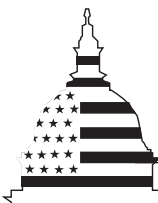


July 2001

CONTRACT MANAGEMENT

Benefits of the DOD Mentor-Protégé Program Are Not Conclusive



G A O

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United States General Accounting Office
Washington, DC 20548

July 19, 2001

The Honorable Carl Levin
Chairman
The Honorable John Warner
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Bob Stump
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

To boost the participation of small disadvantaged businesses as subcontractors and suppliers under Department of Defense (DOD) contracts, the Congress authorized¹ the Pilot Mentor-Protégé Program. The program provides incentives for major defense contractors (mentors) to assist small disadvantaged businesses (protégés) in strengthening their ability to compete for work (for example, by providing computer training or help in the areas of proposal writing and contract administration). However, DOD has been criticized in the past for not establishing compelling evidence about the program's overall effectiveness.

To ensure that the program is focused on a results-oriented approach to assessing program performance, the Congress asked DOD to obtain information that could be used to assess the program's effectiveness. The Congress also mandated us to study the program's effectiveness.² In responding to this mandate, we

- reviewed the relationship between the results of the Mentor-Protégé Program and the statutory goal³ of awarding 5 percent of the total

¹ Section 831 of the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510, 10 U.S.C. 2302 Note).

² Section 811 of the National Defense Authorization Act for Fiscal Year 2000 (P.L. 106-65).

³ 10 U.S.C. 2323.

dollar amount contracted by DOD and subcontracted by DOD prime contractors to small disadvantaged businesses;

- assessed whether the Mentor-Protégé Program enhanced the “business competitiveness, financial independence, and business development of protégé firms”; and
- evaluated whether program funds had been used as an effective incentive for mentor firms to participate in the program.

In performing our work, we relied primarily on data the DOD Mentor-Protégé Program Office collected. Program Office officials said that, in response to our last review,⁴ that data they collected would be reliable and sufficient enough to evaluate program success. A complete statement of our methodology begins on page 8 of this report.

Results in Brief

DOD lacks data integral to assessing the success of the Mentor-Protégé Program. Specifically, DOD does not have sufficient information to explicitly

- Determine the relationship between the program and the goal of awarding 5 percent of the total dollar amount contracted to small disadvantaged businesses. Although DOD has consistently achieved this goal since 1992, the overall contribution of the Mentor-Protégé Program in achieving this goal is unknown.
- Assess whether the Mentor-Protégé Program enhanced the business competitiveness, financial independence, and business development of protégé firms. Although there are small disadvantaged business program participants that have realized increased success, data is not available to attribute this success to the program.

Program funds have been used to encourage major defense contractors to provide developmental assistance for small disadvantaged businesses. However, data is not available to determine whether program funds are needed to continue to encourage major defense contractors to establish business relationships with small disadvantaged businesses.

⁴ *Defense Contracting: Sufficient, Reliable Information on DOD's Mentor-Protégé Program Is Unavailable* (GAO/NSIAD-98-92, Mar. 30, 1998).

This report recommends that DOD better demonstrate the benefits of the Mentor-Protégé Program. In commenting on a draft of this report, DOD partially concurred with our recommendations as discussed on page 7. DOD's written comments are in appendix II.

Background

In 1986, congressional concern about the low participation of small disadvantaged businesses within DOD's procurement system resulted in section 1207 of the National Defense Authorization Act for Fiscal Year 1987 (P.L. 99-661, later codified as amended at 10 U.S.C. 2323). This section established a goal of awarding 5 percent of the total dollar amount contracted by DOD and subcontracted by DOD prime contractors to small disadvantaged businesses. The 5-percent goal was not met in the years immediately following its establishment because, according to large DOD prime contractors, there were not enough qualified small disadvantaged businesses available as DOD subcontractors. Subsequently, the National Defense Authorization Act for Fiscal Year 1991 established the Pilot Mentor-Protégé Program. The purpose of the program is to provide incentives for major DOD contractors (mentors) to furnish small disadvantaged businesses (protégés) with assistance designed to enhance their capabilities and increase their participation as subcontractors and suppliers under DOD contracts, other federal government contracts, and commercial contracts.

Under the Mentor-Protégé Program, protégés are to benefit from developmental assistance provided by mentors in such areas as (1) infrastructure development, including organizational, financial, and personnel management; proposal writing; contract administration; and overall general business development; and (2) technology transfer such as, training in the areas of production, quality control, manufacturing, engineering, computer hardware and software, and assistance in obtaining production and accounting certifications needed to work on large DOD contracts. Mentors are to benefit from a strengthened cadre of subcontractors and DOD is to benefit from a resultant robust and competitive supplier base. The metrics DOD uses to measure program performance are presented in appendix I.

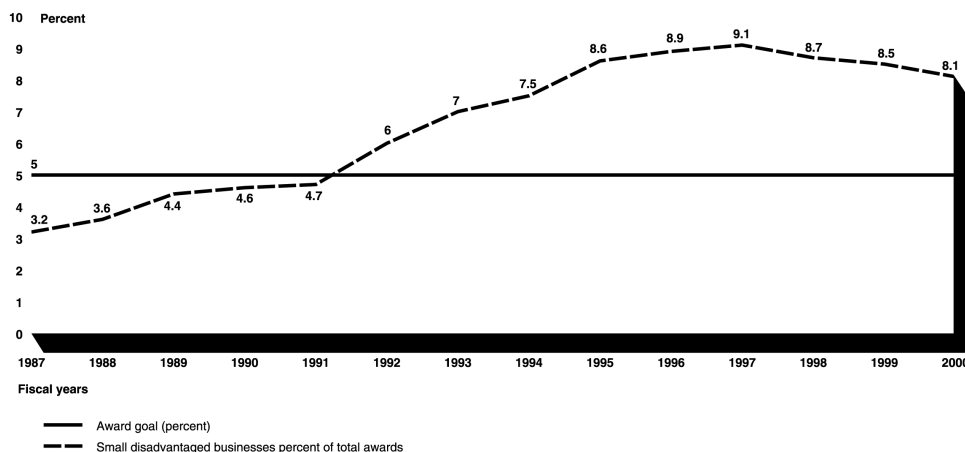
Since the Pilot Mentor-Protégé Program was authorized, it has been continuously extended and, with the Fiscal Year 2000 National Defense Authorization Act, DOD is now authorized to approve new agreements through September 30, 2002. Program performance is authorized through September 30, 2005.

DOD Exceeds 5-Percent Goal, but Program's Contribution Cannot Be Fully Determined

Through fiscal year 2000, the Congress has appropriated \$287 million for the program. Funding covers program operational costs and reimburses mentors for providing developmental assistance. Mentor-protégé agreements are now limited to a 3-year period, with the expectation that the developmental assistance provided will allow protégés to grow their businesses.

Figure 1 shows that DOD has achieved or exceeded its 5-percent goal of awarding prime contracts and subcontracts to small disadvantaged businesses since 1992. However, DOD has not been able to attribute this success to the program.

Figure 1: Percentage of Total Dollar Value of DOD Contract Awards and Subcontracts Awarded to Small Disadvantaged Businesses



While data contained in figure 1 indicates success in bringing small disadvantaged businesses into DOD contract work, the contribution of the Mentor-Protégé Program to this achievement is not fully known, in part, because DOD does not fully track the contributions of the 360 former protégés in meeting the goal. The requirement to track the progress of former protégés was established by the Fiscal Year 2000 National Defense Authorization Act, for those agreements entered into on or after October 1, 1999. Because agreements can last 3 years, post-agreement reporting may not start until October 1, 2002.

No Explicit Link Between Mentoring and Protégés' Competitiveness, Financial Independence, or Business Development

Data is not available to establish a cause-and-effect relationship between mentoring provided and protégés' competitiveness, financial independence, or business development. DOD officials contend it is difficult to establish a cause-and-effect relationship between mentoring provided and protégé success. DOD officials said protégés that have successfully received mentor-provided assistance might have graduated from the program before receiving contracts that can be attributed to the program.

A reliable way to determine program impact is to compare the success of a group of participants to the success of an equivalent group of non-participants. Implicit in such a comparison is that differences found would not have occurred without program participation. Although impact studies are sometimes difficult and expensive, they are the most reliable way to determine if a program, such as the Mentor-Protégé Program, is producing real results and answer the question, "Is the program making a difference?"

DOD tries to measure program effectiveness by requiring mentors to report on such performance metrics as protégé revenue and employee growth. Our analysis of that data shows that protégé revenue increased by \$456 million and the number of protégé employees grew by 2,909 personnel.⁵ However, the revenue and employee growth cannot be explicitly linked to the Mentor-Protégé Program. The revenue and employee changes include all changes, not just those that may have resulted from the Mentor-Protégé Program. The same holds true for the performance metrics captured by DOD's data collection instrument. Appendix I contains additional details on the DOD performance metrics.

Other data problems make it further difficult to determine the success of the program. Specifically,

- Our review of the 1999 and 2000 semi-annual reports⁶ submitted by mentors revealed that many of the reports are incomplete. For example, about 41 percent of the reports have no evidence of protégé concurrence or nonconcurrence, which is expected to provide

⁵ This growth was measured from the time a protégé entered the program through September 30, 1999.

⁶ Mentor firms are required by DOD to report, semiannually, on the progress made under active mentor-protégé agreements for the periods ending March 31st and September 30th.

corroborating support of the data submitted by mentor firms. Further, as of January 2001, less than half of the September 2000 semi-annual reports had been received.

- To meet protégé business needs, mentors and protégés are to jointly fashion business development plans, known as mentor-protégé agreements. These agreements outline the developmental assistance mentors are to provide to their protégés. DOD officials said they rely on the Defense Contract Management Agency to verify that agreements have been met. We found that over 22 percent of the Defense Contract Management Agency reviews of the agreements had no indication of whether the mentor-protégé agreements were being met.

Effect of Program Funding on Defense Contractor Participation Is Unknown

Program funds have been used to encourage major defense contractors to provide developmental assistance for small disadvantaged businesses. However, sufficient data is not available to determine whether program funds are needed to continue to encourage major defense contractors to establish business relationships with small disadvantaged businesses.

A study completed in December 2000 for DOD by the Logistics Management Institute (LMI) indicated that 71 percent of the 93 active mentors, at the time the survey was administered, would withdraw from the Mentor-Protégé Program if funding for reimbursable agreements were eliminated. LMI recommended that DOD continue to fund reimbursable agreements. It also recommended that DOD explore other incentives, such as assigning additional points during the source selection evaluation process to those contractors who choose to participate in the Mentor-Protégé Program, and through the use of award fees and procurement set-asides to encourage continued mentor assistance to protégés. In exploring the need for continued funding, LMI asked program beneficiaries whether additional incentives are needed.

Direct surveys of a program's beneficiaries are not the best way to analyze a program because beneficiaries would not be inclined to report that they did not need government funds after receiving them. Accordingly, it is unknown how the absence of funding would affect overall provisions of developmental assistance by mentors or discourage them from establishing business relationships with small disadvantaged businesses.

Conclusions

There are small disadvantaged businesses that have participated in DOD's Mentor-Protégé Program and are receiving contract and subcontract awards, increasing their revenues by hundreds of millions of dollars. At

the same time, DOD is meeting its 5-percent contracting goal with these businesses. Nevertheless, DOD has not been able to demonstrate the success of the program—first because it does not have complete data on program results from mentors and second because it has not performed an impact study to compare the success of a group of participants to the success of an equivalent group of non-participants. Implicit in such a comparison is that differences found would not have occurred without program participation. Although impact studies are sometimes difficult and expensive, they can be a reliable way to determine whether a program, such as the Mentor-Protégé Program, is making a difference.

Matter for Congressional Consideration

Before extending the Pilot Mentor-Protégé Program, the Congress may wish to consider directing DOD to conduct a more conclusive assessment of the Program's impact and its contributions.

Recommendations

We recommend that DOD (1) gather more complete information by asking protégés how the Mentor-Protégé Program has resulted in additional protégé contracting and subcontracting, and (2) determine if mentor-protégé agreements have been met. We also recommend that DOD not accept incomplete mentor-reported data.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD contends that the Mentor-Protégé Program is successful. However, DOD recognizes the need to strengthen its data collection and performance reviews to enable more complete and consistent reporting. DOD partially concurred with our recommendation that it (1) gather more complete information by asking protégés how the Mentor-Protégé Program has resulted in additional protégé contracting and subcontracting, and (2) determine if mentor-protégé agreements have been met. DOD agreed to establish a team to review the current semi-annual reporting mechanism to determine and implement improvements to the data collection instrument and the performance review process. DOD believes that asking protégés how the program has resulted in additional contracting and subcontracting would be an imposition to protégés. We disagree and believe that DOD should ask protégés if and how the program has resulted in contracting and subcontracting opportunities within the context of the existing statutory reporting requirement on progress made in employment, revenues, and participation in DOD contracts. Further, the gathering of such information is consistent with the advancement of the statutory purpose of the program, namely, to increase the participation of protégés as

subcontractors and suppliers under DOD contracts and other contracts and subcontracts.

DOD concurred with our recommendation that it not accept incomplete mentor-reported data. DOD's written comments are in appendix II.

Scope and Methodology

Our congressional mandate required that we study the relationship between the results of the Mentor-Protégé Program and the objectives established in 10 U.S.C. 2323, which established a goal of awarding 5 percent of the total dollar amount contracted by DOD and subcontracted by DOD prime contractors to small disadvantaged businesses. However, sufficient information is not available to establish a relationship between the Mentor-Protégé Program and its effect on the 5-percent goal.

The congressional mandate also required that we determine whether that, as a result of the program, protégés are more competitive, financially independent, and what the correlation of program funding is to protégé business development. In response to our last review,⁷ DOD officials wrote that they were developing a program database that would be reliable and sufficient enough to evaluate program success. We attempted to answer our mandate by using this database. We found, however, that the DOD database does not have sufficient information to answer these mandated requirements.

To evaluate the effectiveness of the incentives provided to mentor firms to participate in the program, we interviewed program officials and reviewed a Mentor-Protégé Program contractor study, completed in December 2000, which examined (1) whether it would be feasible to operate the Mentor-Protégé Program without reimbursement and (2) whether alternative incentives would motivate mentors to participate without reimbursement.

We also were asked to evaluate how program funds had been used as incentives for mentor firms to participate in the program. Because we could not correlate funding and protégés' business development, we did not further report on the manner in which funds were obligated and on the average amount spent on individual agreements.


⁷ *Defense Contracting: Sufficient, Reliable Information on DOD's Mentor-Protégé Program Is Unavailable* (GAO/NSIAD-98-92, Mar. 30, 1998).

During our review, we held discussions with (1) the President of the National Association of Small Disadvantaged Businesses, which consists of about 300 member firms; (2) current and former Mentor-Protégé Program participants, consisting of four mentors and eight protégés; (3) Mentor-Protégé Program Office officials; and (4) the Mentor-Protégé Program Office supporting contractor responsible for maintaining the Mentor-Protégé Program database. In addition, we reviewed Mentor-Protégé Program Office documentation and minutes of a Mentor-Protégé Program Office sponsored mentor meeting. We also held discussions with officials from the Small Business Administration.

We performed this phase of work between December 2000 and April 2001 in accordance with generally accepted government auditing standards.

We will send copies to the Chairmen and the Ranking Minority Members of other appropriate congressional committees; the Secretary of Defense; and the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

Please contact me at (202) 512-4841 if you or your staff have any questions concerning this report. Additional contact and key contributors to this report are acknowledged in appendix III.

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, prominent "D" and "C".

David E. Cooper
Director
Acquisition and Sourcing Management

Appendix I: Performance Measurements Reported in the September 1999 Semi-Annual Reports

The Department of Defense (DOD) requires mentor firms to report semiannually on the progress made under active mentor-protégé agreements for the periods ending March 31st and September 30th. The September semi-annual report is to summarize progress made for the entire fiscal year from the start of each mentor-protégé agreement. The metrics listed in the tables below were developed from the data in the September 1999 semi-annual reports¹ because, as of January 2001, less than half of the September 2000 semi-annual reports had been received and, therefore, were not available for our review.

The semi-annual report is not designed to establish a cause-and-effect relationship between mentoring provided and reported success. A protégé may realize additional revenue because of mentor-related business opportunities. However, the semi-annual report does not isolate mentor-related revenue growth from growth that is unrelated to the program. The same holds true for the other metrics that the semi-annual report captures and that are presented below, such as employment growth and contracts awarded.

Table 1: Distribution of Protégés and the Value of Contracts Received

Dollars in millions	
Distribution of protégés	Value of awarded contracts ^a
3	\$519.5
10	242.6
16	155.1
13	52.7
54	53.2
76	0

^aContracts cannot be explicitly linked to the Mentor-Protégé Program. The amounts include all protégé contracts from DOD, not just those that may have resulted from the Mentor-Protégé Program.

¹ We reviewed 186 semi-annual reports dated September 30, 1999. However, 14 of these reports were incomplete and were not used in this appendix.

**Appendix I: Performance Measurements
Reported in the September 1999 Semi-Annual
Reports**

Table 2: Distribution of Protégés and Change in Revenue

Dollars in millions	
Distribution of protégés^a	Change in revenue^b
12	\$240.2
17	113.4
25	71.1
19	24.4
54	25.1
6	0
22	(28.3)

^aSemi-annual reports submitted on 17 protégés either did not list the protégés' revenue at the start of the agreement or the protégés' revenue at the time of the semi-annual report. Therefore, these reports were not included in this analysis.

^bThese revenue changes cannot be explicitly linked to the Mentor-Protégé Program. The revenue increase includes all protégés' revenue increases, not just those that may have resulted from the Mentor-Protégé Program.

Table 3: Distribution of Protégés and Change in the Number of Employees

Distribution of protégés^a	Change in number of employees^b
12	1,750
16	868
24	501
15	173
44	190
17	0
35	(573)

^aSemi-annual reports submitted on nine protégés either did not list the number of employees at the start of the agreement or the number of employees at the time of the semi-annual report. Therefore, these reports were not included in this analysis.

^bThese employee changes cannot be explicitly linked to the Mentor-Protégé Program. The employee changes include all protégés' employee changes, not just those that may have resulted from the Mentor-Protégé Program.

Appendix II: Comments From the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

2 JUL 2001

Mr. David E. Cooper
Acquisition and Sourcing Management Issues
General Accounting Office
Washington, D.C. 20548

Dear Mr. Cooper:

This is the Department of Defense (DoD) response to the GAO draft report, "CONTRACT MANAGEMENT: Benefits of the Mentor-Protégé Program are not Conclusive," dated June 11, 2000 (GAO Code 707540/120029/OSD Case 4013). This report is the results of the fourth GAO review of the Pilot Mentor-Protégé Program in the ten years since the program's inception.

The Department contends that the DoD Mentor-Protégé Program is successful and that the data presented in the GAO report substantiates this contention. GAO notes that protégé revenue increased by \$456 million and the number of protégé employees grew by 2,909 personnel. GAO states that the contribution of the Mentor-Protégé Program in achieving the five percent small disadvantaged business (SDB) goal is unknown. However, a comparison of SDB recipients of DoD prime contract awards in FY2000 to a list of active proteges provides some insight into the program's contribution to achievement of the SDB goal: in FY2000, alone, DoD contract actions provided awards to 121 current protégé firms.

The difficulty GAO has in establishing a cause-and-effect relationship is not unexpected. When a teacher mentors a pupil, the pupil's success can never be established to be directly attributable to the mentor. The pupil's ambitions, expectations, willingness to learn, attitude, and commitment to the learning process are all factors that can and do impact the outcome. The same is true of the DoD Mentor-Protégé Program. You cannot explicitly link the impact of the mentor (and hence the program) upon the protégé's success.

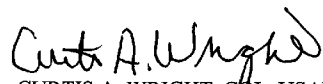
While GAO suggests that comparing the success of a group of participants to the success of an equivalent group of non-participants would be a reliable way to determine program impact, DoD notes that even GAO describes this method as difficult and expensive.

DoD will direct efforts to strengthen data collection and performance reviews to enable more complete and consistent reporting. However, the nature of mentoring will never enable the Department to make a conclusive assessment of the direct impact of the program upon the



participant. Agency comments to the specific recommendations are enclosed. Thank you for the opportunity to respond to the final report.

Sincerely,



CURTIS A. WRIGHT, COL, USAF
Acting Director, Office of Small and Disadvantaged
Business Utilization

Enclosure

GAO DRAFT REPORT DATED JUNE 12, 2001
(GAO CODE 707540/120029) OSD CASE 4013

"CONTRACT MANAGEMENT: BENEFITS OF THE
MENTOR-PROTÉGÉ PROGRAM ARE NOT CONCLUSIVE"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommended that the DoD redesign its data collection instrument to (1) gather more complete information by asking proteges how the Mentor-Protégé Program has resulted in additional protégé contracting and subcontracting, and (2) determine if mentor-protégé agreements have been met. (p. 7/GAO Draft Report)

DOD RESPONSE: Partially Concur. DoD will establish a team to review the current semi-annual reporting mechanism to determine and implement improvements to the data collection instrument and the performance review process to determine if mentor-protégé agreements have met milestones and what results have been achieved. GAO, however, recommends the imposition of an additional reporting burden upon proteges, i.e. "how the Mentor-Protégé Program has resulted in additional protégé contracting and subcontracting". This goes beyond the protégé providing an annual report on progress made in "employment, revenues, and participation in Department of Defense contracts." To implement this recommendation will impose an additional reporting burden on small firms that are not being reimbursed for participation in the program. In addition, DoD contends that these data would be subjective and subject to the same criticism applied to the program in past GAO reviews.

Furthermore, the DoD notes that for the first time, with the National Defense Authorization Act for Fiscal Year 2000, section 811, the Department was given the statutory authority to acquire an annual report from the protégé. Therefore, beginning after the date of the implementation of section 811 on February 20, 2000, protégé concurrence was required on the September 30th mentors' semi-annual report. Prior to that date, protégé concurrence was optional. Therefore GAO's observation that 41% of the 1999 and 2000 reports they had received had no evidence of protégé concurrence/nonconcurrency does not necessarily indicate that these reports were incomplete.

RECOMMENDATION 2: The GAO recommended that the DoD not accept incomplete mentor-reported data. (p. 7/Draft Report)

DOD RESPONSE: Concur.

Enclosure

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Ralph Dawn (202) 512-4544

Acknowledgments

In addition to the name above, Catherine Baltzell, Daniel Hauser, Russ Reiter, and Adam Vodraska made key contributions to this report.

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