

# U.S. DEPARTMENT OF COMMERCE Office of Inspector General



# PUBLIC RELEASE

# MINORITY BUSINESS DEVELOPMENT AGENCY

Discretionary Funding Decision Process:

Native American Business

Development Center Program

CFDA No. 11.801

Final Audit Report No. BTD-10955-8-0001 / September 1998

Office of Audits, Business and Trade Audits Division

### TABLE OF CONTENTS

EXECUTIVE	SUMMARY i
INTRODUCT	TION
PURPOSE A	ND SCOPE4
FINDINGS A	ND RECOMMENDATIONS
I.	NABDC Solicitation Process Should Be Expanded To Attract More Applicants
II.	NABDC Review Process Should Be Expanded to Include Outside Reviewers
III.	Procedures And Practices For Selecting NABDC Awardees Are Adequate
IV.	Procedures And Practices For Renewing Prior NABDC Awards Are Adequate
V.	Recommendations
	MBDA's Response to Draft Audit Report
APPENDIX I APPENDIX II APPENDIX II	I - New Awards and Renewals for Fiscal Year 1997

### **EXECUTIVE SUMMARY**

Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine (1) the recipients and (2) the funding levels of the awards made under those programs. These programs involve a significant portion of the Commerce Department's budget and operations. If not properly administered, they are particularly susceptible to fraud, waste, and misuse of funds. The Office of Inspector General administers an active program of reviews – which includes audits, inspections, and investigations – aimed at better ensuring that these programs are well-managed, represent the best use of taxpayers' dollars, and achieve their intended objectives.

Senator John McCain, Chairman, Committee on Commerce, Science, and Transportation, requested that the Inspectors General of the Departments of Commerce and Transportation, the National Science Foundation, and the National Aeronautics and Space Administration review the discretionary funding programs of their respective agencies to assess the manner in which discretionary funding decisions are made. More specifically, the Chairman requested that each IG primarily review and report on:

- the criteria developed, either statutorily or administratively, to guide agency officials in making discretionary spending decisions, and
- the extent to which the criteria are appropriately applied.

The Federal Grant and Cooperative Agreement Act encourages competition in financial assistance programs as a means to fairly and objectively identify and fund, based on merit, the best possible projects, thereby achieving program objectives more effectively. Office of Management and Budget guidance for administering competition-based financial assistance programs encourages widespread solicitation of eligible applicants, independent application reviews, and written justifications for award decisions. The Department of Commerce has formally embraced these guidelines in formulating its policies and procedures for discretionary funding programs, requiring that all financial assistance awards be made on the basis of competitive reviews unless a special waiver is obtained. The competitive review process must also meet minimum standards, including publication of a notice, at least annually, in the *Federal Register* soliciting award applications.

The OIG is conducting a comprehensive review of the solicitation, review, and selection processes for discretionary funding programs in the Department. As part of this review, we conducted a performance audit of MBDA's fiscal year 1997 award procedures and practices for the Native American Business Development Center (NABDC) program. The NABDC program, described in the *Catalog of Federal Domestic Assistance* as No. 11.801, provides direct

business development services to clients to aid in the creation, expansion, and preservation of Native American-owned businesses. During fiscal year 1997, the program awarded two new cooperative agreements and eight continuations or renewals of prior awards, totaling \$2,089,463.

We examined MBDA's application solicitation, review and selection procedures and practices for the NABDC program and found that they were generally adequate and that they met the Department's current minimum requirements. At the same time, we identified opportunities for improving the program's award procedures and practices. Specifically, our audit disclosed that MBDA:

- Followed established procedures in soliciting applications. However, the solicitation process should be enhanced by expanding and targeting advertising (see pages 6-7).
- Followed established procedures and applied merit-based criteria in reviewing applications. However, the independence of the review process would be enhanced by inviting reviewers from outside MBDA and the Department to participate (see pages 7-9).
- Has adequate procedures and practices for selecting awardees (see page 9).
- Has adequate procedures and practices for renewing prior awards (see page 10).

### We recommend that the MBDA Director:

- Expand the NABDC solicitation process, through announcements in additional media outlets and in areas with large Native American populations, to provide a widespread solicitation of eligible applicants.
- Include officials from outside MBDA and the Department as NABDC proposal reviewers to enhance the objectivity of the merit-based selection process.

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In its reply to our draft audit report, MBDA agreed with the recommendations and is modifying its grants process to implement the recommendations and other improvements.

### INTRODUCTION

The Minority Business Development Agency, created by Executive Order 11458 in 1969, is the only federal agency specifically established to encourage the creation, growth, and expansion of minority-owned businesses in the United States. In 1971, Executive Order 11625 authorized MBDA to "provide financial assistance to public and private organizations so that they may render technical and management assistance to minority business enterprises." The fiscal year 1997 appropriations for the Department of Commerce included funds "for necessary expenses...in fostering, promoting, and developing minority business enterprise, including expenses of grants, contracts, and other agreements with public or private organizations."

MBDA's Native American Business Development Center (NABDC) Program, described in the *Catalog of Federal Domestic Assistance* (CFDA) as No. 11.801, provides direct business development services to clients to aid in the creation, expansion, and preservation of Native American-owned businesses. The centers provide a structured and systematic approach to addressing the special needs and problems of Native American firms and individuals interested in entering, maintaining, or expanding their efforts in the competitive marketplace. Although the centers may provide services to any minority client, they focus on the unique business needs of Native Americans.

The program provides the following assistance to the Native American community:

- Development of new sources of venture capital;
- Utilization of traditional business principles through direct management and technical assistance;
- Long-range business and economic planning;
- Establishment of Native American-owned or controlled financial institutions; and
- Establishment of business and training initiatives.

MBDA can continue to fund NABDCs, without competition, after the initial competitive budget period, not to exceed a total of five consecutive budget periods.

The NABDC program awarded 10 cooperative agreements, totaling \$2,089,463, for fiscal year 1997. Of the 10 awards, 8 were renewals or continuations of awards made in previous years, and 2 were new awards. A list of all awards, including the names of recipients and the award amounts, is provided as Appendix II.

In addition to providing direct business services to its clients, the program accesses the resources of other federal agencies and maintains working relationships with the Department of Health and

Human Services' Administration for Native Americans, the Department of the Interior's Bureau of Indian Affairs, and other federal programs targeted specifically to Native Americans.

Discretionary assistance programs are those for which federal agency officials have the authority to decide (1) which eligible applicants will receive awards, and (2) how much will be awarded. Technically, all Commerce financial assistance programs are discretionary, rather than entitlement, programs. However, the authorizing legislation for the programs provides for varying degrees of discretion in making awards. The use of competitive selection procedures is recognized as the most effective method of ensuring that financial assistance awards are made on the basis of merit. One of the primary purposes of the Federal Grant and Cooperative Agreement Act (31 U.S.C. §6301) is to encourage competition in the award of federal financial assistance to the maximum extent practicable.

The Office of Management and Budget has issued regulations on administering competition-based financial assistance programs for use by federal agencies. An interagency study group, convened in 1979 by OMB to examine competition in financial assistance programs, determined that financial assistance award processes, to ensure effective competition, should include three basic elements. These elements, which were discussed in OMB's June 1980 report, *Managing Federal Assistance in the 1980's*, are:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations;
- Independent application reviews that consistently apply written program evaluation criteria; and
- Written justifications for award decisions that deviate from recommendations made by application reviewers.

Also, OMB has issued the following guidelines of particular relevance to federal financial assistance programs:

- OMB Circular A-123, *Management Accountability and Control*, requires agencies to establish written procedures for all programs and administrative activities, including financial assistance programs, that provide reasonable assurance that activities are effectively and efficiently managed to achieve agency goals.
- OMB Circulars A-102, Grants and Cooperative Agreements with State and Local Governments, and A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, require agencies to provide the public with advance notice in the Federal Register, or by other appropriate means, of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute.

Commerce has embraced these regulations in developing and issuing policies and procedures for its discretionary funding programs. Department Administrative Order (DAO) 203-26, *Department of Commerce Grants Administration*, requires that (1) all Commerce financial assistance awards be made on the basis of competitive reviews unless a special waiver is obtained, (2) competitive review processes meet minimum standards outlined in the DAO, and (3) all Commerce agencies publish, at least annually, a notice in the *Federal Register* soliciting award applications. The chart presented below depicts the process and controls for the solicitation, evaluation, and selection of financial assistance awards as set forth in DAO 203-26. The processes we reviewed during our audit are color coded for this chart and the MBDA process chart located in Appendix I.

### PURPOSE AND SCOPE

This audit was conducted as part of a comprehensive review of the Department of Commerce's

#### LEGISLATIVE AUTHORITY & APPROPRIATIONS REQUIREMENTS Office of General Counsel Review FINANCIAL POLICIES & PROCEDURES ASSISTANCE Office of Inspector General Review REVIEW BOARD Limited Background Check Credit Review -- Outstanding Audit Issues SOLICITATION REVIEW SELECTION PREAWARD SCREENING OLICIES & PROCEDURES Independent Review Quantitative Scores Outstanding Accounts SIGNED BY GRANT and notification of Panel(s) Evaluation Criteria Public Policy Considerations Receivable OFFICER financial assistance opportunities (eg. Suspensions & Debarments Award Prepared Properly Recommend Action Decision Fully Justified and OR DESIGNATED Numeric Ranking OFFICIAL Federal Register Commerce Business Daily, Internet web sites Assistance Applicants AWARD PROPOSAL

### **Department of Commerce Financial Assistance Awards Process**

Figure 1

discretionary funding programs initiated at the request of Senator John McCain, Chairman, Committee on Commerce, Science, and Transportation. The Chairman requested that the Inspectors General of the Departments of Commerce and Transportation, the National Science Foundation, and the National Aeronautics and Space Administration, review the discretionary funding programs of their respective agencies to assess the manner in which discretionary funding decisions are made. More specifically, the Chairman requested that each IG review and report on the criteria developed, either statutorily or administratively, to guide agency officials in making discretionary spending decisions, and on the extent to which the criteria are appropriately applied.

We are conducting our Department-wide review in two phases: a survey phase (completed) and an individual program audit phase (on-going). During the survey phase, we identified and examined the body of laws, regulations, and other guidance applicable to the administration of federal financial assistance programs. We also examined the authorizing legislation for each Commerce financial assistance program and classified each program as either a "full discretion" program or a "limited discretion" program, based on the extent to which the legislation limits the agency's authority to independently determine the recipients and funding levels of the awards made under the program. Finally, we examined fiscal year 1997 appropriations legislation and accompanying committee and conference reports to identify all earmarked projects.

During the second phase of our review, we are conducting individual audits of the award solicitation, review, and selection processes of each program we have classified as a "full discretion" program, including the MBDA NABDC program. We are evaluating the adequacy of each program's established award procedures. For those programs with procedures deemed to be adequate, we are ascertaining whether they were followed in making awards in fiscal year 1997. For those programs with procedures considered to be inadequate or lacking, we are reviewing how fiscal year 1997 award decisions were made. Finally, we are examining the earmarks identified for each program and determining their significance and impact on fiscal year 1997 award decisions. We plan to issue individual reports, with any appropriate recommendations, on each program, followed by a capping report summarizing the results of the individual audits and providing recommendations for the Department and its bureaus.

On July 21, 1998, the Acting Inspector General and the Chief Financial Officer and Assistant Secretary for Administration testified before the Senate Commerce, Science, and Transportation Committee on the Department's discretionary funding programs. The Acting IG reported on the results of the preliminary, survey phase of the OIG's review, and discussed some of the preliminary observations from the individual program audits.

This performance audit focused on funding decisions made during fiscal year 1997 under the NABDC program. Specifically, we:

- Reviewed the authorizing legislation and information summarized in the CFDA to identify criteria for funding decisions.
- Reviewed policies and procedures for soliciting and reviewing proposals and selecting recipients for funding (see Appendix I for flowchart of process). We also reviewed MBDA's procedures as they applied to the solicitation, review, and selection process; specifically, MBDA Order No. 715, *The American Indian Program Competitive Review Panel Instructions and Forms*; MBDA Order No. 750, *Program Management of the Minority Business Development Center (MBDC) Program*; and the *Competitive Application Package* for the NABDC program. We assessed whether the procedures were adequate and whether they were in compliance with DAO 203-26.
- Reviewed selected fiscal year 1997 awards to compare MBDA's procedures with its
  practices to determine if the process contained adequate internal controls to provide for
  competitive, merit-based awards.
- Examined pertinent documents in individual program award files to determine if departmental and MBDA policies and procedures were followed.
- Interviewed MBDA program office officials and personnel from the Department's Office
  of Executive Assistance Management (OEAM) concerning MBDA's solicitation, review,
  and selection procedures.
- Examined fiscal year 1997 appropriations legislation and accompanying committee and conference reports to identify earmarked projects for this program. None were found.

We did not rely upon computer-based data during the audit.

We performed the review at MBDA headquarters and OEAM in May and June 1998. We conducted the audit in accordance with generally accepted government auditing standards, under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

<sup>&</sup>lt;sup>1</sup> According to MBDA, the order is also applicable to the NABDC program.

### FINDINGS AND RECOMMENDATIONS

MBDA's procedures and practices for soliciting, reviewing, and selecting applications for funding under the NABDC program complied with the minimum departmental and agency award procedures. However, the solicitation process was limited to the required published notice in the *Federal Register*, and applications were reviewed only by MBDA employees. Since only one application was received for each of the two new NABDC awards funded during fiscal year 1997, MBDA may have unnecessarily limited the potential for receiving a larger number of responsive proposals by soliciting proposals only in the *Federal Register*. Also, the use of officials other than MBDA employees to review proposals would enhance the independence of the merit-based award selection process. We also found that MBDA has adequate procedures and practices for renewing of awards and that they properly followed them in fiscal year 1997.

### I. NABDC SOLICITATION PROCESS SHOULD BE EXPANDED TO ATTRACT MORE APPLICANTS

MBDA's procedures and practices for the NABDC program met the minimum regulatory requirement for public notice in the *Federal Register* of the intent to award. However, MBDA received only one application, from the National Center for American Indian Enterprise Development, for each of the two new NABDC awards funded during fiscal year 1997. The receipt of only one application for the two new awards may have been due to MBDA solely publishing the required annual notice, instead of using additional media targeted to reach the Native American population. Widespread solicitation of eligible applicants helps ensure that federal programs receive multiple applications responsive to program objectives, and provides potential applicants with an opportunity to apply for assistance.

DAO 203-26, Section 4.02, lists required solicitation procedures for competitive grant programs. These procedures are designed to ensure widespread notification to the interested public. Section 4.02 provides the following solicitation criteria, in part:

- <u>Annual Public Notice</u>. To inform the interested public, each organization unit shall publish at least annually a notice in the *Federal Register* which includes basic information for each discretionary grant program.
- Other Solicitations of Applications. Further notice(s) in the *Federal Register* or other publications soliciting applications or preapplications must include information published in the Annual Public Notice.
- <u>Minimum Notice</u>. In order to provide the public reasonable notice, there must be a minimum of 30 days between the date of publication and the closing date for receipt of applications.

MBDA complied with the minimum requirement for publication of basic grant information in the *Federal Register*. MBDA published its annual notice, "*Solicitation of Native American Business Development Center Applications for Arizona and California*," in the *Federal Register* on August 20, 1996.<sup>2</sup> The notice invited applications for two NABDC awards to service the states of Arizona and California for a 13-month period (December 1, 1996 through December 31, 1997). The notice established a closing date of September 24, 1996 for applications and set forth the criteria for evaluation.

However, by using only the *Federal Register* rather than tailoring its solicitation methods to reach a widespread applicant population, MBDA may not have effectively solicited responsive applications. Section 4.02.(f.) of the DAO states, "To ensure widespread notification to the public, program officials are strongly encouraged to use publications in addition to the *Federal Register* which, in their opinion, have a wide distribution among interested persons." MBDA should have expanded its solicitation process beyond the minimum required in order to attract Native American-owned institutions, located throughout the nation, that might have applied for the awards. For small, well-defined applicant pools located within a small geographic region, a single targeted medium, such as specialized periodicals or notices sent to each eligible entity, should be sufficient to reach all eligible applicants. However, for large, less-defined applicant pools, a broad-based solicitation medium, such as the annual *Federal Register* notice, coupled with at least one more targeted medium, would be more likely to reach a significant portion of the eligible community. Solicitation through multiple media is important for these applicant pools, since they may not have easy access to a single information source.

In the future, MBDA can help ensure a larger number of responsive applications for the NABDC program by providing eligible applicants with informative solicitations from sources other than just the *Federal Register*. Targeted mediums should include local and tribal newspapers, periodicals targeted towards Native Americans, and announcements on its Internet web site.

### II. NABDC REVIEW PROCESS SHOULD BE EXPANDED TO INCLUDE OUTSIDE REVIEWERS

All of the applications were reviewed by a panel as required by departmental and MBDA procedures. The panel members also documented their deliberations as required. However, MBDA used only its own business development specialists as panel members to review the applications. To enhance the independence of the application review process, MBDA should invite reviewers from outside MBDA and the Department to participate.

<sup>&</sup>lt;sup>2</sup> 61 Fed. Reg. 43,044 (August 20, 1996).

DAO 203-26, Section 4.02h.1, mandates that bureau competitive review processes meet the minimum requirements:

- Applications are treated fairly under the review process;
- Each application receives an independent, objective review by one or more review panels qualified to evaluate the applications submitted under the program;
- Each review panel uses the selection criteria cited in the application solicitation notice.

The panels evaluated the applications using the following weighted criteria set forth in the published notice:

- Capability and experience of firm and staff (45 points);
- Techniques and methodologies (25 points);
- Resources (10 points); and
- Estimated costs (20 points).

MBDA further divides the criteria, with points given for each subcriterion, for use in assessing the merits of each applicant. For instance, the capability and experience of the firm would be determined by assessing the applicant's client service experience, its knowledge of the geographic service area, the quality of its professional relationships, and the backgrounds of the professional staff and project director. In our opinion, the criteria and subcriteria used in the NABDC program reflect a merit-based award process for the NABDC awards.

Reviewers must address the weighted criteria, verify that required standard forms and other elements of the application are present, and comment in writing on the applicant's qualifications. We found that reviewers applied the merit-based criteria and subcriteria to assess the applicants, and they properly documented their reviews of each application on MBDA evaluation forms.

DAO 203-26, Section 4.02h.1.(d.) requires that each review panel include at least three persons. Reviewers from outside MBDA and the Department are also permitted under the DAO. MBDA Order No. 715 requires that competitive review panels be comprised of at least three members who are selected by the regional director or his/her designee. However, under the MBDA order, panel members are expected to be professional employees of the Department and MBDA. No other criteria for membership are listed; the regional director has broad discretion in the choice of members.

MBDA used two internal panels, each with three business development specialists, to review the applications for each award. Two specialists served on both panels, and the third member on each panel also served as panel chairman. All panel members were employed in the Atlanta

regional office, providing a measure of independence from the San Francisco regional office director, in whose region the centers would be located and who would review the panels' recommendations.

An MBDA official told us that they had used officials from MBDA headquarters several times to review applications, but that officials from outside the Bureau had rarely served as panel members. We believe that the use of knowledgeable reviewers, from outside MBDA or the Department, to evaluate applications would provide an independent perspective and enhances the objectivity of the merit-based selection process.

## III. PROCEDURES AND PRACTICES FOR SELECTING NABDC AWARDES ARE ADEQUATE

Although MBDA received only one application for each award, it complied with the Department's requirements for selecting the awardees. DAO 203-26, Section 4.02 h.1.(f)-(g), mandates the steps to review the applications in accordance with the selection criteria set forth in the annual *Federal Register* notice:

- After the review panel has evaluated the applications, the organization unit prepares a rank ordering of the applications based solely on the evaluations by the review panel; and
- The organization unit determines the order in which applications will be selected for funding based on the following factors:
  - (1) Any priorities or other program requirements that have been published in the *Federal Register* and apply to the selection of applicants for new awards; and
  - (2) The rank order of the applications established by the review panel on the basis of the selection criteria.

The National Center for American Indian Enterprise Development, an Arizona organization, was the only applicant for both awards. After the individual panel members completed their reviews and scoring of the applications based on the weighted criteria, the rating sheets and applications were given to the two panel chairpersons for compilation and summary. Each panel chairperson reviewed the application for the respective award and met with the San Francisco regional director to determine the competence of the applicant and the quality of the applications. The San Francisco regional director agreed to the selections for the awards and appropriately documented his approvals on October 28, 1996. After completing the preaward screening required under DAO 203-26, the Department approved awards totaling \$508,400 (\$197,825 for the Arizona NABDC and \$310,575 for the California NABDC) to the National Center.

## IV. PROCEDURES AND PRACTICES FOR RENEWING PRIOR NABDC AWARDS ARE ADEQUATE

MBDA awarded eight NABDC cooperative agreement renewals (*i.e.*, an award amendment that extends the project period and adds additional funds) in fiscal year 1997, totaling \$1,581,063. We selected four awards, totaling \$931,725, to review award renewal procedures and practices. We found that MBDA has adequate procedures for renewing awards and that it properly followed them in reviewing the awards we examined. Information on all fiscal year 1997 renewals is provided as Appendix II.

MBDA's Order No. 750, Section 9.f., "Continued Funding," states that "MBDA may continue to fund MBDCs, without competition, after the initial competitive budget period. Additional program funding is based upon the recipient's performance, the availability of funds, and agency priorities. MBDCs may earn additional non-competing budget periods (not to exceed a total of five consecutive budget periods without competition)." Under the order, which is applicable to NABDCs, continued funding does not require an additional application to the program, unless major changes are contemplated by the recipient or MBDA. MBDA's regional offices prepare and transmit requests for continued funding in accordance with any instructions received from headquarters.

Proposals for renewal are processed in accordance with procedures outlined in Section 9.d. of Order No. 750, "Competitive Application Review." Proposals must be reviewed for their past performance, justification for all proposed costs, and any outstanding debt to the U.S. government. OEAM and the Department's Office of General Counsel must review and approve each request. MBDA followed these procedures for all cases that we reviewed.

### V. RECOMMENDATIONS

We recommend that the MBDA Director:

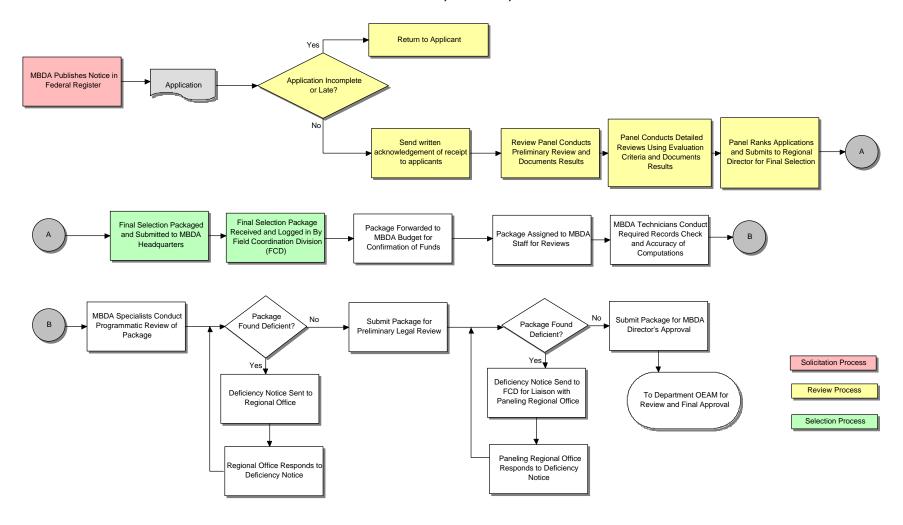
- 1. Expand the NABDC solicitation process, through announcements in additional media and in areas with large Native American populations, to provide a widespread solicitation of eligible applicants.
- 2. Include officials from outside MBDA and the Department as NABDC proposal reviewers to enhance the objectivity of the merit-based selection process.

### MBDA's Response to Draft Audit Report

MBDA agreed with the findings and recommendations in the report. MBDA is currently modifying its grant process and, as part of the realignment, expects to implement the recommendations. MBDA intends to broaden outreach to attract the widest possible range of candidates to apply to operate MBDA-funded projects. MBDA also intends to include officials outside of MBDA and the Department as panelists to review incoming proposals.

MBDA's complete response to the draft report is attached as Appendix III.

### MBDA PROCEDURES FOR SOLICITATION, REVIEW, AND SELECTION OF AWARDS



### MINORITY BUSINESS DEVELOPMENT AGENCY

### NATIVE AMERICAN BUSINESS DEVELOPMENT CENTER PROGRAM

### New Awards and Renewals for Fiscal Year 1997

AMOUNT OF AWARDS **RECIPIENTS** (Awards reviewed are italicized) **New Awards** Renewals \$197,825 National Center American Indian Enterprise National Center American Indian Enterprise 310,575 All Indian Pueblo Council, Inc. \$197,825 Eastern Band of Cherokee 197,825 Minnesota Chippewa Tribe 84,562 Minnesota Chippewa Tribe 169,125 National Center American Indian Enterprise<sup>1</sup> 197,825 National Center American Indian Enterprise<sup>1</sup> 310,575 T3RC Associates 254,200 United Tribes Technical Center 169,126 **TOTALS** \$508,400 \$1,581,063

<sup>&</sup>lt;sup>1</sup> Decisions to renew the two awards to the National Center, first made in FY 1997, were made on September 30, 1997, thus qualifying them as renewals.

SEP 2 4 1998

MEMORANDUM FOR

George E. Ross

Assistant Inspector General for Auditing

From:

Courtland Cox Paul K. Welblur for

Director

Subject:

Discretionary Financial Assistance Program:

Native American Business Development Center Program

CFDA No. 11.801

Draft Audit Report No. BTD-10955-8-XXXX

This memorandum provides the Minority Business Development Agency's (MBDA) comments on the subject draft report as requested. We appreciate the thoughtful examination of MBDA's process for awarding discretionary grants.

The two issues raised by the draft report—that MBDA should broaden the scope of its notification to the public concerning announcement of solicitations, and that the Agency should consider using outside panelists in evaluating proposals for financial assistance—are issues we agree should be addressed. MBDA is currently in the process of making major modifications to its grants process to, among other things, establish a single award cycles for all funded projects. As part of this realignment we expect to implement the two recommendations identified in the draft report. We intend as the report suggested to broaden our outreach to attract the widest possible range of candidates to apply to operate MBDA funded projects, and we intend to include officials outside of MBDA and the Department as panelists to review incoming proposals.

If you have any questions concerning this matter, please contact Paul Webber, Assistant Director, at Ext. 6272.