



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-85909
CED8-99

FEB 24 1978

The Honorable Gaylord Nelson
Chairman, Select Committee on
Small Business
United States Senate

Dear Mr. Chairman:

Following are our comments on S. 2296, 95th Congress, the proposed "Minority Business and Economic Development Act." The bill would establish within the Small Business Administration a Bureau of Minority Business and Economic Development and authorize transfer to the Bureau responsibility for coordinating and administering Federal activities affecting the development of minority small business concerns.

Over the last several years we have reviewed and issued reports on programs and activities of the Department of Commerce's Office of Minority Business Enterprise (OMBE) and the Small Business Administration which impact on minority enterprise development. Recently, in a November 10, 1977, report to the Congress (copy enclosed), we expressed the opinion that minority and prospective minority businesses had received marginal benefits from the OMBE's management assistance program. This resulted because firms with whom the OMBE contracted to provide the assistance were not familiar with their clients' in-depth needs, had no plans for providing assistance, and did not keep track of their clients' progress after initial assistance was provided. Our report contained several recommendations for improving OMBE's program of management assistance to minority businesses.

We endorse the idea of Congress enacting legislation which would consolidate in a single agency responsibility for coordinating or administering minority business development activities and provide the agency with legislative

authority to perform its functions. Our review showed that Executive Order 11625 gives OMBE authority to coordinate Federal programs and contract for management assistance but does not define specific program objectives. The order simply states that the Secretary of Commerce shall, among other duties:

"Coordinate as consistent with law the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation, and strengthening of minority business enterprise." (Our emphasis.)

"Promote the mobilization of activities and resources of State and local governments * * * and other groups towards the growth of minority business enterprises, and facilitate the coordination of the efforts of these groups with those of Federal Departments and agencies."

The Executive order gives the Secretary of Commerce the authority to develop specific objectives. The Secretary initially defined OMBE's role during fiscal year 1970 hearings before the House Committee on Appropriations. At that time, he stated that OMBE was an organization "created primarily for the purpose of coordinating, stimulating, and developing help to minority enterprise people in the private sector but at the same time overlooking what is being done across the other Government agencies." More specifically, he saw OMBE as an organization that would

- provide centralized and necessary leadership for coordinating and establishing new and existing minority enterprises,
- seek to provide a better focus of Government programs at the local level,
- review existing and newly proposed Federal programs in minority business enterprise,
- make recommendations for further executive and legislative action, and

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--draw more of the private sector into assisting minority businesses.

OMBE has further developed specific program objectives. Its position is one of parity, which centers around the assertion that minorities do not own a fair share of the Nation's businesses.

In its first formal mission statement dated March 5, 1975, OMBO stated that its objective was:

"To promote and assist the expansion of minority enterprise * * * both in the number of businesses and the size of businesses * * *."

OMBE stated, in its fiscal year 1976 budget justification, that its goals were "to assist potential and existing minority entrepreneurs to start, maintain, and expand successful business enterprises; and to support the collective efforts of minority entrepreneurs to solve minority business problems." OMBE was realistic about the prospects of achieving its goals when it stated that:

"Although OMBO cannot realistically assure the success of any business firm in a free-enterprise system, it can provide the elements which, if properly used by entrepreneurs, will enable them to compete effectively in the American business system. Thereafter, success or failure of a business is up to the individual entrepreneurs."

Our review of OMBO's activities also showed that, because of the manner in which the office was established, it had been forced to define both the problem and the Federal strategy to be used to attack the problem. In our opinion, these are essentially statements of national problems and objectives. While we do not disagree with either OMBO's perception of the social problem or its strategy for alleviating that problem, we believe that Congress, as part of its policy-making role, should review the existing policies and objectives and either approve or disapprove of them, or establish policies and objectives of its own.

Legislative authority would establish a mandate for OMBE and would specify the limits of activities to be undertaken in its program, the specific objectives that the Congress wants accomplished, and the level of appropriations. These items would be permanent and not subject to change by the Executive branch alone. The authority would preclude the radical changes in program direction and emphasis which can happen to programs whose only authorization is an Executive order. A greater permanence might be effective in attracting top notch executives to the new office.

Our review further disclosed overlap and duplication between the management assistance programs of OMBE and the Small Business Administration. To deal with the problem, the agencies negotiated an interagency agreement in May 1976 which had been put into operation at the field office level by October 1976. In our opinion, the Director of the Office of Management and Budget should determine the impact of the agreement between the agencies in carrying out their respective management assistance programs and, if overlap persists, consolidate the duplicated activities under the responsibility of a single agency. S. 2296 would require the Director of the Office of Management and Budget to take these actions.

Subsection 4 of the bill would add a new subsection (e) to section 4 of the Small Business Act. The proposed new subsection 4 (e) (5) is unclear as to whether each Federal agency and department would be required to report to the Bureau at the end of each fiscal year. If this is the Committee's desire, the bill should so state. Also, to insure the timely receipt of these reports, we suggest the Committee establish a specific time limit within which the reports must be submitted to the Bureau.

We suggest that the Committee give special consideration to excluding programs of the Bureau of Indian Affairs from the transfer requirements of section 4(e) (7) of the bill. The Bureau of Indian Affairs is the focal point for Federal assistance to members of Indian tribes. Transferring the business assistance program for the Indians to the new Bureau would fragment the assistance provided to members of Indian tribes.

The titles of most of the organizational levels within the Small Business Administration are "offices." Therefore, we suggest that the Committee change the title of the new organization from the "Bureau of Minority Business and Economic Development" to the "Office of Minority Business and Economic Development."

We note that the bill does not specifically provide for an evaluation of the activities of the Bureau of Minority Business and Economic Development by the Administrator, Small Business Administration. It is our view that such evaluation is a fundamental part of effective program administration and that responsibility for evaluation should rest initially upon the responsible agencies. In line with this concept, we believe the Congress should attempt to specify the kinds of information and tests which will enable it to better assess how well the programs are working and whether alternative approaches may offer greater promise. We will be happy to work with the Committee in developing specific language if you wish.

Section 4 of the bill (page 10, lines 1-6) would authorize the Director to employ and fix the compensation of such additional staff personnel as is deemed necessary, without regard to the provisions of Title 5, United States Code, governing appointments in the competitive service, and without regard to chapter 51 and subchapter 53 of such title relating to classification and general pay rates. We are not aware of the need to exempt technical and professional personnel from these provisions. Generally, there should be some ceiling on salaries and it should be possible to obtain qualified technical and professional personnel within the structure of the general schedule.

Sincerely yours,



Deputy Comptroller General
of the United States

Enclosure