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H-1B VISA PROGRAM

Multifaceted Challenges Warrant Re-examination of Key Provisions

Statement for the Record by Andrew Sherrill, Director Education, Workforce, and Income Security



Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to comment on the H-1B program.

Congress created the current H-1B program in 1990 to enable U.S. employers to hire temporary, foreign workers in specialty occupations. The law capped the number of H-1B visas issued per fiscal year at 65,000, although the cap has fluctuated over time with legislative changes. The H-1B cap and the program itself have been a subject of continued controversy. Proponents of the program argue that it allows companies to fill important and growing gaps in the supply of U.S. workers, especially in the science and technology fields. Opponents of the program argue that there is no skill shortage and that the H-1B program displaces U.S. workers and undercuts their pay. Others argue that the eligibility criteria for the H-1B visa should be revised to better target foreign nationals whose skills are undersupplied in the domestic workforce.

Our comments in this statement for the record are based on the results of our recent examination of the H-1B program, highlighting the key challenges it presents for H-1B employers, H-1B and U.S. workers, and federal agencies.¹ Specifically, this statement presents information on (1)employer demand for H-1B workers; (2) how the H-1B cap impacts employers' costs and whether they move operations overseas; (3) the government's ability to track the cap and H-1B workers over time; and (4)how well the provisions of the H-1B program protect U.S. workers. A detailed explanation of our methodology can be found in our report. Our work was conducted from May 2009 through January 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

From 2000 to 2009, the demand for new H-1B workers tended to exceed the cap, as measured by the numbers of initial petitions submitted by employers who are subject to the cap. While the majority (68 percent) of

¹See GAO, *H-1B Visa Program: Reforms Are Needed to Minimize the Risks and Costs of Current Program*, GAO-11-26 (Washington, D.C.: Jan. 14, 2011).

employers were approved for one H-1B worker, demand was driven to a great extent by a small number (fewer than 1 percent) of H-1B employers garnering over one quarter of all H-1B approvals.² Cap-exempt employers, such as universities and research institutions, submitted over 14 percent of the initial petitions filed during this period.

Most of the 34 H-1B employers GAO interviewed reported that the H-1B program and cap created additional costs for them, such as delays in hiring and projects, but said the global marketplace and access to skilled labor—not the cap—drive their decisions on whether to move activities overseas.

Limitations in agency data and systems hinder tracking the cap and H-1B workers over time. For example, data systems among the various agencies that process these individuals are not linked so it is difficult to track H-1B workers as they move through the immigration system. System limitations also prevent the Department of Homeland Security from knowing precisely when and whether the annual cap has been reached each year.

Provisions of the H-1B program that could serve to protect U.S. workers such as the requirement to pay prevailing wages, the visa's temporary status, and the cap itself—are weakened by several factors. First, program oversight is fragmented between four agencies and restricted by law. Second, the H-1B program lacks a legal provision for holding employers accountable to program requirements when they obtain H-1B workers through a staffing company—a company that contracts out H-1B workers to other companies. Third, statutory changes made to the H-1B program over time—i.e. that broadened job and skill categories for H-1B eligibility, increased exceptions to the cap, and allowed unlimited H-1B visa extensions while holders applied for permanent residency—have in effect increased the pool of H-1B workers beyond the cap and lowered the bar for eligibility.

Background

The H-1B program enables companies in the United States to hire foreign workers for work in specialty occupations on a temporary basis. A specialty occupation is defined as one requiring theoretical and practical

 $^{^{2}}$ Over the 10-year period, about 94 percent of all submitted petitions (initial and extensions) were approved.

application of a body of highly specialized knowledge and the attainment of a bachelor's degree or higher (or its equivalent) in the field of specialty.

The law originally capped the number of H-1B visas at 65,000 per year; the cap was raised twice pursuant to legislation,³ but in fiscal year 2004, the cap reverted to its original level of 65,000. Statutory changes also allowed for certain categories of individuals and companies to be exempt from or to receive special treatment under the cap. The American Competitiveness in the Twenty-First Century Act of 2000 exempted from the cap all individuals being hired by institutions of higher education and also nonprofit and government-research organizations. More recently, the H-1B Visa Reform Act of 2004 allowed for an additional 20,000 visas each year for foreign workers holding a master's degree or higher from an American institution of higher education to be exempted from the numerical cap limitation. In 2004, consistent with free trade agreements, up to 6,800 of the 65,000 H-1B visas may be set aside for workers from Chile and Singapore.⁴

While the H-1B visa is not considered a permanent visa, H-1B workers can apply for extensions and pursue permanent residence in the United States. Initial petitions are those filed for a foreign national's first-time employment as an H-1B worker and are valid for a period of up to 3 years. Generally, initial petitions are counted against the annual cap. Extensions—technically referred to as continuing employment petitions may be filed to extend the initial petitions for up to an additional 3 years. Extensions do not count against the cap. While working under an H-1B visa, a worker may apply for legal permanent residence in the United States. After filing an application for permanent residence, H-1B workers are generally eligible to obtain additional 1-year visa extensions until their U.S. Permanent Resident Cards, commonly referred to as "green cards," are issued.

The Departments of Labor (Labor), Homeland Security (Homeland Security), and State (State) each play a role in administering the

³The cap was increased to 115,000 for fiscal years 1999 and 2000 by the American Competitiveness and Workforce Improvement Act of 1998 and to 195,000 for fiscal years 2001 through 2003 by the American Competitiveness in the Twenty-First Century Act of 2000.

⁴For more information about key H-1B laws and related provisions, please refer to appendix V of GAO-11-26.

application process for an H-1B visa. Labor's Employment and Training Administration (Employment and Training) receives and approves an initial application, known as the Labor Condition Application (LCA), from employers. The LCA, which Labor reviews as part of the application process, requires employers to make various attestations designed to protect the jobs of domestic workers and the rights and working conditions of temporary workers. Homeland Security's U.S. Citizenship and Immigration Services (USCIS) reviews an additional employer application, known as the I-129 petition, and ultimately approves H-1B visa petitions. For prospective H-1B workers residing outside the United States, State interviews approved applicants and compares information obtained during the interview against each individual's visa application and supporting documents, and ultimately issues the visa. For prospective H-1B workers already residing in the United States, USCIS updates the workers' visa status without involvement from State.

USCIS has primary responsibility for administering the H-1B cap. Generally, it accepts H-1B petitions in the order in which they are received. However, for those years in which USCIS anticipates that the number of I-129 petitions filed will exceed the cap, USCIS holds a "lottery" to determine which of the petitions will be accepted for review. For the lottery, USCIS uses a computer-generated random selection process to select the number of petitions necessary to reach the cap.

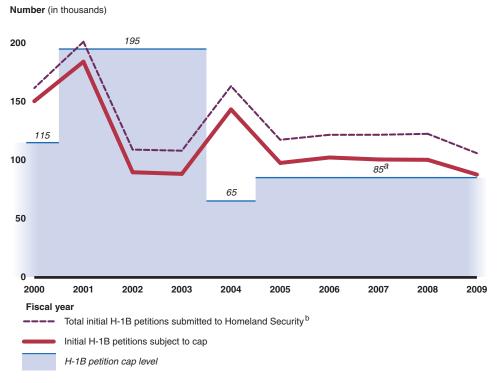
With regard to enforcement, Labor, the Department of Justice (Justice), and Homeland Security each have specific responsibilities. Labor's Wage and Hour Division (Wage and Hour) is responsible for enforcing program rules by investigating complaints made against employers by H-1B workers or their representatives and assessing penalties when employers are not in compliance with the requirements of the program. Justice is responsible for investigating complaints made by U.S. workers who allege that they have been displaced or otherwise harmed by the H-1B visa program. Finally, USCIS's Directorate of Fraud Detection and National Security (FDNS) collaborates with its Immigration and Customs Enforcement Office to investigate fraud and abuse in the program.

Demand for H-1B Workers Exceeded the Cap in Most Years and Was Driven by a Small Number of Employers	Over the past decade, demand for H-1B workers tended to exceed the cap, as measured by the number of initial petitions submitted by employers, one of several proxies used to measure demand since a precise measure does not exist. ⁵ As shown in figure 1, from 2000 to 2009, initial petitions for new H-1B workers submitted by employers who are subject to the cap exceeded the cap in all but 3 fiscal years. However, the number of initial petitions subject to the cap is likely to be an underestimate of demand since, once the cap has been reached, employers subject to the cap may stop submitting petitions and Homeland Security stops accepting petitions.
	If initial petitions submitted by employers exempt from the cap are also included in this measure (also shown in figure 1), the demand for new H- 1B workers is even higher, since over 14 percent of all initial petitions across the decade were submitted by employers who are not subject to the cap. In addition to initial requests for H-1B workers, employers requested an average of 148,000 visa extensions per year, for an average of over

280,000 annual requests for H-1B workers.

⁵We analyzed other proxies for demand including the number of employers submitting petitions for H-1B workers, the time it takes to reach the cap, and requests for high-skilled workers via other visa programs; however, none of these measures allowed us to provide a precise measure of demand. See GAO-11-26 for more detailed information on these indicators of demand.







^aIncludes 20,000 visas allocated to workers graduating from U.S. master's programs or higher.

^bTotal initial petitions submitted to USCIS includes all initial petitions that were entered into its data system, including those from cap-exempt employers. Reported numbers only reflect petitions entered into USCIS's Computer Linked Application and Management System, Version 3 (CLAIMS 3) data system and processed by USCIS, not the total number submitted, which is likely higher in years when the cap is reached. Petitions submitted under the master's cap cannot be differentiated and are therefore included in these data.

Over the decade, the majority (over 68 percent) of employers were approved to hire only one H-1B worker, while fewer than 1 percent of employers were approved to hire almost 30 percent of all H-1B workers. Among these latter employers are those that function as "staffing companies" that contract out H-1B workers to other companies.⁶ The prevalence of such companies participating in the H-1B visa program is

⁶Staffing companies, many of which also outsource work overseas, may place H-1B workers at the worksites of other employers as part of their business model.

difficult to determine. There are no disclosure requirements and Homeland Security does not track such information. However, using publicly available data, we learned that at least 10 of the top 85 H-1B-hiring employers in fiscal year 2009 participated in staffing arrangements, of which at least 6 have headquarters or operations located in India. Together, in fiscal year 2009, these 10 employers garnered nearly 11,456 approvals, or about 6 percent of all H-1B approvals. Further, 3 of these employers were among the top 5 H-1B-hiring companies, receiving 8,431 approvals among them.

Most Interviewed Companies Said the H-1B Cap Was Not a Key Factor in Their Decisions to Move Operations Overseas but Cited Other Program Burdens To better understand the impact of the H-1B program and cap on H-1B employers, GAO spoke with 34 companies across a range of industries about how the H-1B program affects their research and development (R&D) activities, their decisions about whether to locate work overseas, and their costs of doing business.⁷ Although several firms reported that their H-1B workers were essential to conducting R&D within the U.S., most companies we interviewed said that the H-1B cap had little effect on their R&D or decisions to locate work offshore. Instead, they cited other reasons to expand overseas including access to pools of skilled labor abroad, the pursuit of new markets, the cost of labor, access to a workforce in a variety of time zones, language and culture, and tax law. The exception to this came from executives at some information technology services companies, two of which rely heavily on the H-1B program. Some of these executives reported that they had either opened an offshore location to access labor from overseas or were considering doing so as result of the H-1B cap or changes in the administration of the H-1B program.

Many employers we interviewed cited costs and burdens associated with the H-1B cap and program. The majority of the firms we spoke with had H-1B petitions denied due to the cap in years when the cap was reached early in the filing season. In these years, the firms did not know which, if any, of their H-1B candidates would obtain a visa, and several firms said that this created uncertainty that interfered with both project planning and candidate recruitment. In these instances, most large firms we interviewed

⁷GAO interviewed 34 companies—including individual structured interviews with 31 companies and group discussions with 3 companies. The selection of 31 firms constitutes a nongeneralizable sample and cannot be used to make inferences beyond the specific 31 firms selected. See appendix I of GAO-11-26 for more information on our focus groups and individual interviews.

reported finding other (sometimes more costly) ways to hire their preferred job candidates. For example, several large firms we spoke with were able to hire their preferred candidates in an overseas office temporarily, later bringing the candidate into the United States, sometimes on a different type of visa. On the other hand, small firms were sometimes unable to afford these options, and were more likely to fill their positions with different candidates, which they said resulted in delays and sometimes economic losses, particularly for firms in rapidly changing technology fields.

Interviewed employers also cited costs with the adjudication and lottery process and suggested a variety of reforms:

- The majority of the 34 firms we spoke with maintained that the review and adjudication process had become increasingly burdensome in recent years, citing large amounts of paperwork required as part of the adjudication process. Some experts we interviewed suggested that to minimize paperwork and costs, USCIS should create a risk-based adjudication process that would permit employers with a strong track-record of regulatory compliance in the H-1B program to access a streamlined process for petition approval.
- In addition, several industry representatives told us that because the lottery process does not allow employers to rank their top choices, firms do not necessarily receive approval for the most desired H-1B candidates. Some experts suggested revising the system to permit employers to rank their applications so that they are able to hire the best qualified worker for the job in highest need.
- Finally, entrepreneurs and venture capital firms we interviewed said that program rules can inhibit many emerging technology companies and other small firms from using the H-1B program to bring in the talent they need, constraining the ability of these companies to grow and innovate in the United States. Some suggested that, to promote the ability of entrepreneurs to start businesses in the United States, Congress should consider creating a visa category for entrepreneurs, available to persons with U.S. venture backing.

In our report, we recommended that USCIS should, to the extent permitted by its existing statutory authority, explore options for increasing the flexibility of the application process for H-1B employers. In commenting on our report, Homeland Security and Labor officials expressed reservations about the feasibility of our suggested options, but

	Homeland Security officials also noted efforts under way to streamline the application process for prospective H-1B employers. For example, Homeland Security is currently testing a system to obtain and update some company data directly from a private data vendor, which could reduce the filing burden on H-1B petitioners in the future. In addition, Homeland Security recently proposed a rule that would provide for employers to register and learn whether they will be eligible to file petitions with USCIS prior to filing an LCA, which could reduce workloads for Labor and reduce some filing burden for companies. ⁸
Limitations in Agency Data and Systems Hinder Tracking the Cap and H-1B Workers Over Time	The total number of H-1B workers in the United States at any one point in time—and information about the length of their stay—is unknown due to data and system limitations. First, data systems among the various agencies that process H-1B applications are not easily linked, which makes it impossible to track individuals as they move through the application and entry process. Second, H-1B workers are not assigned a unique identifier that would allow agencies to track them over time or across agency databases—particularly if and when their visa status changes. Consequently, USCIS is not able to track the H-1B population with regard to: (1) how many approved H-1B workers living abroad have actually received an H-1B visa and/or ultimately entered the country; (2) whether and when H-1B workers have applied for or were granted legal permanent residency, leave the country, or remain in the country or who have converted to legal permanent residency.
	Limitations in USCIS's ability to track H-1B applications also hinder it from knowing precisely when and whether the annual cap has been reached each year—although the Immigration and Nationality Act requires the department to do so. ⁹ According to USCIS officials, its current processes do not allow them to determine precisely when the cap on initial petitions is reached. To deal with this problem, USCIS estimates when the number of approvals has reached the statutory limit and stops accepting new petitions.
	Although USCIS is taking steps to improve its tracking of approved petitions and of the H-1B workforce, progress has been slow to date.

⁸Registration Requirement for Petitioners Seeking to File H-1B Petitions on Behalf of Aliens Subject to the Numerical Limitations, 76 Fed Reg. 11,686, 11,698-11,689 (Mar. 3, 2011).

⁹8 U.S.C. § 1184(g).

Through its "Transformation Program," USCIS is developing an electronic I-129 application system and is working with other agencies to create a cross-reference table of agency identifiers for individuals applying for visas that would serve as a unique person-centric identifier.¹⁰ When this occurs, it will be possible to identify who is in the United States at any one point in time under any and all visa programs. However, the agency faces challenges with finalizing and implementing the Transformation Program.¹¹ We recommended that Homeland Security, through its Transformation Program, take steps to (1) ensure that linkages to State's tracking system will provide Homeland Security with timely access to data on visa issuances, and (2) that mechanisms for tracking petitions and visas against the cap be incorporated into business rules to be developed for USCIS's new electronic petition system.¹²

While a complete picture of the H-1B workforce is lacking, data on approved H-1B workers provides some information about the H-1B workforce. Between fiscal year 2000 and fiscal year 2009, the top four countries of birth for approved H-1B workers (i.e., approved initial and extension petitions from employers both subject to the cap and capexempt) were India, China, Canada, and the Philippines. Over 40 percent of all such workers were for positions in system analysis and programming. As compared to fiscal year 2000, in fiscal year 2009, approved H-1B workers were more likely to be living in the United States than abroad at the time of their initial application, to have an advanced degree, and to have obtained their graduate degrees in the United States. Finally, data on a cohort of approved H-1B workers whose petitions were submitted between January 2004 and September 2007, indicate that at least 18 percent of these workers subsequently applied for permanent

¹⁰The "Transformation Program" is a multiprogram, multiyear effort to modernize business processes and information systems.

¹¹For more information on these challenges, see GAO, *Homeland Security: Despite Progress, DHS Continues to Be Challenged in Managing Its Multi-Bullion Dollar Annual Investment in Large-Scale Information Technology Systems*, GAO-09-1002T (Washington, D.C.: Sept.15, 2009).

¹²See GAO-11-26 for complete information on our recommendations, matters for Congressional consideration, and comments we received from the agencies involved in the H-1B program.

	residence in the United States—for which about half were approved, 45 percent were pending, and 3 percent were denied by 2010. ¹³
Restricted Agency Oversight and Statutory Changes Weaken Protections for U.S. Workers	The provisions of the H-1B program designed to protect U.S. workers— such as the requirement to pay prevailing wages, the visa's temporary status, and the cap on the number of visas issued—are weakened by several factors. First, H-1B program oversight is shared by four federal agencies and their roles and abilities to coordinate are restricted by law. As a result, there is only nominal sharing of the kind of information that would allow for better employer screening or more active and targeted pursuit of program abuses. For example, the review of employer applications for H-1B workers is divided between Labor and USCIS, and the thoroughness of both these reviews is constrained by law. In reviewing the employer's LCA, Labor is restricted to looking for missing information and obvious inaccuracies, such as an employer's failure to checkmark all required boxes on a form denoting compliance. USCIS's review of the visa petition, the I-129, is not informed by any information that Labor's Employment and Training Administration may possess on suspicious or problematic employers. With regard to enforcement of the H-1B worker protections, Wage and Hour investigations are constrained, first, by the fact that its investigators do not receive from USCIS any information regarding suspicious or problematic employers. They also do not have access to the Employment and Training's database of employer LCAs. Second, in
	contrast to its authority with respect to other labor protection programs, Wage and Hour lacks subpoena authority to obtain employer records for H-1B cases. According to investigators, it can take months, therefore, to pursue time-sensitive investigations when an employer is not cooperative. To improve Labor's oversight over the H-1B program, we recommended that its Employment and Training Administration grant Wage and Hour searchable access to the LCA database. Further, we asked Congress to consider granting Labor subpoena power to obtain employer records during investigations under the H-1B program. To reduce duplication and

¹³This cohort includes workers whose approved petitions (initial petitions from employers both subject to the cap and cap-exempt) were submitted between Jan. 1, 2004, and Sept. 30, 2007. Of the 311,847 approved petitions reviewed, we were able to obtain unique matches with US-VISIT data for only 169,349 petitions. Of these, we determined that 56,454 (18 percent of 311,847) submitted a petition for permanent residence by 2010.

fragmentation in the administration and oversight of the application process, consistent with past GAO matters for Congressional consideration, we asked Congress to consider streamlining the H-1B approval process by eliminating the separate requirement that employers first submit an LCA to Labor for review and certification, since another agency (USCIS) subsequently conducts a similar review of the LCA.¹⁴

Another factor that weakens protection for U.S. workers is the fact that the H-1B program lacks a legal provision to hold employers accountable to program requirements when they obtain H-1B workers through staffing companies. As previously noted, staffing companies contract H-1B workers out to other employers. At times, those employers may contract the H-1B worker out again, creating multiple middlemen, according to Wage and Hour officials (see fig. 2). They explained that the contractual relationship, however, does not transfer the obligations of the contractor for worker protection to subsequent employers. Wage and Hour investigators reported that a large number of the complaints they receive about H-1B employers were related to the activities of staffing companies. Investigators from the Northeast region-the region that receives the highest number of H-1B complaints-said that nearly all of the complaints they receive involve staffing companies and that the number of complaints are growing. H-1B worker complaints about these companies frequently pertained to unpaid "benching"-when a staffing company does not have a job placement for the H-1B worker and does not pay them. In January 2010, Homeland Security issued a memo-commonly referred to as the "Neufeld Memo"—on determining when there is a valid employeremployee relationship between a staffing company and an H-1B worker for whom it has obtained a visa; however officials indicated that it is too early to know if the memo has improved program compliance. To help ensure the full protection of H-1B workers employed through staffing companies, in our report we asked that Congress consider holding the employer where an H-1B visa holder performs work accountable for meeting program requirements to the same extent as the employer that submitted the LCA form.

¹⁴To further improve oversight as well as transparency of H-1B program requirements, we also recommended that Labor require businesses to post notice of the intent to hire H-1B workers on a centralized Web site accessible to the public—similar to other temporary visa programs.

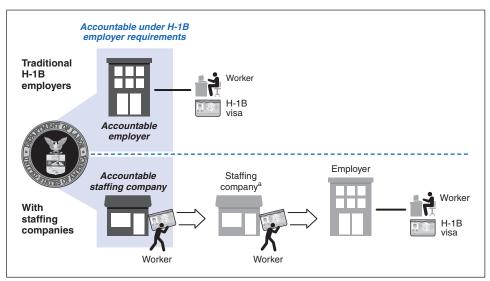


Figure 2: Limited Accountability for Employers Hiring H-1B Workers through Staffing Companies

Source: GAO review of Labor information.

^aIn some cases there may be more than one staffing company involved in placing the H-1B worker.

Finally, changes to program legislation have diluted program provisions for protecting U.S. workers by allowing visa holders to seek permanent residency, broadening the job and skill categories for H-1B eligibility, and establishing exemptions to the cap. The Immigration Act of 1990 removed the requirement that H-1B visa applicants have a residence in a foreign country that they have no intention of abandoning. Consequently, H-1B workers are able to pursue permanent residency in the United States and remain in the country for an unlimited period of time while their residency application is pending. The same law also broadened the job and skill categories for which employers could seek H-1B visas. Labor's LCA data show that between June 2009 and July 2010, over 50 percent of the wage levels reported on approved LCAs were categorized as entry-level (i.e. paid the lowest prevailing wage levels). However, such data do not, by themselves, indicate whether these H-1B workers were generally less skilled than their U.S. counterparts, or whether they were younger or more likely to accept lower wages. Finally, exemptions to the H-1B cap have increased the number of H-1B workers beyond the cap. For example, 87,519 workers in 2009 were approved for visas (including both initial and extensions) to work for 6,034 cap-exempt companies.

Conclusions	Taken together, the multifaceted challenges identified in our work show that the H-1B program, as currently structured, may not be used to its full potential and may be detrimental in some cases. Although we have recommended steps that executive agencies overseeing the program may take to improve tracking, administration, and enforcement, the data we present raise difficult policy questions about key program provisions that are beyond the jurisdiction of these agencies.
	The H-1B program presents a difficult challenge in balancing the need for high-skilled foreign labor with sufficient protections for U.S. workers. As Congress considers immigration reform in consultation with diverse stakeholders and experts—and while Homeland Security moves forward with its modernization efforts—this is an opportune time to re-examine the merits and shortcomings of key program provisions and make appropriate changes as needed. Such a review may include, but would not necessarily be limited to
	 the qualifications required for workers eligible under the H-1B program, exemptions from the cap, the appropriateness of H-1B hiring by staffing companies, the level of the cap, and the role the program should play in the U.S. immigration system in relationship to permanent residency.
GAO Contact and Staff Acknowledgments	If you or your staffs have any questions about this statement, please contact Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.
	In addition to Andrew Sherrill (Director), Michele Grgich (Assistant Director) and Erin Godtland (Economist-in-Charge) led this engagement with writing and technical assistance from Nisha Hazra, Melissa Jaynes, Jennifer McDonald, Susan Bernstein (Education, Workforce and Income Security); and Rhiannon Patterson (Applied Research and Methods). Stakeholders included: Barbara Bovbjerg (Education, Workforce, and Income Security); Tom McCool (Applied Research and Methods); Ronald Fecso (Chief Statistician); Sheila McCoy and Craig Winslow (General Counsel); Hiwotte Amare and Shana Wallace (Applied Research and Methods); Richard Stana and Mike Dino (Homeland Security and Justice); Jess Ford (International Affairs and Trade). Barbara Steel-Lowney referenced the report.

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