

035764

~~1.08.02~~

41

71-0081



REPORT TO THE CONGRESS



LM095764

The Special Impact Program  
in Los Angeles Is  
Not Meeting Goal Of Providing  
Jobs For The Disadvantaged

D-166560

Department of Labor

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

700426 095764

OCT. 7, 1970



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

B-168560

To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the Department of Labor's Special Impact program in Los Angeles, California, not meeting its goal of providing jobs for the disadvantaged. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Labor; and the Director, Office of Economic Opportunity.

Comptroller General  
of the United States

01120

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

THE SPECIAL IMPACT PROGRAM IN LOS ANGELES  
IS NOT MEETING GOAL OF PROVIDING JOBS  
FOR THE DISADVANTAGED  
Department of Labor B-168560

D I G E S T

WHY THE REVIEW WAS MADE

62  
301  
This report is one of several resulting from reviews by the General Accounting Office (GAO) of various manpower training programs authorized by the Economic Opportunity Act of 1964, as amended. The Senate Committee on Labor and Public Welfare in a report in 1968 urged GAO to do more reviews of manpower programs to give the Congress the benefit of independent reviews of the performance by executive agencies. The Special Impact program was selected for review because it was a relatively new approach, which attempted to establish new businesses in the Inner City areas and thereby provide additional job opportunities for disadvantaged residents. The Department of Labor had obligated almost \$17 million for the program as of June 1, 1970. (See p. 6.)

FINDINGS AND CONCLUSIONS

Background

Under the program in Los Angeles, California, the Department was to provide \$8.9 million to 10 private contractors as an inducement for them to lease (or build) manufacturing facilities in or near the south central and east Los Angeles ghetto or poverty areas. The contractors were to train the hard-core unemployed and disadvantaged and to provide them with jobs in the manufacture of furniture, electronic appliances, housewares, filtration equipment, plastics, and wood products. (See pp. 5 and 7.)

Program results

The Los Angeles program has fallen far short of accomplishing its goal of providing jobs for the disadvantaged and has been poorly administered by the Department. GAO believes that the program could have been effective with proper planning, careful selection of contractors, and adequate monitoring by the Department. An unsuccessful and ineffectual training program can result in a lack of faith in similar manpower programs by disadvantaged individuals and lessen their motivation toward participation in other such programs or to seek employment on their own. (See p. 10.) Specifically:

--The program was not well publicized and became known to the contractors mainly through the efforts of a Los Angeles investment banking

firm. The firm collected fees of \$242,400 from nine of the contractors for services in obtaining the contracts. Under Federal law, such fees were allowable since the banking firm was a bona fide agent of the contractors for the purpose of securing business. (See pp. 12 and 14.)

- The basis for selecting contractors and establishing contract amounts was not adequately documented, and the doubtful financial position of some contractors appeared to limit the program's potential for success. For example, at the time the contracts were awarded, five of the contractors were in such poor financial positions that it was questionable whether they could meet their current obligations. (See pp. 19 and 22.)
- The contract terms did not adequately protect the Government's interests. For example, four contracts provided for the payment of all contract funds to the contractors before any disadvantaged individuals were hired. Also, the contractors were permitted to retain part of the funds even if no disadvantaged individuals were hired. (See p. 25.)
- Collectively, the contractors employed, at June 1, 1970, only 526 employees, and the hiring period for eight contractors had expired by June 1, 1970 (see p. 28). Two of the contractors have filed petitions for reduction of debt under the Bankruptcy Act, and an involuntary bankruptcy action has been approved against a third contractor. Two of the above three contractors and two others have discontinued all work under the contracts. (See p. 9.)

In general, the contractors did not reach an operational level that would enable them to hire more employees because of such difficulties as delays in obtaining project sites, high employee turnover, and financial problems. (See p. 28.) Also, the Department's monitoring of the contractors appeared inadequate during the critical early stages of the program. (See p. 37.)

#### Other studies of the program

In general, GAO's findings corroborated those of the Westinghouse Learning Corporation, a firm engaged by the Office of Economic Opportunity to evaluate the program, and the Department's Special Review Staff. Westinghouse noted that the Department had agreed to pay the contractors an average of \$3,051 for every employee they promised to hire toward contract requirements but had required them to pay back only \$2,500 for each employee short of the goal. Westinghouse noted also that, theoretically, a company receiving \$1 million could buy land, construct a plant, not hire a single disadvantaged employee, and come away with a profit of \$162,500 and an interest-free loan of about \$800,000 for over 1 year. (See p. 41.)

RECOMMENDATIONS OR SUGGESTIONS

In future manpower programs the Department of Labor should

- solicit as many prospective contractors as possible to enhance the prospects for a successful program (see p. 13),
- ensure that required documentation regarding contingent fees is reviewed in detail for conformity with the law and the Federal Procurement Regulations (see p. 17),
- follow its established procedures for documenting the basis for selecting contractors and determining contract amounts (see p. 21),
- make an adequate evaluation of prospective contractors' financial capability to fulfill contractual commitments (see p. 24), and
- adequately monitor contractors' activities, especially during the initial stages of programs involving unique and innovative measures. (See p. 39.)

Also, the Department should ensure that documentation regarding contingent fees under the current contracts is reviewed in detail for conformity with the law and the Federal Procurement Regulations. (See p. 17.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Assistant Secretary of Labor for Administration said that GAO's findings confirmed an internal review made by the Department in October 1959. He said also that the Manpower Administration agreed with the GAO report and that those recommendations which were germane to the present status of the program had been implemented to the fullest extent possible. He also stated that all possible actions were being taken to protect the interests of the Government. (See p. 10.)

The Assistant Secretary anticipated that a substantial percentage of those employees displaced by termination or completion of the contracts could be directed to other work sites within a reasonable time. He said that those who could not be placed in jobs would be enrolled in other training so that they may develop needed skills. He said also that this activity had been given a high priority. (See p. 48.)

2 The Assistant Secretary further stated that, since the responsibility for administering the program had been transferred to the Office of Economic Opportunity, the Department's sole responsibility for the Special Impact program was to monitor and otherwise administer the existing contracts until their termination or completion.

GAO believes that the Office of Economic Opportunity in its administration of the Special Impact program should benefit from the problems experienced by the Department of Labor in managing the program in Los Angeles.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress to illustrate the opportunities that exist for the Department of Labor and the Office of Economic Opportunity to improve their management of Federal manpower programs.

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	5
Nature of SIP	5
Operation of SIP in Los Angeles	6
2 PROGRAM EFFECTIVENESS AND ADMINISTRATION	10
SIP initiated without adequate publicity and broad solicitation of potential contractors	12
Conclusions	13
Recommendation to the Secretary of Labor	13
Contingent fees paid to investment bank- ing firm by contractors	14
Conclusions	17
Recommendation to the Secretary of Labor	17
Department of Labor comments	18
Inadequate documentation of the basis for selecting contractors and deter- mining contract amounts	19
Conclusions	20
Recommendation to the Secretary of Labor	21
Doubtful financial capability of con- tractors selected by the Department	22
Conclusions	24
Recommendation to the Secretary of Labor	24
Contract terms did not adequately pro- tect the interests of the Government	25
Conclusions	27
Department of Labor comments	27
Inability of SIP contractors to meet hiring commitments	28
Conclusions	35
Stock purchase plans not implemented	36
Inadequate monitoring of contractors	37

CHAPTER		<u>Page</u>
	Department of Labor actions and our evaluation	39
	Recommendation to the Secretary of Labor	39
3	EVALUATIONS OF SIP BY THE DEPARTMENT OF LABOR AND THE WESTINGHOUSE LEARNING COR- PORATION	40
	Westinghouse Learning Corporation	40
	Special Review Staff, Department of Labor	46
	Conclusions	48
	Department of Labor comments	48
4	SCOPE OF REVIEW	50

#### APPENDIX

I	Letter dated June 1, 1970, from the Assistant Secretary for Administration, Department of Labor, to the General Accounting Office	53
II	Principal officials of the Department of Labor responsible for the administration of the Special Impact program	60

#### ABBREVIATIONS

CEP	Concentrated Employment Program
GAO	General Accounting Office
OEO	Office of Economic Opportunity
SIP	Special Impact program



COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

THE SPECIAL IMPACT PROGRAM IN LOS ANGELES  
IS NOT MEETING GOAL OF PROVIDING JOBS  
FOR THE DISADVANTAGED  
Department of Labor B-168560

D I G E S T

WHY THE REVIEW WAS MADE

This report is one of several resulting from reviews by the General Accounting Office (GAO) of various manpower training programs authorized by the Economic Opportunity Act of 1964, as amended. The Senate Committee on Labor and Public Welfare in a report in 1968 urged GAO to do more reviews of manpower programs to give the Congress the benefit of independent reviews of the performance by executive agencies. The Special Impact program was selected for review because it was a relatively new approach, which attempted to establish new businesses in the Inner City areas and thereby provide additional job opportunities for disadvantaged residents. The Department of Labor had obligated almost \$17 million for the program as of June 1, 1970. (See p. 6.)

FINDINGS AND CONCLUSIONS

Background

Under the program in Los Angeles, California, the Department was to provide \$8.9 million to 10 private contractors as an inducement for them to lease (or build) manufacturing facilities in or near the south central and east Los Angeles ghetto or poverty areas. The contractors were to train the hard-core unemployed and disadvantaged and to provide them with jobs in the manufacture of furniture, electronic appliances, housewares, filtration equipment, plastics, and wood products. (See pp. 5 and 7.)

Program results

The Los Angeles program has fallen far short of accomplishing its goal of providing jobs for the disadvantaged and has been poorly administered by the Department. GAO believes that the program could have been effective with proper planning, careful selection of contractors, and adequate monitoring by the Department. An unsuccessful and ineffectual training program can result in a lack of faith in similar manpower programs by disadvantaged individuals and lessen their motivation toward participation in other such programs or to seek employment on their own. (See p. 10.) Specifically:

--The program was not well publicized and became known to the contractors mainly through the efforts of a Los Angeles investment banking

firm. The firm collected fees of \$242,400 from nine of the contractors for services in obtaining the contracts. Under Federal law, such fees were allowable since the banking firm was a bona fide agent of the contractors for the purpose of securing business. (See pp. 12 and 14.)

- The basis for selecting contractors and establishing contract amounts was not adequately documented, and the doubtful financial position of some contractors appeared to limit the program's potential for success. For example, at the time the contracts were awarded, five of the contractors were in such poor financial positions that it was questionable whether they could meet their current obligations. (See pp. 19 and 22.)
- The contract terms did not adequately protect the Government's interests. For example, four contracts provided for the payment of all contract funds to the contractors before any disadvantaged individuals were hired. Also, the contractors were permitted to retain part of the funds even if no disadvantaged individuals were hired. (See p. 25.)
- Collectively, the contractors employed, at June 1, 1970, only 526 employees, and the hiring period for eight contractors had expired by June 1, 1970 (see p. 28). Two of the contractors have filed petitions for reduction of debt under the Bankruptcy Act, and an involuntary bankruptcy action has been approved against a third contractor. Two of the above three contractors and two others have discontinued all work under the contracts. (See p. 9.)

In general, the contractors did not reach an operational level that would enable them to hire more employees because of such difficulties as delays in obtaining project sites, high employee turnover, and financial problems. (See p. 28.) Also, the Department's monitoring of the contractors appeared inadequate during the critical early stages of the program. (See p. 37.)

#### Other studies of the program

In general, GAO's findings corroborated those of the Westinghouse Learning Corporation, a firm engaged by the Office of Economic Opportunity to evaluate the program, and the Department's Special Review Staff. Westinghouse noted that the Department had agreed to pay the contractors an average of \$3,051 for every employee they promised to hire toward contract requirements but had required them to pay back only \$2,500 for each employee short of the goal. Westinghouse noted also that, theoretically, a company receiving \$1 million could buy land, construct a plant, not hire a single disadvantaged employee, and come away with a profit of \$162,500 and an interest-free loan of about \$800,000 for over 1 year. (See p. 41.)

### RECOMMENDATIONS OR SUGGESTIONS

In future manpower programs the Department of Labor should

- solicit as many prospective contractors as possible to enhance the prospects for a successful program (see p. 13),
- ensure that required documentation regarding contingent fees is reviewed in detail for conformity with the law and the Federal Procurement Regulations (see p. 17),
- follow its established procedures for documenting the basis for selecting contractors and determining contract amounts (see p. 21),
- make an adequate evaluation of prospective contractors' financial capability to fulfill contractual commitments (see p. 24), and
- adequately monitor contractors' activities, especially during the initial stages of programs involving unique and innovative measures. (See p. 39.)

Also, the Department should ensure that documentation regarding contingent fees under the current contracts is reviewed in detail for conformity with the law and the Federal Procurement Regulations. (See p. 17.)

### AGENCY ACTIONS AND UNRESOLVED ISSUES

The Assistant Secretary of Labor for Administration said that GAO's findings confirmed an internal review made by the Department in October 1969. He said also that the Manpower Administration agreed with the GAO report and that those recommendations which were germane to the present status of the program had been implemented to the fullest extent possible. He also stated that all possible actions were being taken to protect the interests of the Government. (See p. 10.)

The Assistant Secretary anticipated that a substantial percentage of those employees displaced by termination or completion of the contracts could be directed to other work sites within a reasonable time. He said that those who could not be placed in jobs would be enrolled in other training so that they may develop needed skills. He said also that this activity had been given a high priority. (See p. 48.)

The Assistant Secretary further stated that, since the responsibility for administering the program had been transferred to the Office of Economic Opportunity, the Department's sole responsibility for the Special Impact program was to monitor and otherwise administer the existing contracts until their termination or completion.

GAO believes that the Office of Economic Opportunity in its administration of the Special Impact program should benefit from the problems experienced by the Department of Labor in managing the program in Los Angeles.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress to illustrate the opportunities that exist for the Department of Labor and the Office of Economic Opportunity to improve their management of Federal manpower programs.

## CHAPTER 1

### INTRODUCTION

The General Accounting Office has made a review of the Special Impact program (SIP) conducted by the Department of Labor in Los Angeles, California. The Department's program, as implemented in Los Angeles, provides for the development of employment opportunities for hard-core unemployed or underemployed persons by private contractors through financial incentives provided by the Government. The scope of our review is described on page 50.

The Economic Opportunity Act of 1964, as amended (42 U.S.C. 2701), placed the responsibility for administering SIP with the Director, Office of Economic Opportunity (OEO). In March 1967 the Director of OEO delegated responsibility for the administration of certain SIP activities to the Secretary of Labor, who assigned the program to the Manpower Administration under the direction of the Assistant Secretary for Manpower. The principal Department officials responsible for the administration of the SIP are listed in appendix II.

Effective July 1, 1969, the Department Regional Manpower Administrators were made responsible for administering SIP contracts in existence as of that date, with the exception of a project in New York, N.Y., for which responsibility was transferred to OEO. Also, on July 1, 1969, OEO rescinded its delegation of authority to the Department to enter into new SIP contracts.

### NATURE OF SIP

The Special Impact program is focused on specific neighborhoods having large numbers of poor people. It is designed to commit the resources needed to register a significant impact on such designated, hard-core impoverished areas.

SIP has been implemented in various forms. In Los Angeles the Department of Labor provided funds to private contractors as an inducement for them to lease or build new

factories or manufacturing facilities in or near designated target areas in south central and east Los Angeles and thereafter to train and provide jobs to the disadvantaged and hard-core unemployed. The contractors, in turn, were to invest specific amounts of their own capital in SIP.

To be eligible for this program, a prospective enrollee was required (1) to be at least 16 years old, (2) to be a resident of the target area, (3) to be unemployed, and (4) to have an annual family income below the poverty level.

As of June 1, 1970, Federal funds of \$16,811,100 had been obligated for the Department's 22 SIP projects, each of which represented a contract with a firm for developing employment opportunities for the hard-core unemployed and disadvantaged residents of target areas. The number of employees to be hired under the 22 SIP contracts and the Federal funds obligated and advanced as of June 1, 1970, by State, were as follows:

<u>State</u>	<u>Number of contractors</u>	<u>Employees to be hired</u>	<u>Funds obligated</u>	<u>Federal funds advanced</u>
California	10	3,751	\$ 8,944,100	\$ 6,046,525
New York	9	2,404	6,184,500	4,546,792
Ohio	2	315	945,000	567,000
Indiana	<u>1</u>	<u>250</u>	<u>737,500</u>	<u>442,500</u>
Total	<u>22</u>	<u>6,720</u>	<u>\$16,811,100</u>	<u>\$11,602,817</u>

OPERATION OF SIP IN LOS ANGELES

Basic information concerning the 10 California contractors who were to provide employment opportunities in the Los Angeles area and who were covered in our review is shown below.

<u>Contractor</u>	<u>Contract period</u>		<u>Minimum number of employees to be hired</u>	<u>Contract amount</u>	<u>Funds advanced to contractors as of 6-1-70</u>
	<u>From</u>	<u>To</u>			
A	12-21-67	7-31-71	300	\$1,000,000	\$ 950,000
B	3- 5-68	6-26-70	335	1,000,000	1,000,000
C	4-26-68	4-26-70	250	750,000	725,000
D	4-26-68	4-26-70	335	1,000,000	1,000,000
E	4-26-68	4-26-70	360	1,065,000	355,000
F	1-17-69	1-17-71	200	600,000	180,000
G	1-17-69	1-17-71	550	990,000	299,700
H	1-17-69	1-17-71	400	800,000	240,000
I	1-17-69	1-17-71	650	960,000	712,500
J	1-17-69	1-17-71	<u>371</u>	<u>779,100</u>	<u>584,325</u>
<b>Total</b>			<u>3,751</u>	<u>\$8,944,100</u>	<u>\$6,046,525</u>

The contractors were to provide employment opportunities in the manufacture of furniture, electronic appliances, housewares, filtration equipment, plastics, and wood products.

In consideration of the contract amounts ranging from \$600,000 to \$1,065,000, the contractors agreed to make capital investments using their own funds ranging from \$2.5 million to \$15 million and to (1) purchase or lease real property, (2) construct new or renovate existing manufacturing facilities, (3) begin production in the new or renovated facilities, (4) employ specific numbers of disadvantaged persons from designated target areas, and (5) prepare a stock purchase plan acceptable to the Department which would give each employee the opportunity to obtain a partial ownership interest in the business.

The extent to which the 10 contractors had fulfilled their commitments during the contract periods prior to June 1, 1970, was as follows:

<u>Commitment</u>	<u>Degree of fulfillment</u>		
	<u>Complete</u>	<u>Partial</u>	<u>None</u>
Purchase or lease of real property	10	-	-
Construct or renovate additional facilities	6	3	1
Begin production in additional facilities	5	4 <sup>a</sup>	1
Hire disadvantaged persons	-	6	4
Prepare an acceptable stock purchase plan	-	4	6

<sup>a</sup>Permitted to begin production in supplementary facilities pending completion of new facilities.

In the aggregate, the contractors were to provide permanent employment opportunities for a minimum of 3,751 residents of the target areas. Permanent employment was defined as continuous employment for 6 months, 9 months, or a year, depending upon the contract. According to the Department, all contracts required that the permanent employment period be completed prior to the expiration of the contracts. At the time of our fieldwork, however, this interpretation was being disputed by at least one of the contractors who stated that the contract provides that permanent employment is to be measured 6 months after the expiration date of the contract. This matter had not been resolved by the Department at the completion of our field review.

The final dates by which employees could be hired in order to become qualified under the contract requirements based on the Department's interpretation are shown below.

Number of contracts

3	November 26, 1969
5	January 17, 1970
1	June 26, 1970
1	September 10, 1970



We were informed by another contractor that, at the time of the negotiation of the contracts, the Department had recognized that the 2-year contract period was not realistic or practical and had repeatedly assured him that extensions of 3 to 4 years would be made, as necessary, to complete the program.

At June 1, 1970, six of the 10 contractors were employing 526 persons under SIP. Also, only 311 of the persons hired since inception of the program, or about 8 percent, had been employed long enough to be counted toward the minimum of 3,751 to be employed.

Two of the contractors (C and D) have filed petitions for arrangements to pay their debts under chapter XI of the Bankruptcy Act. In addition, an involuntary bankruptcy action, under the Bankruptcy Act, was approved in a U.S. district court against a third contractor (G) in February 1970. Two of the three contractors (C and G) and two others (E and H) had discontinued all work under the contracts and had no SIP workers employed as of June 1, 1970.

## CHAPTER 2

### PROGRAM EFFECTIVENESS AND ADMINISTRATION

SIP in Los Angeles was an experimental program and was implemented hurriedly without the detailed planning and attention that such an innovative approach toward training disadvantaged persons and providing them with jobs generally would require in order to enhance the chances that it succeed and to protect the interests of the Government.

Although our field review was completed before the contracts had expired, it was evident that the program in Los Angeles had fallen far short of accomplishing its objective and that very little results would be obtained for the \$6 million advanced to the contractors. This was exemplified by the fact that, at June 1, 1970, the contractors were employing only 526 persons and the fact that the contract hiring periods had expired for eight of the 10 contractors by June 1, 1970.

We believe that, although the program did not prove to be effective in Los Angeles, it could have been effective had it been properly planned and had the contractors been carefully selected and their operations properly monitored by the Department of Labor.

On April 22, 1970, we submitted a draft of this report to the Assistant Secretary of Labor for Administration and to the Director, Office of Economic Opportunity, for their review and comment. The Department's comments and views were received by letter dated June 1, 1970, and are included as appendix I. Where pertinent, these comments and views have been incorporated into the applicable sections of this report. We were advised by officials of OEO that OEO's comments, if any, would be considered in the Department's comments on this report.

The Department concurred, in general with the draft report and stated that our recommendations which were germane to the present status of the SIP contracts had been implemented to the fullest extent possible.

The Department commented that all matters pertaining to contract terminations, closeouts, default procedures, and all other contract actions were being handled through the regional and national staffs of the Department's Office of the Solicitor and that all possible actions were being taken, as recommended by the Solicitor, to protect the interests of the Government where contractors have filed petitions under the Bankruptcy Act and/or where claims for damages due the Government are in order.

The Department also stated that, where feasible, funds were being deobligated or contracts were being terminated by mutual agreement but that, for the most part, the contracts must be permitted to run their course before specific legal action could be initiated. It stated further that the only contract modifications that were being made were those that would strengthen the Government's position and that no modifications were being permitted that would extend the contracts beyond the original expiration dates.

The Department pointed out, however, that its sole responsibility for SIP at this time was to monitor the existing SIP contracts until termination and/or completion. On July 1, 1969, OEO withdrew its delegation of authority for the Department to enter into further SIP contracts.

The Department did not comment on our specific recommendations for corrective actions to prevent future problems such as those which occurred in SIP in Los Angeles. We are, therefore, restating our recommendations for such corrective actions in various sections of this report.

Pertinent sections of our draft report were also made available for review and comment to each of the 10 contractors discussed in this report, to the city of Los Angeles, and to an official of the investment banking firm which received contingent fees in connection with the award of SIP contracts. Comments were received from six of the 10 contractors, from the city of Los Angeles, and from the investment banking firm, which have been considered in the applicable sections of the report.

SIP INITIATED WITHOUT ADEQUATE  
PUBLICITY AND BROAD SOLICITATION OF  
POTENTIAL CONTRACTORS

The Department did not adequately publicize SIP to the Los Angeles business community prior to its implementation and therefore probably did not give all potentially interested contractors a chance to participate in SIP. The Department appeared to place considerable reliance on the efforts of a local investment banking firm to identify businesses which might participate in SIP.

The Federal Procurement Regulations require that proposed procurements which offer competitive opportunities to prospective contractors be publicized to increase competition and broaden industry participation in Government procurement programs. The proposed procurements are to be publicized promptly in the Department of Commerce Business Daily, a daily publication which provides information to industry concerning Government contracting opportunities. However, the Department did not distribute information on SIP to the business community through the Business Daily. Also, the Department did not prepare for public distribution its first brochure describing the program, until about 18 months after implementing the program and about a month before OEO withdrew the Department's authority to award new SIP contracts.

Of the 10 Los Angeles contractors through which SIP was implemented, nine had become involved in SIP through information and services provided by the same investment banking firm. The remaining contractor, whose contract was one of the last to be awarded, did not utilize the services of the local investment banking firm. This contractor advised us that it had learned about SIP through its attorney, who was also the attorney for one of the other contractors.

A top official of the local investment banking firm which had a key role in obtaining contractors for SIP advised us that his firm first became interested in SIP in connection with its inquiries with the Department concerning any programs the Department might have in which private industry could participate. The official stated that following these inquiries the firm undertook to locate and

recommend to the Department firms for participation in SIP.

The official of the investment banking firm also advised us that he had screened about 60 companies and had recommended 30 to the Department for SIP contracts. The Department awarded contracts to 12 of the companies, including nine of the 10 contractors in Los Angeles and 3 contractors in New York. The official stated that, in screening the companies, the firm had evaluated the companies' suitability for a SIP contract on the basis of the firm's knowledge of the program and had considered whether the contractors had expansion plans and had the financial and management capability to perform under a SIP contract.

A Department official advised us that the Department relied on the investment firm's efforts since it needed contractors to participate in SIP.

### Conclusions

It was not possible for us to determine whether the unfavorable results of the SIP operations in Los Angeles were attributable to a significant extent to the failure of the Department to adequately publicize the program and seek a broad response from potential contractors. It appeared to us, however, that the absence of impartial solicitations of potential contractors, together with the Department's dependence on the investment banking firm in implementing SIP in Los Angeles, was contrary to the Government's best interests and probably did not give to other business and community interests in the Los Angeles area, which may have had the capacity and desire, a chance to participate in the SIP.

### Recommendation to the Secretary of Labor

We recommend, therefore, that the Department provide for the broad solicitation of prospective contractors in all future instances where such solicitation would enhance the prospects for success of the Federal manpower programs.

CONTINGENT FEES PAID  
TO INVESTMENT BANKING FIRM BY CONTRACTORS

In accordance with section 254(a) of Title 41, United States Code, and the Federal Procurement Regulations, the SIP contracts contained a provision entitled "Covenant Against Contingent Fees," which generally read as follows:

The contractor warrants that no person or selling agency has been employed or retained to solicit or secure this contract upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the contractor for the purpose of securing business. For breach or violation of this warranty the Government shall have the right to annul this contract without liability to it or in its discretion to deduct from the contract price or consideration, or otherwise recover, the full amount of such commission, percentage, brokerage, or contingent fee.

The regulations contain several criteria to be considered in determining whether a concern is a "bona fide established commercial or selling agency \*\*\*." Two significant criteria are: (1) the fees charged should not be inequitable and exorbitant in relation to the services actually performed and (2) there should ordinarily be a continuing relationship between the contractor and the agency or a continuing relationship should be contemplated.

The regulations require each executive agency to secure from prospective contractors, before a contract is awarded, a written representation as to whether they (1) have employed or retained any company or person (other than a full-time employee working solely for the prospective contractor) to solicit or secure the contract and (2) have paid or agreed to pay a fee contingent upon award of the contract. The regulations also require the contractors to agree to furnish information relating thereto as required by the contracting officer.

When either part of the representation is answered in the affirmative, the contracting agency is required to

obtain from the contractor a statement on standard form 119 (Contractor's Statement of Contingent or Other Fees for Soliciting or Securing, or Resulting From Award of Contract) disclosing the details of any arrangements under which agents have represented the contractors in obtaining Government contracts. The form provides for disclosing such data as the contractor's relationship to the agent, the types of Government contracts involved, whether use of the agent is a regular practice, and whether the duties of the agent are confined to a particular contract.

Our review of the 10 SIP contracts showed that:

1. Each contract contained the covenant regarding contingent fees as required by the regulations.
2. One of the nine contractors who paid contingent fees did not submit the standard form 119.

The contingent fee paid by each of the nine contractors to the investment banking firm and the contract amounts were as follows:

<u>Contractor</u>	<u>Amount of contract</u>	<u>Fee</u>
A	\$1,000,000	\$ 10,000
B	1,000,000	20,000
C	750,000	14,500
D	1,000,000	30,000
E	1,065,000	31,950
F	600,000	24,000
G	990,000	49,950
H	800,000	24,000
I	<u>960,000</u>	<u>38,000</u>
Total	<u>\$8,165,000</u>	<u>\$242,400</u>

Four contractors also had paid the investment banking firm additional fees totaling about \$49,600, collectively, for investment banking services, such as helping them secure construction loans and mortgage financing.

The primary functions performed by the investment banking firm included the preparation of proposals for submission to the Department supported by financial statements, product brochures, Dun and Bradstreet reports, and other reports on the prospective SIP contractors.

The investment banking firm also

- held conferences with the prospective SIP contractors regarding the future marketability of their products, the number of persons they could employ, and the funds they had available for investment,
- evaluated the information obtained from the prospective contractors, and
- submitted the proposals of the prospective contractors to the Department.

With regard to the continuing relationship between the contractors and the investment banking firm, the information furnished on the forms 119 submitted to the Department by eight of the contractors indicated that the firm represented the contractors with respect to both commercial and Government business and that it was the contractors' regular practice to have this type of arrangement. The forms for six of the eight contractors indicated that there was a general relationship between the firm and the contractors which extended beyond the SIP contracts and included the providing to the contractors of services such as obtaining mortgage financing, machinery and equipment financing, corporate financing, and purchasing of securities.

Of the nine contractors that paid fees to the investment banking firm, three informed us that they considered the fee exorbitant for the amount of time or service provided by the firm, three stated that they believed that the fee was a fair price, and three did not express an opinion on the reasonableness of the fees.

With regard to the amount of the fees, an official of the investment banking firm advised us that the firm had raised the fee percentage after the award of the first contract because the firm had lost money by charging a 1-percent



fee for its services in obtaining the contract. He stated that it was a normal practice for such firms to charge a "finders fee" of about 5 percent of the financing obtained for their clients. The official advised us that the firm had screened about 60 companies for participation in SIP, had obtained financial and product information on the companies, and had discussed with the prospective SIP contractors their possible involvement in SIP. He advised us also that the firm had incurred costs of about \$120,000 in its SIP effort, an average of about \$10,000 for each of the 12 SIP contractors from whom the firm received fees.

The Department's Solicitor advised the Manpower Administration, with respect to the first contract awarded, that the forms concerning contingent fees had met the legal requirements of the applicable regulations.

### Conclusions

We believe that the investment banking firm qualified as a bona fide selling or commercial agent even though certain criteria set forth in the law and regulations were not completely fulfilled. Also, the fees charged the nine contractors by the investment banking firm do not appear to be inequitable or exorbitant compared to the fees charged by the firm for similar services rendered in connection with other commercial transactions. We believe, therefore, that the fees paid by the SIP contractors to the investment banking firm were not in violation of the law or the Federal Procurement Regulations.

### Recommendation to the Secretary of Labor

We recommend that the Department take the necessary action to ensure that documentation regarding contingent fees under the current and future Manpower Program contracts is reviewed in detail for conformity with the requirements of 41 U.S.C. 254(a) and the Federal Procurement Regulations.

Department of Labor comments

With respect to the contingent fees paid to the investment banking firm by the SIP contractors, the Assistant Secretary for Administration advised us by letter dated June 1, 1970 (see app. I), that the Department's Office of the Solicitor had been requested to review the legality of the payment of contingent fees by SIP contractors to the Los Angeles investment banking firm.

INADEQUATE DOCUMENTATION OF THE  
BASIS FOR SELECTING CONTRACTORS  
AND DETERMINING CONTRACT AMOUNTS

The Department of Labor did not follow its guidelines for documenting the various actions taken in selecting contractors for SIP. Also, we could not ascertain any sound basis for the Department's determination of the amounts of the individual SIP contracts.

Basis for selecting SIP contractors

The Department's guidelines provide that an official contract file should be maintained for each contract and that such a file should contain a complete record of all pre-award and postaward actions, supporting data, and decisions made. The guidelines provide also that each contract file should contain such things as (1) the basis for selecting contractors, (2) a memorandum covering the negotiation of the contract, (3) a record of the analysis of the amount of the contract, (4) evidence that the contract was reviewed for legal propriety, and (5) a copy of the contract and of the proposal.

The Department's official contract files for the 10 Los Angeles SIP contractors did not contain all the above required records. Moreover, the file for only one contract contained an explanation of how the contractor was selected.

A Department official advised us that the contract files did not contain complete documentation because the usual contracting procedures were not followed.

Basis for determining contract amounts

General explanations of the basis for determining the amounts of the SIP contracts were given by Department officials in appearances before the Subcommittee on Departments of Labor and Health, Education, and Welfare and Related Agencies, House Committee on Appropriations.

In hearings held April 6, 1968, before that Subcommittee, the Assistant Secretary for Manpower stated that payments to the first SIP contractor in Los Angeles,

contractor A, constituted reimbursements to the contractor for the excess costs of investing in production facilities in a poverty area such as the Watts area in Los Angeles compared with similar costs that would be incurred in a non-poverty suburban area. He stated that this difference amounted to \$1 million for this contractor and was attributable to the higher construction, insurance, and training costs in the poverty area.

In hearings before the Subcommittee on March 5, 1969, the Assistant Manpower Administrator stated that:

"We reimburse the contractors for their extra costs. We went into these contracts estimating what the average cost would be to train a hard-core disadvantaged."

He stated also that, using the Department's bank of experience, the Department estimated around \$3,000 as the average cost of hiring a hard-core disadvantaged person and assumed that contracting in the amount of \$2,500 would be "a good buy." We noted that the SIP contracts in Los Angeles ranged in cost from about \$1,500 to \$3,300 for each SIP employee.

Other than these general explanations, we could find no record of the basis for determining the amounts of the individual SIP contracts.

### Conclusions

Contrary to its prescribed guidelines, the Department did not adequately document--and therefore we could not conclusively determine or evaluate--the basis upon which the SIP contractors were selected. Neither could we determine or evaluate the basis upon which the contract amounts were established. The lack of documentation with regard to both of these important matters represents a significant departure from the Federal Government's established standards of sound administrative procedure.

Recommendation to the Secretary of Labor

We recommend that the Department, in considering future contracts under other programs, follow its established procedures for documenting the basis for selecting contractors and determining contract amounts.

DOUBTFUL FINANCIAL CAPABILITY  
OF CONTRACTORS SELECTED BY THE  
DEPARTMENT

The doubtful financial capability of most contractors selected by the Department appeared to us to limit the contractors' ability to fulfill their objectives and thus limit the program's potential for success.

The Department had no internal guidelines for evaluating the various prospective contractors' financial capability to perform their contractual obligations. However, the Federal Procurement Regulations, which govern contracts by civil agencies, and the Armed Services Procurement Regulations, which govern contracts by Defense agencies, provide that contracting officers should obtain sufficient current information to satisfy themselves that prospective contractors have adequate financial resources for contract performance.

In evaluating the financial capability of potential contractors to perform, the regulations cited above require Government agencies generally to review financial statements and consider certain indicators, including the amount of current assets and liabilities, the net worth, profitability of operations, and sources of funds. Two of the measures of financial capability commonly used are the working capital (excess of current assets to current liabilities) and net worth (total assets minus total liabilities).

The working-capital position of a business is a measure of the ability of a business to meet its current obligations. The American Institute of Certified Public Accountants, Inc., in its accounting principles, states that the working capital has always been of prime interest to grantors of credit and that credit agreements commonly contain provisions restricting corporate actions which would effect a reduction or impairment of working capital. Generally, lending institutions regard a 2 to 1 margin of current assets to current liabilities as a satisfactory working-capital position.

With respect to net worth, we have been advised by a U.S. Treasury Department official responsible for the

examination of loan transactions of various national banking institutions that financial institutions generally will not make loans in excess of a firm's net worth.

Although the payments to SIP contractors were performance payments rather than loans requiring repayment, all or a portion of the payments are returnable in the event of nonperformance. Also, the contractors were required to make capital investments from their own resources. The net worth of the contractor is an indication of the contractors' financial capacity, including their ability to make the required capital investment.

The following table shows, for each SIP contract, the amount and the contractors' net worth and ratio of current assets to current liabilities based on the latest available financial data submitted for the contractors prior to the award of the contracts.

<u>Contractor</u>	<u>Contract amount</u>	<u>Net worth or deficit(-)</u>	<u>Ratio of current assets to current liabilities</u>
A	\$1,000,000	\$ -42,000	.50 to 1
B	1,000,000	744,000	2.67 to 1
C	750,000	253,000	1.63 to 1
D	1,000,000	47,000	1.15 to 1
E	1,065,000	2,325,000	3.06 to 1
F	600,000	155,000	2.24 to 1
G	990,000	80,000	.97 to 1
H	800,000	958,000	1.22 to 1
I	960,000	10,500	(a)
J	779,100	438,000	1.21 to 1

<sup>a</sup>No liabilities

As shown above, only contractors B, E, and F had a ratio of current assets to current liabilities of 2 to 1 or greater which would generally be considered acceptable. Also, only contractors E and H had net worths in excess of their contract amounts. The financial capability of five contractors (A, C, D, G, and J) was such that their ability

to satisfactorily carry out the terms of their contracts was doubtful. Contractor I had a net worth of \$10,500 and no liabilities.

Insofar as we could determine, the Department awarded the contracts without making an evaluation of the contractors' financial ability to successfully discharge their contractual obligations.

### Conclusions

The problems involved in expanding existing plant facilities and creating new job opportunities can be severe even for companies with adequate financial capability. When the problem of hiring, training, and employing disadvantaged persons is added, the task becomes even more demanding and requires a high degree of capability.

### Recommendation to the Secretary of Labor

We recommend that the Department, in considering future contracts under other manpower training programs, make an adequate evaluation of prospective contractors' financial capability to fulfill contractual commitments.



CONTRACT TERMS DID NOT ADEQUATELY  
PROTECT THE INTERESTS OF THE GOVERNMENT

Some of the contract terms were not adequate to protect the Government's interests in that the terms provided for (1) the payment to four of the 10 SIP contractors of all the contract funds after additional facilities had been acquired but before any disadvantaged individuals had been hired and (2) these four contractors to retain a sizable portion of the contract funds even if they failed to hire any disadvantaged individuals before the contracts expired.

Contract terms on progress  
payments to contractors

Under the terms of the contracts, the 10 SIP contractors were required to lease or acquire additional plant facilities and to hire a specific number of disadvantaged persons for employment in the additional facilities within a specified period.

Four of the contracts provided for payment of the funds in installments, the last installment to be paid when the contractors had submitted evidence that they had completed construction or renovation of additional production facilities. Thus, under these four contracts, the Department could disburse the entire contract amount before the contractors had hired any SIP employees rather than withhold portions of the funds until the specified number of SIP employees had been hired. As of June 1, 1970, the Department had disbursed to these four contractors \$3,080,000 of the total contract amounts of \$3,815,000. In addition, the terms of these four contracts also permitted the contractors to retain a part of the contract funds even if they hired no disadvantaged individuals under SIP.

One contract provided that the contractor receive all the contract funds except \$50,000 when it had begun production and had started employing some disadvantaged persons. The \$50,000 was payable after the contractor had fully completed performance. As of June 1, 1970, the contractor had received \$950,000 of the contract amount of \$1,000,000.

The other five contracts afforded better protection to the Government in that they provided for payment of 55 percent of the contract amount as soon as the contractors were ready for production but prior to hiring SIP employees, 20 percent after 5 percent of the SIP employees had been hired, 15 percent after 40 percent had been hired, and the remaining 10 percent after all contract terms had been met. As of June 1, 1970, the Department had disbursed \$2,016,525 of the total contract amounts of \$4,129,100.

Contract terms on nonperformance  
by contractors

The provisions contained in four of the 10 SIP contracts did not adequately protect the Government's interests because the contracts permitted the contractors to retain a considerable portion of the contract funds even though no disadvantaged individuals had been hired under the contracts.

The four contracts provided that the contractors were eligible to receive all the contract funds from the Department prior to hiring any disadvantaged individuals and could retain part of the funds even though they did not hire any SIP employees. For example, under the terms of the contract one of the contractors is required to repay the Department \$2,500 for each employee not hired short of its quota of 335. Thus, if the contractor hired no SIP employees he would have to repay the Government only \$837,500 which would be \$162,500 less than the \$1,000,000 it received from the Department.

The following table shows this information for each of the four contractors.

<u>Contractor</u>	<u>Date of contract</u>	<u>Minimum number of employees to be hired</u>	<u>To be repaid for each employee short of minimum</u>	<u>Maximum repayment</u>	<u>Amount of contract (note a)</u>	<u>Contract amount in excess of maximum repayment</u>
B	3- 5-68	335	\$2,500	\$837,500	\$1,000,000	\$162,500
C	4-26-68	250	2,500	625,000	750,000	125,000
D	4-26-68	335	2,500	837,500	1,000,000	162,500
E	4-26-68	360	2,500	900,000	1,065,000	165,000

<sup>a</sup>Contractors B and D received the full amount of their contracts and contractors C and E had received \$725,000 and \$355,000 respectively through June 1, 1970.

### Conclusions

In view of the doubtful financial capability of most of the contractors to fulfill their contractual requirements, we believe that additional safeguards to protect the Government's interest would have been appropriate and would not have been too burdensome for the contractors to fulfill.

### Department of Labor Comments

The Assistant Secretary for Administration stated that the Department had attempted to seek out ways and means to achieve full and complete performance from the companies participating in SIP and that attempts had been made to revise contracts to reflect more realistic and attainable goals with a corresponding reduction in the funds allocated to each contract. He said that negotiations had also been conducted to revise the contracts to permit additional periods for recruitment but that the contract terms and conditions, and the advance payment method provided for, made it extremely difficult to negotiate changes.

INABILITY OF SIP CONTRACTORS  
TO MEET HIRING COMMITMENTS

Each of the 10 SIP contractors had agreed to hire a specific number of disadvantaged persons from the target area during a specified period and to employ them continuously for either 6, 9, or 12 months. As of June 1, 1970, the hiring period for eight of the 10 contractors had expired and none of the eight contractors had fulfilled their commitments. For the two remaining contractors, 1 month of the hiring period remained for one and 3 months remained for the other.

Collectively, the 10 contractors had at June 1, 1970, only 526 SIP employees. Further, only 311 hired since inception of the program had attained permanent employment status as defined in the contracts and could be counted toward achieving the contract employment requirements.

Four contractors became involved in a disagreement with the city of Los Angeles over converting the city's jail facility into a project site. This disagreement, and its related delaying effect on implementing SIP, was still unresolved at the completion of our field review. Also, we were advised by a contractor on June 26, 1969, that the proposed location of its new plant was not approved by the Department on the basis that it was not in the target area. It took another contractor about 12 months to obtain a site.

Contractors' hiring commitments

The hiring periods and the number of disadvantaged persons employed and to be employed at June 1, 1970, by each of the contractors are shown in the table on the following page.

<u>Con- tractor</u>	<u>Hiring period began</u>	<u>Hiring period ended</u>	<u>Hiring period (months)</u>			<u>Number of SIP employees</u>	
			<u>Total</u>	<u>Ex- pende</u>	<u>Remain- ing</u>	<u>Employed at 6-1-70</u>	<u>Remaining to be employed</u>
A	12-10-68	9-10-70	21	18	3	32	265
B	3-26-69	6-26-70	15	14	1	268	66
C <sup>a</sup>	4-26-68	11-26-69	19	19	-	-	250
D <sup>b</sup>	2-17-69	11-26-69	9	9	-	72	262
E	4-26-68	11-26-69	19	19	-	-	360
F	1-17-69	1-17-70	12	12	-	18	182
G <sup>c</sup>	6-25-69	1-17-70	6	6	-	-	550
H <sup>d</sup>	7- 2-69	1-17-70	6	6	-	-	400
I	7- 2-69	1-17-70	6	6	-	75	575
J	7- 2-69	1-17-70	6	6	-	<u>61</u>	<u>310</u>
						<u>526<sup>e</sup></u>	<u>3,220</u>

<sup>a</sup>Suspended operations in January 1970; filed a petition on February 6, 1970, for an arrangement to pay debts under chapter 11 of the Bankruptcy Act.

<sup>b</sup>Filed a petition of November 24, 1969, for an arrangement to pay debts, under chapter 11 of the Bankruptcy Act.

<sup>c</sup>Laid off workers in January 1970; and contract terminated for default by the Department in February 1970. Also in February 1970, a U.S. district court approved an involuntary bankruptcy action against the contractor.

<sup>d</sup>Contract terminated by the Department in January 1970 because the contractor had defaulted.

<sup>e</sup>Does not include five SIP employees who had attained permanent employment status before they terminated their employment.

Officials of various contractors advised us that the contract-hiring commitments were not being met as anticipated because of various reasons such as difficulties and delays in obtaining sites to expand production facilities and the inability of the Concentrated Employment Program (CEP), and the State Employment Service offices--agencies responsible for certifying applicants as disadvantaged--to meet the contractors' requests for applicants.

For example, contractor D stated that its difficulty in hiring SIP employees was due to the CEP office not supplying job applicants. This contractor furnished us copies of letters in which it had requested the CEP office to provide 775 applicants during the period February 26 to May 6, 1970. None of these requests, according to the contractor, were acted upon by the CEP office. Also, contractor J reported that only nine of its 153 enrollees were referred by the CEP office and the State Employment Service.

Another factor which hampered the contractors in meeting their contract-hiring commitments was the fact that the contractors experienced a high rate of employee turnover. For example, through September 30, 1969, an average of 56 percent of the SIP employees hired by the contractors were no longer employed. This is shown in the following table.

<u>Contractor</u>	<u>Number of employees</u>		<u>Termination rate (percent)</u>
	<u>Hired</u>	<u>Terminated</u>	
A	64	39	61
B	493	242	49
C	-	-	-
D	220	153	70
E	5	5	100
F	60	46	77
G	8	2	25
H	-	-	-
I	66	33	50
J	<u>40</u>	<u>19</u>	<u>48</u>
Total	<u>961</u>	<u>539</u>	
Average			56

Of the 539 SIP employees, 157 quit their jobs but no reason was given in the records. The reasons why another 79 employees terminated their employment were not furnished to us by the contractors. The known reasons for the remaining 303 terminations, as documented in the personnel records maintained by the contractors or provided by the contractors, are summarized below.

<u>Reason for terminating</u>	<u>Number of terminations</u>
Quit for another job	26
Quit to move from area	29
Quit to return to school	18
Discharged for absenteeism, tardiness, or inefficiency	68
Discharged because of reduction in force	79
Work, health, family, and transportation problems	<u>83</u>
Total	<u>303</u>

The doubtful financial capability of most of the contractors, as discussed on pages 22 to 24 of this report, appeared to us to also be a contributing factor to the inability of the contractors to hire more individuals under SIP.

Difficulties involved in  
leasing Lincoln Heights Jail

The Department of Labor approved the Lincoln Heights Jail in Los Angeles as a site for the manufacturing operations of four SIP contractors without adequately evaluating the suitability of the jail site for program use. At the completion of our field review, the facility was not completely available for program use because of occupancy by the Los Angeles Police Department.

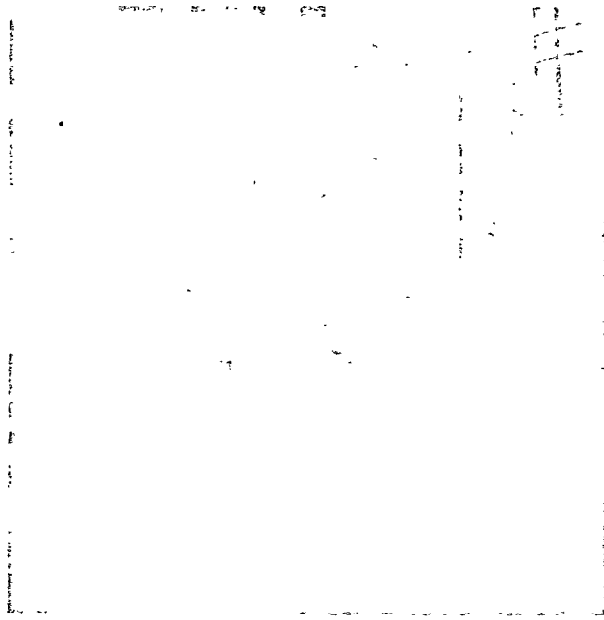
An objective of SIP was to provide employment to residents of areas with large concentrations of low-income persons. In selecting sites for program operations, an important consideration--particularly in view of the time limits of the SIP contracts--was the length of time needed to prepare the site for operations since residents to be served by the program generally could not be employed until the contractors had expanded their operating capacity.

Available files and documentation did not reveal any evidence that the Department had (1) evaluated the feasibility of using the jail for SIP manufacturing operations, (2) inquired whether other more suitable facilities were available, and (3) determined whether the converted jail would be adequate for the number of employees to be hired by the contractors.

The Lincoln Heights Jail is owned by the city of Los Angeles and consists of a five-story building and two one-story warehouse buildings. Pictures of these buildings are shown on the following page.

In October 1968 the local investment banking firm that represented most of the prospective contractors in obtaining the SIP contracts participated in negotiations between the Department and three of the SIP contractors (F, H, and I) in connection with the conversion of the Los Angeles

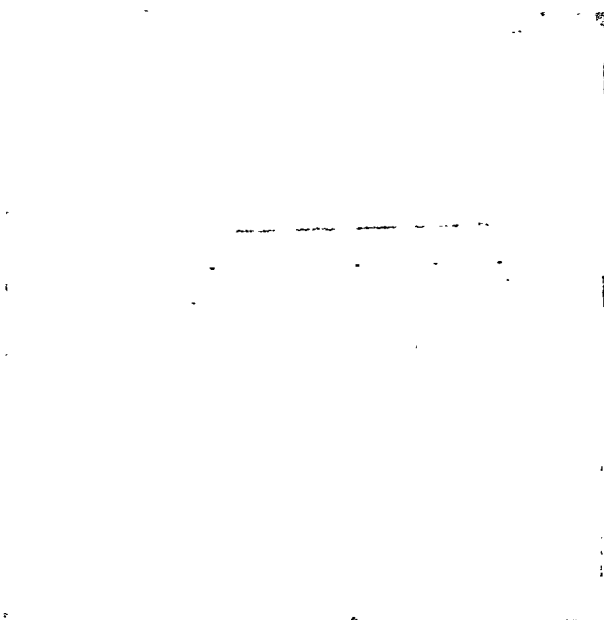
# VARIOUS VIEWS OF JAIL FACILITY



FRONT VIEW



CELL BLOCK ON ONE OF THE FLOORS



SIDE VIEW SHOWING ONE OF THE TWO  
WAREHOUSE BUILDINGS ADJACENT TO  
THE MAIN FACILITY

ONE OF THE TWO WAREHOUSE BUILDINGS



City Jail to a training and manufacturing plant. On October 17, 1963, the investment banking firm advised the city by letter that the three contractors were to receive Federal funds and were available to occupy the jail.

During the negotiations it was agreed that contractor G would use the space originally planned for use by contractor F because contractor F had decided to enter into a separate lease with the city for the two jail warehouse buildings. The other three contractors (G, H, and I) would then lease parts of the jail and use them as operation sites to expand their businesses under the SIP contracts. Representatives of the Department advised us that, in deciding to select the jail as a SIP site, they considered the recommendations of the investment firm and community representatives.

On January 17, 1969, the Department awarded SIP contracts in the total amount of \$3,350,000 to the above cited four contractors. The contracts required the contractors to hire a total of 1,800 target area residents within a year after the effective date of the contracts.

On February 27, 1969, the city leased the Lincoln Heights Jail to three of the contractors (G, H, and I) for use as a program site beginning on April 1, 1969. On April 11, 1969, the city leased the warehouse buildings adjacent to the jail to the other contractor (F) for use as a program site beginning May 21, 1969. Both lease agreements were for 22 years.

The city agreed to vacate the jail by April 1, 1969. Although the city had notified, on January 29, 1969, the county courts to vacate the jail by April 1, 1969, the county did not do so until July 7, 1969. The police department did not move out until December 1969.

The leases provided that the contractors' plans for renovation of the facilities be submitted to and approved by the city. In early May 1969, three of the contractors (G, H, and I) submitted proposed specifications for the renovation of the jail which were rejected by the city because the city maintained that they did not conform to the conditions set forth in the lease agreement. One of the

contractors (I) informed us that plans for renovation of the jail which conformed to the lease agreement conditions had been completed in May 1969 but had not been submitted to the city because by this time one of the contractors (H) was considering terminating the lease agreement.

On July 10, 1969, contractor H declared its obligation under the lease with the city terminated and void principally because the city had not delivered possession of the jail on April 1, 1969, as agreed. Since the contractor was a party to the joint lease with two other firms (G and I), the other firms indicated that they could not proceed until resolution of the contractor's action regarding the lease.

The SIP contracts provided for the four contractors to begin hiring employees by July 2, 1969, or about 6 months after the contracts were awarded, and for the hiring to be completed by January 17, 1970. However, in August 1969 two of the contractors (G and I) advised us that it would take from 6 to 12 months to complete the renovation of the jail and to start business operations and hiring. In October 1969 the SIP contractors' consultant for renovation of the jail further advised us that it would take at least 6 months to make the jail suitable for use by the contractors. The official of the investment banking firm advised us that, at a meeting with city officials, the renovation time was estimated at 3 to 4 months.

The problem of not being able to move into the jail and the necessity to begin hiring employees by July 2, 1969, prompted one contractor (I) to begin its operations at an alternate site on June 2, 1969. An addendum to its SIP contract provided for the contractor's use of the alternate site and additional sites. The contractor told us that the portion of the jail to be occupied could not have accommodated the 650 individuals which it was required to hire under the SIP contract. The contractor also stated that it planned to employ about 200 to 300 individuals at the jail, and the remainder at the other sites.

An addendum to another SIP contract provided for the contractor (F) to use an alternate site because it did not have enough space in the jail warehouse buildings to accommodate the 200 individuals to be hired under the contract.

Similar delays caused contractor G to move to an alternate location in September 1969. This contractor told us that, if the Department had not approved the use of an alternate location, it would not have been able to continue with the SIP contract.

In January 1970, the Department terminated its contract with contractor H--which had declared its obligation, under the lease for use of the jail, void because the city did not vacate the jail as agreed--for default and nonperformance under the terms of the contract.

### Conclusions

The contractors' inability to meet the hiring commitments was due to several factors, including their doubtful financial capability; high employee turnover; and difficulties in obtaining additional plant facilities. With regard to the last factor, it appears that the Lincoln Heights Jail was not suitable for successfully carrying out the program, primarily because it could not be converted in time and because it was not large enough to meet the contractors' requirements.

In our opinion, had the Department fully evaluated the feasibility of the contractors' use of the jail and allowed them to select other sites near the target area, which were apparently available--in view of the contractors' subsequent success in locating such sites--the contractors might have been able to begin production and hiring employees sooner and their chances of meeting the employment goals might have increased considerably.

STOCK PURCHASE PLANS NOT IMPLEMENTED

The Economic Opportunity Act of 1964, as amended (42 U.S.C. 2701), provided that SIP projects should, where feasible, promote ownership or participation in ownership of assisted businesses, by residents of the area served. The Department implemented this provision of the act by requiring the SIP contractors to have a stock purchase plan which would provide an opportunity for their employees to become part owners of the company. A stock purchase plan was required by eight of the original contracts and the requirement was added by an amendment to another contract. The 10th contractor, although not required under its SIP contract, submitted a stock purchase plan to the Department in June 1969. However, as of June 1, 1970, the Department had not approved the contractor's proposed stock purchase plan.

As of June 1, 1970, none of the nine contractors had implemented a stock purchase plan as required by the terms of their contracts. Even though three of these nine contractors had prepared stock purchase plans, it was unlikely that SIP employees could have participated in a stock purchase plan because their earnings per week appeared to be insufficient to allow them to purchase stock under the plans.

The reasons given by the contractors for not implementing stock purchase plans included (1) legal complications related to obtaining required State approval of the plans, (2) delays in getting their projects into operation, and (3) delays in receiving Departmental guidelines on the stock purchase plan.

Six of the contractors advised us that SIP employees would probably not participate in a stock purchase plan because of their low incomes and the need to use their money for food, clothing, and other necessities.

In its report prepared for the Department on SIP, the Westinghouse Learning Corporation commented that SIP employees would not be financially capable of purchasing any significant amount of stock in the companies and concluded that it was doubtful that SIP employees would purchase such stock.

## INADEQUATE MONITORING OF CONTRACTORS

The Department of Labor's monitoring of SIP contractors appeared to us to have been inadequate during the critical early stages of the program period from late 1968 to July 1969. Visits to contractors by Department representatives were made infrequently.

From inception of the program in 1967 through June 1969, monitoring was the responsibility of Department headquarters representatives in Washington, D.C. On July 1, 1969, responsibility for monitoring SI: in Los Angeles was transferred to the Department's San Francisco Regional Manpower Administrator.

Departmental guidelines state that the functions and responsibilities of field representatives include:

1. Monitoring a contractor's performance to ensure compliance with program policies, guidelines, and contract provisions.
2. Reviewing and appraising financial and reporting procedures, quality of instruction and training facilities, degree of enrollee satisfaction and progress, and overall effectiveness in meeting program objectives.
3. Providing technical assistance to contractors on all aspects of project planning and implementation.
4. Providing appraisal reports to contractors and to Department officials on progress, achievements, deficiencies, and overall conduct of projects for which they have responsibility.

Because of staff shortages in its organization, the Department contracted on January 17, 1969, with a consulting firm to provide technical assistance to SI? contractors on reporting, implementing an employment plan, providing supporting services to employees, and assisting in other areas designed to help the contractors plan and develop their individual programs. The contract was in the amount of \$122,885 and covered a 6-month period. At the time the

contract was signed, however, five of the 10 Los Angeles SIP contracts had been in effect at least 8 months and employees had already been working under SIP at three of the contractors' plants.

The first visit to a SIP contractor by a representative of the consulting firm was made during May 1969. The firm issued guidelines dated March 3, 1969, for the Department on establishing a SIP employment plan and undated guidelines for providing supporting services. An official of one of the contractors advised us that the guidelines were not received by the contractor until about July 1969. By this time, most of the contractors had begun hiring individuals under SIP. Two contractors stated that the guidelines were issued too late to be of much assistance. Officials at six of the 10 contractors' informed us that the consulting firm did not provide any useful assistance to them.

On August 22, 1969, in reply to a request for an appraisal of the consulting firm's past efforts, the San Francisco Deputy Regional Manpower Administrator advised the Department headquarters in Washington, D.C., that, on the basis of regional experience since July 2, 1969, and of documented reports, the firm's past efforts were considered to have been marginal and not too effective.

The Contract and Grant Division of the Department's Office of Program Review and Audit made a financial examination of contractor A for the period December 21, 1967, through March 31, 1969. The auditors concluded that the minimal results obtained in providing training and job opportunities for the disadvantaged raised questions as to the contractor's willingness and ability to perform. We were advised by an official in the Office of Program Review and Audit that no other financial examinations of SIP contractors in Los Angeles were made by that Office. As explained in chapter 3, a nationwide review of SIP was made in September 1969 by the Department's Special Review Staff.

DIE

Department of Labor actions and  
our evaluation

In commenting on our draft report, the Assistant Secretary for Administration, Department of Labor, stated that overall responsibility for the operation of the existing SIP contracts rested with the Regional Manpower Administration in the regions where the contractors operate and that all activities related to these contracts were coordinated at the national level by the Manpower Administration, U.S. Training and Employment Service, Office of National Projects. He said that monitoring visits were being made on a monthly basis, more frequently if needed.

In view of the unique and innovative nature of SIP and the numerous questions, problems, and difficulties which could be anticipated to arise under such a program, we believe that the Department should have provided extensive assistance to the contractors from the earliest stages of the program. We believe that the adverse effects of many of the deficiencies and problems in SIP operations discussed earlier in this report could have been minimized through adequate monitoring by the Department.

Recommendation to the Secretary of Labor

We recommend that the Department, to protect the interests of the Government and to help ensure successful implementation of programs such as SIP and other manpower programs, provide for adequate monitoring of contractors' activities with particular emphasis during the highly important initial stages of programs involving unique and innovative measures.

## CHAPTER 3

### EVALUATIONS OF SIP BY THE DEPARTMENT OF LABOR AND THE WESTINGHOUSE LEARNING CORPORATION

In addition to our review of SIP, two other reviews have been made of the program, one by the Westinghouse Learning Corporation under an OEO contract and the other by the Department of Labor's Special Review Staff. The more significant findings of these review groups are summarized below.

#### WESTINGHOUSE LEARNING CORPORATION

On June 3, 1968, OEO awarded a \$356,720 contract to the Westinghouse Learning Corporation to (1) conduct a quantitative and qualitative analysis and evaluation of certain SIP projects in five states and Washington, D.C., including the first five Los Angeles SIP contracts, (2) provide maximum measurement, analysis, and evaluation of the impact of SIP projects on unemployment and dependency and on community tension of target poverty areas, and (3) submit a final report on its findings by November 30, 1969, to OEO. On June 30, 1969, the contract was amended to provide, among other things, that the final report be submitted by May 30, 1970, and that the contract amount be increased to \$777,516.

The corporation which was established in 1957, is a wholly owned subsidiary of the Westinghouse Electric Corporation. It has had extensive experience in the development, operation, and evaluation of antipoverty programs, including the Department's manpower programs.

The corporation submitted an interim report to CEO, dated January 30, 1969, which set forth findings resulting from its evaluation of the five Los Angeles SIP contracts, as follows:

1. The Department appeared to rely on the recommendations of a local investment banker for the selection of companies because no one from the Department had met in



person with representatives of four of the five companies until just before their contracts were signed in March 1968. In addition, all five contracts were negotiated through the investment banker, whose firm received fees from the contractors for the services he rendered to them.

2. Certain aspects of the contracts did not appear to adequately protect the interests of the Department or of the poor people. This was probably partly a result of the Department's need to offer a considerable incentive to the contractors and partly a result of the lack of administrative attention by the Department in the implementation of the program.

- a. The Department agreed to pay the contractors an average of \$3,051 for every employee they promised to hire toward their minimum requirements and required the contractors to pay back only \$2,500 for each employee short of their requirements. Theoretically, a company receiving \$1 million could buy land, construct a plant, not hire a single SIP employee, and come away with a profit of \$162,500 and an interest-free loan of about \$800,000 for over 1 year.
- b. No minimum wage was established for the first 90 days of hire, and the companies were free to hire at the Federal minimum wage of \$1.65 an hour. This would be lower than the average starting wage in Los Angeles for the type of work being offered.
- c. The clause in the contracts which calls for training does not specify what kind of training or how long it should continue.
- d. The Department's reporting requirements were originally inadequate in that the first report was not due from the contractor until 1 year after completion of construction of the proposed facilities. The Department recognized this inadequacy and asked the contractors for monthly reports. This caused some friction because a requirement for monthly reports was not provided for in the contracts.

- e. The contracts did not ensure that the disadvantaged would be hired for the construction work on the new plants.
- f. Certain types of supportive services, such as providing help in regaining lost drivers' licenses and on-the-job counseling, are considered important for disadvantaged persons; but such supportive services were not provided for in the contracts. The overall reaction of the contractors, when the Department inquired about supportive services in December 1968, ranged from ignorance to hostility.

3. The target areas, East Los Angeles and South Central Los Angeles, are assumed to be the jurisdiction of the two CEP offices in those areas. The CEP offices, however, did not receive any instructions from the Department concerning SIP, and the Department did not clearly define the target area of East Los Angeles. Three of the contractors built factories under the program from 12 to 19 miles from what is presumed to be their target area. These three contractors built plants in the City of Industry, a nonghetto area located east of Los Angeles and were given the same inducements as firms in ghetto areas.

4. There was no publicity at the beginning of the program. Very few people in either South Central or East Los Angeles had heard of SIP. There appeared to be no community-based organization in East Los Angeles that was aware of the program.

5. The most disconcerting aspect of the Los Angeles program is that, in its implementation, the Department has neither given the program special administration nor tapped its own considerable experience with this type of program. The chance for the program to succeed was considerably reduced because it was isolated from the expertise which the Department possesses and because it was being administered entirely from Washington, D.C.

- a. There does not appear to have been any effort by the Department to search for businesses which offer the kind of jobs that would be a step-up for hard-core unemployed persons or businesses which have

demonstrated capability for successfully employing such persons. The majority of the jobs offered require little or no training and pay the lowest wages. They are the kinds of jobs already available to hard-core unemployed persons.

- b. The Department did not have anyone working on the program full-time until all five of the contracts had been signed. The contractors had little contact with the Department after signing their contracts, and the contractors stated that this had caused some problems. The Department's established Manpower Administration had a full staff in Los Angeles, but no one on this staff was assigned responsibility for monitoring SIP.

6. Four of the five contracts called for stock purchase plans; but these plans, which were not defined and were limited to only a small number of employees, had not yet been developed; and it was not anticipated that they would provide any meaningful ownership of the businesses to the employees.

7. There was no coordination between the Department and any other agency, such as the CEP office, in the program. Although the CEP office in Los Angeles was referring applicants to the contractors, no one from the Department had talked to anyone in that office about the program.

8. The contractors were optimistic in their estimates of the employees they would need. It is anticipated that the contractors will have a great deal of difficulty keeping the employees because wages are generally low, the work is uninteresting, the companies are inexperienced in keeping poor persons on the job, and, in some cases, the plants will be a long distance from the residences of the employees.

OEO, in a letter to the Department dated February 17, 1969, pointed out certain problems discussed in the Westinghouse Learning Corporation's report. On March 28, 1969, the Department furnished OEO its comments on the problems. The Department's comments and the problems are presented below.

--Problem--The Los Angeles contracts permitted plant locations at considerable distances from the areas to be served by SIP.

The Department commented that it had attempted to serve, through these new facilities, the nearby community of La Puente because La Puente had a large disadvantaged-Mexican-American population in need of assistance.

--Problem--The contracts appeared to have involved a finder's fee, which might be of questionable legality.

The Department commented that it became concerned with this issue during the negotiation of the first SIP contract in Los Angeles and that it pursued the issue with its Solicitor's office and was advised that the required documents were filed and met the legal requirements of the applicable regulations. It concluded that these initial arrangements were legal.

--Problem--All contracts were drawn in a manner that would ensure a considerable profit even if companies concerned did not perform at all on the contract provisions to hire hard-core unemployed.

The Department agreed that the issue of profits should be questioned, especially if the firm was able to more cheaply locate in the designated target area. However, it claimed that it had experienced difficulty in attracting businesses to locate in areas close to the ghettos and, therefore, had paid higher prices as an incentive for firms to participate in the program.

--Problem--For the most part, the positions offered were dead-end jobs, involved no training, and paid minimum or low wages.

The Department commented that all the jobs provided for a wage rate of at least \$2 per hour after 120 days and that the program design was intended to be self-adjusting in that the \$2 rate, if not attractive to

workers, would be raised by the contractors to retain people, to meet the employment quota required by the contract, and to avoid payment of the penalty of \$2,500 for each trainee short of the employment goal.

--Problem--Certain provisions of the act were completely ignored, such as involving target-area businessmen and providing management and ownership opportunities for target-area residents.

The Department commented that all the projects reviewed by the corporation included provisions for stock options for employees.

--Problem--Plant relocations, in some instances, appeared to violate certain provisions of the act in that a high proportion of employees in the previous locations were not retained.

The Department commented that the projects required firms to retain their regular employees by providing the employees with the opportunity to relocate with the firm and that firms did not receive credit for any new employee until they had reached the levels of employment when the SIP contracts were signed.

On July 1, 1969, OEO withdrew its delegation of authority for the Department to enter into further SIP contracts. An official informed us that OEO had been dissatisfied with the Department's administration of the program for some time and that the corporation's report weighed heavily in its decision to withdraw the delegation of authority from the Department.

In August 1970 the corporation completed and submitted to OEO four of the eight individual volumes of its final report entitled "An Evaluation of Fiscal Year 1968 Special Impact Programs." One of the four completed individual reports--Volume III--covered SIP in East Los Angeles. Our review indicated that the findings in Volume III appeared to be generally consistent with the findings reported by the corporation in its interim report.

SPECIAL REVIEW STAFF, DEPARTMENT OF LABOR

In August 1969 we met with Department officials and discussed our observations on SIP. In September 1969 the Department's Assistant Secretary for Manpower instructed his Special Review Staff to make a nationwide review of SIP.

In a report dated October 25, 1969, the Special Review Staff reported the following findings.

1. SIP involved the Department in an economic development program, an area in which it had minimal experience.
2. SIP had no appreciable impact on the lives of the poor in target areas. Contributing causes were identified as (a) low level of funding for the program, (b) minimum performance by contractors, (c) location of some plant sites not fully accessible by transportation to target-area residents, (d) companies participating were new or small firms inexperienced in handling hard-core unemployed, and (e) job opportunities were unattractive because of low wage scales.
3. Inadequate Department administrative staffing.
4. Weak contract negotiation procedures including lack of program publicity, participation of an investment banking firm in obtaining contracts, and lack of adequate precontract checks on suitability of proposed contractors.
5. Failure to include in the contract a provision covering accounting for and use of funds advanced to the contractor and, in the contracts in fiscal year 1968, a provision to protect the Government's interest in case of termination for default or convenience.
6. Contracts allowed payments to be made to the contractors prior to the hiring of employees.
7. Monitoring of contracts improved after transfer of responsibility to the Department's regional offices.

8. Lack of pertinent technical assistance to SIP contractors.
9. Minimum performance by contractors including failure to fulfill pledges of capital investment, location of plants at some distance from target areas, small probability of capacity to achieve new hires obligations, jobs required minimal previous experience and skill level and paid low wages, and a lack of formal training programs.

In November 1969 as a result of the findings of the Special Review Staff, the Department decided that:

- No SIP project was to be given an extension of time beyond that stipulated in the original contract.
- SIP contractors were to be held to performance obligations as stated in the contracts.
- In the event that any SIP contractor filed bankruptcy proceedings, the contracting officer was to request the appropriate U.S. Attorney to file a claim on behalf of the Department in the bankruptcy proceedings.

In addition, the Department made certain specific decisions, regarding three of the Los Angeles contractors.

At the contract termination date of April 26, 1970, the contracting officer was to move to enforce the damages provision contained in the SIP contracts against contractors D and E in order to recover as much money as possible.

Concerning another contract, which expires January 17, 1971, the contracting officer was to execute the default clause and thereby terminate the SIP contract with contractor H and was to enforce the damages provision of the contract for the return of as much of the \$240,000 received by the contractor to which the Department is entitled under the damages provision.

The Department of Labor advised us, in commenting on a draft of this report, that this contract was being terminated for default and that the contractor was appealing this action.

## CONCLUSIONS

For the most part our findings corroborate those of the Westinghouse Learning Corporation and of the Special Review Staff on SIP in Los Angeles; that is, the program was poorly administered, the SIP contract provisions did not adequately protect the Government's interests, and the program was not accomplishing its objectives.

We are of the view that OEO, in its administration of the SIP program, should benefit from the problems experienced by the Department in its implementation and administration of the program.

The position taken by the Department that no modifications would be made to the contracts, made it certain that SIP contractors would not be able to provide the employment opportunities intended. As of June 1, 1970, the hiring period for eight of the 10 contractors had terminated (see p. 29) with employment far short of the minimum requirements under the contracts. Because the hiring periods for the other two contractors would terminate in about 1 to 3 months, there was considerable doubt, in our opinion, that either contractor would meet the employment levels called for in their contracts.

Disadvantaged individuals, through their participation in an unsuccessful and ineffective manpower training program, can lose faith in similar manpower training programs, and their motivation to participate in other such training programs or to seek employment on their own can be lessened. In view of the substantial failure of the SIP program, it is, in our opinion, incumbent upon the Department to do all that it can to assist the SIP employees, whose employment has been or will be terminated, in finding suitable employment through other manpower programs or with other employers.

## DEPARTMENT OF LABOR COMMENTS

In commenting on a draft of this report, the Assistant Secretary for Administration, stated that the Department recognized that individuals employed by the various SIP contractors would, for the most part, be displaced as a result



of the termination and/or completion of the contracts and that this was a regrettable circumstance and one that the Manpower Administration was attempting to overcome by special placement efforts. He said that, although these placement efforts were a difficult job, it was anticipated that a substantial percentage of those displaced could be directed to other work sites within a reasonable period of time and that those who could not be placed in jobs would be enrolled in other training programs so that they might develop skills needed for placement in available jobs. He said that this activity had been given a high priority by the Regional Manpower Administration.

## CHAPTER 4

### SCOPE OF REVIEW

In general, our review covered the period May 1969 through June 1970. We inquired into and evaluated the effectiveness of the Department of Labor's SIP projects in Los Angeles in meeting the objectives set forth in the Economic Opportunity Act of 1964, as amended. Our review also included an evaluation of the efficiency of the administration of SIP by the Department, including its supervision over the 10 SIP contractors in Los Angeles.

We reviewed the basic legislation authorizing SIP, the policies and procedures established by the Department, and pertinent contracts and contract records; but we did not make an audit of the contractors' financial transactions. We also interviewed officials of the organizations responsible for the management, administration, and operation of SIP. In addition, we observed the operations of the SIP projects and interviewed some of the SIP employees.

We considered the findings reported by the Department's contract and grant auditors and the scope and nature of their work in their audit of one of the SIP contractors. We also considered the observations reported by the Westinghouse Learning Corporation under its contract with OEO for an evaluation of SIP and the observations reported by a consulting firm under a Department technical assistance contract.

Our review was made primarily at the offices of the SIP contractors, the Department headquarters office in Washington, D.C., and at the Department offices in San Francisco and Los Angeles, California.

APPENDIXES

U. S. DEPARTMENT OF LABOR  
OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION

JUN 1 1970

WASHINGTON, D. C. 20210



Mr. Henry Eschwege  
Associate Director  
Civil Division  
U.S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your draft report to the Congress of the United States, "Administrative and Operational Difficulties in Providing Jobs for the Disadvantaged under the Special Impact Program in Los Angeles, California, B-130515, Department of Labor".

The report has been carefully reviewed by the Manpower Administration. The findings set forth coincide in every detail and confirm the report made by the Manpower Administration's Special Review Unit in October, 1969.

The Manpower Administration concurs with the draft, as presented, and reports that the recommendations made by the General Accounting Office, germane to the present status of the Special Impact contracts, have been implemented to the fullest extent possible.

It should be pointed out that the Department of Labor's sole responsibility related to the Special Impact Program, at this time, is to monitor and otherwise operate the existing Special Impact Program contracts until termination and/or completion of the contracts.

Overall responsibility for the operation of the existing contracts rest with the Regional Manpower Administration in whose regions the contracts operate. All activities related to these contracts are coordinated at the national level by the Manpower Administration, United States Training and Employment Service, Office of National Projects. Monitoring visits are being made on a monthly basis and more frequently, if needed. All matters pertaining to contract termination, close-outs, default procedures and all other contract actions are being handled through the regional and national staffs of the Department of Labor, Office of the Solicitor.

BEST COPY AVAILABLE

APPENDIX I

Page 2

All possible actions are being taken, as recommended by the Solicitor, to protect the interest of the Government where contractors have filed bankruptcy and/or where claims for damages due the Government are in order.

In those instances where funds can be deobligated or contracts terminated by mutual agreement, thus freeing the Government from commitment of funds, this action is being taken. For the most part, the contracts must be permitted to run their course before specific legal action can be initiated.

Requests for contract modifications are being carefully scrutinized and only those modifications are being entertained that will strengthen the position of the Government. No contract modifications are being permitted that will extend the contracts beyond the original expiration date.

It is recognized by the Department of Labor's Manpower Administration that individuals employed by the various Special Impact Program contractors will, for the most part, be displaced as a result of the termination and/or completion of the contract. This, of course, is a regrettable circumstance and one that the Manpower Administration is attempting to overcome by special placement efforts. While this is a more difficult job, it is anticipated that a substantial percentage of those displaced can be directed to other work sites within a reasonable period of time. Those who cannot be placed will be enrolled in other training programs so that they may develop skills needed for placement in available jobs. This activity has been given a high priority by the Regional Manpower Administration.

It should be stated that this Administration has taken a positive approach to the operating Special Impact Programs and attempted to actively seek out ways and means to achieve full and complete performance from the companies participating. Attempts have been made to revise contracts to more realistic and attainable goals with a corresponding reduction in the funds allocated to the contract. Negotiations have also been conducted to revise the contracts to permit additional periods for recruitment. However, the contract terms and conditions and the advance payment method used in the contracts, as noted by the General Accounting Office, makes it extremely difficult to negotiate changes.

The contracts, as written, place primary emphasis on the use of "liquidated damages provisions" to enforce performance. This approach can only be used effectively at the conclusion of a contract and precludes a need to negotiate on the part of the contractor.

The Assistant Secretary of Labor for Manpower has taken a personal interest in all matters pertaining to the Special Impact Program and is kept fully informed of any and all actions proposed and/or recommended. Information relative to actions taken, as related to specific contracts, have been made available as have copies of reports and records to representatives of the General Accounting Office and others including the news media.

In regard to the very serious problem concerning the payment of contingency fees, as noted in the General Accounting Office report, the following comments are offered:

During the fourteen month period in which the Labor Department negotiated Special Impact Program contracts with companies, there was apparently little advertisement of the existence of the program to the general public for the purpose of soliciting proposals. Most of the companies receiving contracts under the Special Impact Program were recommended to the Department of Labor by urban consultants, in particular, a Vice President of a major Los Angeles investment banking firm and the Department appeared to place some reliance on these recommendations in deciding which company was to receive a contract.

The Department of Labor has received Standard Form 119 from eight of the nine contractors in Los Angeles that paid contingent fees and a letter from the ninth stating that he would not execute the form. The Department has the forms under review at this time. The Manpower Administration has requested the Office of the Solicitor of Labor to review the legality of the payment of contingent fees by Special Impact Program contractors to the Los Angeles investment banking firm.

The Department of Labor has noted in the Congressional Record that Congressman William A. Steiger has requested the General Accounting Office to review the question of the legality of the payment of contingent fees by Special Impact Program contractors to the Los Angeles investment banking house and to provide him with an official determination on this issue, both as it pertains to the investment banking house and to

APPENDIX I

Page 4

the individual Special Impact Program contractors. Because the General Accounting Office possesses an investigative capacity in Los Angeles to develop the information necessary to make the requested determinations and more importantly bring an independent expertise to the issue at hand, the Department is awaiting the findings of the General Accounting Office on this matter before concluding its own reappraisal of the legal aspects of the contingent fee payment by Special Impact Program contractors.

In order to apprise the General Accounting Office as to the present status of the contracts that were investigated as part of the Los Angeles review, the following information is presented:

[Contractor C] [See GAO note, p. 59.]

Expires: April 26, 1970

No. of Hires: 250

Amount of Contract: \$750,000

Amount Paid to Date: \$725,000

Permanent Hire Qualification Time: Six Months

No. of Hires on Board: 0

Comments: Contractor has filed for bankruptcy (Chapter 11) and the contract is in the hands of the Solicitor who is filing claim on behalf of the Government.

[Contractor H] [See GAO note, p. 59.]

Expires: January 17, 1971

No. of Hires: 400

Amount of Contract: \$500,000

Amount Paid to Date: \$240,000

Permanent Hire Qualification Time: Twelve Months

No. of Hires on Board: 0

Comments: This contract has been terminated for default. Contractor is appealing Department of Labor action.

[Contractor G] [See GAO note, p. 59.]

Expiration Date: January 17, 1971  
 No. of Hirees: 550  
 Contract Amount: \$990,000  
 Amount Paid to Date: \$299,700  
 Permanent Hire Qualification Time: Twelve Months  
 No. of Hirees on Board: 0  
 Comments: Contract has been terminated for default.  
 Contractor has filed for bankruptcy and is  
 appealing Department of Labor action.

[Contractor D] [See GAO note, p. 59.]

Expiration Date: April 26, 1970  
 No. of Hirees: 335  
 Amount of Contract: \$1,000,000  
 Amount Paid to Date: \$1,000,000  
 Permanent Hire Qualification Time: Six Months  
 No. of Hirees on Board: 72  
 Comments: Contractor has filed petition for bankruptcy  
 but is continuing operations under Chapter 11.  
 Contract is in hands of Regional Solicitor.

REST OF DOCUMENT AVAILABLE

[Contractor E] [See GAO note, p. 59.]

Expiration Date: April 26, 1970  
 No. of Hirees: 360  
 Contract Amount: \$1,065,000  
 Amount Paid to Date: \$355,000  
 Permanent Hire Qualification Time: Twelve Months  
 No. of Hirees on Board: 0  
 Comments: Contract has expired. Department of Labor is  
 collecting all data pertaining to the contract  
 to enable the Solicitor to recommend course of  
 action to protect the interest of the Government.

[Contractor B] [See GAO note, p. 59.]

Expiration Date: June 20, 1970  
 No. of Hirees: 335  
 Contract Amount: \$1,000,000  
 Amount Paid to Date: \$1,000,000  
 Permanent Hire Qualification Time: Six Months



[Contractor B] [See GAO note, p. 59.] (Continued)

No. of Hires on Board: 268

Comments: Contractor has achieved eighty percent of his contractual obligation. Negotiations have been conducted with contractor to lower the number of trainees and permit recapture of Government funds. Contractor not receptive. Negotiations continue.

## [Contractor F] [See GAO note, p. 59.]

Expiration Date: January 17, 1971

No. of Hires: 200

Contract Amount: \$600,000

Amount Paid to Date: \$180,000

Permanent Hire Qualification Time: Twelve Months

No. of Hires on Board: 18

Comments: Negotiation attempts have been made. Contractor modification requests unacceptable to the Department of Labor. Negotiations continue.

## [Contractor A] [See GAO note, p. 59.]

Expiration Date: July 31, 1971

No. of Hires: 300

Contract Amount: \$1,000,000

Amount Paid to Date: \$950,000

Permanent Hire Qualification Time: Six Months

No. of Hires on Board: 32

Comments: Contract modification has been executed authorizing training sites within target area. Contract being closely monitored.

## [Contractor I] [See GAO note, p. 59.]

Expiration Date: January 17, 1971

No. of Hires: 650

Contract Amount: \$950,000

Amount Paid to Date: \$712,500

Permanent Hire Qualification Time: Twelve Months

No. of Hires on Board: 70

Comments: Contract negotiations are being conducted. Contractor is desirous of modifications that would weaken position of the Department of Labor in respect of penalty clause. Negotiations continue.

[Contractor J] [See GAO note, p. 59.]

Expiration Date: January 17, 1971

No. of Hires: 371

Contract Amount: \$779,100

Amount Paid to Date: \$584,325

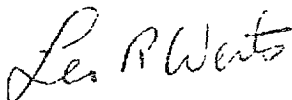
Permanent Hire Qualification Time: Twelve Months

No. of Hires on Board: 61

Comments: Contractor has been negotiating with the Department of Labor re modifications to contract. Company requests are not in the best interest of Government. Negotiations continue.

The Manpower Administration has recognized the difficulties inherent in the Special Impact Program and, as indicated above, has assigned its most qualified personnel to protect the interest of the Government in bringing the program to its conclusion.

Sincerely,



LEO R. WERTS

Assistant Secretary for Administration

GAO note: The names of the contractors have been deleted.

APPENDIX II

PRINCIPAL OFFICIALS OF  
 THE DEPARTMENT OF LABOR  
 RESPONSIBLE FOR THE ADMINISTRATION OF  
 THE SPECIAL IMPACT PROGRAM

	Tenure of office	
	From	To
SECRETARY OF LABOR:		
James D. Hodgson	July 1970	Present
George P. Shultz	Jan. 1969	June 1970
W. Willard Wirtz	Sept. 1962	Jan. 1969
ASSISTANT SECRETARY FOR MANPOWER:		
Malcolm R. Lovell (acting)	July 1970	Present
Arnold R. Weber	Feb. 1969	July 1970
Stanley H. Ruttenberg	June 1966	Jan. 1969
MANPOWER ADMINISTRATOR:		
Malcolm R. Lovell	June 1969	Present
J. Nicholas Peet	Feb. 1969	June 1969
William Kolberg (acting)	Jan. 1969	Feb. 1969
Stanley H. Ruttenberg	Jan. 1965	Jan. 1969
ASSOCIATE MANPOWER ADMINISTRATOR:		
Robert J. Brown (note a)	Nov. 1969	Present
REGIONAL MANPOWER ADMINISTRATOR, SAN FRANCISCO:		
Kenneth C. Robertson	Dec. 1967	Present
ASSISTANT REGIONAL MANPOWER REP- RESENTATIVE, LOS ANGELES:		
Leonard Hardie	June 1968	Present

<sup>a</sup> He was Assistant Manpower Administrator from November 1966 until March 1969, when he became the Acting Deputy Associate Manpower Administrator for U.S. Training and Employment Service. On November 28, 1969, he was appointed Associate Manpower Administrator for U.S. Training and Employment Service, however, he still has responsibility for SIP.