our sample of 43 training projects we found several areas where it could improve internal controls over the use of training resources, as well as improve file documentation that companies are meeting all of the state’s requirements to qualify for training.

COMMITMENT LETTERS

Nineteen (44%) of the 43 companies did not have a commitment letter in the files. State funds should not be committed without written agreements determining how these funds are to be used. However, 72% of the projects we reviewed were under budget.

QUALIFICATIONS FOR TRAINING

We were unable to conclude whether wages for jobs created by the companies in our sample were competitive, as required by SBTCE policy. While a Special Schools official told us that they will not train for companies which pay less than \$6.52 an hour, there are no criteria for comparing wage ranges on a statewide basis. Three projects in our sample showed that trainees received \$6 an hour or less for starting wages.

TRAINING FOR MANAGERS

In several projects reviewed, companies were reimbursed for travel and training for managers and supervisory staff. There are no Special Schools regulations and policies that specifically address whether training for management staff is within the mission and scope of Special Schools.

TRAINEES HIRED

Special Schools had used an evaluation form that asked companies to provide information on the number of trainees hired and retained; however, Special Schools has not been consistently collecting this information. In the sample of 43 projects, completed evaluation forms were on file for only 6 projects. The 43 projects had a total of 1,129 individuals receiving pre-employment training from Special Schools; available records showed that 817 (72%) of them were hired.

TRAVEL

In general, excessive or unnecessary travel was not an issue. However, it was often difficult to determine from project files what kinds of training occurred during out-of-state and overseas trips.

TRAINING FOR THE BMW MANUFACTURING CORPORATION

	FY 92-93	FY 93-94	FY 94-95	FY 95-96	FY 96-97	FY 97-98	FY 98-99	TOTAL
1st BMW Project	\$990	\$3,466,875	\$7,102,636	\$5,653,135	\$2,066,670	\$569,648	\$350,835	\$19,210,790
Expansion Project						\$791,194	\$2,877,691	\$3,668,885
TOTAL Both Projects	\$990	\$3,466,875	\$7,102,636	\$5,653,135	\$2,066,670	\$1,360,842	\$3,228,526	\$22,879,674
TOTAL Special Schools Expenditures		\$8,986,409	\$16,009,919	\$13,612,319	\$11,133,965	\$12,014,843	\$13,665,868	\$75,423,323
BMW's Percent	0%	39%	44%	42%	19%	11%	24%	30%

At a cost of \$12,120 per production associate, training for BMW Manufacturing Corporation was the most expensive ever conducted by Special Schools. However, according to the Department of Commerce, BMW has had a significant economic impact on the state. A cost-benefit analysis conducted by the S.C. Economic Coordinating Council found that the benefits generated by BMW outweigh the county and state costs by a ratio of 25 to 1.

BMW initially invested \$600 million to build a 1.2 million square foot manufacturing facility, with a projected 2,000 new jobs. In 1998, BMW announced a major expansion to produce a "sports activity vehicle." Special Schools trained about 2,000 individuals for the first BMW project, and 1,585 production associates were hired. Another 289 employees have been hired for the expansion as of June 30, 1999; the hiring for the expansion is not yet complete.

Special Schools initially committed \$26.9 million for training for BMW. By the end of FY 98-99, a total of \$22 million has been spent for initial and expansion training for BMW, accounting for 30% of all Special Schools expenditures for the past six years. However, we found no evidence that Special Schools had to deny training for another company because spending on BMW had taken all the available funds. We also concluded that, in training for BMW, Special Schools achieved its goal of preparing South Carolina residents for well-paying jobs in a highly technical industry.

While Special Schools staff tried to control costs, they lacked clear guidelines limiting the state's training commitment, which made it difficult to establish cost controls. There are several expenses which contributed to the costs for BMW.

BMW TRAINING AND REIMBURSEMENT COSTS

The process of screening, testing, assessing, and then selecting job applicants cost about \$3.3 million, not including the cost to equip and maintain a testing and assessment building used by Special Schools. Initially, 35,000 individuals applied for a job at BMW.

MANAGEMENT TRAINING

The state reimbursed BMW a total of \$1,457,279 for training team leaders and management employees for the company's initial project, and spent an additional \$460,944 for management training for the expansion project.

TRAVEL COSTS

During the course of the two projects, Special Schools spent about \$3.5 million for 684 production associates to travel to Germany for training.

GERMAN TRAINERS

Special Schools paid BMW \$1.44 million from FY 93-94 through FY 95-96 to cover the travel expenses for about 320 German trainers, and paid an additional \$135,688 for German trainers for the expansion project. Special Schools also reimbursed BMW \$210,000 for German language training. Some of these lessons were private or semi-private.

EQUIPMENT AND TRAINING BUILDING

Special Schools reimbursed BMW \$1.2 million for renovations for a training building and \$1.3 million for training equipment. As of October 1999, none of the equipment had been labeled or inventoried at the training site. Without a physical inventory, Special Schools has no assurance that all the equipment is safe and accounted for.

Other States . . .

Kentucky allocated \$55 million in training funds for its Toyota project which began in 1985 with a projected 3,200 trainees. Alabama allocated \$60 million in training funds for its Mercedes-Benz project which began in 1993 with a projected 2,000 trainees.

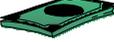
TRAINING FOR POLICY MANAGEMENT SYSTEMS CORPORATION (PMSC)

We reviewed a pilot project between Special Schools, Policy Management Systems Corporation (PMSC), and Midlands Technical College (MTC) to train computer programmers. The PMSC project differed from traditional training projects conducted by Special Schools. For example, the duration of the PMSC training was nine months, whereas most other Special Schools training is completed within six to eight weeks.

The cost of the PMSC project will be \$11,069 for each of the 32 students expected to graduate — one of the highest costs per student for Special Schools projects. On the other hand, the state allocates approximately \$5,558 to MTC per student in the technology associate degree program. The student would also pay \$3,704 out-of-pocket for tuition and books. The PMSC project should be evaluated to determine whether it is cost-effective and in accordance with the mission of Special Schools.

TRAINEE DATABASE

Special Schools maintains a trainee database that can be used for descriptive information about training projects. The information below is based on 282 training projects that were initiated from June 30, 1996, through April 30, 1999.

SPECIAL SCHOOLS AVERAGE	
	Cost Per Project \$51,272
	Number of Trainees Per Project 67
	Cost Per Trainee \$752
	Beginning Wage Earned by Trainees \$8.87



This document summarizes our full report, ***A Review of the South Carolina Special Schools Program.*** Responses from the State Board for Technical and Comprehensive Education and the Department of Commerce are included in the full report. All LAC audits are available free of charge. Audit reports and information about the LAC are also published on the Internet at www.state.sc.us/sclac. If you have questions, contact George L. Schroeder, Director.