



April 2017

# SMALL BUSINESS CONTRACTING

## DOD Should Take Actions to Ensure That Its Pilot Mentor- Protégé Program Enhances the Capabilities of Protégé Firms

Accessible Version

# GAO Highlights

Highlights of [GAO-17-172](#), a report to congressional committees

## Why GAO Did This Study

DOD's Pilot Mentor-Protégé Program was first authorized as a pilot program in 1990 and has been repeatedly renewed as a pilot program, most recently through September 30, 2018. For fiscal year 2016, total funding for this program was \$28.3 million.

The joint explanatory statement to accompany the National Defense Authorization Act for Fiscal Year 2016 includes a provision for GAO to report on DOD's pilot program. This report examines, among other things, (1) DOD's procedures for approving mentor-protégé agreements and (2) DOD's performance measures for the program. GAO analyzed DOD guidance, reviewed a randomly selected probability sample of active DOD mentor-protégé agreements and estimated their completeness at a 95 percent confidence interval, reviewed DOD's annual program reports for fiscal years 2011 through 2015, and interviewed agency officials.

## What GAO Recommends

GAO recommends that DOD (1) conduct periodic reviews of the components' processes for approving agreements and address identified deficiencies, as appropriate, and (2) develop performance goals and related measures that are consistent with the program's stated purpose. DOD concurred with GAO's recommendations.

View [GAO-17-172](#). For more information, contact William Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

April 2017

## SMALL BUSINESS CONTRACTING

### DOD Should Take Actions to Ensure That Its Pilot Mentor-Protégé Program Enhances the Capabilities of Protégé Firms

## What GAO Found

The Department of Defense (DOD) relies on military services and agencies (DOD components) to approve the agreements that establish relationships between participants in its Pilot Mentor-Protégé Program. This program provides incentives for major defense contractors (mentors) to provide assistance to small disadvantaged firms (protégés) in an effort to enhance their capability to compete for federal and commercial contracts. However, DOD does not have reasonable assurance that approved agreements include all elements required by the program's regulations and policies. These elements include, among others, the protégé's industry code and the signature and date of the mentor and protégé. These elements serve a variety of purposes—for example, the industry code is used to determine the protégé's eligibility to participate in the program, and the signature and date of mentor and protégé are required in order to meet program requirements. Based on a review of a randomly selected probability sample of 44 of the 78 active mentor-protégé agreements in place as of June 2016, GAO estimates that 27 percent of agreements were missing required elements. For example, GAO estimates that 25 percent of agreements were not signed by both the mentor and protégé. Federal internal control standards state that management should implement control activities through policies and practices, including periodically reviewing control activities for continued effectiveness. DOD's Office of Small Business Programs (OSBP) manages the program and oversees program policies and procedures. However, OSBP does not review the DOD components' processes for approving mentor-protégé agreements and therefore has not taken appropriate oversight actions to provide reasonable assurance that agreements meet all requirements. As a result, the components have approved agreements that do not include required elements, and OSBP cannot ensure that the requirements are serving their various purposes.

DOD's fiscal year 2011 through 2015 annual reports on its Pilot Mentor-Protégé Program include performance measures for several areas, but DOD lacks performance goals and other measures needed to effectively assess the program. Some of these measures show that during this period, protégés' revenue, number of employees, and DOD prime and subcontract awards increased while protégés participated in the program, but revenues and employment levels decreased in the 2 years after their participation ended. GAO found that DOD has not established any measurable goals for these measures. In addition, DOD collects information from mentors on how they have enhanced the capabilities of protégés, but DOD does not include this information in the program's annual report and has not developed performance measures or goals related to this information. GAO has previously identified performance measurement as a best practice that allows organizations to track progress and gives managers information to plan needed improvements. DOD officials told GAO they are working to develop measures that better indicate program effectiveness, but as of January 2017 they had not established such measures. Without performance goals and related measures, DOD may be limited in its ability to analyze the effectiveness of the program, and Congress may not have information needed to inform future decisions regarding the program.

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**Abbreviations**

DCMA	Defense Contract Management Agency
	DOD Department of Defense
	HUBZone Historically Underutilized

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Business Zone            NAICS                            North American Industry  
Classification System NDAA            National Defense Authorization Act  
OSBP            Office of Small Business Programs SBA            Small  
Business Administration

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April 11, 2017

Congressional Committees

The Department of Defense (DOD) Pilot Mentor-Protégé Program provides incentives for major defense contractors (mentors) that agree to provide technical, managerial, and other business development assistance to small business firms (protégés) under approved mentor-protégé agreements. The assistance provided under these agreements is intended to strengthen protégés' capabilities to perform as subcontractors and suppliers under defense and other federal contracts, as well as commercial contracts. Congress first authorized the program as a pilot program in 1990, and at that time, the program was scheduled to expire in 1994.<sup>1</sup> However, the program has been renewed as a pilot program since 1990; the most recent renewal authorizes the program through September 30, 2018. In addition, DOD's program is the only federal Mentor-Protégé Program that receives appropriated funding.<sup>2</sup> According to DOD, the total funding amount for the program was \$28.3 million for fiscal year 2016. As of June 2016, the program had 78 active mentor-protégé agreements in place.

The Small Business Administration (SBA) administers two separate mentor-protégé programs. SBA's 8(a) Business Development Mentor-Protégé Program, which the agency established through regulation in 1998, is designed to enable successful firms to provide various forms of business development assistance to 8(a) Business Development Program participants.<sup>3</sup> In addition, SBA's new All Small Mentor-Protégé Program was established in summer 2016 in accordance with provisions

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1991, Pub. L. No. 101-510, § 831, 104 Stat. 1485, 1607 (1990).

<sup>2</sup>In a June 2011 report, we identified 13 federal agencies that had mentor-protégé programs, including DOD and the Small Business Administration (SBA). See GAO, *Mentor-Protégé Programs Have Policies That Aim to Benefit Participants but Do Not Require Postagreement Tracking*, [GAO-11-548R](#) (Washington, D.C.: June 15, 2011).

<sup>3</sup>SBA's 8(a) Business Development Program is a business assistance program for small disadvantaged businesses that provides assistance to firms that are unconditionally owned and controlled at least 51 percent by socially and economically disadvantaged individuals who are of good character and generally citizens or residing in the United States, and which demonstrate potential for success.

in the Small Business Jobs Act of 2010 and the National Defense Authorization Act (NDAA) for Fiscal Year 2013.<sup>4</sup> Where the 8(a) Business Development Mentor-Protégé Program is open only to participants in SBA's 8(a) Business Development Program, the All Small Mentor-Protégé Program is open to all small businesses. SBA began accepting applications for the new All Small Mentor-Protégé Program on October 1, 2016.

The joint explanatory statement to accompany the NDAA for Fiscal Year 2016 contains a provision for GAO to report on DOD's Pilot Mentor-Protégé Program.<sup>5</sup> This report examines (1) DOD's procedures for approving mentor-protégé agreements; (2) DOD's performance measures for the program; and (3) differences between DOD's Pilot Mentor-Protégé Program and SBA's newly established All Small Mentor-Protégé Program and the agencies' efforts to harmonize the two programs.

To address the first objective, we reviewed DOD's current regulations, policies, and procedures for approving mentor-protégé agreements, including changes mandated by the NDAA for Fiscal Year 2016 related to DOD's process for approving such agreements. In addition, we reviewed guidance developed by selected DOD components that administer and have the authority to approve mentor-protégé agreements.<sup>6</sup> We then assessed whether DOD components approved mentor-protégé agreements in compliance with DOD's current regulations, policies, and procedures. We also interviewed DOD officials from the Office of Small Business Programs (OSBP) regarding DOD's procedures for approving proposed mentor-protégé agreements and controls to ensure that the procedures are being followed. We assessed DOD's practices against *Standards for Internal Control in the Federal Government*.<sup>7</sup> Further, we reviewed a randomly selected probability sample of 44 of the 78 active

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<sup>4</sup>Small Business Mentor Protégé Programs, 81 Fed. Reg. 48558 (July 25, 2016). DOD's Pilot Mentor-Protégé Program is exempt from SBA's All Small Mentor-Protégé Program requirements.

<sup>5</sup>Legislative Text and Joint Explanatory Statement to Accompany S. 1356, National Defense Authorization Act for Fiscal Year 2016, 114<sup>th</sup> Cong., at 709-710 (Comm. Print 2015).

<sup>6</sup>Throughout this report, we use "components" to refer to the military services and defense agencies that participate in DOD's Pilot Mentor-Protégé Program.

<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

DOD mentor-protégé agreements in place as of June 2016. With this probability sample, each member of the study population had a nonzero probability of being included, and that probability could be computed for any member.

To address the second objective, we reviewed DOD's performance measures and information DOD collects and reports on the performance of its Pilot Mentor-Protégé Program. In addition, we reviewed semiannual reports provided to DOD by mentor and protégé firms to examine the information DOD collects on performance under approved mentor-protégé agreements. We compared DOD's practices to those GAO has previously identified as being associated with agencies that were successful in measuring their performance and federal internal control standards.<sup>8</sup> We also interviewed DOD officials from OSBP regarding the performance information DOD collects and reports for the Pilot Mentor-Protégé Program.

To address the third objective, we reviewed the DOD Pilot Mentor-Protégé Program's implementing statute and subsequent legislative changes to the program. We also reviewed SBA's final rule to implement the All Small Mentor-Protégé Program. We identified differences between the DOD and SBA programs and interviewed DOD and SBA officials to discuss the similarities and differences we identified, including how differences between the programs could affect possible efforts to harmonize the programs.<sup>9</sup> See appendix I for a more detailed description of our scope and methodology.

In addition, we identified certain characteristics of protégé firms from the randomly selected probability sample of 44 of the 78 active DOD mentor-protégé agreements in place as of June 2016. We also identified the types of developmental assistance mentor firms agreed to provide to protégé firms based on information reported for the randomly selected probability sample of agreements. The results of this analysis can be found in appendix II.

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<sup>8</sup>See GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996) and [GAO-14-704G](#).

<sup>9</sup>In doing so, our focus was on program design differences found in statute and program rules rather than on program administration and oversight.



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We conducted this performance audit from January 2016 to April 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### DOD's Pilot Mentor-Protégé Program

The purpose of DOD's Pilot Mentor-Protégé Program, as established in statute, is to provide incentives to major DOD contractors to furnish eligible disadvantaged small business concerns with assistance designed to (1) enhance the capabilities of eligible disadvantaged small business concerns to perform as subcontractors and suppliers under DOD contracts and other contracts and subcontracts; and (2) increase the participation of such business concerns as subcontractors and suppliers under DOD contracts, other federal government contracts, and commercial contracts.<sup>10</sup> DOD's Office of Small Business Programs (OSBP) manages the program, including developing and overseeing the policies and procedures for the program.<sup>11</sup> In addition, a number of DOD components administer individual mentor-protégé agreements.<sup>12</sup> DOD components and the mentors and protégés that participate in the program are required to follow DOD's regulations and policies and procedures. For example, DOD's regulations state that the director of small business programs for each DOD component has the authority to approve firms as mentors and to approve mentor-protégé agreements, among other things. OSBP has developed tools to facilitate program administration, including

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<sup>10</sup>National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92, § 861(a)(1), 129 Stat. 726, 921-922 (2015) (codified at 10 U.S.C. § 2302 note).

<sup>11</sup>DOD's regulations for the Pilot Mentor-Protégé Program are found in the Defense Federal Acquisition Regulation, Subpart 219.71, *Pilot Mentor-Protégé Program*, and policies and procedures for the program in Appendix I, Policy and Procedures for the Pilot Mentor-Protégé Program.

<sup>12</sup>According to DOD, the components currently involved are the Army, Navy, Air Force, U.S. Special Operations Command, National Geospatial Intelligence Agency, National Security Agency, Missile Defense Agency, Defense Contract Management Agency, and Defense Logistics Agency.

a template to assist mentors and protégés in developing proposed agreements and a checklist to assist DOD components with ensuring that proposed agreements address required elements, which we discuss later in this report. However, DOD components and mentors and protégés are not required to use the tools.

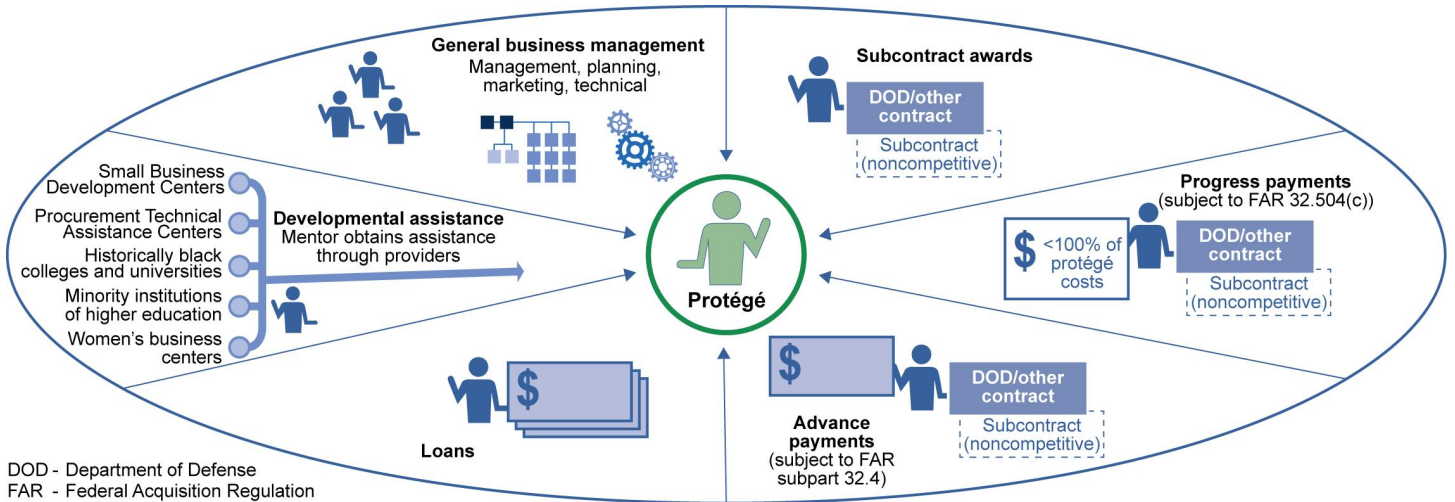
DOD's Pilot Mentor-Protégé Program offers two types of agreements. Reimbursable agreements provide payments directly to the mentor for the cost of providing developmental assistance to the protégé. Credit agreements provide mentors with credit toward their subcontracting goals for providing developmental assistance to protégés.<sup>13</sup> Mentors can provide protégés with various types of assistance under mentor-protégé agreements, including general business management, subcontract awards, progress payments, advance payments, and loans.<sup>14</sup> Mentors may also obtain assistance for protégés from Small Business Development Centers, Procurement Technical Assistance Centers, historically black colleges and universities, and minority institutions of higher education (see fig. 1).

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<sup>13</sup>Congress mandated and the Small Business Administration with input from DOD established, as an objective for DOD, the goal for fiscal year 2017 of awarding 5 percent of the amount contracted by DOD and subcontracted by DOD's prime contractors to small disadvantaged businesses.

<sup>14</sup>Mentor firms are permitted to make "progress payments" to protégé firms to perform subcontracts during the course of the subcontract. Mentor firms are also permitted to make "advance payments" to protégé firms to perform subcontracts, which are payments made before the subcontract commences. Advance payments must be conducted within the bounds of general federal regulations regarding advance payments for noncommercial items. 48 C.F.R. Subpart 32.4.

**Figure 1: Types of Developmental Assistance Mentors Can Provide to Protégés under DOD Mentor -Protégé Agreements, as of December 2016**



DOD - Department of Defense  
 FAR - Federal Acquisition Regulation

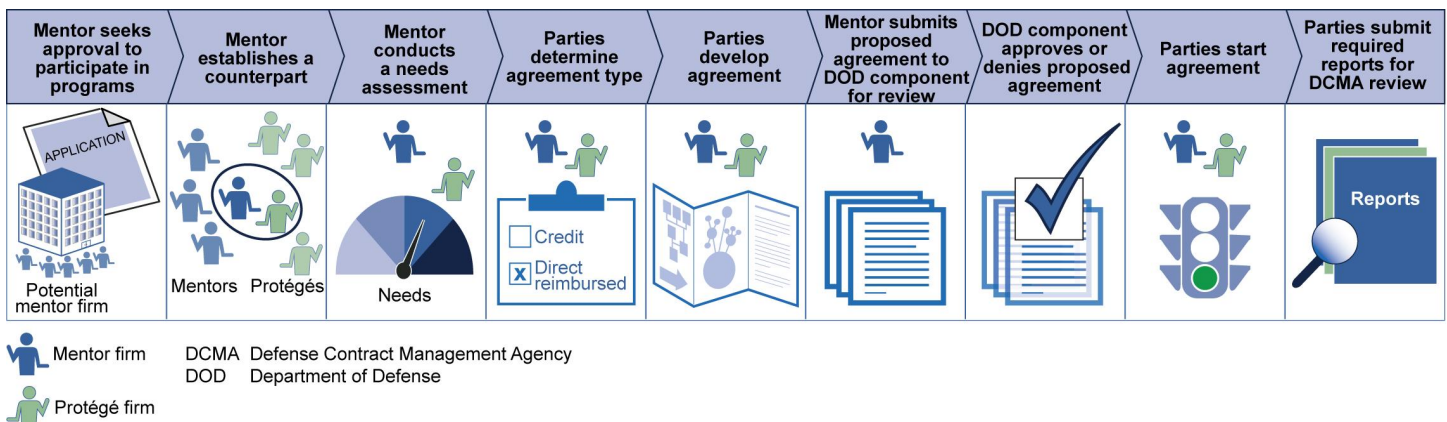
Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program policies and procedures. | GAO-17-172

DOD policies and procedures also require mentors to report on the progress made under active mentor-protégé agreements in semiannual reports. Mentors must also include in semiannual reports, among other things, (1) any assistance obtained by the mentor firm for the protégé firm from Small Business Development Centers, Procurement Technical Assistance Centers, historically black colleges and universities, and minority institutions of higher education for developmental assistance provided to protégés, (2) dollars credited (if any) toward applicable subcontracting goals as a result of developmental assistance provided to the protégé, and (3) the impact of the agreement in terms of capabilities enhanced, certifications received, or technology transferred. In addition, annual reports are to contain data on the protégé’s employment, revenue, and participation in DOD contracts. DOD procedures also require protégés to report on the progress made in each of the 2 years following the completion of their agreement. Further, DOD procedures require the Defense Contract Management Agency (DCMA), another DOD

component that manages agreements for the department, to conduct a performance review annually of each mentor-protégé agreement.<sup>15</sup>

DOD’s process for establishing and approving mentor-protégé agreements generally consists of nine steps (as illustrated in fig. 2):

**Figure 2: Steps Mentors and Protégés Follow to Establish DOD Mentor-Protégé Agreement, as of December 2016**



Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program policies and procedures. | GAO-17-172

1. Mentor seeks approval to participate in program. A firm that is interested in participating in the DOD Pilot Mentor-Protégé Program must submit an application for approval as a mentor to the Director of OSBP. To be eligible as a mentor, among other factors, a firm must not be affiliated with the protégé prior to the approval of the agreement and must demonstrate it is qualified to provide assistance that will contribute to the program’s purpose, among other requirements.
2. Mentor establishes a counterpart. The mentor is solely responsible for selecting the protégé. To be eligible as a protégé, a firm must be, among other things, a women-owned small business, Historically

<sup>15</sup>DOD Pilot Mentor-Protégé Program procedures state that DCMA performance reviews are conducted to determine (1) whether all costs reimbursed to the mentor firm under the agreement were reasonably incurred to furnish assistance to the protégé in accordance with the mentor-protégé agreement and applicable regulations and procedures; and (2) whether the mentor and protégé accurately reported progress made by the protégé in employment, revenues, and participation in DOD contracts during the program participation term and for 2 fiscal years following the expiration of the program participation term. DOD regulations further state that these reviews are a major factor in determining the amount of reimbursement that the mentor firm is eligible to receive in the remaining years of the mentor-protégé agreement.

Underutilized Business Zone (HUBZone) small business, service-disabled veteran-owned small business, or an eligible entity employing the severely disabled.

3. Mentor conducts a needs assessment. Once the mentor selects the protégé, the mentor conducts a preliminary assessment of the protégé's developmental needs. The mentor and protégé then mutually agree on the developmental assistance that the mentor is to provide to address those needs.
4. Parties determine the type of agreement. The mentor and protégé may apply for either a reimbursable mentor-protégé agreement or a credit agreement.
5. Parties develop the agreement. The mentor and protégé develop a proposed mentor-protégé agreement that must address a number of required elements, which we discuss in greater detail later in this report.
6. Mentor submits proposed agreement for review. The mentor submits the proposed agreement to the cognizant DOD component for review and approval.
7. DOD component approves or denies agreement. As previously noted, the director of small business programs for each DOD component has the authority to approve mentor-protégé agreements.
8. Parties start the agreement. The mentor and protégé begin the agreement, which cannot generally exceed 3 years.
9. Parties report on progress. The mentor is required to submit a semiannual report on the progress made under an active mentor-protégé agreement throughout the term of an agreement. The protégé is required to submit an annual report on progress made during each fiscal year of the program term and for each of the 2 fiscal years following the expiration of the agreement.

The NDAA for Fiscal Year 2016 made several changes to DOD's Pilot Mentor-Protégé Program.<sup>16</sup> For example, with respect to the relationship between a mentor firm and protégé firm, the act strengthened affiliation

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<sup>16</sup>DOD issued a proposed rule on September 23, 2016, to amend the Defense Federal Acquisition Regulation Supplement to implement a section of the National Defense Authorization Act for Fiscal Year 2016 that provides amendments to the DOD Pilot Mentor-Protégé Program. Defense Federal Acquisition Regulation Supplement: Amendment to Mentor-Protégé Program (DFARS Case 2016-D011), 81 Fed. Reg. 65610 (Sept. 23, 2016). Comments were due on the proposed rule on or before November 22, 2016. At the time of our review, DOD had not issued the final rule.

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rules by explicitly stating that the presence of certain family relationships between owners and managers in both the mentor and protégé firms constitutes affiliation and thereby is not allowed. In addition, the act amended the size requirement so that DOD's size standard for protégés is set at less than half of that used by SBA. See appendix III for additional information on selected changes to the program made by the NDAA for Fiscal Year 2016.

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### SBA's All Small Mentor-Protégé Program

According to SBA, the All Small Mentor-Protégé Program is designed to apply to all federal small business contracts, including those that small businesses currently participate in under other federal mentor-protégé programs. In addition, according to SBA, the rule establishing the regulations for the program is intended to be consistent with the regulations for SBA's 8(a) Business Development Mentor-Protégé Program.<sup>17</sup> SBA's All Small Mentor-Protégé Program includes certain requirements for the mentor-protégé programs of other federal agencies, but, as required by federal law, the program exempts DOD's Pilot Mentor-Protégé Program from these requirements. For example, the final rule states that the head of a department or agency must submit a plan to SBA for any previously existing mentor-protégé program that the department or agency seeks to continue within 1 year of the effective date of the rule (or by August 24, 2017).<sup>18</sup> In addition, the final rule states that a federal department or agency may not start a new mentor-protégé program unless the head of the department or agency submits a plan to the SBA Administrator for the program and the SBA Administrator

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<sup>17</sup>SBA's 8(a) Business Development Mentor-Protégé Program is designed to encourage approved mentors to provide various forms of business development assistance to protégé firms to enhance their capabilities, assist them with meeting goals established in their SBA-approved business plans, and improve their ability to successfully compete for contracts. Generally, firms can remain in the 8(a) program for up to 9 years, provided that they maintain their eligibility. During the first 4 years, known as the developmental stage of the program, firms may be eligible for assistance including sole-source and competitive 8(a) contract support and training in business capacity development and strategies to compete successfully for both 8(a) and non-8(a) contracts, among other things. During the last 5 years of the program, also known as a transitional period, firms are required to obtain a certain percentage of non-8(a) revenue to demonstrate their progress in developing into a viable business that is not solely reliant on the 8(a) program. As of March 2016, SBA's 8(a) program had 386 active mentor-protégé agreements.

<sup>18</sup>The requirement that existing mentor-protégé programs submit a plan applies to programs that were operated by a department or agency on January 2, 2013, 1 year after the effective date of the regulations.

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approves the plan. The incentives provided to mentors under SBA's programs differ from those provided under DOD's Pilot Mentor-Protégé Program, as we discuss in greater detail later in this report.

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## DOD's Procedures Do Not Provide Reasonable Assurance That Mentor-Protégé Agreements Contain All Required Elements

DOD components have the authority to approve mentor-protégé agreements, and they are required to follow the regulations, policies, and procedures DOD has established for the program. However, DOD lacks controls needed to provide reasonable assurance that mentor-protégé agreements approved by DOD components contain all elements required by DOD policies and regulations.

DOD's regulations and OSBP procedures do not prescribe the process DOD components should follow to approve mentor-protégé agreements. Instead, DOD's OSBP has allowed DOD components to develop their own detailed procedures. As shown in the following examples, these procedures differ in terms of some elements, such as criteria and time frames:

- **Air Force.** The Department of the Air Force (Air Force) issues an announcement each fiscal year that outlines its process for considering proposed mentor-protégé agreements. The fiscal year 2016 announcement describes a two-step solicitation process.<sup>19</sup> For fiscal year 2016, the Air Force was first to solicit white papers from prospective mentors describing, among other things, the proposed developmental assistance the mentor planned to provide to the protégé and the anticipated benefits of the agreement to the Air Force and protégé. Second, the Air Force was to invite mentors with white papers found to be consistent with the program goals to submit a formal mentor-protégé agreement proposal. As part of the proposal, mentors were required to submit a mentor-protégé agreement using the template found on OSBP's website. The announcement also stated that the Air Force planned to consider four factors when determining whether to recommend proposals for award: (1)

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<sup>19</sup>Fiscal Year 2016 Air Force Mentor-Protégé Program for the Secretary of the Air Force Small Business, Announcement Number FA7014-16-S-5001.

relevance of proposed technology to current Air Force requirements, (2) overall technical approach to providing transfer of technology and developmental assistance to the protégé, (3) the mentor's capacity and capability to achieve the objectives of the mentor-protégé program, and (4) estimated cost of the proposed assistance.<sup>20</sup>

- **Army.** The Department of the Army (Army) guidance states that proposed mentor-protégé agreements are to be approved and funded twice each fiscal year.<sup>21</sup> The guidance states that the Army intends to approve and fund proposed agreements that have a strong technical component or focus on the innovative transfer of state-of-the-art technology that supports Army troops. The Army guidance further states that mentors are required to submit a mentor-protégé agreement using the template found on OSBP's website. The guidance notes that the Army is to consider the following factors in descending order of importance when evaluating proposed mentor-protégé agreements: (1) subcontracting and prime contractor opportunities, (2) technical approach for developmental assistance, (3) involvement of historically black colleges and universities and minority institutions, (4) relevance to Army programs, (5) corporate capability and commitment, (6) management plan, and (7) mentor and protégé past and present performance.
- **Navy.** The Department of the Navy (Navy) guidance states that the prospective mentor and protégé are required to schedule an informal introductory briefing with the Navy's director of small business programs to discuss the proposed concept and objective of the mentor-protégé agreement.<sup>22</sup> As part of the briefing, the mentor and protégé are required to discuss, among other things, the mentor's experience providing developmental assistance under other mentor-protégé agreements; the proposed benefits to the mentor, protégé, and the Navy under the proposed agreement; and the rationale for why the proposed agreement should be sponsored. The Navy is to then provide the mentor and protégé with feedback on whether to submit a proposed mentor-protégé agreement. The Navy's guidance also states that the Navy accepts mentor-protégé agreement

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<sup>20</sup>The Air Force fiscal year 2016 announcement did not specify the relative importance of the four factors.

<sup>21</sup>Department of Army, *Mentor-Protégé Program Policies and Procedures Guide*, January 2016.

<sup>22</sup>Department of the Navy, *Mentor-Protégé Guidebook for Industry and Acquisition Professionals*, October 2015.



proposals during three time frames each fiscal year (December 1-31, March 1-31, and August 1-31). As part of the proposal, mentors are required to submit a mentor-protégé agreement using the template found on OSBP's website. The guidance further states that the Navy is to consider the following factors in descending order of importance when evaluating proposed mentor-protégé agreements: (1) merit of the technology transfer to the protégé, (2) perceived benefit of the agreement to the Navy, (3) perceived benefit of the agreement to the protégé, (4) percentage of hours associated with technology transfer, (5) subcontracting opportunities available to the protégé, (6) utilization of historically black colleges and universities and minority institutions, Procurement Technical Assistance Centers, and Small Business Development Centers, and (7) proposed cost.

Although DOD components have flexibility in considering a range of factors when approving mentor-protégé agreements, the agreements themselves are required to include certain elements that are defined in DOD's procedures, and these elements serve a variety of purposes. For example, an agreement must include the protégé's primary North American Industry Classification System (NAICS) code, which is used to determine the protégé's eligibility to participate in the program.<sup>23</sup> In addition, the agreement must describe the developmental assistance planned for the protégé, how the assistance is to address the protégé's identified needs and enhance its ability to perform successfully under contracts or subcontracts within DOD and other federal agencies, and factors to assess the protégé firm's developmental progress under the program, including specific milestones for providing assistance. The agreement must also specify a program participation term that does not exceed 3 years, which provides assurance that the mentor provides assistance to the protégé in a timely manner.<sup>24</sup> Further, the agreement also is required to be signed and dated by the mentor and protégé, which provides evidence of meeting the program requirement between the two parties. Figure 3 presents a complete list of the elements that mentors and protégés are required to include in their agreements.

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<sup>23</sup>According to the United States Census Bureau, NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

<sup>24</sup>The parties can request an extension of the agreement for up to 2 additional years subject to the approval of the small business program component director. The justification must detail the unusual circumstances that warrant a term greater than 3 years.

**Figure 3: Certain Required Elements of DOD Mentor-Protégé Agreements**



Source: GAO analysis of 10 U.S.C. § 2302 note and the Department of Defense Pilot Mentor-Protégé Program policies and procedures. | GAO-17-172

<sup>a</sup>The parties can request an extension of the agreement for up to 2 additional years subject to the approval of the small business program component director. The justification must detail the unusual circumstances that warrant a term greater than 3 years.

Our review of a randomly selected probability sample of 44 of the 78 total active DOD mentor-protégé agreements in place as of June 2016 found that a number of these agreements were missing required elements. Specifically, based on our review, we estimate that 27 percent of the agreements did not address all required elements.<sup>25</sup> With respect to specific elements, we estimate that 25 percent of the agreements did not include the signature of the mentor and protégé, 9 percent did not include the protégé's primary NAICS code, and 7 percent did not include an anticipated start and end date for the agreement. These missing elements suggest that the components' procedures for approving mentor-protégé agreements do not provide reasonable assurance that agreements are completed in accordance with DOD requirements.

According to officials from OSBP, which manages DOD's Pilot Mentor-Protégé Program, the DOD component that approves a mentor-protégé agreement is responsible for providing assurance that the agreement includes the required elements in accordance with the program's policies. However, DOD's procedures do not define how DOD components should review these proposals. OSBP officials told us that OSBP developed a checklist for DOD components to use to document the review of proposed mentor-protégé agreements. The checklist includes whether the mentor and protégé have signed the agreement, whether the mentor and protégé meet the program's eligibility requirements, and whether the agreement includes a description and milestones for the developmental assistance that is to be provided under the agreement, among other things. A senior OSBP official added that OSBP does not require DOD components to use the checklist, nor does OSBP periodically review the actions DOD components have taken to review mentor-protégé agreements for approval because OSBP does not want to micromanage the components. Instead, the official said that OSBP relies on DOD components to ensure that approved mentor-protégé agreements include all required elements, and in some cases, DOD components have developed their own checklist.

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<sup>25</sup>Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Because each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. All of the percentage estimates in this paragraph have a margin of error at the 95 percent confidence interval, with a maximum error rate of plus or minus 4.8 percentage points.

Federal internal control standards state that management should implement control activities through policies, and that this principle may be applied by, among other things, periodically reviewing control activities for continued relevance and effectiveness in achieving the entity's objective or addressing related risks.<sup>26</sup> As part of its responsibility for managing the Pilot-Mentor Protégé Program, OSBP is ultimately responsible for overseeing the program's policies and procedures. Because OSBP does not review the procedures established by DOD components for approving proposed mentor-protégé agreements or conduct its own monitoring of the components, it does not have assurance that the agreements approved by the components include all required elements. As a result, OSBP cannot ensure that the program requirements are serving their intended purposes—for example, as previously discussed, missing industry codes are used to determine whether protégés are eligible to participate in the program, and the signatures of the mentor and protégé are required for the agreement to meet the program requirements.

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## DOD Lacks Performance Goals and Measures to Facilitate Effective Program Assessment

Although DOD has established some performance measures for its Pilot Mentor-Protégé Program, the department lacks performance goals and other measures needed to fully assess the program. DOD prepares an annual report for the program related to the progress of protégés under active mentor-protégé agreements and protégés that completed or otherwise terminated participation in the program during the preceding 2 fiscal years. The report includes specific performance measures that describe changes in protégés' annual revenue, number of employees, number of DOD prime contract awards, and number of DOD subcontract awards.<sup>27</sup> DOD's annual reports show that protégés experienced increased revenues, number of employees, and DOD prime contracts and subcontracts while participating in the program from fiscal years 2011

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<sup>26</sup>[GAO-14-704G](#).

<sup>27</sup>The National Defense Authorization Act for Fiscal Year 2000, Pub. L. No. 106-65, § 811(d), 113 Stat. 512, 706 (1999) required DOD to submit to Congress an annual report on the trends in the progress made in employment, revenues, and participation in DOD contracts by protégé firms. However, that requirement was effective only until 2010 because it was not extended by law to be required past 2010 and was removed from the statute.

through 2015. In contrast, the reports show that protégés that left the program during this period experienced decreased revenues and employees in the 2 years following program participation (see table 1).

**Table 1: Summary of Selected Information from Department of Defense Annual Report on Pilot Mentor -Protégé Program**

<b>Change between start of agreement and end of fiscal year</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Annual revenue	increase	increase	increase	increase	increase
Employees	increase	increase	increase	increase	increase
DOD prime contract awards	increase	increase	increase	increase	increase
DOD subcontract awards	increase	increase	increase	increase	increase
<b>Change between end of agreement and 2 years after agreement</b>					
Annual revenue	decrease	decrease	decrease	decrease	decrease
Employees	n/a	decrease	decrease	decrease	decrease

↑ Increase  
 ↓ Decrease  
 n/a Not available

Source: GAO analysis of DOD Annual Report on Pilot Mentor-Protégé Program, Fiscal Years 2011 to 2015. | GAO-17-172

However, we found that DOD lacks performance goals and additional measures needed to effectively assess its Pilot Mentor-Protégé Program. Specifically, DOD has not established any measurable goals for the performance information it reports for the program. Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress toward pre-established goals. We have previously identified performance measurement as a best practice that allows organizations to track progress in achieving their goals and gives managers crucial information to identify gaps in program performance and plan any needed improvements.<sup>28</sup> In addition, according to federal internal control standards, managers need to compare actual performance against planned or expected results and analyze significant differences.<sup>29</sup> While DOD collects and reports information on protégés'

<sup>28</sup>GAO/GGD-96-118. Strategic planning requirements under the Government Performance and Results Act of 1993 (GPRA) as enhanced by the GPRA Modernization Act of 2010 require agencies to have performance goals for their program activities and accompanying performance measures. These requirements are applicable at the department or agency level. However, performance goals and measures are important management tools applicable to all levels of an agency, including the program, project, or activity level, consistent with leading management practices and internal controls related to performance monitoring.

<sup>29</sup>GAO-14-704G.

annual revenue, employment levels, and prime contract and subcontract awards, it has not established goals for these measures. As a result, DOD is limited in its ability to use this information to assess program performance.<sup>30</sup>

In addition, DOD has not established measures for one part of the program's statutory purpose. The information that DOD currently reports relates to the part of the program purpose to increase the participation of small businesses in DOD and other federal government contracts. As previously discussed, part of the program's purpose is also to enhance the capabilities of eligible small businesses to perform as subcontractors and suppliers under DOD and other contracts and subcontracts, and the current program measures do not address this part of the program's purpose. Mentors report information to DOD in semiannual reports on how the capabilities of protégés were enhanced, what certifications the protégés obtained, and what technology the mentors transferred to the protégés. However, DOD does not include this information in its annual report for the program, and it has not developed performance measures or goals related to this information. As a result, DOD is not using the information it collects to fully assess how well the program is enhancing the capabilities of eligible small businesses to perform under DOD and other contracts, and, therefore, not fully addressing the purpose of the program.

OSBP officials told us that they have not considered setting targets each year for the program's current performance measures because these measures—revenues, employee levels, and prime contract and subcontract awards—do not reflect the primary focus of the program, which the officials noted is to assist small businesses in becoming part of the defense supply chain. The officials noted that DOD is working to develop measures that provide a better indication of program effectiveness. For example, the officials described a potential measure that would assess how the assistance mentors provide to protégés under agreements helps resolve operational challenges. However, DOD had yet to establish any such measures as of January 2017. Moreover, the

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<sup>30</sup>In August 2012, we reported on, among other things, the performance measures and goals for 52 programs that can support entrepreneurs and small businesses. We found that, although some programs did not meet their goals, most of the 52 programs had performance measures in place, with accompanying measurable goals where appropriate. For more information, see GAO, *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*, [GAO-12-819](#) (Washington, D.C.: Aug. 23, 2012).

officials estimated that it would take about 2 years for DOD to develop and establish baselines for these measures. Until DOD establishes performance goals and related performance measures consistent with the program's stated purpose, it may be more difficult for DOD to analyze the effectiveness of the Pilot Mentor-Protégé Program and to identify and prioritize potential improvements. As a result, Congress may not have the information it needs to make informed decisions on whether to reauthorize the pilot program, terminate it, or make it permanent.

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## SBA and DOD Programs Have Key Differences, but the Agencies Plan to Consider Harmonization in Future Discussions

DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor-Protégé Program have a number of key differences, including their eligibility requirements and participation incentives. These differences are largely based on statutory provisions and program rules that may—but will not necessarily—affect future efforts to harmonize the programs. Implementation of SBA's All Small Mentor-Protégé Program is ongoing, but DOD and SBA officials said they plan to consider harmonizing their programs after SBA's program is fully implemented in July 2017.

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### Program Differences Include Eligibility Requirements for Protégés and Participation Incentives

Based on our review of statutory provisions and program rules, we found that DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor-Protégé Program differ in a number of ways. For example, DOD and SBA apply the SBA size standards differently when determining the eligibility of protégés under their respective programs. SBA's small business size standards establish the largest that a firm can be and still qualify as a small business for federal government programs.<sup>31</sup> DOD's Pilot Mentor-Protégé Program limits the size of eligible protégés to less than one-half of SBA's small business size standard. In contrast, a firm can qualify as a

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<sup>31</sup>SBA's size standards vary by industry and are almost always stated as the average number of employees or average annual receipts of a business, according to the relevant NAICS code.

protégé under SBA's All Small Mentor-Protégé Program if it does not exceed the SBA small business size standard for its primary NAICS code.

Table 2 illustrates how DOD and SBA apply the SBA size standard differently under their respective programs for selected NAICS codes. For example, a business that manufactures printed circuit assemblies would be eligible as a protégé under DOD's Pilot Mentor-Protégé Program as long as it employed fewer than 375 employees; under SBA's All Small Mentor-Protégé Program, the same business would be eligible as long as it employed no more than 750 employees.

**Table 2: Comparison of Size Standards Used by DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor Protégé Program for Selected North American Industry Classification System (NAICS) Codes, effective February 26, 2016**

NAICS code	NAICS code description	SBA	DOD	SBA	DOD
		Size standard (dollars in millions)	Less than one-half size standard (dollars in millions)	Size standard (in employees)	Less than one-half size standard (in employees)
334418	Printed circuit assembly (electronic assembly) manufacturing	n/a	n/a	750	<375
336413	Other aircraft part and auxiliary equipment manufacturing	n/a	n/a	1,250	<625
541511	Custom computer programming services	27.5	<13.75	n/a	n/a
541620	Environmental consulting services	15.0	<7.5	n/a	n/a
541990	All other professional, scientific and technical services	15.0	<7.5	n/a	n/a

Source: GAO analysis of SBA's Table of Small Business Size Standards Matched to North American Industry Classification System codes (effective Feb. 26, 2016). | GAO-17-172

Note: The Department of Defense's (DOD) Pilot Mentor-Protégé Program limits the size of eligible protégés to less than one-half of the size standard corresponding to its primary North American Industry Classification System (NAICS) code, while the Small Business Administration's All Small Mentor-Protégé Program uses the full NAICS code amount. According to the United States Census Bureau, NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

Further, DOD's Pilot Mentor-Protégé Program permits mentors to enter into agreements with more than one protégé. Under SBA's All Small Mentor-Protégé Program, mentors generally are not permitted to have more than one protégé at a time. However, SBA may authorize a firm to mentor more than one protégé at a time if it can demonstrate that the additional mentor-protégé relationship will not adversely affect the



development of either protégé firm (e.g., the second firm may not be a competitor of the first firm), but under no circumstances does SBA permit a mentor to have more than three protégés at one time.

In addition, DOD's Pilot Mentor-Protégé Program receives appropriated funds, while SBA's All Small Mentor-Protégé Program does not; as previously noted, DOD's Pilot Mentor-Protégé Program received \$28.3 million for fiscal year 2016. DOD uses its appropriated funding to provide direct reimbursement to mentors for providing developmental assistance to protégés. Incentive mechanisms are another key difference between DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor-Protégé Program. Under DOD's program, mentors may receive direct reimbursement or credit toward subcontracting goals for providing developmental assistance to protégés. Under statute, generally a mentor in DOD's Pilot Mentor-Protégé Program may not receive reimbursements for costs of assistance that exceed \$1 million in a fiscal year.<sup>32</sup> Under SBA's All Small Mentor-Protégé Program, a mentor and protégé may agree to seek any government prime contract or subcontract jointly as a small business, provided the protégé qualifies as "small" for the procurement, and receive exclusion from the affiliation rules for the duration of the mentor-protégé agreement after both meeting certain regulatory requirements and obtaining SBA approval. In addition, SBA's program permits federal agencies to provide incentives during the contract evaluation process to a mentor that will provide significant subcontracting work to its SBA-approved protégé firm, where appropriate.

Although the statutory provisions and program rules that determine mentor incentives differ, DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor-Protégé Program face similar inherent risk that mentors may receive benefits but may not necessarily provide developmental assistance to protégés as agreed to in their mentor-protégé agreements. Officials from both agencies said they take certain actions intended to mitigate this risk. For example, DOD requires an annual review of each mentor-protégé agreement to verify the performance information provided in the annual reports. Similarly, SBA reviews the protégé's report on the mentor-protégé relationship and may decide not to continue the

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<sup>32</sup>DOD's Pilot Mentor-Protégé Program policies and procedures state that requests for authority to reimburse a mentor in excess of \$1 million must detail the unusual circumstances and be endorsed and submitted by the program manager to the cognizant director, Small Business Programs. The cognizant director must determine in writing that the unusual circumstances justify reimbursement at a higher amount.

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agreement if it finds that the mentor has not provided the agreed upon assistance or the assistance has not resulted in developmental gains for the protégé.<sup>33</sup>

Appendix IV provides more details on the characteristics of DOD's Pilot Mentor-Protégé Program and SBA's All Small Mentor-Protégé Program.

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### DOD and SBA Plan to Consider Opportunities to Harmonize Their Programs Once Implementation of SBA's New Program Is Complete

As previously noted, SBA's All Small Mentor-Protégé Program is designed to apply to nearly all federal small business contracts, including those that small businesses currently participate in as part of other federal mentor-protégé programs. Under the new program, federal agencies will be required to be granted approval from the SBA Administrator in order to continue their existing mentor-protégé programs or to start new ones. By statute, federal departments and agencies with mentor-protégé programs in effect before January 2, 2013, are permitted to continue them until late July 2017 without being granted the SBA approval. However, after late summer 2017, approval must be granted to continue the program. Although it is too soon to tell whether the other federal agencies that currently administer mentor-protégé programs will seek to continue their own programs, SBA's experience in implementing the All Small Mentor-Protégé Program may provide useful insights for harmonizing other federal mentor-protégé programs—that is, identifying and assessing differences and eliminating or reducing inconsistencies, where appropriate. For example, implementing SBA's program may involve actions to potentially harmonize characteristics of mentor-protégé programs that serve different socioeconomic categories of small businesses and multiple agencies with various procurement needs.

Although the statute creating SBA's program exempted DOD from the program's requirements, the legislation implementing DOD's program and the final rule implementing SBA's program state that both programs are designed to enhance the capabilities of protégé firms to perform under federal government and commercial contracts. This general similarity in

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<sup>33</sup>For this review, we focused on the need for a review process for the approval of mentor-protégé agreements and did not evaluate DOD's or SBA's processes for reviewing the progress made under those agreements.

program purpose could facilitate harmonization between the programs. DOD and SBA officials said that opportunities to harmonize the programs may exist; however, they said it is too soon to explore harmonization because SBA is in the early stages of implementing the All Small Mentor-Protégé Program. Officials said that they plan to consider opportunities to harmonize their programs once implementation of SBA's new program is complete later in 2017.

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## Conclusions

DOD's Pilot Mentor-Protégé Program is intended to both (1) enhance the capabilities of eligible disadvantaged small business concerns to perform as subcontractors and suppliers under DOD contracts and other contracts and subcontracts and (2) increase the participation of such business concerns as subcontractors and suppliers under DOD contracts, other federal government contracts, and commercial contracts. DOD procedures require that mentor-protégé agreements contain certain elements to help provide assurance that the agreements support program purposes and that the participants meet program requirements, among other things. However, we found that program participants did not consistently include all of the required elements in these agreements and that DOD's OSBP does not review the procedures that DOD components use to approve the agreements, as suggested by federal internal control standards. As a result, some agreements have been approved even though they were missing required elements, and DOD cannot ensure that these program requirements are serving their intended purposes.

In addition, DOD's performance measures for the decades-old program lack performance goals and additional measures needed to effectively assess its Pilot Mentor-Protégé Program. Although DOD officials said they are considering changes to their performance measures, they had yet to make such changes as of January 2017. Until DOD establishes performance measures and related measurable goals consistent with the program's stated purpose, it may be more difficult for DOD to fully assess the effectiveness of the Pilot Mentor-Protégé Program and to identify and prioritize potential improvements. In addition, Congress may not have the information it needs to make informed decisions on whether to reauthorize the pilot program, terminate it, or make it permanent.

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## Recommendations for Executive Action

To provide reasonable assurance that DOD's Pilot Mentor-Protégé Program meets its mission, we recommend that the Director, DOD's Office of Small Business Programs, take the following two actions:

1. Conduct periodic reviews of the processes DOD components follow to approve agreements and take oversight actions, as appropriate.
2. Complete actions to develop performance goals and related measures that are consistent with the program's stated purpose.

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## Agency Comments

We provided a draft of this report to DOD and SBA for comment. In its written comments, which are summarized and reprinted in appendix V, DOD concurred with both recommendations. SBA provided technical comments, which we incorporated as appropriate.

DOD concurred with our recommendation to conduct periodic reviews of the processes DOD components follow to approve agreements and take oversight actions, as appropriate. DOD said it has drafted a standard operating procedure (SOP) that addresses GAO's recommendations. In addition, DOD said that the SOP requires DOD component program managers to review mentor-protégé proposal packages prior to submitting them for review and concurrence. DOD also said the draft SOP includes a new checklist that identifies required elements, such as the North American Industry Classification System code, mentor approval letter, and fully executed copy of the mentor-protégé agreement.

DOD also concurred with our recommendation to complete actions to develop performance goals and related measures that are consistent with the program's stated purpose. DOD stated that it is currently evaluating ways to develop measures that provide a better indication of program effectiveness for active mentor-protégé agreements and the 2 years following program participation. DOD noted that establishing baseline performance goals for all protégés to meet would not be advantageous due to the differences of each agreement and the small business needs of each respective DOD component; however, DOD stated that establishing a set of goals by tier group, for example, may better determine program performance as it would even the playing fields between large and small business concerns. Finally, DOD stated that it

collects information from mentors on how they have enhanced the capabilities of protégés and plans to begin including these data in the annual report to Congress once performance measures and goals have been established.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, DOD's Director, Office of Small Business Programs, and the SBA Administrator. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.



William B. Shear Director, Financial Markets and Community Investment

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*List of Committees*

The Honorable John McCain Chairman The Honorable Jack Reed  
Ranking Member Committee on Armed Services United States Senate

The Honorable Mac Thornberry Chairman The Honorable Adam Smith  
Ranking Member Committee on Armed Services House of  
Representatives

## Appendix I: Objectives, Scope, and Methodology

This report examines (1) the Department of Defense's (DOD) procedures for approving mentor-protégé agreements; (2) DOD's performance measures for the program; and (3) differences between DOD's Pilot Mentor-Protégé Program and the Small Business Administration's (SBA) All Small Mentor-Protégé Program and the agencies' efforts to harmonize the two programs.

To address the first objective, we reviewed DOD's current regulations and policies and procedures for approving mentor-protégé agreements, including changes mandated by the National Defense Authorization Act (NDAA) for Fiscal Year 2016. In addition, we reviewed guidance developed by three military services (the Departments of the Air Force, Army, and Navy) that administer and have the authority to approve mentor-protégé agreements.<sup>1</sup> We also reviewed a randomly selected probability sample of 44 of the 78 active DOD mentor-protégé agreements in place as of June 2016 to assess how well DOD's procedures provide reasonable assurance that mentor-protégé agreements meet program requirements.

With this probability sample, each member of the study population had a nonzero probability of being included, and that probability could be computed for any member. Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. All percentage estimates in this report are presented along with their margins of error at the 95 percent confidence level.

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<sup>1</sup>According to DOD, the military services and defense agencies currently involved are: Army, Navy, Air Force, U.S. Special Operations Command, National Geospatial Intelligence Agency, National Security Agency, Missile Defense Agency, Defense Contract Management Agency, and Defense Logistics Agency.

We interviewed DOD officials from the Office of Small Business Programs (OSBP) to discuss the procedures for approving mentor-protégé agreements and the controls in place to ensure that DOD components followed the procedures. We assessed DOD's practices against Standards for Internal Control in the Federal Government.<sup>2</sup> We also reviewed the NDAA for Fiscal Year 2016 to identify changes that the act made to the DOD Pilot Mentor-Protégé Program, such as amending the size requirement so that a protégé is less than half of the SBA size standard for its primary North American Industry Classification System code.

To address the second objective, we reviewed the measures and other information DOD reports on the performance of its Pilot Mentor-Protégé Program, including DOD's current measures, which provide information related to the participation of protégés as subcontractors and suppliers under DOD and other contracts, and whether these measures address how the capabilities of protégé firms have been enhanced. This review included the annual reports prepared by the Defense Contract Management Agency (DCMA) for fiscal years 2011 through 2015 that provide aggregate data on protégé firms' annual revenues, number of employees, and awards of prime contracts and subcontracts during their tenure in the program and for 2 years after they leave the program. We also reviewed the most recent semiannual report provided to DOD by the mentor and protégé for the randomly selected probability sample of mentor-protégé agreements we reviewed to examine the types of performance information included in these reports. We also interviewed DOD officials regarding their use of performance information. We compared DOD's practices to those GAO previously identified as being associated with agencies that were successful in measuring their performance and federal internal control standards.<sup>3</sup>

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<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

<sup>3</sup>GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996). While the Government Performance and Results Act is applicable to the department or agency level, performance goals and measures are important management tools applicable to all levels of an agency, including the program, project, or activity level, consistent with leading management practices and internal controls related to performance monitoring. [GAO-14-704G](#).



To address the third objective, we reviewed the DOD Pilot Mentor-Protégé Program's implementing statute and subsequent legislative changes to the program, including those made by the NDAA for Fiscal Year 2016. We also reviewed SBA's final rule which implemented provisions of the Small Business Jobs Act of 2010 and the National Defense Authorization Act for Fiscal Year 2013, which established the All Small Mentor-Protégé Program and the policies and procedures for SBA's 8(a) Business Development Program.<sup>4</sup> We identified selected characteristics of the programs, including the purpose, funding, number of agreements, eligibility requirements of mentors and protégés, authority to approve agreements, types of assistance mentors may provide to protégés, reporting requirements for mentors and protégés, and the mechanism used to encourage mentor participation in each program. We also identified differences between the programs for some of these characteristics and discussed them with DOD and SBA officials, including how differences between the programs could affect possible efforts to harmonize the programs.<sup>5</sup>

In addition, we analyzed a randomly selected probability sample of 44 of the 78 active DOD mentor-protégé agreements in place as of June 2016 to identify characteristics of protégé firms. These characteristics include the number of years protégé firms have been in business, the number of employees of the protégé firms, annual revenues of the protégé firms, and their previous contracting experience. We also identified the types of developmental assistance mentor firms agreed to provide to protégé firms based on information reported for the randomly selected probability sample of agreements. These results can be found in appendix II.

We conducted this performance audit from January 2016 to April 2017, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>4</sup>Small Business Mentor Protégé Programs, 81 Fed. Reg. 48558 (July 25, 2016).

<sup>5</sup>In doing so, our focus was on program design differences found in statute and program rules rather than on program administration and oversight.

## Appendix II: Selected Characteristics of DOD Protégé Firms

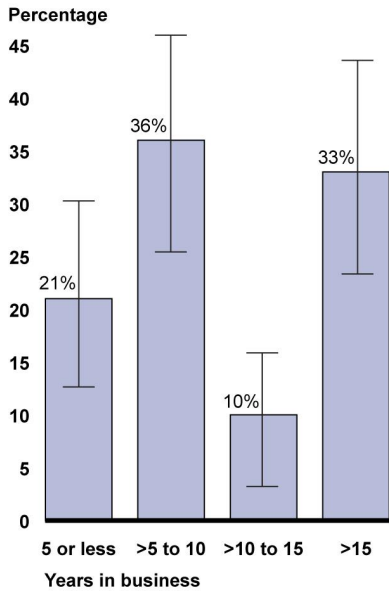
Under the Department of Defense's (DOD) Pilot Mentor-Protégé Program, mentor firms agree to provide eligible small business concerns (protégé firms) with technical, managerial, and other business development assistance under approved mentor-protégé agreements. Based on our review of a randomly selected probability sample of 44 of the 78 active DOD mentor-protégé agreements in place as of June 2016, we analyzed selected characteristics of protégé firms that enter the program and the types of developmental assistance that mentor firms agree to provide protégé firms.<sup>1</sup>

As shown in figure 4, we estimate that over half (57 percent) of protégé firms have been in business for 10 years or less, and an estimated 21 percent have been in business 5 years or less. We also estimate that more than 33 percent of protégé firms have been in business for more than 15 years.

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<sup>1</sup>Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. All of the percentage estimates in this appendix are presented along with their margins of error at the 95 percent confidence level.

**Figure 4: Number of Years DOD Protégé Firms Have Been in Business, as of June 2016**

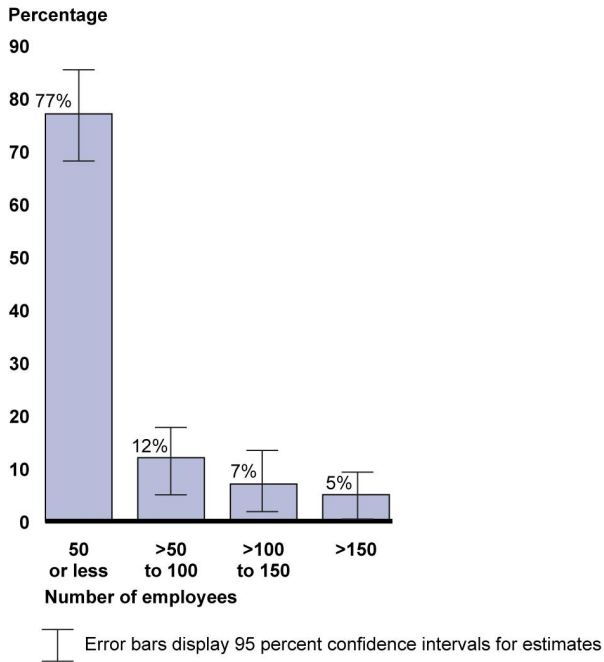


Error bars display 95 percent confidence intervals for estimates

Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program agreements. | GAO-17-172

We also analyzed DOD mentor-protégé agreement documentation to determine the number of employees in protégé firms. We found that an estimated 77 percent of the protégé firms had 50 or fewer employees (see fig. 5).

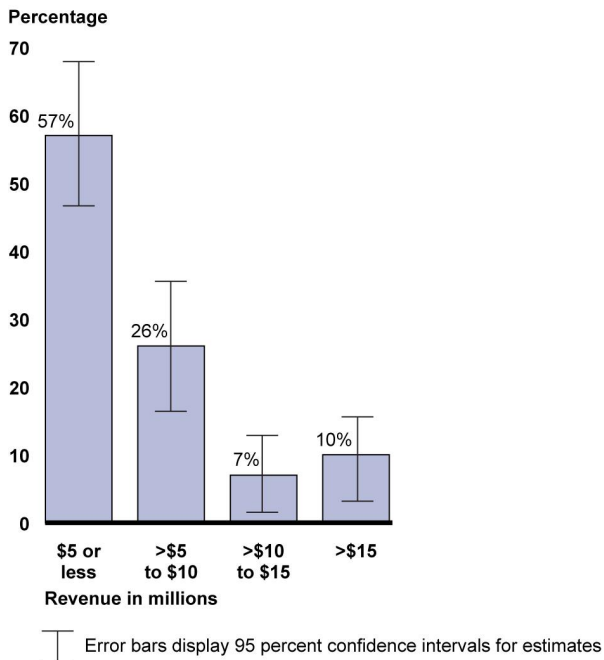
Figure 5: Number of Employees at DOD Protégé Firms, as of June 2016



Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program agreements. | GAO-17-172

In addition, we examined DOD mentor-protégé agreement documentation to determine protégé firms' annual revenue. We found that an estimated 57 percent of protégé firms had annual revenue of \$5 million or less. More than three-quarters of protégé firms had annual revenue of \$10 million or less, and an estimated 17 percent of protégé firms had annual revenues above \$10 million (see fig. 6).

**Figure 6: DOD Protégé Firms' Annual Revenues, as of June 2016**

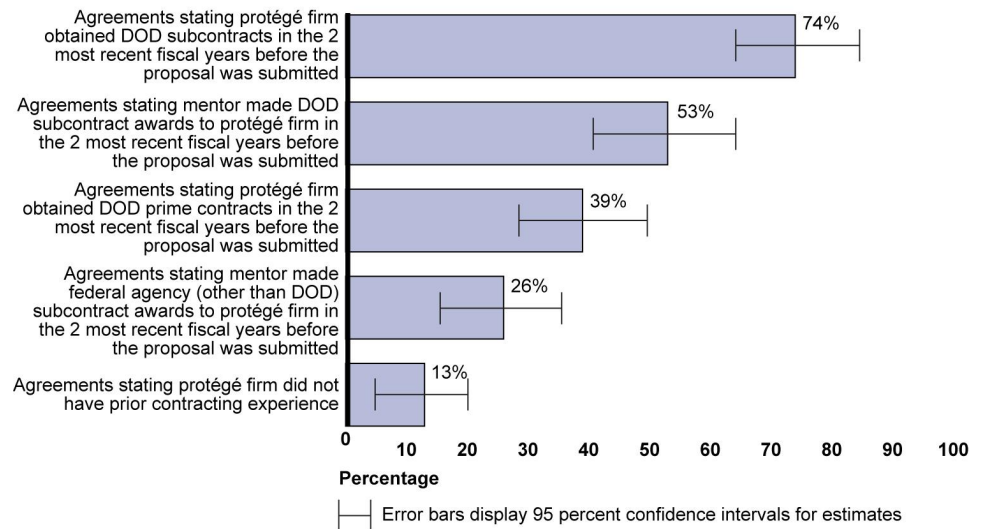


Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program agreements. | GAO-17-172

We also analyzed DOD mentor-protégé agreement documentation to determine the protégé firms' previous contracting experience. We found that an estimated 39 percent of protégé firms indicated having obtained a DOD prime contract in the 2 fiscal years before the proposed mentor-protégé agreement was submitted.<sup>2</sup> We also found that an estimated 74 percent of protégé firms indicated having obtained DOD subcontracts in the 2 fiscal years before the proposed mentor-protégé agreement was submitted and that an estimated 26 percent indicated having received a federal agency (other than DOD) subcontract award from the mentor firm during that time. In addition, an estimated 53 percent of protégé firms indicated having received subcontract awards from their mentor firm in the 2 fiscal years before the proposed agreement was submitted. We also found that an estimated 13 percent of protégé firms indicated they did not have previous contracting experience (see fig. 7).

<sup>2</sup>Mentor-protégé agreement anticipated start dates varied in our probability sample from April 2012 to October 2015.

Figure 7: DOD Protégé Firms' Previous Contracting Experience, as of June 2016



Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program agreements. | GAO-17-172

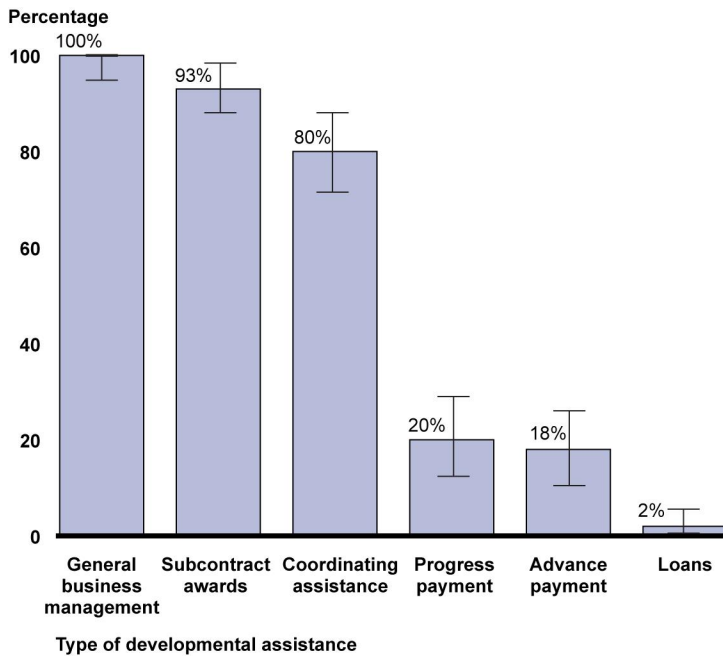
Notes: The information in three mentor-protégé agreement documents did not contain complete information on the protégé firms' prior contracting experience.

Based on our analysis of DOD mentor-protégé agreement documentation, we found that mentor firms anticipated providing some types of assistance more frequently than others. For example, we found that all mentor firms anticipated providing general business assistance to their protégé firms.<sup>3</sup> In addition, we found that an estimated 93 percent of mentor firms anticipated awarding subcontracts to their protégé firms, and an estimated 80 percent anticipated obtaining assistance for their protégé firms through historically black colleges and universities, minority institutions of higher education, Procurement Technical Assistance Centers, or Small Business Development Centers. In contrast, an estimated 2 percent of mentor firms anticipated extending loans to protégé firms. We also found that an estimated 20 percent anticipated

<sup>3</sup>General business assistance includes (1) organizational management, financial management, and personnel management, marketing, and overall business planning; (2) engineering and technical matters such as production inventory control and quality assurance; and (3) any other assistance designed to develop the capabilities of the protégé.

providing progress payments and an estimated 18 percent anticipated providing advance payments to their protégé firms (see fig. 8).<sup>4</sup>

**Figure 8: Types of Developmental Assistance DOD Mentor Firms Anticipated Providing Protégé Firms in Their Agreements, as of June 2016**



Error bars display 95 percent confidence intervals for estimates

Source: GAO analysis of Department of Defense Pilot Mentor-Protégé Program agreements. | GAO-17-172

<sup>4</sup>Mentor firms are permitted to make “progress payments” to protégé firms to perform subcontracts during the course of the subcontract. Mentors firms are also permitted to make “advance payments” to the protégé firm to perform subcontracts, which are payments made before the subcontract commences. Advance payments must be conducted within the bounds of general federal regulations regarding advance payments for non-commercial items. 48 C.F.R. Part 32.4.

# Appendix III: Selected Changes to DOD's Pilot Mentor-Protégé Program in the NDAA for Fiscal Year 2016

The National Defense Authorization Act (NDAA) for Fiscal Year 2016 made a number of changes to the Department of Defense's (DOD) Pilot Mentor-Protégé Program.<sup>1</sup> In addition to the changes previously discussed, Section 861 of the NDAA for Fiscal Year 2016 also made the following changes and additions, among others:

- Extended the DOD mentor-protégé program for 3 more years through fiscal year 2018 for the formation of new agreements and for the reimbursement of incurred costs and credit toward attaining subcontracting goals, under existing agreements incurred through fiscal year 2021.
- Imposed a limit on when protégé firms can enter into mentor-protégé agreements under the program to only during the 5-year period beginning on the date the protégé firm enters into its first mentor-protégé agreement.
- Changed program eligibility requirements to include that a protégé firm may, among other things, be a small business concern that is either a nontraditional defense contractor or currently provides goods or services in the private sector that are critical to enhancing the capabilities of the defense supplier base and fulfilling key DOD needs.
- Required mentor firms to report at least once a fiscal year any new awards of subcontracts on a competitive or noncompetitive basis to the protégé firm under DOD contracts or other contracts, including the value of such subcontracts.

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92, § 861, 129 Stat. 726, 921 (2015) (codified, as amended, at 10 U.S.C. § 2302 note).



- Required mentor firms to report at least once a fiscal year any assistance obtained on behalf of the protégé from Small Business Development Centers, certain entities providing procurement technical assistance, or historically black colleges or universities or minority institutions of higher education.
- Required the Office of Small Business Programs (OSBP) to review reports submitted by mentor firms on specific statutory topics and if a mentor-protégé agreement is not furthering the purpose of the program, decide not to approve any continuation of the agreement.
- Removed “business development” assistance from the permissible mentor firm personnel provided assistance and removed cash in exchange for an ownership interest in the protégé firm from the types of assistance a mentor firm may provide to a protégé firm.
- Revised the definitions of the term “disadvantaged small business concern” limiting it to firms that have less than half the size standard corresponding to their primary North American Industry Classification System code.
- Changed affiliation rules by explicitly stating that the presence of certain family relationships between the owners and managers in the mentor and protégé firms constitutes affiliation and thereby is not allowed.

# Appendix IV: Selected Characteristics of DOD's Pilot Mentor-Protégé and SBA's Small Business Mentor- Protégé Programs

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Purpose	Enhance the capabilities of eligible small business concerns to perform as subcontractors and suppliers under DOD contracts and other contracts and subcontracts, and increase the participation of such business concerns as subcontractors and suppliers under DOD contracts, other federal government contracts, and commercial contracts.	Enhance the capabilities of the protégé (an 8(a) BD Program participant), assist the protégé with meeting the goals established in its SBA-approved business plan, and improve the protégé's ability to successfully compete for contracts.	Enhance the capabilities of protégé firms by requiring approved mentors to provide business development assistance to protégé firms and to improve the protégé firms' ability to successfully compete for federal contracts.
Funding (dollars in millions)	28.3 million (fiscal year 2016)	None	None
Number of agreements	78 (as of June 2016)	465 (as of November 2016)	45 (as of November 2016)

**Appendix IV: Selected Characteristics of  
DOD's Pilot Mentor-Protégé and SBA's Small  
Business Mentor-Protégé Programs**

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Eligibility requirements (protégé)	<p>Protégé must be a small disadvantaged business, a business entity owned and controlled by an Indian tribe or a Native Hawaiian Organization, a woman-owned business, a Historically Underutilized Business Zone (HUBZone) small business, service-disabled veteran-owned small business, a small business that statutorily qualifies as a nontraditional defense contractor, or an eligible entity employing the severely disabled.</p> <p>Protégé must qualify as small by being less than half the size standard corresponding to its primary North American Industry Classification System (NAICS) code.</p> <p>Mentor may rely on written representation that the protégé qualifies as small when entering into a mentor-protégé agreement but must confirm a protégé's status as a HUBZone small business concern.</p>	<p>Protégé must (1) qualify as small for the size standard corresponding to its primary North American Industry Classification System (NAICS) code or identify that it is seeking business development assistance with respect to a secondary NAICS code and qualify as small for the size standard corresponding to that NAICS code; and (2) demonstrate how the business development assistance to be received through its proposed mentor-protégé relationship would advance the goals and objectives set forth in its business plan.</p>	<p>Protégé must qualify as small for the size standard corresponding to its primary North American Industry Classification System (NAICS) code or identify that it is seeking business development assistance with respect to a secondary NAICS code and qualify as small for the size standard corresponding to that NAICS code.</p> <p>A firm may self-certify that it qualifies as small for its primary or identified secondary NAICS code. When the firm is not small for the primary NAICS code and seeks to qualify for the secondary NAICS code, the firm must demonstrate how the mentor-protégé relationship is a logical business progression for the firm and will further develop or expand current capabilities. SBA will not approve a relationship in a secondary NAICS code in which the firm has no prior experience.</p>

**Appendix IV: Selected Characteristics of  
DOD's Pilot Mentor-Protégé and SBA's Small  
Business Mentor-Protégé Programs**

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Eligibility requirements (mentors)	A mentor, among other requirements, must be: (1) not affiliated with the protégé firm prior to the approval of the agreement; (2) demonstrate that it is qualified to provide assistance that will contribute to the purpose of the program and is in good financial health and character and does not appear on a federal list of debarred or suspended contractors; (3) an entity other than small business that is a DOD prime contractor with an active subcontracting plan (unless a waiver to the small business exception has been obtained from the Director, Small Business Programs, Office of the Undersecretary of Defense for Acquisition, Technology, and Logistics); or (4) a graduated 8(a) firm that provides documentation of its ability to serve as a mentor; and (5) approved to participate as a mentor.	Mentor must (1) be capable of carrying out its responsibilities to assist the protégé firm under the proposed mentor-protégé agreement; (2) possesses good character; (3) not appear on the federal list of debarred or suspended contractors; and (4) be able to impart value to a protégé due to lessons learned and practical experience gained because of the 8(a) BD program, or through its knowledge of general business operations and government contracting.	Mentor must demonstrate that it (1) is capable of carrying out its responsibilities to assist the protégé under the proposed mentor-protégé agreement; (2) possesses good character; (3) does not appear on the federal list of debarred or suspended contractors; and (4) can impart value to a protégé firm due to lessons learned and practical experience gained or through its knowledge of general business operations and government contracting.
Agreement approval authority	Director, Small Business Programs, for each military department or defense agency generally approves mentor-protégé agreements.	The Associate Administrator for Business Development or his/her designee must approve the mentor-protégé agreement. The agreement will not be approved if SBA determines that the assistance to be provided is not sufficient to promote any real developmental gains to the protégé, or if SBA determines that the agreement is merely a vehicle to enable the mentor to receive 8(a) contracts.	The Associate Administrator for Business Development or his/her designee must approve the mentor-protégé agreement. The agreement will not be approved if SBA determines that the assistance to be provided is not sufficient to promote any real developmental gains to the protégé, or if SBA determines that the agreement is merely a vehicle to enable the mentor to receive small business contracts.

**Appendix IV: Selected Characteristics of  
DOD's Pilot Mentor-Protégé and SBA's Small  
Business Mentor-Protégé Programs**

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Number of agreements mentor may enter into	A mentor may enter into agreements with more than one protégé.	Generally, a mentor will have no more than one protégé at a time. However, SBA may authorize a concern to mentor more than one protégé at a time where it can demonstrate that the additional mentor-protégé relationship will not adversely affect the development of either protégé firm (e.g., the second firm may not be a competitor of the first firm). Under no circumstances will a mentor be permitted to have more than three protégés at one time between the SBA 8(a) Business Development Mentor-Protégé Program and the SBA All Small Mentor-Protégé Program.  SBA may authorize a participant to be both a mentor and a protégé at the same time where the participant can demonstrate that the second relationship will not compete or otherwise conflict with the first mentor- protégé relationship.	Generally, a mentor will have no more than one protégé at a time. However, SBA may authorize a concern to mentor more than one protégé at a time where it can demonstrate that the additional mentor-protégé relationship will not adversely affect the development of either protégé firm (e.g., the second firm may not be a competitor of the first firm). Under no circumstances will a mentor be permitted to have more than three protégés at one time between the SBA 8(a) Business Development Mentor Protégé Program and the SBA All Small Mentor-Protégé Program.  SBA may authorize a participant to be both a mentor and a protégé at the same time where the participant can demonstrate that the second relationship will not compete or otherwise conflict with the first mentor- protégé relationship.
Number of agreements protégé may enter into	Protégé may only have one active DOD mentor-protégé agreement.	Protégé firm may generally have only one mentor at a time. SBA may approve a second mentor for a particular protégé firm where additional relationship will not compete/conflict with the existing mentor-protégé relationship and either (1) the added relationship pertains to an unrelated secondary NAICS code or (2) the protégé is seeking expertise the existing mentor does not possess.	Protégé firm may generally have only one mentor at a time. SBA may approve a second mentor for a particular protégé firm where additional relationship will not compete/conflict with the existing mentor-protégé relationship and either (1) the added relationship pertains to an unrelated secondary NAICS code or (2) the protégé is seeking expertise the existing mentor does not possess.

**Appendix IV: Selected Characteristics of  
DOD's Pilot Mentor-Protégé and SBA's Small  
Business Mentor-Protégé Programs**

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Developmental assistance mentor may provide to protégé	Mentor may, among other actions, provide management and/or technical assistance, award subcontracts, make loans, make advance and/or progress payments under subcontracts, and obtain assistance from Small Business Development Centers, Procurement Technical Assistance Centers, historically black colleges and universities, or minority institutions of higher education.	Mentor may provide management and/or technical assistance, award subcontracts, trade education, make loans and/or equity investments, and cooperate on joint venture projects.	Mentor may provide management and/or technical assistance, award subcontracts, trade education, make loans and/or equity investments, and cooperate on joint venture projects.
Reporting requirements (mentor and protégé)	Mentors must report on the progress made under active mentor-protégé agreements semiannually, including (1) dollars obligated (for reimbursable agreements); (2) expenditures; (3) dollars credited toward applicable subcontracting goals, if any; (4) number and dollar value of subcontracts awarded to the protégé firm; (5) description of developmental assistance provided, including milestones achieved; (6) impact of agreement in terms of capabilities enhanced, certifications received, and/or technology enhanced.  Protégés must report data annually on the progress made in employment, revenues, and participation in DOD contracts. The protégé report may be provided as part of the mentor report.	In its annual business plan update, the protégé must report to SBA for the protégé's preceding program year (1) all technical and/or management assistance provided by the mentor to the protégé; (2) all loans to and/or equity investments made by the mentor in the protégé; (3) all subcontracts awarded to the protégé by the mentor, and the value of each subcontract; (4) all federal contracts awarded to the mentor/protégé relationship as a joint venture (designating each as an 8(a), small business set aside, or unrestricted procurement), the value of each contract, and the percentage of the contract performed and the percentage of revenue accruing to each party to the joint venture; and (5) a narrative describing the success such assistance has had in addressing the developmental needs of the protégé and addressing any problems encountered.	Protégés must report to SBA annually, within 30 day of the agreement approval anniversary, (1) all technical and/or management assistance provided by the mentor to protégé; (2) all loans to and/or equity investments made by the mentor in the protégé; (3) all subcontracts awarded to the protégé by the mentor and all subcontracts awarded to the mentor by the protégé, and the value of each subcontract; (4) all federal contracts awarded to the mentor-protégé relationship as a joint venture, the value of each contract, and the percentage of the contract performed and the percentage of revenue accruing to each party to the joint venture; and (5) a narrative describing the success such assistance has had in addressing the developmental needs of the protégé and addressing any problems encountered. Additionally, the protégé must report the mentoring services it receives by category and hours.

**Appendix IV: Selected Characteristics of  
DOD's Pilot Mentor-Protégé and SBA's Small  
Business Mentor-Protégé Programs**

Description	Department of Defense (DOD) Pilot Mentor-Protégé Program	Small Business Administration (SBA) 8(a) Business Development (BD) Mentor-Protégé Program	SBA All Small Mentor-Protégé Program
Mechanism to encourage mentor participation	DOD may provide mentors with either cost reimbursement or credit against applicable subcontracting goals established under contracts with DOD or other federal agencies.	A mentor and protégé may participate in a joint venture as a small business for any government prime contract or subcontract, including procurements with a dollar value less than half the size standard corresponding to the assigned NAICS code and 8(a) sole source contracts, provided the protégé qualifies as small for the procurement and additional provisions for 8(a) sole source contracts.	<p>A mentor and protégé may participate in a joint venture as a small business for any government prime contract or subcontract, provided the protégé qualifies as small for the procurement. Such a joint venture may seek any type of small business contract (i.e., small business set-aside, 8(a), HUBZone, service-disabled veteran-owned small business, or women-owned small business) for which the protégé firm qualifies and within certain requirements, receives exclusion from the affiliation rules for the duration of the joint venture agreement.</p> <p>Procuring activities may provide incentives in the contract evaluation process to a mentor that will provide significant subcontracting work to its SBA-approved protégé firm, where appropriate.</p>

Source: GAO analysis of DOD and SBA regulations and policies and procedures. | GAO-17-172

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# Appendix V: Comments from the Department of Defense





ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

Mr. William B. Shear  
Director, Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

March 17, 2017

Dear Mr. Shear:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report. GAO-17-172, "SMALL BUSINESS CONTRACTING: DOD Should Take Actions to Help Ensure That Its Pilot Mentor-Protégé Program Achieves Its Goals," dated February 15, 2017 (GAO Code 100584). The Department acknowledges receipt of the draft report and notes that it contains two recommendations for DoD action as a result of your review.

The Department concurs with both recommendations outlined in the report and is currently in the process of restructuring the Mentor-Protégé Program to include the development of Standard Operating Procedures (SOPs) that address the recommendations stated in the report. Enclosed are detailed comments on the report recommendations.

The Department appreciates the opportunity to comment on the draft report. For further questions concerning this report, please contact Ms. Alice Williams, Acting Deputy Director, DoD Office of Small Business Programs at 571-372-6309 or [alice.m.williams101.civ@mail.mil](mailto:alice.m.williams101.civ@mail.mil).

Sincerely,

A handwritten signature in blue ink that reads "James J. Galvin, Jr.".

James J. Galvin, Jr.  
Acting Director, Office Of  
Small Business Programs

Enclosure:  
As stated

GAO Draft Report Dated February 15, 2017  
GAO-17-172 (GAO CODE 100584)

**“SMALL BUSINESS CONTRACTING: DOD SHOULD TAKE ACTIONS TO HELP  
ENSURE THAT ITS PILOT MENTOR-PROTÉGÉ PROGRAM ACHIEVES ITS  
GOALS”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION**

**RECOMMENDATION 1:** The GAO recommends that the Director, Office of Small Business Programs to conduct periodic reviews of the processes DOD components follow to approve agreements and take oversight actions, as appropriate.

**DoD RESPONSE:** Concur. DoD is taking action to implement control activities through policies and procedures. The Department drafted a Standard Operating Procedure (SOP) for Agency/Component Mentor-Protégé Program - Program Managers (MPP PMs). The Department solicited Component PM inputs and those comments are now under review and adjudication. When the Department completes adjudicating the comments and has a final SOP, a copy will be provided to the Government Accounting Office. The SOP addresses the GAO basic findings and areas for improvement identified in the report and GAO recommendations. Component Program Managers are responsible to review the Mentor-Protégé Proposal Package per the SOP prior to submitting to the Department for review and concurrence. This SOP includes a new checklist which identifies data elements referenced in the GAO Report for oversight such as identification of the NAICS Code, Mentor Approval Letter, and a fully executed copy of the Mentor Protégé Agreement. Additional oversight includes a new requirement for the Component Program Managers to provide Quarterly Program Management Review (PMR) reports to the Department in addition to the Annual and Monthly reporting. Once controls are put in place through procedures and monitoring, then the Department will improve its ability to determine if the programs are effective and meeting the programs intended purpose.

**RECOMMENDATION 2:** The GAO recommends that the Director, Office of Small Business Programs to complete actions to develop performance goals and related measures that are consistent with the program’s stated purpose.

**DoD RESPONSE:** Concur. While the Department has established some performance measures for the Pilot Mentor-Protégé Program, we understand it lacks performance goals and other measures needed to fully assess the program. Currently DoD is evaluating ways to develop measures that provide a better indication on program effectiveness for active Mentor-Protégé agreements and the two years following program participation. The department believes that establishing baseline performance goals for all Protégés to meet would not be advantageous due to the vast differences of each agreement and the small business needs of each respective DoD agency. Establishing a set of goals by tier group, for example, may better determine program performance as it would even the playing fields between large and small business concerns. The Department also collects information from the Mentors on how they

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**Appendix V: Comments from the Department  
of Defense**

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have enhanced the capabilities of protégés and will begin including this data in the annual report to Congress once performance measures and goals have been established. The Department acknowledges that in doing so, Congress will be better equipped with the information needed to make informed decisions regarding the Pilot Mentor-Protégé Program.

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

William B. Shear, (202) 512-8678, [shearw@gao.gov](mailto:shearw@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Marshall Hamlett (Assistant Director), Abiud Amaro Diaz, Isidro Gomez, Farrah Graham, Marc Molino, Jessica Sandler, and Jennifer Schwartz made key contributions to this report.

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# Appendix VII: Accessible Data

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## Data Tables

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### Data for Figure 3: Certain Required Elements of DOD Mentor-Protégé Agreements

- Point of contact for mentor and protégé (name, address, e-mail address, telephone number)
- North American Industry Classification System code(s) of protégé
- Statement of mentor's program eligibility
- Statement of protégé's program eligibility
- Preliminary assessment of protégé's developmental needs
- Description of type of assistance mentor will provide to protégé
- Factors to assess protégé's developmental progress
- Estimated dollar value and type of subcontracts mentor will award to protégé
- Statement from protégé firm indicating commitment to comply with reporting requirements during duration of the agreement and for 2 years thereafter
- Program participation term that does not exceed 3 years
- Procedures for mentor firm to notify protégé firm of intent to voluntarily withdraw its participation in program
- Procedures for mentor firm to terminate mentor-protégé agreement for cause
- Procedures for protégé firm to notify mentor firm of intent to voluntarily terminate mentor-protégé agreement
- Additional terms and conditions as agreed upon by mentor and protégé
- Signatures and dates of mentor and protégé
- Description of qualitative and quantitative benefits to DOD for the agreement, if applicable

- Goals for additional awards that the protégé firm can compete for outside the Mentor-Protégé Program

Source: GAO analysis of 10 U.S.C. § 2302 note and the Department of Defense Pilot Mentor-Protégé Program policies and procedures. GAO-17-172

**Data Table for Figure 4: Number of Years DOD Protégé Firms Have Been in Business, as of June 2016**

Years in business	Percentage of firms	95% confidence intervals (lower limit)	95% confidence intervals (upper limit)
5 or less	21	12.6365	30.2207
>5 to 10	36	25.4473	45.9813
>10 to 15	10	3.2340	15.8136
>15	33	23.2325	43.4342

**Data Table for Figure 5: Number of Employees at DOD Protégé Firms, as of June 2016**

Number of employees	Percentage of firms	95% confidence intervals (lower limit)	95% confidence intervals (upper limit)
50 or less	77	67.9319	85.5565
>50 to 100	12	4.9412	18.3146
>100 to 150	7	1.6627	12.2908
>150	5	.2584	9.0439

**Data Table for Figure 6: DOD Protégé Firms' Annual Revenues, as of June 2016**

Revenue in millions	Percentage of firms	95% confidence intervals (lower limit)	95% confidence intervals (upper limit)
\$5 or less	57	46.5392	67.7466
>\$5 to \$10	26	16.7696	35.6114
>\$10 to \$15	7	1.6245	12.6612
>\$15	10	3.2340	15.8136

**Data Table for Figure 7: DOD Protégé Firms' Previous Contracting Experience, as of June 2016**

	Percentage of firms	95% confidence intervals (lower limit)	95% confidence intervals (upper limit)
Agreements stating protégé firm obtained DOD subcontracts in the 2 most recent fiscal years before the proposal was submitted	74	64.2193	84.4986
Agreements stating mentor made DOD subcontract awards to protégé firm in the 2 most recent fiscal years before the proposal was submitted	53	40.7211	64.5421
Agreements stating protégé firm obtained DOD subcontracts in the 2 most recent fiscal years before the proposal was submitted	39	28.2882	49.7606

Agreements stating mentor made federal agency (other than DOD) subcontract awards to protégé firm in the 2 most recent fiscal years before the proposal was submitted	26	15.5014	35.7808
Agreements stating protégé firm did not have prior contracting experience	13	5.0235	19.9765

**Data Table for Figure 8: Types of Developmental Assistance DOD Mentor Firms Anticipated Providing Protégé Firms in Their Agreements, as of June 2016**

Assistance type	Percentage of firms	95% confidence intervals (low er limit)	95% confidence intervals (upper limit)
General business management	100	94.872	100
Subcontract awards	93	88.0639	98.2998
Assistance from other providers	80	71.3551	87.7358
Progress payment	20	12.2642	28.6449
Advance payment	18	10.3504	26.0132
Loans	2	0	5.2988

## Agency Comment Letter

### Text of Appendix III: Comments from the Merit Systems Protection Board

#### Page 1

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PEN AGON WASHINGTON DC 20301-3000

March 17, 2017

Mr. William B. Shear

Director, Financial Markets and Community Investment

U.S. Government Accountability Office 441 G Street, N.W.

Washington, DC 20548

Dear Mr. Shear:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report. GAO-17-172, "SMALL BUSINESS CONTRACTING: DOD Should Take Actions to Help Ensure That Its Pilot Mentor-Protégé Program Achieves Its Goals," dated February 15, 2017 (GAO Code 100584). The Department acknowledges receipt of the draft report and notes that it contains two recommendations for DoD action as a result of your review.

The Department concurs with both recommendations outlined in the report and is currently in the process of restructuring the Mentor-Protégé Program to include the development of Standard Operating Procedures (SOPs) that address the recommendations stated in the report. Enclosed are detailed comments on the report recommendations.

The Department appreciates the opportunity to comment on the draft report. For further questions concerning this report, please contact Ms. Alice Williams, Acting Deputy Director, DoD Office of Small Business Programs at 571-372-6309 or [alice.m.williams101.civ@mail.mil](mailto:alice.m.williams101.civ@mail.mil).

Sincerely,

James J. Galvin, Jr.

Acting Director, Office of Small Business Programs

Enclosure: As stated

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GAO Draft Report Dated February 15, 2017

GAO-17-172 (GAO CODE 100584)

"SMALL BUSINESS CONTRACTING: DOD SHOULD TAKE ACTIONS TO HELP ENSURE THAT ITS PILOT MENTOR-PROTEGE PROGRAM ACHIEVES ITS GOALS"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO  
RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Director, Office of Small Business Programs to conduct periodic reviews of the processes



DOD components follow to approve agreements and take oversight actions, as appropriate.

DoD RESPONSE: Concur. DoD is taking action to implement control activities through policies and procedures. The Department drafted a Standard Operating Procedure (SOP) for Agency/Component Mentor-Protégé Program - Program Managers (MPP PMs). The

Department solicited Component PM inputs and those comments are now under review and adjudication. When the Department completes adjudicating the comments and has a final SOP, a copy will be provided to the Government Accounting Office. The SOP addresses the GAO basic findings and areas for improvement identified in the report and GAO recommendations.

Component Program Managers are responsible to review the Mentor-Protégé Proposal Package per the SOP prior to submitting to the Department for review and concurrence. This SOP includes a new checklist which identifies data elements referenced in the GAO Report for oversight such as identification of the NAICS Code, Mentor Approval Letter, and a fully executed copy of the Mentor-Protégé Agreement. Additional oversight includes a new requirement for the Component Program Managers to provide Quarterly Program Management Review (PMR) reports to the Department in addition to the Annual and Monthly reporting. Once controls are put in place through procedures and monitoring, then the Department will improve its ability to determine if the programs are effective and meeting the programs intended purpose.

RECOMMENDATION 2: The GAO recommends that the Director, Office of Small Business Programs to complete actions to develop performance goals and related measures that are consistent with the program's stated purpose.

DoD RESPONSE: Concur. While the Department has established some performance measures for the Pilot Mentor-Protégé Program we understand it lacks performance goals and other measures needed to fully assess the program. Currently DoD is evaluating ways to develop measures that provide a better indication on program effectiveness for active Mentor-Protégé agreements and the 11.00 years following program participation. The department believes that establishing baseline, performance goals for all Protégés to meet would not be advantages due to the vast differences of each agreement and the small business needs of each respective DoD agency. Establishing a set of

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goals by tier group, for example, may better determine program performance as it would even the playing fields between large and small business concerns. The Department also collects information from the Mentors on how they

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have enhanced the capabilities of protégés and will begin including this data in the annual report to Congress once performance measures and goals have been established. The Department acknowledges that in doing so Congress will be better equipped with the information needed to make informed decisions regarding the Pilot Mentor-Protégé Program.

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