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MINORITY BUSINESS

Management Improvements Needed at Minority Business Development Agency



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**Resources, Community, and
Economic Development Division**

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January 19, 1990

The Honorable Pete Wilson
United States Senate

The Honorable Ernest F. Hollings
Chairman, Committee on Commerce, Science,
and Transportation
United States Senate

The Honorable John F. Kerry
United States Senate

This report responds to Senator Wilson's request of July 13, 1988, and Chairman Hollings and Senator Kerry's subsequent request of September 19, 1988, to review certain aspects of the Minority Business Development Agency's operations. Specifically, the report addresses (1) what problems in the competitive grant process were causing grant awards to be delayed and services to be interrupted, (2) the staffing levels and work load at the agency's headquarters and regional offices, and (3) client satisfaction with the services received from the Minority Business Development Center Program.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Secretary of Commerce; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others upon request.

Our work was conducted under the direction of John M. Ols, Jr., Director, Housing and Community Development Issues, (202) 275-5525. Other major contributors are listed in appendix VI.



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Assistant Comptroller General

Executive Summary

Purpose

The Minority Business Development Agency (MBDA) was established to develop the nation's minority businesses. Because of specific congressional concerns with the effectiveness and availability of federal assistance to minority entrepreneurs, GAO reviewed certain aspects of MBDA's operations. These included (1) MBDA's review and approval of competitive grant applications; (2) the staffing levels and work load at MBDA's offices; and (3) client satisfaction with services received from MBDA's Minority Business Development Center (Center) program, which provides management, marketing, and technical assistance to clients nationwide.

Background

MBDA was established in 1969 by the Department of Commerce to develop and increase opportunities for racial and ethnic minorities to participate in the free enterprise system. MBDA seeks to achieve that goal by assisting the formation and development of minority-owned and minority-managed firms—with emphasis on private sector involvement and entrepreneurial self-reliance.

Although MBDA has developed a variety of programs in addition to advocacy, research, and information efforts, it has relied primarily upon the Center program to accomplish its goals. In fiscal year 1988, for example, MBDA used about \$25 million of its approximately \$27 million in program funds for the Center program. Under this program, MBDA funds—through a competitive grant process—a network of over 100 Centers throughout the country in areas with the largest minority populations. For a nominal fee, counselors at the Centers provide management, marketing, and technical assistance to their clients, who are minority individuals wishing to start, expand, or improve their businesses.

Results in Brief

Management problems related to delays in Center funding and the ineffective use of agency staff have hindered MBDA's ability to deliver services. Despite these problems, GAO's nationwide client survey found that, for the most part, clients who have received services (1) are generally satisfied, (2) believe the services have been useful, and (3) would seek assistance from Centers again if needed. However, GAO believes that if MBDA management is improved through a more timely grant review and approval process and a more effective use of staff, an even larger segment of the minority population could be served.

GAO identified eight problems with Center grant applications that delayed their review and approval until the problems were resolved.

Since Centers cannot be funded without an approved application, some Centers had to suspend operations from 1 to over 4 months, thus disrupting services to clients. Although aware of these delays, MBDA management, until recently, was not successful in resolving these problems, due in part to an inability among MBDA and other Commerce officials to agree on necessary corrections. Over the last year, these officials developed procedures aimed at correcting some of the problems with the applications; however, it is too early to tell if these procedures are effective. In addition, MBDA has not been able to resolve other problems of quality control errors in the application packages. (See ch. 2.)

Although MBDA's program funds, and thus its programs, were reduced by about 43 percent between fiscal years 1980 and 1989, only minimal reductions in staff occurred. As a result, MBDA is currently overstaffed. MBDA officials have told GAO that the operation of the Center program, the primary job responsibility of agency personnel, does not keep headquarters or regional staff fully employed. In addition, in the past, action was not taken to redirect staff to alternative activities such as advocacy and outreach efforts or more comprehensive program monitoring. These alternative services would improve staff utilization and expand services. (See ch. 3.)

MBDA's new Director, appointed by the administration in April 1989, told GAO that he is aware of the problems the agency has had with the timely processing of grant applications and the effective use of agency staff. He is currently reevaluating ways to improve the agency's delivery of services and to better utilize personnel.

Principal Findings

Problems With Grant Applications Result in Delays in Grant Approval and Disrupt Client Services

Errors and inadequacies discovered in grant applications during their review and approval delayed the approval and funding of 76, or 75 percent, of the 102 grants awarded in 1988. GAO reviewed about half (37) of the late awards and found the average processing time to be 54 days longer than the 120 days provided for by MBDA procedures. Eight of the 37 delayed awards resulted in suspended Center operations from about 1 to over 4 months. Overall, according to MBDA officials, a total of 32 Centers suspended operations about 50 times from fiscal years 1986 through 1988 because of delays in funding resulting from problems with

grant applications. During periods when operations were suspended, minimal or no service was provided to minority businesses.

For late awards, all of the applications GAO reviewed contained one or more of eight problems. Two problems—applicants' unresolved debt owed to the government and inclusion of unapproved indirect cost rates in grant applications—were present in over 50 percent of the packages reviewed. MBDA and Commerce officials have recently agreed to procedures designed to allow the approval process to proceed while efforts are taken to correct these problems. Specifically, the grant applications will continue to be processed, in the case of delinquent debts, if applicants agree to repayment schedules. Regarding disputed debts, Commerce officials have established an appeal process intended to reduce the number of late awards. Applications with unapproved indirect costs will now be processed with a protective clause in the grants. However, it is too early to determine if these procedures will be effective. The remaining problems that delayed the reviewing and awarding of Center grants generally involved quality control errors such as missing documents in the application packages and miscalculations in budget data. Despite attempts by MBDA management to correct these problems, they are still occurring, according to agency officials.

MBDA's new Director told GAO he is reevaluating the grant approval process and is taking action to ensure that grants are prepared, reviewed, processed, and awarded on time and that delivery of services to clients is not disrupted.

Staffing Levels, Roles, and Responsibilities Should Better Reflect Agency Mission

On the basis of current work load needs, overstaffing exists throughout MBDA, according to headquarters, regional, and Commerce's Office of Inspector General (OIG) officials. Although MBDA's total program funding was reduced by about 43 percent between fiscal years 1980 and 1989, from about \$44 million to about \$25 million, only minimal reductions in staff have occurred, and MBDA management did not reevaluate staffing needs, roles, and responsibilities. During that period, the staff at MBDA was reduced by only 12 positions, or 6 percent. MBDA officials told GAO that staff reductions could be made throughout the agency because the current staffing levels are not justified by work load needs. For example, according to MBDA officials, the current major function of most headquarters and regional personnel is to implement and monitor the Center program, a responsibility that does not keep the staff fully employed. Although program funding was cut, according to MBDA officials, staff could have been better utilized and clients better served if staff had

been given additional duties such as advocacy, outreach, and/or more comprehensive program monitoring.

MBDA's new Director told GAO that he is reevaluating the agency's staffing and hopes to more fully utilize staff.

Center Clients Satisfied With Services

GAO conducted a nationwide survey of Center clients to assess their opinions of services received. GAO's survey did not assess the effectiveness of the Center program. Clients, in general, have been satisfied with the services received; and over 83 percent said they definitely or probably would contact a Center in the future if they would need similar assistance. Less than 10 percent said they probably or definitely would not seek assistance in the future. Over 50 percent of all clients found the services useful, and a majority had favorable opinions of Center personnel and services.

Recommendations

GAO believes the Secretary of Commerce needs to ensure that MBDA management is improved to enhance services to minority businesses and entrepreneurs. Toward this end, GAO recommends that the Secretary of Commerce instruct the Director, MBDA, to incorporate the following as part of his redirection of the agency:

- Determine, in cooperation with other pertinent Commerce officials, whether actions taken to correct problems that have delayed the processing of grant applications are effective, and if not, develop alternative solutions. In addition, develop solutions for other quality control problems that exist with grant applications—problems that continue to contribute to delays in the funding of Centers.
- Determine how to either (1) better utilize existing staff resources through the expansion of their roles and responsibilities or (2) reduce staff to realistically reflect the agency's work load.

Agency Comments

MBDA officials, including the Director, and other Commerce officials reviewed a copy of GAO's draft report, and their comments have been incorporated throughout the report where appropriate. They acknowledged the existence of problems resulting in grant-processing delays and in current overstaffing. The Director, MBDA, pointed to efforts underway to correct most of these problems. As requested, GAO did not obtain formal written comments on the report.

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Abbreviations

GAO	General Accounting Office
MBDA	Minority Business Development Agency
OFFA	Office of Finance and Federal Assistance
OIG	Office of Inspector General
OMB	Office of Management and Budget

Introduction

The Department of Commerce established the Office of Minority Business Enterprise in 1969 in response to Executive Order 11458 to assist in the establishment of new minority enterprises and the expansion of existing ones. The Office was renamed the Minority Business Development Agency (MBDA) by Executive Order 11625. MBDA's goal is to increase opportunities for racial and ethnic minorities to participate in the free enterprise system through the formation and development of competitive minority-owned and minority-managed firms—with emphasis on private sector involvement and entrepreneurial self-reliance. MBDA strives to accomplish this goal primarily by

- coordinating the plans, programs, and operations of the federal government that affect or contribute to the strengthening of minority business enterprises;
- promoting the activities and resources of state and local governments, business and trade associations, professional organizations, and other groups that contribute to the growth of minority business enterprises;
- disseminating information that will help the establishment and successful operation of minority business enterprises; and
- providing financial assistance to public and private organizations rendering technical and management assistance to minority business enterprises.

MBDA Organization and Program Activity

MBDA's organization consists of its headquarters, located in Washington, D.C.; six regional offices; and four district offices. As of September 30, 1988, MBDA had 198 permanent positions: 108 at headquarters and 90 in the regional and district offices. (See ch. 3.)

To achieve its goals, MBDA developed a number of programs including the Minority Business Development Center (Center) program. This program is designed to promote the creation, existence, and expansion of minority businesses by providing business development services to minority firms and entrepreneurs. From fiscal year 1986 through fiscal year 1988, this program accounted for 83 percent of all of MBDA's program funds. (See app. I.) In addition, MBDA developed public and private sector business development programs; special projects designed to assist minority entrepreneurs; and minority business advocacy, research, and information efforts.

Public sector programs are targeted to federal, state, and local governments and are designed to provide a network of service centers and professional organizations dedicated to help and promote minority

businesses. Private sector programs are designed to help minority businesses through public/private partnerships, the development of management techniques, and identification of financial resources.

MBDA's special projects are designed to provide or improve services to minorities or to assist a particular underrepresented minority industry or business. Special projects are funded on a noncompetitive basis for 1 year and are approved for funding by the MBDA Director. These projects can be funded by redirecting other program funds from MBDA program costs that were disallowed or appropriated program funds that were not obligated and expended by the end of the fiscal year. Special projects are subject to a detailed review and approval process, and their performance is monitored. (See app. III.)

MBDA's advocacy, research, and information efforts are designed to establish, collect, and maintain data on the characteristics of MBDA clients and the general minority business community. The purpose of MBDA's advocacy activities is to raise the level of awareness of policymakers and business leaders regarding minority business through speeches and conferences and other similar activities. Research is conducted to increase awareness of trends, characteristics, and problems of minority businesses and to evaluate existing and develop new programs. Information about the minority business community is analyzed for use by MBDA program staff and interested parties outside the agency.

Minority Business Development Center Program

Under the Center program, MBDA funds a network of Centers located throughout the country and operated by private organizations or state and local governments in areas with the largest minority populations (see app. II). The grant applications of these public and private entities undergo a 120-day review process divided between MBDA's regional and headquarters offices and other offices within Commerce.

The Center Network

As of December 1988, MBDA was funding 101 Centers. Counselors at the Centers provide management, marketing, and technical assistance to minority individuals wishing to start, expand, or improve their businesses. The Centers provide assistance in such areas as accounting, inventory control, bid estimation, bonding, personnel management, contract negotiations, and marketing. They also assist minority entrepreneurs with the preparation of financial packages and plans for submission to lenders for the purposes of financing business ventures. The Centers charge a fee of from \$10.00 to \$17.50 an hour dependent

upon the amount of client earnings. Centers can vary their fee structure depending on an individual client's ability to pay. Centers cannot make or underwrite loans because MBDA has no loan-making authority. Centers also try to match minority-owned firms with new business and contract opportunities in domestic and foreign markets.

Centers Are Funded Through Competitive Grants

Centers are funded by MBDA grants, also known as cooperative agreements, that are obtained on a competitive basis. Applicants who compete for grants to operate the Centers may be individuals, nonprofit organizations, private firms, state and local governments, American Indian tribes, or educational institutions. Grant agreements cover a 3-year period, but MBDA initially provides funds for only 1 year. If a grantee's performance is satisfactory, MBDA may renew its grant for a second and third year on a noncompetitive basis. MBDA regional staff perform oversight of the activities of the Centers by monitoring their performance and reviewing Center reports of accomplishments. The maximum federal funding each Center can receive is 85 percent of its total operating cost. Each Center is expected to provide the other 15 percent. The average Center grant for those awards scheduled to be awarded in fiscal year 1988 was \$234,000.

Competitive Grant Application and Review Process

MBDA procedures require that applications for Center grants be reviewed and awarded within 120 days. The first step of the application process begins 120 days prior to the planned award date, with a 30-day request-for-bid period. MBDA regional offices advertise for applications in the Commerce Business Daily and the Federal Register. Following the 30-day advertisement for bids, the regional offices review all applications within 30 days and recommend a single applicant to headquarters for each Center grant award. MBDA headquarters has 30 days to review award packages and forward them to Commerce's Office of Finance and Federal Assistance (OFFA). OFFA has 30 days to review the applications and award the grants.

Regional Office's Review of Grant Applications

After the 30-day request-for-bid period, all applications that are received undergo a regional panel review in the second 30-day period of the review process. The panel scores the applications using evaluation criteria established by MBDA. The criteria include (1) the capability and experience of the firm/staff, (2) techniques of proposed assistance, (3) resources of applicant (such as financial resources and available staff), and (4) the costs of providing the services. Applicants who receive at

least 70 percent of the points in all four categories overall are considered programmatically acceptable and competitive for the award.

On the basis of the panel reviews, an MBDA regional director recommends a single applicant to headquarters for each Center grant award. A regional director usually recommends the applicant with the highest numerical ranking unless the applicant is found unacceptable because of factors such as financial instability, unsatisfactory performance under other federal programs, or previous failure to adhere to administrative and programmatic objectives of other MBDA or Commerce programs.

MBDA Headquarters' Review of Grant Applications

The third 30-day stage of the 120-day review begins in headquarters' Office of Operations. A quality control review of the packages is made to ensure that applicants have complied with MBDA's procedures and submitted all required documentation in the package. Then the Office performs programmatic reviews of all award packages and evaluates a Center's proposed goals and plans for achieving them.

Packages are also forwarded to the Office of Administrative Management's Financial Management Division. There, reviewers determine if the proposed Center projects are on MBDA's funding plan to ensure that funds will be available upon final grant approval. If so, MBDA's Office of Chief Counsel performs a legal review of the proposal. Following these reviews, the MBDA Director reviews the recommended award packages and approves them for submission to Commerce's OFFA.

Commerce's Review of Grant Applications

OFFA performs the last stage of the review process—financial reviews of Center grant applications—and assumes grant administrative oversight responsibilities. Reviews by OFFA are made in conjunction with Commerce's Office of Inspector General (OIG), which provides assistance with resolution of any past audit findings that may have been directed to the applicant and with closeout activities on existing Center grants. (OIG audits the financial and programmatic performance of about 10 percent of the Centers each year. However, in 1987, OIG reviewed the operations of all Centers.) A final review of the package is made by Commerce's Financial Assistance Review Board, which, at the time of GAO's review of MBDA, was made up of the Department's Associate Deputy Secretary, Assistant Secretary for Administration, and Deputy General Counsel. The Board considers the agency's proposed grant award to ensure that no administrative issues are unresolved; and following the Board's review and clearance, OFFA's grants office makes the actual award.

Objectives, Scope, and Methodology

On July 13, 1988, Senator Pete Wilson requested that we conduct an evaluation of certain aspects of MBDA's operations. On September 19, 1988, Senators Ernest F. Hollings and John F. Kerry notified us that they also supported Senator Wilson's request. On the basis of subsequent discussions with the requesters' staffs, we agreed to

- determine what problems in the competitive grant process were causing grant awards to be delayed and review how special projects are funded and approved;
- review current staffing levels and work load at MBDA's headquarters and regional offices with appropriate MBDA officials and discuss previous problems that resulted from staff conflicts; and
- determine whether Center clients were satisfied with the services they had received.

To accomplish our objectives regarding the competitive grant process and special project proposals, we interviewed MBDA headquarters and regional officials in each of the six MBDA regions and officials of the Department of Commerce's OFFA. At MBDA headquarters and at OFFA, we reviewed the competitive grant award process by examining the records and files on grants awarded in fiscal year 1988 because that was the most recent available data. To determine why grant applications were delayed, we reviewed 37, or about one-half, of the 76 late awards. The grant packages we reviewed contained both new and renewal awards. To determine how special projects are funded and approved, we reviewed MBDA files on a selected number of projects that MBDA had funded, and we examined MBDA's process for reviewing, approving, and monitoring such projects at headquarters and regional offices. We also visited 11 Centers and reviewed Center records and files. Our discussion of MBDA's application and review process for special projects is discussed in appendix III.

In reviewing MBDA's staffing levels, we did not assess the specific work load requirements and staffing needs of MBDA staff. However, we discussed the adequacy of staffing with officials knowledgeable of MBDA, its programs, and staff qualifications. Those individuals included management officials in MBDA headquarters, the directors of the six MBDA regional offices, and various members of the headquarters and regional office professional staffs. To determine regional work load requirements for the Center program, we compared the number of Centers monitored per professional staff member for fiscal years 1986 through 1988 to the criteria MBDA established for the Center program. We also discussed

alleged conflicts among MBDA staff with both current and former headquarters and regional office officials. In April 1989, MBDA's new Director, Deputy Director, and other top management officials were appointed. As a result, the management problems discussed in chapter 3 pertain to MBDA's former Director and former Deputy Director.

To determine client satisfaction with services and assistance received at the Centers, we selected a random sample of 197 Center clients to interview by telephone. This sample was selected from a universe of 4,140 clients that MBDA reported had been assisted nationally during the period October-December 1988. We selected these 3 months because they were the most current for which client data were available. We were able to contact and interview 156 of the 197 clients. Of these, seven did not meet our criteria for type of service received, leaving 149 clients in our interviewed sample. We were unable to contact 18 clients because neither the Center that assisted them nor the telephone company could provide their telephone numbers. We were unable to contact an additional 18 clients despite at least six attempts over a 2-week period. Three clients were unavailable because of illness or extended absence. Two refused to be interviewed.

The 149 interviewed clients—76 percent of our sample—received assistance typical of that provided and received nationally, that is management/technical, financial, and contractual. As a result of using random sampling techniques, we can state with 95-percent confidence that the survey results we cite in the report represent the views of 3,130 clients in the universe who would have answered our questions had we tried to call everyone. Sampling errors for the proportions we report never exceeded 9.79 percent. All reported proportions are greater than 0 percent. Our survey was limited to client opinions of the services received and did not assess the effectiveness of the Center program.

We coordinated our review with Commerce's OIG and reviewed its reports on MBDA. OIG has reported on many of the issues discussed in this report, including the grants review process and staffing. We have included findings from OIG work in appropriate sections of our report.

We conducted our review between September 1988 and September 1989. Our work was done in accordance with generally accepted government auditing standards.

Delays in Minority Business Development Center Grant Approvals Disrupt Delivery of Services to Clients

The Minority Business Development Center program is MBDA's primary program for developing minority businesses. However, problems found during MBDA's review of grant applications have delayed the funding for some Centers. These delays have resulted in some Centers' suspending operations from 1 to over 4 months, which disrupts services to minority clients. Specifically, 76 of the 102 grants, or 75 percent, scheduled to be awarded in fiscal year 1988 were awarded late. We reviewed 37 of the packages that were awarded late and identified eight problems; each grant application contained one or more of these problems. (See table 2.1.) Two frequently identified problems were unresolved debts owed to the government by the applicants and unapproved indirect cost rates. The six others ranged from missing documents to mathematical miscalculations. These problems necessitated MBDA's delaying review of such grant applications until the problems were resolved.

Although some corrective actions have been taken, problems still remain. MBDA's new Director told us he is giving top management priority to ensuring that applications for Center grants are prepared, reviewed, processed, and awarded on time so that the delivery of services to clients is not disrupted.

Most Center Grants Were Awarded Late in Fiscal Year 1988

To determine why 76 grant applications were delayed in fiscal year 1988, we reviewed 37, or about one-half, of the late awards and found the average processing time was 174 days, 54 days longer than that allowed by MBDA procedures. The grant packages we reviewed involved both new and renewal awards from all six regional offices. During our review, we identified eight problems in the application packages that slowed MBDA's review of the applications. All of the late awards in our review contained one or more of these problems. Two—applicant's debts owed to the government and inclusion of unapproved indirect cost rates in the applications—were present in most late awards. Over the past year, MBDA, OFFA, and OIG agreed on grant processing procedures related to these two problems. At the time of our review, these procedures had just been instituted and, thus, their effectiveness could not be determined. The remaining problems, which at the time of our review were still unresolved, included such errors as documents missing from the application package or miscalculations.

Grant Package Problems

We reviewed 37 grant packages to determine what factors contributed to their delays. Although existing records were inconclusive as to which specific MBDA office was responsible for delaying the grant application

review process, we were able to determine the problems that needed resolution before the review of the application could continue. Those problems involved (1) unresolved debts owed to the government, (2) unapproved indirect cost rates, (3) programmatic problems, (4) missing documents, (5) revisions to applications due to budget cuts, (6) failure to adequately justify budget costs, (7) mathematical miscalculations, and (8) miscellaneous problems. Table 2.1 shows the frequency of problems found in each category.

Table 2.1: Problems Found in 37 Fiscal Year 1988 Grant Applications That Were Awarded Late

Problem	Frequency of problem^a
Debts owed to the government	21
Unapproved indirect cost rates	19
Programmatic problems	7
Missing documents	16
Revisions due to budget cuts	7
Budget cost questions	13
Miscalculations	5
Miscellaneous	12

^aAn award package may involve more than one type of problem.

We spoke with MBDA, OFFA, and OIG officials to discuss our findings and to obtain their opinion on what were the major causes of delays in the Center grant application review process. These officials agreed that two major recurring problems—unresolved debts owed to the government and disallowed indirect cost rates—were present in most late grant awards. According to the officials, the remaining problems we identified, such as missing documents and miscalculations, usually resulted from MBDA's poor quality control over the review of grant packages. In addition, these quality control problems are still occurring and, in most cases, the grant review process is stopped until the problems are resolved.

Debts Owed to the Government

Commerce's debt management procedures task MBDA with the primary responsibility for resolving questions involving debts owed to the government. Once a debt to the government has been established, OFFA must notify the applicant that a debt is owed and payment is required within 30 days of receipt of the billing date. If the debt is not paid after 30 days, it is considered delinquent. OFFA is to forward unresolved debts to a workout group within MBDA for further action. If MBDA and the applicant agree a debt is owed, MBDA must obtain written assurance that payment of the debt has been or is being made. If the applicant disputes a

debt, which is established by Commerce as a result of an OIG audit report, MBDA can recommend that a protective clause be included in the special terms and conditions of the grant award to either withhold the amount in question, terminate or suspend payment, or propose making the award in spite of the debt because of special circumstances.

Of the 37 awards we reviewed, 21 involved problems with unresolved debts owed to the government. Most of the debts in question were incurred under previous MBDA grant awards and were found by OIG in financial audits of the Centers. Several applicants in our sample disputed the debts found by OIG. However, in accordance with Commerce and Office of Management and Budget (OMB) policy, new awards were not made until the debt problems, as well as other problems we identified, were resolved satisfactorily. According to OFFA officials, Commerce policy is basically that once a debt has been established, no further awards will be made to the indebted organization until the debt is paid, a repayment schedule has been agreed to, or other arrangements satisfactory to Commerce have been made. In addition, organizations such as nationwide accounting firms can operate a number of Centers throughout the country. However, if it is determined that the grantee has incurred debts at one Center, MBDA has delayed funding to all Centers operated by the firm.

In April 1988, MBDA and Commerce's Financial Assistance Review Board agreed on a temporary measure, constituting an exception to departmental policy, to allow MBDA officials to review and make determinations on a backlog of disputed debts. This one-time agreement allowed a limited number of awards to be made where debts were owed. However, a special condition specifying how MBDA will resolve the disputed debt was added to the grant. These officials also agreed that in the case of delinquent debts, however, awards would not be made unless recipients would agree to repayment schedules. According to an MBDA official, these procedures were implemented around June 1988.

In addition, according to OFFA officials, in December 1988, Commerce published in the Federal Register a policy statement announcing the establishment of a formal appeals procedure for disputed debts resulting from audits. The formal appeals procedure, developed by OIG, OFFA, and other Commerce officials, should, according to OFFA officials, clarify any questions related to potential legal concerns on handling disputed debts. OFFA officials told us that these procedures should alleviate certain delays caused in the past as a result of legal questions related to disputed debts.

Unapproved Indirect Cost Rates

Indirect costs are those not directly related to delivering services to minority businesses, such as administrative costs. OMB Circulars A-21, A-87, and A-122 and the award terms and conditions of a Center grant prescribe, however, which of these indirect costs are allowable under grant agreements. These documents state that such costs must be reasonable, allocable, allowable, and approved by the recipient's cognizant audit agency. According to OFFA officials, the cognizant audit agency for most MBDA awards is Commerce's OIG. If grant applicants do not have approved indirect cost rates, OMB guidelines allow them 90 days from the date of the award to submit documents necessary to establish indirect cost rates.

Nineteen of the award packages we reviewed involved problems of unapproved indirect cost rates. According to OFFA officials, OIG delayed several awards during fiscal year 1988 as a result of its findings on audits of Center operations conducted in 1987. OIG found that a number of recipients of MBDA awards had been recovering costs through rates not approved by Commerce. OIG also found some rates were unreasonably high. At the recommendation of OIG, MBDA withheld awarding new grants until MBDA and OIG resolved the problem. OIG agreed to let MBDA use special award conditions for those applicants where OIG had not established an indirect cost rate.

Other Problems Delaying the Grant Approval Process

Although MBDA officials have taken action to resolve some of the problems in the grant approval process regarding unresolved debts owed to the government and indirect costs, other problems still are occurring. According to MBDA and OFFA officials, grant reviews are still being delayed because of problems such as grant justifications not properly addressing programmatic goals, documents missing from the grant packages, and budget data having mathematical and other errors/problems.

Headquarters officials told us that they believe these errors/problems generally resulted from poor quality control in the preparation of the grant packages by staff in the regional offices. Despite careful instructions from headquarters and numerous training sessions, according to the officials, the grant packages still contain errors. According to MBDA headquarters officials, if the grant applications submitted to headquarters for review were prepared more carefully, the review process could be completed in a timely manner. MBDA regional officials we talked with stated that grant application packages are thoroughly checked before being submitted to headquarters.

Because the records we reviewed were inconclusive, we could not determine if headquarters or regional office staff were responsible for the quality control errors/problems.

Delays in Awarding Funds Force Centers to Shut Down Operations

Failure to award Center grants in a timely manner resulted in lapses of service to minority business enterprises. For example, in fiscal year 1988, 8 of the 37 Center grantees in our sample whose awards had been late suspended operations while waiting for funding from MBDA. During fiscal years 1986-1988, 32 Centers, located throughout all six MBDA regions, suspended operations 50 times (see app. IV). Twenty-four of the 50 suspended operations lasted for a period of 1 month; some Centers did not provide services for over 4 months. During such periods minority entrepreneurs are not being assisted by the Centers. Table 2.2 shows the number of suspended operations and days suspended during fiscal years 1986-1988.

Table 2.2: Number of Suspended Operations and Days Suspended During Fiscal Years 1986-1988

Days suspended	Number of suspended operations			Total suspensions ^a
	FY 1986	FY 1987	FY 1988	
01-31 days	7	6	11	24
32-62 days	2	0	4	6
63-93 days	2	2	2	6
94-124 days	3	1	0	4
Over 125 days	6	0	4	10
Total	20	9	21	50

^aThe suspensions total more than 32 because a number of the Centers suspended operations in more than 1 year.

When Centers shut down operations because of funding delays, many negative impacts, such as reduced operations, can occur. At the end of a grant period, MBDA advises operators that if funding is delayed, the agency will not be responsible for costs incurred if the Center remains open. As a result, some operators have reduced operations by laying off staff and/or have cut back the number of clients they served. However, MBDA often recommends to OFFA that pre-award costs be approved to make up for the delayed funding. As a result, some Centers continue operating because they believe funding will be forthcoming. According to one Center operator connected with a large accounting firm, it would be difficult for a small to medium-sized company to operate a Center

without a continuing inflow of MBDA funds because such operators cannot absorb operating costs, whereas, larger firms, which might have more resources available, can often incur such costs and remain open.

Reactions of New MBDA Director

In June and in October 1989 the new Director of MBDA told us he is giving the Center grant application review process top management priority. Preventing Centers from providing services to clients because of funding delays, according to the new Director, is the most discrediting action the agency can take. He is meeting with top officials in both MBDA and OFFA weekly to ensure grants are awarded on time and delivery of services to minorities is maintained. He also said he is evaluating the entire grant review process to assess where modifications are needed.

Conclusions

MBDA was established to increase opportunities for racial and ethnic minorities to participate in the free enterprise system through the formation of competitive minority-owned and minority-managed firms. MBDA has tried to achieve its goals primarily through its Center program, designed to assist minority entrepreneurs. However, during the past several years, Center operations have been hampered by funding delays caused by problems in MBDA's grant approval process. Specifically, we identified eight types of problems in the processing of grant applications and the awarding of operating funds that resulted in Centers' reducing or stopping services to clients for periods of 1 to over 4 months.

MBDA, OFFA, and OIG officials have recently taken action related to two of the most frequently occurring problems with the Center grant process. However, at the time of our review, it was too early to determine their effectiveness in solving the problems. Other problems related to quality control in processing grant applications and awarding grants still remain. MBDA's current Director told us that he is reevaluating the Center grant approval process to identify ways it can be streamlined and improved.

Recommendations

We recommend that the Secretary of Commerce instruct the Director, MBDA, to incorporate the following actions in his reevaluation of the grant process:

- Determine, in cooperation with other pertinent Commerce officials, whether actions taken to correct problems that have delayed the

Chapter 2
Delays in Minority Business Development
Center Grant Approvals Disrupt Delivery of
Services to Clients

processing of grant applications are effective, and if not, develop alternative solutions. In addition, develop solutions for other quality control problems that exist with grant applications—problems that continue to contribute to delays in the funding of Centers.

Staffing Levels Should Better Reflect Agency Mission and Work Load

Although the work load has decreased in MBDA's headquarters, regional, and district offices, only a minimal reduction in staff has occurred. MBDA officials told us that the entire agency is overstaffed based on its current work load. In addition, MBDA has had problems making adequate use of all personnel. MBDA's former Deputy Director told us that because of personal differences with the then Director, he was relieved of most of his job responsibilities and as a result performed only minor tasks that contributed very little to minority business development between 1985 and 1989.

MBDA's current Director, appointed in April 1989, told us that he was aware of the agency's staffing problems as well as the former Deputy Director's lack of job responsibilities. He stated that he is reviewing not only MBDA's staffing needs, but also attempting to find ways to utilize the staff more fully by having them perform activities such as outreach and advocacy, which are pertinent to MBDA's goals.

MBDA's Program Funding Has Been Reduced Without a Corresponding Reduction in Staff

Although MBDA's program budget was reduced by \$19 million, or 43 percent, from fiscal years 1980 to 1989, from about \$44 million to about \$25 million, funding for MBDA staffing and staffing levels changed little. MBDA employed 198 permanent staff at the end of fiscal year 1988. About one-half of the staff were located in MBDA's headquarters office, with the remaining staff located in its six regional offices and four district offices.¹ (See table V.1 in app. V.)

MBDA Funding

Although MBDA's total program funding of \$44 million in fiscal year 1980 had been reduced by \$19 million, or 43 percent, by fiscal year 1989, funding for salaries and expenses for the entire agency remained fairly constant, dropping by about 1 percent. Specifically, for fiscal years 1986 through 1988 (see app. I), the time covered by our review,

- funding for the Center program was reduced by about \$3.7 million, or about 13 percent;
- funding for the public sector programs was reduced by about \$1 million, or 82 percent;
- funding for the private sector programs was reduced by about \$4 million, or 64 percent; and

¹MBDA's six regional offices are located in Washington, D.C.; New York, New York; Atlanta, Georgia; Chicago, Illinois; Dallas, Texas; and San Francisco, California. MBDA's four district offices are located in Boston, Massachusetts; Philadelphia, Pennsylvania; Miami, Florida; and Los Angeles, California.

- funding for advocacy, research, and information efforts decreased by about \$570,000, or 92 percent. Further, in fiscal year 1988, no funding was made available for research activities.

From fiscal year 1986 through fiscal year 1988, headquarters' staffing levels fell by only 4 staff positions, and regional staffing levels fell by only 8 staff positions for a total of 12 positions, or about 6 percent of MBDA's September 1988 staffing level.

MBDA Officials Believe Headquarters Is Overstaffed

Although we did not assess the specific work load requirements and staffing needs of MBDA headquarters' staff, we did ask the top management officials for their views on headquarters' staffing needs based on the agency's work load. According to several MBDA officials—including the former Deputy Director, the former Assistant Director for External Affairs, the current Chief of the Operations Division, and OIG's Director of Economic Affairs Division—significant staff reductions could be made in MBDA's headquarters operations.

These officials believed staff reductions were needed because the headquarters work load had decreased. At the time of our review, headquarters work load essentially entailed reviewing and processing applications for the Center program and other special projects (see app. V). They said that since MBDA's public and private sector programs were being phased out, more effort should have been devoted to other activities designed to advance minority business development, such as advocacy and outreach efforts and more effective Center monitoring. In addition, four of the six regional directors told us that they believe headquarters is overstaffed.

Work Load in MBDA Regional Offices Has Also Decreased Over the Years

Although the work load, primarily activities dealing with the Center program, of MBDA's regional offices dropped by about 27 percent from fiscal year 1986 through fiscal year 1988, regional staffing has been reduced by only 8 percent. Further, some regional directors have not filled vacant staff positions because they believe the positions were not needed. The current major function of the regional staff is to implement and monitor the Center program. According to two of MBDA's regional directors, that job responsibility alone does not keep the staff fully employed.

Role and Responsibilities of the Regional Staff

During the 3-year period covered by our review, we determined that the role of the approximately 47 regional professional staff—the Business

Development Specialists—consists primarily of serving on Center grant award evaluation panels and then monitoring each Center's performance under such awards.² Although the specialists are also responsible for engaging in advocacy work and outreach efforts, regional staff we spoke with generally told us that they spend a minimal amount of their work-day on these activities.

Center grant evaluation panels are established by the regional offices as needed to evaluate grant award applications. During the evaluation process each panel member reviews all applications for the grant under consideration. Generally, at least three specialists sit on a panel, and each takes 5 days to 2 weeks to complete the review and evaluation. The regional offices did not maintain records of the number of panels on which each staff member has served. However, many specialists told us that they generally serve on about 3 to 6 panels in a year's time.

After grants are awarded, the specialists are responsible for monitoring the grantees' performance. Grantees are required to submit quarterly performance reports to MBDA. Regional staff are required to verify the information reported by the grantees and prepare an evaluation report on the performance. Regional staff monitoring consists essentially of desk reviews with a limited number of on-site visits to the Centers. The specialists are supposed to conduct an on-site review at the beginning of the 3-year grant award cycle if the grantee had not previously received an MBDA grant. The purpose of these initial visits is to check the grantee's office facilities and confirm that the Center has begun operations. Another on-site review is required at the end of the second quarter of a Center's operations. Additional on-site reviews may be conducted if a grantee's performance is unsatisfactory.

According to most of the specialists we interviewed, they generally made an initial on-site visit to new grantees within 30 days after the project start date and a mandatory visit at the end of the second quarter to all new and renewed grantees. According to the staff interviewed, most on-site reviews do not last more than a week. The specialists told us that during their on-site visits they verify reported accomplishments, help grantees resolve performance problems, and conduct advocacy activities. They did not usually perform any other on-site visits during

²As of September 30, 1988, out of the 90 regional office staff, 47 were Business Development Specialists, 11 were regional directors and deputy directors (the San Francisco regional deputy director position was vacant), and 32 were administrative support staff.

the 3-year grant period unless a Center's performance becomes unsatisfactory.

When the Center program was implemented, MBDA determined that one specialist was needed to monitor five funded Centers. Using this criterion, we compared the regional work loads and actual professional staff levels and found that the number of Centers per staff person during fiscal years 1986 through 1988 was below that standard in all six regions. Overall, the work load of the regions from fiscal year 1986 through fiscal year 1988 fell by 27 percent. However, only a 4 percent reduction in regional professional staff occurred during the same period. Table 3.1 shows how the number of projects per specialist changed from fiscal years 1986 through 1988.

Table 3.1: Number of Projects Monitored Per Staff Person

Region	Projects/staff for fiscal year		
	1986	1987	1988
I New York	3.57 to 1	3.67 to 1	2.00 to 1
II Washington, D.C.	4.00 to 1	3.00 to 1	1.71 to 1
III Atlanta	2.60 to 1	3.22 to 1	2.44 to 1
IV Chicago	3.50 to 1	3.00 to 1	2.33 to 1
V Dallas	2.80 to 1	2.88 to 1	2.67 to 1
VI San Francisco	3.30 to 1	3.33 to 1	3.25 to 1

Regional Directors Believe Their Offices Are Overstaffed

Dallas, New York, and Washington, D.C., regional directors told us that their regions are overstaffed. According to the Dallas Regional Director, the number of professional staff in Dallas could be reduced, although she did not specify by how many. The New York Regional Director said that overstaffing has resulted from a decrease in the number of Centers monitored while the number of staff has remained about the same.

In addition, the regional offices of San Francisco, Chicago, New York, and Washington, D.C., remain below their authorized professional and clerical staffing levels, in part, because the additional positions are deemed unnecessary by the regional directors. (See table V.1 in app. V for authorized and actual staffing levels.) According to the San Francisco Regional Director, the management to professional staff ratio was too high, and the Deputy Director's work was only duplicative of the Regional Director's work. In that region the deputy's position has been vacant since September 1988. The San Francisco Regional Director said he believed the positions of Deputy Director and Chief of Business Development should be merged.

Not only have over half of the regions remained below their authorized staffing levels, but the Washington Regional Director recommended that the Washington Regional Office be eliminated. In 1982 he recommended to MBDA's Director that the Washington Regional Office be abolished because the work load had continued to decrease and it could be handled by the New York and Atlanta regional offices. In addition, in his opinion, no need existed to maintain any of MBDA's four district offices.

The New York Regional Director said that she had recommended that the Boston District Office be eliminated. She noted that although only one staff person was in the district office, the regional office had to send work to the staff person because not enough work was generated within the district. Currently, in the Boston District Office, the staff member is responsible for monitoring one Center and serving on evaluation panels in the regional office. The Regional Director said the work load at the Boston District Office has always been minimal, and there has never been more than one staff member assigned to the office. According to the Regional Director, neither the minority business community nor the Center would be affected if the Boston District Office were eliminated. The Center in the area would continue to provide services and could be monitored just as effectively from the New York Regional Office.

Commerce's OIG reported³ a similar overstaffing situation when in January 1989 it stated that the regional staff levels were significantly higher than the work load justified. OIG reported that MBDA officials in both headquarters and regions confirmed that the MBDA work load did not justify the number of MBDA staff. OIG concluded that the work load available for the regional staff did not constitute a full-time job. OIG recommended that the regional staff be reduced by 15 positions and that MBDA determine the need for existing vacant positions. MBDA officials did not respond to OIG concerning this recommendation.

³Final Report on Inspection of the Minority Business Development Agency's District Offices (Report No. OPEI-208, Jan. 1989).

Personal Differences Between Former Director and Former Deputy Director and Lack of Communication Cited as Past Problems by MBDA Officials

From 1984, when first appointed, until his replacement, the former Director, because of personal differences, relieved his Deputy Director of most responsibilities of the position. This resulted, according to another former MBDA official, in no clear delegation of authority or responsibility throughout the agency. Agency officials also cited the lack of communication between the former Director and the rest of the agency as a management problem.

We asked MBDA officials to describe the type of staff problems that existed within the agency and asked them their opinion regarding the impact of these problems on the operation of the agency. We determined that a major problem existed between the former Director and the former Deputy Director. According to the former Deputy Director, the former Director relieved him of most of his job responsibilities, and as a result, he performed only minor tasks after the former Director's appointment in 1984. The former Director's action, according to the former Deputy Director, was the result of personal differences that had developed between the two after they had both competed for the position of Director in 1984.⁴ According to the former Deputy Director, one of the former Director's first actions after being appointed was to try to fire him. However, since they were both political appointees, the Director was unsuccessful. The former Deputy Director said he was told by the former Director that he could do anything he wanted as long as it had nothing to do with the day-to-day operations of the agency. Further, the former Deputy Director told us that only once in 4 years did the former Director give him written instructions to do something.

In a February 10, 1986, memorandum to MBDA's Assistant Directors and Staff Office Chiefs, the Director restated the role of the Deputy Director:

"The day-to-day direction and management of the Minority Business Development Agency operations will continue to be administered by me. . . . [The] Deputy Director . . . has been directed not to request, inquire, or demand from any MBDA employee the status of or any information relating to personnel actions, financial and budget matters, public affairs, grants and cooperative agreements, statistical data, and other operational activities without my prior approval."

As a result of the former Director's actions, according to the former Deputy Director, he was excluded from the day-to-day management operations and often had no knowledge of what was going on in the agency. He said that he kept himself busy by traveling to various parts of the

⁴In October 1988 the Deputy Director had held that position for 7 years and was a member of the Senior Executive Service at the 05 level.

country promoting MBDA at various meetings and conferences related to minority businesses. He told us that at one conference he was presented with an award for promoting minority businesses but felt so guilty about accepting it because of his lack of meaningful duties and responsibilities that he returned the award.

According to the former Deputy Director, the dispute between him and the former Director was widely known inside and outside of the agency, and the infighting had negatively affected employee morale and performance. In addition, the former Deputy Director told us infighting was so bad at one point in 1984 that a member of the White House personnel staff met with both him and the Director and told them to "get their act together." Although both men agreed at that meeting to resolve their differences, the dispute continued.

Our discussions with the former Director and other agency officials confirmed that this dispute did occur and was widely known. The former Director told us that he relieved the Deputy Director of his responsibilities because they were unable to establish a relationship based on trust.

Former Officials Cited Lack of Communication and Delegation of Responsibilities as Major Problems

According to the former Deputy Director and several other headquarters officials and one regional official we spoke with, including the Assistant Director for Program Support, State and Local Programs, and the San Francisco Regional Director, a lack of communication also hampered staff operations under the former Director. For example, the former Deputy Director told us that the former Director held only two executive staff meetings in 4 years. The former Assistant Director for Program Support, State and Local Programs, also told us that because of the poor relationship between the former Director and Deputy Director, there was no clear delegation of authority or responsibility throughout the agency.

The former Director told us that he thought staff meetings were a waste of time and usually only served as a forum for complaints. He said he knew what was going on in the agency and therefore did not feel the need for more staff meetings.

In a 1986 report, OIG also found that key executive positions were not being utilized effectively and that poor communication existed between

the Director and his key operating managers in headquarters.⁵ OIG recommended that the Director take steps to utilize key staff positions and improve communication with all assistant directors and regional directors to ensure effective agency operations. Although MBDA agreed with the OIG findings and stated in its response to the report that it had taken actions to correct the problems, these problems still existed at the time of our review.

Current MBDA Management Views on Past Problems, Staffing, and Work Load Needs

In April 1989 MBDA's new Director, Deputy Director, and other top management officials were appointed. The new Director told us he believed that both the headquarters and regional offices were overstaffed in the past when compared to work load requirements. However, he told us that he is taking action to correct the problem. Specifically, he and his staff are developing a "redirection plan" that will evaluate staffing needs and roles and responsibilities. He said that if MBDA's staff both at headquarters and the regional offices were involved more actively in outreach-type activities, such as developing contacts with corporations and financial institutions to promote minority business growth, they would be fully employed and MBDA would not be considered overstaffed.

The new Director was aware of the previous management problems between the former Director and the former Deputy Director, and he believes that the situation negatively affected employee morale and productivity. He also told us that he will not allow such a situation to occur under his leadership and plans to use effectively all key executive staff positions. In addition, according to the Director, since his appointment in April 1989, he has improved communication throughout the agency through regularly scheduled staff meetings with headquarters' officials and conference calls with regional management.

Conclusions

On the basis of the opinions of MBDA management and Commerce's OIG officials and an assessment of the agency's current work load, MBDA is overstaffed both at headquarters and at the regional and district office levels. While funding for MBDA programs has been reduced or eliminated, commensurate increases in other duties or staffing reductions have not occurred. As a result, MBDA's present staffing levels exceed that required by its present work load. However, the current Director of MBDA told us he is developing a "redirection plan" that will evaluate staffing needs

⁵Improvements Needed in the Minority Business Development Agency's Support Activities (Report No. 3-126-6-001, Jan. 1986).

and roles and responsibilities, and he hopes to use more fully MBDA staff through increased outreach efforts.

In addition, on the basis of comments of current and former MBDA officials, we believe that an executive position, that of the former Deputy Director, was underutilized and that the situation was allowed to continue for a number of years without corrective action. The former Deputy Director told us that this problem contributed to a lowering of employee morale and productivity throughout the agency. This situation appears to be corrected as a result of the appointment of the new Director in April 1989 and, if good management practices are followed, should not be allowed to recur.

Recommendations

We recommend that the Secretary of Commerce direct the Director, MBDA, as part of his effort to examine agency staffing, to determine how to either (1) better utilize existing staff resources through the expansion of their roles and responsibilities or (2) reduce staff to realistically reflect the agency's work load.

Minority Business Development Center Clients Are Satisfied With Services

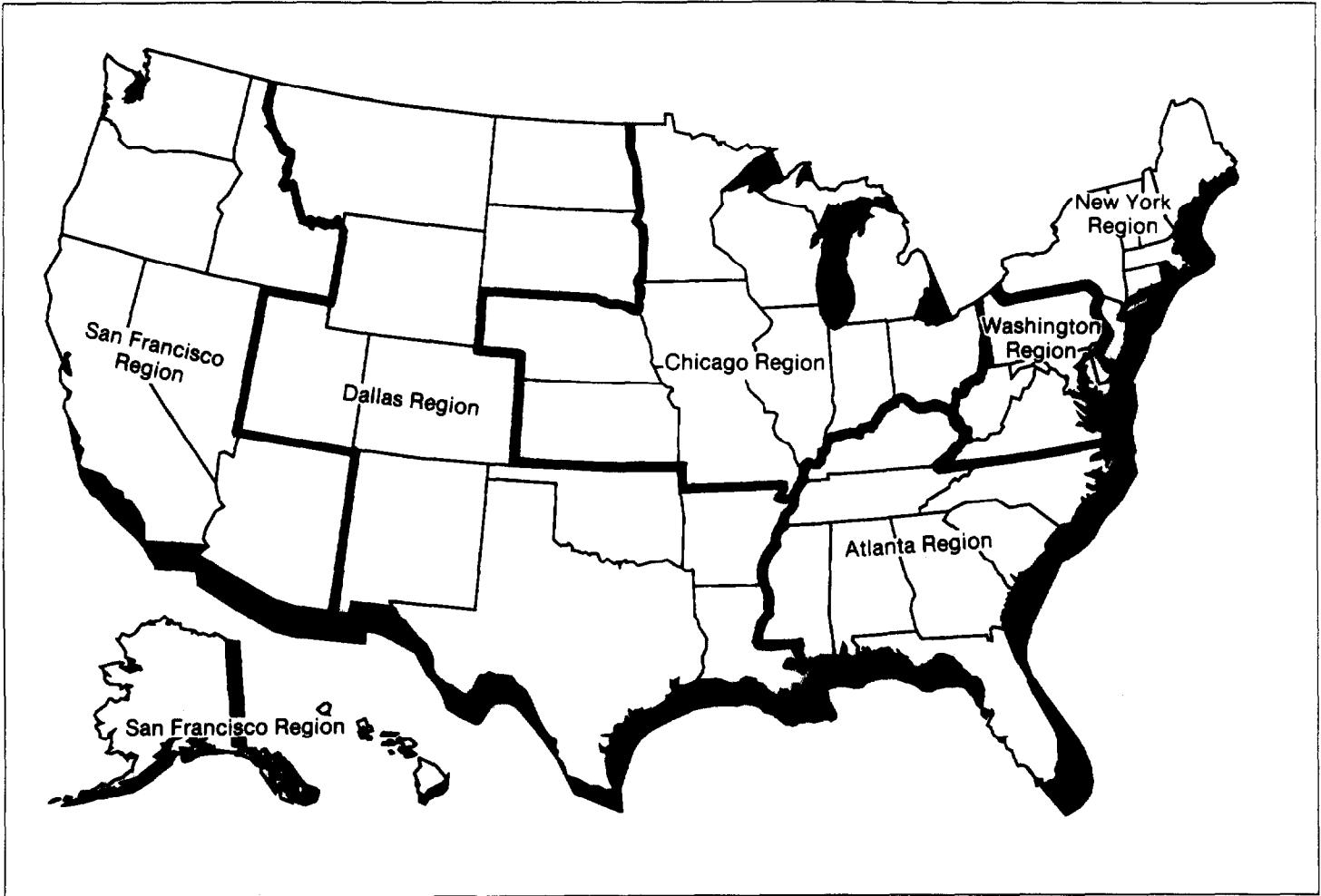
Generally, Center clients have been satisfied with the assistance and services they have received, and about 83 percent would seek similar assistance in the future. Over 50 percent of all clients found the services to be useful in meeting their business needs and developing or improving their business skills. In addition, a majority of Center clients expressed favorable opinions of Center personnel and the worth of the services received.

Center Clients and Assistance Received

To determine client satisfaction, we interviewed 149 clients randomly selected from clients in the six regions who MBDA reported were served during the last 3 months of 1988. Our survey results represent the views of 76 percent of all MBDA clients for that time period. Our survey was limited to an assessment of client opinion. We did not assess program effectiveness. MBDA reported that it provided assistance to a total of 4,140 clients during those 3 months through 101 Centers located throughout the United States. Figure 4.1 shows the geographic coverage of MBDA's six regions and the number of clients served within those regions during October-December 1988.

Chapter 4
 Minority Business Development Center
 Clients Are Satisfied With Services

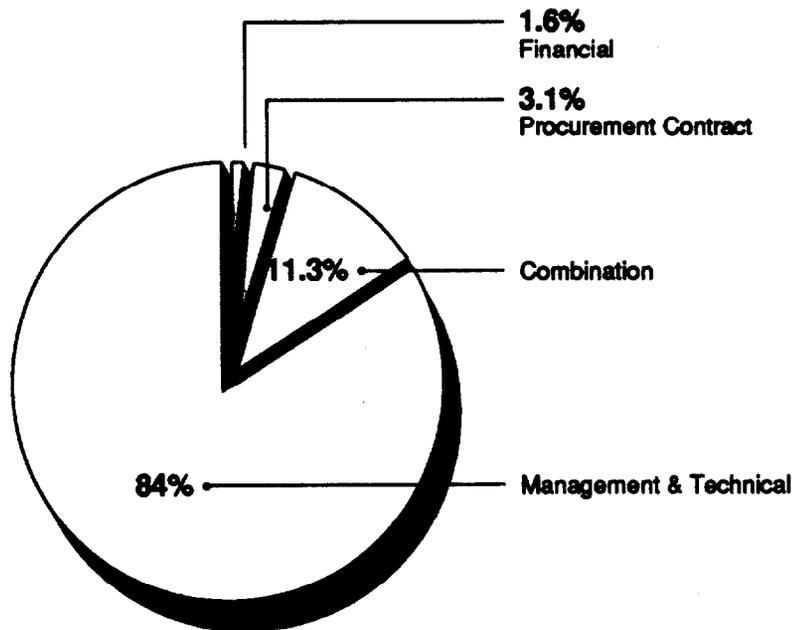
Figure 4.1: MBDA Regions and Clients Served in Last 3 Months of 1988



MBDA region	Number of clients
I New York	506
II Washington, D.C.	234
III Atlanta	979
IV Chicago	625
V Dallas	714
VI San Francisco	1,082
Total	4,140

Based on our random sample, the assistance received by 3,477 of the 4,140 clients was in the form of management or technical assistance only. That is, clients were given advice on various business activities, such as, on how to develop computer programs or obtain a contractor's license. Assistance in obtaining financial help (loans from lending institutions) was given to 68 clients. Help in obtaining procurement contracts was given to 128 clients. The other 467 clients received a combination of these three types of assistance. Our sample mirrored the total clients in the types of assistance received and consisted of clients from all six regions.

Figure 4.2: Clients by Type of Assistance Received



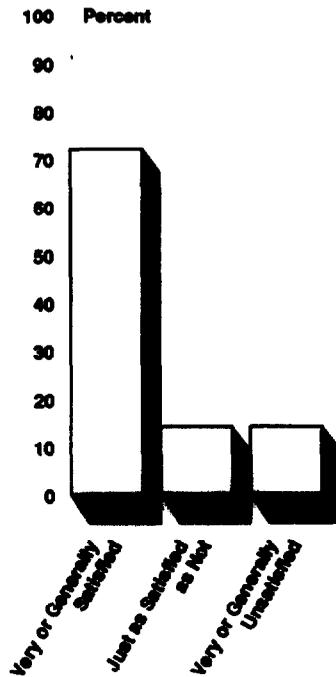
Over 55 percent of the clients receiving management and technical assistance received 5 or fewer hours of assistance. About 20 percent received only 1 hour. About 29 percent received 6 to 20 hours, and 16 percent received over 20 hours.

Overall Satisfaction

Generally, Center service recipients were satisfied with the service they received and would seek assistance in the future. According to our sample, about 72 percent of MBDA clients have a high or general satisfaction with the assistance they received from a Center. Fourteen percent were

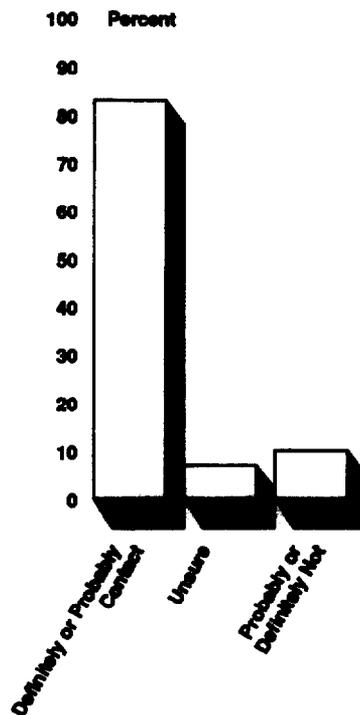
“generally” or “very unsatisfied.” We did not determine the basis for their satisfaction or dissatisfaction.

Figure 4.3: Overall Client Satisfaction



Over 83 percent of MBDA clients indicated a definite or probable likelihood of contacting a Center in the future if they would need similar assistance. Less than 10 percent “probably” or “definitely” would not seek assistance from a Center in the future. We did not determine why the clients would or would not contact the Centers in the future.

Figure 4.4: Clients' Likelihood to Contact Centers in the Future

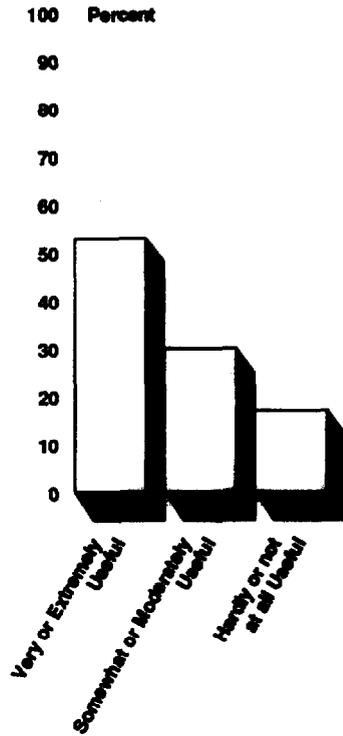


Impact of Assistance on Client Business and Skills

A primary purpose of the Center program is to provide clients with management and technical assistance, i.e., business advice. Accordingly, we asked the clients how beneficial the services they received were to their business needs and to themselves—to their skills—as business entrepreneurs.

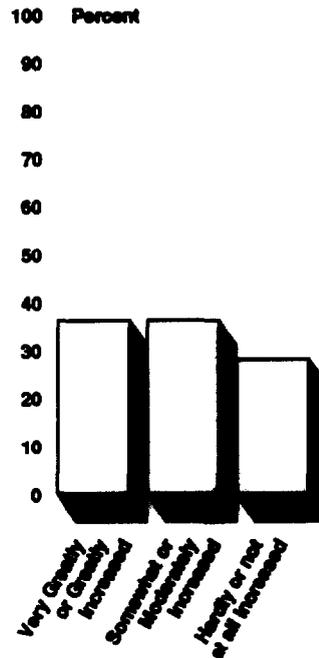
About 53 percent of MBDA clients believed that the services they received were “very” or “extremely” useful in meeting their business needs. Roughly, another 30 percent believed that the services were “some-what” or “moderately” useful. The remainder believed that the services were “hardly” or “not at all useful.”

Figure 4.5: Usefulness of Assistance in Meeting Business Needs



Impact on the clients' individual entrepreneurial skills was viewed as somewhat less but nevertheless substantial. About 36 percent of the clients believed that their business skills or knowledge had "greatly" or "very greatly" increased as a result of the assistance received from the Centers. About 36 percent indicated that their business skills or knowledge had increased at least "somewhat" or "moderately." The remaining 28 percent believed that their skills/knowledge increased little, if at all, as a result of a Center's assistance.

Figure 4.6: Impact on Client Business Skills and Knowledge

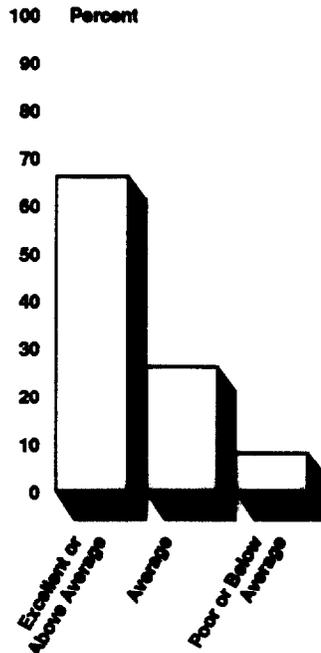


Client Assessment of Center Capabilities

During our client interviews, we also elicited opinions and assessments of the capabilities of Center personnel and of the value or monetary worth of the services or assistance received. Most clients regarded the capabilities of Center personnel quite favorably. About half of those who paid for the services received believed that those services were worth "somewhat more" or "a lot more" than the fees paid.

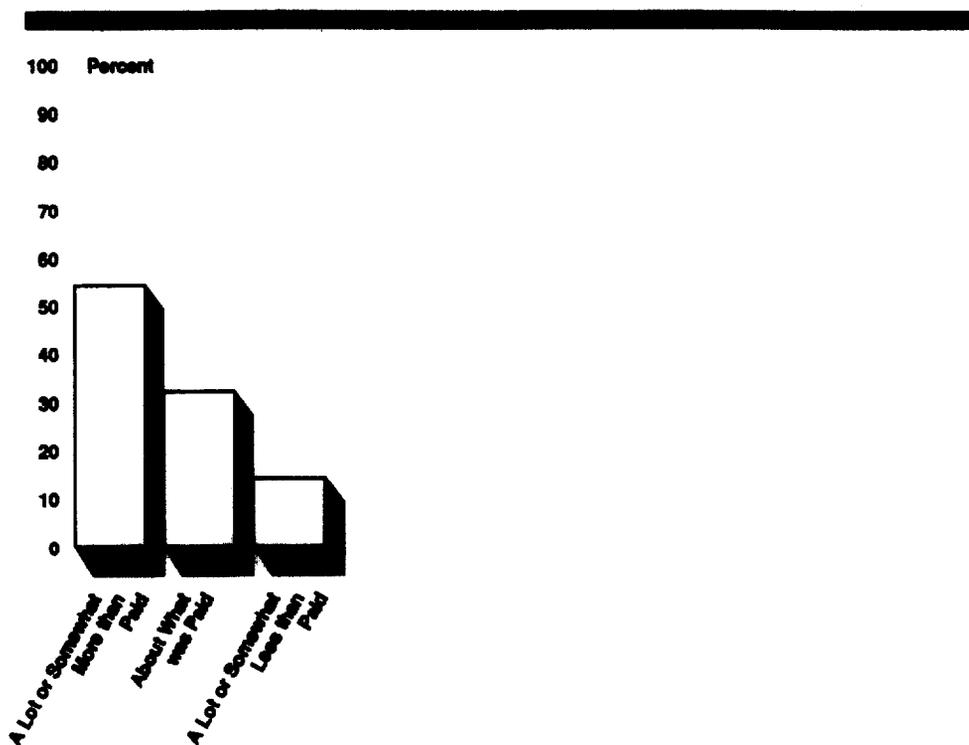
In our survey, 66 percent of MBDA clients rated the expertise of Center personnel as "above average" or "excellent." Eight percent described the expertise as "poor" or "below average." These ratings were based on clients' experiences with Center personnel.

Figure 4.7: Client Opinion of Center Expertise



Because what individuals pay for a service is important in their assessment of the value of that service, we asked the clients in our sample to assess the services that they received relative to the nominal fees that they had to pay. About 73 percent of our sample had paid fees for services. About 27 percent of our sample paid nothing. (See ch. 1.) The services were worth "somewhat more" to "a lot more" than the amounts paid, according to about 54 percent of the paying clients. They were worth "about what was paid," according to about 32 percent of the paying clients, and worth "somewhat less" or "a lot less" to the remaining 14 percent.

Figure 4.8: Client Assessment of Services' Worth



Conclusions

Despite MBDA's problems with delayed grants and staff utilization, Center clients generally appeared satisfied with the services they received and would seek assistance from MBDA Centers again. However, if MBDA management is improved through a more timely grant review and approval process and fuller staff utilization, perhaps an even larger segment of the minority population could be served.

MBDA Funding Levels by Program for Fiscal Years 1986-1988

Dollars in thousands

Program	Program funds		
	FY1986	FY1987	FY1988
Minority Business Development Center Program	\$28,452	\$27,609	\$24,728
Public/private sector programs	7,552	5,499	2,513
Advocacy, research, and information	617	456	48
Total	\$36,621	\$33,564	\$27,289

Note: Funding information by program activity was available for only fiscal years 1986 through 1988.

Minority Business Development Centers in Operation as of December 1988

New York MBDA region

Brooklyn, NY
Bronx, NY
Nassau/Suffolk, NY
Manhattan, NY
Queens, NY
Rochester, NY
Williamsburg, NY
San Juan, PR
Mayaguez, PR
Ponce, PR
Newark, NJ
New Brunswick, NJ
Hartford, CT
St. Thomas, VI

Atlanta MBDA region

Birmingham, AL
Montgomery, AL
Mobile, AL
Cherokee Indian, NC
Charlotte, NC
Fayetteville, NC
Raleigh/Durham, NC
Atlanta, GA
Savannah, GA
Augusta, GA
Columbus, GA
Greenville, SC
Charleston, SC
Columbia, SC
Orlando, FL
Jacksonville, FL
Tampa, FL
Miami, FL
West Palm Beach, FL
Memphis, TN
Louisville, KY
Jackson, MS

Dallas MBDA region

Corpus Christi, TX
Corpus Christi (Rural), TX
Houston, TX
McAllen, TX
Beaumont, TX
Austin, TX
Laredo, TX
San Antonio, TX
El Paso, TX
Dallas, TX
Brownsville, TX
Albuquerque, NM
Baton Rouge, LA
Shreveport, LA
New Orleans, LA
Little Rock, AR
Oklahoma City, OK
Tulsa, OK (2)
Salt Lake City, UT

Washington MBDA region

Baltimore, MD
Pittsburgh, PA
Philadelphia, PA
Norfolk, VA
Newport News, VA
Washington, D.C.

Chicago MBDA region

Chicago, IL (2)
Gary, IN
Indianapolis, IN
Minneapolis, MN
Minnesota Chippewa Tribe, MN
Cleveland, OH
Cincinnati, OH
Akron/Canton, OH
Kansas City, MO
St. Louis, MO
Detroit, MI
Milwaukee, WI

San Francisco MBDA region

Los Angeles (South), CA
Los Angeles, CA (2)
Anaheim, CA
Oxnard, CA
Riverside, CA
El Monte, CA
San Jose, CA
Stockton, CA
Fresno, CA
Bakersfield, CA
Salinas, CA
San Francisco, CA
San Diego, CA
Sacramento, CA
Santa Barbara, CA
Anchorage, AK
Phoenix, AZ
Tucson, AZ
Tempe, AZ

**Appendix II
Minority Business Development Centers in
Operation as of December 1988**

Dallas MBDA region (continued)
Bismarck, ND

San Francisco MBDA region (continued)
Portland, OR
Las Vegas, NV
Seattle, WA
Honolulu, HI

MBDA's Application and Review Process for Special Projects

In addition to funding its Center program, MBDA funds special projects that are pilot and demonstration projects. The primary purposes of special projects are to (1) provide special services that are not available through existing programs, (2) demonstrate or test unique or innovative approaches and methods for helping minority entrepreneurs, and (3) promote minority business formation. These awards are made to educational institutions, various private organizations, minority business and industry associations, and chambers of commerce.

The purpose of special projects is to provide or improve services to minorities or to assist a particular industry or segment of the minority business population that is underrepresented. Special project grants are awarded noncompetitively for a 1-year period and should be original in concept and should not duplicate services of other MBDA programs. The types and purposes of special projects funded by MBDA vary. For example:

- The Latin American Manufacturers Association, which has received funding for several years, has attempted to involve minority business enterprises in the construction of McDonnell-Douglas aircraft and identification of subcontracting opportunities.
- The National Association of Black and Minority Chambers of Commerce has received several grants to collect, evaluate, and disseminate relevant business convention, travel, and tourism information to minority businesses.
- The Texas Association of Mexican-American Chambers of Commerce has received grants to motivate youth toward completion of education and encourage youth toward entrepreneurship.

Application and Review Process

Special project proposals are submitted either to regional offices, which forward them to headquarters, or directly to headquarters by individuals or organizations who believe they have an idea for promoting minority business development that is worthy of funding. The Office of Program Development and the appropriate regional office review and rate proposals to determine if they duplicate any other MBDA program and are consistent with MBDA's minority business development philosophy. According to the Chief of the Business Development Division in the Office of Program Development, the office tries to assign special project proposals to programs that already exist. At this point in the review process, staff in the Office of Program Development sign off on the proposals and indicate whether or not they agree with the concept of the proposals. They do not review the scope of work or the methodology

because the proposals have not yet been developed into formal applications, and in many cases, they are only ideas. According to MBDA policy and procedures, proposals are rated individually on their own merit.

The proposals are then forwarded to the Director, MBDA, who makes the final decision whether the proposals should be developed into formal applications that will be processed for funding. If any or all of the offices in the review and rating process recommend a proposal not be funded, the Director can disregard the recommendations and decide to fund a proposal. If the Director decides to fund a proposal, it is forwarded to the appropriate regional office for processing.

The regional office works with proposers to develop formal application packages. After the regional director is satisfied that the package meets all MBDA requirements, the regional director prepares a memorandum stating whether or not the project is recommended for funding. Headquarters officials stated that it is unusual for a regional director not to recommend a project at this point. The package is then forwarded to headquarters and is subjected to the same review procedures as the competitive grants packages under the Center program.

Special Project Proposals Funded With Discretionary Funds

The former MBDA Director approved the expenditure of about \$8.9 million of discretionary funds for 65 special projects during fiscal years 1985 through 1988. These funds were obtained by redirecting either other program funds from MBDA program costs that had been disallowed or appropriated program funds that had not been obligated and expended by the end of the fiscal year.

Table III.1 lists the special projects funded with discretionary funds during fiscal years 1985 through 1988. Forty-four grantees received discretionary funds to carry out the 65 projects.

We reviewed 8 of the 65 project files to ensure that other MBDA officials besides the Director had been involved in the review and approval of the projects and to ensure that the projects were being monitored after funding. We found that although only the Director can approve funding, several offices, such as the Office of Operations, the Office of Program Support, and the Office of Chief Counsel, reviewed the proposals and submitted their recommendations regarding funding. After funding was approved, MBDA's Office of Counsel and Commerce's OFFA conducted additional reviews. Our review of the special project files showed that

**Appendix III
MBDA's Application and Review Process for
Special Projects**

these projects received the same kind of monitoring as the grants under the Center program. (See discussion in ch. 2.)

Table III.1: Special Projects Funded With Discretionary Funds From Fiscal Year 1985 Through Fiscal Year 1988

Grantee	Purpose	Amount
Golden State Business League, Oakland, CA	Develop small business incubator	\$525,000
Chinatown Neighborhood, New York, NY	Promote minority use of public sector	500,000
Asian-Pacific American Chamber of Commerce, Washington, D.C.	Stimulate/coordinate private sector initiatives	275,934
National Council of Hispanic Women, Washington, D.C.	Stimulate/coordinate private sector initiatives	20,000
Texas Association of Mexican-American Chambers of Commerce, Austin, TX	Motivate youth toward completion of education, encourage youth toward entrepreneurship	490,000
National Association of Black and Minority Chambers of Commerce, Oakland, CA	Collect, evaluate, and disseminate relevant business, convention, travel, and tourism information	528,725
Mexican-American Foundation, San Diego, CA	Conduct seven forums for networking and five procurement conferences	520,347
University of Texas, Austin, TX	Develop pilot training model incorporating uniqueness of entrepreneur characters	416,320
National Minority Suppliers Development Council, New York, NY	Assist in providing affordable working capital to minorities in securing contracts	692,249
DYMA Associates, Inc., Washington, D.C.	Develop export trading company/merchant bank	243,049
Florida A&M University, Tallahassee, FL	Develop, implement, coordinate national program for establishing, expanding, and saving minority business	943,750
Oklahoma University, Norman, OK	Assess problems of Indian-owned businesses	30,397
Interracial Council for Business Opportunity, New York, NY	Conduct in-depth broadcast training program for Center staff	200,000
Bronx Venture Corporation, Bronx, NY	Educate minorities to identify revitalization and financial assistance resources	216,450
Municipality of Ponce, Ponce, PR	Disseminate bid opportunities, assist state/local procurement goals	200,000
Coalition of Minority Women, Washington, D.C.	Develop/implement entrepreneurship network for minority women	150,000
National Association of Minority Contractors, Washington, D.C.	Develop a system to obtain, store, retrieve, and disseminate construction industry data	223,459

(continued)

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Grantee	Purpose	Amount
National Association of Hispanic Contractors, Washington, D.C.	Increase Hispanic construction enterprise participation in the Surface Transportation Assistance Act Program	\$225,000
U.S. Conference of Mayors, Washington, D.C.	Develop profiles of USCM member cities, minority business development	178,740
Latin American Manufacturers Association, Washington, D.C.	Identify subcontracting opportunities in construction of McDonnell-Douglas C17 aircraft	342,388
Lower Rio Grande Municipalities, Pharr, TX	Provide training for elected officials to develop economic development plans	200,000
San Juan, PR	Assist San Juan in establishing an Economic Development Department	95,000
National Hispanic University, Oakland, CA	Promote awareness of business opportunities to Hispanic youth	300,000
Fulton County, GA, Atlanta, GA	Create and expand minority businesses	50,000
International Consultant Services, Inc., McLean, VA	Identify information/product needs with foreign companies	75,000
American Association of Community and Junior Colleges, Washington, D.C.	Support MBDA's Partnership Program by establishing alliance between education, business, and government through the community college network	640,000
Albuquerque Hispanic Chamber of Commerce, Albuquerque, NM	Expand small business membership in the Chamber and assist in the development of business	157,500
Federal Procurement Data, Arlington, VA	Publish a list of small and large minority-owned firms and 8(a) contractors	500
Corliss, Inc., Washington, D.C.	Conduct debt collection services	4,995
Multnomah County, Portland, OR	Description not available	2,512
Nevada Economic Development, Las Vegas, NV	Conduct 3rd annual private sector/federal procurement conference	38,896
Greater Washington Ibero-American Chamber of Commerce, Washington, D.C.	Conduct membership expansion drives and provide business information to members	139,200
Chicago Economic Development Corporation, Chicago, IL	Description not available	1,473
Uptown Chamber of Commerce, Phoenix, AZ	Conduct a conference to promote tourism opportunities	9,100
Federal Marketplace Services, Washington, D.C.	Determine federal procurement information needs and capabilities	8,500
International Trade Administration, Washington, D.C.	Publish a handbook of franchise opportunities	12,130

(continued)

**Appendix III
MBDA's Application and Review Process for
Special Projects**

Grantee	Purpose	Amount
Social Policy Corporation, Washington, D.C.	Cosponsor a planning assembly to produce a publication on business development	\$5,000
National Economic Association, New York, NY	Conduct a review of the black political economy	3,000
The Maxima Corporation, Washington, D.C.	Description not available	9,000
E. H. White and Company, San Francisco, CA	Provide operations and technical support for MBDA information program	119,610
U.S. Hispanic Chambers of Commerce, Kansas City, KS	Conduct four minority learning seminars	38,000
EVKO Productions, Washington, D.C.	Conduct public relations activities	22,233
Garcia Lopez Consulting Agency, Washington, D.C.	Conduct workshops	3,000
Norfolk State University, Norfolk, VA	Conduct a minority business development conference	30,000
Total		\$8,886,457

Minority Business Development Centers That Suspended Operations Because of Delays in the Grant Process (Fiscal Years 1986-1988)

Center location	Days suspended		
	1986	1987	1988
Anaheim, CA			30
Baltimore, MD		23	30
Brownsville, TX	214	31	30
El Monte, CA	30		
Chicago, IL	51		
Cincinnati/Dayton, OH	28		
Hartford, CT			61
Denver, CO	245	31	243
El Paso, TX	214	31	30
Honolulu, HI	92	31	274
Laredo, TX		30	61
Little Rock, AR			92
Manhattan, NY			182
McAllen, TX		30	92
Minneapolis/St. Paul, MN			62
Mobile, AL			30
Montgomery, AL			30
Newport News, VA	12	7	57
Oklahoma City, OK			31
Philadelphia, PA	18	9	30
Phoenix, AZ	31		30
Pittsburgh, PA		13	33
Richmond, VA	8		92
Riverside, CA	91		
Sacramento, CA	151		
San Francisco, CA	122		
San Jose, CA	31	92	
Seattle, WA	61		
Shreveport, LA	123		30
Tucson, AZ	212		
Tulsa, OK	183	212	153
Washington, D.C.	91	20	31

Description of MBDA Headquarters Offices' Functions

The Office of the Director includes the Director's Office and the Deputy Director's Office. The Director's Office provides overall direction to the agency in developing and implementing agency policies, goals, objectives, and programs. The Director's Office also determines the agency's organizational structure and is responsible for financial and personnel resources. The Deputy Director's Office provides assistance to the Director and acts for the Director in his absence.

The Office of Chief Counsel provides legal services and support to the Director and all components of the agency. Some of the principal responsibilities of this office are to prepare and review legislative proposals, executive orders, and legislative reports; identify and review legislation related to minority enterprise development; and review and recommend agency statements and testimony for congressional or public hearings on legislation.

The Office of External Affairs is responsible for coordinating activities relating to the advocacy of minority business development. This office is divided into three divisions: Congressional Affairs, Communications, and Advocacy.

The Congressional Affairs Division develops and maintains sound and effective relations with members of the Congress, congressional committees, and their staffs. The Communications Division serves as the focal point for all agency public affairs and public information activities. The Advocacy Division plays a leadership role in developing and implementing a program that effectively represents the concerns of minority business regarding minority business development and MBDA.

The Office of Administrative Management is responsible for the management of the agency's budget, management systems, and administrative support. This office includes the Financial Management Division and the Management Division. The Financial Management Division develops and maintains a comprehensive budget and financial management service for the agency. The Management Division functions as the agency advisor on all matters relating to management systems.

The Office of Operations is responsible for grants administration and the financial review process. This office establishes priorities for the allocation of program resources among the regional offices. The office ensures that special and demonstration projects are logged and submitted to the Office of Program Development for review and funding. The office also coordinates policy objectives with Commerce's Office of Finance and

Federal Assistance to ensure the processing of grants and cooperative agreements in a timely manner. The Office of Operations includes two divisions within headquarters: the Operations Division and the Field Coordination Division. In addition, all regional offices report to the Associate Director for Operations.

The Office of Program Development is responsible for designing and developing all MBDA programs and identifying and coordinating private and public sector resources. The Program Development Office is divided into three divisions: Private Sector Division, Public Sector Division, and Business Development Division.

The Private Sector Division develops programs to encourage the creation and growth of minority business opportunities within the private sector. The private sector delivery system provides management and technical assistance to eligible firms and increases minority-firm participation in growth sectors of the economy and in emerging technologies. The Public Sector Division is responsible for program development, oversight, and implementation of federal, state, and local programs. The Business Development Division identifies the need for, develops, and maintains programs, policies, and priorities for the delivery of management and technical assistance and other business development services to client minority firms.

The Office of Program Support is responsible for the operation and maintenance of the agency's information support systems. The office operates the PROFILE National Minority Data Base and strategic systems that support program and management operations. This office also manages agency-sponsored research programs and analyzes research studies of economic conditions affecting minority business development. The Office of Program Support is divided into three divisions: Research Division, Data Resources Division, and Planning and Evaluation Division.

The Research Division gathers data and research information, sponsors research studies, and makes recommendations for future agency policy decisions. The Data Resources Division is responsible for the collection and processing of data on agency performance and maintenance of agency information systems. The Planning and Evaluation Division interacts with agency units to develop strategies to meet goals and objectives.

**Appendix V
Description of MBDA Headquarters
Offices' Functions**

**Table V.1: Authorized and Actual Staffing
Levels as of September 30, 1988**

	Authorized permanent staffing levels	Permanent staff on board^a
Headquarters		
Office of the Director	9	5
Office of Chief Counsel	6	5
Office of External Affairs	19	16
Office of Administrative Management	21	21
Office of Operations	19	19
Office of Program Development	21	19
Office of Program Support	26	23
Subtotal	121	108
Regional offices		
New York (I)	16	15
Washington (II)	15	14
Atlanta (III)	17	16
Chicago (IV)	14	13
Dallas (V)	16	16
San Francisco (VI)	17	16
Subtotal	95	90
Total	216	198

^aCurrent permanent on-board numbers do not include temporary employees.

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