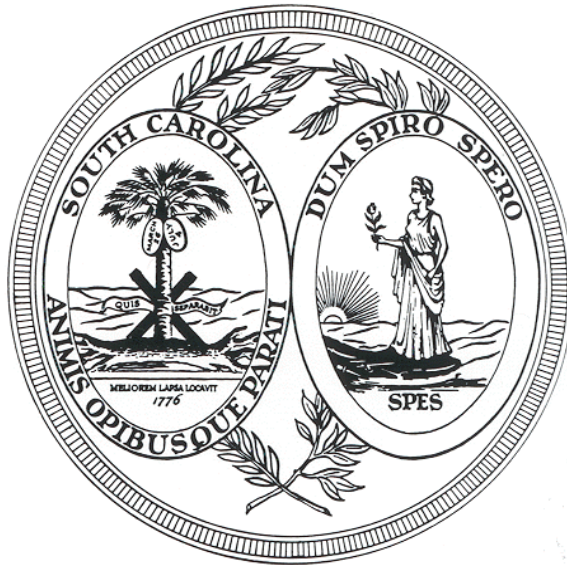


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Report to the General Assembly

February 2000

A Review of the South Carolina Special Schools Program



Legislative Audit Council

1331 Elmwood Ave., Suite 315
Columbia, SC 29201
(803) 253-7612 VOICE
(803) 253-7639 FAX

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A Review of the South Carolina Special Schools Program
was conducted by the following audit team.

Audit Team

Audit Manager
Kathleen C. Snider

Senior Auditor
Walter C. Kannaday III

Associate Auditor
Elizabeth W. Oakman

Typography

Candice H. Pou
Maribeth Rollings Werts

Staff Counsel

Andrea Derrick Truitt

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A Review of the
South Carolina
Special Schools Program

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Synopsis

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 training for employees of new and expanding businesses. The training is 100% state funded; the main obligation of the business is that new jobs be created and the project meet certain Special Schools standards. 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. Another issue of importance to the audit request was how state funds were expended for training for the BMW Manufacturing Corporation.

Our findings include:

- ❑ 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. Although statutory requirements are few, they appear to be sufficient to ensure that legislative intent is carried out; however, this makes the need for internal controls more critical (see p. 7).
- ❑ The Department of Commerce routinely plays only a limited role in negotiating the level of training to be provided to a new or expanding business. However, the Department of Commerce was involved in determining the amount of funds committed for training to be provided to BMW (see p. 10).
- ❑ 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 (see p. 11).
- ❑ Special Schools has not developed specific goals for measuring its performance, and there is no assessment of the impact of its training programs on the economic development of the state. For example, Special Schools does not track program costs on a project or individual trainee basis. However, Special Schools does collect data that could be used for evaluation purposes (see p. 12).

- ❑ While Special Schools complies with applicable laws and regulations, we found several areas where it could improve internal controls over the use of training resources. For example, commitment letters are not always issued to companies which receive training, and the final placement rate for trainees is not completely documented. Special Schools records available at the time showed that for 43 projects sampled, 72% of 1,129 trainees were hired. Special Schools also does not maintain documentation in order to determine if companies meet standards, such as paying competitive wages, to qualify for state-funded training. (see p. 17).
- ❑ 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 (see p. 32).
- ❑ There are several factors which contributed to BMW's training cost, including the large number of applications for jobs, extensive travel between Germany and South Carolina, special training for management and supervisory staff, and the need for two buildings plus equipment. While Special Schools staff tried to control costs, they lacked clear guidelines for limiting the state's training commitment, which made it difficult to establish cost controls (see p. 34).

Introduction

Audit Objectives

As requested by members of the General Assembly, we have conducted an audit of the Special Schools program. Special Schools provides training to new and expanding businesses, and is a program of the State Board for Technical and Comprehensive Education (SBTCE). The requesters were primarily interested in whether Special Schools has complied with state laws and regulations; how training is approved and monitored; and whether appropriate safeguards are in place to ensure that tax dollars are prudently spent. Based on this request, we have conducted this audit in accordance with the following objectives:

- To identify all state laws, regulations, and policies applicable to the Special Schools Program.
- To determine whether the current statutes, regulations, and policies are sufficient to ensure that the legislative intent and mission of Special Schools are carried out.
- To determine whether there are any significant acts of non-compliance with applicable state laws and regulations.
- To determine whether there are adequate management controls that accomplish the following:
 - Limit the amount of training businesses can receive.
 - Ensure that training is provided in accordance with SBTCE policy and requirements.
 - Safeguard against waste, loss, and misuse of Special Schools resources.
- To determine the roles of the Department of Commerce and the governing board of the SBTCE in negotiating, approving, and monitoring training provided to businesses.
- To determine if measures and records are maintained so as to determine the success and the outcomes of the Special Schools program.

One issue underlying the audit request was the training Special Schools conducted for the BMW Manufacturing Corporation located in Spartanburg County. Training for BMW accounted for 30% of all Special Schools expenditures from FY 93-94 through FY 98-99; therefore, this project was specifically reviewed in order to determine how the training funds were spent.

Scope and Methodology

This audit covers primarily a five-year period from FY 93-94 through FY 97-98. We have included updated information for FY 98-99 as it became available. We reviewed only the operations of the Special Schools program and did not review any other functions of the SBTCE. While Special Schools is a part of the state's economic development effort, we did not evaluate any other economic development activities or programs of the Department of Commerce, the S.C. Coordinating Council for Economic Development, or other agency.

Information used in our review was obtained from the following sources:

- Interviews with Special Schools and other SBTCE staff, Department of Commerce staff, and economic development officials from around the state.
- Correspondence, training plans, budgets, and other records kept on file for individual training projects.
- Financial records maintained by SBTCE.
- Reimbursement and travel documentation from field offices and the Spartanburg training center.
- Special Schools' trainee database.

We also made site visits to several industries that had received Special Schools training as well as to the Special Schools testing, assessment, and training center in Spartanburg County.

We reviewed Special Schools records involved with the BMW project. To provide a comparison, we conducted a detailed review of a random sample of 43 Special Schools projects located throughout the state and also reviewed other large-scale training projects. We also used a trainee database for certain information about Special Schools projects. We conducted limited tests to verify the accuracy and completeness of this data. Overall, computer-generated data were not central to the objectives of this report.

This audit was conducted in accordance with generally accepted government auditing standards.

Background

South Carolina Special Schools is the major program operated by the Division of Economic Development of the State Board for Technical and Comprehensive Education (SBTCE). Also known as Tech Special Schools, this program provides customized training for new and expanding businesses and industry. The training is provided to the businesses at little or no cost; the main requirement is that new jobs be created. The primary mission of Special Schools is economic development.

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.

Instructors for Special Schools training are supplied by the technical colleges, private vendors, or the companies receiving the training. Special Schools will reimburse companies for the time their employees spend as on-the-job instructors for new hires. Special Schools also will pay travel costs for company employees and Special Schools staff to travel to the location of the parent company for training or curriculum development. While much of the training takes place on location at the company or in the technical colleges, Special Schools also maintains training facilities in Aiken and Spartanburg Counties.

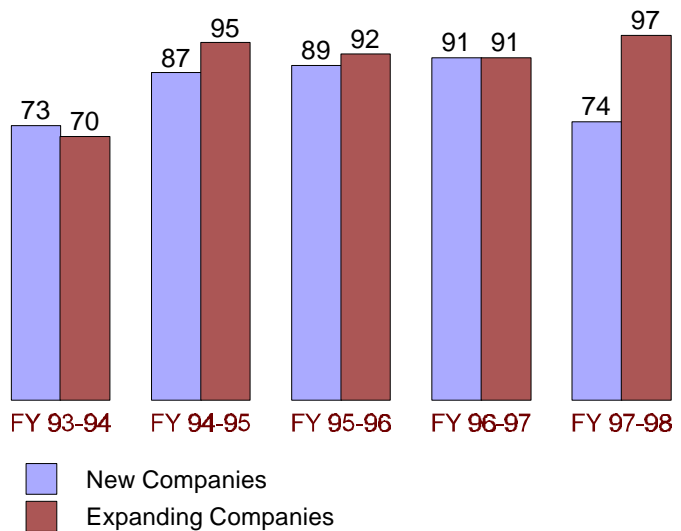
Table 1.1 illustrates the number of companies and trainees served from FY 93-94 through FY 97-98, and Chart 1.1 illustrates that this training has been fairly evenly distributed between new and expanding (in-state) businesses.

Table 1.1: Number of Companies and Trainees Served

Fiscal Year	Companies	Trainees
93-94	143	7,788
94-95	182	9,440
95-96	181	9,313
96-97	182	9,475
97-98	171	8,666
TOTAL	859	44,682

Source: Special Schools Annual Report 1997–1998.

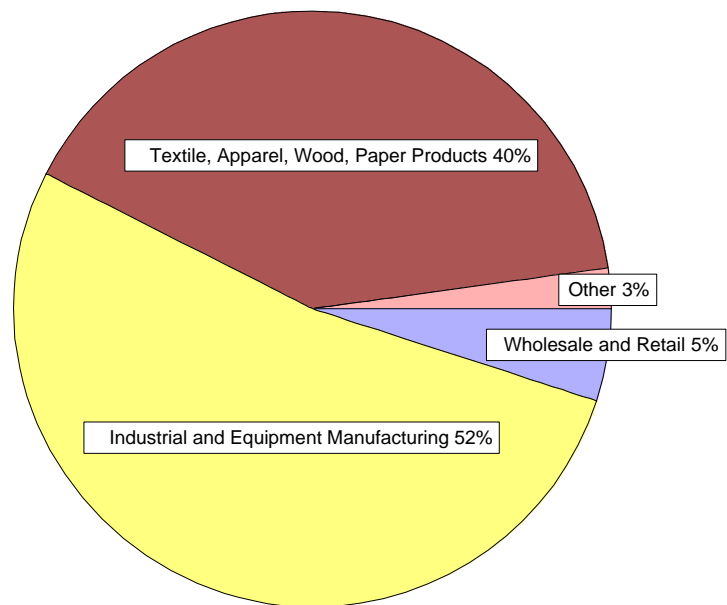
Chart 1.1: Special Schools Training for New and Expanding Companies — FY 93-94 Through FY 97-98



Source: Special Schools Annual Report 1997–1998.

More than 50% of all Special Schools training has been for industries that specialize in primary metal-working, fabricated metal-working, rubber and plastics, and industrial, commercial and electronic equipment manufacturing. Another 40% of Special Schools training has been in industries that primarily manufacture textiles, apparel, and wood, paper, and chemical products. On a much smaller scale, Special Schools has provided training for non-industrial businesses such as airlines, call centers, distribution centers, construction, and physician services (see below).

Chart 1.2: Types of Businesses Receiving Special Schools Training



Source: Special Schools Annual Report 1997 – 1998.

Special Schools' operations are 100% funded with state appropriations. Table 1.2 shows expenditures for the past five fiscal years. Special Schools receives a regular appropriation each year plus appropriations from surplus state funds and carry-forward monies. Appropriations for the past five years are shown in Table 1.3.

Table 1.2: SBTCE's Special Schools Expenditures FY 94-95 Through FY 98-99

Fiscal Year	Economic Development Administration ¹	Classified Positions	Other Personal Service	Other Operating Expenses	Other Direct Training Costs	TOTAL
94-95	\$2,665,644	\$377,741	\$4,031,711	\$0	\$8,934,823	\$16,009,919
95-96	\$2,849,523	\$332,056	\$4,844,434	\$0	\$5,586,306	\$13,612,319
96-97	\$2,621,097	\$379,815	\$3,114,826	\$0	\$5,018,227	\$11,133,965
97-98	\$3,029,588	\$369,235	\$3,300,276	\$0	\$5,315,744	\$12,014,843
98-99	\$2,922,261	\$365,255	\$4,219,862	\$400,000 ²	\$5,758,490	\$13,665,868
TOTAL	\$14,088,113	\$1,824,102	\$19,511,109	\$400,000	\$30,613,590	\$66,436,914

- 1 Costs included under Economic Development Administration are for Special Schools' managers and staff who administer the program and produce the training. "Classified Positions" are for the Special Schools employees located at two regional training centers. "Other Personnel Services" are primarily the salaries paid to Special Schools instructors or reimbursement to companies for the use of their own employees as instructors. "Other Direct Training Costs" include supplies, equipment, and travel directly related to training.
- 2 Advance to Spartanburg Technical College for the purchase of the Spartanburg testing and assessment center used for the BMW training project.

Source: SBTCE.

Table 1.3: Special Schools Appropriations FY 94-95 Through FY 98-99

Fiscal Year	Original Appropriation	Previous Year Carry Forward	Previous Year Surplus Appropriation	Other Adjustments	Adjusted Appropriation
94-95	\$5,380,358	\$2,119,943	\$5,453,997	(\$108,000)	\$12,846,298
95-96	\$5,068,624	\$555,138	\$11,000,000	(\$383,739)	\$16,240,023
96-97	\$5,068,624	\$5,699,755	\$6,800,000	(\$2,639,069)	\$14,929,310
97-98	\$5,068,624	\$6,988,574	\$5,000,000	\$52,769	\$17,109,967
98-99	\$5,010,514	\$8,393,346	\$0	\$162,701	\$13,566,561
TOTAL	\$25,596,744	\$23,756,756	\$28,253,997	(\$2,915,338)	\$74,692,159

Source: SBTCE.

Special Schools Laws, Program Development, And Evaluation

The state statutes which govern the Special Schools program are few and provide only minimal restrictions regarding the manner in which training should be provided. Likewise, SBTCE policies are also quite broad and grant Special Schools officials a significant amount of discretion in implementing the training programs. In addition, a unique appropriations act proviso grants increased funding to the program when necessary to meet training needs.

Since state statutes give such limited guidance on how Special Schools training should be provided, we reviewed the roles of the Department of Commerce and the State Tech Board in negotiating the level of training to be provided for a new or expanding business. We reviewed the project development process to determine whether training curricula are responsive to the needs of business. Finally, this chapter reviews whether data are maintained and evaluations conducted to determine the outcomes and success of Special Schools training.

Laws and Other Directives for Special Schools

Several state statutes address the role of the Special Schools program within the SBTCE. For example, §59-53-20 of the South Carolina Code of Laws states, in pertinent part:

The Board (i.e., the State Tech Board) shall continue major emphasis on the special schools program, which provides training for prospective employees for new and expanding industry, these programs to be closely coordinated with the state's economic development efforts.

In addition, South Carolina Code §59-53-50 delineates additional powers and duties of the SBTCE. It states:

The Board shall: (1) be responsible for the state-level development, implementation, coordination, and operation of an adequate and high quality post-high school vocational, technical, and occupational diploma and associate degree courses, programs, and adult short-term training programs financed in whole or in part by state funds

Moreover, §59-103-15, which establishes the mission for the state technical and comprehensive education system, describes Special Schools as “. . . programs that provide training for prospective employees for prospective and existing industry in order to enhance the economic development of South Carolina”

Therefore, state laws require the Special Schools program to:

- Train prospective employees for new and expanding industries on a short-term basis.
- Coordinate training with the Department of Commerce and enhance economic development efforts in South Carolina.
- Place a strong emphasis on employment needs.

These limits on the Special Schools program are extremely broad, and allow Special Schools officials considerable flexibility in deciding how, when, and to what extent state-funded training should be provided to businesses.

Appropriations Act Proviso

Appropriations act proviso 5N.2 in FY 98-99 and provisos in earlier years grant increased funding to the Special Schools program in certain circumstances. Section 5N.2 states:

Notwithstanding the amounts appropriated in this section for 'Special Schools,' it is the intent of the General Assembly that the State Board for Technical and Comprehensive Education expend whatever available funds as are necessary to provide direct training for new and expanding business or industry. In the event expenditures are above the appropriation, the appropriation in this section for 'Special Schools' shall be appropriately adjusted, if and only if, revenues exceed projections and the Budget and Control Board approves the adjustment.

This unique proviso allows SBTCE officials to be flexible when establishing budgets for Special Schools training projects. This proviso was utilized during the course of the BMW project.

SBTCE Board Resolution

The SBTCE established the following resolution in 1998 which governs the Special Schools program. The resolution provides the following standards:

- The Special Schools program is customized in pre- and post-employment formats.
- Companies from any industry may be eligible for Special Schools training.
- Companies must offer a competitive wage and benefits package 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 a capital investment adequate to succeed.

Any exceptions to these principles must be approved by the State Tech Board.

Although this resolution is more specific than state laws governing the program, it is quite vague in many areas and calls for a significant amount of judgment by program officials. For example, a Special Schools official stated that determining whether a company is risking an adequate capital investment is simply “a judgment call.” Also, he stated that experience allows him to know if a wage and benefits package is competitive in a given area of the state.

SBTCE policy 6-1-100 states that State Tech Board approval is required for training projects with direct costs that exceed \$50,000.

Conclusion

As previously mentioned, state laws and other directives afford the Special Schools program considerable latitude. Since many diverse companies receive training from Special Schools, this enables the program to be flexible and better serve the needs of the companies and, more importantly, the trainees. Although statutory requirements for Special Schools are few, they appear to be sufficient to ensure that legislative intent is carried out. However, such flexibility and lack of restrictions may bring a decline in accountability, and make more critical the need for strong internal controls over the program. We review Special Schools’ internal controls on pages 17–28.

Negotiating Special Schools Training

The Department of Commerce (DOC) routinely plays only a limited role in negotiating the level of training to be provided for a prospective economic development project. Once a potential project has been identified, DOC staff coordinate the initial meeting at which Special Schools managers are officially introduced to representatives of the new company. Special Schools then makes a formal presentation to company officials describing its training program. 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.

According to one of its officials, Special Schools has never developed a formal protocol with the DOC for the specific information about training that should or should not be given to a new business prospect. The Special Schools process manual, however, emphasizes the importance of Special Schools staff making their own prospect presentations. During the course of the audit, we noted one instance where, after preliminary negotiations with DOC, a company misunderstood the nature of what Special Schools could provide; Special Schools staff had to clarify the situation in subsequent meetings with the company.

After introducing a new company, the DOC generally has minimal involvement with Special Schools. According to Special Schools staff, the DOC gets more involved in negotiations when there is competition among the states for the larger companies. One instance where the Department of Commerce was involved in determining the extent of Special Schools training was the BMW project. In this case, correspondence shows that the monetary value of the training commitment was settled at higher levels of government before Special Schools got involved. The reasons given by Special Schools officials for this deviation from the standard negotiating process relate to the company's international reputation and the potential impact of its location on the state's economic growth (see p. 31).

Another project where the DOC participated in training negotiations was for Air South, a new airline. The start-up training lasted from FY 93-94 through FY 96-97, and Special Schools initially committed to spend about \$1,137,600 to train 801 people, including 200 pilots, for Air South. Actual expenditures amounted to \$602,451 since Air South never had the number of airplanes originally projected. According to a Special Schools staff person, Special Schools was not involved in the negotiations that established the training program. These were handled by the City of Columbia, the Office of the Governor, and the Department of Commerce.

SBTCE Involvement

In 1998, it became standard practice for Special Schools to present all projects, regardless of the budgeted amount, to the State Tech Board. According to a board official, projects and their expense budgets are reviewed by the economic development committee before being passed on to the full board. Special Schools policy requires that the managers monitor project budgets at least monthly to determine if actual expenditures are within planned limits.

In reviewing SBTCE minutes from 1992–1998, we found several instances in which the full board got involved in negotiating and monitoring Special Schools training.

Developing a Customized Training Program

While the state promotes Special Schools as a provider of “customized” training, we found that many programs consisted of the same basic courses in math, metrics, safety, blueprint reading, and team building. These topics could apply to a variety of industries.

Special Schools typically uses resource documents, such as operating manuals, flowcharts, and blueprints provided by the company, to design its training materials. A staff member stated that materials prepared at a more customized level account for about 10% of their work. We reviewed a selection of training materials produced by Special Schools and found them to be suitable relative to their objective. To accommodate companies that plan to use their own employees to teach specific skills to trainees, Special Schools has developed a “Train the Instructor” program. To cut costs, according to curriculum development staff, Special Schools also uses commercial training packages for some types of training.

Participation as a team member, interpreting and communicating information, and problem solving ranked among the top 20 skills in demand by employers in South Carolina.

According to Special Schools staff and a survey of the state’s business leaders, training in the “soft skills” such as teamwork and communications has become more in demand by companies in recent years. Companies that request this type of training use either a commercial program or the generic version developed by Special Schools, called “Team Building.” A 1998 survey, “Skills That Work,” sponsored by the South Carolina Chamber of Commerce, requested the state’s businesses and industries to assess the quality of the workforce in terms of the necessary skills for the marketplace. According to survey results, participation as a team member, interpreting and

communicating information, and problem solving ranked among the top 20 skills in demand by employers in South Carolina. Therefore, we concluded that this kind of training is appropriate for Special Schools funding.

Evaluation of Special Schools' Impact

Special Schools has not developed specific goals for measuring its performance, and there is no assessment of the impact of its training programs on the economic development of the state by either the State Board for Technical and Comprehensive Education or the Department of Commerce. Although Special Schools does not implement procedures for measuring the cost effectiveness of its program, it does collect data that could be used for evaluation purposes. Special Schools also provides a form for rating its performance to companies that have received training.

Evaluation by Special Schools

An official with Special Schools has stated that satisfying the needs of the client company is the standard used to measure the success of the program. However, performance ratings of the Special Schools program by the companies that receive training have not been consistently analyzed and reported to the State Tech Board on a regular basis. Since October 1981, Special Schools has requested companies that have received training to voluntarily submit an evaluation form rating various aspects of the program. According to staff, the response rate for these evaluations has been poor. In 1996, Special Schools discontinued its quarterly reports for SBTCE officials summarizing the performance ratings. Staff members explained that the reports were discontinued because there was only minor variation in the cumulative average ratings over time.

Special Schools has been in the process of developing a new electronic evaluation form for companies to complete and submit using the Internet. The form requests companies to grade all aspects of the program including the training, quality of training materials, trainee recruitment process, physical environment of the training, and the extent to which Special Schools fulfilled its original commitment to the company. This new evaluation process was implemented while the audit was in progress, and we did not review it.

Program Measures

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. However, some data are collected that would enable Special Schools to do this. Special Schools maintains a trainee database that, combined with financial information, could be used to measure and evaluate various aspects of the Special Schools program.

For example, the average cost per project (based on data for 282 projects from FY 96-97 through April 1999) was \$51,272, with a median cost of only \$14,594. This means that half of the Special Schools projects during this time cost less than this amount. For the period studied, only two projects had training costs of more than \$1 million. The average cost per trainee was \$752; only 43 out of 282 projects showed costs of more than \$1,000 per trainee. Given the traditional emphasis of Special Schools, which is to help under-employed individuals move into permanent employment with better benefits and wages, an investment of \$752 per person seems a very cost-effective way to reach this goal. Conversely, Special Schools could use this information to identify the high-cost projects (the ones that cost between \$6,000 – \$10,000 per trainee), and then study these projects to determine why the costs were high and whether they were justified in light of the jobs produced.

Special Schools staff did collect some cost-per-trainee information but according to a staff member, further efforts to analyze trainee cost figures have been abandoned because of computer problems in obtaining the necessary data. Without some kind of evaluation of available measures, however, Special Schools cannot know where it needs to make program improvements to better achieve its goals.

Special Schools also has other kinds of data that could be used to evaluate how well its training program meets statewide economic development goals. For example, the DOC 1998 economic development plan, *Approaching 2000*, measures the creation of wealth in terms of per capita income and the number and geographic distribution of well-paid jobs. Special Schools' trainee database includes information on beginning wages, hire rates, and location and type of training. We present some of this information in Appendix A.

Evaluations by Other State Economic Development Agencies

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 and retained in the state. Training provided by Special Schools is only one of several economic incentives offered by the state to attract new business; other incentives provide tax credits in exchange for the creation of new jobs. Before a company may qualify for certain incentive programs, the Coordinating Council for Economic Development must certify that the benefits of that company's project outweigh the costs to the public. The Special Schools program is included in the cost-benefit formula used by the Council, as are the estimated number of new jobs and hourly wage rates. Nevertheless, officials from both the Council and the Department of Commerce stated they did not collect data on:

- The number of new companies requesting training by Special Schools.
- The effect, if any, of Special Schools training on helping to keep new companies from going out of business.
- The impact of economic incentives generally, or Special Schools specifically, on capital investment decisions made by new companies.
- The hourly wage rates of employees trained by Special Schools compared to the wages of other employees in a similar industry.

Evaluating the effectiveness of incentive programs requires that expected outcomes be defined in terms of some measurable goal, such as job creation or retention.

The 1998 report of the National Council of State Legislatures (NCSL) task force on economic development policy concludes that education and workforce training are important incentives to new businesses and, at the same time, benefit both individuals and the state. Consequently, job training should be the centerpiece of a state's economic development policy. The report further notes that job training, to be effective, must be customized to assist smaller businesses with specific needs. In the course of our review, economic development officials have consistently mentioned Special Schools' flexibility as one of its major assets. We also found a general consensus among government officials, business leaders, and regional economic developers that the Special Schools training program is essential to the state's economic development. Special Schools, however, has not developed specific goals and implemented procedures for measuring its performance relative to such goals.

Conclusion

According to the 1998 report of the NCSL task force, determining the impact of an incentive program on economic growth is especially difficult because economic development agencies generally have not developed effective ways to monitor their own performance. Evaluating the effectiveness of incentive programs requires that expected outcomes be defined in terms of some measurable goal, such as job creation or retention. The task force recommends that agencies set specific goals for economic development and require that any incentive program, from its inception, include provisions for collecting data to measure program outcomes relative to these goals.

Among the different incentive programs offered by South Carolina to promote economic development are job tax credits and customized training by Special Schools. Both programs are provided in exchange for jobs created by new and expanding companies, and both require that jobs be full-time and include health care benefits — requirements we found to be rarely documented by Special Schools. Further, companies that wish to qualify for job tax credits must maintain specified employment levels and provide documentation of this to the Coordinating Council and the Department of Revenue (DOR). Special Schools and DOR could arrange to share this information, thereby establishing the initial base for continuous measurement of outcomes for both programs.

Recommendations

1. Special Schools should develop and implement performance measures of program outcomes related to job creation and retention, cost per trainee, beginning wages paid, and whether companies that receive training have stayed in business.
2. The State Board for Technical and Comprehensive Education and the Department of Commerce should develop and implement procedures for measuring the effectiveness of the Special Schools training program as an incentive to new businesses locating in the state.

Chapter 2
Special Schools Laws, Program Development, and Evaluation

Safeguards and Management Controls

A key concern of the audit requesters was whether the Special Schools program has adequate safeguards in place to ensure that taxpayer dollars are spent prudently and in compliance with state requirements. We reviewed a random sample of 43 Special Schools training projects occurring from FY 96-97 through April 1999. The purpose of this review was to determine the following:

- Whether there are adequate management controls to limit the training given to companies.
- Whether there are adequate management controls to ensure that training is provided in accordance with SBTCE policy and requirements.
- Whether there are adequate safeguards against waste, loss, and misuse of Special Schools resources.

We also separately reviewed Special Schools' responses made to Freedom of Information Act requests.

It should be noted that training for BMW was not included in the sample. Management controls over the BMW project, which is a unique case, are reviewed separately in the next chapter. We wanted to establish through this sample what the "typical" Special Schools project is like. While a sample size of 43 companies is not statistically valid, we believe that Special Schools training is fairly represented by this review.

We found that Special Schools complies with applicable laws and regulations. However, there are several areas where it could improve documentation of training projects and internal controls over the use of training resources.

Limits on Training

We reviewed internal controls employed by Special Schools to limit the amount and types of training provided to companies. We performed an analysis of the 43 selected projects in order to determine:

- Whether the files contained commitment letters and adequate documentation of reimbursements.
- Whether training hours and the hourly rates paid to the training instructors were limited.
- Whether project budgets were followed.

Commitment Letters

According to Special Schools officials, each company generally receives a commitment letter from Special Schools describing the type and amount of training which will be provided. However, these letters are not considered contracts. The businesses have no obligations specified in the commitment letters. The main obligation is that new jobs be created. Commitment letters are not always issued to each company that receives training.

Our review of the company files found that 19 (44%) of the 43 companies in our sample did not have a commitment letter in the files. Many of the commitment letters contained in the files were form letters lacking specificity regarding the training which would be provided.

When commitment letters are not issued to companies, there is an increased risk that the companies and SBTCE officials will not clearly understand the amount and type of training which will be provided.

When commitment letters are not issued to companies, there is an increased risk that the companies and SBTCE officials will not clearly understand the amount and type of training which will be provided. State funds should not be committed without written agreements determining how these funds are to be used.

Commitment letters should be used by Special Schools to delineate the extent of training which will be provided to companies. Special Schools budgets are not always followed, which makes the commitment letters assume a vital internal control function. The letters are issued at the beginning of each project and various factors often make it necessary to amend the original commitment letters. According to the SBTCE associate executive director, Special Schools will begin adding supplemental documentation in company files concerning the training that is to be provided.

Budget Controls

Special Schools commits to providing a certain number of training hours for a specific number of trainees, based on the type of training needed and the number of jobs to be created by a new or expanding company. The length of a training period is also determined by the number of trainees and the amount of time required to provide them with the specified number of training hours. Special Schools will either provide an instructor or reimburse a company up to \$25 an hour to provide its own instructors for on-the-job training (OJT) for company employees. Pursuant to SBTCE policy, OJT hours are reimbursed according to a “determined reimbursement ratio,” which establishes a maximum amount of allowable hours based on the complexity of the training. Special Schools will currently reimburse companies for no more than 240 hours.

Our review of the company files found the following:

- We could not find any documentation in 18 (42%) projects that showed there were limits on the training. Moreover, 5 (12%) companies had no limit on the OJT hours which would be reimbursed by Special Schools. OJT hours should be clearly documented in the company files in order to prevent confusion concerning the training which will be reimbursed.
- Special Schools spent less than the amount of funds budgeted for 31 (72%) companies; whereas, the amount budgeted for 7 (16%) companies was exceeded.
- Twenty-eight companies received reimbursements for training expenses. The average reimbursement each of the 28 companies received was \$20,116.72. The hourly rate paid to instructors ranged from \$7.75 to \$22.16, and the average rate paid was \$15.25 per hour.

Despite the lack of documentation that limits were placed on the amount of training, we found that amounts spent for the projects in our sample did not appear to be excessive or unreasonable, as demonstrated in the table below.

Table 3.1: Costs of Training

Total for 43 projects	\$1,639,519
Range: Maximum	\$784,270
Range: Minimum	\$298
Average Cost Per Project	\$38,128
Median Cost Per Project	\$10,418
Average Cost Per Trainee	\$651.38

Source: Review of Special Schools Projects.

Recommendations

3. Special Schools should issue commitment letters to each company that receives training. The letters should detail the amount and types of training which will be provided to the companies.
4. Special Schools should limit and clearly document the amount of OJT hours which will be reimbursed.

Compliance With SBTCE Policies

In addition to evaluating limitations on training, we also attempted to determine if training is provided in accordance with SBTCE requirements and policies. Specifically, the 43 training projects were reviewed to ascertain whether Special Schools:

- Provides training for companies that meet SBTCE qualifications such as creating “real wealth.”
- Monitors companies to ensure that new jobs are actually created and trainees are hired.
- Provides post-employment or on-the-job training that could be classified as “start-up” training and not continuing education.

Qualifications for Special Schools Training

Special Schools has no criteria for comparing wage ranges on a statewide basis.

Special Schools' project files did not document whether companies in our sample met all of the state's requirements to qualify for training. According to SBTCE policy, these requirements are:

- A company must be creating "real wealth," defined as "generat[ing] a perpetual flow of money into the state from elsewhere, as opposed to one that primarily redistributes money that is already here."
- A company must offer a competitive wage for the geographic area of the company's location.
- A company must provide jobs that are both full-time and permanent, and include health benefits.
- A company must be risking a capital investment sufficient to serve as an incentive to succeed.

We reviewed the 43 projects in our sample to see how well they met these criteria, with the following results:

- We were unable to conclude as to whether the wages for jobs created by the companies in our sample were competitive in the geographic area of the company's location. Although a Special Schools official told us that they will not train for companies that pay less than \$6.52 an hour, Special Schools has no criteria for comparing wage ranges on a statewide basis. Salaries for newly created jobs in our sample projects ranged from \$5.20 to \$19 per hour; the average hourly wage for Special Schools trainees was \$9.71. Three projects paid a low hourly wage of \$6 or less, which is only 85¢ above the national minimum wage of \$5.15 per hour; these projects are located in counties that are less developed.
- There were a total of 2,517 trainees for the 43 projects. Nearly half (43%) of these trainees were for new jobs in the 15 most highly developed counties. Only 15% of the trainees were for new jobs in the state's 21 least developed counties.
- Thirty-seven percent (37%) of the projects were in industries that manufacture industrial machinery and computer equipment; 51% were in other manufacturing categories such as textiles; and 12% were in other businesses, which would include wholesale and retail trade and the service industries.

- Although all the training projects were for companies that created jobs, 10 companies brought fewer than 10 new jobs apiece into the state. We were able to document that new jobs were full-time and permanent for only 14 of the 43 projects; evidence that health benefits were provided with the job was also found for only 14 projects.
- We could find evidence relating to the capital investment for only 11 of the 43 projects in our sample; the actual amount was documented for 9 projects. According to the amounts shown, the total investment in the state by these 9 companies is approximately \$254 million.

While assuring us that companies must comply with all these requirements, a regional manager for Special Schools acknowledged that supporting documentation is not routinely placed in project files.

Percent of Trainees Hired

We reviewed the projects in our sample to determine the number of trainees who were employed once training was completed. Special Schools had used a voluntary 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; 817 (72%) of them were hired, based on available project records. To allow for attrition, Special Schools usually trains 10% –15% more people than are required by the company. According to a Special Schools official, 98% of trainees are hired. Allowing for the additional people trained to cover attrition, however, this employment rate is still lower than that claimed. In some cases, companies were continuing to hire trainees and this may not have been reflected in Special Schools' records.

In three projects in our sample, only a third of the trainees were hired. Reasons given by the companies for not hiring were that trainees did not show up for their job interviews, did not accept the job offer, or were refused a job by the supervisor. One company claimed that trainees' qualifications, despite the training, did not fit the skill level necessary for the available jobs. In the sample project with the lowest employment ratio (11%), only 3 of 28 trainees were hired; although the company declared bankruptcy, it is still in business.

With one exception, we were able to confirm that all of the companies represented in our sample of training projects were still in operation as of September 1999.

Post-Employment Training

Special Schools' post-employment training is similar to the continuing education offered by the state's technical colleges in that it is flexible, short-term, and designed to provide or upgrade technical and occupational skills. Unlike continuing education, however, the duration of Special Schools training must be limited to a company's start-up or expansion phase. According to Special Schools staff, post-employment training ends when the original commitment to the company, in terms of number of trainees and training hours, has been fulfilled. Training for attrition or re-training is the responsibility of the technical colleges. From our review, we were able to conclude that all post-employment training projects in our sample were directly tied to the company's startup or expansion phase.

Recommendations

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5. Special Schools should institute a policy requiring that evidence be maintained in the file for each training project documenting that newly created jobs are full-time and permanent, the wage and benefits package associated with them, and the level of capital investment.
 6. Special Schools should develop criteria for determining whether wages for newly created jobs are competitive in the geographic area of the state where a company intends to locate or expand.
 7. Special Schools should consistently monitor companies for at least one year following completion of training and maintain records of the number of trainees hired.

Safeguards Against Waste and Loss of Funds

We also used our sample of 43 projects to determine whether there are adequate safeguards against waste, loss, or misuse of Special Schools resources. To this end, we specifically reviewed the project files for the following:

- Whether travel paid for with Special Schools funds was inappropriate, wasteful, or excessive.
 - Whether Special Schools had controls over the use and disposition of equipment bought specifically for a training project.
 - Whether Special Schools had controls over the use of any finished products made in a training program.
-

Training for Managers

In 4 of the 43 projects reviewed, companies were reimbursed for travel and training for managerial and supervisory staff. For example, one company's plant manager, controller, and several other management staff were trained by Special Schools at company locations in Iowa and Nebraska. Another company sent its plant manager to Germany to be trained. In another project, records indicated that a manager making \$63,500 a year and an individual earning \$48 an hour were provided on-the-job training.

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. In some cases, it may be clearly related to a company's training needs; for example, when management staff are trained to be instructors for the rest of the employees. However, having a management staff familiar with its operations is the responsibility of the company itself and not necessarily that of Special Schools. It may be hard to distinguish whether travel by company supervisors to the home location is "training" or whether it is related to the supervisors' normal work activities, especially if they are involved in the development of a new factory or expansion. Finally, Special Schools' goals are geared more toward upgrading the skills and salaries of workers so they can find better jobs. Training for managers may not fit within this framework.

Travel

Special Schools pays a company’s travel costs involved in training. In our sample of 43 projects, travel was included in 10 (23%), for a total cost of approximately \$962,660. In six files, we found that Special Schools authorized the travel in a letter of commitment to the company; files for the other two companies had no letter of commitment; and in two of the projects only Special Schools staff traveled. Table 3.2 shows the destination, cost, and the reason for the travel for the 10 projects.

As this table demonstrates, travel is conducted for several reasons to a variety of locations. For the most part, we found documentation that the travel appeared to be directly tied to the company’s training needs, and that reimbursements for meals and lodging appeared reasonable.

Table 3.2: Project Sample — Travel Costs

	Destination	Cost	Persons Traveling	Reason For Travel
Company A	Sweden	\$4,115 ¹	2	Special Schools staff traveled to company location to develop curriculum.
Company B	Utah, South Carolina	\$18,985	6	4 company staff sent to Utah for training; also, travel costs for 2 trainers from Greenville.
Company C	Japan	\$670,580	106	81 new employees sent to Japan for training; also, travel costs for 25 trainers to come from Japan.
Company D	Netherlands	\$4,115 ¹	2	Special Schools staff traveled to company location to develop curriculum.
Company E	Iowa, Nebraska	\$55,770	19	Company staff sent to home location for training to become instructors.
Company F	New Jersey, Ohio, Ontario	\$63,102	11	New employees sent to home locations for training.
Company G	Germany	\$29,771	8	Company staff sent to Germany to learn operations & be trained as instructors.
Company H	Germany	\$9,779	3	2 staff sent to Germany for training; German trainer sent to U.S.
Company I	Ireland	\$5,291	3	Travel costs for 3 company staff to come to S.C. to train new employees.
Company J ²	California	\$101,152	25	Company staff sent to home location for training.

1 Estimated cost.

2 Special Schools had conducted two projects for this company. We reviewed both projects for our sample because the second project was an expansion and a continuation of the first project. However, travel was involved only in the first project.

However, we noted the following during our review:

- Costs for Special Schools staff to travel to a company's home location are not included in the individual project costs. The statewide accounting system used by SBTCE lumps these costs in with administrative costs. If a Special School staff member traveled overseas or out-of-state specifically for a project, these costs would not be expensed to the specific project and therefore could not be part of any cost-per-trainee calculation.
- In one case, a company sent 25 people for training and requested reimbursement for all 25. However, they could not furnish travel receipts for two of the employees. Appropriately, Special Schools refused to pay for any travel costs that did not have backup documentation. The company subsequently asked that travel costs involved in the training for two *other* employees be substituted. Documentation for these two was submitted by the company nearly two years after the travel actually occurred, and it included a first-class plane ticket. However, in order to honor its original commitment, Special Schools reimbursed the company for the two employees' travel.
- Special Schools paid the travel costs for 81 new employees to be trained in Japan, and for 25 Japanese instructors to spend 3 months in South Carolina. The initial commitment letter had specified up to 25 employees and 5 instructors. Due to the amount of travel involved, the per-person training cost was \$3,268 — higher than the average training cost per person in our sample. According to Special Schools managers, this company expanded more rapidly than initially projected, thus requiring more overseas training
- In another project, Special Schools paid almost \$10,000 to send two company employees to Germany and to bring a German trainer to the U.S. However, only a total of five persons were trained for this company. This appears to be an inefficient way to provide training. Special Schools managers told us that, as a rule of thumb, they will allow only 5% – 10% of new employees to travel to the parent company's location for training.

In general, we found that excessive or unnecessary travel was not an issue. It was often difficult to determine from the project files, however, what kinds of training occurred during the out-of-state and overseas trips.

In general, we found that excessive or unnecessary travel was not an issue. It was often difficult to determine from the project files, however, what kinds of training occurred during the out-of-state and overseas trips. The following kinds of documentation, if included in project files, could help managers better monitor and account for the travel needed for a training project:

- An account of travel costs incurred by Special Schools staff if they traveled overseas or out-of-state for a specific project.
- Memos that explain why certain decisions were made (for example, why more people than originally committed to were sent overseas for training).
- Memo or a training plan that demonstrates what out-of-state training was provided and why it was needed.

Equipment and Products Made by Trainees

We found evidence that equipment was purchased in only 2 of the 43 projects. In both projects the equipment was turned over to the area technical college after the training was completed. The majority of the cost (\$197,732) was for specialized machinery. We found no problems in this area.

Products manufactured by Special Schools trainees cannot be sold or otherwise commercially used. Special Schools policy requires that staff make every effort to dispose of products made in a training program, either by donating them to other state agencies, returning them to the technical colleges, disposing of them as scrap, or by some other means. In our review of 43 projects, however, we could not determine from the file documentation made available to us whether any products were actually manufactured. Therefore, we could not test to see if they were disposed of properly. To ensure compliance with this policy, Special Schools should maintain documentation of whether any products were manufactured during the course of training, and if so, how they were disposed.

Recommendations

8. The State Board for Technical and Comprehensive Education should determine whether the scope and mission of the Special Schools program encompasses funding for training and travel for management staff, and under what circumstances.
9. Special Schools should institute a policy that requires better file documentation of the decisions and types of training involved in out-of-state and overseas travel. For example, the need for travel should be documented in the training plan for the company, as well as the costs for Special Schools staff to travel overseas.
10. Special Schools should institute a policy that requires documentation to be maintained in project files that shows if products were manufactured by trainees and whether the products were disposed of properly.

Compliance With the FOIA

We reviewed whether the State Board for Technical and Comprehensive Education adequately responded to Freedom of Information Act (FOIA) requests concerning training provided to companies, specifically BMW. The Special Schools program is funded entirely by public funds, which makes it subject to disclosure requirements pursuant to the Freedom of Information Act. The Legislature's expressed findings and purpose of the act state that public business should be performed in an open and public manner, and that citizens or their representatives should have access to public documents and meetings at a minimum cost or delay.

We reviewed all FOIA requests made about Special Schools from January 1, 1996 to August 17, 1999. There were nine requests made regarding seven specific companies during this time period. Five requests were made prior to June 12, 1998. One of the five requests was approved. The four other requests asked for documentation of the costs and travel related to the training provided to BMW as well as several other companies. These requests were denied by SBTCE on the basis that the FOIA, primarily §30-4-40(a)(5) and §30-4-40(a)(9), exempts "Memoranda, correspondence, documents and working papers relative to efforts or activities of a public body *to attract business or industry to invest within South Carolina.*" [Emphasis added.] Section 30-4-40(a)(1) also exempts trade secrets.

“Any and all doubt regarding the applicability of the exemption should be resolved in favor of public disclosure. . .”

However, an Attorney General’s opinion dated February 25, 1998, addressed whether documents related to the recruitment of industry, but created *after* a business has decided to locate in South Carolina, are subject to the Freedom of Information Act. (See Appendix B for the full text of this opinion.) The opinion stated:

On its face, the statutory exemption is written in terms of documents which are generated ‘to attract’ a particular industry rather than documents created after the industry has already located in this State. Typically, the use of the infinitive ‘to’ connotes future events as opposed to past . . . Thus, the literal language of the exemption, as well as the spirit of the FOIA, dictates that the referenced exemption must be very narrowly construed here . . . Any and all doubt regarding the applicability of the exemption should be resolved in favor of public disclosure, particularly if the records in question involve the expenditure of public monies or taxpayer dollars

Also, in June 1998, amendments were made to §30-4-40(a)(5) of the FOIA which provided that contracts and incidental documents are not exempt from disclosure once a contract is entered into.

Subsequent to the enactment of these amendments, the SBTCE received four other FOIA requests that primarily sought financial information about the training provided to BMW as well as two other companies. The SBTCE supplied some of the information in a summary form to the requesters but again stated that the exemptions allowed by the FOIA applied to the rest of the information sought.

Conclusion

The SBTCE supplied at least some of the information requested after the FOIA amendments. However, the extent to which Special Schools information should be disclosed may be unclear. As the Attorney General’s opinion indicates, the SBTCE is obligated by the FOIA to disclose financial information about Special Schools projects. According to the SBTCE executive director, individual companies would be consulted when an FOIA request is made to determine which information is confidential and proprietary. However, what should be disclosed under the FOIA should not be left solely to the discretion of the private business community.

SBTCE guidelines in this area could help it determine what kinds of information are exempt and what should be disclosed. When guidelines are not in place regarding which information should be disclosed, there is reduced assurance that the board will be responsive to FOIA requests. Furthermore, public disclosure of the expenditure of state funds serves as an important control over the use of these funds.

Recommendation

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11. The State Board for Technical and Comprehensive Education should adopt guidelines to ensure that it is responsive to Freedom of Information Act requests regarding Special Schools training projects. At a minimum, the board should develop guidelines which adhere to the Attorney General's opinion as well as all applicable laws and regulations.

Major Special Schools Projects

Training for the BMW Manufacturing Corporation was by far the largest and longest Special Schools project. Compared to the training given to Bridgestone Firestone, the next largest Special Schools project in terms of costs, BMW stands out in the scope and nature of its training. We examine in detail the use of training funds for BMW in this chapter. We also review a pilot project to train computer programmers for the Policy Management Systems Corporation.

The BMW Training Project

In 1992, the BMW Manufacturing Corporation announced it would build its first U.S. assembly plant in Spartanburg County, South Carolina. One of the key incentives the state offered to BMW was worker training by Special Schools. By the end of FY 98-99, the state had spent about \$22.9 million on two training projects for BMW. To date, more than 2,000 production jobs have been created at BMW, making this the largest and most complex training project undertaken by Special Schools.

BMW initially invested \$600 million to build a 1.2 million square foot manufacturing facility, with a projected 2,000 new jobs. The first cars built were the standard BMW sedans, but by 1995 the Spartanburg facility was producing the Z3 roadster, and other models were added later. In 1998 BMW announced a major expansion to produce a “sports activity vehicle.”

According to the Department of Commerce, BMW’s decision in 1992 to locate in South Carolina created a significant economic impact in the state. In addition to the new jobs and capital investment directly associated with BMW, the number of automotive suppliers has also expanded. According to 1999 DOC data, 26 new BMW suppliers have located or expanded within South Carolina since 1992, with an estimated investment of \$1.1 billion and 4,000 jobs. Automotive-related employment in the state has grown at a rate 10 times faster than the rest of the country since 1987.

Also, the S.C. Coordinating Council for Economic Development has performed a cost-benefit analysis of the BMW expansion project. (The first BMW project was initiated prior to current economic development legislation which requires the cost benefit analysis.) The council uses a formula that balances the costs to the state of attracting business growth — incentives such as job tax credits, grants, Special Schools, and increased demand on education and infrastructure — against the benefit resulting from the growth, including capital investment, payrolls, and new taxes paid.

According to the analysis, which is based on estimated projections, the benefits generated by BMW outweigh costs 25 to 1.

Costs of BMW Training and Reimbursements

Table 4.1 shows the direct training costs for the two BMW projects since 1993. During this time, training for BMW accounted for 30% of all Special Schools expenditures.

About 70% of the expenditures for BMW training were reimbursements to the company for training it procured and for the equipment, travel, and employee instructors involved in the training. The remaining funds were spent directly by Special Schools and included the costs of testing and assessing job applicants as well as other contractual services for training.

Table 4.1: BMW Project Costs

	FY 92-93	FY 93-94	FY 94-95	FY 95-96	FY 96-97	FY 97-98	FY 98-99	TOTAL
Initial BMW Project								
Personnel Expenses	\$0	\$402,123	\$2,166,623	\$2,113,898	\$450,349	\$176,729	\$142,800	\$5,452,521
Contractual Services	\$252	\$2,620,353	\$4,017,505	\$3,228,737	\$1,324,068	\$373,513	\$191,260	\$11,755,687
Supplies	\$738	\$79,681	\$18,251	\$33,907	\$17,555	\$3,926	\$9,912	\$163,969
Fixed Charges and Contributions	\$0	\$423	\$839	\$913	\$3,657	\$723	\$814	\$7,369
Travel (State Employee Only)	\$0	\$0	\$9,997	\$4,338	\$6,633	\$6,675	\$3,551	\$31,194
Equipment	\$0	\$364,296	\$889,422	\$271,342	\$264,409	\$8,083	\$2,498	\$1,800,051
TOTAL 1ST Project	\$990	\$3,466,875	\$7,102,636	\$5,653,135	\$2,066,671	\$569,648	\$350,835	\$19,210,790
Expansion Project								
Personnel Expenses						\$129,619	\$660,096	\$789,715
Contractual Services						\$580,201	\$2,064,754	\$2,644,955
Supplies						\$2,742	\$152,110	\$154,853
Fixed Charges and Contributions						\$0	\$730	\$730
Equipment						\$78,632	\$0	\$78,632
TOTAL 2ND Project						\$791,194	\$2,877,691	\$3,668,885
TOTAL BMW	\$990	\$3,466,875	\$7,102,636	\$5,653,135	\$2,066,671	\$1,360,842	\$3,228,526	\$22,879,675
All 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		39%	44%	42%	19%	11%	24%	30%

Source: SBTCE Financial Reports and Special Schools Expenditure Reports.

Special Schools trained about 2,000 individuals for the first BMW project; 1,585 production associates were hired. Another 289 employees had been hired for the expansion as of June 30, 1999; the hiring for the expansion is not yet complete. For the first project, Special Schools training cost \$12,120 per production associate hired. This is the most expensive training conducted by Special Schools during the time period we studied.

To place the costs for BMW in a rough perspective, we obtained training costs from economic development officials in two other southeastern states that initiated a major automotive manufacturing project. Kentucky allocated \$55 million in training funds for its Toyota project, begun in 1985, which amounted to a per person cost of \$17,188 for the projected 3,200 trainees. In 1993, just one year after the BMW start-up, Alabama allocated a \$60 million training budget for Mercedes-Benz; this means Alabama may spend up to \$30,000 for each of the projected 2,000 Mercedes-Benz trainees, more than twice the amount paid per BMW trainee.

There are several factors which contributed to the costs for BMW. For example, the process of screening, testing, assessing, and then selecting job applicants cost about \$3.3 million, not including the expense to equip and maintain a testing and assessment building used by Special Schools. About 35,000 people initially applied for a job with BMW. This number was narrowed down through a series of assessments and tests administered by Special Schools in conjunction with a private testing and assessment service (see Table 4.2). The number of applications, and the fact that a diversified candidate pool was desired, required a unique testing and assessment process, which in turn contributed to the higher costs of the BMW project.

Table 4.2: Applicants for BMW Jobs (Initial Project Only)

Applications Received	Individuals Tested	Individuals Assessed	Individuals Pre-Trained	Individuals Hired
35,000 +	21,176	8,965	2,000	1,585

Source: Special Schools.

Other factors influenced the overall cost of training as well. Special Schools provided funding for extensive travel between Germany and South Carolina; provided special training for management and supervisory staff; paid the salaries of several training support personnel at BMW; and paid to renovate and equip a training building for BMW as well as the testing and assessment center. Normally, these kinds of expenditures are not part of Special Schools training or represent only a minor cost.

We concluded that Special Schools has complied with applicable state law in the way it conducted training for BMW. However, Special Schools' statutory limitations are quite broad, as pointed out on page 7. Therefore, internal controls assume an even greater role in protecting state resources involved in such a large project.

Initial Agreement Did Not Establish Needed Guidelines

The commitment letter between Special Schools and the Department of Commerce (at that time the S.C. Development Board) set only broad spending categories and did not serve as a means of establishing internal controls over the BMW project. Special Schools initially agreed to provide about \$26.9 million directly for training to BMW, as well as another \$8 million in "savings realized," for a training package worth \$35 million. There were few limits on how this money should be spent. The commitment letter also did not specify:

- When the "start-up" training should be finished.
- A limit on the number of employees who could be trained overseas.
- To what degree training would be provided to management and non-production employees.
- What information BMW needed to provide in order to receive reimbursements for training.

In addition, there was no second commitment letter for the expansion project, which has a total budget of \$9 million through FY 00-01.

The original agreement contained dollar amounts that were either overestimated or underestimated for various training activities. For example, Special Schools committed \$9 million to send BMW engineers and computer programmers to various locations for training but this amount was not needed. While the agreement stated that \$100,000 for management training would be provided, actual expenditures exceeded this amount. Furthermore,

the commitment letter mentions one training facility that Special Schools would renovate and equip. Special Schools actually had to renovate and equip two facilities, one for the testing, assessing, and pre-employment training, and one for on-the-job training for BMW employees near the plant site.

BMW had difficulty understanding exactly what expenditures could be reimbursed with state dollars. Special Schools had difficulty obtaining from BMW the information needed to approve and monitor reimbursements. This situation improved somewhat in 1997 when BMW began creating a more detailed training plan which let Special Schools staff review in advance the kinds of training they would be asked to pay for. However, Special Schools still lacks clear guidelines for determining what training expenditures should be reimbursed.

Training for Attrition and Re-Training

Correspondence between Special Schools and BMW provides evidence of the tremendous difficulties involved in keeping accurate training records for such a massive project. In letters written to BMW during 1996 and 1997, the staff member in charge of the project made repeated requests for information that will allow Special Schools to distinguish the dividing line between the company's start-up and expansion phases. As one letter explains, making this distinction is necessary for purposes of internal budgeting and to prevent attrition training, which goes against the established policy of Special Schools. (Training for attrition means that the same employee would be trained twice, at both entry and management level, or that training would be conducted for persons filling a vacancy rather than a new job.) New employee rosters submitted regularly by BMW to Special Schools show that the company has been hiring for attrition.

Also, a clear agreement on both sides as to when the state's training commitment should end has never been established. BMW could require re-training of associates every time it introduces a new model. Yet, the policy of Special Schools is to provide start-up training — what is initially needed to enable a company to start production. Continuing training and education is the responsibility of the state's technical college system.

Other BMW Training Costs

The state reimbursed BMW a total of \$1,457,279 for training supervisory and management employees for the company's initial project.

Special Schools staff have tried to control costs by requiring BMW to justify all expenditures and seek written approval for any items not in a training plan. From FY 93-94 through FY 97-98, Special Schools turned down \$5.9 million in training reimbursement requests from BMW. For 1999, Special Schools approved about \$5.7 million of an \$11 million training plan proposed by BMW. At times, however, it was difficult to establish sufficient controls.

We compared some of the BMW training expenditures to those for Bridgestone Firestone, the next largest project. By June 30, 1999, Special Schools had spent about \$3.3 million to train 719 individuals for Bridgestone Firestone. This training is still in progress. The BMW training activities which contributed to the higher cost per employee are detailed below.

Management Training

From FY 93-94 through FY 97-98, the state reimbursed BMW a total of \$1,457,279 for training supervisory and management employees for the company's initial project. BMW has approximately 500 supervisory and management staff. SBTCE initially agreed to provide \$100,000 worth of training in "American management techniques" to BMW managers during the company's start-up phase. An additional \$460,944 was reimbursed to BMW for management training in connection with the company's expansion project. For both the initial and expansion projects, Special Schools moved allocated funds from different categories to cover reimbursement to BMW for training expenses. Special Schools does not normally do training for management, according to a staff member; in the case of BMW, however, state officials made the decision to provide such training, and it was included in the written commitment. Management training was also provided to Bridgestone Firestone but only \$99,429 has been spent.

Leadership Dynamics Training

Special Schools reimbursed BMW \$230,097 in FY 95-96 through FY 97-98 for leadership development training. About 221 supervisors and team leaders participated in a high ropes course and whitewater rafting exercises as part of this training. In a letter dated May 28, 1996, the Special Schools staff member in charge of the project notified the BMW training coordinator that reimbursement for the training had been approved. The courses took place once or twice per month through June 1997, at a cost per person of \$970. Financial records show that Special Schools stopped reimbursing BMW for this training as of September 1997. An official with BMW confirmed that the company has continued the training at its own expense. In retrospect, both BMW and Special Schools agree that the state should not reimburse companies for this type of training, even though it is generally considered to be a legitimate strategy for promoting teamwork in the work environment.

German Trainers

Part of the reimbursements to BMW were for German trainers to train workers on-site at the Spartanburg plant. 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. For the expansion project in FY 98-99, Special Schools paid \$135,688 to BMW to cover the travel costs for another 48 German trainers. During the first three years, Special Schools staff repeatedly tried to get information from BMW as to how many trainers would be coming to South Carolina, when, and what training activities they would be involved in. The training plans used by BMW for FY 94-95 and FY 95-96 did not specify what the German trainers would be teaching. Special Schools questioned whether the Germans were here to retrain existing employees rather than new employees, and to what extent the German trainers were involved in “quality assurance” rather than training. Special Schools is not supposed to pay for retraining or for any activity other than training.

According to Special Schools staff, they never received the requested information from BMW. Eventually, Special Schools refused to pay for any trainers’ expenses occurring after October 1, 1995. BMW kept submitting requests for reimbursements, however, and in August 1996, the Special Schools director authorized a final payment of \$214,203 to BMW for German trainers’ expenses that had accumulated since October 1, 1995. After that, no more German trainers were paid for until the expansion project started in 1998.

Travel Costs for BMW Employees

During the course of the two projects, Special Schools paid for 684 production associates to travel to Germany for training. Initial training plans for FY 93-94 through FY 95-96 did not really specify what training would be conducted overseas, although the later plans give greater detail on what this training was for. In correspondence to BMW, Special Schools stated that it was “assumed that these persons going to Germany will be involved as instructors in some manner in the on-the-job training.” We did not determine if all the associates who traveled to Germany did in fact later serve as on-the-job instructors for other employees. Special Schools reimbursed BMW \$2.5 million for employee travel for the start-up project and \$1 million for the expansion project. In contrast, Bridgestone Firestone has been reimbursed about \$698,500 for overseas travel.

Staff Costs

Special Schools also paid to support a financial staff position at BMW to handle the accounting and paperwork necessary for the training reimbursements. Later two other administrative staff were added — a training assistant and an overseas coordinator. We found no documentation that these two positions, while funded with state dollars, dealt exclusively with the Special Schools training program. However, under the initial agreement, Special Schools agreed to assume all the administrative costs to coordinate the training program for BMW employees, at an estimated cost of \$1.5 million. By the end of FY 98-99, Special Schools paid a total of \$319,870 for this administrative support.

Special Schools paid for 684 production associates to travel to Germany for training.

German Language Training

Although it was not specifically mentioned in the initial agreement, Special Schools also paid for German language instruction for BMW employees. Special Schools initially approved technical German language training for three BMW employees; later, German language classes became part of the training plan for production associates. From FY 94-95 through FY 97-98, Special Schools reimbursed BMW \$210,000 for German language training. Some of these lessons were private or semi-private. In its 1998 training plan, BMW requested \$486,000 for plant-wide German language training for all employee levels. Special Schools told BMW that they would support a full-

time German language instructor on the plant site, “. . . since the need continues and the cost continues to increase” The cost for a full-time language instructor was estimated to be \$60,750, much less than the amount requested by BMW. Through the end of FY 98-99, the cost for the German language instructor was \$66,784.

According to BMW officials, German language instruction was needed because so many associates were training overseas or were being trained by German employees, and they needed basic language skills. Bridgestone Firestone received \$18,705 for cultural training for employees traveling to Japan for training.

BMW Equipment and Training Building

We did identify a problem with controls over training equipment bought by Special Schools for the BMW project. As of October 1999, none of the equipment had been labeled or inventoried at the training site, either by BMW or Special Schools. Under the terms of the original agreement, Special Schools was to provide for and equip a training building close to or at the site of the BMW plant. BMW would then “buy back” the building renovations and equipment at the end of the training period. (The actual training building was provided to BMW by the county.) From FY 93-94 through FY 96-97, Special Schools reimbursed BMW \$1.2 million for the building renovations and \$1.3 million for training equipment, including a \$221,750 training robot. During the course of this audit, BMW began the process to “buy back” the training robot.

The equipment inventory was established by Special Schools based on the remittances submitted by BMW. According to a memorandum of understanding signed June 29, 1994, BMW was to provide adequate security for the equipment and be responsible for any that was lost, stolen, or damaged during the training period. Special Schools officials have stated that they believe this memorandum is sufficient to protect the state’s interest.

Without a physical inventory, however, Special Schools has no assurance that all the equipment is safe and accounted for. Further, there is no guarantee that BMW, in buying back the equipment from the state, will agree to the inventory list kept by Special Schools. There is also no provision establishing a time frame for completing the buy back. In the words of one staff person, “Special Schools never had control over the (BMW) equipment.” Equipment purchased by Special Schools funding is

considered the property of the state; the memorandum of understanding includes a clause permitting SBTCE auditors to inspect the equipment on-site at BMW. Despite BMW's agreement to be responsible for keeping track of the equipment, Special Schools should have followed up with its own on-site inventory or employed some other means of ensuring that BMW does eventually buy back the equipment.

The disposition of the equipment differed for Bridgestone Firestone. The \$662,658 worth of equipment purchased for the Bridgestone Firestone project is currently located at the company training facility in Aiken. The equipment is listed on Special Schools' inventory and will be removed when training is concluded. Pursuant to a written agreement, this equipment will remain the property of the state.

In contrast, the BMW agreement has an unusual proviso that, after BMW buys back the equipment and renovations from Special Schools, the SBTCE would make these funds available to BMW for additional training. This means that the SBTCE could be giving BMW additional training monies well after the initial training has been completed. We could find no need for this proviso.

Conclusion

Special Schools staff told us that the BMW project "evolved" over time. No one knew the extent of the training that would be needed when the company first started. Special Schools did not have the monitoring system in place to track BMW's training reimbursements, which jumped from \$1,285,242 in the first full year of the project to nearly \$6 million by the second. There was no way to tie training expenditures to the original agreement letter because it was vague and unrealistic. The original agreement also did not establish any guidelines for ending the state's training commitment. At times, Special Schools had essentially no control over what state funds would be used for.

In spite of this, total direct costs for BMW training have not yet exceeded the initial \$26.9 million commitment. In addition, we found no evidence that Special Schools had to deny training for another company because spending on BMW had taken all the available funds. There is no doubt that the training provided through Special Schools contributed significantly to the economic impact of the BMW project. In training for BMW, Special Schools achieved its goal of preparing South Carolina residents for well-paying jobs in a highly technical industry.

Recommendations

12. The SBTCE should ensure that, in the future, commitment letters for large Special Schools projects provide clear time limits for the training to be provided; establish a means by which training expenditures can be monitored; set realistic limits on travel; and require that the company involved furnish adequate information to the state so that expenditures can be controlled.
13. The SBTCE should re-examine the current process used to reimburse companies for training to ensure that any company employees, whose salaries are 100% reimbursed through Special Schools, are in fact dedicated to state training activities.
14. The SBTCE should ensure that there is a clear understanding between Special Schools and BMW officials as to when the State's training commitment to BMW should end.
15. The SBTCE should ensure that any equipment bought with Special Schools funds is physically inventoried and tagged. Now that the buy back process has begun, SBTCE should either inventory the equipment at the training site or implement some other means of ensuring that BMW does eventually buy back the equipment.

PMSC Pilot Project

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 was chosen for review because on a per person basis this training is one of the most expensive Special Schools projects, and because it also may be outside the normal scope of Special Schools. The review focused on the role of Special Schools in the project and whether an adequate evaluation of the venture has been developed.

Midlands Technical College currently offers a two-year computer technology associate degree program. PMSC requested the Special Schools project in order to supply the company with more computer programmers in a shorter amount of time. The PMSC project was intended to train approximately 40 students in 9 months. Thirty-two students completed the program and each was offered a position with PMSC. Thirty-one graduates will work for Policy Management Systems Corporation. Special Schools was

primarily a funding source for the partnership by providing \$354,208. MTC was responsible for developing the curriculum, and PMSC supplied the training facilities, utilities, and furniture, as well as a subsistence loan of \$9,900 for each student.

The PMSC project differed from traditional training projects conducted by Special Schools.

The cost of the PMSC project will be \$11,069 for each of the 32 students graduating, one of the highest costs per student for Special Schools projects.

- The duration of the PMSC training was nine months, whereas most other Special Schools training is completed within six to eight weeks.
- Students who successfully complete the PMSC training will be awarded a diploma in information technology, while those who successfully complete a traditional training program receive only a certificate of completion.

In addition, the cost of the PMSC project will be \$11,069 for each of the 32 students graduating, 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 for the technology associate degree program. The student would also pay about \$3,704 out-of-pocket for tuition and books. The curriculum for the PMSC training is the same as the associate degree already offered by MTC, except that the general education courses have been removed and the computer courses structured to be offered on a full-time, nine-month basis.

According to a Special Schools official, the rationale for deviating from traditional training programs was “to develop a special model for a high-need area and see if it can be used for different programs.” In addition, PMSC strongly desired to have computer programmers in a shorter amount of time. Moreover, the Governor’s office has made economic development of high tech companies a priority, and has called for increasing the length and academic content of value-added Special Schools training programs.

Evaluation of the PMSC Project

If Special Schools is to engage in more “high-tech,” longer-term training for other companies, then an evaluation of the PMSC project is greatly needed. According to an MTC official, the PMSC project will be evaluated in several areas. Standard MTC evaluation forms and class observations will be used to evaluate the project instructors. A written questionnaire will be administered to students in order to ascertain how the program could be improved in the future. In addition, post-program surveys will be administered to PMSC. Retention and placement rates of the program will be compared to those for MTC’s associate degree program in computer technology.

While these measurements are all valid evaluation tools, current plans do not provide for evaluating the cost-effectiveness of the program. Without a mechanism to evaluate the cost-effectiveness of the project, there is little assurance that less expensive alternatives such as scholarships and work study programs will be considered. There also is no provision for determining whether the pilot project is within the mission of Special Schools. State laws require the Special Schools program to train prospective employees for new and expanding industries on a *short-term* basis. Expanding the role of Special Schools may require legislative action or new SBTCE regulations.

Conclusion

According to the MTC proposal for the project, there is a general shortage of information technology workers. However, we could identify no specific study that examined the extent of this shortage in the midlands area or whether Special Schools training was the most appropriate way to address this shortage.

Moreover, several institutions in the midlands area offer degrees in computer technology and information systems (USC-Columbia, Benedict College, and Columbia College). In addition to a two-year degree in computer technology, MTC also offers shorter-term certificates in various aspects of computer programming and systems technology. Private training schools also teach computer technology. The SBTCE did not determine why existing institutions could not produce the information technology workers needed before authorizing the Special Schools project, and did not consider other options that would be less costly. A broader approach to this problem may be needed, one that encompasses existing computer technology programs and how they can be changed to accommodate the needs of business over the long term.

Recommendations

16. The State Board for Technical and Comprehensive Education should thoroughly evaluate the PMSC pilot project to determine whether other pilot projects should be pursued in the future. The evaluation should include the cost-effectiveness of the project and any reasonable alternatives such as scholarships or work study programs.
17. The State Board for Technical and Comprehensive Education should determine whether the PMSC pilot project is in accordance with the mission of Special Schools.

Appendices

Appendices

Statistics for Special Schools

Special Schools maintains a trainee database with information on the number of trainees; graduation rates; demographic data; whether the training was pre- or post-employment; and the number hired and beginning wages paid for trainees in a pre-employment program. The finance department for the SBTCE keeps direct costs for each Special Schools project. Together, this information provides useful data to develop some performance measures for Special Schools training, and can be used to answer some basic questions as demonstrated below. We reviewed this information for all Special Schools projects that were initiated between June 30, 1996, through April 30, 1999, and were active during this time (i.e., resulted in individuals graduating from the training program). This amounted to 282 projects for almost as many companies; some companies had two or more separate training projects. (Not all the data are based on a population of 282 companies since information for some was incomplete.)

How Big are Special Schools Projects?



\$3,189,809

Most Expensive

Project Costs



\$84

Least Expensive



\$51,272

Average



539

Largest Number of Trainees

Number of Trainees



1

Least Number of Trainees



67

Average Number of Trainees

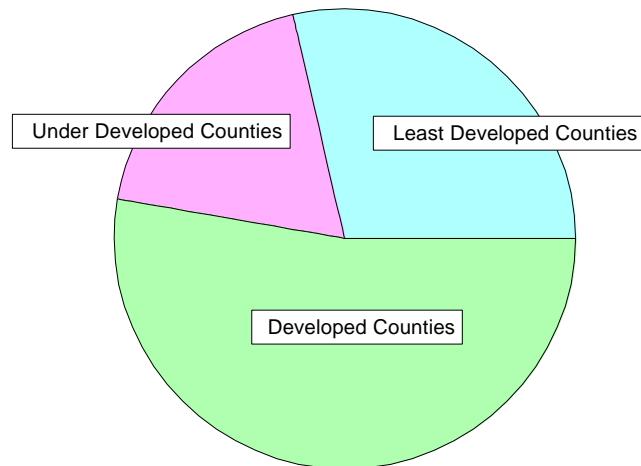
During this time, 50% of the projects cost less than \$14,600. Only 6 projects cost more than \$100,000. Three-fourths of the projects had less than 76 trainees each.

How Much Does it Cost to Train an Individual in Special Schools?



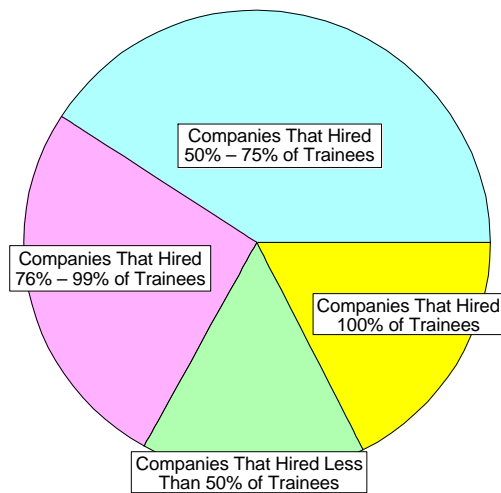
50% of Special Schools projects cost less than \$440 per trainee. Note that this analysis does not include all the costs associated with the BMW project.

Are Training Projects Located in Counties Where There is Already Industrial Development?



Based on County Rankings for the Job Tax Credit published by the S.C. Department of Revenue for 1999. "Moderately Developed" and "Developed" are combined in this analysis.

Are Companies Hiring the Trainees After They Complete Pre-Employment Training?



(Data on the number hired is for 161 projects with pre-employment training.)

What are Their Beginning, Hourly Wages?



(Data is based on 159 projects initiated between June 30, 1996, through April 30, 1999.)

Appendix A
Statistics for Special Schools

Attorney General's Opinion

February 25, 1998

The Honorable G. Ralph Davenport, Jr.
Member, House of Representatives
323B Blatt Building
Columbia, South Carolina 29211

Dear Representative Davenport:

You have asked for an opinion as to whether certain documents related to the recruitment of industry, but created after a business has decided to locate in South Carolina, are subject to the Freedom of Information Act? As we understand it, such documents concern so-called "special schools" and "team building concepts" for employees of industries which have located in South Carolina. Expenditure of monies for these programs is apparently authorized by S.C. Code Ann. §59-53-57 ("monies appropriated for special schools must be retained at the state level and expended upon recommendation of the [Technical Education] Board.") See also, Sections 59-53-20; 59-53-50. We are further advised that a "team training" program for industry employees is often put together as part of an incentive package for the recruitment of a particular industry by the State of South Carolina but the documents relating to the program may concern training after the industry has located here. Such a package is evidently made confidential by agreement with the State as part of the recruitment process.

Reference has been made particularly to § 30-4-40(a)(9) of the Freedom of Information Act which provides an exemption for:

- (a) memoranda, correspondence, documents and working papers relative to efforts or activities of a public body to attract business or industry to invest within South Carolina.

Moreover, § 30-4-40(a)(1) exempts trade secrets.

Law / Analysis

South Carolina's Freedom of Information Act was adopted in present form by Act No. 593, 1978 Acts and Joint Resolutions, as amended by Act No. 118, 1987 Acts and Joint Resolutions. The Act's preamble best expresses both the Legislature's intent in enacting the statute, as well as the public policy underlying it. Section 30-4-15 provides:

The General Assembly finds that it is vital in a democratic society that public business be performed in an open and public manner so that citizens shall be advised of the performance of public officials and of the decisions that are reached in public activity and in the formulation of public policy. Toward this end, provisions of this chapter must be construed so as to make it possible for citizens, or their representatives, to learn and report fully the activities of their public officials at a minimum cost or delay to the persons seeking access to public documents or meetings.

This Office has, on numerous occasions, stated its approach toward construing the Freedom of Information Act, consistent with the foregoing expression of public policy by the Legislature:

As with any statute, the primary objective in construing the provisions of the Freedom of Information Act is to ascertain and give effect to the legislature's intent. Bankers Trust of South Carolina v. Bruce, 275 S.C. 35, 267 S.E. 2d 424 (1980). South Carolina's Freedom of Information Act was designed to guarantee to the public reasonable access to certain information concerning activities of the government. Martin v. Ellisor, 266 S.C. 377, 213 S.E.2d 732 (1975). The Act is a statute remedial in nature and must be liberally construed to carry out the purpose mandated by the General Assembly. South Carolina Department of Mental Health v. Hanna, 270 S.C. 210, 241 S.E.2d 563 (1978). Any exception to the Act's applicability must be narrowly construed. News and Observer Publishing Co. v. Interim Bd. of Ed. for Wake Co., 29 N.C. App. 37, 223 S.E.2d 580 (1976).

Op. Atty. Gen., Op. No. 88-31, p.99 (April 11, 1988). To these basic tenets of construction, we would add here that the Freedom of Information Act, as with any statute, must be construed in common-sense fashion, consistent with its purpose. Hay v. South Carolina Tax Commission, 273 S.C. 269, 255 S.E.2d 837 (1979). We would also note that those things which fall within the intention of the makers of a statute are as much within the statute as if they were within the letter, and words ought to be subservient to the intent and not the intent to the words. Greenville Baseball v. Bearden, 200 S.C. 363, 20 S.E.2d 813 (1942). Moreover, what is required to be done by law directly cannot be circumvented through indirect means. Cf. State ex rel. Edwards v. Osborne, 193 S.C. 158, 7 S.E.2d 526 (1940). We must also keep steadfast in our minds that "the essential purpose of the [Freedom of Information Act] is to protect the public from secret government activity." Bellamy v. Brown, 305 S.C. 291, 295, 408 S.E.2d 219 (1991).

In addition, this Office has consistently cautioned that where particular records relate to and concern how public monies or taxpayer funds are spent, there is "all the more reason for public disclosure." Op. Atty. Gen., April 10, 1995. And in Weston v. Carolina Research and Development Foundation, 303 S.C. 398, 404, 401 S.E.2d 161 (1991), our Supreme Court stated that "... the only way that the public can determine with specificity how [public] ... funds were spent is through access to the records and affairs of the organization receiving and spending the funds." Further, the Court noted that the Freedom of Information Act "mandates that the public be provided with information regarding the expenditure of public funds." Similarly, in State ex rel. Stephan v. Harder, 230 Kan. 573, 641 P.2d 366, 376 (1982), the Supreme Court of Kansas concluded that

... the public's right to know how and for what purposes public funds are spent is a matter of legitimate public concern, far outweighing any personal privacy right of these providers to whom public funds are disbursed.

And this Office, in the context of whether telephone records should be disclosed, stated that "[w]here an agency is public and the public supports its use of a telephone, it makes no sense that the public cannot see how and when that telephone is used." Op. Atty. Gen., No. 93-17, p. 44, 46 (March 18, 1993).

Moreover, another portion of the Freedom of Information Act, § 30-4-50(6), [without limiting other portions of the Act], expressly makes public "[i]nformation in or taken from any account, voucher or contract dealing with the receipt or expenditure of public or other funds by public bodies"

Section 30-4-40(a)(9) exempts from disclosure documents "relative to efforts or activities of a public body to attract business or industry to invest within South Carolina." (emphasis added) On its face, the statutory exemption is written in terms of documents which are generated "to attract" a particular industry rather than documents created after the industry has already located in this State. Typically, the use of the infinitive "to" connotes future events as opposed to past. See, State v. Henderson, 1991 WL 281444 (Ohio App. 10th Dist. 1991).

It should also be remembered that § 30-4-40(b) requires that

[i]f any public record contains material which is not exempt under subsection (a) of this section, the public body shall separate the exempt and nonexempt material and make the nonexempt material available in accordance with the requirements of this chapter.

In other words, even if there is a legitimate exemption applicable, "[t]he burden is on the agency to justify its claim that there is no segregable material in a document that is largely exempt, and this burden should not be transferred to the court in making a generalized claim of exemption" 37A Am.Jur.2d Freedom of Information Acts, § 79.

Thus, the literal language of the exemption, as well as the spirit of the FOIA, dictates that the referenced exemption must be very narrowly construed here. This is particularly so in light of the fact that documents relating to expenditures of public funds may well constitute a major portion of the information in question. Thus, the Freedom of Information Act requires that the exemption in question must be applied to include only those documents which actually relate to the activities of a public body "to attract" business or industry to South Carolina. Any and all doubt regarding the applicability of the exemption should be resolved in favor of public disclosure, particularly if the records in question involve the expenditure of public monies or taxpayer dollars. Where a public body makes a claim that the exemption contained in § 30-4-40(a)(9) is applicable to a particular document, it possesses the burden of demonstrating that the exemption is indeed applicable.

It should be added here that even instances where the exemption contained in § 30-4-40(a)(9) may be applicable to a particular document or portion thereof, such exemption is not a mandatory requirement placed upon the public body. Accordingly, that body is free to disclose the records notwithstanding the exemption. As our Supreme Court recognized in Bellamy v. Brown, 305 S.C. 291, 408 S.E.2d 219 (1991),

[t]he FOIA creates an affirmative duty on the part of public bodies to disclose information. The purpose of the Act is to protect the public by providing for the disclosure of information. However, the exceptions from disclosure contained in Secs. 30-4-40 and -70 do not create a duty not to disclose. These exemptions, at most, simply allow the public agency the discretion to withhold exempted materials from public disclosure. No legislative intent to create a duty of confidentiality can be found in the language of the Act. We hold, therefore, that no special duty of confidentiality is established by the FOIA.

The conclusion in Bellamy was reaffirmed by the Court in S.C. Tax Commission v. Gaston, ___ S.C. ___, 447 S.E.2d 843 (1994).

The exemption in the FOIA with respect to industrial recruiting, efforts to attract industry or trade secrets cannot serve as a shield for the entire file relating to special schools or "team building" programs. In our opinion, applying the presumption of disclosure, the records described in your letter would generally be open to the public. Certainly, those documents contained in these files appertaining to the expenditure of public funds should be disclosed. Moreover, § 30-4-40(a)(9) could well be construed by a court according to its literal language as being applicable only to documents created prior to any particular industry locating in South Carolina, rather than documents relating to an industry after it has already located in this State. Of course, in this regard, if the General Assembly should find it necessary to include all records of the programs at issue here within the exemption, it may do so by amendment. Moreover, as the Tax Commission did in the Gaston case, the agencies in possession of these records could seek a declaratory judgment regarding this issue.

This Office consistently supports economic development and industrial recruitment. See, e.g. Op. Atty. Gen., February 1, 1996. However, documents generated in the process of industrial recruitment or containing trade secrets is one thing, but documents relating to how public monies are spent with respect to the training of employees of industries already located in South Carolina is something else entirely.

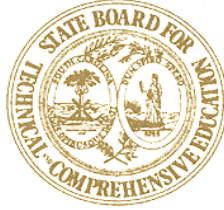
In conclusion, the exemptions contained in § 30-4-40(a)(9) may thus be applied to include only those documents which relate to the activities "to attract" business or industry to South Carolina. In an Opinion dated as recently as September 11, 1996, we cautioned in a related context that the doctrine of trade secrets could not be used to prevent from disclosure documents where no such proprietary information is actually involved. As applied to any particular document or portion thereof, the exemption must be applied narrowly with all doubts being resolved in favor of disclosure. The public body seeking to use the exemption as applied to a particular situation possesses the burden of showing document-by-document and line-by-line the applicability of that exemption. See, Op. Atty. Gen., October 15, 1986 [agency is mandated to separate public information from exempt material document-by-document and line-by-line]. Even where the exemption does clearly apply in a given instance, the public body is still free to disclose that document because the FOIA does not require nondisclosure of a record but only authorizes certain exemptions. The rule of thumb which must be applied here, in other words, is plainly: when in doubt, disclose.

Sincerely,

Charles M. Condon
Attorney General
CMC/an

Agency Comments

Appendix C
Agency Comments



South Carolina State Board for Technical and Comprehensive Education

James L. Hudgins, Executive Director

February 15, 2000

Mr. George L. Schroeder
Executive Director
Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, South Carolina 29201

Dear Mr. Schroeder:

On behalf of the State Board for Technical and Comprehensive Education and our System Office, I am enclosing our response to the final report and recommendations of the Legislative Audit Council. Again, I thank you for the courteous and effective manner in which your staff conducted their study. They demonstrated sensitivity to our schedules and respect for the confidentiality of some of our documents.

Because of the brief period allowed for our response, we are only able to make broad responses to the recommendations. However, you will note that I have established an agency plan to follow through in addressing these recommendations.

We are committed to operating the Special Schools Program in an effective, efficient, and accountable manner. The recommendations made by your audit team will help us to further enhance the internationally recognized and respected Special Schools training program.

I thank you and your staff for assisting us in being more effective in our service to the citizens of South Carolina.

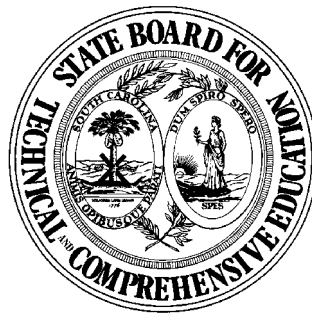
Sincerely,

James L. Hudgins
Executive Director

Enclosure

JLH/tch

**The State Board
for Technical and
Comprehensive Education**



Response to an Audit Review
of the Special Schools Program
by the South Carolina Legislative Audit Council

February 2000

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INTRODUCTION

In 1998 the General Assembly requested an audit of the Special Schools Program to determine its compliance with state law and regulations. The State Board for Technical and Comprehensive Education (State Board) values the quality and integrity of this unique program and welcomed its thorough review by a team of independent auditors. The State Board willingly provided the South Carolina Legislative Audit Council full and free access to all personnel and records and pledged to use their findings to refine and enhance the Special Schools program.

The audit identified several examples of inadequate internal controls to document proper audit protocol. The recommendations for improving internal controls are valued by the State Board. In fact, the Board and the Board's staff have already begun to incorporate many of the recommendations and will continue to do so until all recommendations of the LAC have been addressed.

While the review of Special Schools did identify areas for the program's improvement, several positive findings of the audit are worth not

- No state funds were missing or misappropriated.
- Travel conducted during special schools training was not considered excessive or unnecessary.
- The average cost per trainee was considered reasonable.
- The total amounts spent for training in the 43 projects in the sample were not considered excessive or unreasonable.
- Expenditures were less than the approved budgets in 72 % of the Special Schools projects.
- All Special Schools projects were presented to The State Board. All project budgets over \$50 thousand were thoroughly reviewed and approved by the State Board.
- Expenditures for the BMW project were less than one-half of the amount expended by Kentucky and Alabama for similar automotive projects.
- "Soft skills" training in communications, teamwork and leadership were judged to be appropriate skills to be taught by Special Schools.
- The economic development community has demonstrated high regard for and confidence in the Special Schools program (see information on page 8).

THE BMW PROJECT

The BMW training project was a special focus of the audit. The decision of the Bavarian Motor Works (BMW) to locate its North American headquarters and first manufacturing facility outside Germany in South Carolina is by far the state's highest profile economic development project. The success of BMW in South Carolina has enhanced the visibility and reputation of our state throughout the world.

BMW's initial investment in 1992 was valued at \$359 million and created 1,500 new jobs. Since 1992, the company has invested another \$1.3 billion and created an additional 1,500 jobs. In addition, according to the South Carolina Department of Commerce, 26 new and/or expanded South Carolina companies that supply parts directly to BMW have invested \$1.1 billion and created an estimated 4,000 new jobs in our state.

The magnitude of the training program offered to BMW by the Special Schools Division of the State Board was unprecedented in its size and scope. Nevertheless, the internal and external evaluations demonstrate that the training program, that has been continuous since 1992, has been successful and accomplished within budget.

The Legislative Audit Council discovered several weaknesses in record keeping and tracking procedures used by Special Schools in the administration of the BMW project. The State Board's response to the audit states that these findings will result in improved management and evaluation processes. Three of the audit findings relative to the BMW project deserve special comment:

- The "managers" for whom leadership training was provided were leaders of BMW's unique manufacturing process that incorporates a "teamwork" approach to manufacturing.
- Of the \$230 thousand used for leadership development training, BMW was reimbursed \$13,715 for the whitewater-rafting component. While this type of training is used nationwide by many corporations for team building and was just one portion of a structured team building training program for BMW, the State Board did not recognize the impact it would have on public perceptions of the Special Schools program. Because of this, the system abruptly terminated reimbursements for this activity.
- A formal memorandum of agreement and subsidiary accounting records of the State Board currently secure the \$1.3 million in equipment assigned to BMW for training purposes. These documents reflect the amount to be recovered from BMW. In addition, reimbursement claims submitted by BMW officials will be maintained until the reimbursement of these funds by BMW is complete.

The review of the BMW project conducted by the Legislative Audit Council provided the Special Schools program with valuable advice and recommendations that will be used to conduct negotiations and planning for future training projects.

RESPONSE TO THE SCLAC RECOMMENDATIONS

The State Board is grateful to the South Carolina Legislative Audit Council for the professional and efficient manner in which the audit was performed. The State Board staff appreciates the constructive recommendations that will strengthen our internal controls.

Many of the audit recommendations emerge from the symbiotic relationship between the Special Schools Division of the State Board and the Department of Commerce.

Several recommendations request specificity in formal documents of training content and budget development at the moment the industry commits to locate in South Carolina. Special Schools plays a supporting role in the very complex economic development process. In the Department of Commerce's response to this audit, they report that most industries are not in a position to commit to the level of specificity requested by the audit report and suggest that the requirements for such details at this point could damage the negotiations.

Therefore, in our response we will illustrate how we will exercise greater internal controls throughout the program development process while maintaining the flexibility essential to support the economic development process. Because of the brevity required in this report and the five days allowed for response, the State Board's response will address the three (3) broad categories suggested by the LAC's seventeen (17) recommendations. However, the State Board and its staff will follow through on the commitments made in this response.

Three response categories suggested by LAC recommendations

1. Assess and document the outcomes of Special Schools projects:
Recommendations 1, 2 and 7.
2. Appropriately document all training agreements:
Recommendations 3, 4, 5, 6, 9, 12, and 14.
3. Update, clarify and expand the policies and procedures of the Special Schools program:
Recommendations 8, 10, 11, 13, 15, 16, and 17.

Following are examples of actions that will be initiated by the State Board. An enclosed response matrix will graphically demonstrate that all recommendations by the LAC review have been addressed.

Actions by Special Schools

1. Assess and document the outcomes of Special Schools projects:

- A. Special Schools will continue to upgrade and implement administrative processes related to data collection and data used to document performance measures. This data improvement will be accomplished, in part, by use of upgraded technology and improved data retrieval techniques.
- B. Special Schools recently implemented a new electronic training program evaluation instrument which will allow companies to provide an evaluation of the services provided by the State Board. This evaluation will be conducted at designated times dependent upon the length of the training program.
- C. Special Schools, coordinating with the Department of Commerce, will develop a procedure to provide pertinent information one year after the completion of the training program, on project companies that received training.
- D. Special Schools will initiate contacts with the Department of Commerce, Department of Revenue, Employment Security Commission and other appropriate agencies to seek information that will assist the State Board in measuring the performance of Special Schools.
- E. Special Schools will request the assistance of the Department of Commerce, local development offices and other economic development allies in developing a procedure that will gather data on wages, capital investment, job creation, and other appropriate data. This information will be provided prior to finalizing training commitments and will be included in the project file.
- F. Special Schools will request the assistance of the Department of Commerce, Employment Security Commission, and Department of Revenue in developing methods of data collection, including electronic transmission of appropriate wage data.

2. Appropriately Document all Training Agreements:

- G. Special Schools will analyze and evaluate all current procedures and documents. These will be modified/combined as necessary to provide a more orderly use of appropriate information.
- H. Special Schools will develop a checklist of all items that should be included in the project file. This checklist will become part of the project file. A random audit of the files will be conducted at designated times to ensure that this procedure is followed.

- I. Special Schools has recently implemented a Project Training Memorandum, which will become a part of each project file. This document outlines Special Schools commitment to a company. In addition to the Project Training Memorandum, formal Letters of Commitment will continue to be issued on appropriate projects. The Project Training Memorandum will be reviewed and modified as necessary to ensure completeness and clarity.
- J. Special Schools will analyze and upgrade data base storage and retrieval techniques, to include acquisition of new electronic hardware and/or software.
- 3. Update, clarify and expand the policies and procedures of the Special Schools program:**
- K. Special Schools will act to initiate and/or review for modification the following categories of policy issues:
- Whether the scope and mission of Special Schools should include reference to circumstance and funding justifications for:
 - Training and travel for management level staff of companies being served.
 - Pilot projects such as the one offered for PMSC.
 - A requirement that project files include documents that show if products were manufactured by trainees and whether the products were disposed of properly.
 - Guidelines to ensure responsiveness to Freedom of Information Act requests.
- L. Special Schools has begun and will continue a realignment of its organization. This process is intended to position the organization for more effective and efficient training delivery as envisioned in the future. Emphasis will be placed on modifying and strengthening the organization through the development of human and technological resources - not through increased staffing. This process will result in an organization that continues to:
- Deliver high quality training programs.
 - Respond in a time frame and with flexibility demanded by clients.
 - Network with its allies.
 - Be supported by clear, appropriate policies, procedures, and processes.
 - Be accountable in its use of state resources.

RECOMMENDATION/RESPONSE MATRIX

State Board Responses to the Audit

		A	B	C	D	E	F	G	H	I	J	K	L	
Legislative Audit Council Recommendations	1	•	•	•	•	•	•							
	2	•	•	•	•	•	•							
	3							•	•	•	•			
	4							•	•	•	•			
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BACKGROUND INFORMATION ON SPECIAL SCHOOLS

In 1961 the South Carolina General Assembly, upon the recommendation of Governor Ernest F. Hollings, established the Advisory Committee for Technical Training. The Committee was charged with the responsibility of developing a technical training program that would enable South Carolina to become competitive in attracting higher-wage manufacturing facilities that were migrating from the Midwest to the south at that time. South Carolina was not considered a desirable location for these manufacturing industries because the state’s workforce was employed principally in agriculture and textiles.

The Special Schools Program was established with the mission to provide custom training for new industries that committed to creating new higher wage jobs in South Carolina. Special Schools began assisting new companies locating in the state with recruiting, screening and training prospective employees at minimal cost to the company. The program was later expanded to include training for new jobs created by the expansion of existing industries.

The South Carolina Technical College System

Since its inception, the Special Schools Division of the State Board for Technical and Comprehensive Education has trained over 200,000 South Carolinians for more than 1600 companies. During this period, South Carolina has earned an international reputation for its success in persuading some of the world's most respected corporations to establish manufacturing facilities in the state. Next to Hawaii, South Carolina has the highest percentage of its workforce employed by international corporations. Many of these companies identify the Special Schools training program as one of the major factors influencing their decision to locate in South Carolina.

*“Two major factors in the BMW decision (to locate in South Carolina) were the state’s technical education system – ‘one of the best in the country...and its hospitable business climate.’ **The Washington Post***

Over forty states and several foreign countries have visited South Carolina to study the Special Schools Program – and several have adopted similar programs.

*“What 40 other states have in mind to solve their job training problem is to follow South Carolina’s model.” **NBC Nightly News***

The success of the Special Schools Program is due in large part to its flexibility in responding to the unique training needs of the industry being recruited. Special Schools works in conjunction with the Department of Commerce and other economic development allies to fulfill their responsibilities to recruit quality companies to locate and expand in South Carolina.

ADDITIONAL BACKGROUND INFORMATION

The South Carolina Strategic Plan for Economic Development (1999) affirms the significant role played by the South Carolina Technical College System in the economic development process. It states:

The best news is that economic development professionals in South Carolina give the state’s special schools very high marks for their effectiveness in conducting skilled training programs for new and expanding companies in the state. This system has long been considered one of the best technical training resources in the nation according to business leaders.

The State Board for Technical and Comprehensive Education is committed to maintaining and where possible, enhancing the training programs that have earned many commendations from business leaders. The recommendations provided by the Legislative Audit Council will aid in achieving this goal.



South Carolina

DEPARTMENT OF COMMERCE

Jim Hodges
Governor

Charles S. Way, Jr.
Secretary

February 14, 2000

Mr. George Schroeder, Director
Legislative Audit Council
1331 Elmwood Avenue, Suite 315
Columbia, SC 29201

Dear Mr. Schroeder:

Thank you for the opportunity to review the final report on Special Schools by the Legislative Audit Council. Let me first say, the entire South Carolina Department of Commerce heartily endorses the work and efforts of the State Board for Technical and Comprehensive Education, especially the Special Schools program.

As one of our most valuable tools in recruiting new businesses and in assisting expanding businesses, Special Schools provides a much-needed service to South Carolinians in pursuit of better jobs with nationally and internationally recognized companies. Due to the competitive nature of these companies, a customized training program with flexibility is imperative for them.

I have reviewed the comments and suggestions for improvement submitted by Special Schools, and I wholeheartedly endorse each one. The Department of Commerce will continue to work with Special Schools within the existing rules and guidelines to ensure that the Legislative Audit Council's concerns are met and that all of the suggestions by Special Schools are implemented as quickly as possible.

Again, thank you for allowing me the opportunity to comment on a program that has tremendous impact on the creation of good jobs for the citizens of South Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles S. Way, Jr.", written over a light blue circular stamp.

Charles S. Way, Jr.

CSWjr/rr

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