

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

***NATIONAL INSTITUTE OF
STANDARDS AND TECHNOLOGY***

*State Technology Extension Program
Award Process Designed to Promote
Merit-Based Decisions, but Process
Needs More Discipline
CFDA No. 11.613*

Audit Report No. DEN-10961-9-0001 / September 1999

Office of Audits, Denver Regional Office



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EXECUTIVE SUMMARY

The Office of Inspector General has conducted an audit of the fiscal year 1995 through 1997 criteria, procedures and practices for soliciting, reviewing, and selecting applications for financial assistance under the National Institute of Standards and Technology's State Technology Extension Program (STEP), classified as No. 11.613 in the *Catalog of Federal Domestic Assistance*. The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs, initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation.

Discretionary financial assistance programs are those programs for which federal agencies have the authority to independently determine the recipients and funding levels of awards. These programs involve a significant portion of the Commerce Department's budget and operations, approximately \$1 billion annually.

The STEP program provides financial assistance, through cooperative agreements, to state governments or non-profit organizations to help states develop manufacturing assistance programs aimed at small- and medium-sized manufacturers, and to help bring those state programs to a level of performance where they can provide the full range of manufacturing extension services required by manufacturers. NIST administers the STEP program through its Manufacturing Extension Program (MEP) office.

Our audit began as an examination of NIST's criteria, procedures, and practices for the solicitation, review, and selection of STEP awards in fiscal year 1997. In fiscal year 1997, NIST made two STEP awards of \$100,000 each, for a total of \$200,000 in federal funding. NIST did not make any STEP awards after 1997 and does not anticipate any future STEP competitions. NIST intended STEP program funding to assist states with the planning necessary to compete for an MEP center award. NIST considers the nationwide network of MEP centers to be complete. Consequently, there are no plans for future MEP center competitions and no need for additional STEP awards.

NIST had issued an open-ended solicitation for STEP applications in May 1995. After finding minor deficiencies in the solicitation, review, and selection processes for the fiscal year 1997 awards, we expanded the scope of our audit to include all STEP funding awarded under the May 1995 solicitation. NIST did not award STEP funding in fiscal year 1995, but did make six STEP awards, totaling about \$552,000, in fiscal year 1996. NIST cites the May 1995 solicitation notice as the basis for funding its 1996 and 1997 STEP awards.

Our audit disclosed that NIST:

- Developed and published appropriate evaluation criteria for the fiscal year 1995 through 1997 STEP competition, as required by DAO 203-26, Section 4.02b. (See page 6.)

- Did not comply with the Department's requirement that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funds, and specifying the criteria and process to be used in selecting award recipients, as required by DAO 203-26, Section 4.02b. (See page 8.)
- Did not properly screen proposals for compliance with published funding and award period requirements, as required by Section 5.3 of NIST's Source Selection Plan for the STEP competition. (See page 10.)
- Could enhance the independence and objectivity of any future STEP competitions by requiring proposal reviewers from outside the program area in accordance with DAO 203-26, Section 4.02h1(c). (See page 11.)

We recommend that the MEP Director ensure that:

- Any future STEP competitions comply with the Department's requirement for annual *Federal Register* notices.
- NIST properly screens proposals on any future STEP competitions and disqualify awards to prevent awards in excess of published funding and award period limits.
- NIST enhance the independence and objectivity of any future STEP competitions by requiring proposal reviewers to be from outside the program area.

Our recommendations appear on page 12.

In its response to the draft report, NIST agreed with the findings and recommendations. NIST will publish annual *Federal Register* notices for any future STEP award competitions, ensure that its review process prevents any future STEP awards from exceeding published award limits, and include non-MEP personnel on review panels for any future STEP competitions. In its response, NIST also provided additional information to explain the noted deficiencies. NIST's response is included in its entirety as Appendix II.

INTRODUCTION

The National Institute of Standards and Technology's (NIST) primary mission is to promote U.S. economic growth by working with industry to develop and apply technology, measurements, and standards. To accomplish a portion of its mission, NIST administers the *State Technology Extension Program* (STEP), described in the *Catalog of Federal Domestic Assistance* (CFDA) as No. 11.613. The STEP program provides financial assistance, through cooperative agreements, to state governments or non-profit organizations to help states develop manufacturing assistance programs aimed at small- and medium-sized manufacturers, and to help bring those state programs to a level of performance where they can provide the full range of manufacturing extension services required by manufacturers. STEP is a cost sharing program, under which recipients are required to provide at least 50 percent of the total project costs. NIST administers the STEP program through its Manufacturing Extension Program (MEP) office.

The National Institute of Standards and Technology Act directs the Secretary of Commerce, through the NIST Director, to "... provide technical assistance to State technology programs throughout the United States, in order to help those programs help businesses, particularly small- and medium-sized businesses, to enhance their competitiveness through the application of science and technology." (15 U.S.C., Sec. 278*l*) The Act specifies that such assistance may be in the form of cooperative agreements.

NIST issued an open-ended solicitation notice for STEP applications in May 1995, but did not award any STEP funding in fiscal year 1995. However, NIST did make six awards, totaling about \$552,000, during fiscal year 1996. Also, in fiscal year 1997, NIST made two STEP awards of \$100,000 each, for a total of \$200,000 in federal funding. NIST did not make any STEP awards after 1997 and does not anticipate any future STEP competitions. NIST intended STEP program funding to assist states with the planning necessary to compete for an MEP center award. Since NIST considers the nationwide network of MEP centers to be complete, there are no plans for future MEP center competitions; hence, no need for additional STEP awards.

Discretionary financial 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. The use of competitive selection procedures is generally agreed to be 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 et seq) is to encourage competition in the award of federal financial assistance to the maximum extent practicable in order to fairly and objectively identify and fund, based on merit, the best possible projects proposed by applicants, and thereby more effectively achieve program objectives.

The Office of Management and Budget (OMB) has issued guidelines 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, as discussed in OMB's June 1980 report, *Managing Federal Assistance in the 1980s*, are still applicable, and include:

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

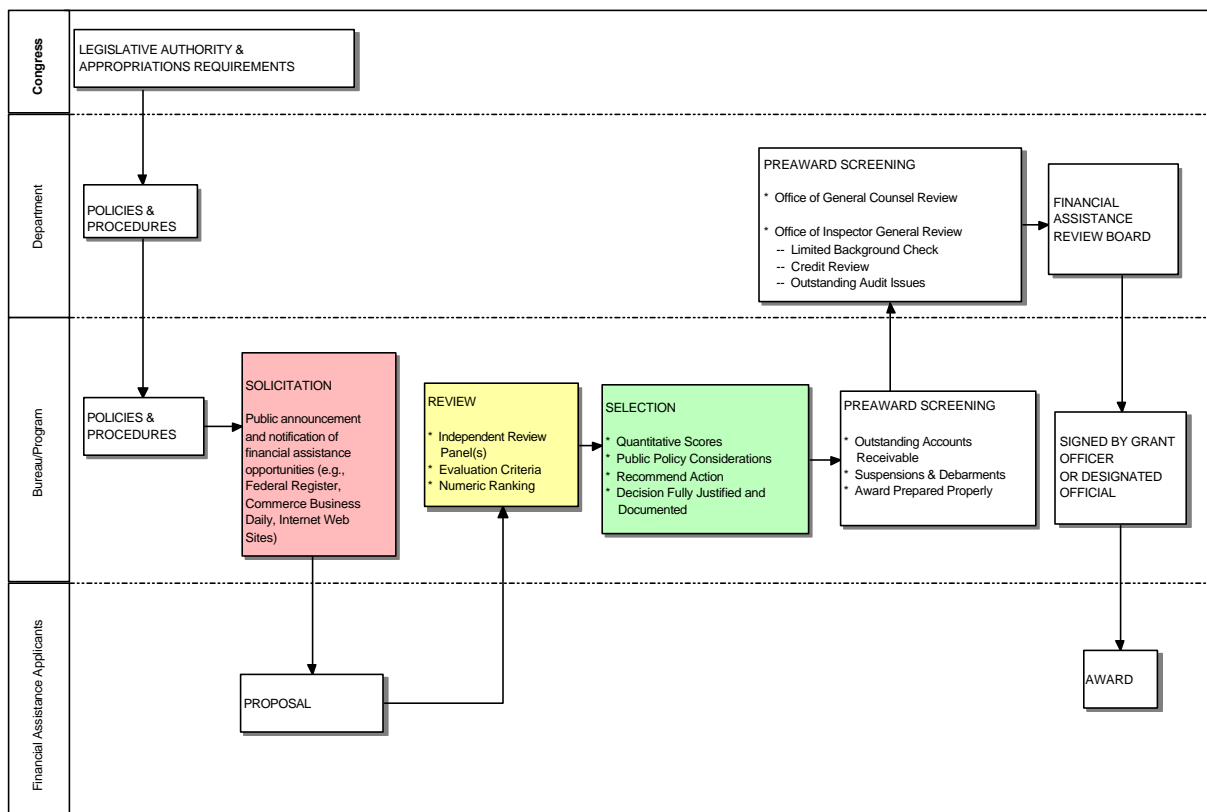
Also, OMB has issued the following circulars which set forth policies and procedures for administering federal financial assistance programs:

- OMB Circular A-89, *Federal Domestic Program Information*, implements the Federal Program Information Act (P.L. 95-220) requiring agencies to systematically and periodically collect and distribute current information to the public on federal domestic assistance programs, which is accomplished through the semiannual publication of the *Catalog of Federal Domestic Assistance*.
- OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires 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. Under A-102, when time permits, an agency must provide the public with an opportunity to comment on funding priorities. Finally, A-102 requires all grant awards over \$25,000 to be reviewed for consistency with agency priorities by a policy level official.
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Cooperative Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires agencies to provide the public with advance notice of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute.
- OMB Circular A-123, *Management Accountability and Control*, implements the Federal Managers Financial Integrity Act (P.L. 97-255), requiring agencies to establish management controls for federal programs and operations, including financial assistance programs, that provide reasonable assurance that activities are effectively and efficiently managed to achieve agency goals.

Commerce has relied on these guidelines and circulars 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* announcing the availability of funding, soliciting award applications, and specifying the criteria and process to be used in reviewing and selecting applications for funding.

The following chart depicts the basic process and controls for the solicitation, review, 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 NIST process chart located in Appendix I.

Department of Commerce Financial Assistance Awards Process



PURPOSE AND SCOPE

This audit was conducted as part of a comprehensive review of the Department of Commerce's discretionary funding programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation. The Chairman requested that the Inspectors General of the Departments of Commerce and Transportation and the National Science Foundation 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 and an individual program audit phase. 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 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 to identify any legislatively mandated projects. None were found.

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 NIST STEP program. We are evaluating the adequacy of each program's established award criteria and procedures for evaluating individual applications. 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 legislatively mandated projects identified for each program and determining their significance and impact on fiscal year 1997 award decisions. We will 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/or its bureaus.

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

This performance audit focused on all STEP awards processed by NIST during fiscal years 1995 through 1997. Specifically, we:

- Reviewed the authorizing legislation to identify criteria for funding decisions.
- Reviewed Department and NIST policies and procedures for soliciting, reviewing, and selecting recipients for awards (see Appendix I for a flowchart of the process). We reviewed NIST's solicitation, review, and selection process for MEP awards, and assessed whether it was in accordance with DAO 203-26, *Department of Commerce Grants Administration*, and Office of Federal Assistance Financial Assistance Notice No. 17, *Department of Commerce Guidelines for the Preparation of Federal Register Notices Announcing the Availability of Financial Assistance Funds -- Requests for Applications*.
- Compared NIST's compliance with prescribed procedures for the fiscal year 1995 through 1997 award actions to determine if the processes contained adequate internal controls to provide for competitive, merit-based awards.
- Interviewed MEP program officials concerning NIST's solicitation, review, and selection procedures for STEP awards.

We did not rely on computer-based data supplied by NIST and the Department's Office of Executive Assistance Management (OEAM) as a basis for our audit findings and recommendations. We therefore, did not conduct tests of the reliability of the data or the controls over the computer-based systems that produced the data.

We conducted our audit fieldwork in August 1998 at NIST's Manufacturing Extension Partnership Program Office and Grants Office, in Gaithersburg, Maryland. We conducted the audit in accordance with generally accepted government auditing standards and under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

We found that NIST established merit-based criteria and procedures for soliciting and reviewing STEP candidates and selecting STEP awardees. However, we found deficiencies in NIST's solicitation, review, and selection practices for fiscal year 1997 STEP awards. After discovering the deficiencies in the 1997 process, we expanded the scope of our audit to include fiscal year 1995 and 1996 STEP award activities. We found that deficiencies in the STEP solicitation practices existed in 1996 and 1997, while problems with the review and selection practices were limited to the fiscal year 1997 STEP award process. Specifically, we found that NIST:

- Did not comply with the Department's requirement that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funds, and specifying the criteria and process to be used in selecting award recipients.
- Did not follow its internal proposal review criteria when it failed to disqualify STEP applications that requested funding in excess of published funding limits.
- Established a one year maximum award period for STEP awards, but did not adequately examine proposed award periods to ensure compliance.

In addition, we believe that the independence of any future competitions could be enhanced by requiring proposal reviewers to be from outside the program area.

I. NIST Developed and Published Appropriate Evaluation Criteria

NIST published a *Notice of Availability of Funds*, containing competitive criteria for evaluating STEP applications, in the *Federal Register* on May 5, 1995. The five evaluation criteria were weighted, as follows, to provide a maximum score of 100 points.

- (1) *Market Research and Assessment (20 points)*. Applicants should specify a methodology for defining the demographics and technical assistance needs of the smaller manufacturers in their respective regions. The proposal should include a methodology to ensure that the identified needs are met.
- (2) *Resource Identification and Assessment (20 points)*. Applicants should describe the methodology for collecting information on existing industrial assistance activities that will be part of the coordination effort. Factors to consider include:
 - (a) Methodology for identifying relevant assistance programs and other sources of expertise outside the applicant's organization.
 - (b) Methodology for assessing relevance and effectiveness of resources in identifying industry needs.

- (3) *Coordination with Existing Resources (20 points)*. Applicants should include a plan for interacting or coordinating with existing industrial assistance services. Factors to consider include:
- (a) Methodology and adequacy of plans for forming linkages and partnerships necessary to plan for and provide a coordinated range of services to meet customers' needs.
 - (b) Safeguards to ensure the planned activity does not duplicate existing services or resources.
- (4) *Management (25 points)*. Applicants should specify plans for proper organization, staffing, and management. Factors to consider include:
- (a) Appropriateness and authority of the governing or managing organization to conduct statewide or regional activities.
 - (b) Qualifications and demonstrated leadership of the project manager and team.
 - (c) Appropriateness of the organizational approach.
 - (d) Evidence of significant involvement and support by the state.
 - (e) Degree of leadership and control of the proposed process by representatives from the private sector and especially small manufacturers.
- (5) *Financial Plan (15 points)*. Applicants should show the relevance and cost effectiveness of the financial plan for meeting the objectives of the project; the firmness and level of the applicant's total financial support for the project; and the plan to implement the program after the cooperative agreement has expired. Factors to consider include:
- (a) Cost effectiveness of the budget.
 - (b) The strength of commitment of the proposer's cost share, and the percentage of the cost share that is cash.
 - (c) Effectiveness of management plans for control of budget.
 - (d) The portion of proposed cost share that is in-kind must be appropriate and directly related to performing the statement of work.

NIST computed a score for each proposal, ranging from 0 to 100 points, based on the average of the individual review panel members' scores. According to NIST's *Source Selection Plan*, an

average score of 70 or higher was considered to be passing. The review panel had the option to recommend a passing proposal to the selecting official unconditionally for funding, or to recommend a proposal with specific conditions that needed to be met before it was acceptable for funding.

Based on our review, we concluded that the STEP criteria for evaluating applicants were designed to result in merit-based funding decisions.

II. NIST Did Not Publish Required Annual *Federal Register* Notices

We found that NIST's solicitation notice for the most recent STEP competition, as published in the *Federal Register* on May 5, 1995, generally complied with Departmental requirements for content. However, NIST failed to comply with Departmental directives that require publication of annual *Federal Register* notices.

Department Administrative Order 203-26, Section 4.02(b), states, "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 (financial assistance) program." In addition, Department of Commerce Financial Assistance Notice No. 17, Section .01, states, "An annual notice announcing the availability of federal funds for each Department of Commerce competitive financial assistance program shall be published in the *Federal Register*."

In failing to publish annual notices, NIST did not adequately inform interested parties of the availability of STEP funding, thereby limiting the pool of qualified applicants. Although the May 1995 *Federal Register* notice stated that \$3 million was available for STEP funding, NIST received only eight applications, requesting approximately \$750,000 in federal funding, during the three fiscal years in which the notice was open. NIST awarded funding to all eight applicants. The remaining \$2.25 million was used for other purposes within the MEP program. Annual notices would have expanded the public's knowledge of the STEP program, possibly leading to more applications.

NIST officials indicated that they intended the May 1995 *Federal Register* notice to remain open for successive fiscal years. However, the notice did not state this. In fact, the only indication that the notice might be open-ended appears in the section titled *Proposal Selection Process*, which states, "Proposal evaluation and selection will be performed from the date of publication of this document until further notice."

An MEP program official told us that the *Federal Register* notice was reviewed and approved by appropriate parties in the Department and nobody had objected to it being open-ended. While we agree that the notice did not state a specific closing date, we found nothing to indicate that NIST intended this notice to be the only solicitation for STEP awards in multiple years or that this was ever communicated to Departmental officials who reviewed and approved the notice. Furthermore, the Department requires annual notices to be published.

The MEP program official stated that his office was not aware of the Department's requirement for annual *Federal Register* notices until we brought it to their attention during this audit. We trust that this review will make the MEP staff more attentive to compliance with Departmental criteria related to financial assistance programs.

III. Review Procedures Promoted Merit-Based Decisions But Review Practices Need Improvement

NIST's evaluation procedures for reviewing STEP applications complied with departmental requirements and promoted merit-based decisions. DAO 203-26, Section 4.02h.1, established the minimum requirements for competitive reviews of Department of Commerce discretionary financial assistance applications. In addition to the DAO, NIST published proposal review procedures for the STEP program in the solicitation notice and in NIST's internal *Source Selection Plan*. We found that while NIST's proposal review procedures complied with the minimum requirements of the DAO, its proposal review practices need improvement.

NIST received six STEP applications in 1996 and two applications in 1997. We found that each application was independently reviewed and scored by a three-member review panel, using the evaluation criteria published in the solicitation notice. In accordance with NIST's *Source Selection Plan*, the panel members' individual scores were combined to compute an average score for each application. All six 1996 applications and both 1997 applications received passing scores — the *Source Selection Plan* established a minimum passing score of 70 points — and were recommended for funding by the review panels.

While the STEP review procedures promoted merit-based decisions, we did find a deviation from the written review procedures for applications received in fiscal year 1997. (NIST followed review procedures for the six applications it received in 1996.) Specifically, NIST did not follow its internal review procedures by failing to disqualify applications that requested federal funding in excess of the published limit. We also found that NIST's *Source Selection Plan* did not include procedures to evaluate proposed award periods for STEP funding, even though the published solicitation notice stated that awards would have a performance period of one year. Finally, we believe that NIST could enhance the independence and objectivity of any future STEP competitions by including reviewers from outside NIST and the Department on review panels.

The STEP review process, as defined in the May 5, 1995 *Federal Register* notice, involved the following two phases.

- (1) *Proposal Qualification*. NIST reviews all proposals to assure compliance with proposal content and other basic provisions of the solicitation notice. Proposals that satisfy the requirements will be designated as qualified proposals. Proposals that NIST determines to be non-qualified are to be returned to the proposer for potential resubmission after addressing the deficiencies.

(2) *Proposal Review.* A review panel, composed of at least three reviewers, evaluates all qualified proposals, in accordance with the criteria published in the *Federal Register* notice. After scoring, the review panel determines which proposals to recommend for funding. NIST is to contact applicants whose proposals were not recommended for funding to provide comments and feedback, based on the panel review. The applicant then has the option to modify and resubmit its proposal. Since all proposals received were recommended for funding, NIST made no such contacts.

**A. Minor deficiencies were found
in proposal screening practices**

We found two minor deficiencies in NIST's screening practices for STEP proposals. NIST failed to adequately screen the two STEP proposals received in 1997 to ensure that they complied with: (1) the published limitation on federal funding and (2) the program's maximum performance period of one year per award.

The May 5, 1995 *Federal Register* notice, under the heading, *Funding Availability*, stated, "Proposals must request *less* than \$100,000 in federal funds." (Emphasis added.) In two other sections related to cost share requirements, the notice stated, "... the federal share must be *less* than \$100,000." (Emphasis added.) NIST incorporated this funding limitation into its *Source Selection Plan* for the STEP competition. The Plan lists four bases on which to disqualify a proposal before it passes to a review panel, including, "Proposals requesting \$100,000.00 or more in Federal funds."

We found that both STEP proposals submitted in fiscal year 1997 requested \$100,000 in federal funds. Rather than disqualifying the proposals, as the *Source Selection Plan* required, both proposals were reviewed by NIST panels. We found no written justification for NIST's failure to disqualify the proposals. We discussed NIST's failure to disqualify the two STEP proposals with an official of the MEP program office. The official described the review panel's actions in not disqualifying the excessive proposals as an administrative oversight.

NIST established a limit on federal funding for STEP awards, then proceeded to ignore the limit for both proposals submitted in 1997. We acknowledge that the amount by which the proposals exceeded the published funding limit is insignificant — each was only one dollar above the ceiling. Our concern rests in NIST's failure to comply with funding criteria published in the solicitation notice and review procedures outlined in the *Source Selection Plan*. Technically, NIST should have disqualified the two excessive applications and returned them to the applicants for revision, as required by the solicitation notice. NIST could have avoided this situation by stating that awards could be made for up to \$100,000.

The May 5, 1995 *Federal Register* notice stated, under the heading, *Award Period*, "The cooperative agreements entered into under this program will have a performance period of one year." We found that one of the two 1997 STEP applications requested a two-year award period.

Although the application package clearly disclosed that the applicant was proposing a two-year award period, we found no mention of the award period in the documentation of the review panel's activities. The review panel chairman did not mention the excessive award period in his funding recommendation memorandum to the selecting official. Thus, the selecting official may not have known that the applicant had proposed a two-year award period when considering the review panel's recommendation.

We do not believe that NIST's failure to ensure that all STEP awards are for one-year periods impaired its ability to make merit-based selections. The published selection criteria were designed to assess an applicant's ability to fulfill the requirements of STEP recipients. We are concerned, however, that NIST established a maximum period of performance for STEP awards, then neglected to ensure that applicants complied with the limitation.

B. Outside reviewers could enhance independence and objectivity

The May 1995 *Federal Register* notice stated that NIST would appoint an evaluation panel of at least three reviewers to evaluate all qualified proposals. While NIST complied with the minimum requirement that each proposal be reviewed by at least three reviewers, we found that all STEP review panel members for the 1995 through 1997 competition period were MEP program personnel, some of who had responsibility for administration of the awards made to successful applicants and, therefore, can not be considered independent reviewers. Although the term "independent reviewers" is not clearly defined in DAO-203-26, which governs grant administration, the Department's Office of Executive Assistance Management has provided guidance to another discretionary grant program that individuals associated with the management and administration of a program can not be considered independent reviewers of project proposals for that program. Consequently, we believe that the use of knowledgeable reviewers from outside the program area would provide an independent perspective that would enhance the independence and objectivity of any future STEP competitions.

IV. Selecting Official Did Not Catch Minor Deficiencies

The final phase in the STEP award process, as defined in the May 5, 1995 *Federal Register* notice, is *Award Determination*. At the conclusion of the review phase, the Director of NIST, or a designee, makes the final determination to provide funding, based on the review panel's recommendations. The respective review panels recommended funding all six proposals received in fiscal year 1996 and both proposals received in 1997.

The STEP selecting official did not catch the facts that both 1997 STEP applications requested funding in excess of the published limit and that one proposed award period exceeded the one-year maximum award period. As a result, the two STEP awards issued in fiscal year 1997 were processed in spite of the minor deficiencies.

V. Recommendations

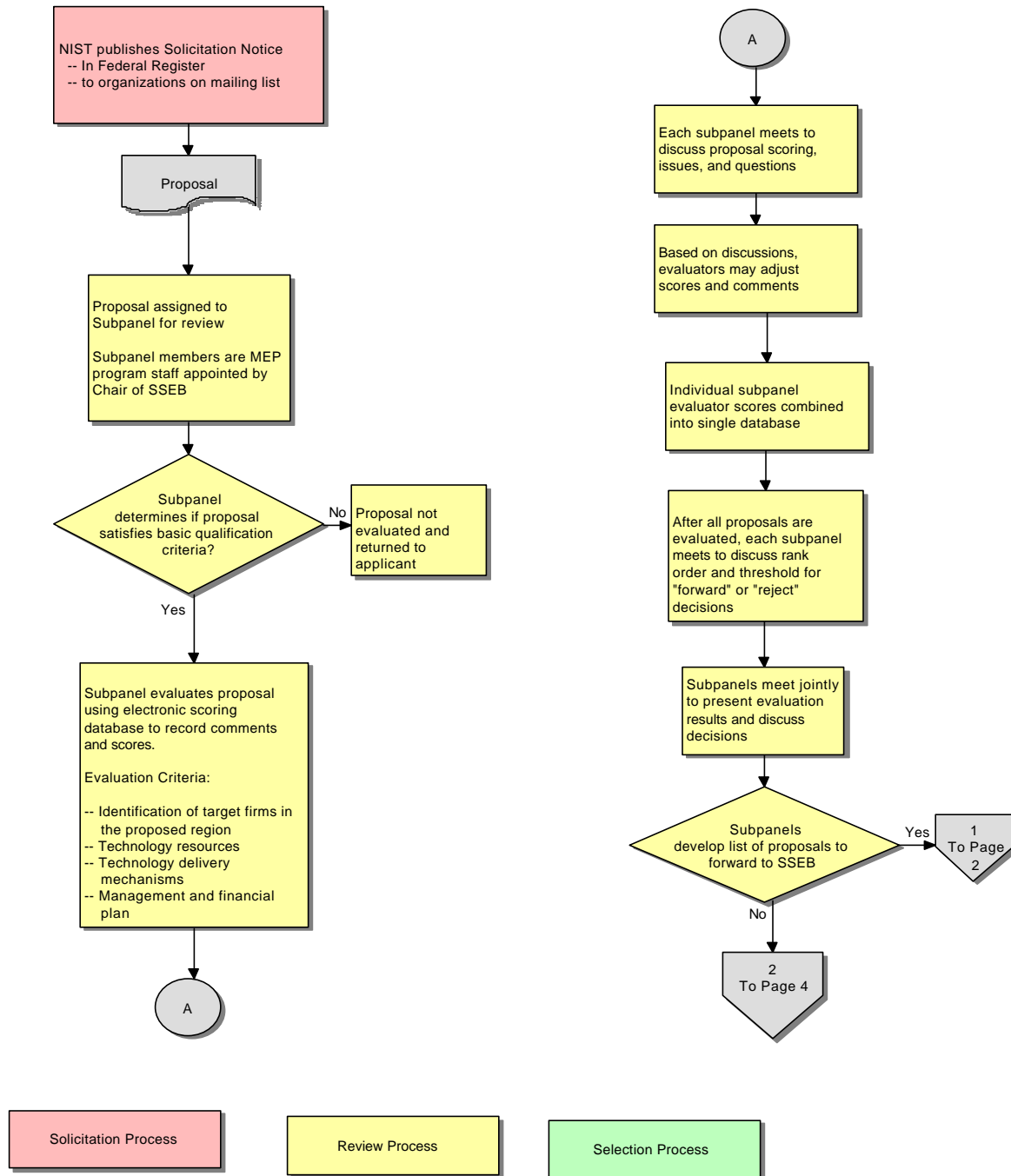
We recommend that the MEP Director ensure that:

1. Any future STEP competitions comply with the Department's requirement for annual *Federal Register* notices.
2. NIST properly screens proposals on any future STEP competitions and disqualify awards in excess of published funding and award period limits.
3. NIST enhances the independence and objectivity of any future STEP competitions by requiring proposal reviewers to be from outside the program area.

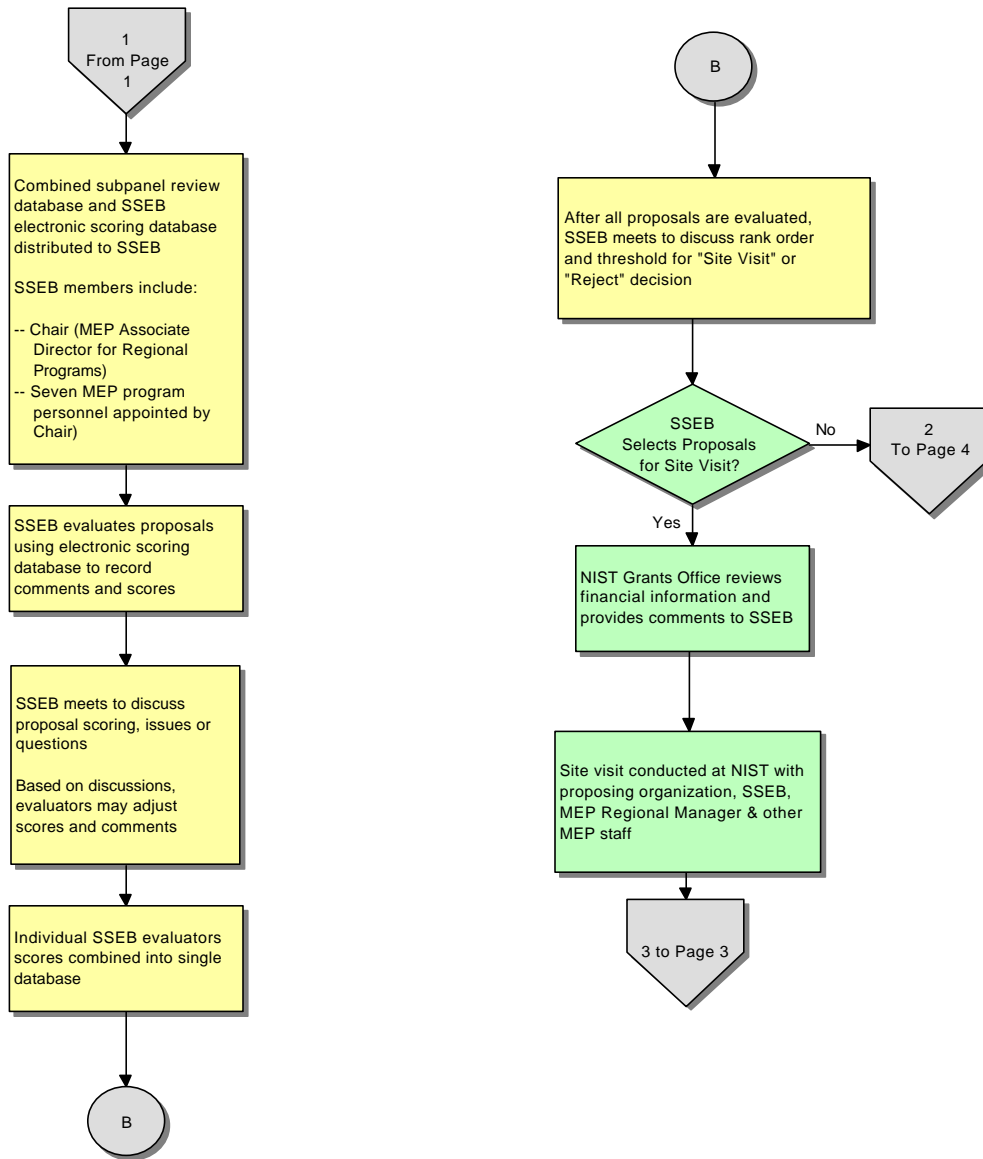
VI NIST Response

In its response to the draft report, NIST agreed with the findings and recommendations. NIST will publish annual *Federal Register* notices for any future STEP award competitions, ensure that its review process prevents any future STEP awards from exceeding published award limits, and require that review panels consist of non-MEP personnel for any future STEP competitions. In its response, NIST also provided additional information to explain the noted deficiencies. NIST's response is included in its entirety as Appendix II.

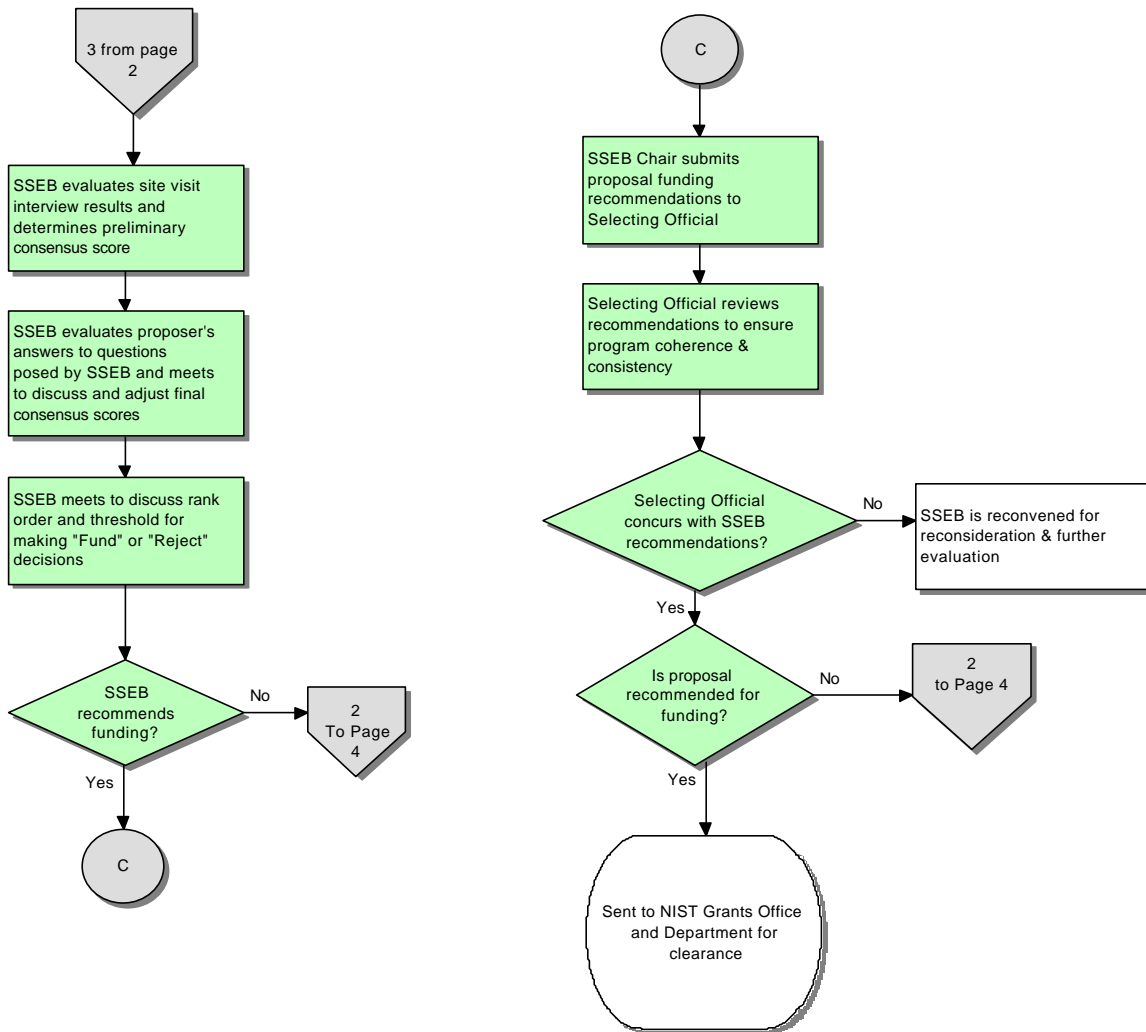
**NIST PROCEDURES FOR SOLICITATION, REVIEW,
AND SELECTION OF AWARDS**



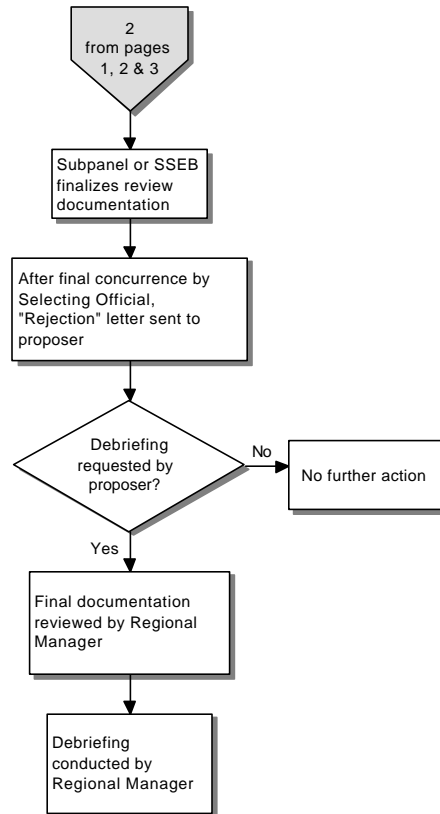
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UNITED STATES DEPARTMENT OF COMMERCE
National Institute of Standards and Technology
Gaithersburg, Maryland 20899

AUG 26 1999

MEMORANDUM FOR

George E. Ross
Assistant Inspector General for Auditing

Through:

Sharon Bisco *Sharon Bisco*
Chief of Management and Organization

From:

Kevin Carr *Kevin Carr*
Director
Manufacturing Extension Partnership Program

Subject:

Response to Draft Audit Report No. DEN-10961-9-XXXX

The Manufacturing Extension Partnership (MEP) has reviewed the above referenced draft audit report titled, "State Technology Extension Program Award Process Designed to Promote Merit-Based Decisions... CFDA No.11.613." Below are the MEP responses to the three recommendations cited in the report.

1) Brief Statement of Recommendation and Findings:

"Any future STEP competitions comply with the Department's requirement for annual Federal Register notices."

The audit report states that while NIST's solicitation notice for the most recent STEP competition, as published in the Federal Register on May 5, 1995, generally complied with Departmental requirements for content. However, NIST failed to comply with Departmental directives that require publication of annual Federal Register notices announcing the availability of funds.

MEP Response:

At the time the Federal Register notice was prepared, there was considerable interest in devising ways to streamline government operations and business practices. MEP proposed to publish a Federal Register notice that would not be limited to one year but would be open until rescinded. The proposal was advanced and received clearance both within NIST and within the Department including legal clearance. We were unaware at the time of the Department's requirement for annual notices.

MEP concurs with the recommendation. If any future STEP competitions are offered, we will be sure to publish annual Federal Register notices as required by Departmental Administrative Order 203-26 and Department of Commerce Financial Assistance Notice No.17.

2) Brief Statement of Recommendation and Findings:

"NIST properly screens proposals on any future STEP competitions and disqualify awards in excess of published funding and award period limits."

The audit report states that NIST Federal Register notice of May 5, 1995, stated that proposals must request less than \$100,000 in federal funds and that the performance period of cooperative agreements entered into under this program will be for one year. Both of the awards approved for FY1997 were for exactly \$100,000 and one of those was for a two-year period.

MEP Response:

In the cases cited there was a procedural error in the processing that should have been caught at some stage in the review.

MEP concurs with the recommendation. If any future STEP competitions are offered, we will ensure a review process is in place to ensure these oversights do not occur again.

3) Brief Statement of Recommendation and Findings:

"NIST enhances the independence and objectivity of any future STEP competitions by inviting reviewers from outside NIST and the Department to participate."

The audit report states that all STEP review panel members for the 1995 through 1997 competition period were MEP program personnel. While NIST did not violate any departmental requirements by using only its staff for STEP proposal reviews, the OIG stated that the use of knowledgeable reviewers from outside NIST and the Department would provide an independent perspective that would enhance the independence and objectivity of any future STEP competitions.

MEP Response:

Other than the original 7 centers, at the time of this STEP competition all other MEP centers were less than three years old and the vast majority were still going through the early phases of start-up. As such, there was not an extensive pool of individuals that had the depth and breadth of knowledge and experience necessary to perform these reviews, other than the MEP program staff. An additional issue was that many of the external experts, that had the knowledge and experience, were affiliated with and/or assisting organizations that were submitting proposals to the competition. This created an obvious conflict of interest, prohibiting them from serving on the review panels.

Today, this is no longer the case. MEP and manufacturing extension centers are well known and there is a much larger number of external experts qualified to review and evaluate proposals. In part, this is due to the expanded number of third and sixth year external panel reviews of MEP centers that have been conducted using panel members outside of NIST and the Department. These panelists have received training from MEP and have gained invaluable experience from examining and evaluating centers in these reviews.

MEP concurs with this recommendation. If there are any future STEP competitions, non-MEP experts will serve as proposal reviewers. In fact, over the past several years, non-MEP proposal reviewers have been used for evaluating proposals submitted to competitions for awards for both environmental and workforce projects.

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