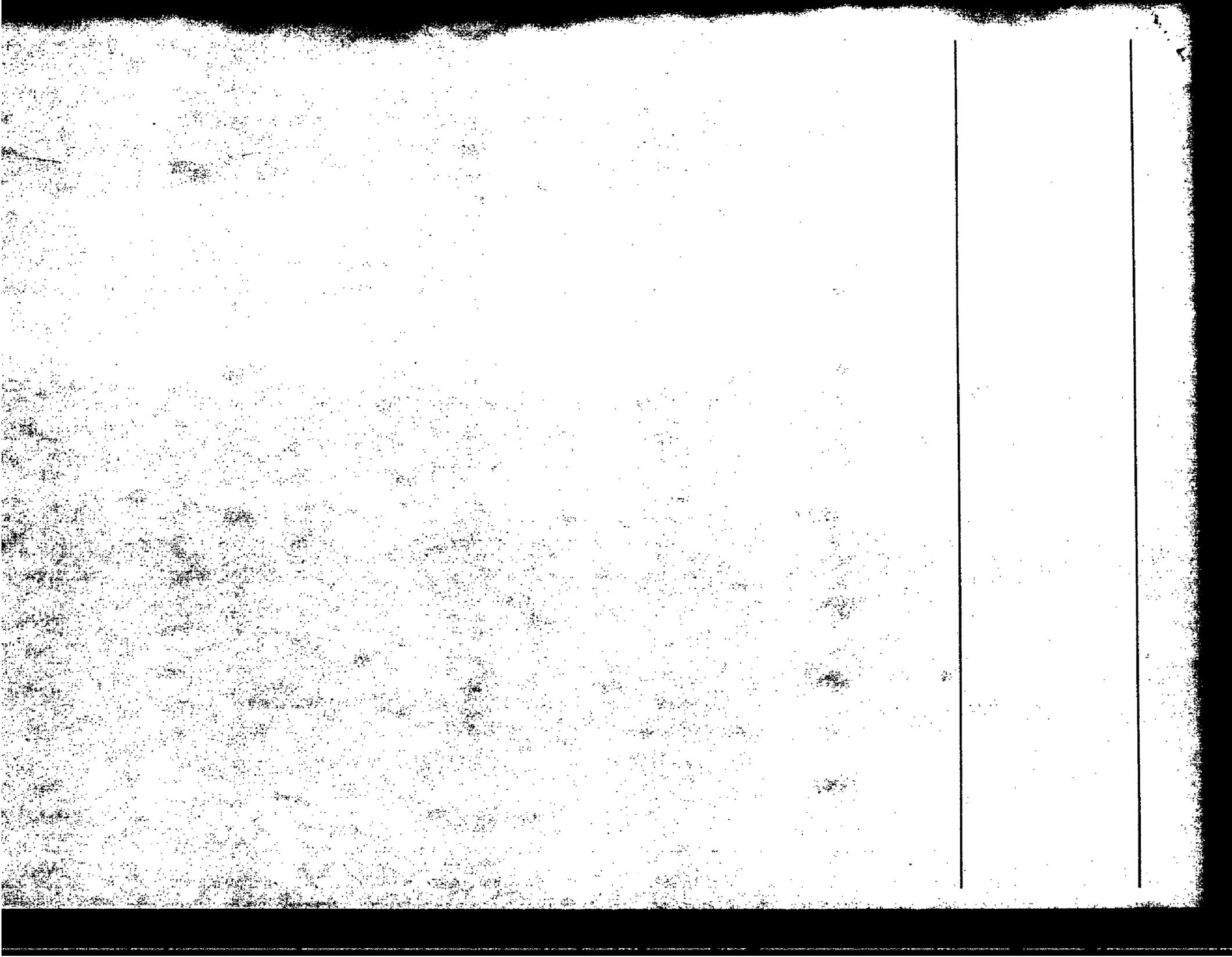


April 1991

MINORITY BUSINESS

Development Agency Needs to Address Program Weaknesses







United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-243285

April 16, 1991

The Honorable John Seymour
United States Senate

Dear Senator Seymour:

As agreed with your office, we are providing you with this report on the Minority Business Development Agency's (MBDA) management of its grant programs. Our work was initiated in response to a February 9, 1990, request from your predecessor, former Senator Pete Wilson. MBDA, an agency within the Department of Commerce, has awarded grants to develop and increase business opportunities for racial and ethnic minorities, primarily through its Business Development Center (Center) program and to a lesser extent through its special projects program.

Centers provide management, marketing, and technical assistance to minority individuals who wish to start, expand, or improve businesses. MBDA funds these Centers through a competitive grant process. Special project grants were intended to complement the Center program by supporting unique and innovative ideas or approaches that provide or improve services to minorities or that assist an underrepresented industry or segment of the minority business population. Unlike Center grants, MBDA's special project grants have been awarded noncompetitively on the basis of unsolicited proposals. We evaluated (1) MBDA's procedures and practices for attracting, selecting, and managing special projects and (2) MBDA's response to previously identified management deficiencies in both the Center and special projects programs.

Results in Brief

MBDA's procedures for attracting, selecting, and managing special projects have been inadequate. MBDA has not publicized the availability of special project grant funds nor has it ensured that the projects funded comply with MBDA grant selection criteria. Further, MBDA has not required grantees to clearly define project goals. This has hindered MBDA's ability to effectively monitor special projects and decide whether they should be renewed. In addition, MBDA has not ensured that grants are audited. These fundamental management deficiencies have undermined the purpose, effectiveness, and performance of the special projects program. As a result, there is little assurance that special projects have attained MBDA's goals or provided intended services. MBDA did not award any special projects in 1990 and is now working toward

restructuring the program. MBDA's current efforts can improve the special projects program provided MBDA addresses the full range of long-standing problems that have affected the program in the past.

For almost a decade MBDA has been unresponsive to recommendations for correcting management deficiencies in both its Center and special projects programs. These recommendations were made in six reports issued by Commerce's Office of the Inspector General (OIG) during the period 1982-88 and in a January 1990 GAO report.¹ Special attention and close monitoring by the Department of Commerce are needed to overcome MBDA's long record of apparent indifference toward improving management of both its Center and special projects programs. Without improvements in the management of these grant programs, MBDA may be vulnerable to fraud, waste, and abuse.

Background

Since its inception in 1969 as the Office of Minority Business Enterprise, MBDA's goal has been to increase opportunities for racial and ethnic minorities to participate in the free enterprise system by forming and developing competitive minority-owned and minority-managed firms. Specific authority for its special projects and other programs came in 1971 through Executive Order 11625, which authorized MBDA to provide financial assistance for special projects in order to promote and assist the expansion of minority businesses. Although the agency has administered four programs to accomplish its goals, the Center and special projects programs together have accounted for 90 percent of MBDA's program funds.² During fiscal years 1985-90, MBDA allocated approximately \$147 million of \$178 million, or 83 percent, of its program funds to Centers and approximately \$12 million, or 7 percent, to special projects. (App. II shows the allocation of funds among MBDA's four programs for 1985-90).

As of October 1990 MBDA was funding 102 Centers throughout the United States. The availability of grants to support these Centers is publicly advertised and grants are awarded competitively. Counselors at the Centers provide clients with assistance in accounting, inventory control,

¹Minority Business: Management Improvements Needed at Minority Business Development Agency (GAO/RCED-90-69, Jan. 19, 1990).

²We did not evaluate MBDA's other two programs: (1) the resource development business program, designed to assist minority businesses through federal, state, and local governments and public/private partnerships and (2) the advocacy, research, and information program, designed to establish, collect, maintain, and disseminate data on the characteristics of the general minority business community.

bid estimation, bonding, personnel management, contract negotiations, and marketing.

MBDA awarded a total of 47 special project grants between fiscal years 1985 and 1989; no special project grants were awarded in 1990. These special projects originated as unsolicited proposals and grants were awarded noncompetitively for 1 year but could be renewed for additional 1-year periods. Special project grants have been funded through what is termed the Director's "discretionary fund," which is mainly composed of unobligated and disallowed costs recovered from grants awarded under MBDA's other programs. Unspent funds could also be carried over for use in subsequent fiscal years.

To approve a special project grant, the MBDA Director first recommended an unsolicited proposal for funding to Commerce's Office of Finance and Federal Assistance (OFFA). Commerce's OIG then performed a name and credit check on the proposed grantee and investigated any past audit-related problems. Commerce's Financial Assistance Review Board, composed of the Assistant Secretary for Administration, Deputy Secretary, and General Counsel, had to approve the proposed grant.

According to MBDA policy, special projects should (1) provide special services not available through existing programs, (2) demonstrate or test unique or innovative approaches and methods for helping minority entrepreneurs, and (3) promote minority business formation. MBDA has awarded special project grants to educational institutions, private businesses, trade associations, city governments, and chambers of commerce. The majority of organizations receiving special project grants were owned and/or operated by blacks and hispanics. (App. III shows the distribution of grants by type of organization and racial or ethnic group.)

MBDA Procedures and Practices for Attracting and Selecting Special Projects Have Been Inadequate

MBDA has lacked adequate procedures for attracting special project grant proposals. In addition, it has not followed its own established criteria for selecting projects to be funded.

Special projects were intended to obtain innovative or unique methods and approaches to help accomplish MBDA's mission. Publicity on the availability of grants can help maximize the likelihood of obtaining the best project proposals. However, special project grant proposals have been unsolicited—MBDA neither invited nor requested them. While MBDA uses the Federal Register and the Commerce Business Daily to advertise

for organizations to operate Centers, the agency's sole method of publicizing special project grants has been by word-of-mouth. This practice has limited awareness of the special projects program and limited the number of grantees to only 34 organizations.

Commerce's OIG made MBDA aware of the ineffectiveness of this word-of-mouth approach in a 1986 management review of special projects.³ The OIG recommended that MBDA widely publicize its interest in receiving proposals. In response to the OIG's recommendation, MBDA stated that it would publicize its interest through regional offices and national conferences, and publicly advertise the availability of grants in periodicals and the agency's bimonthly newsletter. According to the Chief of MBDA's Field Coordination Division, who was responsible for ensuring that the regional offices adhered to agency policies and procedures, MBDA did not implement this corrective action.

In a January 9, 1991, letter to MBDA's Acting Director, we asked why MBDA did not implement the corrective action. The Acting Director responded only that in the future MBDA intends to advertise for proposals in the Federal Register and the Commerce Business Daily and to award the grants competitively.

In addition to inadequately publicizing the special projects program, MBDA has failed to ensure compliance with its own three established minimum selection criteria for special projects. In line with the purpose of special projects, a grant proposal must (1) not duplicate existing MBDA-funded programs, such as the Center program or other special projects; (2) be unique and innovative; and (3) be consistent with the agency's mission. However, 11 of the 19 special projects we reviewed did not meet one or more of these criteria.

For example, the purpose of a special project in the Southwest was to assist small cities in obtaining loans and advocating minority business activities. A 1987 audit by Commerce's OIG found that the services provided by the project—identifying procurement opportunities, providing loan packaging assistance, and providing technical assistance to minority firms—were also being provided by an MBDA Center located

³MBDA Management of Special Projects Needs Improvement, Department of Commerce, Office of the Inspector General, F-775-7-002 (Dec. 5, 1986). See app. IV for a list of Commerce's OIG management reviews.

within 10 miles of the grantee. According to the OIG, the project's activities were contrary to MBDA's selection criteria because the activities were neither unique nor innovative, and duplicated existing services.

MBDA Has Not Managed Special Projects Adequately

Several weaknesses have prevented effective MBDA management of special project grants. MBDA has not required grantees to establish clear and specific performance objectives for special projects, nor has it adequately monitored the projects' progress. In addition, MBDA has made grant renewals on the basis of insufficient information, and has not ensured that its grants are audited regularly.

In 1982 and 1986 Commerce's OIG brought similar management weaknesses to MBDA's attention in two management reviews.⁴ Although MBDA acknowledged the need to improve its management of special projects and promised to initiate corrective actions, MBDA has not corrected the problems the OIG identified. Therefore, these management weaknesses have continued to undermine the purpose, effectiveness, and performance of the special projects program.

Some Projects Have Lacked Specific Objectives

Clearly defined performance goals help determine whether projects are progressing satisfactorily and whether they are achieving the intended results. However, in the special projects program, MBDA has not always ensured that grantees establish meaningful goals and tasks. Eight of the 19 special projects we reviewed had performance goals that were vague, unrealistic, and/or immeasurable.

A special project in the Southeast provides an example of a project with unrealistic goals. The project's stated purpose was to establish a National Entrepreneurial Development Center in order "to bring blacks into the economic mainstream on a self-sustaining basis." Our analysis showed that realistic objectives were never established during the project's 7-year existence. While the stated objectives were changed somewhat from year to year, the objectives for the 1986-87 grant year were

⁴Vulnerability Assessment of the Minority Business Development Administration, Department of Commerce, Office of the Inspector General (Sept. 1982), and MBDA Management of Special Projects Needs Improvement (Dec. 5, 1986). See app. IV.

typical. These objectives were to (1) develop synergistic business support systems, (2) provide focused technical services, (3) create a "business incubator,"⁵ (4) encourage franchises and distributorships, (5) provide high-level management assistance, and (6) develop a plan and provide oversight for the building of an industrial park.

Commerce's OIG documented the lack of clear and specific performance goals for special projects in both its 1982 and 1986 management reviews. In its 1982 review, the OIG stated that some of MBDA's special projects contained vague and ambitious scopes of work that made it difficult to determine what exactly was to be accomplished. Responding to the OIG's findings, MBDA stated that it was making a conscientious effort to ensure that its funded organizations operated with clearly defined and results-oriented scopes of work. Nevertheless, the OIG found similar problems in its 1986 management review. In that review, the OIG recommended that MBDA require more specific performance measures from grantees to improve the selection and evaluation of special projects. MBDA said it would require that the scope of work for special projects contain appropriate minimum generic performance measures. However, the OIG argued that specific project-oriented objectives and associated performance standards were needed to identify what a project was expected to accomplish, as well as how to measure its success or failure. Despite the OIG's objection, MBDA implemented the generic evaluation criteria for all special projects.

Our review of these generic standards showed that they provide general measures of success, such as increases in clients' gross sales, that may be totally unrelated to a specific special project. Such standards make it difficult to adequately monitor a special project's progress or make informed renewal decisions. When we asked MBDA's Acting Director why the generic performance objectives were implemented over the OIG's objections, the Acting Director stated only that MBDA will develop specific performance measures for each new grant when it begins to award grants competitively.

⁵Business incubators are facilities that nurture new entrepreneurs and product innovators by providing shared office services, affordable rent, and access to inexpensive business consulting services.

Monitoring of Special Projects Has Been Inadequate

According to MBDA and Commerce's OIG officials, monitoring of special projects has been inadequate because MBDA (1) has not developed formal guidance, (2) typically has used inexperienced staff to monitor projects, and (3) has not considered special projects a high priority. MBDA developed a handbook intended to provide a uniform system of assessing the performance of MBDA-funded organizations. According to the Chief of MBDA's Field Coordination Division, MBDA planned to develop a monitoring handbook specifically for special projects but never did so. In his opinion, the current handbook is adequate for monitoring special projects because it provides general program evaluation techniques designed for any project with identifiable goals and results. However, officials in three of MBDA's six regional offices stated that monitoring could be improved by revising the current handbook. For example, one regional director said that monitoring of special projects has been ineffective because the current handbook focuses on the Center program and is not particularly useful for evaluating special projects.

Using the current handbook, MBDA staff have reviewed and evaluated a project's performance on the basis of quarterly progress reports submitted by the grantee. To perform this review, MBDA staff have followed the handbook's checklist, which includes measures of success such as the number of clients assisted, amount of client fees collected, number of procurement opportunities provided, number of advocacy and outreach activities, and number of loan packages prepared. While these measures are appropriate for Centers, they may not be relevant to the unique activities undertaken in special projects.

In fact, the handbook states that the checklist may need to be modified because special projects and other minor funding activities may have different structures and requirements from MBDA's other programs. However, only two of MBDA's six regional offices have provided additional guidance to assist their staff in monitoring special projects. These two regional offices monitored about one-third of the projects awarded to date. (App. V shows the distribution of MBDA's special projects by region and state.)

According to MBDA and Commerce's OIG officials, MBDA regional offices have typically assigned special project monitoring to their least experienced staff. In the view of the OIG, MBDA made these assignments because it perceived the Centers as having a higher priority than special projects. However, the OIG believes that MBDA should assign monitoring of special projects to its most experienced staff, since those staff could more readily adapt the Center-oriented monitoring handbook to these

unique projects. According to a project monitor, MBDA's former Director proposed in June 1989 that all future special projects be monitored from headquarters to ensure that experienced staff were assigned. However, this policy was never implemented because MBDA has not awarded any special project grants since that time.

The special project in the Southeast whose unrealistic goals we discussed also illustrates ineffective monitoring by one of MBDA's regional offices. Although MBDA business development specialists reviewed the grantee's scope of work each year before the project was recommended for renewal, they did not scale the project's objectives down to more realistic levels. Project monitor reports indicated that, in accordance with policy, the grantee provided written quarterly reports and monitoring staff visited the site at least once a year for the 7-year grant period. As mentioned earlier, one of the project's goals beginning in 1986 was to develop a plan and provide oversight for building an industrial park. Before visiting the grantee, we asked the last two project monitors about the status of the industrial park. The project monitors said we would see a parking lot, road, and infrastructure completed. At the site we found an overgrown field with one fire hydrant and unconnected underground pipes. Our review of the project's quarterly reports, and subsequent discussions with the project monitors, showed that the monitoring did not adequately assess the project's progress. (App. VI shows the industrial park site in June 1990.)

Commerce's OIG 1982 management review stated that the lack of routine and effective project monitoring of special projects represented one of the most significant weaknesses and vulnerable areas confronting MBDA. At the time of the OIG's review, MBDA had begun to develop the general monitoring handbook discussed above. Thus the OIG's recommendations focused on ensuring that staff were consistently and properly monitoring assigned projects. Without adequate monitoring to determine how well a project achieved its goals, MBDA has had little information on which to base project renewal decisions or to ensure that the project is serving a useful purpose.

Renewal Decisions Have Been Based Upon Insufficient Information

MBDA has recommended renewal of special projects without sufficient knowledge of their accomplishments. MBDA's renewal policy, which closely mirrors the purpose of special projects, states that a project would not be renewed unless (1) there were positive indications of success; (2) it did not duplicate any of the agency's programs; and (3) it helped achieve, at reasonable cost, MBDA's mission of increasing the

number of minority business entrepreneurs. In addition, in response to the OIG's 1986 management review, MBDA established a policy requiring a thorough "post-evaluation" before a project was renewed.

According to MBDA officials, a special project must achieve a satisfactory performance rating to be considered for renewal. MBDA has started its renewal decision process 6 months after the beginning of the annual grant period. The agency has normally based its renewal decision on a review of the grantee's second quarter progress report, as well as a site visit report and a post-evaluation prepared near the end of the grant period. As discussed above, we found that MBDA's criteria for reviewing quarterly progress reports have not always been appropriate for measuring the accomplishments of special projects. Further, most of the site visit assessments did not address specific accomplishments or progress toward goals. Site visit assessments from four of MBDA's six regions covered the quality of (1) management and staff, (2) client file documentation, (3) quarterly progress reports, and (4) relationships with local, state, and federal agencies rather than the specific accomplishments of the projects.

In addition, we reviewed post-evaluation memorandums from MBDA's regional offices and headquarters and found that, overall, MBDA's post-evaluation bears little resemblance to an evaluation. To the contrary, these post-evaluations have typically reflected the project's history and the goals proposed for the renewed grant. For example, five of the six evaluations we reviewed did not address the extent to which the project was progressing towards its goals. Largely because of unclear project goals and inadequate monitoring, MBDA renewed 19 of its 47 special projects between fiscal years 1985 and 1989 with little assurance that results were useful enough to warrant further expenditure of federal funds.

The previously discussed special project in the Southeast also illustrates how MBDA has renewed special projects without adequate assurance of progress. The project received a total of \$1.7 million dollars during its 7-year grant period, 1982-89, but achieved few of its stated objectives. Even though most of the project's objectives were not accomplished, the MBDA regional staff annually rated the organization's performance as satisfactory and recommended that the project be renewed.

The OIG's 1986 management review recommended that MBDA require performance evaluations of all special projects upon completion or, when substantially completed, before the projects were recommended for

renewal. In response, MBDA established the policy requiring that a thorough post-evaluation be performed before a project was renewed. However, as we have pointed out, these post-evaluations are not adequate. On January 29, 1991, MBDA's Acting Director stated that post-evaluation criteria will be provided under the new competitive grant process.

MBDA Has Not Routinely Audited Special Projects

MBDA has not ensured that its special project grants are audited regularly. Audits are a key management tool for assessing program performance, accountability, and control over resources. Without such routine reviews, federal money is subject to a high risk of fraudulent, wasteful, and abusive practices.

According to Commerce's OIG officials, the OIG did not have sufficient funds to audit all special project grants. Accordingly, the OIG has audited special projects primarily at the request of MBDA and Commerce officials, as well as in response to tips obtained through the OIG's fraud hotline. During fiscal years 1985-90, the OIG audited 6 of the 47 special project grants.

The OIG's audits of these six special projects disclosed either that the performance measures for the projects were generally superficial and/or that some grantees were spending funds on unauthorized items. For example, the OIG found that some of the grantees did not identify how they would accomplish the tasks described in the grant award documents. In some cases, the OIG also questioned whether costs claimed by the grantee were spent on approved award activities.

According to MBDA officials, they have not routinely requested OIG audits of special projects, nor have they provided funds for independent audits in the past. However, in October 1990 MBDA officials stated that they intend to require independent audits of future special projects and will pay the costs of such audits as part of the grants.

Status of Special Projects

When we discussed the results of our review with MBDA agency officials on February 22, 1991, they generally agreed with the facts in this report but provided updated information. According to the officials, MBDA no longer accepts unsolicited proposals for special projects. As of that meeting, MBDA had drafted but not finalized or implemented an MBDA order reflecting this new policy. In addition, MBDA officials said that they will replace special projects with a similar competitive grant program

and that they have begun identifying areas to fund through this program. MBDA intends to solicit competitive applications for these grants beginning in April or May 1991.

MBDA's Mismanagement of Grants Is a Long- Standing Problem

Our current review of MBDA's special projects documents management deficiencies that Commerce's OIG has identified since 1982. Both GAO and the OIG have found similar problems with MBDA's management of the Center program—problems that MBDA has yet to correct. In January 1990 we recommended improving quality controls and staff utilization in MBDA's Center program.⁶ However, as of February 1991 MBDA had implemented only four of the nine corrective actions that it developed to address the concerns raised by our report. (App. VII provides details on past MBDA noncompliance with OIG and GAO reviews.)

Further, in October 1990 the Director of the Office of Management and Budget (OMB) designated MBDA's grant management programs as a "high risk" area for waste, fraud, and abuse under the Federal Managers' Financial Integrity Act (FMFIA) of 1982. OMB identified MBDA as a high risk area based on a 1988 OIG report and our January 1990 report on MBDA's Center program. Commerce reported MBDA's special projects as a high risk area to OMB in December 1990 when the OIG suggested that special projects be added to the agency's list of serious weaknesses. Commerce included MBDA's grant management problems in its annual FMFIA report. (App. VII also provides information on OMB's designation of MBDA as a high risk area.)

Conclusions

MBDA was established to increase opportunities for racial and ethnic minorities to participate in the free enterprise system. To achieve this objective, MBDA has funded Centers and special projects to assist the minority community. However, a series of management weaknesses have hampered the effectiveness of the special projects program.

Special project grant proposals have been awarded noncompetitively on the basis of unsolicited proposals. We believe MBDA could increase the variety and quality of the special project proposals that it receives and maximize the benefits of this program through more extensive advertising. In addition, MBDA has not required grantees to develop clear and specific project goals, and MBDA has not developed adequate procedures

⁶GAO/RCED-90-69.

for monitoring, renewing, and auditing special projects. These weaknesses have undermined the purpose, effectiveness, and performance of special projects.

Over the past decade Commerce's OIG and GAO have identified serious weaknesses in MBDA's management of the Center and special projects grant programs and have made recommendations for correcting those deficiencies. Despite this long-standing effort, MBDA management has neither adequately implemented most of the OIG and GAO recommendations nor otherwise addressed the identified weaknesses. Until MBDA effectively implements actions to correct these weaknesses, its programs and grant funds remain vulnerable to fraud, waste, and abuse.

Recommendations

Given the weaknesses in MBDA's management of special projects, we recommend that the Secretary of Commerce cancel MBDA's authority to recommend special projects for funding until he is assured that MBDA has developed a specific and detailed plan for awarding grants that corrects the management weaknesses identified in this report.

In this regard, we recommend that the Secretary pay particular attention to MBDA's efforts at restructuring its special projects program to ensure that past management problems do not recur. Specifically, MBDA's restructured program should (1) ensure competition in the grant process so that the best possible projects are funded, (2) provide for formal advertisement using multiple sources to increase the potential for MBDA to receive the strongest proposals responsive to project objectives, (3) develop meaningful performance standards that allow MBDA to determine whether projects achieve planned goals, (4) develop monitoring guidelines specific to special projects to ensure compliance with grant terms and conditions, (5) develop appropriate criteria and guidance for evaluating renewal requests, and (6) ensure that MBDA implement its proposed policy of requiring and funding independent audits of special project grants.

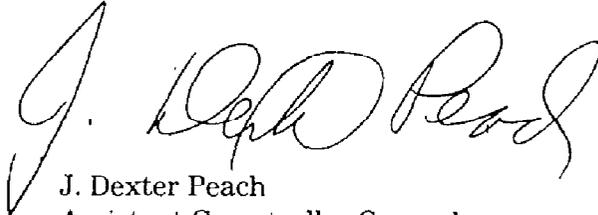
In light of the long history of management problems and the potential vulnerability to fraud, waste, and abuse that can result from such continued uncorrected problems, we recommend that the Secretary of Commerce closely monitor MBDA's implementation of actions to correct weaknesses that Commerce's OIG and GAO have identified in the management of the Center program.

To obtain information for this report we examined documents, including MBDA and Commerce policies and procedures, relevant to MBDA's grant management programs during fiscal years 1985-90. We interviewed officials at MBDA headquarters and in each of MBDA's six regional offices, OFFA and OIG officials at the Department of Commerce, and two special project grant recipients. Appendix I contains details of our objectives, scope, and methodology.

As agreed with the requester, we did not obtain official agency comments on a draft of this report. However, we discussed the information presented in this report with the responsible agency officials and incorporated their comments and suggestions where appropriate. We performed our review from March 1990 to February 1991 in accordance with generally accepted government auditing standards.

This work was done under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues. If you have any questions concerning this report, please contact Mr. Ols at (202) 275-5525. Other major contributors to this report are listed in appendix VIII.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. Dexter Peach".

J. Dexter Peach
Assistant Comptroller General

Contents

Letter	1
Appendix I Objectives, Scope, and Methodology	16
Appendix II MBDA Funding Levels by Program, Fiscal Years 1985-90	17
Appendix III Type and Race or Ethnicity of MBDA Special Project Grantees, Fiscal Years 1985-89	18
Appendix IV Department of Commerce's Office of the Inspector General Management Reviews	20
Appendix V Location of MBDA Special Projects by Region and State, Fiscal Years 1985-89	21

Appendix VI MBDA-Funded Special Project: Industrial Park	23
Appendix VII Persistent Management Problems at MBDA	24
Appendix VIII Major Contributors to This Report	27
Figures	
Figure III.1: Type of Special Project Grantees	18
Figure III.2: Race or Ethnicity of Special Project Grantees	19
Figure V.1: MBDA Regions and States With Special Project Grant Recipients, Fiscal Years 1985-89	21
Figure V.2: Distribution of MBDA Special Projects by State and Region, Fiscal Years 1985-89	22

Abbreviations

DOC	Department of Commerce
FMFLA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
MBDA	Minority Business Development Agency
MBDC	Minority Business Development Center
OFFA	Office of Finance and Federal Assistance
OIG	Office of the Inspector General
OMB	Office of Management and Budget

Objectives, Scope, and Methodology

On February 9, 1990, Senator Pete Wilson requested that we review special projects awarded by the Minority Business Development Agency (MBDA) under the Director's discretionary fund. In subsequent discussions with the requester's office, we agreed to review MBDA's management of its grant programs. Our specific objectives were to evaluate (1) MBDA's procedures for attracting, selecting, and managing special projects and (2) MBDA's response to previously identified management deficiencies in both the Center and special projects programs. When former Senator Wilson became governor of California, we agreed to provide this report to his successor, Senator John Seymour.

We reviewed MBDA and Commerce policies and procedures between fiscal years 1985 and 1990 to determine the extent of comprehensive guidance on attracting, selecting, and managing special projects. We interviewed officials in MBDA headquarters and in each of MBDA's six regions, as well as officials in the Office of Finance and Federal Assistance (OFFA) and Office of the Inspector General (OIG) in the Department of Commerce.

To evaluate MBDA's management of special projects, we reviewed a total of 19 special project proposals and awards between fiscal years 1985 and 1989. We selected 9 special projects specifically audited by the OIG; the remaining 10 projects were judgmentally selected from MBDA's list of 47 special projects awarded between fiscal years 1985 and 1989. We chose projects with a variety of characteristics, including those (1) with the largest grant awards, (2) with multiple renewals, and (3) from both public and private nonprofit organizations. We reviewed the official project files at OFFA's Office of Federal Assistance, MBDA headquarters, and MBDA's regional offices and visited two of the funded organizations.

Regarding MBDA's response to previously identified management deficiencies in both the Center and special project programs, we reviewed six OIG management reviews on the Center and special project programs and our January 1990 report on MBDA Centers. We reviewed MBDA's responses to OIG and GAO recommendations and followed up on MBDA's implementation of agreed-upon corrective actions. We also interviewed Office of Management and Budget (OMB) officials and reviewed agency documents to determine (1) how OMB identifies areas for its high risk list and (2) how OMB monitors MBDA's progress toward correcting serious weaknesses.

MBDA Funding Levels by Program, Fiscal Years 1985-90

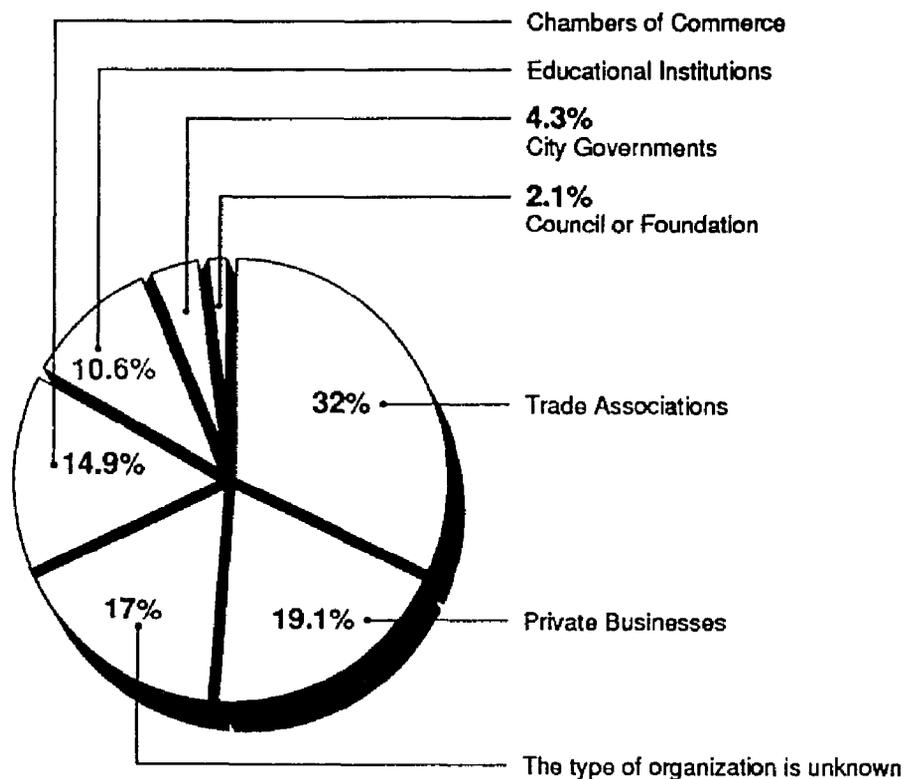
Dollars in thousands

Program	Program funds					
	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990
Minority Business Development Center program	\$23,268	\$28,216	\$27,604	\$24,727	\$22,688	\$20,500
Special projects	1,206	4,389	2,541	2,174	1,725	^a
Resource development business program	3,577	3,967	3,501	679	897	1,171
Advocacy, research, and information program	726	490	456	48	659	2,375
Total	\$28,777	\$37,062	\$34,102	\$27,628	\$25,969	\$24,046

^aDuring fiscal year 1990 MBDA did not fund any special project grants.

Type and Race or Ethnicity of MBDA Special Project Grantees, Fiscal Years 1985-89

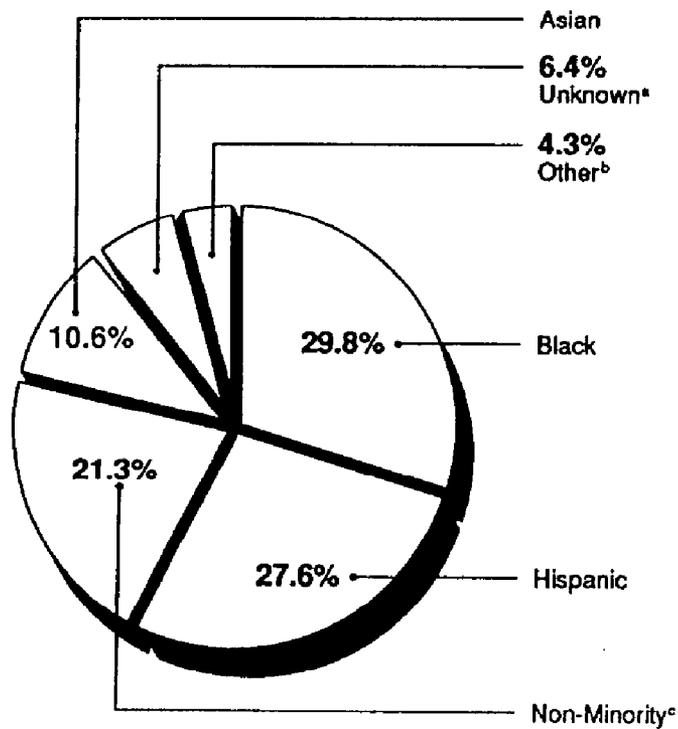
Figure III.1: Type of Special Project Grantees



Source: GAO analysis of MBDA and OFFA data.

Appendix III
Type and Race or Ethnicity of MBDA Special
Project Grantees, Fiscal Years 1985-89

Figure III.2: Race or Ethnicity of Special
Project Grantees



^aUnknown: Organization affiliation is unknown.

^bOther: Organization affiliation is with other minority.

^cNon-minority: Organization had no known racial or ethnic affiliation.

Source: GAO analysis of MBDA and OFFA data.

Department of Commerce's Office of the Inspector General Management Reviews

1. An Assessment of the State of the Minority Business Development Center Program, 3-218-8-009, Sept. 1988.

2. MBDA's Process for Making Competitive and Renewal Award Decisions—Improvements Needed to Enhance Program Integrity, 3-148-7-047, Sept. 1987.

3. MBDA Management of Special Projects Needs Improvement, F-775-7-002, Dec. 5, 1986.

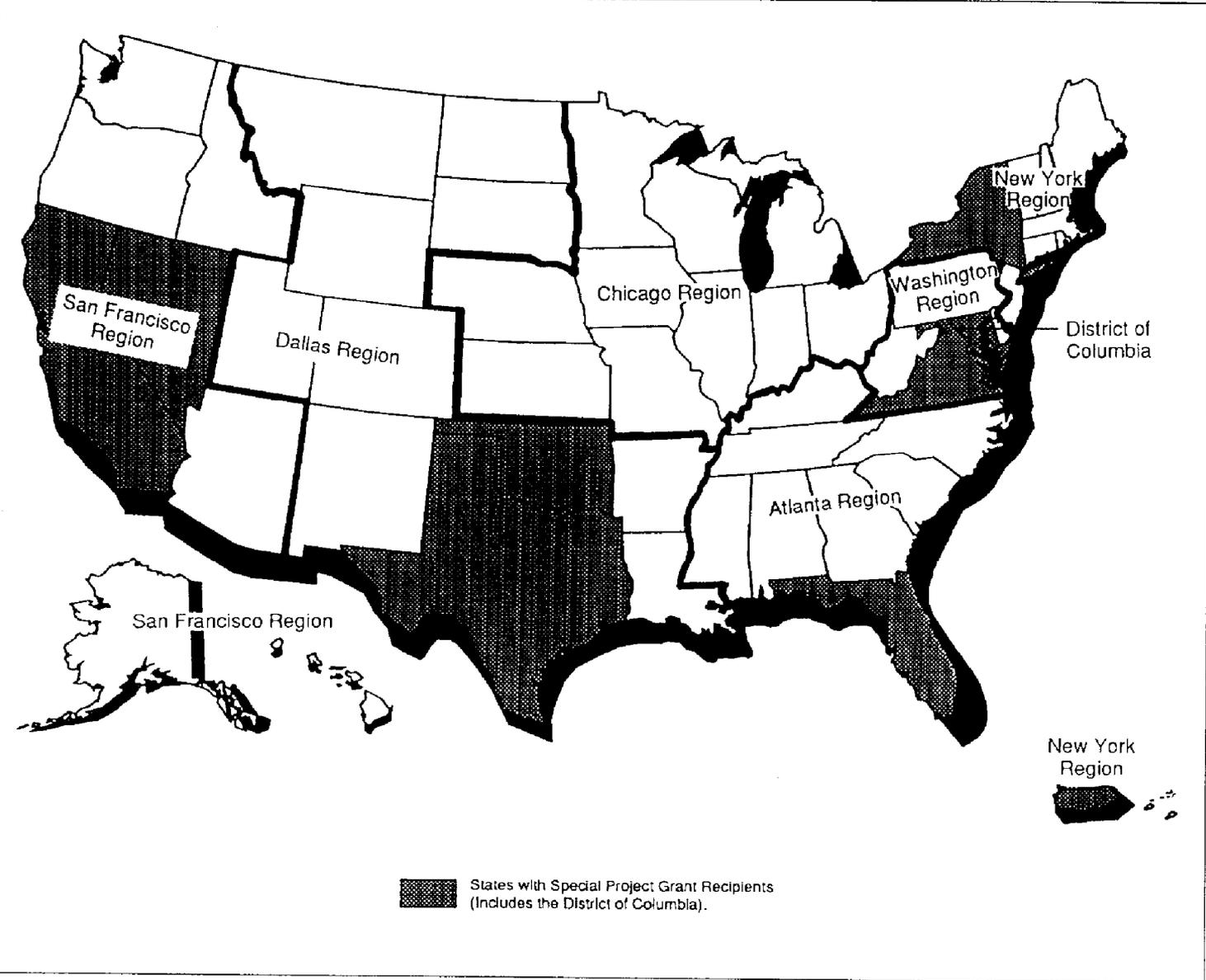
4. Improvements Needed in the Minority Business Development Agency's Support Activities, 3-126-6-001, Jan. 1986.

5. MBDA's Minority Business Development Center Program—A Need for Realistic Goals and Improved Measurements of MBDC Effectiveness, 3-119-5-001, Nov. 1984

6. Vulnerability Assessment of the Minority Business Development Administration, Sept. 1982.

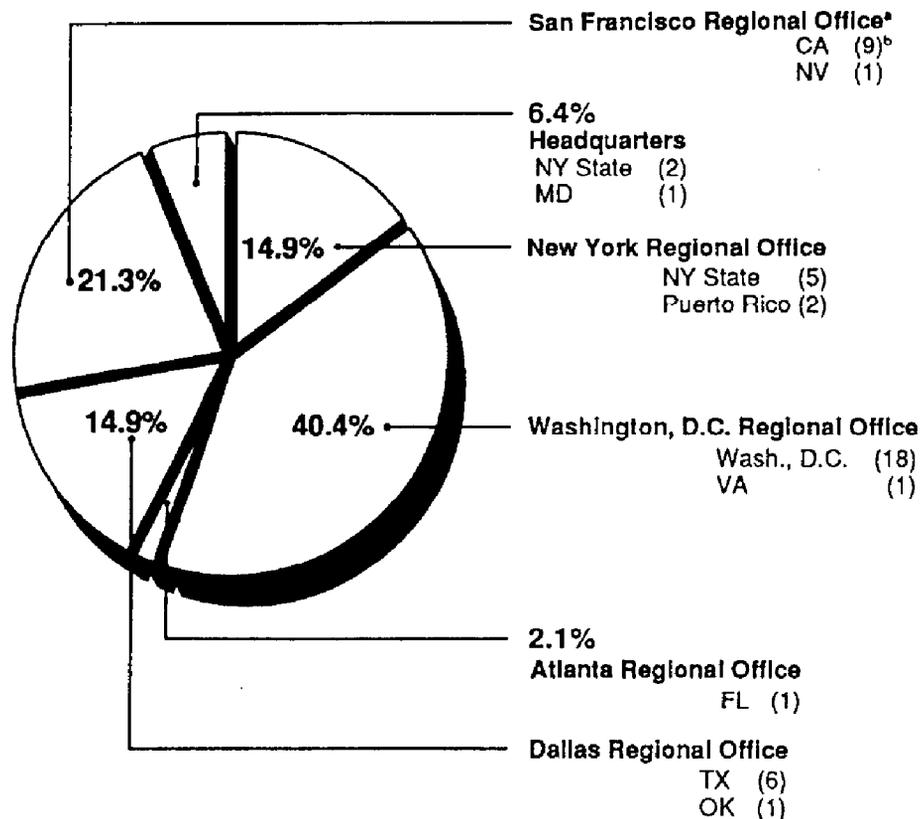
Location of MBDA Special Projects by Region and State, Fiscal Years 1985-89

Figure V.1: MBDA Regions and States With Special Project Grant Recipients, Fiscal Years 1985-89



Appendix V
Location of MBDA Special Projects by Region
and State, Fiscal Years 1985-89

Figure V.2: Distribution of MBDA Special Projects by State and Region, Fiscal Years 1985-89

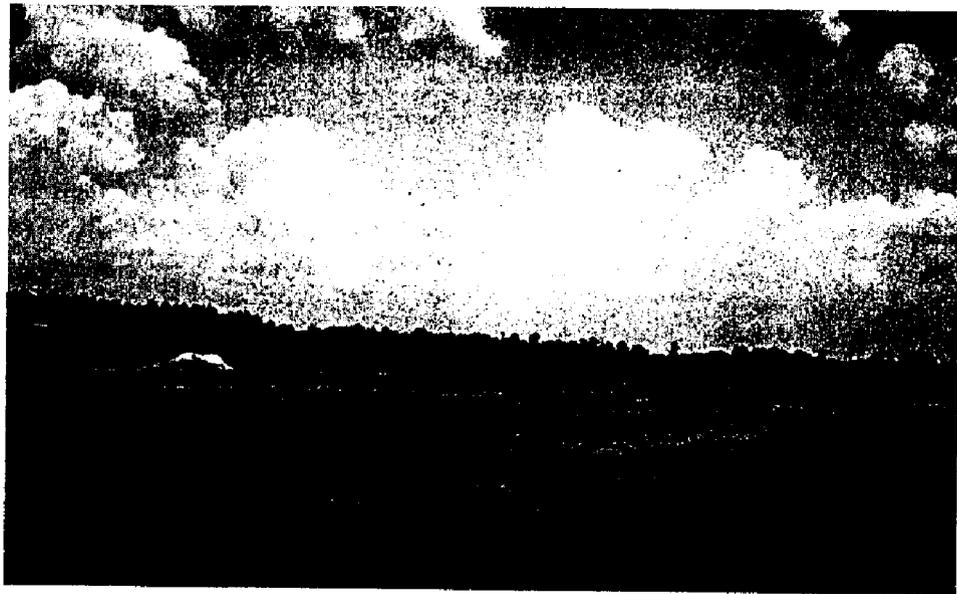


*Regional offices and headquarters monitor special projects in the states listed. The Chicago Regional Office did not monitor any projects.

^bNumbers in parentheses indicate distribution of special projects by state.

Source: GAO analysis of MBDA and OFFA data.

MBDA-Funded Special Project: Industrial Park



Project monitors for this special project in the Southeast said a parking lot, road, and infrastructure were completed. In June 1990 the site consisted of an overgrown field with unconnected ground pipes.

Persistent Management Problems at MBDA

Since 1982 Commerce's OIG has documented management weaknesses in two of MBDA's grant programs, Centers and special projects. In 1990 GAO also identified problems with the management of MBDA's Center program. However, MBDA has taken few actions to date to correct the management weaknesses and problems identified by the OIG and GAO. As a result, in October 1990 MBDA was added to the Office of Management and Budget's list of high risk areas.

MBDA Has Not Responded Adequately to Reviews

Between 1982 and 1988 Commerce's OIG conducted six management reviews of MBDA's Center and special projects programs (see app. IV). Five of these reviews identified serious management deficiencies in the Center program. These deficiencies were in the areas of staff use, grant awards, quality of assistance, renewal decisions, and monitoring efforts. For example, four of the OIG's management reviews documented that MBDA's monitoring procedures were inadequate and that the overall effectiveness of monitoring by MBDA's business development specialists needed to be improved. In addition, the OIG's 1986 and 1987 management reviews identified management problems related to delays in Center funding and the ineffective use of agency staff. According to the OIG, both of these problems have hindered MBDA's ability to deliver satisfactory service to the minority community.

Similarly, in 1990 we reported delays in the approval and funding of 75 percent of the Center grants awarded in 1988. MBDA was slow in its review, approval, and funding of 76 of the 102 grants awarded. We reviewed about half (37) of the late awards and found the average processing time to be 54 days longer than the 120 days allowed by MBDA procedures. Overall, according to MBDA officials, a total of 32 Centers suspended operations about 50 times from fiscal year 1986 through 1988 because of delays in funding resulting from MBDA's slow review and approval of grant applications. During periods when operations were suspended, minimal or no service was provided to minority businesses.

We also reported that MBDA did not reduce its staff even though its program funds were reduced by 43 percent from fiscal year 1980 to 1989. On the basis of work load needs, overstaffing existed throughout MBDA, according to headquarters, regional, and Commerce's OIG officials. Although MBDA's total program funding was reduced, only minimal reductions in staff occurred, and MBDA management did not reevaluate staffing needs, roles, and responsibilities.

As did the OIG in its 1986 and 1987 reviews, we recommended that MBDA (1) strengthen its quality control process by determining the actions necessary to correct problems that have delayed the processing of grant applications, or develop alternative solutions and (2) determine how to either better utilize existing staff resources through the expansion of their roles and responsibilities, or reduce staff to realistically reflect the agency's work load.

In a July 17, 1990, letter to GAO, MBDA stated that it had taken nine actions to address the concerns raised by our report. These actions included soliciting proposals from consulting firms to conduct a complete evaluation of MBDA's organizational structure, grant process, request for application, and Center performance goals. However, as of December 13, 1990, only four of the nine actions listed in MBDA's letter had been implemented. MBDA officials stated that the agency would implement the remaining actions after reviewing and analyzing the results of the consultant's January 14, 1991, final report. As of February 1991 MBDA had received the consultant's final report, but had taken no further action.

OMB Aware of Pattern of Mismanagement

As a result of MBDA's long-standing grant management weaknesses, OMB recently added the agency's programs to its list of "high risk" areas. OMB defines high risk areas as any program or operation in the federal government where the agency may be vulnerable to fraud, waste, and abuse. In the fall of 1989, OMB developed a list of programs with a high potential for such vulnerability. This list was composed of 106 high risk areas covering 78 programs in 16 federal agencies. MBDA was added to the list of high risk areas in October 1990.

The Federal Managers' Financial Integrity Act (FMFIA) requires all agencies to report annually serious weaknesses in agency operations and areas vulnerable to fraud and waste to the Senate Committee on Governmental Affairs and other congressional committees. However, MBDA did not identify weaknesses in its Center or special projects programs until requested to do so by OMB and the OIG in 1990. OMB identified MBDA as a high risk area based on a 1988 OIG report and our January 1990 report on MBDA's Center grant program. Commerce identified MBDA's special projects as a high risk area in December 1990 when its OIG suggested that special projects be added to MBDA's list of serious weaknesses.

According to an OMB official, the Deputy Secretary of the Department of Commerce is responsible for ensuring that corrective actions are taken

Appendix VII
Persistent Management Problems at MBDA

to eliminate the deficiencies that led to MBDA's designation as a high risk area. OMB will monitor MBDA's progress through status reports and telephone contacts with the Deputy Secretary throughout fiscal year 1991. OMB also plans to use GAO and OIG reports to track MBDA's progress.

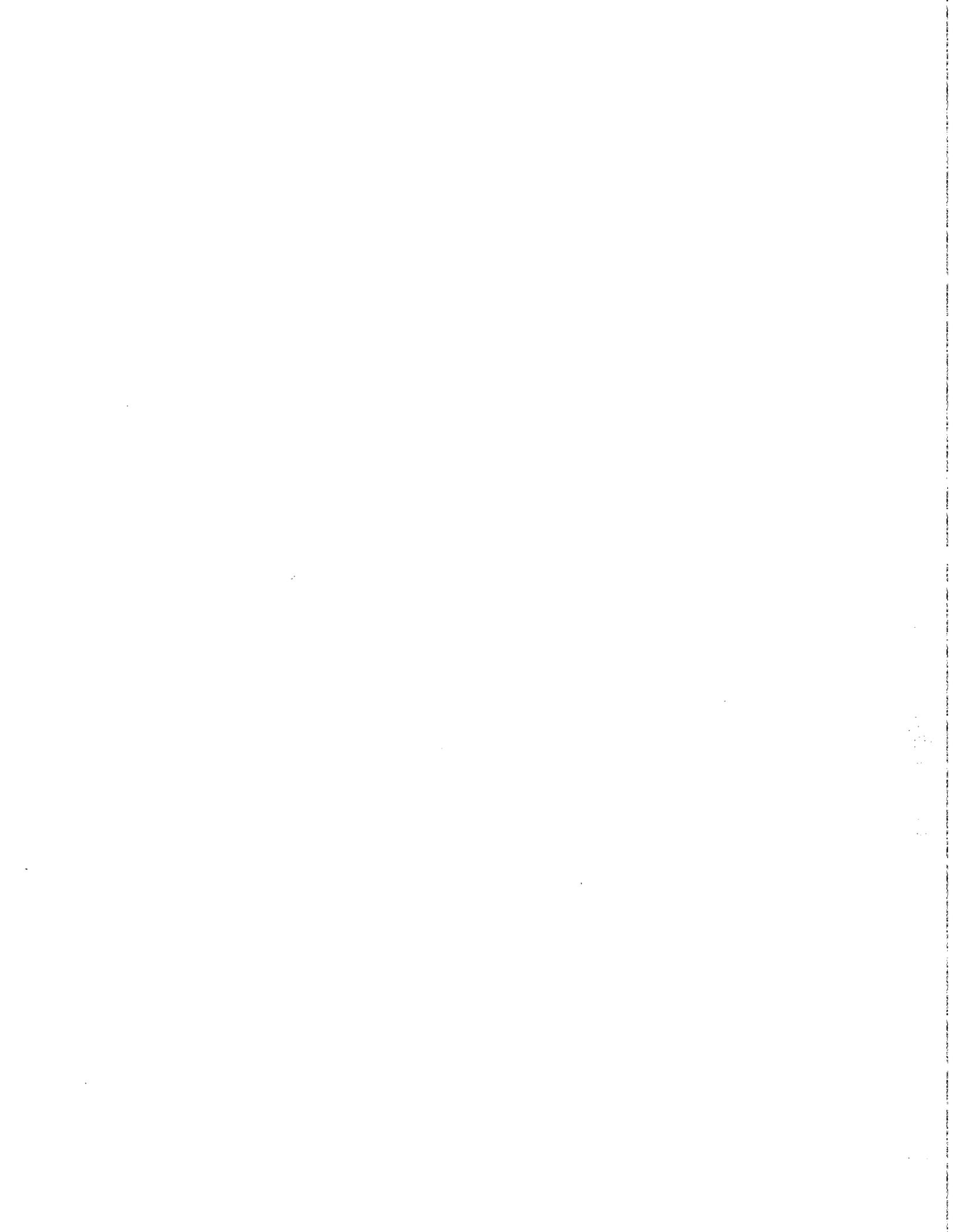
Major Contributors to This Report

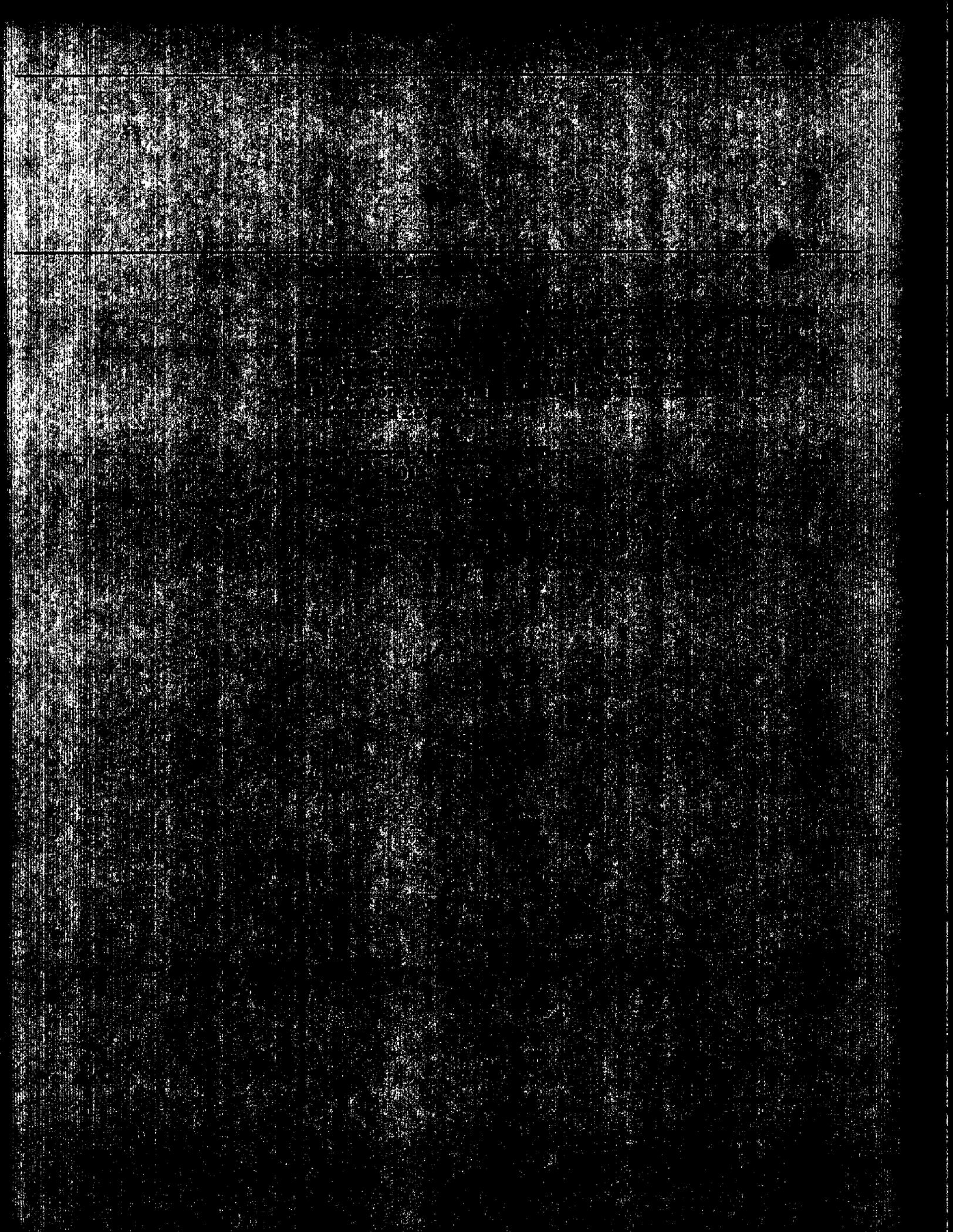
Resources,
Community, and
Economic
Development Division,
Washington, D.C.

Marnie Shaul, Assistant Director
Eugene Aloise, Assignment Manager
Jaqueline Hill, Evaluator-in-Charge
Valerie A. Rogers, Staff Evaluator
Marci D. Kramer, Staff Evaluator
Woodliff L. Jenkins, Advisor
David A. Rogers, Technical Advisor

San Francisco
Regional Office

Larry Calhoun, Regional Management Representative
Julian Fogle, Regional Assignment Manager





**United States
General Accounting Office
Washington, D.C. 20548**

**Official Business
Penalty for Private Use \$300**

**First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100**
