

**AUDIT OF THE METRO NORTH
REGIONAL EMPLOYMENT BOARD
H-1B TECHNICAL SKILLS TRAINING
GRANT NUMBER AH-11085-01-60
NOVEMBER 15, 2000 THROUGH
DECEMBER 31, 2001**

U.S. DEPARTMENT OF LABOR
OFFICE OF INSPECTOR GENERAL

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ACRONYMS

ACWIA	American Competitiveness and Workforce Improvement Act
E ³ O	Electrical/Electronic Engineering Occupations
MCC	Middlesex Community College
NECC	Northern Essex Community College (MCC)
OMB	Office of Management and Budget
REB	Metro North Regional Employment Board
USDOL	U.S. Department of Labor
UML	University of Massachusetts at Lowell
WIA	Workforce Investment Act

EXECUTIVE SUMMARY

The U.S. Department of Labor (USDOL), Office of Inspector General, conducted an audit of the Metro North Regional Employment Board's (REB) H-1B technical skills training grant for the interim period November 15, 2000 through December 31, 2001. The overall audit objective was to evaluate if the REB 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) Circulars A-122, *Cost Principles for Non-Profit Organizations* and A-21, *Cost Principles for Educational Institutions*.

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 REB \$2,372,522, for the period November 15, 2000 through November 14, 2002, to train semi-skilled incumbent workers of Lucent Technologies and AMETEK Aerospace to meet corporate needs for at least 430 skilled electrical/electronic technicians, testers and engineers.

AUDIT RESULTS

As of December 31, 2001, the REB had implemented a training project that served the target population. Additionally, the REB reported outlays in accordance with applicable Federal regulations and cost principles.

However, the project was adversely affected when Lucent, the predominant corporate partner, decided to outsource its work to contractors and lay off Lucent workers in June 2001. In response, the grant was modified in November 2001, and the REB refocused the project to include laid off Lucent employees and provide more-transferable credentials. Nevertheless, the REB needs to make additional changes to fully meet outcome goals and ensure sustainability.

Outcome Goals

- There were no wage gains and promotions because Lucent had eliminated the career level jobs. Also, AMETEK participants had not progressed far enough in the training program to achieve wage gains and promotions.
- While the REB was meeting enrollment goals, the project was not meeting goals for completion and credential attainment. Lucent layoffs were responsible for 53 percent of

the participants dropping out (172 of 324) of the certificate training before completion and for 57 percent of training completers (80 of 141) not taking the exam to attain the Lucent tester certificate. Because AMETEK's training was delayed, no participants had completed the certificate training or enrolled in the associate degree training.

- To address the affects of Lucent's downsizing, the grant modification expanded the target group of incumbent workers to include recently laid off workers. However, the grant modification did not similarly modify outcome goals to more relevant outcomes, such as placements, replacement wages and job retention.

Sustainability

- The grant relied on corporate resources to ensure training continued after the grant ended. Project sustainability became doubtful when Lucent, the predominate corporate partner, laid off most of the Merrimack Valley work force and eliminated Electrical/Electronic Engineering Occupations (E³O) career ladder jobs.

REB'S RESPONSE TO DRAFT REPORT

In response to our draft report, the Executive Director of the REB stated that REB officials were in substantial agreement with our findings. The Executive Director also noted the difficult and unforeseen circumstances of plant layoffs and the eventual plant closing and stated that she believes the project continues to meet both the obligations and the intent of its grant.

Excerpts of REB'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 ensures that the REB addresses issues regarding project sustainability, and develops appropriate outcome measures to fully evaluate the changed program.

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 and Title I-D of the Workforce Investment Act (WIA). As of March 31, 2002, USDOL conducted 4 rounds of grant competition and awarded 60 grants totaling approximately \$143 million.

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

In the third round, the REB was awarded \$2,372,522 under Grant Number AH-11085-01-60 for the period November 15, 2000 through November 14, 2002. The REB proposed and agreed to train semi-skilled, union employees of Lucent Technologies and AMETEK Aerospace in E³O to meet company needs for higher skilled electrical and electronic technicians, testers and engineers. The project targeted approximately 2,700 Lucent and 280 AMETEK employees. The project offered two levels of E³O skills training, college certificate and associate degree levels, which were comparable but separate at Lucent and AMETEK. The project also offered refresher courses in math and English on an as needed basis.

The REB administered the project and the University of Massachusetts at Lowell (UML) managed it. Northern Essex Community College (NECC) and Middlesex Community College (MCC) provided classroom training for Lucent and AMETEK employees, respectively. Lucent and AMETEK provided the grant match by paying employee salaries for at least half of the time spent in training.

Lucent training was unfavorably affected when corporate management decided to outsource manufacturing the products whose construction requires the skills provided by this H-1B grant. Lucent's first of several rounds of mass layoffs began June 2001, and reduced promotional

¹ As of March 31, 2002, Round 4 was still an open solicitation with an additional \$87 million available.

opportunities for trained workers. The grant was modified in November 2001 to include laid off Lucent workers and provide more-transferable credentials.

- Originally, the REB planned for two industry-recognized Lucent certifications to be awarded for Lucent training. Later, the REB added an *Electronic Equipment Technology Certificate* from NECC to provide greater job mobility for Lucent participants.
- AMETEK originally planned for one credential, an Associate in Science degree from MCC upon successful completion of both levels of training. The REB redesigned the courses given by MCC so that after completing the first level, participants would obtain an *Electronic Telecommunications Systems Certificate*.

The REB is a private, not-for-profit organization under section 501(c)(3) of the Internal Revenue Code. The REB serves as the region's workforce investment board under WIA and administers Federal and state workforce initiatives for the local area. Previously, the REB served as the Private Industry Council under the Job Training Partnership Act.

AUDIT OBJECTIVES

The overall audit objective was to evaluate if the REB 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 Circulars A-122, *Cost Principles for Non-Profit Organizations* and A-21, *Cost Principles for Educational Institutions*.

AUDIT SCOPE AND METHODOLOGY

The interim audit period was from November 15, 2000 through December 31, 2001. In performing this audit, we reviewed the Solicitation for Grant Applications and the grant agreement to determine the requirements and performance measures of the grant. We interviewed staff at the REB, the UML Research Foundation, and the UML Labor Extension Program, as well as site coordinators and instructors at Lucent and AMETEK. We examined participant records and reviewed other materials related to project implementation. We made onsite visits to Lucent and AMETEK to observe training in progress.

We audited cumulative net outlays of \$1,363,388, consisting of the Federal share of \$777,685 and third party in-kind contributions of \$585,703, claimed on the Financial Status Report for the period ending December 31, 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 \$543,222 or 70 percent of reported Federal outlays.

We considered the REB'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 REB. We performed tests of compliance with certain provisions of laws, regulations, and the grant to evaluate if the REB was meeting the requirements of the grant and that reported costs were allocable in accordance with applicable Federal regulations and OMB circulars. However, our objective was not to provide an opinion on overall compliance with such provisions and, accordingly, we do not express such an opinion. 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*; OMB Circular A-21, *Cost Principles for Educational Institutions*; and the requirements of the grant.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests, as we considered necessary to satisfy the objectives of the audit. We conducted fieldwork from April 1, 2002 through April 19, 2002, at the REB located in Malden, Massachusetts, and at UML located in Lowell, Massachusetts. We visited the training facilities on April 17, 2002, at Lucent Technologies in North Andover, Massachusetts, and AMETEK Aerospace in Wilmington, Massachusetts. We conducted an exit conference with the REB on August 16, 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 [sic] resources from this initiative have been exhausted.”

As of December 31, 2001, the REB had implemented a training project that served the target population. However, the training project was adversely affected by Lucent corporate management decisions to contract out most of its work, which undermined project sustainability.

TRAINING PROVIDED

The project provided training in E³O consistent with grant requirements. NECC and MCC provided classroom training for Lucent and AMETEK employees, respectively. The project offered two levels of E³O skills training, certificate and associate degree levels, and refresher courses in math and English as needed.

The target population was incumbent and recently laid off employees of Lucent’s Merrimack Valley facility, and incumbent AMETEK employees. The workers were also members of the Communication Workers of America (Lucent) and the International Union of Electrical workers (AMETEK). As of December 31, 2001, laid off workers represented 59 percent (306 of 523) of program participants.

PROJECT SUSTAINABILITY

The grant relied on corporate resources to ensure training continued for incumbent workers after the grant ended. When Lucent, the predominant corporate partner, laid off most of the Merrimack Valley work force and eliminated E³O career ladder jobs, project sustainability became doubtful as Lucent is not likely to continue to participate after the grant. The REB needs to:

- identify resources for training laid off workers after the grant ends; and
- coordinate with new key partners (i.e., contract manufacturers who now do the manufacturing previously done by Lucent) to ensure that training meets employer needs.

REB'S RESPONSE

The REB indicated that it has worked closely with unions, the Merrimack Valley REB, its Advisory Board, and the National Emergency Grant to ensure the sustainability of the project. The REB also stated that the contract manufacturer had agreed, subsequent to our audit period, to both the benefit of H1-B training and to the paid work-release commitments.

OIG'S COMMENTS

While the National Emergency Grant will enable the REB to continue training and employment services for the laid off workers not hired by the contract manufacturer, those grants are of a limited duration and will only sustain the program temporarily.

RECOMMENDATION

We recommend the Assistant Secretary for Employment and Training ensures that the REB addresses issues regarding project sustainability.

II. PROGRAM OUTCOMES

According to the grant, the intent of the project was to train semi-skilled incumbent workers to obtain higher-level skills and move into H-1B occupations at Lucent and AMETEK. The grant summarized program outcomes as follows:

The project increases wages, offers credits and certification, provides job upgrades and promotions and enhances all around job security for workers.

Overall, participants received training, college credits and were working toward certification and associate degrees. However, as of December 31, 2001, there were no increased wages and promotions because Lucent's downsizing efforts eliminated E³O career ladder jobs.

To address the affects of Lucent's downsizing, the November 2001 grant modification expanded the target group of incumbent workers to include recently laid off workers. However, the grant modification did not similarly modify outcome goals to adequately measure project achievements.

OUTCOME ACHIEVEMENT

The grant established outcome goals for wage gains and promotions, and for training enrollment, completion, and credential attainment. As of December 31, 2001, the REB will not meet wage gains and promotions due to Lucent's downsizing. Moreover, while the REB was meeting enrollment goals, the project was not meeting other training goals for E³O skill training.

Wage Gains and Promotions

The grant planned for 345 participants (321 from Lucent and 24 from AMETEK) to receive wage gains and promotions at completion of certificate and associate degree training. However, as of December 31, 2001, there were no promotions or wage gains.

Lucent

As a result of downsizing, 306 of the 523 program participants were laid off. Lucent had promoted 60 participants prior to the layoff, but those promotions were provisional and were lost when layoffs began. Because of corporate downsizing, the REB did not expect a meaningful number of participants to be promoted at Lucent. The grant-planned outcome for wage gains and promotions will not be met since Lucent participants represented 93 percent of the grant goal.

AMETEK

As of December 31, 2001, AMETEK participants had not progressed far enough in the training program to achieve wage gains and promotions.

Training Goals

The grant planned for at least 430 participants to receive E³O skill training. As summarized in the table below, the REB was meeting enrollment goals but not other training goals for E³O skill training. Lucent downsizing resulted in high drop out rates for training. The AMETEK training implementation was delayed, so participants had not yet progressed to associate degree training.

Training Goals	Lucent			AMETEK		
	Planned	Actual		Planned	Actual	
		Number	Rate		Number	Rate
Certificate Training						
Participants Enrolled	400	324	81%	30	27	90%
Completion Rate	80%	141	44%	80%	0	0%
Rate of Training Completers						
Attaining Credentials	80%	48	34%	---	---	---
Associate Degree Training						
Participants Enrolled	60	58	97%	10	0	0
Completed Training and Attained Degree	80%	0	0%	80%	0	0%

Lucent

Lucent layoffs were responsible for 53 percent of the participants dropping out (172 of 324) of the certificate training before completion and for 57 percent of training completers (80 of 141) not taking the exam to attain the Lucent tester certificate. To compensate for layoffs at Lucent and the resulting low number of completers taking the Lucent exam, the REB worked with Northern Essex Community College to provide training resulting in a college certificate for active participants who complete an additional course along with the original training.

The new college certificate was added as a credential as of the November 2001 grant modification. As of December 31, 2001, 49 Lucent participants were active in the program and could take the expanded training to earn the automatic college certification. The attained credential rate would increase from 34 percent (48 of 141) to 51 percent (97 of 190), provided that all 49 active participants successfully complete the training.

AMETEK

The AMETEK training was significantly delayed with the first training class held in the Fall of 2001. The November 2001 grant modification allowed participants to double up on training. However, due to its late start, no AMETEK participants had yet completed the certificate training or had enrolled in the associate degree training.

MEASUREMENT AND REPORTS

The grant required that the REB 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 REB collected in its databases the information needed to report required outcome goals except for wage gains and promotions, because Lucent's downsizing eliminated the career ladder. To address the affects of Lucent's downsizing, the grant modification expanded the target group of incumbent workers to include recently laid off workers. However, the grant modification did not similarly modify outcome goals to adequately measure project achievements. The REB should have replaced outcome goals for Lucent incumbent workers with outcome goals for Lucent dislocated workers, such as training related placement, replacement wage, and retention.

Moreover, the REB's performance reports focused on quarterly statistics and did not provide sufficient cumulative information to gauge how well the project was meeting its overall goals. The REB reported course completions but did not report training level completions, which is the goal under the grant.

REB'S RESPONSE

The REB stated that it has submitted a request for further modification of its grant, broadening the scope of training to include additional H-1B occupations. REB believes these adjustments will allow it to meet at least 90 percent of the original outcomes goal.

OIG'S COMMENTS

The REB's response did not address developing outcome goals for laid off participants and reporting all required outcomes.

RECOMMENDATIONS

We recommend the Assistant Secretary for Employment and Training ensures that the REB:

- develops outcome goals such as placement, placement wage, retention and follow-up for participants laid off from Lucent; and
- reports all grant required outcomes such as Training Level completions.

III. REPORTED OUTLAYS

The REB claimed cumulative net outlays of \$1,363,388, consisting of the Federal share of \$777,685 and third party in-kind contributions of \$585,703 on the Financial Status Report for the period ending December 31, 2001. There are no questioned costs in this report.



Metro North Regional Employment Board

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September 12, 2002

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

Dear Mr. Brooks:

Enclosed please find our written comments to the draft audit of the Metro North Regional Employment Board H-1B Skills Training Grant.

In reviewing the draft, we were in substantial agreement with the content presented and pleased that a complex grant was so well understood and fairly presented. There are, nonetheless, a few points we would like to clarify given the chaotic circumstances of layoffs and eventual plant closing at Lucent Technologies.

We appreciate the efforts of the audit team.

Regards,

A handwritten signature in black ink that reads "Nancy Brown".

Nancy Brown
Executive Director

Audit of the Metro North Regional Employment Board
H-1B Technical Skills Training Grant
Number AH-11085-01-60
November 15, 2000 through December 31, 2001

DRAFT REPORT: REB REVIEW AND COMMENTS

The audit process, as noted in the report, was conducted roughly halfway through the planned 2-year training program, and in the midst of massive layoffs of the targeted incumbent worker population. In reviewing the draft report, we were in substantial agreement with the content presented and pleased that a complex grant caught in an extremely difficult situation was so well understood and fairly presented. There are, nonetheless, a few points we would like to clarify further given the chaotic circumstances of the waves of layoffs and eventual plant closing.

"The REB needs to make additional changes to fully meet outcome goals...." [page 1]

Response: Numerous changes have been made to meet outcome goals.

As the audit report described fairly, the grant had responded in a number of ways to adjust to successive and massive layoffs in order to achieve proposed outcome goals. Class configurations, locations, and content were adjusted to accommodate constantly redefined shifts and positions and to provide trainees with the most transferable and industry-recognized skills and credentials possible.

The audit report describes our modification to cast the training net wider, allowing for training to include the laid off and other non-incumbent workers. Approval of this modification in fact resulted in new enrollments at the highest skill level of training. As layoffs continued, however, culminating in Lucent's ultimate sale of the plant, several strategies were implemented *after the period of the audit*.

In light of continued monitoring with our partners of the regional labor force needs, it became clear that the demand for jobs has shifted in the current economy; in response, we have submitted a request for further modification, broadening the scope of training to include additional H1-B occupations. We anticipate that *these adjustments will allow us to meet at least 90% of the original outcomes projection*, despite a changed economy.

"...project sustainability became doubtful as Lucent is not likely to continue to participate after the grant." [page 6]

"...ensure that the REB addresses issues regarding project sustainability." [Recommendations, page 7]

Response: We have met our commitment to sustainability as described in our contract.

Our contract addresses sustainability through the following commitments:

- a) match contribution in the form of paid work release time

The match contribution of \$585,703 as of December 31, 2001, verified in the audit report, had already achieved 99% of the required 25% match of \$593,130, and as of this date has far exceeded the required match. A Plus (doing business as Solelectron), Lucent's subcontractor, continues to contribute match funds.

- b) construction of an on-site training facility for ongoing use beyond the grant

The on-site facility was in fact built at Lucent's expense and has been in continuous use as a training facility for incumbent Lucent and A Plus employees.

- c) use of tuition reimbursement funds for continued training beyond the scope of grant-funded training.

At the time of the audit, education benefits available to laid-off union workers were in negotiation; tuition reimbursement funds continued to be available to incumbent workers. Since the audit, as described above, education benefits are in fact available to laid off union workers under negotiated agreements, and this benefit has been expanded to include A Plus employees. These benefits are carefully coordinated with the Lucent Task Force members and the National Emergency Grant Services to ensure continuity of training while maximizing use of all resources. Our current modification request includes job placement and case management services for laid off workers to facilitate this coordination.

"The REB needs to identify resources for training laid-off workers after the grant ends."
[page 6]

Response: Despite massive layoffs, the REB has worked closely with unions, the Merrimack Valley REB, its Advisory Board, and the National Emergency Grant to ensure that both incumbents and laid off workers continue to train into higher level skills beyond the scope of the grant.

As reported in quarterly narrative reports, the REB and the grant director have been regular participants on the Lucent Task Force convened by the Merrimack Valley REB. This task force brings together personnel from the DOL National Emergency Grant, Lucent Human Resources, career centers, and unions to address precisely the streamlining of services available for continued training and job placement. Our current modification request also includes case management services provided by Career Centers for laid off workers.

"The REB needs to coordinate with new key partners (i.e. contract manufacturers who now do the manufacturing previously done by Lucent) to ensure that training meets employer needs." [page 6]

Response: The contract manufacturer has in fact (subsequent to the audit period) agreed to both the benefit of H1-B training and to the paid work-release commitments.

During the audit period, lengthy negotiations were ongoing between Lucent and its ultimate subcontractor, A Plus. Agreements were not yet final, and A Plus in fact did not move into the Valley Works plant and begin operations until June 1, 2002. However, the Lucent site coordinator and project director were actively exploring training issues with A Plus in anticipation of the transition. It is noteworthy that although Lucent has contracted much of its operation to A Plus, through negotiations A Plus has agreed to participate in the H-1B training program and to honor the original paid work-release agreements for employees continuing to train as testers and technicians.

Conclusion

We believe that this grant project has responded quickly and responsibly to unusual and unforeseen circumstances, and that the project continues to meet both the obligations and the intent of H1-B funding.