

GAO

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Briefing Report to Congressional
Requesters

November 1986

MINORITY BUSINESS

Awarding of Cooperative Agreement to Operate Development Centers



131646



United States
General Accounting Office

Detroit Regional Office

Room 865
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Detroit, MI 48226

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November 19, 1986

The Honorable Carl Levin
United States Senate

The Honorable Donald W. Riegle, Jr.
United States Senate

In your letters of April 3 and 7, 1986, and through subsequent discussions with your staff, you asked that we review the process and procedures used by the Department of Commerce's Minority Business Development Agency (MBDA) in awarding cooperative agreements to operate Minority Business Development Centers. In particular, you asked us to determine whether a nationwide trend has developed in which MBDA takes these agreements away from minority and community-based organizations and awards them to national accounting firms and other non-community-based organizations.

You also asked us to review the allegations made by the Southeastern Michigan Business Development Center (SMBDC) concerning MBDA's award of the 1986 cooperative agreement to operate the Detroit Minority Business Development Center to the accounting firm of Laventhol & Horwath. SMBDC's allegations were stated in its formal protest to the Department of Commerce.

On October 23, 1986, we briefed your offices on the results of our review. As requested, we are providing you with the enclosed briefing report.

To respond to your request we discussed with MBDA and Department of Commerce officials the cooperative agreement award process and reviewed the written procedures involved. In addition, we analyzed MBDA national data on cooperative agreements for fiscal years 1983 through 1986. We also reviewed the process MBDA followed in awarding the 1986 cooperative agreement for the Detroit Minority Business Development Center. We also discussed with responsible officials of MBDA and SMBDC the specific allegations made by SMBDC regarding the awarding of the 1986 agreement for the Detroit Minority Business Development Center. Additional details on the scope of our work are shown on page 12 of the briefing report.

In summary, we found that a nationwide trend has not developed whereby minority and community-based firms are being replaced by national

accounting firms and other non-community-based organizations as awardees of cooperative agreements. Our analysis of MBDA's data showed there has been a slight increase in minority organizations' participation nationally in the Minority Business Development Center Program. In fiscal year 1983, 74 percent of awardees were minority owned organizations; in fiscal year 1986 such organizations operated 78 percent of the centers. In the MBDA Chicago Region, which includes the Detroit Center, minority organization awardees went from 40 percent in fiscal year 1983 to 46 percent in fiscal year 1986.

Concerning community-based organizations for the same period, we found that nationwide there were only seven changes in operators to or from minority ownerships. In three of these cases, minority community-based organizations were replaced by national accounting firms. In the remaining four cases, a national accounting firm was replaced by minority community-based organizations.

We found that the MBDA Chicago Region followed MBDA's prescribed process in selecting the 1986 Detroit Center awardee. In addition, we found that the allegations made by SMBDC concerning the award of the 1986 agreement were without merit.

As agreed with your office, we did not obtain written agency comments on a draft of this document. We did, however, obtain responsible officials' views during the course of our work. If you have any questions about the contents of this report, please do not hesitate to contact me at (313) 226-2915.



Walter C. Herrmann, Jr.
Regional Manager, Detroit

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ABBREVIATIONS

GAO	General Accounting Office
MBDA	Minority Business Development Agency
SMBDC	Southeastern Michigan Business Development Center

SECTION 1
BACKGROUND
AND
SCOPE

BACKGROUND ON MBDA

- MBDA IS RESPONSIBLE FOR DEVELOPING AND COORDINATING FEDERAL EFFORTS TO DEVELOP AND STRENGTHEN MINORITY BUSINESSES.
- SINCE FISCAL YEAR 1983 MBDA HAS USED THE MINORITY BUSINESS DEVELOPMENT CENTER PROGRAM TO ACHIEVE ITS MISSION.
- MBDA FUNDS ABOUT 100 ORGANIZATIONS TO OPERATE MINORITY BUSINESS DEVELOPMENT CENTERS THROUGHOUT THE COUNTRY ANNUALLY.
- MBDA COMPETITIVELY AWARDS COOPERATIVE AGREEMENTS TO OPERATORS OF MINORITY BUSINESS DEVELOPMENT CENTERS.
- SINCE FISCAL YEAR 1983 MBDA HAS FUNDED THE MINORITY BUSINESS DEVELOPMENT CENTER PROGRAM THROUGH THE AWARD OF COOPERATIVE AGREEMENTS IN THE AMOUNT OF \$110 MILLION.

BACKGROUND ON MBDA

The Minority Business Development Agency (MBDA), Department of Commerce, is responsible for developing and coordinating federal efforts to strengthen minority businesses. The agency works to increase business opportunities for minorities in the public and private sector and create an environment that encourages the creation and expansion of competitive minority businesses, thereby strengthening the national economy.

MBDA established the Minority Business Development Center program in 1982 as a structured and systematic approach to developing and strengthening minority businesses. The program specifically provides business development services to minority firms and individuals interested in entering, expanding, or improving their efforts in the competitive marketplace. MBDA competitively selects and funds approximately 100 organizations to operate Minority Business Development Centers to provide management and technical assistance to minority clients throughout the country.

From fiscal years 1983 through 1986, MBDA has funded the Minority Business Development Centers in the amount of \$110 million. The number of centers funded has ranged from 103 to 108.

BACKGROUND ON SMBDC

- SMBDC WAS FORMED IN 1982 BY THE INNER-CITY BUSINESS IMPROVEMENT FORUM TO OPERATE THE DETROIT MINORITY BUSINESS DEVELOPMENT CENTER.
- SMBDC IS A MINORITY, COMMUNITY-BASED ORGANIZATION THAT OPERATED THE DETROIT CENTER FROM 1982 THROUGH MARCH 1986.
- SMBDC LOST THE AWARD TO OPERATE THE DETROIT CENTER IN APRIL 1986 TO A NATIONAL PUBLIC ACCOUNTING FIRM.
- SMBDC PROTESTED THE AWARD AND MADE SPECIFIC ALLEGATIONS REGARDING THE OBJECTIVITY AND FAIRNESS OF MBDA'S AWARD SELECTION PROCESS.

BACKGROUND ON SMBDC

SMBDC, a minority, community-based organization, was founded in 1982 to operate the Detroit Minority Business Development Center. It was formed by the Inner-City Business Improvement Forum of Detroit, a non-profit economic development corporation whose goal is to help create minority business opportunities.

SMBDC operated the Detroit Center from 1982 through March 1986. In April 1986 SMBDC lost its bid to have its cooperative agreement with MBDA renewed. The successful bidder was Laventhol & Horwath, a national public accounting firm. SMBDC protested to the Secretary of Commerce the award of the agreement and requested an investigation of the award. The request was based on SMBDC's receipt of certain information which questioned the objectivity, fairness, and equity of the process and procedures employed by the MBDA in the selection process.

The Department of Commerce, Office of Inspector General investigated the specific allegations by SMBDC and issued a report that found (1) the evaluation of proposals had been conducted fairly, and in conformance with Department of Commerce and MBDA regulations, and (2) the allegations of impropriety were without merit.

ALLEGATIONS ADDRESSED

GENERAL ALLEGATION

THERE IS A TREND OF AWARDING AGREEMENTS TO NON-MINORITY AND NON-COMMUNITY-BASED ORGANIZATIONS.

SMBDC'S ALLEGATIONS

- NO. 1. THE TOTAL PROCESS FOR EVALUATING PROPOSALS WAS NOT FOLLOWED.**
- NO. 2. LAVENTHOL & HORWATH WAS GIVEN A PRE-SELECTION REVIEW AND ALLOWED TO SUPPLEMENT ITS APPLICATION.**
- NO. 3. SMBDC WAS RATED LOW BECAUSE OF A REVIEW PANEL MEMBER'S POSSIBLE MISUNDERSTANDING OF THE REQUIREMENTS OF THE APPLICATION.**
- NO. 4. THE REGIONAL DIRECTOR TOLD CERTAIN STAFF THAT HE DID NOT WANT SMBDC TO GET THE DETROIT AWARD.**
- NO. 5. SMBDC'S QUANTITATIVE PERFORMANCE WAS CONSISTENTLY EVALUATED ON 7 PERFORMANCE CRITERIA INSTEAD OF THE 12 INCLUDED IN ITS COOPERATIVE AGREEMENT.**

ALLEGATIONS ADDRESSED

In letters dated April 3 and 7, 1986, Senators Levin and Riegle asked us to look into an allegation that a nationwide trend had developed whereby minority and community-based organizations were being replaced by national public accounting firms as operators of federally funded Minority Business Development Centers. They indicated that changes in operators of centers in Illinois, Indiana, Missouri, Ohio, and South Carolina might have been affected by such a trend.

In addition, the Senators requested that we review a number of allegations raised by SMBDC. These allegations concerned the process MBDA used in selecting the accounting firm of Laventhol & Horwath as the new Minority Business Development Center operator for the Detroit Center.

The allegations outlined by SMBDC are as follows:

- No. 1. The process for evaluating proposals was not followed in that only two of three members of the advisory panel that evaluated applications met to review evaluation scores and select the applicant to be recommended for the award. The absent panel member was the project monitor for the Detroit Center.
- No. 2. Laventhol & Horwath benefited from a pre-selection critique of its application. It was allowed to submit 20 pages of additional data, whereas SMBDC was not given the same opportunity.
- No. 3. SMBDC's application was rated low because a review panel member misunderstood the relationship between SMBDC and its parent organization, Inner-City Business Improvement Forum.
- No. 4. The review panel members were told by the Chicago Regional Director in no uncertain terms that he personally did not want SMBDC to be the awardee. His preference was not based upon SMBDC's capability, application, or an evaluation of SMBDC's past performance but rather his personal preference.
- No. 5. SMBDC's performance was evaluated based on only 7 of the 12 criteria specified in the cooperative agreement. Use of only the seven criteria resulted in an inaccurate measure of SMBDC's performance in operating the Detroit Center.

SCOPE OF REVIEW

- WE OBTAINED COMMENTS AND REVIEWED RECORDS AND WRITTEN PROCEDURES AT THE FOLLOWING LOCATIONS:
 - MBDA HEADQUARTERS, WASHINGTON, D.C.
 - MBDA CHICAGO REGIONAL OFFICE
 - DEPARTMENT OF COMMERCE, WASHINGTON, D.C.
 - OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF COMMERCE.
- WE ANALYZED NATIONAL DATA ON TYPES OF ORGANIZATIONS THAT HAVE BEEN AWARDED COOPERATIVE AGREEMENTS FROM 1983 THROUGH JULY 1986.
- WE INTERVIEWED SMBDC OFFICIALS.

SCOPE OF REVIEW

We performed work at the MBDA Chicago Regional Office; MBDA Headquarters; the Office of Finance and Federal Assistance, Department of Commerce, Washington, D.C.; the Department of Commerce's Office of Inspector General; and at SMBDC, Detroit, Michigan.

To determine whether there has been a nationwide trend in awarding agreements to operate business development service centers away from minority and community-based organizations, we obtained and analyzed MBDA national data on the types of firms that have been awarded cooperative agreements since fiscal year 1983, the first year of the program, through July 1986. We visited MBDA Headquarters and reviewed its written procedures for awarding cooperative agreements. We discussed the processes with MBDA officials and obtained their views as to the impact any changes in them may have had on minority and locally based organizations receiving these agreements. We also traced the process used at the MBDA Chicago Regional Office, MBDA Headquarters, and the Department of Commerce in awarding the agreement for the 1986 Detroit Minority Business Development Center.

To determine the validity of SMBDC's allegations, we interviewed the Chicago MBDA office personnel cited in the allegations, the Regional Director, the review panel members, and the panel chairman. To document the panel review and award processes, we reviewed the files maintained on the Detroit award and obtained copies of all documentation we considered pertinent to our review. For comparison purposes, we reviewed the files and obtained documentation on cooperative agreements awarded to other Minority Business Development Centers in the Chicago Region.

At the Office of Inspector General we reviewed the Inspector General's report on his investigation of SMBDC's allegations and the supporting workpapers. (Before their request to us, both Senators Levin and Riegle had requested a Department of Commerce investigation of SMBDC's allegations.)

We visited SMBDC and interviewed the officials who made the allegations to request any supplemental data on their allegations that could assist us in our review.

Our review was conducted between April and September 1986 and was performed in accordance with generally accepted government auditing standards.

SECTION 2
GAO ASSESSMENT OF
GENERAL ALLEGATION

GAO ASSESSMENT OF
GENERAL ALLEGATION

ALLEGATION

- THERE IS A TREND OF AWARDING AGREEMENTS TO NON-MINORITY AND NON-COMMUNITY-BASED ORGANIZATIONS.
 - NATIONAL ACCOUNTING FIRMS AND OTHER NON-COMMUNITY-BASED ORGANIZATIONS ARE BEING SELECTED.
 - MBDA'S SELECTION PROCESS FAVORS THIS TYPE OF ORGANIZATION.

ASSESSMENT

- A NATIONWIDE TREND HAS NOT DEVELOPED IN MBDA'S AWARDING OF AGREEMENTS TO OTHER THAN MINORITY AND COMMUNITY-BASED ORGANIZATIONS.
- IN FISCAL YEAR 1983, 74 PERCENT OF AWARDS TO OPERATE THE CENTERS WERE TO MINORITY OWNED ORGANIZATIONS.
- IN FISCAL YEAR 1986 SUCH ORGANIZATIONS OPERATED 78 PERCENT OF THE CENTERS.
- COMMUNITY-BASED ORGANIZATIONS' PARTICIPATION HAS INCREASED SLIGHTLY.
- GAO FOUND THERE HAVE NOT BEEN ANY CHANGES IN MBDA'S POLICIES AND PROCEDURES THAT WOULD GIVE ANY ORGANIZATION AN EDGE IN COMPETING FOR AN AWARD TO OPERATE A CENTER.

GAO ASSESSMENT OF GENERAL ALLEGATION

We found that a nationwide trend has not developed in MBDA's awarding of cooperative agreements to other than minority and community-based organization to operate Minority Business Development Centers.

Ownership data for fiscal years 1983 to 1986 on firms being awarded agreements to operate the centers obtained from MBDA records show that minority participation in the program has increased slightly over this period. In fiscal year 1983, 74 percent of the Minority Business Development Centers were operated by minority owned or operated organizations. This percentage of minority operated centers increased to 78 percent for fiscal year 1986. Table 2.1 shows the minority status of center operators for the four fiscal years.

Table 2.1: Number and Percent of Centers Nationwide Owned or Operated by Minorities, Fiscal Years 1983-1986

<u>Minority Designation</u>	<u>FY1983</u>		<u>FY1984</u>		<u>FY1985</u>		<u>FY1986</u>	
	<u>NO.</u>	<u>%</u>	<u>NO.</u>	<u>%</u>	<u>NO.</u>	<u>%</u>	<u>NO.</u>	<u>%</u>
Black	45	43	42	41	44	41	40	38
Mexican American	17	16	14	13	17	16	20	19
Puerto Rican	7	6	6	6	9	8	7	7
American Indian	6	6	9	9	8	7	8	8
Cuban American	1	1	1	1	1	1	3	3
Other Minority	2	2	2	2	3	3	3	3
Total	<u>78</u>	<u>74</u>	<u>74</u>	<u>72</u>	<u>82</u>	<u>76</u>	<u>81</u>	<u>78</u>
Non-minority	23	22	24	23	22	20	17	16
Other ¹	4	4	5	5	4	4	6	6
Totals	<u>105</u>	<u>100</u>	<u>103</u>	<u>100</u>	<u>108</u>	<u>100</u>	<u>104</u>	<u>100</u>

¹Includes local government, higher educational institutions, and the Interracial Council for Business Opportunity of New Jersey.

In the MBDA Chicago Region, which includes the Detroit Center, minority organization awardees went from 40 percent in fiscal year 1983 to 46 percent in fiscal year 1986.

As these statistics indicate, there have been relatively few changes in minority participation from fiscal years 1983 to 1986. The number of non-minority firms replacing minority firms as Business Development Center operators, has almost evened out over the period. Six Centers went from minority to non-minority operated and eight Centers changed from non-minority to minority operation. All six of the Centers that changed to non-minority management were to national accounting firms. Conversely, six of the eight Centers that changed to minority management had previously been operated by national accounting firms. These statistics indicate that there is no nationwide trend toward replacing minority with non-minority organizations to operate the Centers.

We had difficulty in obtaining a definition of community-based organizations. Therefore, for purposes of classification, we used the definition provided by an official of the Southeastern Michigan Business Development Center. That is, a community-based organization is a nonprofit locally based organization.

Applying this definition to the 14 changes in Center operators discussed above, we found that 7 changes involved community-based organizations. Three community-based minority organizations were replaced by national accounting firms. On the other hand, four Centers that were previously operated by non-community based organizations were taken over by community-based organizations. All four of these Centers had previously been operated by a national accounting firm.

Next, we applied the above definition of community-based organizations to the Minority Business Development Centers in the states mentioned in the Senators' request letters--Illinois, Indiana, Missouri, Ohio, and South Carolina.

A total of 12 Centers were located in the 5 states. For the 1983-86 period, eight of the Centers experienced changes in operators. Table 2.2 shows the changes that occurred.

Table 2.2: Changes in Minority and Non-Minority Center Management, FY 1983-1986

<u>Number of Centers</u>	<u>Management Change</u>
1	Minority to non-minority
1	Non-minority to minority
3	Minority to minority
2	Non-minority to non-minority
1	Non-minority to local government
Total <u>8</u>	

We found that only three of these eight changes involved community-based organizations. Two community-based minority organizations were replaced: one by a national accounting firm and the other by a minority consulting firm. The third community-based organization replaced a national accounting firm as the Center operator.

To carry our trend analysis one step further, we looked into whether MBDA policies and procedures for the program had changed over the years to favor non-minority and national accounting firms. We found there have not been any changes that would give any organization, minority or non-minority, an edge in competing for an award to operate a Center.

For example, we found that the MBDA Grants Administration Handbook and the request for application have continually contained provisions stating there are no eligibility restrictions for MBDA awards. Further, throughout the Center program, the request for applications have maintained the same requirements in cost sharing, fee (profit) provisions, indirect cost allowances, work requirements, and the criteria for evaluating applications.

SECTION 3
GAO ASSESSMENT OF
SMBDC'S ALLEGATIONS

GAO ASSESSMENT OF

ALLEGATION NO. 1

ALLEGATION

THE TOTAL PROCESS FOR EVALUATING PROPOSALS WAS NOT FOLLOWED.

- **ONLY TWO OF THREE PANEL MEMBERS MET TO REVIEW SCORES AND SELECT APPLICANT TO BE RECOMMENDED.**
- **PANEL MEMBER MISSING WAS SMBDC PROJECT MONITOR.**
- **PROJECT MONITOR'S ABSENCE IS EVIDENCE OF BIAS.**

ASSESSMENT

- **GAO FOUND THAT DEPARTMENT OF COMMERCE AND MBDA EVALUATION PROCEDURES WERE FOLLOWED.**
- **ALL APPLICANTS WERE EVALUATED USING PRESCRIBED CRITERIA.**
- **EVALUATION PANEL RECOMMENDED THE APPLICATION RECEIVING HIGHEST SCORE.**
- **REGIONAL DIRECTOR AGREED WITH PANEL'S RECOMMENDATION.**

GAO ASSESSMENT OF ALLEGATION NO. 1

We found that the MBDA Chicago Regional Office, which had the responsibility in the matter, followed Department of Commerce and MBDA procedures in the evaluation process for the Detroit award. All members of a regional office panel independently reviewed the applications and scored each of four evaluation criteria categories. The application receiving the highest panel ranking was recommended for and subsequently received the award.

Department of Commerce and MBDA procedures call for an evaluation panel of three persons, or two in periods of heavy workloads. MBDA panel guidance recommends that the Business Development Specialist (project monitor) for the Minority Business Development Center under consideration serve as a member of the panel and if the incumbent Center submits an application, that the project monitor brief the panel on the incumbent's past performance. Agency procedures provide that the panel convene to evaluate and rank the applicants according to standardized evaluation criteria and recommend the selection or non-selection of the applications. The chairperson is responsible for coordinating the review panel and for writing its summary recommendations.

Regarding the procedures used by the MBDA Chicago Regional Office for the Detroit award, we found that on November 19, 1985, three panelists were assigned to review the applications. The project monitor for SMBDC (the incumbent) was one of the panel members. Two of the three members of the review panel convened with the panel chairman on November 21, 1985, to receive their panel instructions and copies of the applications for scoring. The third member, the project monitor, was not present at this meeting because she was involved in another review panel. She received her instructions and applications a few days later. The project monitor did not brief the other panel members on SMBDC's past performance and told us that such briefings are not normally provided to panel members.

The other two panel members stated they did not ask for any input from the project monitor on SMBDC's past performance. Both panel members had previously participated in one or more quarterly performance evaluations on SMBDC and, therefore, had firsthand knowledge of SMBDC's operations.

The panel members separately scored each application using the prescribed criteria and submitted their evaluations to the panel chairman who prepared a summary of the scores. No meeting of the panel members was held, or required, to review the panel's evaluation of the applications.

As shown in table 2.3, MBDA records show the panel members rated Laventhol & Horwath's application higher than SMBDC's. In fact, another applicant had an average score of 78.67 which was higher than SMBDC's score of 77.00.

Table 2.3: Panel Members Ratings of Detroit Center Award Applications

<u>Applicant</u>	<u>Panel Member #1</u>	<u>Panel Member #2</u>	<u>Panel Member #3</u>	<u>Panel Average Score</u>
No. 1 (Laventhol & Horwath)	80	91	82	84.33
No. 2	77	88	71	78.67
No. 3 (SMBDC)	70	79	82	77.00
No. 4	39	41	33	37.67
No. 5	37	43	25	35.00

By internal memorandum of December 6, 1985, to the Regional Director, the panel chairman stated that the panel rated Laventhol & Horwath's application the highest and recommended it receive the award. In a December 16, 1985, internal memorandum to the panel chairman, the Regional Director concurred in the recommendation.

GAO ASSESSMENT OF

ALLEGATION NO. 2

ALLEGATION

- LAVENTHOL & HORWATH WAS GIVEN A PRE-SELECTION REVIEW AND ALLOWED TO SUPPLEMENT ITS APPLICATION.
- LAVENTHOL & HORWATH BENEFITED FROM A CRITIQUE OF ITS APPLICATION AND WAS ALLOWED TO SUBMIT UP TO 20 PAGES OF ADDITIONAL DATA.
- SMBDC WAS NOT GIVEN THE SAME OPPORTUNITY.

ASSESSMENT

- LAVENTHOL & HORWATH REVISED 21 PAGES OF ITS APPLICATION. HOWEVER,
 - THIS WAS DONE AFTER ALL APPLICATIONS HAD BEEN EVALUATED AND LAVENTHOL & HORWATH HAD BEEN RECOMMENDED TO RECEIVE THE AWARD,
 - SUCH REVISIONS ARE PERMITTED BY MBDA PROCEDURES, AND
 - SUCH REVISIONS ARE PART OF THE NORMAL PRACTICE FOLLOWED IN AWARDED THESE AGREEMENTS.

GAO ASSESSMENT OF ALLEGATION NO. 2

We found that Laventhol & Horwath did submit 21 pages of revised information but this was done after all applications had been evaluated and scored and Laventhol & Horwath had been recommended to receive the award.

The MBDC Chicago Regional Office review panel meeting for the Detroit Minority Business Development Center award was held November 21, 1985. After receiving panel members' scores for all applications, the panel chairman reported to the Regional Director on December 6, 1985, that the panel had rated the Laventhol & Horwath application the highest and recommended this firm be awarded the cooperative agreement to operate the Detroit Center.

On December 16, 1985, the Regional Director notified the panel chairman that he concurred with the panel's recommendation in the selection of Laventhol & Horwath. The Regional Director also instructed the panel chairman to contact Laventhol & Horwath to begin the negotiation process on items in the application that the Regional Director and the panel had identified as requiring clarification, including budget issues.

At the request of the panel chairman, Laventhol & Horwath on December 18, 1985, forwarded 20 revised pages of its original proposal to MBDA and on December 19, 1985, forwarded another revised page. We found that these involved minor revisions to the application. All except one of the revised pages made partial, not complete, changes to original pages, and six of them were duplicates, that is, pages that were used in more than one section of the proposal. The revisions adjusted several project budget items, but not total federal and total non-federal funding amounts, and included various minor corrections and revisions to original pages, including the provision of some previously omitted data items.

On December 26, 1985, the Regional Director forwarded the award package to MBDA Headquarters with a recommendation that Laventhol & Horwath receive the cooperative agreement to operate the Detroit Center. Subsequently, MBDA Headquarters and the Department of Commerce conducted prescribed reviews of the recommended application, including, for example, a legal review and credit checks. Their reviews were made to determine whether there was any reason to object to the proposed award--they did not include re-evaluations of all of the applications received.

Our discussions with MBDA personnel and a review of selected cooperative agreements for other Centers confirmed that it is normal practice to negotiate revisions to the recommended application before submission to MBDA Headquarters. The MBDA Grants Administration Manual specifically provides for negotiation with approved applicants on such matters as the project budget.

GAO ASSESSMENT OF

ALLEGATION NO. 3

ALLEGATION

- SMBDC WAS RATED LOW BECAUSE OF A REVIEW PANEL MEMBER'S POSSIBLE MISUNDERSTANDING OF THE REQUIREMENTS OF THE APPLICATION.

ASSESSMENT

- GAO FOUND NO EVIDENCE TO SUPPORT THIS ALLEGATION.
- PANEL MEMBER REFERRED TO SAID HE FULLY UNDERSTOOD THE REQUIREMENT.

GAO ASSESSMENT OF ALLEGATION NO.3

The allegation relates to the section in the proposal application that has to do with private sector involvement in assisting in the development of minority businesses. SMBDC alleged that this panel member rated SMBDC low because of a possible misunderstanding of the requirements of the application and the relationship between the Inner-City Business Improvement Forum and SMBDC.

The panel member referred to in this allegation stated that the allegation was without merit. He said he fully understood the requirements of the application. In addition, we reviewed the panel's evaluation file for SMBDC's application and found nothing which indicated to us that this panel member did not fully understand the requirements of the applications.

GAO ASSESSMENT OF

ALLEGATION NO. 4

ALLEGATION

- THE REGIONAL DIRECTOR TOLD CERTAIN STAFF THAT HE DID NOT WANT SMBDC TO GET THE DETROIT AWARD.

ASSESSMENT

- GAO FOUND NO EVIDENCE TO SUPPORT THIS ALLEGATION.
- THE MBDA REGIONAL DIRECTOR DENIES HE MADE SUCH COMMENTS.
- ALL PANEL MEMBERS SAID NO SUCH COMMENTS WERE MADE TO THEM.

GAO ASSESSMENT OF ALLEGATION NO. 4

We did not find any evidence to support this allegation. The Regional Director denied the allegation. He said he did not tell anyone that he did not want SMBDC to get the award. He said he had previously worked successfully and closely with SMBDC in a business relationship.

All panel members stated that they were not told by the Regional Director that he did not want SMBDC to get the award. The panel chairman said that the Regional Director told him to follow the award guidelines in evaluating the applications for the Detroit Center award.

Further, we found no documents supporting the allegation in the MBDA and Department of Commerce files examined during the course of our review.

GAO ASSESSMENT OF

ALLEGATION NO. 5

ALLEGATION

- SMBDC'S QUANTITATIVE PERFORMANCE WAS CONSISTENTLY EVALUATED ON 7 PERFORMANCE CRITERIA INSTEAD OF THE 12 INCLUDED IN ITS COOPERATIVE AGREEMENT.
 - USING 7 RATHER THAN THE 12 CAUSED OVERALL PERFORMANCE LEVEL TO BE LOWER.

ASSESSMENT

- COOPERATIVE AGREEMENT DOES LIST 12 FACTORS.
- SEVEN FACTORS ARE CONSIDERED CRITICAL.
- FIVE FACTORS SHOULD BE CONSIDERED BUT ARE NOT CRITICAL.
- MBDA CHICAGO REGION CONSISTENTLY USED ONLY THE SEVEN CRITICAL FACTORS IN MEASURING OTHER MINORITY BUSINESS DEVELOPMENT CENTERS' PERFORMANCE.
- EVEN IF SMBDC WAS RATED ON ALL 12 CRITERIA AND SCORED THE MAXIMUM 100 ON THE 5 NOT USED, ITS PERFORMANCE WOULD STILL NOT HAVE BEEN RATED SATISFACTORY.

GAO ASSESSMENT OF ALLEGATION NO. 5

The MBDA Chicago Regional Office has consistently evaluated Minority Business Development Centers on MBDA's seven critical performance indicators. This basis of evaluation is set out in the Centers' cooperative agreements. SMBDC had alleged that using the 7 criteria had caused its overall performance level to be rated at 74.5 percent instead of 84 percent using the 12 criteria.

MBDA officials told us that SMBDC was fully aware that its performance would be evaluated on the seven critical performance indicators. Two different project monitors had rated SMBDC unsatisfactory using the seven factors. They further stated that all of the Minority Business Development Centers in the Chicago region were rated on the same factors as SMBDC.

To determine whether the MBDA Chicago Regional Office followed similar performance evaluation procedures for other Centers, we selected two other Centers for a review of monitoring reports. We reviewed MBDA's monitoring reports for the Kansas City Center for October 1, 1983 to March 31, 1986 and the Cleveland Center for August 1, 1983 to December 31, 1985. We found that in each instance, the Centers were evaluated on the same seven performance factors as those used to evaluate SMBDC's performance.

SMBDC's cooperative agreement that was in effect to March 31, 1986, listed the seven critical performance indicators by which it was to be evaluated. The seven critical performance factors were:

- number of new business starts,
- number of business expansions,
- number of businesses saved,
- number of procurement/contracts secured,
- dollar value of procurement/contracts secured,
- number of financial packages secured, and
- dollar value of financial packages secured.

A further provision in the cooperative agreement was that in evaluating the accomplishment of SMBDC's goals, 85 percent or below was considered an unsatisfactory rating. As a result, even if SMBDC had been rated on the 5 other indicators and received 100 percent on each of them, its rating would still only have been an 85.

Besides the seven critical factors listed above, the following other five measurements were to be considered in the performance evaluation process.

- number of jobs created from new business starts,
- number of jobs created from business expansions,

- number of new firms added to the profile, and
- profile verifications.

Our review of monitoring and evaluation reports on SMBDC for the period April 1, 1983 to March 31, 1986, showed that Chicago MBDA consistently rated SMBDC on the seven critical performance factors. For most of this period, SMBDC's performance was rated either marginally satisfactory or unsatisfactory. SMBDC received a satisfactory rating for only two quarters over the 3 year period.

(069274)

Requests for copies of GAO reports should be sent to:

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