U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

MINORITY BUSINESS DEVELOPMENT AGENCY

VALUE OF MBDA PERFORMANCE MEASURES IS UNDERMINED BY INAPPROPRIATE COMBINING OF PROGRAM RESULTS AND UNRELIABLE PERFORMANCE DATA FROM MBOC PROGRAM

Final Audit Report No FSD -17252-5-0001/September 2005

Office of Audits, Financial Statements and Accountability Division

PUBLIC RELEASE

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

OCT. - 7 2005

MEMORANDUM FOR: Ronald N. Langston
National Director

FROM: Johnnie E. Frazier

SUBJECT: *Value of MBDA Performance Measures Is Undermined by Inappropriate Combining of Program Results and Unreliable Performance Data from MBOC Program*

Final Audit Report No. FSD-17252-5-0001

This is our final report on our audit of MBDA performance measures. Our audit identified significant weaknesses in MBDA's management controls for performance measures reported in the *FY 2004 Performance and Accountability Report*.

In responding to our draft report, MBDA's National Director indicated concurrence with all of our specific recommendations and described actions either already taken or planned to improve management controls for MBDA performance measures. MBDA believes that MBOC-related concerns raised by the audit have been addressed with its new solicitation of the MBOC program. At the same time, MBDA did disagree with the OIG position that the bureau should not claim the entire amount of a multiple year contract in the base year of the award.

We are encouraged by actions that have been taken and planned. Where appropriate, we have modified the report to reflect MBDA's response. The complete response is attached to the report as Appendix I.

In accordance with Department Administrative Order 213-5, please provide us with your action plan addressing the recommendations for our review and concurrence within 60 days of this memorandum. The plan should be in the format of Exhibit 7 of the DAO. If you need to discuss the contents of this report or the audit action plan, please contact me at (202) 482-4661 or Allison Lerner, Acting Assistant Inspector General for Audits at (202) 482-1934.

We appreciate the cooperation and courtesies MBDA officials and staff extended to us during our review.

Attachment

CC: Edith McCloud
Associate Director for Management

Ronald Marin
Chief, Office of Financial Management

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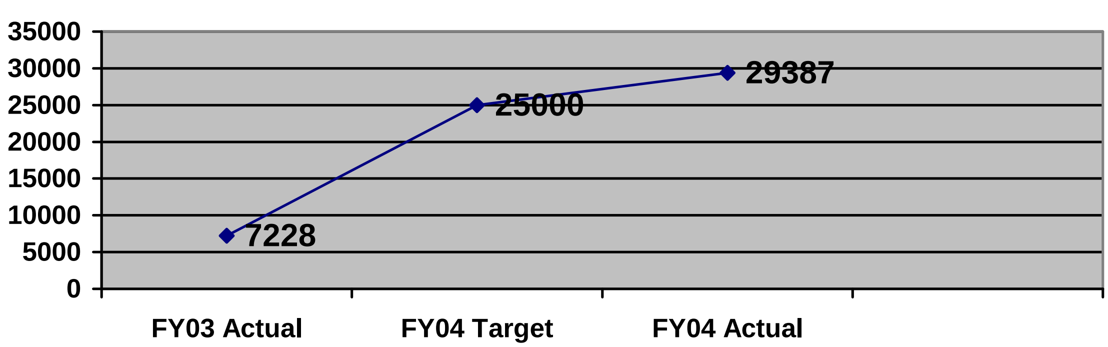
EXECUTIVE SUMMARY

Like other federal agencies, the Commerce Department faces many inherent challenges in determining how best to plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA) that seeks to improve the effectiveness, efficiency, and accountability of federal programs. Since 1999, the Office of Inspector General has issued a series of reports highlighting issues with performance measures and associated management controls in six Commerce bureaus. In conjunction with that work, we have also identified performance measurement and reporting as one of the top management challenges facing the Department.

In 2003, OIG conducted a review of the Minority Business Opportunity Committee (MBOC) program component of the Minority Business Development Agency's (MBDA) performance reporting for the *FY 2002 PAR*. That review found that (1) MBDA had overstated its FY 2002 performance under the measure, "Dollar value of contracts awarded to assisted minority businesses" because the MBOC program's criteria were vague and (2) MBDA did not verify reported MBOC accomplishments until after the *FY 2002 PAR* was issued. The 2003 review also found that the Office of Management and Budget's (OMB's) 2002 evaluation of MBDA's submission for OMB's Program Assessment Rating Tool (PART) relied on data from the *FY 2001 PAR*, which was inaccurate for similar reasons. An earlier audit of the Los Angeles MBOC had shown that MBOC's performance claims for calendar years 1999-2001 were questionable. In response to these earlier reviews, MBDA officials acknowledged the need to strengthen their performance measure oversight and reporting.

Concerns about MBDA's FY 2004 performance measures surfaced when there was an unexplained sharp jump in the number reported under the measure "Clients Assisted." In that year, although MBDA's appropriations decreased slightly in FY 2004 from FY 2003, data reported under the "Clients Assisted" performance measure increased by more than 300 percent during the same period. As illustrated in Figure 1 below, the number of reported "Clients Assisted" jumped from 7228 in FY 2003 to 29,387 in FY 2004.

Figure 1: Increase in "Clients Assisted"



In light of concerns brought to our attention regarding this unusual spike in "Clients Assisted" and the previous problems we had noted with MBDA's reporting on performance measures, we decided to audit the agency's performance measure reporting for FY 2004 to:

(1) Assess the process MBDA uses to measure, monitor, and report its performance;
(2) Test the accuracy of MBDA's reported performance and determine if reports are consistent; and
(3) Assess the adequacy of the management control structure supporting MBDA's reported performance.

We performed our fieldwork at:

- MBDA headquarters
- MBDA regional offices in
  - Atlanta
  - Chicago
  - Dallas
- (We also visited New York and San Francisco regional offices to interview regional directors.)
- Two Minority Business Development Centers (MBDCs)
  - Washington Metropolitan
  - New Mexico Statewide
- One Native American Business Development Center (NABDC) – Oklahoma NABDC
- Five Minority Business Opportunity Committees (MBOCs)
  - Florida MBOC
  - National Capital MBOC
  - Puerto Rico MBOC
  - South Texas MBOC
  - Wisconsin MBOC

For this audit, we reviewed the performance results for four of the seven performance measures contained in the Department's *FY 2004 PAR*:

- Total number of all clients receiving assistance
- Dollar value of contract awards obtained
- Dollar value of financial awards obtained
- Number of national and regional strategic partnerships

Our audit revealed the following:

- **MBDA's Combining of Results from Significantly Different Programs Undermined the Usefulness of Key Performance Measures**

Clearly, the objectives of MBDA's various funded organizations are significantly different, and the level of services provided to minority businesses by its Business Development Center (BDC), MBOC, and Phoenix programs differ substantially, as shown in Table 1:

Table 1: How Are Minority Business Enterprises (MBEs) Served by MBDA	
BDC Clients	• Clients receive management and technical assistance. • Written engagement agreements specify services to be received. • MBDC clients pay fees for services.
MBOC Beneficiaries	• Beneficiaries receive no management or technical assistance • No written agreements, no fees • MBOCs facilitate awards to beneficiaries by being "directly involved as the intermediary."
Phoenix Matches	• No written agreements, no fees • MBEs register in automated, online database. • Phoenix system automatically compares MBE's business data with business opportunities in the database and notifies MBE of any "match" with an opportunity. • Phoenix Matches do not necessarily result in an award.

In the *FY 2003 PAR*, results reported under the metric "Clients Assisted" represented only BDC clients, but in the *FY 2004 PAR*, MBDA included MBOC beneficiaries and MBEs that had received at least one Phoenix match. Approximately 80 percent of the "Clients Assisted" reported in the *FY 2004 PAR* were Phoenix matches. MBDA made this change without disclosure or explanation in the *FY 2004 PAR*. The inappropriate combination of results was misleading, and undermined the usefulness of "Clients Assisted" as a meaningful performance measure.

Combining BDC clients, MBOC beneficiaries, and Phoenix matches makes it appear that the different levels of services and results of MBDA's individual programs are somehow equal, or at least comparable. Clearly, they are not. Unfortunately, stakeholders, senior government officials, and other interested parties viewing the combined results from these three different programs might reach the erroneous conclusion that "all clients assisted" received the highest level of service—the service provided to BDC clients. Since in fact the bulk of the reported "Clients Assisted" were Phoenix matches, which require the least amount of effort to perform, no valid comparison is possible between data reported in FY 2003 and FY 2004 for the "Clients Assisted" measure.

When asked why the Phoenix matches were included in "Clients Assisted" in FY 2004, MBDA officials from the Office of the Director and the Office of Performance and Program Evaluation said that MBEs receiving Phoenix matches were being provided a service, just as were the BDC clients and MBOC beneficiaries. The response implies that the level of service for Phoenix matches, BDC clients, and MBOC beneficiaries are equal. When presented with our concern that the measure was combining services that differed, MBDA officials acknowledged that the levels of services provided for BDC clients, MBOC beneficiaries, and Phoenix matches are substantially different.

In addition, combining the dollar value of financial and contract awards reported by BDCs, MBOCs, and MBDA staff, as MBDA did in the FY 2004 PAR, inappropriately treats the different levels of services provided as being equal or comparable. Combining the performance results for such disparate efforts disguised the differences in the underlying performance data for these measures, resulted in a lack of data consistency, and as such limited the usefulness of these measures.

- **Inadequate Guidance, Compliance with Reporting Criteria, and Verification Undermined the Reliability of Reported MBOC Results**

We found that as a result of inadequate guidance, compliance with reporting criteria, and verification, MBOC operators inappropriately included in reported contract awards cash disbursements, income based on estimated sales projections, and income based on projections for option years of multiple year contracts. For example:

- The National Capital MBOC included approximately $49.5 million of "contract awards" that were actually cash disbursements for existing contracts already awarded through competitive bid processes. Some of the reported contract awards had actually been made prior to the creation of the National Capital MBOC in 2003.

- The South Texas MBOC reported $4.3 million in estimated future sales projections and $4.7 million of option awards of a multiple year contract as FY 2004 contract awards.

In addition, we found an insufficient nexus between MBOC efforts at two MBOCS and their reported awards. The National Capital and Puerto Rico MBOCs reported awards that represented 45 percent of all awards reported by all nine MBOCs in FY 2004. Our review of supporting documentation at the two MBOCs, which included surveys of transaction sources and beneficiary companies, found insufficient links between the efforts of the MBOCs and approximately 66 percent of their reported awards totaling $212.2 million.

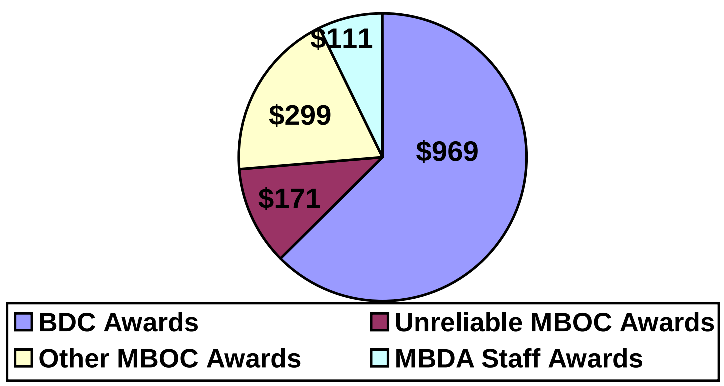
We found another performance measure reporting problem—FY 2003 awards being reported in FY 2004—at the Florida and South Texas MBOCs. The Florida MBOC used the date of the beneficiary acknowledgement form instead of the contract award date for 19 contract awards. This error overstated the dollar value of contract awards in FY 2004 by $19 million. The South Texas MBOC also reported approximately $3.3 million of contract awards in the wrong fiscal year.

The problems we identified at four of the five MBOCs we visited call into question the reliability of their reporting, and resulted in our questioning $171 million in reported MBOC results. Table 2 below shows the total amount of awards reported by the entities we audited and the award amounts we questioned.

Table 2: Summary of FY 2004 Awards Reported by 5 MBOCs, 3 BDCs and MBDA Staff and Reviewed by OIG				
Performance Measure	Amount of Awards Reported by 5 MBOCs & 3 BDCs & MBDA HQ	Amount of Reported Awards Reviewed by OIG	Amount of Reviewed Awards Questioned by OIG (All questioned awards made by MBOCs)	Percentage of Reviewed Awards Questioned (All questioned awards made by MBOCs)
Financial Awards	$152M	$128M	$45M	35%
Contract Awards	$399M	$360M	$126M	35%
Subtotals	$551M	$488M	$171M	35%

This amount represented over 36 percent of all MBOC-reported awards and almost 11 percent of total MBDA-reported awards in FY 2004. Figure 1 below shows the sources of MBDA's total reported awards of $1.55 billion in FY 2004.

Figure 1: Total MBDA-Reported Awards of $1550M in FY 2004



Based on what we saw at the MBOCs, MBDA's verification process as implemented does not seem capable of fulfilling its objectives of ensuring the reliability of reported performance measures.

Based on these findings, we recommend the MBDA director ensure that:

1. MBDA reports performance measures of its major programs separately and clearly to reflect the different levels of service provided by the individual programs;

2. MBDA clearly defines key MBOC performance terms and guidance to minimize opportunities for confusion, (e.g., defines terms such as direct result, intervention, and strategic partnership);

3. MBDA clearly defines what types of "contract actions" are acceptable for inclusion in its "Dollar Value of Contract Awards Obtained" measure;

4. MBDA implements sound practices to ensure that the MBOCs obtain and maintain required documentation to properly support all claims; and that

5. Regional offices and headquarters implement effective monitoring and oversight that will provide stakeholders with reasonable assurance on the reliability of its performance measures.

In its response to the draft report, MBDA's National Director indicated concurrence with all of our recommendations and described actions either taken or planned to improve management controls for MBDA performance measures. MBDA believes that MBOC-related concerns raised by the audit have been addressed with its new solicitation for the MBOC program. With respect to our conclusion that the agency should not claim award amounts for option years under a contract until those options are exercised, MBDA indicated that it continues to believe that it should be able to claim the entire amount of a multiple year contract in the first year of the award. MBDA's comments are attached in their entirety as Appendix I to this report.

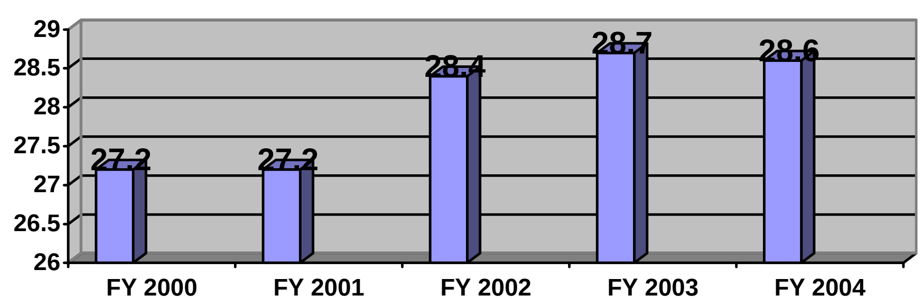
We are encouraged by the actions taken or planned and look forward to working with MBDA to strengthen its performance measure reporting.

INTRODUCTION

Executive Order 11458 established the Office of Minority Business Enterprise in 1969. In 1971, Executive Order 11625 prescribed additional arrangements for developing and coordinating a national program for minority business enterprise and listed specific functions for the Secretary of Commerce. The Minority Business Development Agency's (MBDA) primary objective is to achieve entrepreneurial parity[1] for minority business enterprises by promoting access to (1) financing, (2) marketplace, (3) education, and (4) technology. MBDA provides assistance to socially or economically disadvantaged groups who own or wish to start or expand a business, including African Americans, Native Americans, Puerto Ricans, Spanish-speaking Americans, Eskimos, Aleuts, Asian Indians, Asian Pacific Americans, and Hasidic Jews.

MBDA provides business development services to Minority Business Enterprises (MBEs) through a network that includes (1) Minority Business Development Centers (MBDCs) and Native American Business Development Centers (NABDCs), (2) Minority Business Opportunity Committees (MBOCs), and (3) MBDA business development specialists. In FY 2004, MBDA program costs were $10.6 million – broken down as $7.4 million for MBDCs, $1.6 million for NABDCs, and $1.6 million for MBOCs. Figure 1 below shows MBDA's appropriations for FY 2000 through FY 2004.

Figure 1: MBDA Appropriations ($M)



MBDC services include loan packaging assistance, matching contract opportunities, and advocating minority business. MBDC staff provide direct standardized business assistance services to minority businesses for which they charge client fees. Since 1982, NABDCs have provided generalized management, technical assistance, and business development services to Native American business enterprises and eligible non-Native Americans[2] in designated geographic service areas. NABDCs also are required to

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[1] MBDA defines entrepreneurial parity as a benchmark whereby minority business enterprises are contributing to the U.S. economy at a rate comparable to the percentage of the U.S. minority population.
[2] Eskimos, African Americans, Puerto Ricans, Spanish speaking Americans, Aleuts, Asian Pacific Americans, Asian Indians and Hasidic Jews.

develop strategic partnerships within geographic service areas. NABDCs, unlike MBDCs, do not charge client fees.

In 2004, MBDA began emphasizing a strategic growth policy by having business development centers concentrate on rapid growth-potential minority businesses. These are defined as firms with $500,000 or more in annual sales or those capable of generating significant employment and long-term economic growth.

Minority Business Opportunity Committees are local volunteer organizations comprised of high-level, public and private sector executives who aim to increase opportunities for minority entrepreneurs to obtain additional capital, management skills, and market penetration. Since the late 1970s, the MBOC program has undergone a change from a strictly federal government committee operation to a cross section of private corporations, non-profit organizations, and local governments serving as operators. In 2003, MBDA established a new competitive program in nine locations around the country. Awards were made to the nine centers based on the evaluations and rankings of an independent review panel, the degree to which applications addressed MBDA priorities, the availability of funds, the national geographic distribution of the proposed awards, and the mixture of large and small economic regions. Unlike MBDC and NABDC operators, MBOC operators are not required to provide management and technical assistance or business development services to individual MBEs. Unlike MBDCs, they do not charge for their services.

MBDA has five National Enterprise Centers (Atlanta, Chicago, Dallas, New York, and San Francisco), and four Regional Enterprise Centers (Miami, Boston, Philadelphia, and Los Angeles). These centers monitor funded organizations in their areas of responsibility. In addition, since FY 2003 the business development specialists at some of these centers also have been responsible for reporting awards for inclusion in MBDA's performance measures.

Another service MBDA provides is its Phoenix program. The Phoenix program comprises a national electronic inventory of minority firms capable of selling their goods and services to the public and private sector. MBEs registered in MBDA's Phoenix database system are notified by MBDA when their company is matched—based on industry codes, keywords, and operating locations—with business opportunities entered in the Phoenix system. A notification of a potential business opportunity is called a Phoenix match.

Like other federal agencies, the Commerce Department faces many inherent challenges in determining how best to plan and measure its performance in accordance with the Government Performance and Results Act of 1993 (GPRA) that seeks to improve the effectiveness, efficiency, and accountability of federal programs. Since 1999, the Office of Inspector General has issued a series of reports highlighting issues with performance measures and associated management controls in six Commerce bureaus. In conjunction with that work, we have also identified performance measurement and reporting as one of the top management challenges facing the Department.

In 2003, OIG conducted a review of the MBOC program component of MBDA's performance reporting for the *FY 2002 PAR*. That review found that (1) MBDA had overstated its FY 2002 performance under the measure, "Dollar value of contracts awarded to assisted minority businesses" because the MBOC program's criteria were vague and (2) MBDA did not verify reported MBOC accomplishments until after the *FY 2002 PAR* was issued. The 2003 review also found that the Office of Management and Budget's (OMB's) 2002 evaluation of MBDA's submission for OMB's Program Assessment Rating Tool (PART) relied on data from the *FY 2001 PAR*, which was inaccurate for similar reasons. An earlier audit of the Los Angeles MBOC had shown that MBOC's performance claims for calendar years 1999-2001 were questionable. In response to these earlier reviews, MBDA officials acknowledged the need to strengthen their performance measure oversight and reporting.

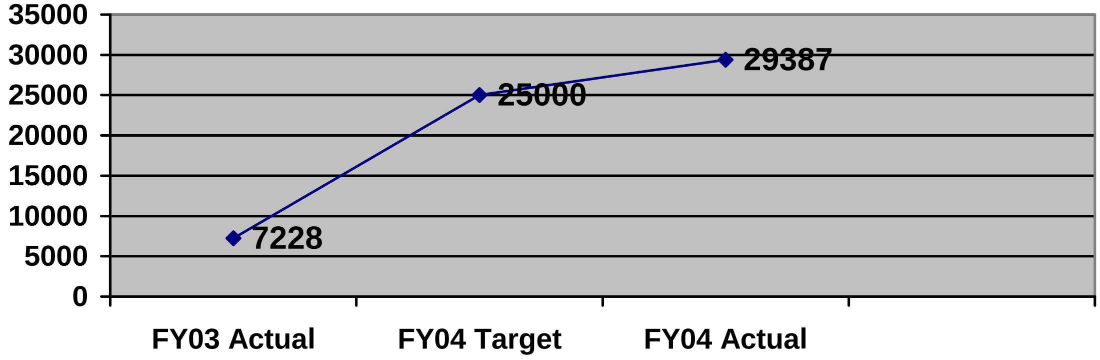
In the *FY 2004 PAR*, MBDA had one performance goal: to increase opportunities and access of minority-owned businesses to financing and markets. MBDA reported seven performance measures in the Department of Commerce *FY 2004 Performance and Accountability Report (PAR):*

- Total number of all clients receiving assistance;
- Number of contract awards obtained;
- Dollar value of contract awards obtained;
- Number of financial awards obtained;
- Dollar value of financial awards obtained;
- Employee training hours; and
- Number of national and regional strategic partnerships

According to MBDA's FY 2005 Congressional budget submission, these performance measures support its goal because they are indicators of a minority business enterprise's ability to grow, create more jobs, and increase gross receipts, thereby achieving entrepreneurial parity.

Concerns about MBDA's FY 2004 performance measures surfaced when there was an unexplained sharp jump in the number reported under the measure "Clients Assisted." Although MBDA's appropriation declined slightly from FY 2003 to FY 2004, the number of reported "Clients Assisted" jumped from 7228 in FY 2003 to 29,387 in FY 2004—an increase of over 300 percent. Figure 1 below illustrates this increase.

Figure 1: Increase in "Clients Assisted"



In light of concerns brought to our attention regarding this unusual spike in "Clients Assisted" and the previous problems we had noted with MBDA's reporting on performance measures, we decided to audit the agency's performance measure reporting for FY 2004.

For this audit, we reviewed the performance results for four of the seven[3] performance measures contained in the Department's *FY 2004 PAR*:

- Total number of all clients receiving assistance
- Dollar value of contract awards obtained
- Dollar value of financial awards obtained
- Number of national and regional strategic partnerships

[3] MBDA will cease reporting as performance measures Number of contract awards obtained, Number of financial awards obtained, and Employee training hours in FY 2006.

OBJECTIVES, SCOPE, AND METHODOLOGY

Between January 2005 and June 2005, the OIG interviewed staff and examined reported performance results at MBDA headquarters, three MBDA regional offices, and eight MBDA-funded organizations. The purpose of this audit was to:

(1) Assess the process MBDA uses to measure, monitor, and report its performance;
(2) Test the accuracy of MBDA's reported performance and determine if reports are consistent; and
(3) Assess the adequacy of the management control structure supporting MBDA's reported performance.

To conduct the audit, OIG:

- Reviewed pertinent federal guidance and legislation[4];
- Interviewed officials of eight funded organizations responsible for generating, maintaining, and reporting performance data;
- Interviewed MBDA officials responsible for verifying and monitoring performance data;
- Identified and tested management controls;
- Subjected data to validation and verification procedures, including the recalculation of reported results;
- Evaluated the clarity and usefulness of explanations provided for four of seven performance measures reported by MBDA in the *FY 2004 PAR*[5]; and
- Interviewed transaction sources and beneficiary companies of the New Mexico Statewide MBDC, the National Capital MBOC, and the Puerto Rico MBOC.

We performed our fieldwork at:

- MBDA headquarters
- MBDA regional offices in
    - Atlanta
    - Chicago
    - Dallas
- (We also visited New York and San Francisco regional offices to interview regional directors.)
- Two Minority Business Development Centers (MBDCs)
    - Washington Metropolitan
    - New Mexico Statewide
- One Native American Business Development Center (NABDC) – Oklahoma NABDC
- Five Minority Business Opportunity Committees (MBOCs)
    - Florida MBOC
    - National Capital MBOC
    - Puerto Rico MBOC
    - South Texas MBOC
    - Wisconsin MBOC

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[4] GPRA, OMB Circular A-123, *Management Accountability and Control*, GAO *Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information*, GGD-99-139, GAO *Assessing the Reliability of Computer-Processed Data*, GAO-03-273G.

[5] We did not review Number of financial awards, Number of contract awards, and Employee training hours, which MBDA will cease reporting as performance measures in FY 2006.

[redacted]

The reliability of computer-generated data for the performance measures was essential. We assessed FY 2004 performance data from MBDA's online reporting system and found problems with its reliability. MBDA's Office of Performance and Program Evaluation (OPPE) compiled the FY 2004 performance measures reported in the *FY 2004 PAR* from early October 2004 printouts of electronic data acquired from both MBDA's online reporting system and from non-electronic results provided by MBDA regional and headquarters staff.

During our audit, MBDA's online performance reporting system could not identify electronic data that had been compiled in early October 2004 and reported in the *FY 2004 PAR*. According to MBDA staff, management allowed adjustments to MBDA's online FY 2004 performance data until March 31, 2005. This caused a difference between the performance data available from MBDA's online system at the time of our audit and the performance results MBDA compiled in October 2004 that were reported in the *FY 2004 PAR*.

We were able to obtain supporting paper documentation, including printouts from MBDA's online performance reporting system that were generated in October 2004, that MBDA had used to compile the performance results reported in the *FY 2004 PAR*. A comparison of MBDA's supporting paper documentation for FY 2004 performance measures with the performance results reported in the *FY 2004 PAR* showed discrepancies in the categories of "Total Number of All Clients Receiving Assistance" and "Dollar Value of Contract Awards Obtained." However, the differences between MBDA's documentation and the results reported in the *FY 2004 PAR* for these two performance measures were not material enough to prevent MBDA's paper documentation from being used as baseline data during the audit. Consequently, we used MBDA's supporting paper documentation, including the October 2004 printouts from MBDA's online performance reporting system, to ascertain FY 2004 performance data reported by individual MBDA-funded organizations that we visited during the audit.

MBDA reported results for seven measures in FY 2004. MBDA's FY 2004 performance results included data from MBDA-funded entities and some MBDA offices (listed in Table 1 below).

Table 1: Reporting Entities and Reporting Periods

Reporting Period	Reporting Entities
October – December 2003	• 27 MBDCs • 7 NABDCs • 9 MBOCs
January - September 2004	• 26 MBDCs • 8 NABDCs • 9 MBOCs
October 2003 – September 2004	• MBDA staff at headquarters • MBDA staff at four National Enterprise Centers

In addition to pertinent federal guidance and legislation, the audit used criteria included in the following MBDA written guidelines and materials. These are discussed in the pertinent sections of this report:

- Solicitation of Applications for the Minority Business Development Center (MBDC) Program, 68 Federal Register 51965, dated August 29, 2003, as amended
- Solicitation of Applications for the Native American Business Development Center (NABDC) Program, 68 Federal Register 51981, dated August 29, 2003
- Solicitation of Applications for the Minority Business Opportunity Committee (MBOC) Program, 67 Federal Register 58756, dated September 18, 2002
- MBDA Information Quality Standards
- Guidelines and Procedures for Verification of Contract and Financial Award Transactions and Services
- Verification by MBDC/NABDC and MBOC Project Monitors

We performed this audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and under 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 reviewed four of seven performance measures reported by MBDA in the *FY 2004 PAR:*

- Total number of all clients receiving assistance (hereafter referred to as "Clients Assisted")
- Dollar value of financial awards obtained
- Dollar value of contract awards obtained
- Number of national and regional strategic partnerships

While we did not find substantial issues with reporting related to national and regional strategic partnerships, our audit revealed that in reporting FY 2004 results for the remaining performance measures, MBDA inappropriately combined performance results for significantly different programs. Consequently, results under these performance measures were unclear and not very useful as performance indicators. We also found the reliability of reported MBOC results to be questionable because of unclear definitions, inconsistent guidance and inadequate verification, and that the reported dollar values of awards at four MBOCs were not adequately supported. The unsupported amounts represented over 36 percent of MBOC awards and almost 12 percent of MBDA awards reported in FY 2004.

We discussed our findings with MBDA officials, who have started to address our concerns. We briefed MBDA regional directors, who had oversight responsibility for BDCs or MBOCs visited, in February, March, and June 2005. We briefed MBDA headquarters officials in March, June, and August 2005.

I. MBDA's Combining of Results from Significantly Different Programs Undermined the Usefulness of Key Performance Measures

Our audit found that MBDA combined the FY 2004 performance results for the BDC, MBOC, and Phoenix programs without disclosing or explaining the underlying program differences or the different reporting criteria used by each program. For the "Clients Assisted" measure, the combination also was changed from what had been included in the *FY 2003 PAR.*

A. Objectives of BDC, MBOC, and Phoenix Programs Are Fundamentally Different

Clearly, the objectives of MBDA's various funded organizations are significantly different, and the level of services provided to minority businesses by its Business Development Center, MBOC, and Phoenix programs differ substantially. In addition, MBDA's criteria for business development centers claiming and reporting financial and contract awards differ from those for MBOCs.

BDCs Provide Management and Technical Assistance and Have Clear Guidelines for Claiming and Reporting Awards

Business development centers provide standardized business services (including management and technical assistance) to their clients directly, develop strategic partnerships, and provide business consulting. BDCs have clear and specific requirements for claiming and reporting financial and contract awards awarded to their clients, including:

- Written engagement agreements with clients;
- Executed and binding agreements between the client and the financier for financial awards; and
- Executed and binding agreements between the client and the party capable of performing its obligations under the terms of the contract for contract awards.

As noted earlier, NABDC operators provide management and technical assistance to Native American business enterprises and eligible non-Native Americans[6] within designated geographic service areas, and are also required to develop a network of strategic partnerships within their geographic service areas. However, NABDCs differ from MBDCs because they are not required to charge client fees.

MBOCs Facilitate Contract and Financial Awards but Lack Clear Definitions for Claiming and Reporting Awards

In its 2002 Federal Register Solicitation[7] for the MBOC program, MBDA provided unclear definitions for MBOCs to claim and report financial and contract awards. Under "Work Requirements," MBOCs were required to "facilitate the award of contracts, loans, bonds, and other instruments to minority entrepreneurs by being *directly involved as the intermediary* [emphasis added] between MBOC members who have the ability to make a contract award or provide a loan and MBEs who have the ability to perform the contract or have a financial need for capital, resulting in completed transactions." Under "Performance Measures," the Federal Register Solicitation stated, "The MBOC operator must report … that the dollar value of contracts awarded to MBE's was the result of MBOC activity or intervention … and the dollar value of financial transactions awarded to MBEs was the result of MBOC activity or intervention." However, "direct involvement as the intermediary" and "MBOC activity or intervention" are not specifically defined or explained in the Federal Register Solicitation, the MBOC Handbook issued in February 2004, or written guidelines distributed at an August 2003 training session for MBDA staff.

Phoenix Matches Are Notifications of Opportunities by MBDA's Automated Online Bid-Matching System and May Not Result in Awards

MBEs register in MBDA's Phoenix online database and enter specific information on their company using keywords, industry codes, and operating locations. The Phoenix system automatically compares registered MBEs' information with opportunities in the

[6] Eskimos, African Americans, Puerto Ricans, Spanish-speaking Americans, Aleuts, Asian Pacific Americans, Asian Indians and Hasidic Jews.
[7] 67 FR 58756, September 18, 2002.

database. The Phoenix system then notifies the MBEs of potential business opportunities, and the automatic notifications are called Phoenix matches.

In FY 2004, MBDA counted each MBE receiving at least one Phoenix match as a "client assisted," even if no award resulted from the automated notification. MBDA headquarters officials said there was no double counting of "Clients Assisted" because they did not count MBEs that received a Phoenix match but were already included as BDC clients or MBOC beneficiaries. One MBDA official said MBDA officials knew of only eight awards received by MBEs as a result of a Phoenix match out of more than 24,000 Phoenix matches in FY 2004.

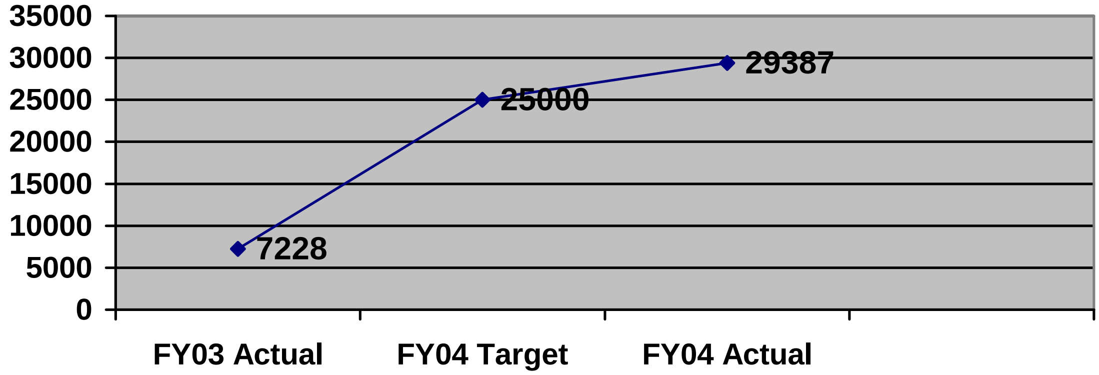
The different types of services provided under the three MBDA programs are summarized in table 2.

Table 2: How Are "MBEs" Served by MBDA	
BDC Clients	• Clients receive management and technical assistance. • Written engagement agreements specify services to be received. • MBDC clients pay fees for services.
MBOC Beneficiaries	• Beneficiaries need not receive management or technical assistance • No written agreements, no fees • MBOCs facilitate awards to beneficiaries by being "directly involved as the intermediary."
Phoenix Matches	• No written agreements, no fees • MBEs register in automated, online database. • Phoenix system automatically compares MBE's business data with business opportunities in the database and notifies MBE of any "match" with an opportunity. • Phoenix Matches do not necessarily result in an award.

B. Inappropriate Combination of Results Was Misleading and Undermined the Usefulness of "Clients Assisted" as a Performance Measure

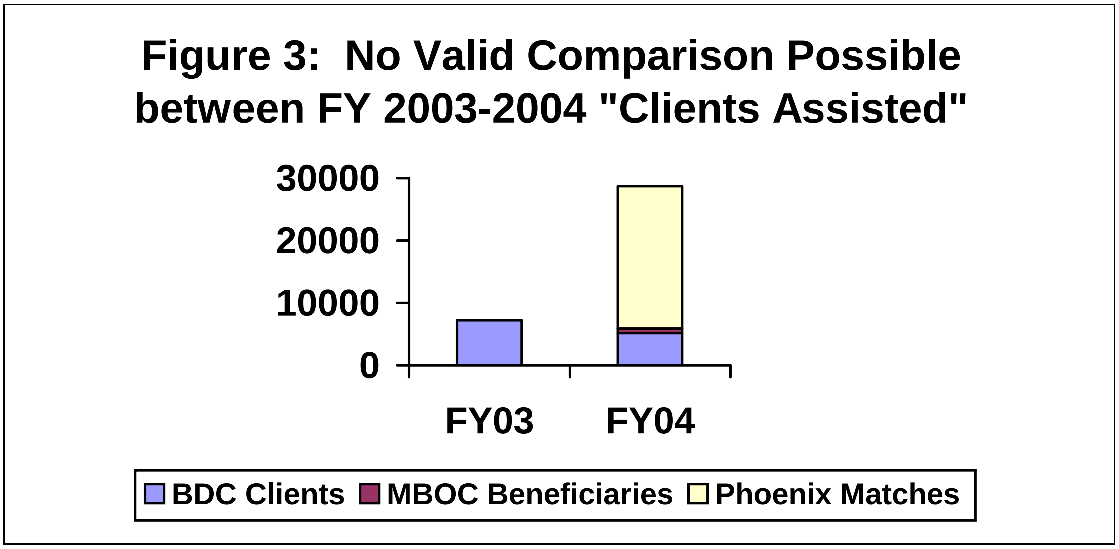
MBDA performance measures did not include "Clients Assisted" until FY 2003. Although MBDA's appropriations decreased slightly in FY 2004 from FY 2003, the number of "Clients Assisted" increased by more than 300 percent during the same period. In the *FY 2003 PAR*, results reported under the metric "Clients Assisted" represented only BDC clients, but in the *FY 2004 PAR*, MBDA included MBOC beneficiaries and Minority Business Enterprises (MBEs) that had received at least one Phoenix match in "clients assisted." Approximately 80 percent of the "Clients Assisted" reported in the FY 2004 PAR were Phoenix matches. MBDA made this change without disclosure or explanation in the *FY 2004 PAR*. The change in reported results is illustrated in Figure 2 below.

Figure 2: Increase in "Clients Assisted"



<u>No Valid Comparison Is Possible between FY 2003 and FY 2004 "Clients Assisted"</u>
As noted previously, different levels of services are provided to BDC clients, MBOC beneficiaries, and Phoenix matches. The inappropriate combination of the results of three programs was therefore misleading, and undermined the usefulness of "Clients Assisted" as a performance measure. Combining BDC clients, MBOC beneficiaries, and Phoenix matches makes it appear that the different levels of services and results of MBDA's individual programs are somehow equal, or at least comparable. Clearly, they are not. Unfortunately, stakeholders, senior government officials, and other interested parties viewing the combined results from these three different programs might reach the erroneous conclusion that all "Clients Assisted" received the highest level of service.

We found that all "Clients Assisted" listed in the *FY 2003 PAR* were BDC clients, but only 18 percent of "Clients Assisted" listed in the *FY 2004 PAR* were BDC clients. When asked why these Phoenix matches were included in "Clients Assisted" in FY 2004, MBDA officials from the Office of the Director and the Office of Performance and Program Evaluation said that MBEs receiving Phoenix matches were being provided a service, just as BDC clients and MBOC beneficiaries were. The response implies that the level of service for Phoenix matches, BDC clients, and MBOC beneficiaries are equal. When presented with our concern that the measure was combining services that differed, MBDA officials acknowledged that the levels of services provided for BDC clients, MBOC beneficiaries, and Phoenix matches are substantially different. Figure 3 below illustrates the actual sources of reported "Clients Assisted" in FY 2004.



MBDA's FY 2004 performance measure "Clients Assisted" did not adhere to MBDA's Information Quality Standards[8], effective March 2004, which state that information quality is composed of three elements—utility, integrity[9] and objectivity. The Standards define utility as meaning that disseminated information is useful to its intended users. Objectivity is defined as ensuring that information is accurate, reliable, and unbiased, and that information products are presented in an accurate, clear, complete, and unbiased manner. Additional quality elements defined are reproducibility and transparency, i.e., showing how analytic results were generated: the specific data used, the various assumptions employed, the specific analytic methods applied, and the statistical procedures employed.

After our discussion of this issue with MBDA officials, one official explained that MBDA had clearly given notice of the change in how it viewed "clients" in one of the Department's required performance documents, i.e., the *FY 2005 Annual Performance Plan*. In MBDA's *FY 2005 Annual Performance Plan*, MBDA wrote that it was proposing to consolidate all clients served by its staff, funded network (MBDCs, NABDCs, MBOCs) and its on-line tools, including the Phoenix Opportunity contract matching system. MBDA also explained, "The targets in FY 2004 and FY 2005 were significantly higher than FY 2003 actual performance because, for the first time, MBDA would include clients served by the MBOC program, MBDA staff, and on-line tools."

MBDA's explanation in its *FY 2005 Annual Performance Plan* would have been provided after MBDA had already begun collecting data for the FY 2004 performance data for "Clients Assisted" to the Department for inclusion in the *FY 2004 PAR*. While MBDA's position is that it did not intend to distort the performance measures "clients assisted," this explanation should have been included in the *FY 2004 PAR*, along with the

[8] To implement Section 515 of Public Law 106-554, Treasury and General Government Appropriations Act for Fiscal Year 2001

[9] The Standards define integrity as being safeguarded from improper access, modification, or destruction, to a degree commensurate with the risk and magnitude of harm that could result from the loss, misuse, or unauthorized access to or modification of such information.

reported results for the performance measure "clients assisted." Inclusion of data from three different MBDA programs with different qualifying criteria instead of just BDC clients, as had been the case in the *FY 2003 PAR*, precludes the possibility of any valid comparison between FY 2003 and FY 2004 for this performance measure.

Performance Measure "Clients Assisted" Lacked Data Consistency

At the time MBDA collected data for the "Clients Assisted" measure, it had no clear MBDA-wide definition of what constituted a client. Instead, what it reported under this measure, as noted previously, was a combination of BDC clients, MBOC beneficiaries and Phoenix system matches.

MBDCs define new clients as minority business enterprises that execute a written agreement with the center for specific services and are registered in MBDA's Phoenix database system. Similar to MBDCs, Native American Business Development Centers provide client assistance via written agreements and register clients in MBDA's Phoenix system.

By contrast, the MBOC program does not use the term "clients." The 2002 Federal Register Solicitation for the MBOC Program does not define key terms such as "beneficiary," nor do MBOCs report "beneficiaries" as one of their performance measures. Instead, MBDA headquarters staff identify "beneficiaries" by matching company names on contract and financial awards, reported by the MBOCs, with MBEs registered in the Phoenix system by the MBOCs. The MBOC Handbook, dated February 2004, defined "Beneficiary" as "a minority-owned firm or minority individual that *has been served* by an MBOC as documented by Sections A and B of the "Beneficiary Acceptance/Verification/Satisfaction form." According to guidance distributed at a 2003 MBDA training session, services included facilitation, brokering, matchmaking and dissemination of procurement opportunities and financial assistance. According to this guidance, one-on-one management and technical assistance is not required, and MBOCs are not required to maintain a file of "clients." [10]

Phoenix matches, the notifications of opportunities by MBDA's automated online database system, provide yet another level of service. For this service, an MBE just needs to register in the Phoenix system, and wait for notification of a potential opportunity that matches its company's industry and location. As noted earlier, MBDA knew of very few Phoenix matches that resulted in actual awards.

According to the Government Accountability Office, data consistency is measured by the extent to which data are collected using the same procedures and definitions across collectors and times, and is a key dimension of performance data quality[11]. BDC clients, MBOC beneficiaries, and Phoenix matches each had different qualifying criteria for being claimed and reported. Yet these results, reported by three different programs, were

[10] *Guidelines and Procedures for Verification of Contract and Financial Award Transactions and Services,* Minority Business Development Agency

[11] GAO, *Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information*, GAO/GGD-99-139, July 1999.

combined and reported under one metric as if all had the same definitions and collection procedures. The lack of data consistency seriously impaired the utility of the resulting reported data.

C. Failure to Distinguish Different Services of BDCs, MBOCs, and MBDA Staff Limited Usefulness of Financial and Contract Awards as Performance Measures

Combining the dollar value of financial and contract awards reported by BDCs, MBOCs, and MBDA staff, as MBDA did in the *FY 2004 PAR*, inappropriately treats the different levels of services and results as being equal or comparable. For the awards reported by MBDA staff at headquarters and four regional offices, it is unclear whether MBDA's business development specialists followed BDC or MBOC guidelines or a combination of the two.

MBDA's criteria for BDCs claiming and reporting financial and contract awards differ substantially from criteria for MBOCs claiming and reporting such awards. BDCs have clear and specific requirements for claiming and reporting awards obtained by their clients, including:

- Written engagement agreements with clients
- For a financial award, an executed and binding agreement between the client and the financier
- For a contract award, an executed and binding agreement between the client and the party capable of performing its obligations under the terms of the contract

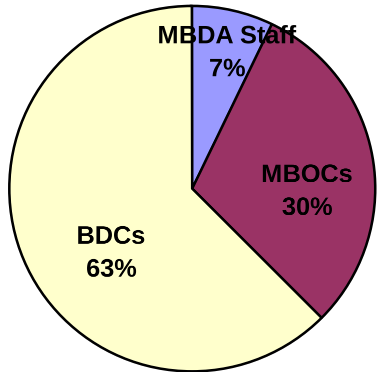
MBOC requirements are unclear:

- No written agreements document MBOC services for beneficiaries
- For a financial award, the Federal Register Solicitation for the MBOC program required an executed and binding agreement, but the MBOC Handbook also allowed a letter from the beneficiary firm.
- For a contract award, the Federal Register Solicitation required validation by the awarding entity, but the MBOC Handbook also allowed a letter from the beneficiary.

Guidelines for MBOC operators are discussed in more detail in section II.

Combining the performance metrics for such disparate programs disguised the differences in the underlying performance data for these measures, resulting in a lack of data consistency, and as such limited the usefulness of these measures. Figure 4 illustrates the actual sources of the $1.55 billion of financial and contract awards reported by MBDA in FY 2004.

Fig. 4: Sources of FY 2004 $1.55B Financial & Contract Awards



II. Inadequate Guidance, Compliance with Reporting Criteria, and Verification Undermined the Reliability of Reported MBOC Results

As noted earlier, MBDA established a new competitive MBOC program in 2003. Our review of FY 2004 performance results for the MBOC program identified (1) the lack of clear definitions for critical program-related terminology and (2) inconsistent guidelines for MBOC operators. Two MBOC outcomes that were combined with BDC metrics were "Beneficiaries" and "Strategic Partnerships." However, the Federal Register Notice for the MBOC program did not define either result. In addition, MBOCs had different qualifying criteria than BDCs for claiming and reporting Financial and Contract Awards.

A. Restructured MBOC Program Lacked Clear Definitions and Consistent Guidelines

Unclear definitions and inconsistent guidelines meant MBOC operators had inadequate criteria to appropriately claim results. These conditions contributed to inappropriate claims by the National Capital and South Texas MBOCs of $49.5 million and $9 million respectively in FY 2004.

<u>MBOC Program Concepts and Performance Measures Lacked Data Consistency</u>
Key concepts used in the 2002 Federal Register Solicitation for the MBOC program lacked clear and unequivocal definitions or clarifying explanations. As noted earlier, under "Work Requirements" in the Federal Register Solicitation, MBOCs were required to be "directly involved as the intermediary," and under "Performance Measures," the MBOC operator was required to report that the dollar value of contracts and financial transactions awarded to MBEs was the result of MBOC activity or intervention. The concepts of "direct involvement as the intermediary" and "MBOC activity or intervention" were not specifically defined or explained in any of MBDA's written guidelines for the MBOC program.

Under the definition of "Dollar Value of Procurements/Contract Awards," the Federal Register Solicitation stated, "In order for an MBOC to take credit for the dollar value of a contract/procurement award, the award must have been made as a direct result of MBOC membership activity or intervention. For example, MBOC *Member A* is a construction contractor who is building a library. *MBE B* owns a drywall company. Through the efforts of the MBOC, *Member A* awards a contract to *MBE B*. The MBOC may take credit for that contract award." The Solicitation did not explain what "the efforts of the MBOC" might be. The lack of clear definitions for "Dollar Value of Procurements/ Contract Awards" and "efforts of the MBOC" and the ambiguous example left the guidance subject to a wide range of interpretations. Examples of problematic claims are provided at the end of this section.

The Federal Register Solicitation for the MBOC program also did not define "beneficiaries." Moreover, the "number of beneficiaries" was not identified as an MBOC performance measure. Asked how they determined the number of MBOC beneficiaries when MBOCs do not report this metric, MBDA headquarters officials explained that firms identified as recipients of the MBOCs' reported financial and contract awards, are labeled as MBOC "beneficiaries" by MBDA's information technology staff.

"Strategic partnership" is not defined for MBOCs, in either the Federal Register Solicitation or the MBOC Handbook. One of the five MBOCs we visited was unsure what constituted a "strategic partnership," and the term was not one of its work requirements. This contrasts with BDCs, for which "strategic partnerships" were clearly defined as "public or private sector organizations located within the project's geographic service area." Examples of strategic partners listed for BDCs included MBE programs operated by state, county or city governments, trade associations focused on the needs of the minority business community, college and university entrepreneurial development programs, community development corporations, as well as banks and financial institutions. By contrast, MBDA required MBOCs to develop Memoranda of Understanding with at least six sources of financing for capital development, and these financial partners were included in MBDA's performance measure "strategic partnerships." An MBDA official informed us that a "strategic partnership" could include non-financial partners, but on MBDA's MBOC performance web site, only "financial partners" are listed under MBOC performance measures.

Guidelines for MBOC Operators Were Inconsistent

The guidelines for MBOCs to follow in order to claim and report awards were inconsistent. The Federal Register Solicitation required that a contract award be made "as a direct result" of MBOC membership activity or intervention, but the MBOC Handbook provided a sample letter for a contract source in which a contract award is acknowledged to be "directly or ***indirectly*** [emphasis added] the result of this partnership [with the MBOC]."

MBDA guidelines for required documentation to support awards reported by MBOCs also are inconsistent. For "Dollar Value of Financial Transactions," the Federal Register Solicitation for the MBOC program stated, "In order to be deemed complete, a financial transaction ***must be documented by an executed and binding agreement between the beneficiary firm and a party capable of performing its obligations under the terms of the agreement.***" [emphasis added] The MBOC Handbook repeated the same requirement as the Federal Register Notice, but then undermined the clarity of that statement with, "A letter from the beneficiary providing the required reporting elements and stating the approved package has been accepted can also be used as documentation."

For "Dollar Value of Actual Contracts Awarded to MBEs," the MBOC Federal Register Solicitation stated, "In order to receive credit towards this performance measure, the information in the report ***must be validated by officials of the awarding entities authorized to commit the awarding entities to binding agreements."*** [emphasis added] The Federal Register notice also required the MBOC to report the contract award dates, the parties to the contracts, and the dollar value of the contracts. But the MBOC Handbook again adds confusion with, "A letter from the beneficiary providing the required reporting elements and stating the awarded contract has been accepted can also be used as documentation."

We found a third source of guidance in an August 2004 e-mail from MBDA's MBOC program manager to all MBOC operators. The e-mail said, "As stated in the Federal Register, and discussed on numerous occasions, appropriate documentation is (a) document that is signed by the person who awarded the contract (the awarding entity) or executed the loan (the bank or other lending institution). … Documentation cannot be signed by … anyone who is not authorized to sign on behalf of the awarding entities." While this guidance is consistent with that contained in the Federal Register Notice, it is also undermined by some of the guidance contained in the MBOC Handbook.

<u>Inappropriate Reporting of Results Due to Unclear Definitions and Inconsistent Guidance</u>
We found that the unclear definitions and inconsistent guidelines discussed above contributed to MBOC operators inappropriately including in reported contract awards cash disbursements, income based on estimated sales projections, and income based on projections for option years of multiple year contracts.

As pointed out above, the Federal Register Solicitation for the MBOC program did not adequately define the following concepts for the MBOC program:

- Directly involved as the intermediary
- MBOC activity or intervention
- Dollar value of procurements/contract awards
- Efforts of the MBOC

Similarly, the MBOC program provided inconsistent guidance to MBOC operators as to how they should document the claimed dollar values of procurements/contract awards. In contrast, MBDCs and NABDCs have detailed and specific criteria in order for them to claim the dollar value of gross receipts:

> "… the total dollar value of successfully awarded contracts and/or the total principal value of executed sales/delivery contracts of

> services/products/intellectual rights and/or increase in sales and/or completed Mergers and Acquisitions or other binding financial considerations secured by clients of the project, with the assistance of project staff."

MBDCs and NABDCs also have clear and specific award documentation requirements:

> "For purposes of this performance element, Dollar Value of Gross Receipts are those transactions which have a specific dollar value, and which produce some other direct commercial benefit for client firms. In order to be deemed complete, successfully awarded contracts or mergers and acquisitions must be documented by an executed and binding agreement between the client firm and a party capable of performing its obligations under the terms of the agreement. Increase in sales must be documented through an initial client assessment and a midyear and year-end client assessment. …"

We found that approximately $49.5 million should not have been included in the National Capital MBOC's FY 2004 contract awards reporting. The "contract awards" were actually cash disbursements for existing contracts already awarded through competitive bid processes. In addition, a number of the contract awards had been made prior to the creation of the National Capital MBOC in 2003.

In addition, $4.3 million in estimated future sales projections should not have been included in contract awards reported by South Texas MBOC in FY 2004. In that case, a beneficiary company and a city that provided the beneficiary exclusive use of a well-located billboard for three years and allowed the beneficiary to earn advertising revenue with the billboard. However, the beneficiary did not yet have any contracts from future advertisers for its billboard space. The $4.3 million was simply an estimate of what future sales *might be*.

An additional $4.7 million also should not have been included in contract awards reported by South Texas MBOC in FY 2004. The MBOC reported a $5.6 million three-year contract awarded in May 2004 by a federal agency. The value of the first year ranged from a minimum of $871,500 to a maximum of approximately $1.8 million. As of March 2005, only the minimum contract amount had actually been awarded. The federal transaction source we consulted also said that years two and three of the contract are optional. The value of optional awards should not be reported until the contractor exercises them.

These instances of problematic reporting might have been avoided if the definition of "dollar value of procurements/contract awards" and the associated documentation requirements were clearer.

B. Insufficient Nexus between MBOC Efforts and Claimed Successes Fostered Dubious Reporting of FY 2004 Results

The National Capital and Puerto Rico MBOCs reported high dollar values of financial and contract awards in FY 2004. The National Capital MBOC reported almost $126 million, and the Puerto Rico MBOC reported more than $86 million. Together, their reported awards represented 45 percent of all awards reported by the nine MBOCs in FY 2004. Our review of supporting documentation at the two MBOCs found insufficient links between the efforts of the MBOCs with their reported awards, which raises the question of the veracity of the results claimed by the MBOC program.

A September 2004 evaluation of the MBOC program conducted by MBDA's Office of Performance and Program Evaluation stated, "Only awards that have an MBOC involvement as a broker or facilitator should be reported." MBOCs had been encouraged to do one-on-one brokering to discourage the appearance of "harvesting" performance numbers from committee members. MBDA guidance did not specifically define "harvesting," but we conclude that harvesting means claiming awards that were not given "as a direct result of MBOC membership activity or intervention." However, our review found that this activity continues at some MBOCs and affected the FY 2004 reported results.

<u>Many of National Capital MBOC Claims Were Questionable</u>
The National Capital MBOC's FY 2004 reported awards consisted of approximately $89.5 million in contract awards and $36 million in financial awards. We found many of the claims were questionable because there was insufficient evidence to show that the dollar value of the contracts and financial transactions awarded to the MBEs was "the result of MBOC activity or intervention." Awards from two of the MBOC's major transaction sources were claimed on the basis that representatives from those sources were on the MBOC's advisory board, according to the MBOC's FY 2004 director.

More than half of the National Capital MBOC's reported contract awards in FY 2004 were from one company, some $49.5 million. In 2003 and 2004, the company sent quarterly spreadsheets to the MBOC that listed amounts the company paid to MBEs in cash disbursements for contracts already awarded through competitive bid processes. In fact, some of these were awarded prior to the existence of the National Capital MBOC. However, National Capital MBOC claimed in its performance results more than 83 percent of the amounts listed on the quarterly spreadsheets as contract awards. The MBOC had no evidence to show that it had served as a nexus between the transaction sources for the $49.5 million in contracts claimed and the beneficiary companies. The FY 2004 MBOC director opined that the MBOC was allowed to claim those disbursements solely because a company official was on the MBOC's board.

In addition, approximately $16 million of the MBOC's financial awards listed the Small Business Administration as the transaction source. In a signed "acknowledgement of financial award," the district director of the SBA's Washington, D.C., region acknowledged that the efforts of the National Capital MBOC "directly or indirectly" facilitated more than $16 million in financial awards in 2004. We asked which organization compiled the information regarding the financial awards, and a staff person at the MBOC operator said that the SBA district office sent the MBOC the financial award information. She then prepared the acknowledgement letter for the SBA district director and the MBOC director to sign. We asked the district director about SBA's relationship with the National Capital MBOC and what role the National Capital MBOC played in facilitating the $16 million in financial awards. The district director said he was on the steering committee of the MBOC, but he had *no idea* what role the National Capital MBOC had played in the financial awards reported.

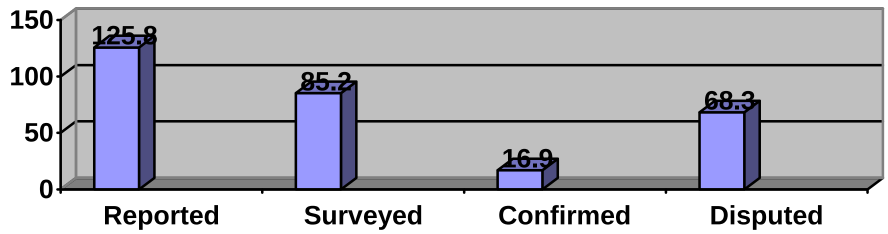
We surveyed 22 beneficiary companies associated with 44 financial and contract awards valued at $85.2 million, out of total claims of $125.8 million reported by the National Capital MBOC in FY 2004. Our survey called into question the validity of the MBOC's reported claims.

- Nine companies with nine financial awards valued at $18.8 million rejected the MBOC's claims of assistance.
- Twelve companies with 33 contracts valued at $49.5 million rejected the MBOC's claims of assistance.
- One company with two contracts valued at $16.9 million confirmed the MBOC's claims of assistance.

In one of the nine financial awards, a bonding company official was on the MBOC board and had provided a signed "acknowledgement of financial award" that bonding valued at $6.8 million was the result of assistance from the MBOC. However, when we spoke with a manager of the beneficiary company, we were told that the company had worked with the bonding company for years prior to 2003, the initial year of funding for the National Capital MBOC, and the $6.8 million bonding obtained in FY 2004 resulted from the previous relationship, not assistance from the MBOC. According to this manager, the bonding company official had asked him to sign an acknowledgement form, which mentioned the roles of the bonding company and the MBOC. The manager said that he had signed the form as a favor to the bonding company official. The manager of the beneficiary company was indignant to learn from our inquiry that the MBOC had reported the bonding award to be a result of its assistance.

Altogether, beneficiaries contradicted $68.3 million (54 percent) of the dollar value of financial and contract awards reported by the National Capital MBOC in FY 2004, as shown in Figure 5 below.

Figure 5: OIG Survey of National Capital MBOC FY 2004 Reported Awards ($M)



Most of Puerto Rico MBOC Claims Were Questionable

Amounts included in results reported by the Puerto Rico MBOC were (1) target goals, not financial awards, and (2) increases in the total level of the value of contracts awarded to MBEs by the Puerto Rico Department of Housing. With regard to the target goals, we found that no actual financial awards actually resulted. Claims in relation to contracts awarded by the housing authority also were not supported.

In FY 2004, the Puerto Rico MBOC reported approximately $26 million in financial awards. However, we found that $25 million of the $26 million were merely target goals—amounts that a bank and a community development corporation hoped to meet within a defined period. When we contacted officials at both organizations, they said no financial awards were given and neither goal was achieved. In our survey, a beneficiary company disputed the MBOC's claim of a third financial award valued at $1.3 million. We did not attempt to confirm the last claimed FY 2004 financial award of $50,000.

In addition to inflating its reported financial awards results, the Puerto Rico MBOC exaggerated the dollar value of its contract awards. In FY 2004, the MBOC reported a total $60 million in contract awards, but approximately 78 percent of that amount was associated with one entity, the Puerto Rico Public Housing Administration[12]

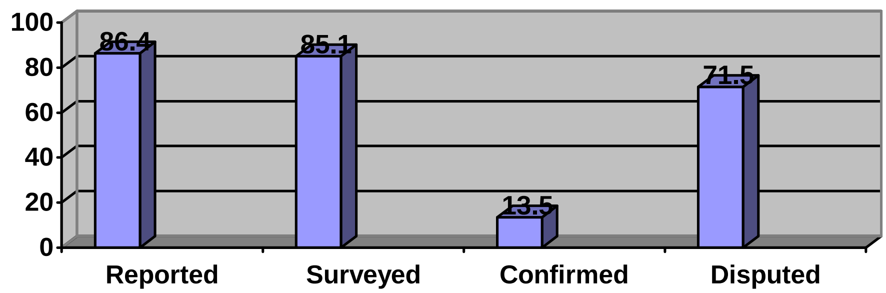
To determine the veracity of the reported numbers, we also surveyed 12 beneficiary companies that received 19 contract awards valued at almost $58.8 million, as claimed by the Puerto Rico MBOC in FY 2004. We learned:

- eight companies with 10 contracts valued at $45.2 million rejected MBOC's claims. (All 10 contracts were from Puerto Rico Department of Housing.)
- Four companies with nine contracts valued at $13.5 million did confirm MBOC's claims. (One of the nine contracts, valued at almost $704,000, was from the Puerto Rico Department of Housing.)
- Four companies with four contracts valued at $1.3 million could not be reached for comment.

[12] Listed in MBDA's performance reports as Puerto Rico Department of Housing

The total value of both financial and contract awards claimed by the Puerto Rico MBOC but rejected by beneficiaries was $71.5 million ($26.3 million in financial awards and $45.2 million in contract awards) or 83 percent of $86.4 million, the amount reported in FY 2004, as shown in Figure 6 below.

Figure 6: OIG Survey of Puerto Rico MBOC's FY 2004 Reported Awards ($M)



We asked what evidence Puerto Rico MBOC had to demonstrate its role in obtaining reported awards. The MBOC director said the MBOC was a "wholesaler," not a retailer like a business development center, and didn't have time to keep records of individual beneficiary companies. The administrator of the Puerto Rico Public Housing Administration said his office didn't have time to track individual contract awards. Yet he had provided the MBOC a letter stating that its association with the Puerto Rico MBOC had generated approximately $149 million in minority contracts for 2004. The MBOC director said that he accessed the database of the Puerto Rico Public Housing Administration and selected the contracts he thought the MBOC was entitled to report.

According to the MBOC director, the MBOC was *responsible* for an increase in the overall level of contracts awarded to minority companies by the Puerto Rico Public Housing Authority in 2003, the first year of the MBOC. However, according to officials from the Department of Housing and Urban Development (HUD) and HUD's Office of Inspector General in San Juan, Puerto Rico, HUD imposed a moratorium on Puerto Rico Public Housing Authority construction contracts during 2001-02 because of the number of fraud investigations in that period. HUD awarded a number of architectural and engineering contracts during that period so design work for projects could proceed. When the moratorium on construction contracts was lifted in 2003, there was an increase in the total level of contracts awarded to minority companies by the Puerto Rico Public Housing Authority. However, in the opinion of HUD officials, the increase was due to the end of the moratorium and the readiness of many projects to proceed with construction since the design work had been done, not because of the MBOC's efforts.

C. Reporting of FY 2003 Awards in FY 2004 Overstated Claimed Results

At the Florida MBOC, we found another performance measure reporting problem—FY 2003 awards being reported in FY 2004. In general, the Florida MBOC used the date of the signed documentation for the award (beneficiary acknowledgement form) instead of the contract award date, as directed in the MBOC Handbook. There were 19 contract awards, awarded in February – September 2003, for which the MBOC did not receive the beneficiary acknowledgement forms until the last quarter of calendar year 2003. When the Florida MBOC entered those 19 awards into MBDA's online performance reporting system, it reported the dates on the acknowledgement forms, not the actual contract award dates. However, MBDA's online performance reporting system reported those dates as contract award dates, and MBDA included those 19 awards in the *FY 2004 PAR*. This error overstated the dollar value of contract awards reported in the *FY 2004 PAR* by approximately $19 million.

Asked why they used the dates of the acknowledgement forms instead of the contract award dates, MBOC staffers explained that MBDA allows MBOCs to enter performance data for 30 days after the date of the transaction. In order to enter information older than 30 days, an MBOC must request permission from MBDA headquarters through the MBDA regional office. The MBOC staffers said that they often received award documentation more than 30 days after the transaction date, and were reluctant to ask for permission frequently, concerned that their MBOC might be viewed as a "problem" MBOC. They also said that MBDA's Atlanta regional office was aware that the MBOC was using the dates of the acknowledgement forms instead of the contract award dates. An MBDA business development specialist at the Atlanta regional office confirmed that the regional office knew of and accepted the MBOC's practice of using the dates on the acknowledgement forms.

The South Texas MBOC also reported approximately $3.3 million of contract awards in the wrong fiscal year (i.e., it reported FY 2003 awards in FY 2004). The regional monitor for the South Texas MBOC had evidence of appropriate calls to transaction sources and beneficiary companies to confirm claims made by the MBOC, but did not discover that some of the MBOC's reported claims were awarded in FY 2003.

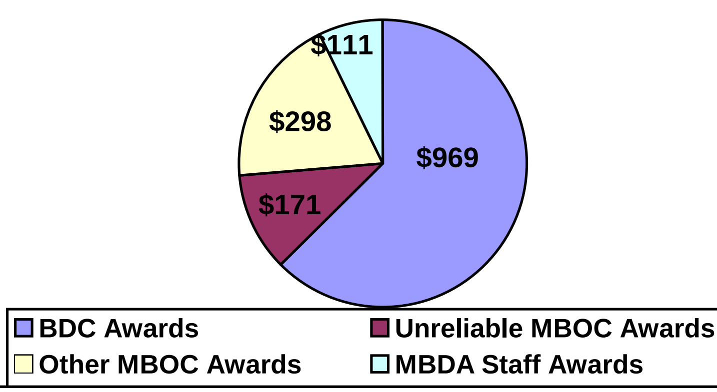
D. Total Effect of Problematic FY 2004 Reporting Is Significant

Based on problems we found with performance reporting at four of the five MBOCs we visited, the reliability of $171 million of MBOC results reported by those MBOCs in FY 2004 is questionable at best. Table 3 below illustrates a comparison of the total amount of awards reported by the entities we audited and the award amounts we questioned.

Table 3: Summary of FY 2004 Awards Reported by 5 MBOCs, 3 BDCs and MBDA HQ Staff and Reviewed by OIG				
Performance Measure	Amount of Awards Reported by 5 MBOCs & 3 BDCs & MBDA HQ	Amount of Reported Awards Reviewed by OIG	Amount of Reviewed Awards Questioned by OIG (All questioned awards made by MBOCs)	Percentage of Reviewed Awards Questioned (All questioned awards made by MBOCs)
Financial Awards	$152M	$128M	$45M	35%
Contract Awards	$399M	$360M	$126M	35%
Subtotals	$551M	$488M	$171M	35%

$171 million represented over 36 percent of all MBOC-reported awards and 11 percent of all MBDA-reported awards in FY 2004. Figure 7 below shows the sources of MBDA's total reported awards of $1.55 billion in FY 2004.

Figure 7: Total MBDA-Reported Awards of $1550M in FY 2004



E. Inadequate Verification Process Allowed the Reporting of Dubious Results

During our field visits to eight MBDA-funded organizations, we found that the National Capital and Puerto Rico MBOCs lacked credible support for many of their reported claims. Given the significant reporting problems that we identified during our site visits and surveys of transaction sources and beneficiary companies, if MBDA monitors had implemented and observed MBDA's verification guidelines, these problems would likely have been discovered.

MBDA verification guidelines require that

- MBDA project managers review all transactions over $200,000 and 10 percent of those under $200,000.

- All reported transactions be identified as either verified[13], not required for verification, or disallowed.
- All reported financial or contract transactions have supporting documentation before the action is entered into MBDA's performance reporting system.

According to these guidelines, supporting documentation for awards reported by MBOCs can include either (1) an approval package or letter from the lending or contracting organization or (2) a confirmation notice or letter from the MBE. These guidelines are similar to the guidelines in the MBOC Handbook, which, as noted previously, contradict the guidance contained in the Federal Register Notice for the MBOC Program.

A review of MBDA's MBOC performance reports for the National Capital, Puerto Rico, and Florida MBOCs indicated that all awards $200,000 and over had been verified. No awards were indicated as "not allowed." However, when we attempted to confirm the verification reviews, MBDA provided minimal evidence. The National Capital MBOC could provide documentation for only 11 percent of the dollar value of financial and contract awards of $200,000 and over in FY 2004. When we informed MBDA's responsible regional director about the National Capital MBOC's data, he said that his monitor had reassured him that his verification efforts ensured reported results were reliable. Given that our survey resulted in our questioning over $68 million of the National Capital MBOC's claimed awards, the adequacy of the verification process at the National Capital MBOC is suspect.

With regard to the Puerto Rico and Florida MBOCs, the responsible regional director for the Puerto Rico and Florida MBOCs said that the monitor responsible for those MBOCs had retired without leaving documentation of his verification practices. While we were therefore unable to assess the validity of verification efforts at the Puerto Rico and Florida MBOCs, the fact that the problems we noted at both sites were not caught and dealt with during the verification process calls into question the adequacy of that process. Based on what we saw at these MBOCs, MBDA's verification process as implemented does not seem capable of fulfilling its objective of ensuring the reliability of reported performance measures.

III. Conclusion

We found significant problems with the utility of the performance data reported by MBDA in FY 2004. By not explaining in the *FY 2004 PAR* that "Clients Assisted" included outcomes from the BDC, MBOC, and Phoenix programs instead of just BDC clients, as had been the case in the *FY 2003 PAR*, the usefulness of "Clients Assisted" as a performance measure is undermined. The change in data reported also prevents stakeholders from making valid comparisons between FY 2003 and FY 2004 for this performance measure. In addition, combining the financial and contract awards reported

[13] According to MBDA's verification guidelines, verification meant review of documentation through MBDA's online reporting system or at MBDA-funded organizations. According to the MBOC program director, due to staff and logistical limitations, the most frequently used verification method consisted of transaction documentation being faxed or mailed to regional monitors.

by BDCs, MBOCs, and MBDA staff for the measures related to the dollar value of contract and financial awards treated all such awards the same for each program, and therefore failed to recognize the significant difference in the level of effort required to achieve an award under the different programs. As such, the combination of program results disguised the differences in the underlying performance data for these measures, and significantly limited the usefulness of these measures.

Aggregating results from disparate programs into bureau-wide performance metrics hide the differences in the underlying performance data. Claiming questionable awards and lacking adequate support for reported claims misrepresent program results. Such practices violate MBDA's own Information Quality Standards, and also are contrary to GAO's quality standards for data consistency

Based on problems we found with performance reporting at four of the five MBOCs we visited, the reliability of $171 million of MBOC results reported by those MBOCs in FY 2004 is questionable at best. This amount represented over 36 percent of all MBOC-reported awards and 11 percent of all MBDA-reported awards in FY 2004.

IV. Recommendations

Based on these findings, we recommend the MBDA director ensure that:

1. MBDA reports performance measures of its major programs separately and clearly to reflect the different levels of service provided by individual programs;

2. MBDA clearly defines key MBOC performance terms and guidance to minimize opportunities for confusion, (e.g., defines terms such as direct result, intervention, and strategic partnership);

3. MBDA clearly defines the types of "contract actions" that are acceptable for inclusion in its "Dollar Value of Contract Awards Obtained" measure;

4. MBDA implements sound practices to ensure that the MBOCs obtain and maintain required documentation to properly support all claims; and

5. MBDA regional offices and headquarters implement effective verification monitoring and oversight that will provide stakeholders with reasonable assurance on the reliability of its performance measures.

VI. MBDA Response

In responding to the draft report, MBDA's National Director indicated concurrence with all of our recommendations and described actions either already taken or planned to improve management controls for MBDA performance measures. MBDA believes that MBOC-related concerns raised by the audit have been addressed with its new solicitation for the MBOC program. In its response, MBDA wrote that the OIG "assisted in the development, review and approval of the new program prior to competition."

MBDA disagreed with the OIG on the issue of claiming the entire amount of a multiple year contract in the year the contract was signed. MBDA wrote, "the counting of the entire amount of a contract in the first year has been a standard method of valuing the level of effort performed by MBDA grantees for 30 years. MBDA strongly opposes the OIG's desire to determine the manner in which services should be valued."

VII. OIG Comments

We are encouraged first by actions that MBDA has taken, including the definitions or clarifications of certain terms, e.g., broker, documentation, and harvesting, in MBDA's new solicitation for the MBOC program, and second, by other actions that MBDA has planned.

As indicated above, in its response to the draft report, MBDA wrote that the OIG "assisted in the development, review and approval of the new program prior to competition." We would like to clarify the nature of the OIG's involvement in the revision of the MBOC program. While our auditors shared the problems they found with MBOC performance reporting with MBDA senior management during the course of our review, that should not be viewed as assisting in the "development, review and approval" of the new program.

With respect to our conclusion that the agency should not claim amounts for option years under a multiple year contract until those options are exercised, we stand by our conclusion (see page 18) because it is not prudent to presume that all anticipated option years of multiple year contracts would be exercised. Claiming the entire amount of a contract in the base year might be defensible if MBDA (1) disclosed that its reported dollar value amount included such anticipated amounts, (2) tracked the actual outcomes of its multiple year contracts, and (3) made correcting adjustments for amounts claimed in the base year but not actually received in later years. Performance measures that include such presumptive amounts are not credible, nor are they supportable if option year outcomes are not tracked and appropriate changes made.

UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, DC 20230

October 5, 2005

MEMORANDUM FOR: Allison Lerner
Acting Assistant Inspector General for Auditing

FROM: Ronald N. Langston
National Director

SUBJECT: MBDA Responses and Comments to draft Audit Report No. FSD-17252, Value of MBDA Performance Measures is Undermined by Inappropriate Combining of Program Results and Unreliable Performance Data from MBOC Program

The Minority Business Development Agency (MBDA) appreciates the Office of Inspector General's (OIG) sincere desire to recommend operational and administrative enhancements to MBDA's programs, and for the opportunity to respond to its draft audit report. Based on the findings of the draft Audit Report No. FSD-17252, MBDA offers the following responses and comments for consideration:

1. **OIG RECOMMENDATION:**
   MBDA should report performance measures of its major programs separately and clearly to reflect the different levels of service provided by individual program.

   MBDA RESPONSE:
   MBDA has taken steps to report on the performance measures of its major programs separately and apart so as to allow a clear distinction of the different levels of services provided by its various programs. MBDA will continue to work with the Department of Commerce to include these details in future editions of the Performance and Accountability Report.

2. **OIG RECOMMENDATION:**
   MBDA should clearly define key MBOC performance terms and guidance to minimize opportunities for confusion, (e.g., define terms such as direct result, intervention, and strategic partnership).

   MBDA RESPONSE:
   With the expiration of the current MBOC program in December 2005, MBDA re-engineered the program which will implement a client-service delivery model as indicated in the revised name (change to the Minority Business Opportunity *Center*). Only direct activity will be counted and measured. The structure of the

program execution and responsibilities for assisting in client assistance will be placed with a project director and not a committee. Performance terminology has been defined and outlined in the new Federal Funding Opportunity Announcement. The Office of Acquisition Management, Office of General Counsel, and the Office of the Inspector General have assisted in the development, review and approval of the new program prior to competition. The new program is currently advertised in the Federal Register and e-grants.gov for competitive review. MBDA believes that all concerns raised by this audit have been addressed with this new solicitation of the MBOC program. To ensure and limit opportunities for confusion, MBDA will thoroughly review said document. Any omissions will be addressed prior to the execution of any MBOC award.

3. **OIG RECOMMENDATION:**
   MBDA should clearly define the types of "contract actions" that are acceptable for inclusion in its "Dollar Value of Contract Awards Obtained" measure.

   MBDA Response:
   MBDA's MBDC and NABDC programs will expand training for NEC project monitors to clarify the requirements for verification and validation of contract awards. Furthermore, MBDA has enhanced its definitions under the new MBOC competition as noted in the published Federal Funding Opportunity Announcement (see pages 20-21). These new items will be integrated in the projects' online reporting mechanisms.

4. **OIG RECOMMENDATION:**
   MBDA should implement sound practices to ensure that the MBOCs obtain and maintain required documentation to properly support all claims.

   MBDA RESPONSE:
   MBDA instituted a policy of requiring all funded projects to have adequate documentation of transactions prior to entering the award into its online Performance system. The revised documentation requirement is outlined in the current Federal Funding Opportunity Announcement. It is now defined as, "A letter, form, or other clear writing that indicates that a transaction has been consummated as a result of MBOC activity. The document must contain the name of the MBOC, the name of the entity awarding the contract or financing, the name of the party receiving the contract or financing (loan), the amount of the transaction, the date of the transaction, and the activity performed by the MBOC. The writing must be signed as the recipient of the contract or financing or revenue enhancing transaction. *The MBOC must have this written documentation before the contract or financing award is reported to MBDA.*" Furthermore, the new MBOC program provides improved definitions for other key performance elements.

   In addition, to the enhanced definitions as described above, projects are now required to fax copies of the reported transactions to its MBDA project monitor for review and verification. Once this task has been conducted MBDA updates the Performance system as having been verified. Rejected transactions are not accepted into MBDA's fiscal year reporting measures and are not counted towards the project's goal.

5. **OIG RECOMMENDATION:**
MBDA regional offices and headquarters should implement effective verification monitoring and oversight that will provide stakeholders with reasonable assurance on the reliability of its performance measures.

MBDA RESPONSE:
First, as noted above, adequate documentation to support a claim is a high priority. This requires the participation and cooperation of the funded project. Second, the responsibility of accepting reported claims rests with the agency, whether at the regional or national level. To this end, MBDA has taken steps to educate its employees on the importance of maintaining the integrity and reliability of MBDA performance goals. Monitoring and oversight will be improved through on-going training and follow-up. This includes clarifying this activity in staff performance plans for FY 2006. Also, MBDA will utilize its information technology office to track reported claims and to provide all substantial feedback on all performance measures. Recommendations and corrective actions will be addressed to provide all stakeholders with reasonable assurance that collected data is reliable and on target with established performance measures.

Technical Comments

MBDA acknowledges the variations in the level of effort among its service delivery mechanisms. BDC clients, MBOC beneficiaries and Phoenix clients will no longer be reported in aggregate terms, without supporting details. However, the draft report (page iii and 2) under represents the level of effort and service provided by MBDA to Phoenix clients. Phoenix is not a stand alone system as implied in the report. It is a combined effort with the Opportunity system. These are effective online tools that require ongoing MBDA efforts to (a) ensure updated MBE information and (b) populate contracting/ procurement opportunities from various local, state, regional and national private/public-sector entities. MBDA (and its funded projects) invest valuable resources (including money, time and energy) in making sure competitive opportunities are provided to the MBE registrants. Many private sector firms, who provide comparable services, charge significant fees to subscribers.

On page v, Table 2: Summary of FY 2004 Awards Reported by 5 MBOCs, 3 BDCs and MBDA Staff and Reviewed by OIG is misleading. The table implies 35% of all MBDA reporting units are in question. The report addresses concerns with the MBOC program, but not the BDC and MBDA staff. The table should reflect 35% of MBOC transactions are the only items in question.

With regard to footnote 1, on page 1, MBDA uses the following definition for Entrepreneurial Parity (see page 1), "a benchmark whereby minority business enterprises are contributing to the U.S. economy at a rate comparable to the percentage of the U.S. minority population."

MBDA chose to account for Phoenix registrants as those entities who received a beneficial service regardless of matching. The rationale, in part, incorporates a sunken cost absorbed by MBDA in the development and ongoing maintenance costs of its e-systems that is distributed among all active Phoenix registrants. The MBEs on the system, although not matched, still receive an automated service, utilizing MBDA resources. MBDA agrees that is must improve the standards for measuring the quality of this service delivered and the impact on the MBE community.

On Page 18, the OIG contested the counting of a $4.7 million multi-year contract. The OIG states that the MBOC should not have counted the entire amount of the contract upfront. The OIG noted that the MBOC should have used a portion of the contract and not the entire 3-year amount.

The counting of the entire amount of a contract in the first year has been a standard method of valuing the level of effort performed by MBDA grantees for 30 years. MBDA strongly opposes the OIG's desire to determine the manner in which services should be valued.

Closing Remarks:
MBDA welcomes this report and thanks the OIG for the opportunity to review the draft document. MBDA has and will continue to incorporate recommendations such as those made by the OIG into its programs. This effort can only serve to improve the Agency and its impact on the minority business community. MBDA will move rapidly to correct those deficiencies identified in the draft report and will maintain dialogue with members of the audit team to report corrective actions.