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# Contract With Education, Training And Research Sciences Corporation For Processing Applications To Serve In The VISTA Program

B-164031(1)

Office of Economic Opportunity

**BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES**

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AUG. 18, 1971



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164031(1)

C. R. Dear Mrs. Green:

As requested in your letter dated October 21, 1970, and on the basis of subsequent discussions with your office, we reviewed the Office of Economic Opportunity (OEO) contract B99-4682 with the Education, Training and Research Sciences Corporation for processing applications to serve in the Volunteers in Service to America program. The contract was in effect from September 1, 1968, to February 28, 1970.

This report identifies weaknesses in OEO's award and administration of the contract and also questions certain costs claimed by the contractor. In accordance with our agreement, copies of this report are being sent today to the Director, OEO, for his information and for any action he may deem appropriate.

Our review of costs allocated by the contractor to 16 Government contracts, including B99-4682, showed that a significant percentage of the costs examined by us were questionable. We, therefore, recommended in our letter transmitting the report to the Director that OEO establish standards for the extent and types of costs that would be acceptable under its cost-reimbursable contracts and require inclusion of agreements on such costs in the contracts. We have requested the Director to inform us of any action taken in response to our recommendation.

The individuals and organizations mentioned in this report have not been given the opportunity to examine and comment formally on its contents.

Sincerely yours,

*R. F. Keller*  
Acting Comptroller General  
of the United States

C. The Honorable Edith Green  
House of Representatives

OEO CONTRACT WITH EDUCATION, TRAINING AND

RESEARCH SCIENCES CORPORATION FOR PROCESSING APPLICATIONS

TO SERVE IN THE VISTA PROGRAM

INTRODUCTION

On September 1, 1968, the Office of Economic Opportunity awarded the Education, Training and Research Sciences Corporation (ETRS) a contract (B99-4682) for processing applications to serve in the Volunteers in Service to America (VISTA) program. ETRS, headquartered in Washington, D.C., is a wholly owned subsidiary of Volt Information Sciences, Incorporated. Pursuant to a request by Congresswoman Green in a letter dated October 21, 1970, and on the basis of subsequent discussions with her office, we made a review of contract B99-4682 and obtained information on the extent of Volt's contracts with the Federal Government and with OEO.

For the fiscal year ended October 31, 1969, the period during which the major part of the VISTA application-processing contract was performed, Volt's sales and those of its subsidiaries amounted to about \$45 million. Volt estimated that about 50 percent of these sales, or \$22.5 million, had been made to the Government, either under direct contracts (about \$5 million) or under subcontracts with Department of Defense prime contractors (about \$17.5 million). Through May 1971 OEO had awarded to Volt and ETRS 38 contracts totaling about \$28 million. The accounting records for ETRS are maintained by Volt at its headquarters in New York, N.Y.

CONTRACT AWARD

On June 18, 1968, OEO requested seven companies to submit proposals for a cost-reimbursable contract to process applications to serve in the VISTA program. The proposed work involved (1) reviewing the applications for completeness and eligibility, (2) forwarding necessary letters to the applicants and to their references and checking the completeness of the replies, and (3) transmitting the applications and related correspondence to OEO. The contract was to be for a 1-year period, during which OEO expected that an estimated 36,000 applications would be received.

Four companies responded to the request and submitted the following proposed costs.

<u>Bidder</u>	<u>Proposed cost</u>
Leo Kramer, Inc.	\$ 32,488
Education, Training and Research Sciences Corp.	104,870
Manpower, Inc.	177,480
Richardson, Bellows, Henry and Co., Inc.	402,576

The OEO contracting officer forwarded the bidders' proposals to a VISTA evaluation panel to evaluate the proposals and to rate them in their order of merit. Among other factors the panel considered the clarity of the proposals; a comparison of the companies' proposed approaches and costs; and the companies' qualifications, including prior experience in doing similar work, operating capabilities, locations of offices, and reputations. The panel determined that the variances in the proposed costs were too great to permit an effective evaluation and recommended that a revised request for proposals be sent to each company.

On July 17, 1968, OEO forwarded a revised request for proposals to the four companies. The request listed the scope of work previously shown in the initial request and included additional tasks, such as the preparation of weekly and monthly statistical reports on the number of applications received and processed. Three companies responded to the request and submitted the following proposed costs.

<u>Bidder</u>	<u>Proposed cost</u>
Leo Kramer, Inc.	\$ 49,480
Education, Training and Research Sciences Corp.	70,046
Richardson, Bellows, Henry and Co., Inc.	370,079

The VISTA evaluation panel reviewed the revised proposals and stated that the low bidder--Leo Kramer, Inc.--reflected a lack of experience in general office administration and should not be considered further. The panel concluded that the proposal submitted by ETRS was the best

proposal, and, on the basis of the panel's evaluation, the OEO contract negotiator recommended that a cost-plus-fixed-fee contract be awarded to that company.

On September 1, 1968, OEO awarded a cost-plus-fixed-fee contract (B99-4682) to ETRS for a 1-year period at an estimated cost of \$70,046, of which \$3,079 was for fee. Subsequent contract amendments increased the cost by \$270,780. Of this amount, \$177,336 was for certain additional tasks and for cost overruns incurred during the initial 1-year contract period; there was no increase in the fee because of these added tasks or costs. The remaining \$93,444 was for an extension of the contract period for 6 months to February 28, 1970, and included a fee of \$3,270.

REASONABLENESS OF ETRS-PROPOSED COSTS  
NOT DETERMINABLE

Federal Procurement Regulations require Government contracting officials to determine the reasonableness of a contractor's proposed costs.

Although OEO contract files contained a statement by the contract negotiator that he had found the ETRS-proposed costs to be reasonable, we questioned how he had made such a determination because:

- There was a wide disparity in proposed costs submitted by the bidders in response to the revised request for proposals, a primary factor in OEO's not accepting proposals received from the first solicitation.
- ETRS had reduced, by about \$35,000, its proposed price to perform the work called for in the revised request for proposals although the scope of the work was increased by OEO.
- During the initial 1-year contract performance period, ETRS experienced a significant cost overrun.

The contract negotiator was unable to tell us how he had determined that the ETRS-proposed costs for the original contract or for the amendment which extended the contract period for 6 months were reasonable. Also the contract files contained no documentation to indicate on what basis these determinations had been made. We asked ETRS for the data used in preparing the cost estimates but were told that ETRS had not retained the records showing the basis for the initial \$104,870 estimate, the \$70,046 estimate which OEO accepted in awarding the contract, or the \$93,444 estimate for extending the contract for an additional 6 months. Because of the lack of information to support ETRS's cost estimates, we were unable to assess their reasonableness.

Upon the completion of the ETRS contract, OEO, on February 27, 1970, awarded a firm fixed-price contract to another contractor to screen and process an estimated 35,000 VISTA applications for the 16-month period beginning March 2, 1970, at the unit price of \$2.90. A firm

fixed-price contract is usually the easiest type of contract to administer because the Government is not subject to making any adjustments to the contract amount regardless of the contractor's cost experiences.

#### CONTRACT ADMINISTRATION

OEO is responsible for monitoring contractors' efforts and for taking necessary action to ensure that contractors perform in compliance with contract terms. This responsibility, in our opinion, was not carried out adequately in the case of the contract with ETRS.

OEO had anticipated that 36,000 VISTA applications would be received and processed by ETRS during the 12-month period ended September 1, 1969. The estimated contract cost to process the 36,000 applications was \$70,046, or an average cost of \$1.94 for each application. ETRS actually processed 26,663 applications during the 18-month period ended February 28, 1970, at a cost of \$340,826, or an average cost of \$12.78 for each application.

In trying to determine why ETRS incurred additional costs of \$177,336 during the first year of the contract, we examined OEO contract files and discussed the contract with Volt, ETRS, and OEO officials. Although OEO's files indicated that ETRS had been asked to perform certain tasks that the contract had not directly provided for, the files were incomplete and did not show what part of the costs had been incurred in performing these additional tasks.

Under OEO's organizational arrangements, responsibility for contract administration is assigned to a project manager designated by the contracting officer.

The prescribed duties of the project manager include:

- Developing project statements of work, procurement requests, noncompetitive procurement justifications, proposal evaluation schemes, and proper cost estimates.
- Forecasting program difficulties far enough in advance to permit the development of alternative solutions.

- Avoiding cost overruns through constant attention to project economics.
- Ensuring reliable, quality contractor performance.
- Identifying explicit progress milestones together with an appropriate information system to report on the progress of the project.

The contracting officer, however, did not designate a project manager for this contract until October 29, 1969, 13 months after the award of the contract, or 1 month after the expiration of the initial contract period. During the first 13 months of the contract, it was amended three times to provide for the performance of certain additional work and for increased costs of \$177,336. Our review of OEO files revealed no record of what actions, if any, had been taken to monitor the work, although ETRS had been submitting monthly reports to OEO which showed that costs were increasing substantially.

Volt and ETRS officials, in reply to our inquiries into the causes for the increased costs of \$177,336, informed us that the costs were attributable partially to the performance of certain work in addition to that specified in the basic contract. They cited, as examples of such work, processing certain applications out of their normal order, processing foreign applications, and answering inquiries from applicants and VISTA on the status of certain applications. Volt and ETRS officials were unable to tell us what part of the cost increase was due to the additional work requirements.

The lack of OEO and ETRS records to explain the increased costs during the initial contract period, coupled with the lack of an OEO project manager to monitor the contractor's effort, indicated to us that OEO had not administered the contract effectively.

## CONTRACT COSTS

On a sampling basis we selected and reviewed the costs under contract B99-4682. We reviewed also costs allocated by Volt and ETRS to this and other Government contracts. The allowability of a significant percentage of certain of the costs which we reviewed was questionable, in our opinion, because (1) the costs were for activities that did not appear to be allowable as contract costs under Federal Procurement Regulations or (2) ETRS did not have adequate records to support certain of the costs claimed.

The cost categories involved in the contract were:

1. Direct costs--directly related to contract performance, such as wages and salaries of those who processed the applications and costs for supplies and services needed to perform the contract. These costs were billed to the Government on the basis of actual costs incurred.
2. Overhead costs--indirectly related to contract performance, such as costs for telephones, heat, and light and for salaries of corporate officials not directly involved in performing the contract work. These costs were billed to the Government on the basis of a provisional rate subject to adjustment following contract completion, when an audit was to be made to determine the actual overhead costs incurred by ETRS.
3. Allocated costs--other indirect and general and administrative costs allocated monthly to individual contracts on the basis of a certain percentage of the direct costs charged under the contracts. On November 1, 1969, ETRS began billing all indirect costs as overhead in accordance with established provisional rates.

The results of our review of selected costs follow.

#### DIRECT COSTS

We reviewed \$30,634, or 17 percent, of the \$183,253 total payment for direct labor costs. ETRS records adequately supported the labor costs reviewed, and we found no questionable charges.

We reviewed also \$7,605, or 36 percent, of the \$20,833 payment for other direct costs. We questioned \$2,851, or 37 percent, of the costs reviewed. Although the vouchers claiming these charges indicated that they had been mainly for supplies and reproduction services, ETRS was unable to provide us with supporting invoices, receipts, or other documentation.

#### OVERHEAD COSTS

Overhead costs amounting to \$67,966 had been charged to the contract on a provisional rate and were subject to final audit by the Defense Contract Audit Agency; therefore, we did not review these costs.

#### ALLOCATED COSTS

Our review of an initial sample of allocated costs incurred during the period September 1, 1968, through October 31, 1969, showed that most of the questionable transactions were in the travel account. We therefore expanded our review to cover about 50 percent of the costs charged to the travel account and about 10 percent of all other allocated costs.

On this basis we reviewed \$92,207, or 15 percent of the allocated costs of \$595,028 incurred by Volt and its subsidiaries, including ETRS, from September 1, 1968, to October 31, 1969. These costs were allocated to contract B99-4682 and to 15 other Government contracts, 14 of which were with OEO. We questioned \$34,186, or 37 percent of the costs reviewed: \$26,158 in travel expenses, \$6,300 in consulting fees, and \$1,728 in miscellaneous expenses. We questioned these costs because either (1) there was no

evidence of their benefit, if any, to the Government contracts or (2) there was a lack of adequate supporting documentation.

For the most part normal business expenses are considered as allowable costs by Federal Procurement Regulations. The regulations state, however, that there should be a demonstration of the benefit to Government contracts before an allocated cost can be reimbursed by the Government. Of the travel expenses of \$32,708 which we reviewed, about \$6,000 was for lunches, dinners, and parties attended by officials of OEO, other Government agencies, and commercial organizations. For example, our analysis of three employees' travel vouchers totaling \$3,273 showed that \$1,773 was for meals and parties attended by Government and commercial contract officials.

Other examples of travel costs claimed that appeared to be of questionable benefit to Government contracts included the following items.

<u>Item</u>	<u>Amount</u>
Expenses incident to a consultant trip to San Juan, Puerto Rico (including daily hotel bills ranging from \$52 to \$93, a telephone bill of \$425, lunches and dinners ranging from \$3 to \$51, and a cabana charge of \$45).	\$3,557
Two round-the-world trips by the president of ETRS.	3,667
A leased apartment, furniture, and parking space in Washington, D.C., for the president of ETRS.	2,043

With regard to the \$6,300 of questionable consultant fees, which generally were charged at \$150 a day, Volt and ETRS officials informed us that the costs had been incurred in attempting to obtain new business in the fields of law enforcement and urban development. We questioned the \$1,728 of miscellaneous costs, primarily because of a lack of sufficient documentation to support the charges for postal and related expenses.

We discussed with Volt and ETRS officials certain of the allocated costs which we questioned. Although these officials conceded that \$1,940, consisting of a duplicate charge of about \$1,700 and miscellaneous entertainment expenses of \$240, should not have been allocated to the Government contracts, they claimed that the remainder of the travel and consultant costs which we questioned had been, for the most part, for sales promotion.

They told us that (1) sales promotion was a normal and legitimate expense in obtaining commercial and Government business, (2) their sales promotion had been unsuccessful, in the main, in attracting new business, and (3) if the promotion had been successful, new commercial contracts would have benefited the Government by reducing the Government contracts' share of allocated costs. Volt and ETRS officials told us also that the lunches and dinners attended by officials of OEO, other Government agencies, and commercial organizations had resulted from the need to continue important discussions concerning new business.

The allocated costs charged during the period that we reviewed had not been audited by the Defense Contract Audit Agency as of August 6, 1971, but Agency officials informed us that they intended to include the allocated costs in their final audit of the actual overhead costs.

Federal Procurement Regulations recognize that, under any contract, the reasonableness and allowability of certain items of cost may be difficult to determine. To avoid disallowance or disputes based on unreasonableness or nonallowability, the regulations recommend that contractors seek agreement with the Government in advance of incurring costs that may be questioned. The regulations state that such advance agreements should be incorporated in cost-reimbursable contracts.

The Director of OEO's Procurement Division informed us that OEO had not sought to enter into advance agreements in the past, although he said that he knew of a number of instances where advance understandings as to the allowability of certain types of contractor costs would have been beneficial to both OEO and the contractors.