

**AUDIT OF THE SAN FRANCISCO  
PRIVATE INDUSTRY COUNCIL  
H-1B TECHNICAL SKILLS TRAINING  
GRANT NUMBER AH-10855-00-60  
AUGUST 1, 2000 THROUGH  
DECEMBER 31, 2001**

U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL

REPORT NO: 02-02-213-03-390  
DATE: September 30, 2002

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## ACRONYMS

ACWIA	American Competitiveness and Workforce Improvement Act
BAVC	Bay Area Video Coalition
CFR	Code of Federal Regulations
FSR	Financial Status Report
OMB	Office of Management and Budget
SFPIC	San Francisco Private Industry Council
USDOL	U.S. Department of Labor
WIA	Workforce Investment Act

## EXECUTIVE SUMMARY

The U.S. Department of Labor (USDOL), Office of Inspector General, conducted an audit of the San Francisco Private Industry Council's (SFPIC) H-1B technical skills training grant for the period August 1, 2000 through December 31, 2001. The overall audit objective was to evaluate if SFPIC was meeting the intent of the H-1B Technical Skills Training Program and the requirements of its grant. The subobjectives were to determine if:

- The project had been implemented as stated in the grant.
- Program outcomes were measured, achieved, and reported.
- Reported costs were reasonable, allocable, and allowable in accordance with applicable Federal regulations, and Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*.

The H-1B Technical Skills Training Program was designed to help U.S. workers acquire the technical skills for occupations that are in demand and being filled by foreign workers holding H-1B visas. USDOL awarded SFPIC \$3,000,000 for the period August 1, 2000 through July 31, 2002, to train and place up to 250 participants in digital media skill occupations.

### AUDIT RESULTS

As of December 31, 2001, SFPIC had implemented a sustainable training project that was consistent with grant requirements and served the target population. Reported costs totaled \$1,885,057. However, SFPIC had not met planned placement outcomes and we question \$915,985, or 49 percent of reported costs, that were not reasonable, allocable, and allowable.

- While most training outcomes were achieved, planned placement outcomes did not occur due to decreased demand for digital media skills in the internet industry. The grant required SFPIC to report the number of participants placed into employment (placements), their average hourly wage (placement wages), and the number of participants remaining employed for at least 8 months after being hired (retention). SFPIC did not adequately measure retention outcomes. Also, SFPIC did not report placement wages or retention achievements to USDOL.

<u>Program Outcome</u>	<u>Planned</u>	<u>Reported</u>	<u>Rate of Success</u>
Placements	205	30	15 %
Placement Wages	\$22/hour	\$15/hour	68 %
Retention	200	Not reported	Unknown

- We question \$915,985, or 49 percent of reported costs of \$1,885,057, because amounts claimed were not based on actual costs. Further, the matching requirement of 25 percent was not being met as of December 31, 2001. Future costs may be questioned if the matching requirement is not met.

### **SFPIC'S RESPONSE**

On September 11, 2002, SFPIC's President responded to our draft report. She stated that she agreed that SFPIC had implemented a sustainable project consistent with the grant requirements but had not met planned placement outcomes as of December 31, 2001. She also provided additional documentation related to expenditures questioned in the draft report.

### **OIG'S COMMENTS**

The materials enclosed with SFPIC's response did not support costs of \$915,985 and presented conflicting information from what had been obtained during the course of the audit.

Excerpts of SFPIC's response to the draft report have been incorporated into appropriate sections of the report. The response is included in its entirety as an Appendix.

### **RECOMMENDATIONS**

We recommend that the Assistant Secretary for Employment and Training recover questioned costs of \$915,985 and ensure that the SFPIC achieves planned placement outcomes, measures job retention, and fully reports program outcomes.

# INTRODUCTION

## BACKGROUND

The American Competitiveness and Workforce Improvement Act of 1998 (ACWIA) was enacted to help employed and unemployed U.S. workers acquire technical skills for occupations that are in demand and being filled by H-1B visa holders. The H-1B visa program allows employers to temporarily employ foreign workers on a nonimmigrant basis to work in specialized jobs not filled by U.S. workers (8 U.S.C. 1101(a)(15)(H)(i)(b)). A \$1,000 user fee is imposed on employers for H-1B applications. ACWIA provides that over half of that fee is used to finance the H-1B Technical Skills Training Program administered by USDOL.

H-1B technical skills training grants are demonstration grants awarded under the authority of Title IV-D of the Job Training Partnership Act and Title I-D of the Workforce Investment Act (WIA). As of March 31, 2002, USDOL had conducted 4 rounds of grant competition and awarded 60 grants totaling approximately \$143 million.

<b>Grant Round</b>	<b>Solicitation Date</b>	<b>Number of Grants</b>	<b>Award Amount</b>
1	August 16, 1999	9	\$12,383,995
2	March 29, 2000	12	\$29,166,757
3	August 1, 2000	22	\$54,000,000
4	April 13, 2001	17	\$47,559,761 <sup>1</sup>
	<b>Total</b>	<b>60</b>	<b>\$143,110,513</b>

In the second round, the SFPIC was awarded \$3,000,000 under Grant Number AH-10855-00-60, for the period August 1, 2000 through July 31, 2002. SFPIC proposed and agreed to train 250 participants in digital media including web design, e-commerce, web programming, HTML, animation, systems administration and technical support. SFPIC administered the project and contracted with Goodwill Industries and Bay Area Video Coalition (BAVC) to provide training and participant services. Goodwill provides entry level skills through its technology literacy and introduction to digital media training to prepare participants for BAVC advanced training. BAVC provides intermediate and advanced level skills through intensive digital media training.

Incorporated in 1979, the SFPIC is a not-for-profit corporation under section 501(c)(3) of the Internal Revenue Code. SFPIC provides employment, training and research services to employers and job seekers. Under the direction of the Local Workforce Investment Board, SFPIC administers all WIA funds for San Francisco, California.

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<sup>1</sup> As of March 31, 2002, Round 4 was still an open solicitation with an additional \$87 million available for award.

## AUDIT OBJECTIVES

The overall audit objective was to evaluate if SFPIC was meeting the intent of the H-1B Technical Skills Training Program and the requirements of its grant. The subobjectives were to determine if:

- The project had been implemented as stated in the grant.
- Program outcomes were measured, achieved, and reported.
- Reported costs were reasonable, allocable, and allowable in accordance with applicable Federal regulations, and OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

## AUDIT SCOPE AND METHODOLOGY

The audit period was from August 1, 2000 through December 31, 2001. In performing this audit, we reviewed the Solicitation for Grant Applications and the grant agreement to determine the requirements and performance measures of the grant. We interviewed staff of SFPIC, Goodwill Industries and BAVC; examined participant records, and reviewed other materials related to project implementation. We made onsite visits to Goodwill Industries and BAVC.

We audited cumulative net outlays of \$1,855,057 reported on the Financial Status Report (FSR) for the period August 1, 2000 through December 31, 2001. Net outlays reflected the Federal share of cumulative net outlays since no matching funds or in-kind costs were reported for the period. We traced expenditures to general ledgers and examined supporting documentation including vouchers and invoices. Judgmental sampling was used to test individual account transactions and balances. We tested outlays of \$1,120,469 or 60 percent of reported Federal outlays.

We considered SFPIC's internal controls over the H-1B grant project by obtaining an understanding of the grantee's internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our purpose was to determine the nature and extent of testing needed to satisfy our audit objectives, not to provide assurances on the internal controls; therefore, we do not provide any such assurances.

Compliance with laws, regulations, and grant agreement provisions is the responsibility of SFPIC. We performed tests of compliance with certain provisions of laws, regulations, and the grant to evaluate if SFPIC was meeting the requirements of the grant and that reported costs were reasonable, allocable and allowable in accordance with applicable provisions of Federal regulations and OMB circulars. However, our objective was not to provide an opinion on overall compliance with Federal regulations and OMB circulars, and, accordingly, we do not express such an opinion. We evaluated allowability of claimed costs using relevant criteria including: ACWIA; 29 CFR 95, *Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; OMB Circular A-122, *Cost Principles for Non-Profit Organizations*; and the requirements of the grant. We examined compliance with grant requirements and program outcomes goals using the Solicitation for Grant Applications and the grant agreement.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests, as we considered necessary to satisfy the objectives of the audit. We conducted fieldwork from April 8, 2002 through April 18, 2002, at SFPIC located in San Francisco, California. We visited Goodwill Industries in San Francisco on April 12, 2002, and BAVC in San Francisco on April 15 and 16, 2002. We held an exit conference with SFPIC on August 2, 2002.

# FINDINGS AND RECOMMENDATIONS

## I. PROGRAM IMPLEMENTATION

The Solicitation for Grant Applications states:

“The primary emphasis of the ACWIA technical skills training will be to focus on employed and unemployed workers who can be trained and placed directly in the highly skilled H-1B occupations. . . .

“Although the primary focus of these awards is technical skill training, Employment and Training Administration intends that regional partnerships sustain themselves over the long term – well after the federal [sic] resources from this initiative have been exhausted.”

As of December 31, 2001, SFPIC had implemented a sustainable training project that was consistent with grant requirements and served the target population.

### TRAINING PROVIDED

The project integrated training at Goodwill Industries and BAVC to enable program participants to progress from entry-level to intermediate/advanced-level digital media skills. Goodwill provided 8 weeks of training in technology literacy. BAVC provided 16 weeks of advanced digital media training. Both contractors provided recruitment, aptitude and interest assessment, career planning and guidance, placement services and retention followup. Also, Goodwill provided support services and counseling to all project participants.

The target population was low income and minority populations. As of December 31, 2001, 47 percent (82 out of 176) of program participants were identified as low income and 57 percent (100 out of 176) were minorities.

### PROJECT SUSTAINABILITY

The grant relied upon the resources of the partner organizations to ensure the training continued after the grant. SFPIC, Goodwill and BAVC staff indicated their organizations believed the project was working well and were seeking other funding to continue the training.

Without other funding, both Goodwill and BAVC could continue training by serving fewer participants. Goodwill could incorporate the training curriculum in an existing program funded by undesignated donations. BAVC operates a smaller program funded by the Mayor’s Office of Community Development that was the model for the grant project and provides the same skills.

## II. PROGRAM OUTCOMES

SFPIC did not fully accomplish planned program outcomes, measure retention or fully report program outcomes. While most training outcomes were achieved, planned placement outcomes did not occur due to decreased demand for digital media skills in the internet industry. SFPIC did not adequately measure retention outcomes. Also, SFPIC did not report placement wages or retention achievements to USDOL.

### OUTCOME ACHIEVEMENT

The grant established planned program outcomes for participants trained, placements and placement wage, and retention. The grant required SFPIC to report the numbers of participants who obtained employment (placements) and the average starting hourly wage (placement wage). The grant also required SFPIC to report on the number of participants who remained employed 8 months after being hired (retention). As the table below shows, SFPIC was not fully meeting its planned program outcomes as of December 31, 2001.

<u>Program Outcome</u>	<u>Planned</u>	<u>Reported</u>	<u>Rate of Success</u>
Participants Trained	250	104	42 %
Placements	205	30	15 %
Placement Wage	\$22/hour	\$15/hour	68 %
Retention	200	Not reported	Unknown

As of March 31, 2002, subsequent to the audit period, SFPIC had significantly improved outcome achievement. However to meet grant goals, SFPIC requested a grant extension and had arranged with Goodwill and BAVC to continue training, placement, and followup services after the initial grant period.

In its response, SFPIC stated:

All of the planned placement outcomes had not been met by December 31<sup>st</sup> of 2000 and most of that was attributable to the sudden demise of certain Internet-related (or “dot-com”) industries in the last half of calendar year 2000 in San Francisco. . . . Since the audit review, the term of the grant has been extended from July 29, 2002 to February 28, 2003 without any additional funds. This extension provides an opportunity for some of those performance and reporting deficits to be remedied. . . .

### Participants Trained

To meet its planned grant training outcomes, SFPIC established contractor goals so that at least 268 participants received training with 62 participants trained by both contractors. As of December 31, 2001, SFPIC achieved 42 percent (104 of 250) of the planned program outcome.

<u>Contractor Goals</u>	<u>Planned<sup>2</sup></u>	<u>Attained</u>	<u>Rate of Success</u>
Completed Goodwill Training	100	57	57 %
Completed BAVC Training	230	57	25 %
Participants Enrolled in Both Training	<u>(62)</u>	<u>(10)</u>	(16 %)
Number of Participants Trained	<u>268</u>	<u>104</u>	

Subsequent to the audit, training outcomes significantly increased from 104 participants trained as of December 31, 2001, to 205 participants trained as of March 31, 2002. However, SFPIC cannot achieve its planned training outcome by the end of the grant because both contractors still needed to enroll and train additional participants. Goodwill has sufficient time to accomplish its training goals, but BAVC does not. As of the end of our onsite fieldwork on April 18, 2002, BAVC still needed to recruit an additional 39 participants for training that lasts 4 months. Even if BAVC succeeded in recruiting the needed participants, the participants would be unable to complete training before the grant expired on July 31, 2002.

<u>Training</u>	<u>Completed by 3/31/02</u>	<u>Needed to Meet Goals</u>	<u>Active in Training</u>
Goodwill Training	83	17	14
BAVC Training	149	81	42
Training by Both Contractors	<u>(27)</u>	<u>(15)</u>	<u>(9)</u>
Total Participants Trained	<u>205</u>	<u>83</u>	<u>47</u>

In its response, SFPIC stated that BAVC had completed training for all 250 participants as of September 6, 2002, just a month past the original grant period.

### **Participant Placements**

As of December 31, 2001, SFPIC had only achieved 15 percent (30 of 205) of its goal for placements and 68 percent (\$15 of \$22 per hour) for placement wages, and may not achieve its planned placement outcomes by the end of the grant.

<sup>2</sup> BAVC was to enroll 250 participants, including 62 Goodwill graduates. BAVC had a completion goal of 230 with between 42 and 62 participants expected to complete both Goodwill and BAVC training. Therefore, contractor goals ensured that between 268 and 288 participants were to be trained, exceeding the grant goal of 250 trained.

<b>Placement Goals</b>	<b>Planned <sup>3</sup></b>	<b>Attained</b>	<b>Rate of Success</b>
<u>Goodwill Contract</u>			
Placements	38	0	0 %
Placement Wage	\$10/hour	\$0/hour	0 %
<u>BAVC Contract</u>			
Placements	185	30	16 %
Placement Wage	\$15/hour	\$15/hour	100 %
<u>SFPIC Grant</u>			
Placements	205	30	15 %
Placement Wage	\$22/hour	\$15/hour	68 %

Placement opportunities were affected by the recession in internet-related industries that were the initial target for placements. Training was modified to focus on skills needed for e-commerce, buying and selling merchandise over the internet, to expand placement opportunities to non-internet related companies using e-commerce.

Moreover, SFPIC established placement wage goals which were less than the grant goal of \$22 per hour. As shown above, Goodwill had a wage goal of \$10 per hour and BAVC had a wage goal of \$15 per hour. As a result, SFPIC achieved only 68 percent of its projected program outcomes even though BAVC achieved its goal. Overall, contractors will have to exceed their wage goals by approximately 50 percent for SFPIC to attain its wage goal.

As of March 31, 2002, contractors reported significantly higher placement results that increased SFPIC's attainment of planned outcomes to 46 percent (94 of 205) for placements and 82 percent (\$18 of \$22 per hour) for placement wages. However, with just 3 months remaining in the original 2-year grant period, SFPIC may not achieve grant goals since it had attained less than half the planned placements.

In its response, SFPIC stated:

. . . as of January 31<sup>st</sup> of 2002, 65 (or 75%) of 87 job placements claimed by one of the two subgrantees . . . had experienced increases in their wages or salaries as a result of participation in the project. . . .

SFPIC's response addressed wage gains which was not an outcome goal in the grant agreement, but did not address the placement wage outcome goal of \$22 per hour.

<sup>3</sup> Contractors were to place 223 participants, exceeding the grant goal of 205 placements. Contractor placement wage goals of \$14 per hour (weighted average) were significantly less than the grant goal of \$22 per hour.

## MEASUREMENT AND REPORTS

The grant requires that SFPIC submit quarterly progress reports on project performance. 29 CFR 95.51(d)(1) states that performance reports should contain: “A comparison of actual accomplishments with the goals and objectives established for the period . . . .”

SFPIC did not adequately measure and fully report program performance. Retention outcomes were not adequately measured or reported on quarterly narrative reports to USDOL. Also, placement wages were not reported to USDOL.

In its response, SFPIC stated that it has not collected retention and wage data, and does not plan to do so for this grant. SFPIC contended:

Neither retention nor pre- or post-program wage data on participants who have been placed in unsubsidized employment have ever been requested by either the grant agreement or the DOL/ETA. . . .

However, SFPIC included retention and placement wage as measures against which its training program’s performance would be evaluated. These measures were included in the executed grant agreement under Section G, Outcomes.

### Measuring Retention

SFPIC required its contractors to follow up with participants quarterly, but did not establish participant placement retention goals for its contractors or adequately monitor the contractors to ensure retention followup occurred. BAVC placed 30 participants but did not perform any followup contacts even though 40 percent of the participants were placed at BAVC. Because retention was the only planned program outcome for which SFPIC did not establish contractor goals, the importance of performing retention followup was not emphasized.

As of March 31, 2002, subsequent to our audit period, retention followup improved marginally. SFPIC’s tracking system identified 46 participant placements where followup should have been performed.

- Goodwill performed all required followup contacts for the two participants it placed.
- BAVC placed 44 participants but only performed follow up for 3 participants (7 percent).

### Reporting Retention and Placement Wages

Retention and placement wage outcome achievements were not reported on quarterly narrative reports to USDOL. SFPIC staff indicated that they requested, but did not receive, specific direction from the grant officer’s technical representative on performance data requirements. These outcomes are specified in the grant and should be reported to provide USDOL with a complete picture of SFPIC’s grant achievements.

## RECOMMENDATION

We recommend the Assistant Secretary for Employment and Training ensures SFPIC implements corrective measures that will achieve and properly measure and report program outcomes as specified in the grant.

### III. REPORTED OUTLAYS

On the FSR for the period ending December 31, 2001, SFPIC claimed cumulative Federal outlays of \$1,855,057, but did not report any matching funds or in-kind costs. We question costs of \$915,985 or 49 percent of the Federal outlays for payments to BAVC that were not reasonable, supported, and allowable. Also, future costs may have to be questioned if the 25 percent matching requirement is not met.

**BAVC - \$915,985**

OMB Circular A-122, Attachment A, Paragraph 2.g. states that to be allowable costs must be adequately documented.

SFPIC awarded BAVC a cost reimbursable contract that states:

#### 4.1. Conditions for Disbursement

Subcontractor will be reimbursed by Contractor for all allowable and documented costs in amounts not exceeding the total amounts set forth in Statement of Work/Individual Referral Subcontract, upon timely submission of invoices to Contractor for performance of services hereunder.

We question costs of \$915,985 paid to BAVC for computer lab usage because amounts charged were not adequately documented and did not represent actual costs. Monthly charges to the project were based on the contract budget allocated over the contract period.

Also, the contract budget was based on prices of commercial companies and does not reflect actual projected costs for use of BAVC computer labs. BAVC set the contract budget using a survey of hourly rates charged by commercial workstation providers such as Kinko's. Commercial pricing levels were set to include an element of profit and cover the total costs of providing the services such as computers and software, staffing and supplies. However, commercial prices do not reasonably estimate costs for BAVC computer labs because:

- The base value for equipment and software was not proven to be comparable between BAVC and commercial providers. BAVC received donated computer hardware and software from manufacturers, whereas commercial providers purchase theirs.
- Cost items such as staffing and supplies that were covered in commercial pricing were separate cost items under BAVC's contract and billed separately.
- Commercial pricing includes an element of profit that is not allowable under the BAVC contract (4.1 Conditions for Disbursement).

With its response, SFPIC enclosed additional documentation for lab fees and stated:

The lab costs consist of direct equipment leasing, maintenance and repair costs, overhead costs, staff support and consultant costs essential to implementation of the program. As demonstrated in the enclosed materials, BAVC's actual grant-related lab costs exceeded the amount charged to the grant by \$5,393. . . .

SFPIC's response provided materials for 3 of 17 months requested, and some of those materials were not fully supported with backup documentation. Moreover, SFPIC provided conflicting information from what had been obtained from both SFPIC and BAVC during the course of the audit. For example, the response disclosed that lab fees included some instructors' salaries whereas materials obtained previously only contained salaries for lab maintenance and janitorial services. Also, the H-1B program, Mayor's Office program, and other projects used the lab, but the Mayor's Office and other projects were not charged for their fair share of lab costs.

SFPIC has not provided sufficient support for charging the grant \$915,985 for BAVC lab costs. These costs remain in questioned.

**MATCHING  
REQUIREMENT**

The grant agreement requires SFPIC to report program outlays on an accrual basis (Special Condition #5) that includes expenses incurred and the value of in-kind contributions applied.

29 CFR 95.23(a) requires:

“(a) All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria:

“(1) Are verifiable from the recipient's records. . . .

“(5) Are not paid by the Federal Government under another award, except where authorized by Federal statute to be used for cost sharing or matching.”

The grant established a matching requirement of 25 percent on Federal outlays and prohibited the use of Federal funds in satisfying the matching requirement. However, the 25 percent matching requirement had not been met as of December 31, 2001. SFPIC has until the end of the grant period to satisfy the 25 percent requirement or future grant costs may have to be questioned.

Matching funds were not reported on the FSR and were not verifiable from SFPIC records. SFPIC did not report in-kind contributions on the FSR because it had not obtained the information from BAVC. The matching requirement was to be met through cash donations received by BAVC and used to offset training costs. SFPIC did not require BAVC to report donations received and used for the program, and had not followed up with BAVC on the status of matching funds. As a result, SFPIC could not determine the amount of third party contributions obtained and used to offset program costs for inclusion in total outlays for the FSR.

Further, the grant agreement listed intended sources for the cash donations to satisfy the matching requirement, including \$300,000 from San Francisco Mayor's Office of Community Development. However, the \$300,000 represents Federal funds from the U.S. Department of Housing and Urban Development that may not be used to meet the matching requirement. As a result, SFPIC will need to find additional matching funds to satisfy the matching requirement.

In its response, SFPIC indicated that it would document and report agreed upon matching costs by the extended ending date of the grant.

We acknowledge that SFPIC has until the end of the grant to obtain, document and report on matching funds, but the grantee needs to ensure that such matching funds are verifiable and allowable. The grant stipulates that other Federal funds may not be used to meet the matching requirement.

#### **RECOMMENDATIONS**

We recommend the Assistant Secretary for Employment and Training recovers questioned costs of \$915,985 and requires SFPIC to revise the FSR to reflect actual and documented costs.

We also recommend that the Assistant Secretary for Employment and Training ensures that SFPIC complies with grant requirements related to matching funds.

#### **IV. OTHER MATTERS**

<b>CONTRACTS WITH PARTNERS</b>
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29 CFR 95.45 states:

Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. . . . Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

SFPIC awarded two training contracts totaling \$2,700,000 to Goodwill and BAVC without documentation of contract costs or price analyses.

In its response, SFPIC stated that it would ensure that such analyses are conducted and documented in future grant agreements.



PRIVATE INDUSTRY COUNCIL  
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Action Date \_\_\_\_\_

11 September 2002

Mr. Richard H. Brooks  
Regional Inspector General for Audit  
Office of Inspector General  
United States Department of Labor  
201 Varick Street  
New York, New York 10014

**VIA OVERNIGHT MAIL**

Dear Mr. Brooks:

Thank you for this opportunity to respond to your August 13th draft report, *Audit of the San Francisco Private Industry Council H-1B Technical Skills Training Grant Number AH-10855-00-60 August 1, 2000 through December 31, 2001*. As much as is possible, I have responded to your draft report in the format in which you presented it.

**Executive Summary**

The SFPIC concurs with the audit objectives and sub-objectives stated in this section of your draft report.

**Audit Results**

The SFPIC agrees that, as of December 31<sup>st</sup> of 2001, it had implemented a sustainable project that was consistent with the grant requirements and served the target population.

The SFPIC also agrees that, as of December 31<sup>st</sup> of 2001, it had not met planned placement outcomes.

The SFPIC believes that the enclosed documentation should answer all of the questions raised about its expenditures of \$915,985 of grant funds and that, based on that documentation, the OIG should find that all of those expenditures were reasonable and allowable.

**Recommendations**

If the DOL/OIG finds that, based on the enclosed documentation, all expenditures reported were reasonable and allowable, it is assumed that the recommendation for the Assistant Secretary to recover any of them will be rescinded.

Since the DOL/OIG has already found (refer to "audit results") that the project was implemented "consistent with grant requirements", recommending that the Assistant Secretary "ensure that the SFPIC operates the project in accordance with ... the requirements of its grant" would be a contradiction. If the DOL/OIG still believes the SFPIC is not operating the project in accordance with the intent of the grant, please explain precisely how it arrived at that underlying conclusion.

## **Introduction**

### **Background**

The notation (on the third page of the draft report) clarifying that the "H1-B technical skills training grants are demonstration grants awarded under the authority of Title IV-D of the *Job Training Partnership Act* and Title I-D of the *Workforce Investment Act*" is helpful. This particular grant was effectively awarded on August 1, 2000, *after* the expiration of JTPA and after the effective implementation date for WIA. The "final rules and regulations" for WIA were published on August 11, 2000. Please also note that the Department of Labor's (DOL) "Common Rule", as it was amended on July 1, 2000, became available to us in hard copy (and electronically on the Government Printing Office's web site) in late October 2000.

As reflected in the correspondence between the grantor and grantee (which is incorporated in the Grant Agreement as the first few pages of it), there were numerous and continuous questions during and subsequent to grant negotiations about which federal requirements (in addition to two paragraphs in the *American Competitiveness and Workforce Improvement Act of 1998*) would apply to the Agreement.

### **Audit Objectives**

The SFPIC concurs with the audit objectives and sub-objectives stated in this section of your draft report.

### **Audit Scope and Methodology**

The SFPIC concurs with the scope and methodology described in this section of your draft report.

## **Findings and Recommendations**

### **I. Program Implementation**

I am pleased that the Auditors found that "As of December 31, 2001, SFPIC had successfully implemented a sustainable training project that was consistent with grant requirements and served the target population."

## Training Provided

The SFPIC concurs that, as of December 31, 2001, substantial numbers of members of the target populations specified in the grant agreement (i.e., "low-income individuals" and race/ethnic minorities) had been recruited and enrolled in the project.

## Project Sustainability

The SFPIC concurs that, provided other financial resources are or become available, the organizational arrangements, curriculum, and techniques developed in this project bode well for its sustainability after the extended end of this grant's term.

## II. Program Outcomes

The draft report states that: *"SFPIC did not fully accomplish planned program outcomes, measure retention and fully report program outcomes. While most training outcomes were achieved, planned placement outcomes did not occur due to decreased demand for digital media skills in the Internet industry. SFPIC did not adequately measure retention outcomes. Also, SFPIC did not report placement wages or retention achievements to USDOL"*

### Outcome Achievement

All of the planned placement outcomes had not been met by December 31<sup>st</sup> of 2000 and most of that was attributable to the sudden demise of certain Internet-related (or "dot-com") industries in the last half of calendar year 2000 in San Francisco. However, the lack of *any* request from the DOL/ETA for *specific performance data* for this program contributed to the perception that retention and wage gain did not occur. Since the audit review, the term of the grant has been extended from July 29, 2002 to February 28, 2003 without any additional funds. This extension provides an opportunity for some of those performance and reporting deficits to be remedied.

To date, there has still been no request from the DOL/ETA for any specific kind of performance data for the program. The legislative intent of this grant program is, as stated on the first page of the draft report: "to help U.S. workers acquire the technical skills for occupations that are in demand and filled by foreign workers holding H-1B visas". However, the lack of any request for specific performance data raises concerns as to how to monitor the program's progress, evaluate its performance, or measure achievement of the legislative intent. Fundamentally and practically, from the grantee's perspective, how much should be invested in the development and implementation of data systems to collect and report certain performance data if in fact those data may not be germane to what the DOL/ETA indicates it needs?

In California, to collect "verifiable, program-specific" retention data as prescribed in the *Workforce Investment Act* an agreement must be negotiated with the State Employment Security Agency (i.e., California's Employment Development Department) to periodically cross-match the grantee's database on former participants with the State's

Unemployment Insurance Wage Database. The State has previously required both the grantee and the grantor to request such arrangements before agreeing to negotiate those arrangements and prior negotiations have taken up to six months.

There has never been any evidence that the DOL/ETA wanted that kind of systematically-collected retention data or, if there had been, that it would have been willing to join the grantee in making such a request of the California SESA to cross-match the grantee's database with its own database.

The demise of the "dot-com" industry caused a significant number of employment opportunities to be replaced by "self-employed, independent contractor" positions that do not appear in the State's Unemployment Insurance Wage Database. Additionally, it is typical for employees with these skills and in this sector to move between and among employers (often with wage increases) within the sector. Therefore, this cross-match system may not have significantly decreased the gap between "acceptably" reported retention data and actual retention results—especially "retention" within the sector.

Consequently, wage increase data were collected through direct surveys of former participants and employers by one of the two subgrantees. Data from those surveys were offered for the review of OIG representatives but were, for reasons that have never been explained, rejected. They showed that, as of January 31<sup>st</sup> of 2002, 65 (or 75%) of 87 job placements claimed by one of the two subgrantees (only 40 of which were reported to the DOL/ETA by the grantee) had experienced increases in their wages or salaries as a result of participation in the project. Please explain why those data were rejected so that the collection of them can be improved during the grant extension period.

### **Participants Trained**

The grantee concurs with the data displayed in the draft report. As of September 6, 2002 BAVC has completed training for all 250 participants.

### **Participant Placements**

The grantee concurs with the data displayed in the draft report. As of September 6, 2002 BAVC has completed training for all 250 participants.

### **Measurement and Reports**

Neither retention nor pre- or post-program wage data on participants who have been placed in unsubsidized employment have ever been requested by either the grant agreement or the DOL/ETA. Please define "adequately" and "fully".

### **Measuring Retention**

The grantee concurs with the statements in this portion of the draft report. As of September 6, 2002 BAVC has completed training for all 250 participants.

## Reporting Retention and Placement Wages

The grantee concurs with the statements in this portion of the draft report. As of September 6, 2002 BAVC has completed training for all 250 participants.

## Recommendation

The grantee concurs with the recommendation but only as it pertains to subsequent grant agreements (retention and wage data cannot readily be collected retroactively).

## III. Reported Outlays

The draft report states that: *"We question \$915,985 paid to BAVC for computer lab usage because amounts charged were not adequately documented and did not represent actual costs. Monthly charges to the project were based on the contract budget allocated over the contract period."*

### BAVC — \$915,985

The lab costs consist of direct equipment leasing, maintenance and repair costs, overhead costs, staff support and consultant costs essential to implementation of the program. As demonstrated in the enclosed materials, BAVC's actual grant-related lab costs exceeded the amount charged to grant by \$5,393. Capital investment in technical training for careers in the media technology industry is intensive in three major areas: equipment, overhead, and staff.

The equipment is expensive and becomes obsolete quickly. There are ongoing expenses for upgrading hardware, software, digital projectors, decks, peripheral hardware including data and media drives, equipment upgrades and maintenance, and other equipment in order to keep the training labs consistent with advanced industry platform standards. Equipment rental is also essential for special projects and to replace equipment when it breaks.

Unique overhead costs include precise temperature control, Internet connections with sufficient bandwidth, network server costs, and regular janitorial service to keep the labs environmentally sound.

Additionally, indirect staff support is required to update BAVC labs with state of the art tools and software. For example, BAVC incurs monthly design costs to keep the labs equipped with rapidly changing tools to meet employer-defined needs for technically proficient employees. BVAC technicians provide technical assistance and support for teaching time and open lab hours for all program graduates. BVAC retains third party consultants to evaluate the technical capacity of its labs and to find more efficient methods of operating the labs.

To provide adequate documentation of BAVC's lab costs a full schedule of lab costs from August 2000 through December 2001, as well as supporting documentation from the sample months you selected (February 2001, July 2001, and November 2001), are enclosed. In fact, the rate of \$165 per hour for five fully equipped and maintained computer labs of eleven computers each does not reflect all of the actual grant-related costs incurred by BAVC.

In addition, all of the billed expenses represent direct lab costs which are not made as donations to BAVC. BAVC does not directly charge DOL for any donated equipment, software or services. BAVC's accounting policy is to capitalize and depreciate each individual piece of software or equipment; therefore, the depreciation expense may include a small percentage of amortization of donated capitalized equipment. BAVC must upgrade most software twice annually. When allocating depreciation expense to program activities, BVAC did not charge the grant for depreciation on previously donated/capitalized items. Furthermore, as a matter of fiscal prudence, BVAC applied a ten percent (10%) discount to depreciation expense to eliminate any possible impact on the grant for depreciation on donated items.

When the BAVC budget was submitted to the PIC in August 2000, BAVC contacted other commercial and noncommercial computer labs to compare costs to assist in making reasonable projections of what BVAC actual costs would be over the two years of the DOL grant agreement. This information was not used as a basis for BAVC's rate, but rather to help BAVC consider what other costs might arise in running and maintaining state-of-the-art computer labs. BAVC's labs include many more features than the other commercial and noncommercial labs that were contacted, including a multi-media library, full time technical support, network data storage drives, ongoing web and email hosting for all program graduates, digital projectors, laser printers, and scanners.

BAVC's staff support and other costs for the labs are not directly charged to the grant in the salaries, fringe benefits, travel, supplies, and contractual line of its monthly invoices. Those line items in the monthly invoices are comprised of staff time and costs incurred directly, tracked and charged to specific "project" codes in BAVC's accounting system. Lab costs incurred are tracked separately in the accounting system in BAVC's JobLink departments or in technical services support or facilities support departments and periodically allocated to its JobLink program.

In the enclosed materials, BAVC has provided a detailed explanation of its tracking and allocation processes, as well as a copy of its Cost Allocation Accounting Policy and Procedure from its online accounting manual (accessible to all BAVC staff) [Please see the enclosed folder 1: "Summary Schedules" page 4].

### **Matching Requirement**

While it is agreed that the grantee had not reported any expenditures of matching funds by the end of the period audit, it and its subgrantees will document and report all promised matching expenditures by the extended end of the grant period.

## Recommendation

If the DOL/OIG finds that, based on this response and the enclosed documentation, all expenditures reported were reasonable and allowable, it is assumed this recommendation will be rescinded.

## IV. Other Matters

The draft report states that: *"Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action... Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability."*

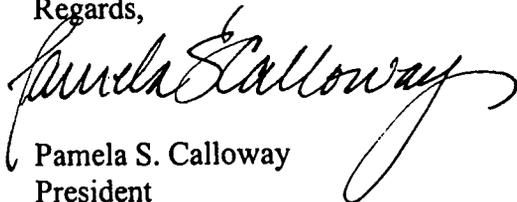
Assuming they had already been documented before the application for this grant agreement was prepared, the grantee did not document its analyses of the costs or prices of the two subgrant agreements authorized under it. The grantee will ensure that such analyses are conducted and documented for subgrant agreements under all subsequent grant agreements.

## Description of Enclosures

Enclosed with this letter are thirteen (13) folders (numbered 1 through 13). The first folder includes narratives and summary schedules that are supported with copies of invoices and general ledgers in the remaining folders. Page 1 in the first folder is an "Index to Supporting Schedules".

The audit team that visited SFPIC was a pleasure to host. The team members were professional, respectful and interested in ensuring that the grant was fully implemented to deliver employment-training services. I look forward to our discussion of this response. Please do not hesitate to contact me if you have any questions or need additional information.

Regards,



Pamela S. Calloway  
President

cc: PIC Senior Leadership Team  
Tamara Gould, BAVC  
Mary Edington, Goodwill Industries

Enclosures