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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 31st 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 31st 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and allowable, it is assumed that the recommendation for the Assistant Secretary to recover any of them will be rescinded.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 31st 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 31st 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."*

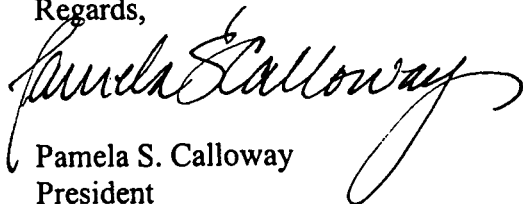
Assuming they had already been documented before the application for this grant agreement was prepared, the grantee did not document its analyses of the costs or prices of the two subgrant agreements authorized under it. The grantee will ensure that such analyses are conducted and documented for subgrant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