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RELEASED

Vocational Training Contracts Awarded
To Engineering Drafting School, Inc.,
Denver, Colorado B-169333

Bureau of Indian Affairs
Department of the Interior

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

089976

~~913433~~

AUG 18, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON DC 20548

B-169333

Dear Senator Kennedy:

This is our report on vocational training contracts awarded to Engineering Drafting School, Inc , Denver, Colo , by the Bureau of Indian Affairs, Department of the Interior. Our review was made pursuant to your request of April 6, 1971.

As a result of an agreement reached with your office, we obtained, and incorporated in the report, the comments of the Department of the Interior on the matters discussed in the report. We did not obtain the comments of Engineering Drafting School, Inc.

We believe that the contents of this report would be of interest to the Department of the Interior. Release of the report will be made, however, only after your agreement has been obtained or public announcement has been made by you concerning its contents.

Sincerely yours,

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

The Honorable Edward M Kennedy
United States Senate

C o n t e n t s

| | <u>Page</u> |
|---|-------------|
| DIGEST | 1 |
| CHAPTER | |
| 1 INTRODUCTION AND SCOPE | 5 |
| 2 AWARD OF CONTRACTS | 7 |
| Program proposal | 7 |
| First contract | 8 |
| Second contract | 9 |
| 3 CONTRACT OPERATIONS | 10 |
| Training provided | 10 |
| Related-living program | 11 |
| Lack of an organized program | 12 |
| Related-living specialists did not meet education and/or experience requirements | 12 |
| Delays in staffing positions | 14 |
| Evaluation of contractor's operations | 15 |
| Costs of training and related-living pro- gram | 16 |
| 4 CONCLUSIONS | 19 |
| 5 AGENCY COMMENTS AND GAO EVALUATION | 21 |
| APPENDIX | |
| I Letter dated April 6, 1971, from Sena- tor Edward M. Kennedy to the General Ac- counting Office | 23 |
| II Letter dated June 23, 1972, from the Acting Director of Survey and Review, Department of the Interior, to the General Account- ing Office | 25 |

ABBREVIATIONS

| | |
|------|-----------------------------------|
| BIA | Bureau of Indian Affairs |
| DETC | Denver Employment Training Center |
| EDS | Engineering Drafting School, Inc. |
| GAO | General Accounting Office |

CHAPTER 1

INTRODUCTION AND SCOPE

Pursuant to a request dated April 6, 1971, from Senator Edward M. Kennedy (see app. I), and in accordance with arrangements made with his office, the General Accounting Office (GAO) reviewed two contracts awarded to Engineering Drafting School, Inc. (EDS), of Denver, Colo., by the Bureau of Indian Affairs (BIA), Department of the Interior. Under these contracts, covering the periods December 1, 1969, through June 30, 1970, and July 1, 1970, through June 30, 1971, EDS was to provide Indian students with training in engineering drafting and with a related-living program for themselves and their families. The objective of the contracts was to assist Indians in becoming economically self-sufficient.

We reviewed BIA's records pertaining to the award and administration of the contracts and EDS's records pertaining to its performance under the contracts. We interviewed officials at BIA headquarters in Washington, D.C., and officials, staff members, and Indian students at EDS and at the Denver Employment Training Center (DETC). We also met with representatives of a private law firm in Denver, to discuss the statements they made in a letter to Senator Kennedy on the use of funds by EDS. In our review of the contractor's operations, we considered the information provided by the representatives of the law firm.

The building occupied by DETC was owned by the director of EDS and was the focal point for the administration of the related-living program. The program provided for a staff of related-living specialists, to assist the incoming students in becoming better oriented to urban living.

The contracts with EDS were entered into by BIA under its employment assistance program which provides financial assistance and vocational counseling to Indians who apply and qualify for employment assistance. BIA furnishes (1) direct assistance to Indians in obtaining gainful employment and (2) adult vocational training for Indians who need training to obtain reasonable and satisfactory employment.

Pursuant to section 309 of title 25 of the United States Code, the adult vocational training program provides for vocational counseling or guidance, institutional training in any recognized vocation or trade, apprenticeship and on-the-job training for periods not to exceed 24 months, payment of transportation expenses to the place of training, and payment of subsistence during training. The law provides also that the program be conducted under such rules and regulations as the Secretary of the Interior may prescribe. The Secretary is authorized to enter into contracts or agreements with any Federal, State, or local governmental agency or with any private school which has a recognized reputation in the field of vocational education and which has successfully obtained employment for its graduates in their respective fields of training.

Under its employment assistance program, BIA had previously approved courses offered to qualified Indian students by EDS in map drafting, mechanical drafting, and technical illustration and had approved the tuition charged for such courses. Also BIA's Denver Employment Assistance Office had made payments to Indian students attending courses at EDS to cover such expenses as subsistence, transportation, and health care and had provided counseling and other services to the students.

CHAPTER 2

AWARD OF CONTRACTS

PROGRAM PROPOSAL

In a letter dated April 24, 1968, to BIA's Assistant Commissioner for Community Services, the director of EDS cited three aspects of BIA's employment assistance program as being "grossly inefficient and detrimental to many young Indian adults." The three aspects cited related to poor counseling and guidance, poor selection of training institutions, and poor housing and guidance while the students were in training. For example, the director stated that BIA was continuing to provide housing for single students in dirty, unkempt boarding houses which also housed all kinds of other persons and that BIA's requiring new students to live under such conditions had caused many students to go home.

The director of EDS previously had suggested that BIA consider some type of contractual arrangement to improve the training program offered to Indian students at EDS. By letter dated June 4, 1968, BIA's Acting Assistant Commissioner for Community Services informed the director of EDS that BIA had agreed to undertake an experimental project, under which a contractor would provide vocational training in drafting and would assume responsibility for providing other related services normally provided by BIA, and that BIA had submitted a list of the services which a contractor would be required to provide. The Assistant Commissioner requested the director of EDS to submit a detailed proposal to BIA describing how EDS, if awarded a contract, would provide each of the services.

Early in December 1968 a BIA official met with the director of EDS to review a proposal submitted by EDS for providing vocational training and related-living services for Indian students. Because the proposal did not specify how these services were to be furnished and did not include cost estimates, BIA requested EDS to submit a more specific proposal. In October 1969 EDS submitted to BIA another proposal which apparently served as a basis for the award of the first contract to EDS.

FIRST CONTRACT

On December 1, 1969, BIA awarded a contract to EDS to provide, during the period December 1, 1969, through June 30, 1970, (1) training in engineering drafting, cartographic drafting, and technical illustrating for an estimated 50 single students and 48 married students and (2) a related-living program. Under the related-living program, EDS was to provide the students and their families with family and community life educational experiences which would help them to adjust to a middle-class culture in a metropolitan area.

The contract provided that BIA pay EDS a fixed price of \$191,859 and reimburse EDS for certain costs of the related-living program. According to the contract the reimbursable costs were for subsistence, supplementary education, transportation and travel allowances for staff, and transportation for dropouts and terminated students.

BIA's Acting Chief, Division of Property and Supply Management, told us that, although the contract did not contain a specific provision for a fee to be paid on the reimbursable costs, BIA agreed to pay EDS a fee of 5 percent of such costs.

The contract files did not contain adequate documentation of the negotiation of contract provisions, such as the reasonableness of the fixed price. Federal Procurement Regulations 1-3.811 specifies that a record of negotiation be prepared at the conclusion of each negotiation of an initial, a revised, or a final contract price and that the record set forth the consideration and rationale which resulted in the price.

Between December 1969 and May 1970, BIA advanced funds of \$113,262 to EDS for meeting the reimbursable costs under the contract. The funds advanced exceeded the reimbursable expenses and the 5-percent fee by \$45,353, which amount EDS returned to BIA in September 1970.

Section 255(c) of title 41 of the United States Code provides that advance payments under contracts for property or services be made only upon adequate security and determination by the agency head that to do so would be in the

public interest. Federal Procurement Regulations 1-3.302(d) requires that advance payments be supported by a written statement of findings and a determination that such advance payments would be in the public interest. In addition, the Departmental Manual requires approval of advance payments by the Assistant Secretary for Administration. The contract files contained no evidence that these requirements had been met.

SECOND CONTRACT

On July 1, 1970, BIA awarded a second contract to EDS to continue to provide, during the period July 1, 1970, through June 30, 1971, the training services for an estimated 30 single students and 20 married students and the related-living program for the students and their families. The contract provided that BIA pay EDS a fixed price of \$190,749 and reimburse EDS for certain costs of the related-living program and pay EDS a fee of 8 percent of the reimbursable costs. In contrast to the price of the first contract, the fixed price under this contract did not cover tuition costs which were payable on a reimbursable basis.

The contract files did not adequately document the negotiation of the contract provisions. Also a report in August 1971 by the Department's Office of Survey and Review stated that it had found no record of price negotiations in any of the contract files examined, which included the files on BIA's second contract with EDS.

On October 1, 1970, the director of EDS sold all capital stock and assets of EDS to Industrial Training Systems, Inc., Willow Grove, Pa. The director retained ownership of the building occupied by DETC and leased it to Industrial Training Systems, Inc. The former director did not notify BIA of this sale until November 10, 1970.

The Commissioner of Indian Affairs, in a letter dated June 23, 1971, to the student representative of DETC, stated that BIA considered the training program provided under the two contracts to be a pilot study and that, on the basis of experience gained under the contracts, BIA had decided not to continue the contractual arrangement because too few Indian students wanted to take drafting courses in Denver.

CHAPTER 3

CONTRACT OPERATIONS

The training results achieved under the contracts, deficiencies in carrying out the related-living program, and the costs incurred and profits realized by EDS are discussed in this chapter

TRAINING PROVIDED

EDS records showed that, during the period covered by the two contracts

--only 73 students had been enrolled in training, compared with a planned enrollment of 148 students (98 under the first contract and 50 under the second contract);

--only eight students had successfully completed their training, and

--32 students had been terminated from training for various reasons.

The 33 students who were enrolled at EDS at the time the contract was terminated continued to receive the same type of drafting training at EDS that they had previously received under the contract. The related-living services, however, were provided by BIA's Denver Field Employment Assistance Office.

Of the 73 students, 11 students, including five who had successfully completed training, had been enrolled previously in training at EDS under BIA's employment assistance program and were transferred on January 1, 1970, to the training program provided under the contract. Thus only 62 new students entered training under the contracts.

Of the eight students who had successfully completed their training, two had obtained employment and one was seeking employment in June 1971. The records contained no information on the employment status of the remaining five students.

EDS's records showed the following reasons for the termination of the 32 students.

| | <u>Number of students</u> |
|--------------------------------------|-----------------------------------|
| Excessive absenteeism | 24 |
| Returned home for personal reasons | 5 |
| Not adapted to this type of training | 2 |
| Transferred to another school | <u>1</u> |
| Total | <u>32</u> |

The 24 terminations attributed to excessive absenteeism indicate that BIA may not have done a thorough enough job of screening applicants to determine whether they were interested in entering the drafting field. In January 1970 the Commissioner of Indian Affairs informed all the area directors and field employment assistance officers that applicants must be qualified for, and desirous of taking, one of the drafting courses available. He did not provide any information to the area directors and field employment assistance officers, however, as to the qualifications required of applicants. The Commissioner also stated that all applications should be sent to the BIA contract representative.

RELATED-LIVING PROGRAM

The DETC staff responsible for carrying out the related-living program told us that the program provided benefits to the Indian students and their families by (1) increasing their self-confidence, (2) increasing their ability to communicate ideas to others, (3) establishing more realistic goals in their work and family relations, (4) exposing them to the ways of life in an urban area, and (5) improving their manner of dress. In addition, the staff told us that recreation facilities and emergency assistance were provided to the Indian students and their families on a continuous basis and that new students were afforded an opportunity to become acquainted with other Indian students within a relatively short time.

We did not evaluate the benefits the staff attributed to the related-living program, because of the intangible nature of such benefits. We noted several deficiencies, however, in the carrying out of the program. For example, EDS

- had not developed an organized program for providing the related-living services,
- had hired related-living specialists who did not meet the education and/or experience requirements of the contracts, and
- had delayed in staffing certain positions.

Also BIA had not adequately evaluated EDS's performance.

Lack of an organized program

EDS had not developed an organized program for providing the related-living services to the Indian students and their families. The related-living specialists relied primarily on the general guidelines contained in the proposals for the two contracts. The data contained in these proposals, however, was too general to serve as an adequate guide for operation of the program. For example.

1. The guidelines provided that the director of student activities was to organize recreational, social, cultural, and other activities for the students and their families during the training period but did not describe the specific activities
2. The guidelines stated that the director of student activities was to work closely with the home and family counselor in solving personal and family problems before they developed but did not assign specific responsibilities to these officials.

Related-living specialists did not meet education and/or experience requirements

The first contract specified that the various positions under the related-living program were to be filled with

persons who had certain specific education and experience qualifications. Some of the related-living specialist positions, however, were filled with persons who did not meet the education and/or experience requirements of the contracts.

For example, the contract provided that the education counselor have

- A bachelor of arts degree, with emphasis in education.
- Teaching experience which included teaching other than white middle-class students.
- Hopefully, experience in teaching and counseling in secondary schools or colleges.

The education counselor hired by EDS had a bachelor of arts degree in economics, instead of in education, and had no experience in teaching and counseling in secondary schools or colleges.

Also the first contract provided that it would be desirable for the related-living coordinator to have

- A bachelor of arts degree, with emphasis in secondary education and/or occupational education and counseling.
- A master of arts degree, or its equivalent, in school administration or in guidance and counseling

The related-living coordinator hired by EDS had graduated only from high school but had taken some courses after graduation. The courses, however, had not been in the fields specified in the contract.

The former director of EDS told us that she had experienced difficulty in hiring suitable staff. She stated that the persons she had planned to hire when she thought the program was going to start were not available when the contract was finally awarded in December 1969 and that she had had to hire whoever was available. She stated also that some of the persons she had been able to hire had not performed their duties satisfactorily.

The BIA contract representative evaluated the related-living program in March 1971, 9 months after the second contract was awarded. She stated that

"A review of the resumes of the 'professional staff' indicates that most of these people, with two possible exceptions, are not qualified to perform the functions described in the contract. The information which I secured from them in interviews and my review of the files supports this conclusion."

Delays in staffing positions

EDS did not promptly fill some of the related-living program positions provided for under the two contracts and staffed one full-time position for a period of time with part-time employees.

Cost-estimate documents in the files related to the first contract showed that the positions of home and family counselor and director of student activities were to be filled in January 1970, the position of counselor was to be filled in March 1970, and the position of education counselor was to be staffed on a part-time basis from December 1969 through May 1970, when the position was to be filled on a full-time basis.

EDS's records showed that the first two positions were not filled until March and April 1970, respectively. The counselor position was staffed by part-time employees, who worked about 90 hours, from June to September 1970 when the position was filled with a full-time employee. The education counselor position was not filled until October 1970, or about 10 months after the award of the first contract.

The salaries and fringe benefits related to the positions discussed above were covered under the fixed-price provisions of the two contracts. Although the first contract contained no provision for adjusting the contract price when a position remained vacant for a period of time, the second contract provided that.

"*** In the event a position remains vacant more than thirty (30) calendar days the contract amount

shall be reduced in the full amount of the unpaid salary for the entire time the position is unfilled."

Neither of the contract prices was adjusted for the periods when the positions were vacant or staffed by part-time employees.

Evaluation of contractor's operations

A BIA official made a 4-day visit to EDS in March 1971 to evaluate the program after BIA decided that the contract would not be renewed. We found no indication, however, that any other visits had been made by BIA officials to evaluate the contractor's performance. We believe that some of the problems, discussed in previous sections of this report, could have been identified through effective periodic evaluations of the program by BIA and possibly corrected.

The first contract did not provide that BIA evaluate EDS's performance. The second contract, however, provided that BIA review and evaluate EDS's performance under the related-living-program part of the contract. In addition, the contract provided that an advisory committee--which was to include three tribal representatives, an EDS graduate, an industry representative, and a BIA representative--review all aspects of the contract. The tribal representatives were to be selected by the tribal councils at BIA's request. The EDS graduate and the industry representative were to be selected by EDS. The committee was to meet about six times during the contract year, at a time selected by BIA.

The advisory committee was not established. When the BIA contract representative visited EDS in March 1971 to evaluate its performance, she stated that, because the contract was not to be renewed, it did not seem practicable to establish the advisory committee at that time.

COSTS OF TRAINING AND RELATED-LIVING PROGRAMS

The total federally funded costs of the training program and the related-living program for Indian students and their families for the 19-month contract period totaled \$713,629, as summarized below.

| <u>Description</u> | <u>First contract</u> (12-1-69 to 6-30-70) | <u>Second contract</u> (7-1-70 to 6-30-71) |
|--------------------------------------|---|---|
| Fixed price | \$191,859 | \$190,749 |
| Reimbursable costs | \$64,678 | \$238,333 |
| Fees | <u>3,231</u> | <u>18,561</u> |
| | <u>67,909</u> | <u>256,894^a</u> |
| | 259,768 | 447,643 |
| Other related expenditures by BIA | | |
| Supplies and services | 517 | - |
| Health insurance for Indian students | <u>-</u> | <u>5,701</u> |
| Total | <u>\$260,285</u> | <u>\$453,344</u> |

^aAs of March 30, 1972, BIA had been billed for, but had not paid, \$2,000 of this amount--related-living expenses of \$1,852 and fees of \$148

The fixed prices of the two contracts were based on EDS's cost estimates, plus factors for profit. EDS's records showed that actual costs incurred in providing the services had been substantially less than the estimated costs which had served as the bases for the contract amounts. As a result EDS realized profits totaling \$132,195, or \$108,371 more than the profits of \$23,824 provided for in the fixed prices of the two contracts. A comparison of the estimated and the recorded costs for each of the contracts is shown in the table on page 17.

The fixed price of the first contract included \$59,241 for training (tuition) of the Indian students who were expected to attend EDS through June 30, 1970. The amount was determined on the basis of (1) an estimate of the number of students expected to enroll at EDS and (2) a tuition rate of \$188.67 a month for each expected student. It was expected

| | <u>Estimated costs</u> | <u>Recorded costs</u> | <u>Estimated costs over or under (-) recorded costs</u> |
|--|------------------------|-----------------------|---|
| First contract | | | |
| Salaries and fringe benefits | \$ 67,291 | \$ 62,919 | \$ 4,372 |
| Fees | 4,450 | 5,092 | -642 |
| Community relations expenses | 2,600 | 215 | 2,385 |
| Communications | 2,446 | 1,061 | 1,385 |
| Publications, forms, and office supplies | 7,150 | 3,747 | 3,403 |
| Space rehabilitation | 9,500 | 15,024 | -5,524 |
| Staff training | 770 | - | 770 |
| Counselor conference | 200 | - | 200 |
| Personnel recruitment | 600 | 207 | 393 |
| Employee relocation | 1,200 | 369 | 831 |
| Miscellaneous items | 750 | - | 750 |
| Vehicle expense | 8,365 | 5,482 | 2,883 |
| General and administrative expense | 1,725 | 1,725 | - |
| Facilities rental | 15,875 | 15,875 | - |
| Training costs (tuition) | <u>59,241</u> | <u>27,280</u> | <u>31,961</u> |
| | 182,163 | 138,996 | 43,167 ^a |
| Profit | <u>9,696</u> | <u>-</u> | <u>9,696^a</u> |
| Total | <u>\$191,859</u> | <u>\$138,996</u> | <u>\$52,863^a</u> |
| Second contract | | | |
| Salaries and fringe benefits | \$116,040 | \$ 77,378 | \$38,662 |
| Fees | 10,000 | 2,375 | 7,625 |
| Community and agency relations | 4,425 | 807 | 3,618 |
| Publications, forms, and office supplies | 6,480 | 2,455 | 4,025 |
| Communications | 2,336 | 1,515 | 821 |
| Overhead costs | 2,000 | - | 2,000 |
| Facilities expenses (note b) | 31,140 | 23,250 | 7,890 |
| Vehicle expenses | <u>4,200</u> | <u>3,637</u> | <u>563</u> |
| | 176,621 | 111,417 | 65,204 ^a |
| Profit | <u>14,128</u> | <u>-</u> | <u>14,128^a</u> |
| Total | <u>\$190,749</u> | <u>\$111,417</u> | <u>\$79,332^a</u> |

^aThe total contract amounts exceeded recorded costs by \$132,195 under the two contracts. This amount represented profits of \$108,371 in excess of the \$23,824 profits provided for in the two contracts.

^bIncludes facilities rental, utilities, janitorial service, trash removal, and maintenance.

that in January, February, March, and April, 16 new students would enroll each month and that in May and June, 17 new students would enroll each month.

EDS's records showed, however, that only 39 Indian students had attended EDS during the period covered by the first contract. Because actual enrollment of Indian students was substantially lower than the expected enrollment of 98 students, which was the basis for the contract price of \$59,241 for tuition, BIA paid \$31,961 more in tuition costs than it would have paid if the contract had provided for tuition payments on the basis of actual Indian-student enrollment.

Under the second contract, the cost of tuition was a reimbursable item and the payments were based on the actual number of Indian students enrolled.

CHAPTER 4

CONCLUSIONS

The combination fixed-price, cost-reimbursement type of contract, in our opinion, was not an appropriate method of contracting with EDS for vocational training services. We believe that a cost-plus-fixed-fee contract would have been a more appropriate type of contract for use in contracting for such training services. Under the fixed-price part of the two contracts, the contractor realized unanticipated profits of \$108,371, attributable, in part, to the fact that the anticipated number of students were never enrolled under the first contract and the fact that certain positions provided for under the two contracts were not filled promptly.

Moreover the results achieved under the contracts were of questionable value because:

- only 73 of the anticipated 148 students had been enrolled in training,
- only eight students had successfully completed their training, and
- 32 students had been terminated from training for various reasons, including 24 for excessive absenteeism.

Also BIA did not maintain adequate records of contract negotiations and advanced funds to the contractor without proper approval or documentation justifying such advances.

Further, BIA did not periodically evaluate the contractor's performance to insure that the program was being effectively administered in accordance with the contract provisions and that the anticipated results were being achieved. We believe that some of the deficiencies in carrying out the related-living program could have been identified through effective periodic evaluations of the contractor's performance and possibly corrected.

We believe that, in the future, BIA should (1) follow appropriate contracting methods and procedures, (2) properly document price negotiations, (3) make no advance payments to contractors unless such payments are properly approved and justified, and (4) make periodic evaluations of contractors' performance to insure that contract provisions are being complied with and that anticipated results are being achieved.

CHAPTER 5

AGENCY COMMENTS AND GAO EVALUATION

The Department of the Interior, in a letter dated June 23, 1972, commenting on a draft of this report (see app. II), agreed that EDS had realized far more profit under the two contracts than had been expected. The Department stated that EDS had realized the unanticipated profit primarily because BIA had elected to contract for the educational services on a fixed-price basis instead of a cost-plus-fixed-fee basis and because BIA had been unable to recruit the expected number of students. The Department stated also that changes made in BIA's procurement organization, procedures, policies, and administration since 1969 should prevent mistakes of that type.

The two contracts discussed in this report covered the periods December 1, 1969, through June 30, 1970, and July 1, 1970, through June 30, 1971. The Department did not indicate, however, the specific changes that had been made to improve BIA's procurement practices.

We noted, however, that, in an August 25, 1971, memorandum to the Director, Office of Survey and Review, the Deputy Commissioner of BIA stated that the following actions had been taken to overcome contracting problems.

- A separate contracting team had been organized and had been given the responsibility for negotiating all central office Indian involvement contracts.
- A contracting seminar had been conducted for all BIA contracting officers and assistant area directors for administration.
- BIA had released the first five parts of the Indian involvement program manual which implemented the Federal Procurement Regulations concerning contracts negotiated with Indian groups and which was to insure uniformity in contracting procedures throughout BIA.

The Department stated also that the total cost of the project and EDS's profits might have been less excessive than they appeared to have been. The Department noted that, although educational service contracts with universities and other nonprofit institutions usually included large allowances for overhead and general and administrative expenses computed as percentages of other types of costs, the EDS contract price included less than 1 percent for general and administrative expenses and included, instead of an overall overhead rate, only moderate direct charges for certain items of expense classifiable as a part of overhead costs.

We disagree with the Department's observations regarding overhead costs. The contract cost-estimate documents which served as a basis for the fixed prices of the contracts showed that about 50 percent of the total estimated costs could be classified as overhead costs. For example, the estimated direct costs included (1) part of the salaries of the director of EDS, the accounting clerk, stenographers, and maintenance help, (2) community relations expenses, (3) communications, publications, forms, and office supplies expenses, (4) vehicle expenses, and (5) facilities rental.

The Department agreed that the results achieved under the contracts had been disappointing and that possibly the basic concept of the project had been erroneous. The Department stated that "Adult vocational training is not yet a fully understood and perfected art or science." Vocational training, in our opinion, is not a new concept, however, because BIA has been providing such training to Indians since 1956.

The Department concluded that the EDS project might prove to be of some value in that the experience gained might prevent similar unsuccessful efforts in the future.

JAMES O EASTLAND MISS CHAIRMAN
 JOHN L MC CLELLAN ARK ROMAN L HRUSKA NEBR
 AM J ERVIN JR N C HIRAM L FONG HAWAII
 THOMAS J DODD CONN HUGH SCOTT PA
 PHILIP A HART MICH STROM THURMOND S C
 EDWARD M KENNEDY MASS MARLOW W COOK KY
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 JOSEPH D TYDINGS MD
 ROBERT C BYRD W VA

JOHN H HOLLOMAN III
 CHIEF COUNSEL AND STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
 WASHINGTON, D C 20510

April 6, 1971

The Honorable Elmer B Staats
 Comptroller General of the
 United States
 General Accounting Office
 441 G Street Northwest
 Washington, D. C 20548

Dear Mr. Staats:

A few months ago I asked the GAO to look into a contract entered into by the Bureau of Indian Affairs in Denver with the Engineering Drafting School. An indication orally by your staff that there were problems with this contract, and inquiries from other Senators concerning other BIA contracts, I understand, have led to GAO's broadening its investigation to cover contracting generally by the BIA. I strongly support this broader inquiry and greatly appreciate the Office's initiative on this matter.

A member of my staff, Mr. Thomas Susman, spoke with a few of your staff people and indicated recently that, in light of the expanded scope of your present investigation, a report on the EDS situation was unnecessary. I have received a rather lengthy letter on this particular issue, however, by a Colorado State Representative, a copy of which is enclosed, and I understand that the EDS issue has been covered in the Denver press. I, therefore, believe it presently advisable to receive a written report, however interim it may be, on the EDS situation specifically so that I may respond to inquiries such as Mr Wells'.

Mr. Susman has brought to my attention, furthermore, that the Bureau has been suspending and freezing contract activities in recent weeks. When he inquired into this at

APPENDIX I

Page 2

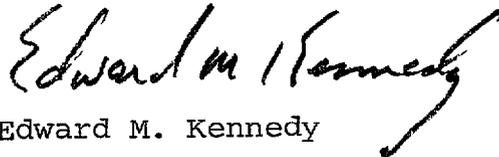
The Honorable Elmer B. Staats

April 6, 1971

the BIA he was told that the word had come down to that effect from the Solicitor's Office in Interior and that the GAO investigation was, at least in part, the cause of this action. I want it to be clear to you and your investigators, as well as to the Bureau and Department, that my inquiries and interests do not call into question the policy of contracting out programs by the Bureau. In fact, I fully support the Bureau's present policies in that regard and, if anything, am disheartened that such contracting is not going faster and covering larger segments of Bureau activities. I am hopeful that GAO's investigation into the contracting procedures and into specific contracts will facilitate these objectives rather than obstructing them.

Thanks for your continued assistance and cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Edward M. Kennedy". The signature is written in dark ink and is positioned above the typed name.

Edward M. Kennedy

Enclosure

Copy to Commissioner Louis Bruce
Bureau of Indian Affairs



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D C 20240

JUN 23 1972

Mr Max Hirschhorn
Deputy Director
Resources and Economic
Redevelopment Division
U S General Accounting Office
Washington, D C 20548

Dear Mr Hirschhorn

These comments on your proposed report to Senator Edward M Kennedy concerning Bureau of Indian Affairs' contracts with Engineering Drafting School, Inc , are submitted in response to your May 22, 1972, request. The transactions reviewed consist of a contract entered into December 1, 1969, with a supplement for the following fiscal year so that complete 12-month courses of study would be available to students.

We agree with the finding that, chiefly because BIA elected to contract for the educational services on a fixed-price instead of a cost-plus-fixed-fee basis, and BIA was unable to recruit the expected number of students, the contractor realized far more profit than expected. Since 1969, there have been changes in BIA's procurement organization, procedures, policies, and administration that should prevent mistakes of this type.

It may be mentioned that the total cost of the project and the contractor's profit may have been less excessive than they appear. While educational service contracts with universities and other non-profit institutions usually contain large charges for overhead and general and administrative expense computed as percentages of other types of costs, the EDS contract included less than one percent for general and administrative expense and, instead of overhead applied as a rate, there were only moderate direct charges for certain items of expense classifiable as a part of overhead cost.

We also agree that the results of the EDS project were disappointing. However, we question the implication that this was attributable to procurement deficiencies. It is quite possible that the basic concept of the project was erroneous. Adult vocational training is not yet a fully understood and perfected art or science. The EDS project may prove of some value in that the experience gained from it will be studied and may prevent similar unsuccessful efforts in the future.

APPENDIX II

We appreciate the opportunity you have afforded us to review the report while in draft form

Sincerely yours,

A handwritten signature in black ink, appearing to read "John L. ...". The signature is fluid and cursive, with a prominent loop at the end.

Acting Director of Survey and Review