

**AUDIT OF THE NEW YORK  
WORK ALLIANCE  
H-1B TECHNICAL SKILLS TRAINING  
GRANT NUMBER AH-10854-00-60  
AUGUST 1, 2000 THROUGH JUNE 30, 2001**

U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL

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## ACRONYMS

ACWIA	American Competitiveness and Workforce Improvement Act
CY	Calendar Year
CFR	Code of Federal Regulations
CUNY	City University of New York
FSR	Financial Status Report
IT	Information Technology
JTPA	Job Training Partnership Act
NYSIA	New York Software Industry Association
OMB	Office of Management and Budget
TAP	Tuition Assistance Program
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 New York Work Alliance's (Work Alliance) H-1B technical skills training grant for the interim period August 1, 2000 through June 30, 2001. The overall audit objective was to evaluate if the Work Alliance 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 the Work Alliance \$2,940,162, for the period August 1, 2000 through July 31, 2002, to train 300 participants in information technology (IT) to meet demands for skilled workers in the Internet and DOT.COM industries.

### AUDIT RESULTS

As of June 30, 2001, the Work Alliance had not been successful in meeting the intent of the H-1B Technical Skills Training program and the requirements of its grant. Most areas of the project were affected when demand for skilled workers in the Internet and DOT.COM industries declined significantly in Calendar Years (CYs) 2000 and 2001. Due to changes in the economy, the Work Alliance started to refocus the project by recruiting employers in other industries that needed trained IT workers. Nevertheless, the Work Alliance had not met essential grant requirements and the grant ending date is July 31, 2002.

- The Work Alliance proposed and agreed to implement a project with three training tracks: web design and administration, employer-specific classroom training, and internships. Only one track was implemented, web design and administration. Employer-specific classroom training and internships had not yet been implemented. Additionally, as implemented, the project will not be sustainable after the grant expires.
- The Work Alliance had not accomplished or accurately measured and reported program outcomes as stated in the grant. Training required by the grant was provided to only 40 percent of the participants (120 out of 300 participants). Placement outcomes were negligible with only two reported. Without related placements, the project does not meet the intent of ACWIA technical skills training that participants

be trained and placed in highly skilled H-1B occupations. The Work Alliance has a pending grant modification request to extend the grant period through January 31, 2003, to accomplish placements and upgrades.

- We question \$231,675, or 18 percent of Federal outlays, because these costs were not reasonable, allocable, or allowable. Further, the matching requirement of 25 percent was not being met as of June 30, 2001. Future costs may have to be questioned if the matching requirement is not met.

#### **THE WORK ALLIANCE'S RESPONSE**

In a response to our draft report, the President and Chief Operating Officer of the Work Alliance stated that he did not agree with the major conclusions of our report. He stated that the Work Alliance has continually sought to improve the program consistent with the intent of the grant solicitation, changing circumstances and feedback received from USDOL.

#### **OIG'S COMMENTS**

Based on information submitted in response to the draft report, we have resolved classroom training costs of \$64,800 that we had originally questioned. However, we have not changed our overall conclusion that as of June 30, 2001, the Work Alliance had not been successful in meeting the intent of the H-1B Technical Skills Training program and the requirements of the grant. Achieving placement outcomes is essential to the success of an H-1B Technical Skills Training program and, as of June 30, 2001, the Work Alliance had achieved only two placements and had not yet implemented two of three training tracks.

Excerpts of the Work Alliance'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 the Assistant Secretary for Employment and Training recover questioned costs of \$231,675 and ensure that the Work Alliance operates the project in accordance with the intent and requirements of its grant.

# 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 be 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 (JTPA) and Title I-D of the Workforce Investment Act (WIA). As of December 31, 2001, USDOL conducted 4 rounds of grant competition and awarded 52 grants totaling approximately \$120 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	9	\$24,394,801 <sup>1</sup>
	<b>Totals</b>	<b>52</b>	<b>\$119,945,553</b>

In the second round, the Work Alliance was awarded \$2,940,162 under Grant Number AH-10854-00-60 for the period August 1, 2000 through July 31, 2002. The Work Alliance proposed and agreed to train 300 participants in IT to meet demands for skilled workers in the Internet and DOT.COM industries. The Work Alliance administered the project and partnered with City University of New York (CUNY) and New York Software Industry Association (NYSIA). CUNY was to provide classroom training in web design and web administration, and other IT training designed specifically to meet individual employers' needs. NYSIA was to develop internships and placement opportunities in the Internet and DOT.COM industries.

The Work Alliance, formerly known as the Private Industry Council for the City of New York, was incorporated in 1979, as a not-for-profit corporation under section 501(c)(3) of the Internal Revenue Code. Under WIA, the Work Alliance develops and operates demonstration projects, but does not establish workforce development policy as it had under JTPA.

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<sup>1</sup> As of December 31, 2001, Round 4 was still an open solicitation with an additional \$111 million available.

## AUDIT OBJECTIVES

The overall audit objective was to evaluate if the Work Alliance 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 June 30, 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 at the Work Alliance, examined participant records, and reviewed other materials related to project implementation. We made an onsite visit to CUNY to observe training in progress.

We audited cumulative net outlays of \$1,417,141, consisting of the Federal share of \$1,265,693 and third party in-kind contributions of \$151,448, claimed on the Financial Status Report (FSR), for the period ending June 30, 2001. 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 \$831,450 or 66 percent of reported Federal outlays.

We considered the Work Alliance'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 the Work Alliance. We performed tests of compliance with certain provisions of laws, regulations, and the grant to evaluate if the Work Alliance 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. We examined compliance with grant requirements and program outcome goals using the Solicitation for Grant Applications and the grant agreement. 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 also used OMB Circular A-21, *Cost Principles for Educational Institutions*, to evaluate third party in-kind contributions by CUNY. 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 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 August 28, 2001 through October 31, 2001, at the Work Alliance located in New York, New York. We visited CUNY training facilities in New York City on August 29, 2001. We conducted an exit conference with the Work Alliance on May 29, 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, ETA intends that regional partnerships sustain themselves over the long term – well after the federal resources from this initiative have been exhausted.”

As of June 30, 2001, the Work Alliance had implemented only one of the three training tracks that it had proposed and agreed to in the grant. Additionally, as implemented, the project will not be sustainable after the grant expires.

The project was affected when demand for skilled IT workers in the Internet and DOT.COM industries significantly declined in CYs 2000 and 2001. Internships, employer-specific training, and placement opportunities did not materialize. Due to changes in the economy, the Work Alliance started to refocus the project by recruiting employers in other industries that needed trained IT workers. Nevertheless, the Work Alliance had not met the intent of the H-1B Technical Skills Training program and essential grant requirements.

#### TRAINING PROVIDED

Under the terms of the grant, the Work Alliance proposed and agreed to implement a project with three training tracks:

1. Classroom training in web design and administration.
2. Classroom training in employer-specified IT skills for its workers.
3. Internships in IT for two, 6-month periods.

The Work Alliance implemented one training track by providing classes in web design and administration. The Work Alliance was still developing employer-specific classroom training and internships, the other two training tracks.

## **Web Design and Administration Classroom Training**

The Work Alliance developed four courses to train participants in web design and administration skills. The courses were to be taken in sequence and provided by CUNY.

1. Introductory Level Skills (course A)
2. Basic Web Design (course B1)
3. Advanced Web Design (course B2)
4. Web Administration (course C)

By the end of August 2001, the web design and administration classroom training was fully implemented. Further, the grant required the Work Alliance to emphasize minorities in recruiting participants for the project and as of June 30, 2001, minorities comprised 73 percent<sup>2</sup> of participants accepted into this training.

## **Employer-Specific Classroom Training**

The Work Alliance had not implemented the employer-specific classroom training because employers that initially committed to training ended up reducing operations or went out of business. In order to meet training outcome goals, the Work Alliance attempted to recruit additional employers with similar training needs. As of June 30, 2001, the Work Alliance was still recruiting employers and coordinating schedules.

Some new employers were recruited, but these employers have significantly fewer IT employees than Internet and DOT.COM employers. The Work Alliance recognized that it will have to combine employers with workers needing similar training in order to make the training cost effective. Schedules will have to be coordinated among employers and with CUNY so that workers will be available when CUNY facilities and instructors are also available.

In its response to the draft report, the President of the Work Alliance stated that at the time of the audit it had not implemented Category II (employer specific training). He further stated that the Work Alliance did complete a survey of employer IT demands, conducted outreach to businesses for involvement in Category II, and began Category II training in October 2001, partnering with Associated Press.

## **Internships**

The Work Alliance had not implemented any internship training. With the grant ending in July 2002, the Work Alliance will not be able to meet grant requirements that participants be engaged in internships for two, 6-month periods or a minimum of 12 months of training.

The Work Alliance contracted with NYSIA to arrange for internships and placements with IT employers, but NYSIA had not been successful in these matters. The Work Alliance indicated that the contract with NYSIA would be terminated. The Work Alliance also indicated that it would work through Industry Specific Advisory Committees to develop internship opportunities, and focus on IT jobs with non-IT employers.

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<sup>2</sup> Represents 70 minority participants out of 96 participants who responded to the ethnic origin question on the CUNY survey.

In its response, the President of the Work Alliance stated that he realized internships were not feasible and sought to address this through increased direct placement services. He stated that the level of skills obtained by program participants combined with the increased direct placement efforts did result in opportunities for participants to engage in freelance or consultant work in IT areas.

Internships, the third training track, has still not been implemented and the grant agreement has not been modified to eliminate it from the scope of work.

**PROJECT  
SUSTAINABILITY**

The grant relied upon continued participation of project partners CUNY and NYSIA to sustain the project after the grant period. The grant agreement states:

“CUNY . . . is committed to developing training programs . . . that can be sustained by the university . . .

“NYSIA will work with the partners, its member organizations and other local entities to seek out the resources that will ensure the project’s sustainability beyond the grant period.”

However, as implemented, the project will not be sustainable after the grant ends. The training phase of the grant has not resulted in placements. Moreover, relationships with participating partners cannot continue without additional funding.

**Partnership With CUNY for Classroom Training**

Classroom training may continue after the grant ends, but only if both the Work Alliance and CUNY are involved. The Work Alliance owns the proprietary rights to the training materials and CUNY has the instructors, space and equipment resources to provide the training. However, additional funding sources are needed in order to provide training.

Student financial aid, particularly Pell grants and New York State’s Tuition Assistance Program (TAP), may defray training costs, but only for students who qualify for the aid. Pell grants and TAP are not available for persons with bachelor degrees or higher, which would have excluded 42 percent of the 120 participants trained under the grant. Also, students would have to carry a minimum number of credits to receive TAP aid.

In his response, the President of the Work Alliance indicated that he believes the program could be sustained and expanded upon to meet skill needs. He stated that the Work Alliance was seeking other funding, additional classroom training and other sources of support for trainees. He further stated that, as an eligible training provider, the Workplace is currently offering training developed for this program through vouchers available through the New York City’s One-Stop system.

The Work Alliance’s response does not address the continuation of its partnership with CUNY. Further, using training vouchers would not be an effective way to sustain training after the grant. WIA participants have access to outcome information to make informed choices in selecting a

training program. Because each participant makes his/her own choice, training vouchers would not necessarily sustain a customized training program such as the Work Alliance's employer-specific training. Moreover, while the web design and administration is a standardized training program, it has had negligible employment outcomes and participants are more likely to select a different program with better results.

### **Partnership With NYSIA for Internships and Placement Opportunities**

The Work Alliance was terminating the contractual relationship with NYSIA, assuming its role in developing participant internship and placement opportunities. However, this role will be difficult to maintain after the grant ends because the Work Alliance operates outside of the WIA One-Stop system and therefore does not receive WIA training and job development funding.

The President of the Work Alliance responded to our draft report by stating that the Alliance is a partner in New York City's One-Stop system and, as a designated Workforce1 Center, the Alliance provides a range of services for WIA eligible populations. He further stated that the Alliance will continue to rely on trade associations, like NYSIA, to provide information on industry skill demand and access to employers.

The Work Alliance is a training provider for the One-Stop system, but is not a full service One-Stop center. The Work Alliance is not designated as a Workforce1 Center on the New York City's web pages.

### **RECOMMENDATIONS**

We recommend the Assistant Secretary for Employment and Training ensures that the Work Alliance conforms to the grant's requirements and:

- implements internships; and
- improves project sustainability.

## II. PROGRAM OUTCOMES

The Work Alliance, for the most part, did not accomplish or accurately report program outcomes. For web design and administration, training outcomes were achieved and workers skill levels were raised. However, related placement outcomes were negligible. Neither training nor placement outcomes were achieved for employer-specific classroom training or internships. The Work Alliance measured training and placements as required under the grant, plus additional measures designed for overall program management. However, outcomes were not accurately reported to USDOL.

<b>OUTCOME ACHIEVEMENT</b>
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The grant established the following projected program outcomes.

<u>Training Type</u>	<u>Projected Participants Trained</u>	<u>Actual Participants Trained</u>	<u>Projected Placement or Upgrade</u>	<u>Actual Placements or Upgrades</u>
Classroom Training:				
Web Design/Administration	160	120	100	2
Employer-Specific	140	0	120	0
Internships	75	0	Not specified	0

For web design and administration, we identified 120 training outcomes, or 75 percent of the grant projected outcomes, as of June 30, 2001. Although The Work Alliance reported two placements for web design and administration, we were unable to verify these placements. Moreover, the Work Alliance had not implemented the employer-specific classroom training or internships. As a result, neither training nor placement outcomes were achieved for these training activities. Without related placements, the project does not meet the intent of ACWIA technical skills training that participants be trained and placed in highly skilled H-1B occupations.

In its response, the Work Alliance provided updated outcome data through August 7, 2002, for participants in web design and administration (Category I) and employer-specific (Category II) classroom training. The response stated that the Alliance has verified that 331 individuals have participated in Category I training, with 277 positive completions recorded. For Category II participation, the Alliance reported it has verified 245 participants enrolled in skills upgrade training. The Alliance also report that this training has resulted in 105 employer upgrades, but that placement activities have not been as successful, resulting in 7 verified placements.

Based on unaudited outcome information provided in the Work Alliance's response to our draft report, the Work Alliance still has not achieved employment outcomes as established in the grant. Updated placement or upgrade outcomes are significantly higher for employer-specific training with 105 reported upgrades, 88 percent (105 of 120 participants) of grant goals. However, employment outcomes for web design and administration have marginally improved with only 7 reported placements, 7 percent (7 of 100 participants) of grant goals.

**MEASUREMENT  
AND REPORTS**

The grant required that the Work Alliance 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 . . .”

The Work Alliance included the required program outcomes in quarterly narrative reports, but understated training outcomes and claimed placements that could not be verified. As of June 30, 2001, we identified 120 training outcomes for web design and administration, whereas the Work Alliance claimed 80 training outcomes in the body of the Narrative Quarterly Progress Report and 103 training outcomes in the report’s attachment. For the same quarter, the Work Alliance claimed two placements that were not supported in participant records. Inconsistent and unsupported reporting occurred because the Work Alliance prepared progress reports from manual counts of participant files and training rosters. The manual method was to be used until a system could be developed that would provide more complete and accurate program outcomes.

In its response, the Work Alliance asserted that it had addressed the concerns raised on inconsistent reports, but did not explain the measures it had taken. Therefore, the grant’s requirements for program outcome measurement and reporting have not been met.

**RECOMMENDATIONS**

We recommend the Assistant Secretary for Employment and Training ensures that the Work Alliance implements improvements in the program that will achieve placement outcomes and accurately measure and report outcomes.

**III. REPORTED OUTLAYS**

The Work Alliance claimed cumulative net outlays of \$1,417,141, consisting of the Federal share of \$1,265,693 and third party in-kind contributions of \$151,448 on the FSR for the period ending June 30, 2001. These outlays include payments of \$231,675 to program partners that were not reasonable, allocable, or allowable. As a result, we question \$231,675 or 18 percent of the Federal outlays as shown below.

<u>Program Partner</u>	<u>Questioned Costs</u>
CUNY	\$224,075
NYSIA	<u>7,600</u>
Total	<u>\$231,675</u>

As of June 30, 2001, the matching requirement of 25 percent had not been met. Future costs may have to be questioned if the matching requirement is not satisfied.

**CUNY – \$224,075**

OMB Circular A-122, Attachment A, Paragraph A.3 and 2g states:

“A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

“Factors affecting allowability of costs. To be allowable under an award, costs must meet the following criteria . . . Be adequately documented.”

We question \$224,075 the Work Alliance paid to CUNY for curriculum development (\$154,075) and database development (\$70,000) outlays. As detailed below, the outlays were not reasonable or documented.

### **Curriculum Development – \$154,075**

The Work Alliance contracted with CUNY to develop curriculum for web design and administration, and in employer-specific IT skills. However, the Work Alliance did not justify the need for curriculum development when similar training was available at CUNY.

The Work Alliance responded:

Curriculum development was essential, as no comparable high-level program, directly responsive to employer need, existed at CUNY. The curriculum developed through this grant is unique both in its attention to employer need and its accessibility for students with high potential but limited academic experience.

However, the Work Alliance’s response did not provide substantive reasons for incurring curriculum development costs of \$154,075. We found CUNY offers similar training through its continuing education department using the same texts and instructors as the web design and administration training. The response was not specific as to how the training actually differed from existing curricula, texts and reference materials utilized by CUNY. Further, the response did not specify what needed to be developed for the training or address the reasonableness of costs budgeted for the effort.

### **Database Development and Program Evaluation – \$70,000**

CUNY submitted two invoices totaling \$70,000 based on budget estimates.

<u>Voucher Number</u>	<u>Total</u>
30044	\$50,000
30045	<u>20,000</u>
	<u>\$70,000</u>

As shown below, these invoices were not sufficiently supported to determine if the costs were reasonable, allowable, and allocable.

- Personnel costs of \$57,137 were not sufficiently documented to determine if costs were reasonable for staff function, hours worked and pay rates charged.
- Local travel and consultant costs claimed did not contain sufficient information to determine allowability of costs. Local travel was not supported with information on the purpose of the travel to determine if the travel was necessary and reasonable. Documentation for consultant costs were not specific enough to determine if costs exceeded the \$450 daily limit imposed by the grant and services performed were necessary and reasonable under the grant.

The Work Alliance provided additional documentation and responded:

Documentation fully supports the database development costs. Through June 30, 2002, we have expenditures . . . of \$129,958.45. We have reimbursed . . . only \$110,000 to date.

The submitted documentation did not provide any additional detail on the vouchers to address the issues above. Moreover, the schedule that the Work Alliance provided in the response for CUNY costs indicates the voucher payments were not reasonable. As of June 30, 2001, the schedule identifies only \$5,515 of costs incurred by CUNY, whereas the Work Alliance paid \$70,000 for the two vouchers.



**NYSIA -- \$7,600**

OMB Circular A-122, Attachment A, Section A.2b states:

Factors affecting allowability of costs. To be allowable under an award, costs must . . . Conform to any limitations or exclusions set forth in . . . the award as to types or amount of cost items.

Special Clause Number 6 of the grant requires: "Consultant fees paid under this grant/agreement shall be limited to \$450 per day without additional DOL Grant Officer approval."

We question NYSIA consultant fees of \$7,600 because such fees were for unnecessary curriculum development meetings (\$1,000) and consultant fees exceeded daily grant limits (\$6,600). NYSIA provided 21 days of consulting services to the project and charged \$16,000 in fees for participating in meetings and discussions, recruitment interviews, student training sessions, workshops, and orientation.

- Consultant fees of \$1,000 were charged for participating in curriculum development meetings for CUNY classroom training. Curriculum development was not necessary because CUNY offered similar training to other students, at a lesser price. As a result, consultant fees of \$1,000 for participating in 2 days of curriculum development meetings were not necessary.
- Consultant fees of \$15,000 were charged for overall program design. Daily consultant fees ranged from \$375 to \$1,750 with only 2 days charged under the \$450 daily grant limit. As a result, \$6,600 in consultant fees was charged in excess of daily grant limits.

In its response, the Work Alliance acknowledged error in calculating consultant fees and indicated that it was not challenging the findings with respect to NYSIA.

**MATCHING REQUIREMENT**

29 CFR 95.23(a) and (b) require:

- “(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.
  - (2) Are not included as contributions for any other Federally-assisted project or program. . . .
- (b) Unrecovered indirect costs may be included as part of cost sharing or matching only with prior written approval of the grant officer.”

The grant established a matching requirement of 25 percent on Federal outlays. However, the matching requirement had not been met as of June 30, 2001. The Work Alliance reported cumulative in-kind costs of \$151,448 or 12 percent of the \$1,265,393 cumulative outlays reported on the FSR for June 30, 2001. Moreover, the matching costs claimed did not comply with 29 CFR 95.23 requirements. The 25 percent requirement must be satisfied by the end of the

grant period. Future grant costs may have to be questioned if the matching requirement is not satisfied.

In its response, the Work Alliance indicated it made changes in identifying and quantifying matching costs. The Work Alliance described two additional sources of matching costs to be used in future reporting: additional CUNY classes given to program participants at a cost of \$302,400 and participant salaries during employer-specific training valued at \$200,000.

To claim matching costs from the additional sources described in its response, the Work Alliance will need to be able to demonstrate that the amounts charged for CUNY classes represent actual costs not funded by Federal resources, and that the amounts claimed for participant salaries were paid by employers while participants attended training.

### **CUNY Classes With More Than 18 Students**

The Work Alliance claimed matching costs of \$50,400 (12 students at \$2,100 per student) for CUNY classes containing more than 18 students. The Work Alliance paid a fixed price for training 18 participants in a class, and when classes exceeded 18 participants, the additional students trained would be considered in-kind contributions by CUNY. However, the rate used to calculate the matching costs does not reflect the actual costs of providing training to the additional students.

- The rate was not based on the actual incremental costs of providing training. Most costs, such as instructor salaries and facilities, would have been covered by the fixed price paid for the class. The incremental costs would be nominal items such as additional duplicating charges and participant supplies.
- The \$2,100 per student rate was also used for the contract price and was determined excessive since CUNY offered similar training to other students at a lesser price.

The Work Alliance agreed that the amount charged for matching costs should be the incremental cost of providing the training. In future FSR reporting, the Work Alliance indicated that it would replace amounts claimed for these CUNY classes with other matching costs.

### **Participant Use of CUNY Library and Labs**

The Work Alliance claimed matching costs of \$32,850 for CUNY library and computer labs used in conjunction with classroom training. OMB Circular A-21 classifies the library and labs as “Facilities and Administration” which are indirect costs. The Work Alliance did not have prior grant officer approval for these indirect costs, which were also not verifiable from the Work Alliance records. Library and computer lab facilities were offered to other CUNY students without additional charge.

The Work Alliance concurred and indicated that it would replace amounts claimed for CUNY library and labs with other matching costs in future FSR reporting.

## **Unrecovered CUNY Indirect Costs**

The Work Alliance claimed matching costs of \$68,198 for CUNY indirect costs in excess of the 15 percent rate provided for under the database development and program analysis contract. The Work Alliance reported that CUNY had an approved indirect cost rate of 50 percent and claimed the difference between that rate and the contract rate of 15 percent as in-kind contributions for unrecovered CUNY indirect costs.

However, these costs do not comply with the requirements of 29 CFR 95.23(b) because the Work Alliance did not have prior grant officer approval for the costs. Also, the costs do not comply with the requirements of 29 CFR 95.23(a)(1) because the Work Alliance could not document the claimed approved indirect cost rate.

The Work Alliance provided documentation of CUNY's approved indirect cost rate and indicated the grant officer verbally approved the use of the excess indirect costs as matching costs. The Work Alliance expected to report in-kind costs of \$455,000 for excess CUNY indirect costs. However, to claim excess CUNY indirect costs, the Work Alliance will still need to demonstrate that matching costs claimed were not funded by Federal resources.

### **RECOMMENDATION**

We recommend the Assistant Secretary for Employment and Training recovers questioned costs of \$231,675 and ensures that the Work Alliance properly meets the grant requirements for matching funds by the conclusion of the grant period.

## **IV. OTHER MATTERS**

### **CONTRACTS WITH PARTNERS**

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.

The Work Alliance awarded four contracts totaling \$1,509,000 to CUNY and NYSIA without documentation of contract costs or price analyses.

In its response, the Work Alliance claimed exemption from procurement requirements because the contractors were named in the grant application.

Contractual procurement requirements do not apply here. This program was developed and proposed in concert with CUNY and NYSIA, both of whom offered unique contributions to the whole. We viewed the relationship as that of a mutual collaboration, for without their assistance this project could have not happened. They were named and included in the RFP response, not selected after the fact. Furthermore, the assertion that there was no analysis of costs is not true. In the original submission of our budget, costs had been broken down in much

more detail. It was only in an effort to ease the management of the overall program that we converted CUNY and NYSIA's participation into contracted services.

Because CUNY and NYSIA were included in the grant application does not exempt the Work Alliance from contractual procurement requirements. Special Clause Number 11 in the grant agreement states:

**PROCUREMENT:** Except as specifically provided, DOL/ETA acceptance of a proposal and an award of federal funds to sponsor any program(s) does not provide a waiver of any grant requirements and/or procedures. For example, the OMB circulars require an entity's procurement procedures must require that all procurement transactions shall be conducted, as practical, to provide open and free competition. If a proposal identifies a specific entity to provide services, the DOL/ETA's award does not provide the justification or basis to sole-source the procurement, i.e. avoid competition.

Further, the CUNY and NYSIA budgeted costs as represented in the Work Alliance's grant application significantly differed from budgeted costs in the CUNY and NYSIA contracts. For example, the NYSIA placement function was \$80,000 in the grant application, but the contract awarded to NYSIA was for \$137,500 with no explanation for the increase. The CUNY research function was priced the same in the grant proposal and the contract, but the number of staff changed from three per the grant application to six staff, plus consultants for the contract.



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Boston Date \_\_\_\_\_

August 9, 2002

Mr. Richard H. Brooks  
Regional Inspector General for Audit  
U.S. Department of Labor  
Office of Inspector General  
201 Varrick Street  
New York, New York 10014

Dear Mr. Brooks:

The New York Work Alliance respectfully submits the enclosed written comments to the draft audit report of our H-IB Technical Skills Training Grant (#AH-10854-00-60) for the interim period August 1, 2000 through June 30, 2001.

As I understand, the report is subject to revision. Accordingly, the Alliance has provided the attached response in the hope of clarifying issues and addressing concerns raised in the draft. I am aware that the final report, including the Alliance's written comments, is subject to disclosure under the Freedom of Information Act and as part of discovery proceedings in the event of litigation.

Thank you for the assistance of your office in providing a thorough review of audit proceedings and the sharing of information obtained in the actual audit at our exit conference. If you have any questions or need clarification on any material submitted, please call me at 212-742-1000. I have taken the liberty of providing an original and one copy of the written comments and attachments for your review.

Also, pleased be advised that the New York Work Alliance has moved. Our new address is 65 Broadway, Second Floor, NY, NY 10006. This change in not yet reflected in our letterhead.

Sincerely,

  
William C. Gresham  
President and CEO

Enclosure

WCG/db

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**WRITTEN COMMENTS TO THE  
U.S. DEPARTMENT OF LABOR'S DRAFT  
AUDIT REPORT OF THE NEW YORK WORK  
ALLIANCE'S H-1B TECHNICAL SKILLS GRANT  
AUGUST 1, 2000 TO JUNE 30, 2001**

**Reference: (#AH-10854-00-60)**

Submitted: August 9, 2002

By :

The New York Work Alliance, Inc  
65 Broadway, Second Floor  
New York, NY 10006  
(212) 742-1000

---

## **Preface**

The New York Work Alliance has prepared a formal response to issues raised and allegations made in an U.S. Department of Labor Audit Report of the Agency's H-1B Technical Skills Grant - The Information Technology Education Program (ITEP). We do not agree with the major conclusions of this report regarding the intent and goals of the program, the need for curriculum development, costs associated with training, and our ability to meet matching requirements.

In formulating our response, the Alliance has attempted to address issues raised in the report in the order and category of statements made.

## **EXECUTIVE SUMMARY**

### **Audit Results**

1) Page 1. "As of June 30, 2001, the Work Alliance had not been successful in meeting the intent of the H-1B Technical Skills Training program and the requirements of its grant."

While we recognize that the audit report is a mid-term review of the grant, we do not agree with a statement suggesting an overall assessment of the project's ability to meet the intent of the program and its requirements. We have continually sought to improve the program consistent with the intent of the solicitation, our knowledge of changing circumstances and the feedback we received from USDOL. Working with our grant officer and technical representative, we have identified issues and modified objectives to ensure the program's success and compliance with overall requirements of the grant.

According to the solicitation:

"...The grants will have the longer term goal of raising the skill levels of domestic workers so that they can fill high skill jobs which are presently being filled by temporary workers being admitted to the United States under the provisions of H-1B.

"In defining Specialty Occupation the solicitation cites INA (Section 214(i) which states that the requirements with respect to a specialty occupation include licensing (if such licensure is required, completion of a bachelor's or higher degree in the specific specialty, or experience in specialty through progressively responsible positions relating to the specialty." (Emphasis added)

Based on information provided by the NYS Department of Labor, we determined that leading technology occupations in New York City using H-1B visas included Systems Analysts, Computer Engineers and Computer Programmers. Our original proposal included training in four areas responding directly to this demand - Web Development, Unix Systems administration, Java Programmers and Data Base Systems Administrators. Additionally, in early meetings with technology and non-technology employers represented on our Industry Specific Advisory Committees, as well as with the New York Software Industry Association's membership, we learned that employers experiencing skill shortages relied more on experience in specialty areas than formal degrees in meeting skill shortage requirements in Information Technology.

The Alliance's primary goal in designing the program was to provide training to meet skill shortages in H-1B occupations. In our Service Delivery Strategy, we stated that the program would provide "'fast track' education that will lead to employment in Information Technology industries and begin to alleviate the existing skills shortage." Accordingly, we sought partnership with the City University of New York's newly established Institute for Software Design and Development to develop curriculum and provide training because of their connection to the university's postgraduate studies and the City's software industry. The Executive Director of the Institute is also the Executive Officer of CUNY's Ph.D. program in Computer Science, and has access to computer science faculty across CUNY's 17 colleges.

Based on the solicitation and our conversations with the Grant Officer, we understand that our training focus fully responded to the grant requirements to provide training in areas requiring H-1B Visa skills. We do not believe that the intent of the grant was solely to target specific H-1B Visa positions to replace these individuals with skilled workers locally. Instead our focus has been to train individuals so that they could access career pathways leading to the higher-level skills positions now filled by foreign workers.

We did not think it feasible to create short-term training programs that could train unemployed or underemployed individuals with sufficient skills to meet these higher-level demands. Recognizing the limits of short-term training and the need to address immediate employer demand, we created a second category of training to provide higher-level IT skills upgrading for workers.

We continually sought to improve the program. Our original model served a limited number of participants, which impacted the cost effectiveness of the program. Accordingly, we worked with our Grant Officer to redesign the program to address these concerns. This represented first modification request, which was approved and executed June 12, 2001. Subsequently, the Alliance submitted a second modification request to address changes in the delivery of services to Category I participants (See Attachment 1).

The revised Statement of Work in the first modification indicated that we would "increase the number of placement/career upgrade outcomes from the original proposal of 100 to 220." Additionally, in the Explanation of Modification, we stated the following: "Working with CISDD, NYSIA, the NYC Jobs Consortium, and other partners, the PIC (now known as the New York Work Alliance) will create skills upgrading/career advancement tracks for 220 individuals in programming and data base development and web site development. The program is designed to train individuals in technology information so that they can obtain position in the IT field or receive an upgrade in their current place of employment after completing the training. It is based on discussions with employers, IT industry representatives and educators regarding the type and impact of training to address H-1B visa skills in demand by NYC area businesses."

The program was redesigned to offer two categories of training. While we expected to begin our program with Category I training, we did not establish specific dates for conclusion of training nor the commencement of Category II training. Critical to our beginning of employer-specific training was the outreach to businesses. Accordingly, we could not proceed with this training without input from businesses regarding specific categories of training.



2) Page 1. “[T]he Work Alliance had not met essential grant requirements.”

The Alliance had conducted a basic skills assessment in industry needs for H-1B Visa skills and designed and implemented training responsive to these needs. The audit statement that we had not met essential requirements is vague and, we believe, not supported by the facts. Clearly, we had modified our program based on input from USDOL regarding specific goals and objectives and begun Category I training by the second quarter of the grant (even though we were not able to draw down funds until October 2000). We had not implemented Category II training because we did not have enough information from employers regarding higher-level skill demands. In surveying Software Industry employers as well as our own Industry Specific Advisory Committee members in order to obtain higher-level IT skill demand information, we were exercising due diligence in assessing employer requirements (See Attachment 2). This is particularly evident in light of the downturn in the City’s economy that began in the late Spring 2001.

The U.S. Department of Labor released a report titled “Exemplary Practices in High-Skill US Department of Labor H-1B Training Programs” that identifies the Alliance’s program as successful and highlights its exemplary practices (See Attachment 3).

The report, which represents a snapshot of the Alliance’s program, concludes that as of December 2001 we had reached 79 percent of our participation goal.

3) Page 1. “The Work Alliance proposed and agreed to implement a project with three training tracks: web design and administration, employer-specific classroom training, and internships... Only one track was implemented, web design and administration. Employer-specific classroom training and internships had not yet been implemented.”

The U.S. Department of Labor approved two tracks of training - Category I & II. At the time of the audit we had not implemented Category II (employer specific training). We did complete a survey of employer IT demands and conducted outreach to businesses for involvement in Category II. By this time we realized that internships were not feasible and sought to address this. We had contracted with NYSIA to develop internships. We modified NYSIA’s contract accordingly and increased our own direct placement efforts. Our highly successful Category II training began in October 2001, partnering with Associated Press.

4) Page 1. “Additionally, as implemented, the project will not be sustainable after the grant expires.”

It is premature to state that the project cannot be sustained. The Alliance intends to continue all efforts to replicate the program and effective practices identified over the period of the grant. At the time of the audit, the Alliance had begun to develop additional CUNY courses. However, our commitments from employers, through NYSIA as well as our own outreach efforts, did not materialize. These commitments, to be sure, were linked to the state of the economy and the City’s technology sector at the time of our original submission. As noted, the City’s economy began to weaken in the second quarter of 2001. A major commitment from IBM was made regarding staffing requirements for its e-business center in lower Manhattan. We have attached support letters from IBM, as well NYSIA and CUNY (See Attachment 4). The support letter we received

from IBM was for our Skills Shortage grant, but is attached here to illustrate our relationship with company and its expressed commitment to "provide employment opportunities for individuals with special needs."

Also, regarding sustainability, the Alliance had applied for, and was awarded, the grant as the Private Industry Council of the City of New York. As such entity, the agency was closely connected to the City government and employment and training community. We also expected to transition to the Workforce Investment Board. This transition did not occur. However, because of the Alliance's administration of programs funded by the NYC Human Resource Administration, we are connected to the City's one-stop system as a Workforce1 Center, and can continue to offer training developed for ITEP to special need populations and incumbent or dislocated workers through a vouchering process.

We believe that the Alliance program can be sustained and expanded upon to meet skill needs. ITEP is a successful program that has had a profound impact on how the public/private initiatives can respond effectively industry skill shortage needs. The involvement of CASE will help us to evaluate what is most effective about the training and intervention strategy. We are seeking other funding, additional classroom training and other sources of support for trainees. Specifically, as an eligible training provider, we are currently offering training developed for this program through vouchers available through the New York City's One-Stop system.

The Alliance has recently moved to a new facility that can more fully support technology training developed through ITEP. Our new facilities will also enable us to provide training at reduced costs to meet vouchering requirements. Through contributions from IBM and 3Com, we have obtained computers, software and telecommunications devices that have expanded our capabilities for state-of-the art training.

5) Page 1. "The Work Alliance had not accomplished or accurately measured and reported program outcomes as stated in the grant. Training was provided to only 40 percent of the participants, (120 out of 300 participants) required by the grant. Placements [sic] outcomes were negligible."

The primary outcome of the program is IT skills training, as explained above. We have been deemed an exemplary program in the U.S. Department of Labor report mentioned earlier, in training participation: By December 2001, we had reached 79% of the target 300 participants.

As approved in our original proposal, the Alliance, in addition to internal monitoring and evaluation, is working with CASE to develop a system to measure program performance and training outcomes. We acknowledge some discrepancies in reporting and have corrected or adjusted procedures accordingly.

During the audit review and in quarterly narrative reports, the Alliance reported on program outcomes including training participation and completion and placement activity. Because we developed two systems for program review (internal and external) there were some inconsistencies in reporting. Such inconsistencies were due to the lag in capturing (external) and verifying (internal) data.

The Alliance had fully implemented its Category I by the first quarter of 2001, and was pursuing outcomes based on completion of training and employer commitment to hire or create internship opportunities. While there was a slight discrepancy in data reported, the Alliance in good faith provided and documented services consistent with our proposal and the intent of the solicitation. As noted earlier, the primary focus of these awards was technical skills training. This has in fact been the major focus of our work.

## **FINDINGS AND RECOMMENDATIONS**

### **I. PROGRAM IMPLEMENTATION**

1) Page 6. "As of June 30, 2001, the Work Alliance implemented only one of the three training tracks that it had proposed and agreed to in the grant."

As noted earlier, the U.S. Department of Labor approved two tracks of training - Category I & II. At the time of the audit, we had not implemented Category II (employer specific training). We did complete a survey of employer IT demands and conducted outreach to businesses for involvement in Category II. By this time, we realized that internships were not feasible and sought to address this. We had contracted with NYSIA to develop internships. We modified NYSIA's contract accordingly and to increased our own direct placement efforts. Our highly successful Category II training began in August 2001.

2) Page 6. "Additionally, as implemented, the project will not be sustainable after the grant expires."

As noted earlier, a statement that the that the project cannot be sustained is premature. The Alliance intends to continue all efforts to replicate the program and effective practices identified over the period of the grant.

We believe that the Alliance program can be sustained and expanded upon to meet skill needs. ITEP is a successful program that has had a profound impact on how the public/private initiatives can respond effectively industry skill shortage needs. The involvement of CASE will help us to evaluate what is most effective about the training and intervention strategy. We are seeking other funding, additional classroom training and other sources of support for trainees. Specifically, as an eligible training provider, we are currently offering training developed for this program through vouchers available through the New York City's One-Stop system.

Additionally, our a new facility that can more fully support technology training developed through ITEP and enable us to provide training at reduced costs to meet vouchering requirements.

3) Page 6. "The project was affected when demand for skilled IT workers in the Internet and DOT.COM industries significantly declined in CYs 2000 and 2001. Internships, employer-specific training, and placement opportunities did not materialize. Due to changes in the economy, the Work Alliance started to refocus the project by recruiting employers in other industries that needed trained IT workers. Nevertheless, the Work Alliance had not met the intent of the H-1B Technical Skills Training program and essential grant requirements."

Again, the Alliance demonstrated that we could develop skills training to respond to employer needs in IT occupations requiring web design and development and data administration skills. As documented above, this fully satisfied both the intent of the program and the requirements of the grant.

### **Employer-Specific Classroom Training**

4) Page 7. "As of June 30, 2001, the Work Alliance was still recruiting employers to fill classes and coordinating schedules. Some new employers were recruited, but these employers have significantly fewer IT employees than Internet and DOT.COM employers."

The Alliance needed to complete an assessment of skill shortages higher-skilled IT areas before recruiting employers for Category II training. Additionally, employers that we were seeking partnerships with at the time of the audit in non-technology sectors had significant IT staffs. For example, Salomon Smith Barney reported that its current high-level IT training was available to several hundred employees in H-1B occupations employed by the company. Our expectation was to "fill" employer-specific training courses with workers with like needs and thus to provide them with opportunities for career upgrades.

### **Internships**

5) Page 7. "The Work Alliance had not implemented any internship training. With the grant ending in July 2002 and less than a year remaining, the Work Alliance will not be able to meet grant requirements that participants be engaged in internships for two, 6-month periods or a minimum of 12 months of training. The Work Alliance contracted with NYSIA to arrange for internships and placements with IT employers, but NYSIA had not been successful in these matters. The Work Alliance indicated that the contract with NTSIA [sic] would be terminated. The Work Alliance also indicated that it would work through the Industry Specific Advisory Committees to develop internship opportunities, and focus on IT jobs with non-IT employers."

As indicated earlier, when the Alliance recognized that internships were not being developed by NYSIA we modified their contract to eliminate NYSIA's involvement with internship development. However, the Alliance did rely on NYSIA to bring its member employers table and offer training in areas identified in the survey administered by the organization. In addition to NYSIA's internship development efforts, the Alliance expected internships proposed by IBM to support the company's projected E-Business services center in Lower Manhattan. The center and the internships did not materialize.

The Alliance did attempt to supplant internships with increased direct placement services. The level of skills obtained by program participants combined with these efforts did result in opportunities for participants to engage in freelance or consultant work in IT areas.

### **Project Sustainability**

6) Page 8 "[A]s implemented, the project will not be sustainable after the grant ends. The training phase of the grant has not resulted in placements. Moreover, relationships with participating

partners cannot continue without additional funding...Classroom training may continue after the grant ends, but only if both the Work Alliance and CUNY are involved. The Work Alliance owns the proprietary rights to the training materials and CUNY has the instructors, space and equipment resources to provide the training. However, additional funding sources are needed in order to provide training. Student financial aid, particularly Pell grants and New York State's Tuition Assistance Program (TAP), may defray training costs, but only for students who qualify for the aid. Pell grants and TAP are not available for persons with bachelor's degrees or higher, which would have excluded 42 percent of those trained under the grant. Also, students would have to carry a minimum number of credits to receive TAP aid."

Again, we believe the project can be sustained and intend to continue all efforts to replicate the program and effective practices identified over the period of the grant.

We are seeking other funding, additional classroom training and other sources of support for trainees. Specifically, as an eligible training provider, we are currently offering training developed for this program through vouchers available through the New York City's One-Stop system.

Additionally, the Alliance's new facility can more fully support technology training developed through ITEP and enable us to provide training at reduced costs to meet vouchering requirements.

### **Partnership with NYSIA for Internships and Placement Opportunities**

7) Page 8. "The Work Alliance was terminating the contractual relationship with NYSIA, assuming its role in developing participant internship and placement opportunities. However, this role will be difficult to maintain after the grant ends because the Work Alliance operates outside of the WIA One-Stop system and therefore does not receive WIA training and job development funding."

As indicated, the Alliance is a partner in New York City's One-Stop system. As a designated Workforce Center, we currently provide a range of services for WIA eligible populations. Additionally, we will continue to rely on trade associations, like NYSIA, to provide information on industry skills demands and access to employers.

### **Recommendations**

8) Page 8. "The Assistant Secretary for ETA should ensure that the Work Alliance: Implements internships and employer-specific classroom training for the employers already recruited. Increases its efforts to find employers needing IT trained workers so it can implement the project as intended in the grant. Improves project sustainability."

As highlighted in the Exemplary Practices report, the Alliance has implemented Category II training and engaged new employers. As noted above, we have also taken steps to improve sustainability.

## **II. PROGRAM OUTCOMES**

1) Page 9. "For web design and administration, we identified 120 training outcomes, or 75 percent, of the grant projected outcome as of June 30, 2001. The Work Alliance claimed two placements

that were not documented in the participant records. Moreover, the Work Alliance had not implemented the employer-specific classroom training or internships. As a result, neither training nor placement outcomes were achieved for these training activities. Without related placements, the project does not meet the intent of the ACWIA technical skills training that participants be trained and placed in highly skilled H-1B occupations.”

The Alliance recognizes inconsistency in reporting program outcomes prior to June 30, 2001. We have addressed these concerns in subsequent reporting. Discrepancies did occur because of the nature of reporting outcomes regarding training enrollment and completion and placement (as reported by CASE) and verification of these activities for billing purposes (as documented by MIS staff).

To date, the Alliance has verified that 331 individuals have participated in Category I training, with 277 positive completions recorded. For Category II participation, the Alliance has verified 245 participants enrolled in skills upgrade training. This training has resulted in 105 employer upgrades. As indicated, our placement activities have not been as successful. To date, we have verified 7 placements (See Attachment 5). While the program had reported two of these placements prior to June 2001, we were not able to verify these outcomes internally until the following quarter.

### III. REPORTED OUTLAYS

1) Page 10. “[O]utlays include payments of \$296,475 to program partners that were not reasonable, supported or allowable. As a result, we question \$296,475 or 23 percent of the Federal outlays as shown below...”

Of the \$296,475 total, \$288,875 relates to outlays to CUNY. These outlays – all of which were reasonable, supported and allowable – are documented below and in CUNY’s attached response (See Attachment 6). As to the outlay to NYSIA, for \$7,600, we agree it was problematic. As we note below, we are not challenging the auditors’ findings with reference to NYSIA.

2) Page 10. “As of June 30, 2001, the matching requirement had not been met.”

We acknowledge some initial misunderstanding regarding the matching requirement. We have taken a number of remedial actions, documented in detail below, to ensure that we meet the matching requirement.

#### CUNY-- \$288,875

3) Pages 10-11. “We question \$288,875 the Work Alliance paid to CUNY for curriculum development (\$154,075), classroom training (\$64,800), and database development (\$70,000) outlays. As detailed below, the outlays were not reasonable or documented...”

“The Work Alliance contracted with CUNY to develop curriculum for web design and administration, and in employer-specific IT skills. However, the Work Alliance did not justify the need for training when similar training was available at CUNY...”

“The Work Alliance overpaid \$64,800 for 12 training classes provided by CUNY at the contract price of \$37,800 per class. The contract price was based on 18 students at \$2,100 per student. However, CUNY charged the general public \$1,800 per class. The fixed price should have been \$32,400 (18 students at \$1,800 per student) and was overstated by \$5,400 (\$37,800 less \$32,400). As a result, we question \$64,800 representing overstated value of 12 classes at \$5,40 per class....

“CUNY submitted two invoices totaling \$70,000 based on budget estimates....As shown below, these invoices were not sufficiently documented to determine if costs were reasonable for staff, function, hours worked and pay rates charged... Personnel costs of \$57,137 were not sufficiently documented to determine if costs were reasonable for staff, function, hours worked and pay rates charged... Local travel and consultant costs claimed did not contain sufficient information to determine allowability of costs. Local travel was not supported with information on the purpose of the travel to determine if the travel was necessary and reasonable. Documentation for consultant costs were not specific enough to determine if costs exceeded the \$450 daily limit imposed by the grant and services performed were necessary and reasonable under the grant....”

The auditors allege: (1) Curriculum development, costing \$154,075, was unnecessary. (2) Classroom training cost were excessive, exceeding by \$300 per student, or \$64,800, the cost of allegedly comparable training available through CUNY’s Continuing Education program. (3) Database development costs (\$70,000) were not documented.

As CUNY documents in its attached response:

(1) Curriculum development was essential, as no comparable high-level program, directly responsive to employer need, existed at CUNY. The curriculum developed through this grant is unique both in its attention to employer need and its accessibility for students with high potential but limited academic experience.

(2) Classroom training costs were reasonable. Not only is the training a far more enriched experience than coursework offered through CUNY’s Continuing Education program, but the many add-ons the program provided – from textbooks to software – cost \$397, more than the \$300 differential the auditors alleged.

(3) Documentation fully supports the database development costs. Through June 30, 2002, we have expenditures for CASE of \$129,958.45. We have reimbursed CASE only \$110,000 to date.

#### **NYSIA--\$7,600**

4) Page 12. “We question NYSIA consultant fees of \$7,600 because such fees were for unnecessary curriculum development meetings (\$1,000) and consultant fees exceeded daily grant limits (\$6,600).”

The Alliance acknowledges an error in calculating these charges.

5) Page 12. “Consultant fees of \$1,000 were charged for participating in curriculum development meetings for CUNY classroom training. Curriculum development was not necessary because

CUNY offered similar training to other students, at a lesser price. As a result, consultant fees of \$1,000 for participating in 2 days of curriculum development meetings were not necessary. Consultant fees of \$15,000 were charged for overall program design. Daily consultant fees ranged from \$375 to \$1,750 with only 2-days [sic] charged under the \$450 daily limit. As a result, \$6,600 in consultant fees was charged in excess of daily grant limits.”

As noted above, the Alliance erred in allowing NYSIA to charge fees in excess of daily grant limits. Although curriculum development was essential to this program (please see CUNY’s attached response as well as NYSIA’s account of its work), we are not challenging the findings with respect to NYSIA (See Attachment 7).

### **Matching Requirement**

6) Page 12. “[T]he matching requirement had not been met as of June 30, 2001. The Work Alliance reported cumulative in-kind costs of \$151,448 or 12 percent of the \$1,265,393 cumulative outlays reported on the FSR for June 30, 2001. Moreover, the matching costs claimed did not comply with 29 CFR 95.23 requirements. The 25 percent [matching] requirement must be satisfied by the end of the grant period.”

We acknowledge some initial misunderstanding regarding the matching requirement. We have taken a number of remedial actions, documented in detail below, to ensure that we not only meet, but exceed, the matching requirement by the close of the grant period. (1) As we can justify our use of CUNY’s unrecovered indirect costs as a match (see below), we expect to charge the grant for \$455,000 in in-kind cost related to excess indirect costs. (2) CUNY’s commitment to the program has prompted them to provide 8 additional classes, at a cost of \$37,800 per class, free to program participants. The total value of these classes is \$302,400. (3) We will also utilize the wages and fringe benefits paid to participants by their employers during training as additional in-kind. This will exceed \$200,000. We expect that the above three items will more than exceed our match requirement of \$735,041.

### **CUNY Classes with More than 18 Students**

7) Page 13. “[T]he rate used to calculate the matching costs does not reflect the actual costs of providing training to additional students. The rate was not based on the actual incremental costs of providing training. Most costs like instructor salaries and facilities would have been covered by the fixed price paid for the class. The incremental costs would be nominal items such as additional duplicating charges and participant supplies. The \$2,100 per student rate was also used for the contract price and was determined excessive since CUNY offered similar training, to other students at a lesser price.”

Elsewhere, we have documented that the \$2,100 per student rate was not excessive, given that (1) the training is far more enriched than the allegedly “similar” coursework offered through CUNY’s Continuing Education program and (2) even if the training were identical to Continuing Education coursework (which it is not), the many add-ons, such as free textbooks, have a value of \$397, thus exceeding the cost differential of \$300.



As to the auditors' charge that the rate recognized for additional students should be incrementally the same as for the class of 18 and that therefore the increased cost should be fractional to the \$2,100 per student cost, we agree. This will be adjusted in future FSR reporting.

#### **Participant Use of CUNY Library and Labs**

8) Page 13. "The Work Alliance claimed CUNY matching costs of \$32,850 for library and computer labs used in conjunction with classroom training. OMB Circular A-21 classifies the libraries and labs as "Facilities and Administration" which are indirect costs. [sic] The Work Alliance did not have prior grant officer approval for these indirect costs, which were also not verifiable from the Work Alliance records. Library and computer lab facilities were offered to other CUNY students without additional charge."

We concur. This will be adjusted in future FSR reporting.

#### **Unrecovered CUNY Indirect Costs**

9) Page 13. "The Work Alliance claimed CUNY matching costs of \$68,198 for CUNY indirect costs in excess of the 15 percent rate provided for under the database development and program analysis contract. The Work Alliance reported that CUNY had an approved indirect cost rate of 50 percent and claimed the difference between that rate and the contract rate of 15 percent as in-kind contributions for unrecovered CUNY indirect costs. However, these costs do not comply with the requirements of 29 CFR 95.23(b) because the Work Alliance could not document the claimed approved indirect cost rate."

The Alliance received verbal approval to use the excess indirect cost rates as a match by our grant officer. We have attached a copy of CUNY negotiated indirect cost rate establishing the 50% rate (See Attachment 8) Therefore we intend on using them towards meeting our in-kind match requirement.

We expect to charge the grant for \$455,000 in in-kind cost related to excess indirect costs.

#### **Recommendations**

10) Page 13. "We recommend the Assistant Secretary for Employment and Training recover questioned costs of \$295,575."

As documented above and in CUNY's attached response, the CUNY outlays of \$288,875 were reasonable, supported and allowable. The Alliance concurs with the auditors' finding with reference to the \$7,600 outlay to NYSIA.

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

##### **Contracts with Partners**

1) Page 14. "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.'

The Work Alliance awarded four contracts totaling \$1,509,000 to CUNY and NYSIA without documentation of contract costs or price analyses."

Contractual procurement requirements do not apply here. This program was developed and proposed in concert with CUNY and NYSIA, both of whom offered unique contributions to the whole. We viewed the relationship as that of a mutual collaboration, for without their assistance this project could have not happened. They were named and included in the RFP response, not selected after the fact. Furthermore, the assertion that there was no analysis of costs is not true. In the original submission of our budget, costs had been broken down in much more detail. It was only in an effort to ease the management of the overall program that we converted CUNY and NYSIA's participation into contracted services.