

**REVIEW OF THE
MENTOR-PROTÉGÉ PROGRAM**

AUDIT REPORT NUMBER 5-18

APRIL 18, 2005

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**U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: April 18, 2005
Number: 5-18

TO: Albert B. Stubblefield
Associate Administrator for Business Development

FROM: Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Review of the Mentor-Protégé Program

The Office of Inspector General (OIG) completed an audit survey of the Mentor-Protégé Program. This report presents the results of our review.

BACKGROUND

The Mentor-Protégé Program is offered under the 8(a) Business Development Program (8(a) Program), which SBA administers for small businesses owned by socially and economically disadvantaged individuals. The Mentor-Protégé Program is intended to enhance the capability of 8(a) participants to compete more successfully for Federal Government contracts. The program encourages private-sector relationships and expands SBA's efforts to identify and respond to the developmental needs of 8(a) participants.

Mentors provide technical and management assistance, financial assistance in the form of equity investments and/or loans, subcontract support, and assistance in performing prime contracts through joint venture arrangements with 8(a) firms. To qualify as a mentor, a concern must demonstrate that it: (1) possesses favorable financial health, including profitability for at least the last two years; (2) possesses good character; (3) does not appear on the Federal list of debarred or suspended contractors; and (4) can impart value to a protégé from lessons learned and practical experience gained from the 8(a) Program, or through its general knowledge of government contracting. Generally, a mentor will not have more than one protégé at a time.

To qualify initially as a protégé, an 8(a) participant must: (1) be in the developmental stage of the 8(a) Program; or (2) have never received an 8(a) contract; or (3) be less than half the size of its primary North American Industry Classification System (NAICS) code. The protégé firm must also be in good standing in the 8(a) Program (i.e., firms that do not have termination or

suspension proceedings against them; and are current with all reporting requirements). A protégé firm may have only one mentor at a time.

Mentor and protégé firms are required to enter into a written agreement setting forth the protégé's needs and describing the assistance the mentor is committed to provide to address those needs. These include: management, financial and/or technical assistance; loans and/or equity investments; cooperation on joint venture projects; and subcontracts under prime contracts being performed by the mentor. The agreement must also specify that the mentor will provide such assistance to the protégé firm for at least one year. Additionally, SBA's Associate Administrator for Business Development must approve each proposed agreement.

As of March 9, 2005, there were 237 approved mentor-protégé agreements listed on SBA's Web site.

OBJECTIVES, SCOPE AND METHODOLOGY

The survey objectives were to: (1) gather background information on various aspects of the Mentor-Protégé Program, including the criteria used for evaluating mentor-protégé agreements; (2) identify information to assess the benefits of the relationship and SBA's evaluation of that relationship; and (3) determine if there is an indication of program weaknesses warranting further audit work. We completed a survey rather than a comprehensive audit of the program. As part of the survey, we examined several judgmentally selected mentor-protégé agreements and interviewed officials from two district offices and SBA's Office of Business Development. We also reviewed applicable government laws, regulations, policies and procedures pertaining to the program, as well as Government Accountability Office (GAO) internal control standards.

In pursuing the survey objectives, we were unable to identify information to assess the benefits of the mentor-protégé relationship and SBA's evaluation of that relationship because program officials have not defined success for the program and its participants and do not track performance statistics for mentor-protégé relationships (see Finding 1).

We performed audit survey work from October, 2004 to March, 2005 in Washington, D.C. The survey was conducted in accordance with Government Auditing Standards.

SURVEY RESULTS

During our survey, we found that program and participant successes have not been defined and program performance is not measured. Because of this, program officials have no mechanism to determine if the program or its participants have succeeded. We also found that the list of approved mentor-protégé agreements on SBA's Web site, which had been updated from the most recent program records, was still incomplete. When incomplete data is published on SBA's Web site, the quality and utility of information disseminated to the public is compromised. Further, when management has incomplete data, its ability to effectively run and control its operations is undermined.

Finding 1: Program and Participant Success Have Not Been Defined, and Program Performance Is Not Measured

Program officials have not defined success for the program and its participants, and do not track performance statistics for mentor-protégé relationships. Auditors reviewed seven approved agreements from two SBA district offices and found that they mostly followed a standard template using "boilerplate" language that was not specific in addressing the needs of the individual protégés. Also, the agreements did not propose any specific actions to be undertaken during the one-year agreement period.

According to program regulations (13 CFR §124.520), protégés should be receiving "material benefits" and "developmental gains" from their mentors, yet those terms are not defined. Also, according to GAO's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1), control activities need to be established to monitor performance measures and indicators. Controls should also be aimed at validating the propriety and integrity of both organizational and individual performance measures and indicators.

Program officials have no mechanism to determine if the program or its participants have succeeded. In following a standard template for the agreements and not defining "material benefit" and "developmental gains," program officials cannot determine whether protégés are receiving such benefits and gains, or if the program is meeting its intended purposes. Importantly, due to SBA's lack of performance-tracking and monitoring of the agreements, it is possible for mentors to abuse the program by using protégés to obtain government contracts for themselves. For example, a large company could enter into a mentor-protégé relationship with a much smaller 8(a) company for the exclusive purposes of obtaining contracts set-aside for small businesses and not provide the protégé with any needed support.

We were advised by SBA program officials that resource constraints have prevented them from defining success for the program and its participants, and from developing and tracking performance measures.

Recommendations

We recommend that the Associate Administrator for Business Development:

- 1A. Define success for the Mentor-Protégé Program and its participants, as well as what is meant by “material benefits” and “developmental gains.”
- 1B. Develop and implement measures for tracking Mentor-Protégé Program performance.
- 1C. Ensure that the mentor-protégé agreements are specific enough that SBA can monitor and determine whether each protégé will be receiving/has received “material benefits” and “developmental gains”, using the definition of success adopted when the action in Recommendation 1A is completed.

Finding 2: The List of Approved Mentor-Protégé Agreements on SBA’s Web Site Is Incomplete.

Using their program records as of December 21, 2004, officials updated the information contained in a list of approved mentor-protégé agreements on SBA’s Web site. This was the first time the list had been updated since March 2001, yet we still found incomplete information.

According to officials at the Washington District Office, the list should show another 20 agreements from that office in addition to the 13 approved agreements currently shown on the listing. It is possible that the list undercounts approved agreements from other district offices as well. Also, eight of the listed agreements were missing approval dates. When incomplete data is published on SBA’s Web site, the quality and utility of information disseminated to the public is compromised. Further, when program records are incomplete, management’s ability to effectively run and control its operations is undermined.

According to SOP 90 56, *SBA Web Management*, all content on the SBA Web site shall be governed by the agency’s Information Quality Guidelines. The Guidelines require that, whenever possible, SBA will verify and validate the data it collects, and scrub such data to correct problems. Also, according to GAO’s *Standards for Internal Control in the Federal Government*, “Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. . . . In addition, control activities help to ensure that all transactions are completely and accurately recorded.” Finally, GAO’s *Internal Control Management and Evaluation Tool* states, “. . . for an agency to run and control its operations, it must have relevant, reliable information That information should be recorded and communicated to management and others within the agency who need it and in a form and within a timeframe that enables them to carry out their internal control and operational responsibilities.”

The quality and utility of information disseminated to the public is compromised when incomplete data is published on SBA’s Web site. Persons seeking information about the number,

district office distribution, and approval dates of such agreements do not get complete and accurate data. Furthermore, management does not have complete information to monitor and oversee the program.

The information contained in the list was incomplete because, according to a program official, neither he nor any member of his staff had attempted to verify and validate the data. When told of the missing information, the official said he was “not surprised” the list was incomplete because the data had not been verified and validated. Similar to Finding 1, program officials said that resource constraints have prevented them from taking the time and effort to verify and validate the program data.

Recommendation

- 2A. We recommend that the Associate Administrator for Business Development take necessary steps to ensure that information concerning Mentor-Protégé Program activity is developed and maintained in an accurate and complete manner.

SBA MANAGEMENT’S COMMENTS

The Associate Administrator for Business Development agreed with the report’s recommendations and provided comments indicating certain steps have already been taken to implement those recommendations. The Associate Administrator’s comments are included as Attachment 1.

* * * * *

The recommendations in this audit report are based on the conclusions of the Auditing Division. **The recommendations are subject to review, management decision and action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, “Recommendation Action Sheet,” and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-[FOIA Ex. 2].

Attachments

**Office of Business Development Responses to
OIG Recommendations on the Mentor-Protégé Program**

As the Associate Administrator for the Office of Business Development (BD), I concur with the findings of the Inspector General and his staff regarding the 8(a) Mentor-Protégé program. The review and comments provided by your office confirm and reinforce BD management decision to set baselines, and establish criteria to measure the benefits and developmental gains to protégés. In addition, BD is taking the initiative to measure outcomes that provide indicators as to the effectiveness of the program. It is expected that these measures will also serve as a guide to improving the management and oversight of the program. The following specific actions have already been taken by my office and are listed in response to your recommendations.

Recommendation

1A: OIG recommends that the AA for BD define success for the Mentor Protégé Program and its participants, as what is meant by “material benefits” and “developmental gains”.

BD Response:

In December 2004, the AA for BD began a comparison of the SBA Mentor-Protégé program with other federal Mentor-Protégé programs, such as the program managed by the Department of Defense. This included best practices and methodology to measure the material benefits and the developmental gains accrued to protégés in the program.

As a result of this comparative analysis, the AA for BD has proposed and incorporated data collection processes to begin measuring technical and management assistance in future annual reviews. These benefits and developmental gains include loans and equity investment, and contracts and subcontracts awarded to protégés as a result of their participation in the mentor-protégé program.

Recommendation

1B: OIG recommends that the AA for BD develop and implement measures for tracking Mentor Protégé performance.

BD Response:

The AA for BD has begun implementing mandatory annual reporting by each protégé to track and assess the business performance of protégés participating in the program. These performance measures include growth in the number of employees, annual revenue, and business assets.

Recommendation

1C: OIG recommends that AA for BD ensure that the Mentor Protégé agreements are specific enough that SBA can monitor and determine whether each Protégé will be receiving/has received “material benefits” and “developmental gains”, using the definition of success adopted when the action in Recommendation 1A is completed.

BD Response:

An additional outcome of the comparative analysis stated in 1A, the AA for BD has prepared and is proposing standard mentor-protégé agreements that include specific benefits and developmental gains that will be measured during the life of the mentor-protégé venture. This will include bonding, accounting assistance, management assistance, loans, contracts, and training.

Recommendation

2A: We (OIG) recommend that the Associate Administrator for Business Development take necessary steps to ensure that information concerning Mentor Protégé Program activity is developed and maintained in an accurate and complete manner.

BD Response:

The AA for BD has taken action to develop and incorporate mentor-protégé data collection and the reported mentor-protégé information into the SBA 8(a) e-application/e-annual review system. One of the requirements for continued 8(a) participation is that the protégé will update their mentor-protégé activity. This will increase the accuracy and completeness of the information.

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