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(OPTIMA)

PROGRAM

Thursday, March 27

9:00AM - 6:00PM	Registration	
9:00AM - 5:00PM	A HEARING ON MINORITY ENTERPRISE	The Board Room
9:00AM - 9:30AM	Introduction & Coffee	
9:30AM - 10:00AM	Opening Statements	
	The Hon. Parren J. Mitchell, M.C. Representative from Maryland	
	The Hon. Ronald V. Dellums, M.C. Representative from California	
	The Hon. Yvonne Braithwaite Burke, M.C. Representative from California	
10:00AM - 12:30PM	Testimony On Minority Enterprise	
	Witnesses:	
	Jerry Jones	
	Fred Barrett	
	Jose Aceves	
	Barry Johnson	
	Kal Glantz	
	Joe Debro	
	Marion Green	
	John Grayson	
	Lou Dodds	
	Joe Barrington	
	Frank Green	
	et al	
2:30PM - 4:30PM	Addition Testimony	The Board Room
	WORKSHOP	
3:00PM - 5:00PM	Saving On Energy -American Institute of Certified Public Accountants -American Association of Minority Certified Public Accountants	Ballroom - B
6:30PM - 7:00PM	Executive Committee Meeting	TBA
7:00PM - 9:00PM	Welcome Reception	Ballroom - A
9:00PM - Until	Hospitality Suites	



Friday, March 28

8:30AM - 12:00AM

Associate Members Meeting

TBA

Continental Breakfast
Presiding: Ronald Haughton
Project Business Manager
Dow Chemical Company

9:00AM - 10:00AM

Plenary(open) Session
Jerry T. Jones, Presiding

Ballroom -A

11:00AM - 11-45AM

Special Executive Committee Meeting with TBA
Robert S. Strauss, Chairman
National Democratic Committee

*Deal was struck... to put Six on
Dems Natl. Committee*

12:00AM - 1:00PM

Press Briefing

Ballroom - B

12:00PM -

Welcome Luncheon

Invocation:

Presiding: Frank Greene, President
Technology Development Co.

Toastmaster: E.E. Barrington, President
AVI Manufacturing Co.

Welcome: Mayor Alioto

Introduction of Speaker
Tom Farrington, Vice-Chairman
National Association of Black
Manufacturers

Keynote Speaker:
Robert S. Strauss, Chairman
National Democratic Committee



Friday, March 28

2:00AM - 4:00PM

Workshops - Four Concurrent

- I. Business Disciplines (Case Studies) The Regency Room
Moderator: Marion "Duke" Green, President
Transcendental Corporation
- II. Technology Utilization: The Embarcadero Room - A
Moderator: Jessie House, President
Crescent Engineering Co.
- III. Education: The Embarcadero Room - D
Moderator: Dr. Frank Greene, President
Technology Development Co.
- IV. Women In Manufacturing: The San Francisco Room-B
Moderator: Ella Lane,
Marketing Representative
Nartrans Corporation

4:30PM - 6:30PM

Standing Committee & Regional Meetings Bayview/Seacliff

6:30PM

Dinner & Cruise
(Outside Meal & Tour)
Sausalito by Ferry

10:30PM

Hospitality Suites



Saturday, March 29

8:00AM

Round Table: Corporate & Social
Responsibility

The Board Room

10:00AM -12:00AM

Workshops - Three Concurrent

V. The Energy Crunch

The Regency Room

Moderator: Theodore A. Adams, President
Unified Industries, Inc.

VI. Politics & Minority Enterprise

The Embarcadero Room A

Moderator: Dr. Henry Lucas, President
Enterplastics Industries, Inc.

VIII. Marketing & Communications

The Embarcadero Room D

Moderator: John Ketch, Executive Vice-President
Golden Oak Manufacturing

12:00 NOON

Press Briefing



Saturday, March 29

12:30PM

Luncheon

Ballroom - B

Invocation:

Presiding: Mildren Montgomery, President
Garland Foods, Inc.

Toastmaster: Barry Johnson, President
Northeast Oklahoma City Manufacturing

Introduction of Speaker: Arthur L. Miller, President
Met - Fab, Inc.

Speaker: C. Mack Higgins, SBA Associate Administrator
For Minority Enterprise

Introduction of Speaker: Junius Hayes, III,
Executive Director
The National Executive
of Black Manufacturers

Speaker: E. Douglas Kenna
The National Association of Manufacturers

Benediction:

2:00PM - 4:00PM

Plenary (Open) Session

Ballroom - A

4:00PM - 5:00PM

Psychic Phenomenon
Moderator: Leanora Stephanoff



Saturday, March 29

6:00PM - 7:00PM

Co-Host Reception

Foyer

7:00PM

Awards Banquet

Ballroom - B

Invocation

Presiding: Jessie House, President
Crescent Engineering

Toastmaster: John Grayson, President
Univox

Introduction of Keynote Speaker:

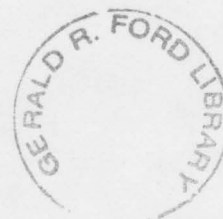
W. Ronald Evans, Convention
Coordinator- The National
Association of Black
Manufacturers

Speaker: Minister Louis Farrakhan
National Representative of
Supreme Nation of Islam-
The Honorable Wallace Muhammad

Awards Presentation: Eugene Baker, Deputy Director
The National Association of
Black Manufacturers

Closing Remarks

Benediction



Sunday, March 30

10:00AM

Continental Breakfast

TBA

Standing Committees

Bayview/Seacliff

Executive Committees

Board Room

Adjournment

NEXT YEAR

Sheraton-Boston
April 21-24, 1976

" The work upon which this publication is based
pursuant to contract #36757 with the Department
of Commerce for the Office of Minority Enterprise "



AWARDEES

KEY AWARD

Dr. Russell Becker
SBA, Retired; Chicago, Ill

Samuel Cornelius, Deputy Director
Office of Minority Business Enterprise- Wash., DC

Connie Mack Higgins, Assistant Administrator
For Minority Business Enterprise, SBA-Wash., DC

B. Winifred Smith, Director
Office of Business Development; SBA Wash., DC

OUTSTANDING SERVICE AWARD

George Allen, Program Manager For Procurement
Assistance: SBA-Boston, Mass.

Willie Allen, Executive Director; Central
Contractors Assistance Center- Seattle, Wash.

Berkley Boyd, Project Office: Office of Business
Development: SBA-Wash., DC

Malcolm Johnson, Minority Business Coordinator
FAA-Wash., DC

SPECIAL AWARD

Jose Aceves, Executive Director
LAMA- San Leandro, CA

Margaret H. Bayless, Manager of Business Service
Central; GSA- Los Angeles, CA

Ronald S. Haughton, Manager of Business Service Center
Dow Chemical USA Midland, MI.

WOMAN OF THE YEAR AWARD

Congresswoman Yvonne B. Burke, California



AWARDEES

MEMBER OF THE YEAR AWARD

William Alexander, President
Golden Oak, Inc. Los Angeles, California

Thomas A. Farrington, President
Input-Output Computer Service, Cambridge, Mass.

Frank S. Greene, President
Technology Development Company; Sunnyvale, CA.

James E. House, Vice-President
West Indies Pharmaceutical & Cosmetic, Inc. Virgin Islands

Maurice Lee, President
Gordon-Lee, Inc. Tulsa, OK

William McGee, Jr. President
Fighton, Inc. Rochester, NY

Elijah Medley, President
Medley Tool & Model Co. Phila. PA



DEPARTMENT OF COMMERCE RESPONSE TO THE
INVESTIGATIVE STAFF REPORT OF THE HOUSE APPROPRIATIONS COMMITTEE

EXECUTIVE SUMMARY

The Report submitted to the House Appropriations Committee centers around two basic conclusions: First, that the minority business program, as implemented by OMBE, has been largely unsuccessful, and second that the program is not working, and cannot be made to work, because one of its fundamental concepts - using locally based, minority business organizations to assist clients - is invalid. We believe that these conclusions are not substantiated by the facts and an analysis of them.

OMBE has faced since its inception in 1969 an enormous challenge. Never before in the first 193 years of the United States had there even been attempted a significant effort to create minority access into the business system. Entrepreneurial undertakings are even in the most favorable of circumstances fraught with such risk.

The OMBE program has sought to broaden minority participation in a business system into which minority entry has been hampered both by discrimination and unfavorable environmental conditions. The six years of OMBE's existence and the three years during which it has had program funds have necessarily witnessed some trial and error.

Neither OMBE nor its funded organizations are expected to guarantee the success of a minority firm. In our competitive enterprise system, such a guarantee is impossible. The banks cannot give it; SBA cannot give it. What OMBE and its delivery organizations can and do guarantee is an opportunity for the minority business person to have access to the resources needed to run a viable business, and a better opportunity to get expert help through the OMBE network than he or she can get alone.

In the six years since OMBE's inception, significant progress has been made by minority business. Some of this progress is directly attributable to OMBE's



efforts, and some is a byproduct of OMBE's role as a catalyst in generating concern for minority business in the minority communities, the private sector and government. Some of this progress likely would have occurred in the absence of OMBE or a federal minority business effort. Nevertheless, the scanty information available, at least for black entrepreneurship, shows a static or declining relative position in the decades before 1969.

There are many signs of significant progress in minority business in recent years.

-- Federal government competitive purchasing from minority suppliers has increased from \$3.79 million in FY 1969 to \$429.2 million in FY 1974. Total Federal purchasing in this period grew from \$12.6 to \$700 million. Corporate purchasing has increased by 325% from \$86 million in 1972 to \$365 million in 1974.

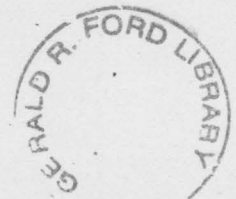
-- Minority commercial banks increased from 24 in 1969 to 68 today. Their assets have grown from \$270 million to \$1.3 billion.

-- Although total data for all minorities is not yet available, the 1972 census of minority business indicated that gross receipts for black firms rose 60% since 1969, from \$4.5 billion to \$7.2 billion.

-- The average size of the business loans "packaged" by OMBE's funded organizations has steadily increased, and now is \$48,000. This is significant because of the correlation between initial undercapitalization and business failure.

-- The dependency of OMBE-assisted clients upon government financial support has steadily decreased. In FY 74 and FY 75, only 52% of the loans obtained by OMBE clients are either guaranteed or provided directly by SBA, compared to 59% in FY 73.

OMBE was established to open the door of the marketplace to minority entrepreneurs. The above accomplishments, and others cited in the body of the Department of Commerce response to the Report, show that OMBE is succeeding in this mission.



The Department disagrees with the Report in three fundamental areas.

1. The Report lacks balance.

OMBE officials were explicitly instructed by the Director to be open and candid in their discussions with the Investigative Staff. During their interviews, OMBE staff members fully explored both program weaknesses and strengths, program failures and successes. Nevertheless, the Report consistently addresses only the former, and almost ignores the latter. Where the Report does refer to accomplishments, these are never related to the OMBE effort which made them possible. The reader is left with the distinct impression that the gains of minority enterprises during the last few years occurred by happenstance or coincidence.

2. The conclusions are unsubstantiated.

To a very large extent, the findings in the Report reflect hearsay and gossip, rather than personal observation and research. Virtually none of the quoted statements are supported by documentation. The danger of relying on such a hearsay approach may be seen on page 17 of the Report, which states that personnel in OMBE's funded organizations "do not generally possess the business background to provide substantive assistance to help minority businesses become viable."

Within the time constraints for preparing this response, OMBE could not review the personnel files of all of its funded organizations. OMBE did, however, check personnel data for its organizations in three cities, Washington, D.C., Chicago, and San Francisco. The results show that of the 181 professional employees in these cities, 85% have college degrees (nearly half in business administration) and 25% have MBAs. Perhaps of greater importance is the fact that these 181 professionals represent among them 1,655 man-years of active business experience. There is every reason to believe that this background is matched in other funded organizations throughout the country.



3. The Report inaccurately accuses OMBE of racial polarization.

The Report questions the ethnic orientation of many of OMBE's funded organizations, and implicitly equates this with both a lack of organizational competence and an encouragement of racial polarization. This conclusion evidences a misunderstanding of the functions which OMBE expects its business development organizations (BDOs) to discharge, of the environment in which they must operate, and why OMBE found it advisable to use locally based, minority business organizations as the heart of its delivery system.

Through both its funded and unfunded programs in the private and government investment areas, OMBE has helped to open and create access to business opportunities, capital, markets, and highly specialized management and technical assistance. However, this access is of little practical value until it can be effectively exploited by the minority entrepreneur. This is the job of the community-based, minority business development organization.

It is the BDO which screens the aspiring entrepreneur -- and which, in many cases, advises that he or she should not seek an independent business. It is the BDO which closely examines the client's finances, credit record, prior experience and management potential. It is the BDO which helps to prepare the initial business plan, often for a venture located in the heart of the inner city. It is the BDO which first visits the client's venture, or studies the proposed venture on-site, and evaluates its potential traffic, sales, and profits. And it is the BDO which often recommends that the client should locate, or relocate, outside the inner city. Above all, it is the BDO which must establish a positive understanding of the client's hopes, fears, abilities, and lack of abilities. It is implicit throughout the report that the function of the BDO -- the roles described above -- can be better accomplished by a majority contractor than by a minority organization. The concept ignores the many failures which non-minority consulting firms demonstrated in the late 1960s in addressing the problems of minority entry into business. These firms, although technically



proficient, frequently displayed a very naive understanding of the economic and social environment with which minority business must contend. In addition, they often could not overcome significant barriers of distrust within the minority community itself.

OMBE has opened the door to a wealth of private and public sector resources, e.g., corporate purchasing activity, private investment in MESBICs, and governmental procurement. This is one reason why OMBE was created in 1969. After two and a half years of operation, it became obvious that this function was not enough. It was necessary to have some vehicle that could establish initial contact with existing and potential minority entrepreneurs, and assist them in taking advantage of these resources. Thus OMBE's Executive Order mandate was revised in 1971, and OMBE was authorized to request funds from the Congress to provide such a vehicle, the BDO.

OMBE has since its inception tried to deliver high quality services while at the same time reaching out to attract potential and existing minority entrepreneurs. Practical necessities, not some ideological predisposition, have underlaid OMBE's reliance on minority community assistance organizations as the initial point of contact with the minority entrepreneur. OMBE has throughout its funded program employed both minority and nonminority organizations to deliver other types of business services. OMBE has also emphasized greater use of multi-ethnic organizations to provide general business services. Each such decision is based on a hard-headed assessment of the circumstances in particular local minority business communities. OMBE is a business oriented program not a socio-economic program; accordingly, it must be a judgment as to what will work best in a given community.



Comment on Report's Recommendations

The Investigative Report, after putting forth critical evaluations of various aspects of the minority enterprise program, proposes consideration of three different alternatives. Each of these alternatives would retard rather than advance the minority business effort. The report makes the following recommendations:

1. That serious consideration be given to defunding OMBE organizations and that other means be developed for utilizing the funds recouped (most of OMBE appropriations are expended on the organizations in the form of salaries) so that potential or existing minority businesses will benefit more directly from the available funds.

Response: The alternative of defunding all OMBE organizations and replacing them with another mechanism of providing services is a premature judgement of the program. The Report does not specify alternatives to the OMBE funded organizations, therefore it is impossible to analyze this alternative.

The OMBE funded program has been in existence only three years. Although mistakes have been made in this as in most new undertakings, the quality of funded organizations has continued to improve markedly over the last three years. In addition, programmatic improvements now being implemented such as greatly increased use of competitive procurement, consolidation of several smaller funded organizations into more comprehensive "one stop centers" and contractor personnel realignments all promise to strengthen further the funded delivery system.

2. That since OMBE exists because of the fiat of a Presidential Executive Order, attention be given to phasing out OMBE altogether or reducing its activities to a small policy body working in conjunction with top officials of other Government agencies involved in the minority business enterprise program. It should be noted that when OMBE was created the minority business enterprise program was in its infancy, largely unknown and untried, and did not have the support of either the Federal or private sector. Since then, the program has grown tremendously, over \$4.9 billion of Federal funds have been obligated since FY 1969 for minority business development, and over 26 Federal agencies are involved in one or more minority business programs. Also, the business community is involved in its own effort to support this program. Thus, it can be seen that a "catalyst" agency, such as OMBE claims it is, may not be needed now, if it ever was, to generate support for the program.



Response: This recommendation would take OMBE back to Executive Order 11458 but without even private sector involvement. This alternative would effectively eliminate the minority business enterprise program as an identifiable Federal effort. This "dismantling" of the program would have a chaotic impact on the minority business community.

The Investigative Staff justifies this alternative by stating that the Federal Government and the private sector are already sufficiently mobilized to carry out minority enterprise programs independent of a coordinating agency or focal point. Much of this progress has been attributable, either directly or indirectly, to the stimulus, advocacy and aggressive presence of OMBE. This is particularly true in the private sector resource programs, which have been developed and fostered almost entirely through the OMBE program. We believe that this past progress can be maintained only through the continued presence of an organization such as OMBE. In fact, the elimination or downgrading of OMBE would be viewed in the corporate sector as a signal to deemphasize minority business assistance as an activity meriting significant corporate attention.

3. That OMBE be removed from Commerce and transferred to SBA or re-established as an entirely new agency with a specific mandate and a professional staff to assist potential and existing businessmen directly without resorting to the mechanism of funded organizations. The arguments for transferring OMBE to SBA, political and other reasons aside, are that SBA has an ongoing organization heavily involved in small business and minority business enterprises. It presently has more permanent people than OMBE engaged in such programs and has offices located in many more areas throughout the country. Significantly, as previously mentioned, the OMBE Director has stated that at least 75 percent of OMBE's present activities are dependent on SBA.

Response: This alternative would prove unworkable for a number of reasons:



(1) The Federal minority enterprise program would lose its distinct identity.

The OMBE program would be transferred to a non-Cabinet level agency which serves a much wider constituency than minority businesspersons. This loss of minority enterprise program identity would be interpreted in the minority community and public and private sector as a de-emphasis of the minority enterprise program.

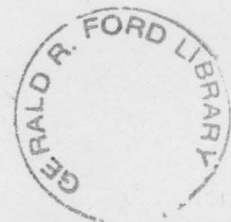
(2) Management and Technical Assistance would be directed primarily to SBA clients.

SBA has an inherent conflict of interest in providing management and technical assistance to minority businesspersons who are SBA loan recipients. In an attempt to protect its investments or loans, SBA may continue to concentrate all M&TA services on its loan portfolio and 8(a) firms, thereby providing inadequate focus on those minority businesses who have secured financing without SBA participation, but who still require management or technical assistance.

(3) SBA's mandate is to promote small business.

SBA serves only small business. OMBE serves minority businesses of all sizes. While most minority businesses are, in fact, presently classified as "small" businesses, minority enterprise as a whole should not be limited to small business development. The move to SBA would institutionalize prevailing negative attitudes by validating the assumption that minority enterprise is, and will continue to be, small in scope and ambition.

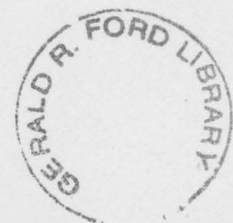
The move from the Department of Commerce would also result in a loss of access to corporate resources available from the built-in historical relationship developed between the Commerce Department and the corporate sector.



(4) Conflicting constituencies within SBA could result in a loss of program resources.

The expansion of the minority program within SBA invites conflict and competition with non-minority businesses which will be forced to share the finite resources of SBA.

In summary, the effect of implementing any one or a combination of the three alternatives mentioned in the report would be to dissipate the minority community-based business expertise already developed and to downgrade the importance of the minority enterprise effort to corporate and government decision makers.



I. OMBE FUNDED ORGANIZATIONS

Report Finding: The OMBE program is not working, and cannot work, because one of its fundamental concepts -- that of funding locally based, minority organizations to assist minority clients -- is invalid. This finding presumably derives from several specific major conclusions which are addressed individually below:

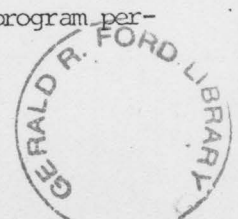
A. OMBE's organizations are technically incompetent, in that their staffs do not generally possess the business background needed to provide effective business assistance.

Within the time constraints permitted for preparation of this reply, OMBE could not review the personnel files of all of its funded organizations. However, three regional offices were requested to conduct such reviews in their respective regions of Washington, D.C.; Chicago; and San Francisco. Of a random sample of a total of 181 professional employees in OMBE organizations in the three cities, 85% have college degrees and 25% have MBAs. Nearly half of the college graduates majored in business administration, and there were a substantial number of higher degrees in such ancillary fields as engineering, law, and public administration. Perhaps of greater importance is the fact that these 181 professionals represent among them 1,655 years of active business experience. OMBE has every reason to believe that an across-the-board review will indicate comparable statistics.

B. OMBE's organizations are concerned more with self-perpetuation than with service to clients.

This conclusion by the Investigative Staff is not supported or documented anywhere in the report. Whether this conclusion is true or false, OMBE's system of contract review is adequate to weed out unproductive contracts.

It may be argued that the time expended by an organization in preparing its application for renewed funding detracts to some extent from program per-



formance, and of course this is literally true. However, this activity is essential and applies to any company, firm or organization, privately or publicly funded, which seeks a contract or grant.

C. OMBE has "oversaturated" certain metropolitan areas with funded organizations.

Two points are relevant here. First, the conclusion is extremely misleading in that it implies a comparable concentration of organizations in metropolitan areas other than those identified. The cities in question (New York, Washington, Los Angeles and Chicago) have large minority populations and are major business centers; they are the natural "home base" of trade associations, majority private resource programs, and contractor support activities. Obviously, OMBE will have more contractors in these program areas located in such cities than elsewhere; it would violate common sense and sound business practice if this were not the case.



Second, the term "saturation" implies that further activity cannot be absorbed. Although OMBE did at one point have 30 LBDOs in the four cities, the minority population reached by these organizations represents nearly a third of the total minority population in the U.S. The only "saturation" involved was the inability of some of the organizations, because of heavy workload, to handle a larger client portfolio.

D. OMBE's funded organizations occupy "lavish" quarters in "impressive" office buildings.

OMBE is seeking to foster an environment whereby minority entrepreneurs can try to compete in the open marketplace, within and outside the cities, in suburban malls and in such basic industries as manufacturing, wholesaling and distribution as well as retail. This presupposes a BDO location that will engender such aspirations, not defeat them. If OMBE's organizations were placed in storefronts in the heart of the inner city, OMBE would be vulnerable to the charges that it is interested in perpetuating marginal ghetto operations. In any case, the so-called "impressive" buildings referenced are all competitive in rents with other Washington facilities of moderate cost.

E. OMBE plans a significant increase in its number of funded organizations during FY 1976.

OMBE does not plan a significant increase in the number of organizations. OMBE's FY 1976 budget submission requests funds for six new construction contractor assistance centers, and for seven city OMBEs. However, inasmuch as OMBE will be consolidating organizations in several regions during FY 1976, and inasmuch as these consolidations will eliminate more than 13 presently funded organizations,



there will be in fact a net reduction in FY 1976 of OMBE organizations.

F. OMBE is being "forced" to expand its coverage to include white ethnic groups.

Through a joint grant with EDA (\$441,000 of OMBE funds, and \$89,000 from EDA), OMBE has indeed funded activities which can be said to benefit "white ethnics." The reason, however, is based on sound business assessments and not political pressure -- and, in every case, the so-called "traditional" minority constituency will benefit as well. Briefly, the background is this:



In many urban centers, it is simply not possible to develop or assist business in isolation. When stores on either side of a location are boarded up and blighted, there is little chance of developing a successful venture in the middle. OMBE is therefore moving, in a few cities around the country, toward revitalizing commercial neighborhoods, i.e., furnishing technical assistance pointed toward the re-establishment of a neighborhood strip as a viable commercial area. The sites chosen are either in minority population areas, or adjacent to these areas. In the latter case, OMBE is dealing with "white ethnics" as well as the "traditional" minorities....and this is absolutely essential if anything realistic is to be accomplished.

It seems inconsistent that the Investigative report accuses OMBE of fostering racial polarization in one instance and at the same time criticizes OMBE for attempting an innovative program designed to bring minority and white ethnic populations together under the common umbrella of business self-interest. As yet, it is too early to tell if this program will succeed, and if so, to what extent. However, in cities as diverse as Baltimore, Providence, East St. Louis and San Fernando, we have already witnessed an interracial homogeneity of effort -- pointed toward a mutual concern with business results -- that may well turn out to be a major factor in maintaining urban stability.

G. OMBE has shown a "lack of emphasis" in weeding out its poor performers.

The report concedes that OMBE denied refunding to, or terminated, 45 contracts in FY 1974, or 7.7% of the total. It goes on to denigrate this as a "limited number," and concludes that OMBE should be more vigorous in weeding out poor performers. The report's analysis is erroneous and obscures the actual facts which are:



* OMBE awarded 579 contracts between FY 1972 and December 31, 1974. Of these, 163 were awarded in FY 1974.

* Contracts awarded in FY 1974 cannot be expected to be terminated or denied refunding in FY 1974, inasmuch as sufficient operating data would not be available on the contracts in question. Thus, the 163 FY 1974 contracts should be deducted from the total, and the correct universe of contracts is 416.

* The proper frame of reference is not the number of contracts, but the number of organizations denied refunding. Between January 1, 1972 and December 31, 1974, OMBE funded 217 separate organizations. Of these, using the Investigative Staff's figure of 45, 21% were denied refunding or terminated. This is almost three times the percentage given in the report.

* These defundings and denials were achieved only at the expenditure of enormous staff effort, and despite considerable pressure from the organizations affected. The report notes, quite correctly, that one denial alone drew 107 letters of protest, each of which had to be staffed and answered. The point is that this effort was made, the pressure was resisted, and the poor performers were eliminated....21% of OMBE's total organizations.



H. OMBE's funded organizations are so potent politically that the agency is unable to exercise positive control over its own contractors.

There is no concrete evidence presented in the report to support this conclusion. The facts are that OMBE has been able to deny or terminate contracts when contract performance does not merit funding. There have been cases where contractors have brought pressure to bear in an attempt to influence evaluations of their performance or to enhance their side of contract negotiations. OMBE has not succumbed to this pressure, as has been pointed out in section "G" above.

I. OMBE's funding practices promote racial polarization and segregation; they result in a program which is "socioeconomic" rather than business-oriented.

We consider it a very serious accusation that OMBE's funding practices promote racial polarization and segregation and that they result in a program which is "socioeconomic" rather than business-oriented. The Department's response to this accusation is as follows:

(1) Through its programs in the private and government investment areas, OMBE has helped to open and create access to business opportunities, capital, markets, and highly specialized management and technical assistance. However, this access is of little use unless it can be effectively exploited by the minority entrepreneur...which is where the BDO comes in.

(2) It is the BDO's job, among many other tasks, to:

-- Screen the aspiring entrepreneur, and closely examine his or her finances, credit record, personal history, prior experience, and management potential. In many cases, the applicant for BDO services is advised not to go into business.

-- Help prepare the initial business plan, often for a venture in the heart of the inner city, and (usually after an on-site visit) evaluate the venture's likelihood of success. Not infrequently, the client is advised to locate, or relocate, sometimes outside the city.



-- Help its clients to "sell" their loan packages to a financial institution.

-- Maintain continuing contact with clients after they have received their loans or capital injections, so that the BDO will be aware if they are experiencing business and/or financial difficulties, and thus be in a position to provide or arrange for appropriate assistance before it is too late.

(3) These roles cannot be filled effectively by the BDO unless it has the total and unstinting confidence of its clients.

(4) It is implicit in this section of the report that the functions of a BDO -- including those described above -- can be better accomplished by a majority contractor than by a minority organization. The report provides no substantiation that a non-minority contractor is inherently more capable of providing business assistance.

(5) The fact is that no vehicle was available in 1972 -- or today -- which was better suited to the demands imposed by the above requirements than the community-based business development organization. During the 1960's when the first stirrings arose of a federal effort to stimulate minority entrepreneurship, large non-minority consulting firms were called on to help do the job; the results were extremely poor. Lack of familiarity with the environment with which much of minority business must cope, together with a distrust or complete shut-out which they often faced from minority entrepreneurs, sometimes suspicious of their motives, all contributed to this ineffectiveness of the majority consultants.

(6) When OMBE, under its initial Executive Order mandate (11458) decided to test a delivery system in 1970 and 1971, it chose for its "affiliates" a number of community-based, minority business development organizations funded then by SBA and EDA. (The Colorado Economic Development Association, cited so favorably in the report, was one of these, as were other organizations of equal merit.) The "affiliates" worked; their record was outstanding. They provided the aspiring entrepreneur with the confidence needed for frank and



open interchange, and with the requisite business expertise. OMBE's current BDO network was built on the model derived from these "affiliates".

Of course, minority enterprise is rapidly becoming far more sophisticated than it was at the start of the '70s, as the changes now being structured into OMBE's delivery system reflect. Persons who have been in business for some years no longer look first for ethnic understanding; they place a greater emphasis on expertise. This is why OMBE's network of funded organizations is being realigned toward consolidation within geographic locations, specialization of business talents, multi-ethnic staffing, and heavy reliance on the best sub-contractor/contractor to do a specific job, regardless of ethnic background. But such an approach is feasible now only because of the gains achieved during the past few years by the original delivery system.

(7) Virtually none of the above background appears in the Report, although it was discussed at length with the Investigative Staff. What does appear is an incident which implies that OMBE is a racist organization, an implication reinforced by the general emphasis given by the report to OMBE's use of ethnically-oriented organizations.

(8) Hopefully, the mix of elements in OMBE's projected network of funded organizations will continue to include a substantial number of minority-run and largely minority-staffed groups. OMBE is intensely proud of the progress achieved by many of these groups, and believes that its ability to foster minority enterprise has been strengthened immeasurably by their growing professionalism.

(9) Organizations which provide assistance primarily to one ethnic or racial group do make sense in some situations. This is particularly true for BDOs and CCACs which are the initial point of contact and outreach for minority businessmen who are entering the OMBE delivery system; e.g., OMBE does not, however, fund all



its organizations to serve a single ethnic or racial group. Some BDOs and CCACs are multi-racial in focus and staff. One-stop centers which will be developed in the latter part of FY 75 and FY 76 will be multi-racial. Most BRCs, private resource programs and all contracted support programs serve all minorities. OMBE is continually evaluating its delivery system to determine what type of organization can best meet the specified need.

II. OMBE REORGANIZATION AND DECENTRALIZATION

Report Findings: OMBE made a major organizational change in October 1973 when it reorganized its headquarters and decentralized its operations with the establishment and implementation of six new regional offices and 12 new field offices. The action was taken to provide improved services to minority businessmen through better utilization of the OMBE funded organizations under the more direct guidance and assistance of trained staffs (specialists) formed in the regional and field offices.

Personnel assigned to the staffs were largely individuals previously working in OMBE Washington headquarters and employed for the most part as "generalists". These individuals, many without particular education or business experience, were placed in specialist position such as finance, business education, construction contracting, and Government and private procurement. In view of the lack of qualifications of these individuals, in many ways a mismatch, the regional and field offices were unable to provide the expected level of assistance to the OMBE funded organizations, the minority businesspersons, or others involved in the OMBE programs. These shortcomings have severely handicapped OMBE in achieving program objectives and have generated criticism from within and outside of OMBE.

In spite of the decentralization, slightly over one-half of OMBE's permanent personnel have been assigned to the headquarters operation, or 134 people compared to 123 people in the regional and field offices. This ratio of about 1:1 is inconsistent with the shift of a major portion of the workload to the field. Also,



OMBE has a high ratio of secretarial/clerical personnel, of 257 permanent personnel, 159 were classified as professional and 98 as secretarial/clerical. Moreover, OMBE's average GS grade for full-time employees is 10.6 compared to a Civil Service Commission computed average for executive agencies of 8.1. In addition, indications are that some, if not all of the 12 field offices, may be unnecessary because their function may be carried out more effectively from the regional offices, thus more fully utilizing the capabilities of the field officers and their secretarial help.

Response: Commerce does not concur that OMBE is "severely handicapped" because of a lack of "business" and/or "specialist" related education and/or experience. In fact OMBE has a business know-how exceeded by few other government agencies. The OMBE Assistant Director for National Programs was corporate secretary of one of nation's largest financial printing firm. OMBE's Chief of Capital Development once operated the nation's largest credit union and is a former bank president. The Chief of Business Development has served on the Harvard Business School faculty and as Director of Corporate Planning of Avco Corporation. The National Marketing Coordinator is an accountant with many years experience in procurement in the General Services Administration, one of the largest governmental markets for minorities. OMBE's Chief for Research and Development is a former sales executive and college faculty member who headed the Department of Air Force's Cost Reduction Program. The Director of OMBE has over 20 years' experience in corporate marketing.

The OMBE Regional Directors, all minority individuals, have considerable business or related experience. The New York Regional Director is a graduate of the Wharton School of Finance with 10 years of business experience; the San Francisco Regional Director was a buyer for a large retail chain; the Chicago Regional Director was a bank officer, later experienced in business loans at the Economic Development Administration; the Dallas Regional Director is a law school graduate with experience at the Small Business Administration in financial programs; and, the Washington Regional Director before entering Federal service



headed a business packaging organization and while there, created a guarantee pool in New York, the first of its kind in the country. The Atlanta Regional Director's experience is largely governmental and he has accordingly made great strides in his region in developing active support from state and local governments in Southeastern states for minority business development.

The business talent is not restricted to OMBE's executive staff. Thirty-two percent of OMBE's professional staff have degrees in business or business-related subjects. In addition, eight employees, three on the Legal Staff, and five program personnel have law degrees. Another ten professionals, without business or law degrees, have considerable business experience. Combined, the foregoing provides the OMBE staff with a healthy proportion of business-trained individuals. A number of professional positions do not, of course, require business specialists. These include information gathering or dissemination, public affairs, Congressional relations, administrative services, personnel, and contract monitoring or processing. While it is true that Civil Service regulations undoubtedly restrict the movement of personnel in a manner equivalent to that of a private business organization, this is a constraint under which any government agency in business-related areas must labor.

The Investigative Staff report dwells at some length on the deficiencies in background, education, and experience of OMBE's specialists in the regional and field offices. The most glaring deficiency noted is that as a result of the December 1973 program decentralization, "generalists" were placed in "specialist" positions for which they were ill-suited and unqualified.

There is little doubt that the OMBE decentralization process created some problems in placing existing OMBE personnel into the newly created functions in the regional offices. However, the Department of Commerce Personnel Office cooperated with OMBE during every step of the transition to assure that the



decentralization proceedings were conducted in strict accordance with Civil Service Commission regulations. Job descriptions and position classifications were developed for each position within OMBE. Every staff person was offered a specific job with the appropriate position within OMBE. Every staff person was offered a specific job with the appropriate position description. There was, and is, no need for any staff person to write his job description as was alleged by one regional employee.

Of course, a very strong attempt was made to complete the program decentralization with as few downgradings, terminations, and other adverse effects on the staff as possible. At the time of reorganization, personnel were assigned to positions based on their backgrounds, experience, and skills deemed transferable by the Personnel Office. In those cases where skills or the potential for training was not available, slots were left vacant and were filled competitively from outside the agency. This was the case in a large number of specialist functions, particularly in the areas of finance and construction. In this way, OMBE was able to acquire a number of specialists with a high degree of educational and practical experience in these areas.

We believe it is more appropriate to compare the headquarters staff not only with the OMBE field staff but with the contracted organizations. There was a deliberate effort on OMBE's part to avoid fostering a large Federal bureaucracy which would be inflexible to changing program and recipient needs.



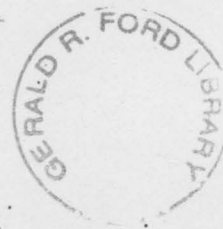
With respect : to the average grade, two points should be made. First, in an organization of this type, which requires a highly professional staff and is deliberately kept small, average grades tend to be higher than in the government as a whole. Secondly, SBA's average grade is 9.10, with a total number of permanent positions of 4200, compared to OMBE's 245.

III. PROGRAM RESULTS -- FUNDED ORGANIZATIONS

Report Finding: The Investigative Staff found (1) that the performance of OMBE funded organizations has fallen far short of planned goals in terms of new businesses, buy outs, and expansion of existing businesses, and (2) that the OMBE Performance Management System adopted in June 1972 to measure performance does not provide current, complete or meaningful information on return-on-investment in terms of sales, profits, and jobs created by the minority businesses assisted through the OMBE program. Moreover, statistical information showing OMBE accomplishments in other program areas is not complete or accurate.

Response: Before we reply to the specific major allegations in this section of the report, we believe a brief discussion on the design and development of the Performance Management System (PMS) is needed to establish the proper historical perspective and current, operational frame of reference.

When OMBE was designing the PMS during the spring of 1972, an intensive effort was made to develop a data system that would provide precisely the kind of information cited in the above finding, plus other indicators we regarded as critical, such as tax revenues generated, reductions in transfer payments, business ratios (e.g., debt-to-equity, net-to-gross, income-to-liabilities), etc. OMBE believed that with these elements included in our data base, a return-on-investment could be calculated with greater precision. More important, OMBE would be able to accurately track the business success -- or degree of success, which is more realistic -- on a continuing basis.



Unfortunately, it was a practical impossibility to collect such data in any comprehensive and usable manner, for the following reasons:

a. All small businesses are extremely reluctant to provide this kind of information -- particularly when they know it will go to a federal agency.

b. There is no way in which OMBE or its organizations can legally require recurring submission of such data. Unless OMBE were to get it on some regular milestone basis (i.e., monthly, quarterly, semi-annually, or even annually) the data, of course, could not be used as either a performance evaluation or impact measure.

c. The validity of unaudited small business financial reports is open to serious question. Thus, even if a client firm were to volunteer the required data, we were advised by many officials of leading financial institutions and of SBA that its reliability would be doubtful. OMBE actively explored the feasibility of establishing either a nation-wide system or a pilot state-wide system of recurring client audits, and concluded that neither was possible because of the enormous cost involved -- even if with all of the necessary client cooperation.

d. A review in the spring of 1972 found that other agencies (SBA, OEO, Ford Foundation) had wrestled with this identical problem, and had arrived at the same conclusions.



OMBE was therefore compelled, with extreme reluctance, to fall back on more readily quantifiable and obtainable data for its PMS measures, such as loans approved, contracts awarded, M&TA provided, etc. It was recognized at the time that these were essentially input measures, and would not give us the kind of impact/output data we wanted. However, in view of the critical need for a performance management system that could be implemented within a short time span, and that would give a workable means of evaluating contractor performance, the decision was made to proceed with an input-oriented PMS.

Considerable staff effort has been devoted since then to developing a system which could feasibly collect impact/output data, a system that would address and accommodate the inherent difficulties noted above. OMBE believes that an answer has been found, and the current (FY 1975) funding plan includes a pilot project designed to test this answer.

The vehicle is a new business assistance organization that will be funded by means of a cost-plus-incentive fee. The organization will tie its client services closely to financial counseling and professional accounting, two areas in which complete access to client fiscal status is essential. On a regular basis, the organization will collect the following data for each client:

- Net profit before taxes
- Gross sales
- Ratio of net to gross income
- Ratio of income to liabilities
- Other business indicators (depending upon the type of venture)

Each of these elements will be assigned a point schedule, and the contractor will be judged -- and his fee increased or decreased -- on the aggregate business success of his clients, on the basis of a departmental evaluation. To the best of OMBE's knowledge, this represents a totally new use of the incentive fee mechanism in federal contracting; until now, incentive provisions have been limited to hardware contracts. Three of the most prestigious national consulting firms in the



procurement area were solicited for help in preparing the formal Request for Proposal.

In addition to this general commentary, several specific allegations were made. These will be discussed individually below.

A. OMBE officials were unable to adequately explain the poor performance record for FY 1973 and FY 1974.

The "poor performance" mentioned refers only to new business starts and buy-outs, two out of many other indicators in the (then) OMBE measurement system. For all of the other indicators, OMBE met or exceeded its goals, in some cases by a wide margin. Nevertheless, the report flatly states, without qualification, "poor performance records."

B. Inflated information was used by OMBE in the FY 1975 hearings, as demonstrated by the conflict in data between the testimony presented then and the August 1974 OMBE Performance Management Report.



Since the primary purpose of showing the FY 1973 performance data in the August, 1974 Performance Management Report was to examine the regional distribution of FY 1973 performance, OMBE determined that a close approximation of the "real" FY 1973 performance could be obtained by using only the computerized data. The man-hours necessary to manually tabulate the data from the Quarterly Narrative Reports were not justified for this purpose.

Consequently, some of the figures shown in the August, 1974 report were greater than those earlier reported as "final" figures (because of the addition of late submissions by OMBE contractors) and some of the figures in the August, 1974 report were lower than the "final" figures reported because they excluded the performance reported in the Quarterly Narrative Reports,

C. As mentioned in the FY 1974 OMBE Performance Management Report, the FY 1974 experience in providing M&TA does not support....statements that programmatic emphasis has been shifted away from creating new enterprises....

The report itself states that the new policy (was) adopted in March 1974. The FY 1974 Performance Management Report (PMR) contains data as of June 30, 1974, and yet the contents of this PMR are advanced as proof that the redirection in policy had no effect. Given the lead time in implementing any major policy shift, a time problem greatly exacerbated in this case because of the nationwide network of private organizations, it was not reasonable to expect a policy change initiated in March to produce dramatic results in June.

D. To the extent M&TA was provided....the assistance rendered was predominately on the front-end, that is, pre-loan or pre-procurement.

Without in any way denigrating the criticality of follow-on management and technical assistance, the importance of what is termed "front-end" assistance cannot be underestimated.



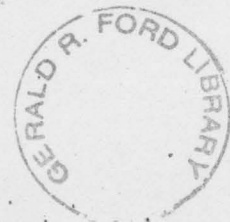
An effective job of loan packaging, or of pre-contract award assistance, serves as the very best kind of preventive business medicine. There is a tendency to think of a loan package as simply an elaborate title for a loan application. A review of a typical loan package would reveal that, in addition to all of the requisite financial data and schedules, and in addition to the standard business plan, such elements as lists of potential suppliers, advice on obtaining and using lines of credit, advice on how much to allot for promotion (both public relations and advertising), etc., are included. These elements are not of material interest to the banks or to SBA, but they may be of critical concern to the entrepreneur, particularly if he is new. To the extent that they prevent problems from arising later, they serve to limit the need for subsequent follow-on M&TA.

E. The majority of loans made to minority businessmen are SBA-guaranteed....

This is true but, at least in the case of OMBE clients, barely true. In the first half of FY 1975, 52% of OMBE clients received SBA direct or guaranteed loans, and this figure is likely to go below 50% when full FY 1975 data are available. The extent to which OMBE clients rely on government loan support has declined steadily since the outset of OMBE's program, and we are delighted with this trend. It reflects a growing client sophistication and the increasing professionalism of the packaging effort.

F. There is no doubt that the 7.9 percent failure rate testified to by the OMBE Director is completely unreliable.

As Mr. Armendaris testified in connection with the FY 1976 budget requests, some shortcomings in the failure rate study have been acknowledged by OMBE. However, we continue to believe that the failure rate figure for OMBE assisted businesses was reasonably accurate for the time period covered by the study.



Obviously, the combined impacts of the energy crisis, followed hard by material shortages, double-digit inflation and then by a sweeping recession, have increased the percentage of failures. OMBE is currently working with the Census Bureau, which is preparing a comprehensive and regular update of selected minority business data, and OMBE will shortly be in a position to ascertain -- on a continuing basis -- accurate failure data.



IV. PERFORMANCE MANAGEMENT SYSTEM

Report Finding: OMBE records and its Performance Management System indicate that funded organizations have fallen far short of meeting planned goals established in FYs 1973 and 1974 as to the number of new businesses, buy-outs, and expansions. Also, current, complete, and accurate information on this and other program areas is not available within OMBE. Further, it is unable under its present system to provide realistic information on return-on-investment in terms of sales, profits, and jobs created by the minority businesses assisted through the OMBE program.

The number of minority businesses that are successful or have failed, and the reasons for the successes or failures is not known by OMBE. OMBE has attempted, unsuccessfully, through in-house studies and contracted effort to develop this information. As a result, OMBE is severely handicapped in proposing definitive plans and in implementing concrete actions to increase the effectiveness of its funded organizations.

Response: The above Report Finding, together with the criticisms contained in Chapter VI indicate that the Investigative Staff did not understand the purpose of OMBE's Performance Management System (PMS). Two general comments seem in order:

-- The PMS was designed to track only those services provided directly to individual business clients by our funded organizations; it was neither structured nor intended to relate actual results to the total activities of OMBE. For example, because OMBE cannot require corporate firms participating voluntarily in the minority purchasing program to report their procurements on a monthly basis, PMS does not reflect this critical area of the OMBE effort. Also, PMS only picks up those



government contract awards made as a result of Minority Business Opportunity Committee (MBOC) activity, or because of actions taken by OMBE regional or headquarters staffs.

--. The report appears to confuse OMBE's operational Management-by-Objective System (MBO) with the PMS. The former provides for (a) an annual statement of program objectives, as approved by the Secretary of Commerce, (b) plans to achieve these objectives, and (c) periodic reviews of progress toward the objectives. Parts of Chapter VI of the report seem to be directed more at OMBE's MBO system than at our PMS.

Specifically:

a. It is erroneous to conclude that the reasons for success or failure of minority firms is within the scope of the PMS.

(1) The PMS is built upon data submitted by funded organizations.

It is not appropriate to collect value judgment data from contractors, because of the obvious danger that inconsistent judgements, different values and bias may be introduced into the system.

(2) OMBE is now working closely with the Census Bureau (and have already concluded an intradepartmental agreement with that agency) to develop a survey vehicle that will provide comprehensive recurring information on the progress of minority business enterprises -- both those assisted by OMBE and those which have not received OMBE assistance. However, while the Census Bureau surveys will give more current and complete data than any available before, they will not address the reasons for success or failure. This information can only be developed through separate analysis.

b. The report frequently refers to "business success" as though this were a readily identifiable phenomenon. We wish it were. The fact is that no federal agency, including SBA, has yet been able to measure "success" on a gross basis, nor has any private business data firm. Indeed, nobody, to our



knowledge, has yet developed a satisfactory definition of "business success". The Committee may be interested in QMBE's working definition, developed after studying a wide range of alternatives: A business is considered a success if it is operating, regardless of whether or not it is profitable. This is a pragmatic definition in that it recognizes the impossibility (short of a staggering investment for audited statements) of measuring degrees of success, and in that it emphasizes the importance of survival.



c. We concur that OMBE headquarters does not review a goals vs. accomplishment table for each funded organization on a continuing (monthly) basis. OMBE does not believe that this is the proper function of its headquarters staff. This is the job of project officers in the regional offices, who do perform such a review. However, OMBE headquarters does make a goals vs. accomplishment comparison when it reviews the recommendations of the regional offices for refunding any organization. Also, headquarters reviews, on a periodic basis, the status of its regions, as reflected by their performance vis-a-vis regional goals. These data are a composite of funded organizations goals/accomplishments information for each region, and is made available to regional personnel. Semi-annually, OMBE headquarters issues a table which contains, by region, selected performance indicators for each organization, by type.

It is regrettable that the Investigative Staff did not ask OMBE headquarters for these tables before requesting the data from four regional offices. The comparisons are readily available at headquarters, and are easily compiled, since all of the appropriate input data forms are maintained in Washington; the regional offices are not staffed or equipped to produce these kinds of summary tables. Parenthetically, it is not clear why the report states, on page 69, that data was unavailable from the San Francisco Regional Office and subsequently uses data from that office on pages 69 and 70.

d. With respect to time phased plans (TPP), the TPPs of individual organizations form the basis for developing regional and national OMBE goals. Time Phased Plans of individual organizations are summarized at the regional level to establish regional performance goals. Complete time phased plan goals were not established for each organization operating during FY 74 because of the fact that the (TPP) requirement was not implemented as Agency policy until the first quarter FY 74.



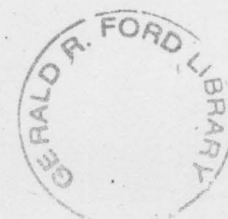
Therefore, organizations funded prior to this time would not have had separate PMS goals established for them. It is important to note, however, that OMBE regional staffs are required, as part of justifications for refunding actions, to use TPP vs. actual accomplishments as one factor in making refunding decisions.

e. The Investigative Staff seems to have concluded that the criteria to be used in judging the quality of OMBE organizations is the number of new starts and buyouts an organization establishes. In fact, OMBE considers other measures of performance to be of greater importance in judging organizational performance. On page 69, paragraph 4, the Investigative Staff discusses the failures in accomplishing the FY 1974 goals by funded organizations in the San Francisco Region. However, based upon new business starts and buyouts, the table below provides a summary of all planned and actual accomplishments for San Francisco during FY 74. Although it is true that the number of new starts and buyouts is shown to be considerably below those planned, other indicators are impressively above plan.

SAN FRANCISCO
REGIONAL OFFICE

PMS Indicator	FY 74 Plan	FY 74 Actual	(%)
1. Total Clients assisted	2,825	3,591	127
2. Clients assisted with M&TA	2,425	2,055	84
3. No. Loans Approved	640	640	100
4. \$ Loans Approved (Millions)	\$28.5	\$30.3	106
5. No. Procurements	250	793	317
6. \$ Procurements (Millions)	\$32.0	\$48.2	150
7. New Business Starts and Buyouts	260	51	19
Total PMS \$ (Millions)	\$60.5	\$78.5	129%

Based upon the reality of the FY 1974 San Francisco Regional Office performance, OMBE is not drawn to the same conclusions as the Investigative Staff that OMBE funded



organizations are "completely incapable" of meeting OMBE established goals for new business starts and buyouts. The goals are mutually agreed upon by the funded organizations and OMBE some time before the actual performance period, when the business environment is speculative, at best. As the record shows, other goals were set, attained and, in some cases, dramatically exceeded. It is not conclusive of lack of capability that some goals were not met, without examination of the underlying reasons for such shortfall. Since the Investigative Staff had access to the same FY 1974 figures shown above, a more balanced re- presentation would be evident in their report if they had not emphasized only that portion of the total plan which was not attained. Allied to this is that failure to attain part of the total plan is not a total failure of the funded organizations.



f. Regarding page 71, paragraph 1, it is believed that the Investigative Staff's statements are now essentially irrelevant and their recommendation moot.

The basis for this belief in our preceding discussion on the Performance Management System which concluded that its purpose is to measure the funded organizations' output of direct services to minority businesses vis-a-vis the provision of program effectiveness data, e.g., failure rate data. OMBE had, as the investigators were advised, begun work on all of their recommendations prior to their arrival at OMBE in an effort to improve the collection and distribution of contractor output performance for OMBE management purposes. In fact, the memorandum quoted from on page 72 of this report was the formal initiation of the project which is implementing these recommendations. We are pleased that the investigators concur with these plans and programs.

g. We do not agree with the statement on page 71, last paragraph, that "A OMBE headquarters official...admitted that this Client Data Report (CDR) system did not work..." (emphasis added). As with any new data collection and processing system OMBE was well aware that startup problems would occur. The total system would evolve through a series of iterative changes all of which were designed to alleviate the problems encountered while at the same time satisfying the system's overall objectives. In fact, OMBE continues to make evolutionary system changes as the investigators have shown by quoting from both the Director's memorandum of May 17, 1974, and the OMBE "Proposed CDR System" dated May 16, 1974. Steady progress has been made in making the reporting system more efficient and even more responsive to user requirements. OMBE has developed a new reporting collection system, the Business Assistance Report (BAR) which evolved directly from experience with the CDR collection system. The BAR which is similar to the CDR in many respects, was developed through close liaison with headquarters personnel and, most importantly, OMBE funded organizations' personnel.



The BAR collection system has been endorsed by all of the above groups as being easier to use than the CDR and as being a more efficient collection instrument than the CDR. The system flow is such that problems which had arisen relating to report timeliness are minimized.

h. The investigators have stated throughout this report that OMBE has not been able to measure its successes, obtain "hard" performance data or provide an accurate failure rate. Earlier in this report the plans to obtain more accurate information on the failure rate was discussed. With respect to measuring the effectiveness of the program, preliminary results on the BDO and CCAC programs have been provided to the Committee. From the ABT Associates Study, it can be concluded that the BDO and CCAC programs are effective. In addition, the OMBE PMS system has been providing hard data required to make valid, reliable comparisons of funded organizations. Such data includes loan packages approved, procurement contracts obtained, and clients provided M&TA. Regarding failure rates, after extensive discussions with Dun & Bradstreet and a number of major firms and an exhaustive search of the literature, OMBE has been able to surface little data on failure rates of either minority or majority firms. The only reliable data available at all, to our knowledge, that provides any indication of the number of firms going out of business is Dun & Bradstreet's The Business Failure Record. Data from the 1974 issue of this publication are discussed on pages 65-67 of the Staff Investigative Report. The Dun & Bradstreet publication provides data on the total number of bankruptcies occurring on an annual basis by geographic areas, liability size, business age, reasons for failure and SIC area. Additionally, the report provides indication of the number of bankruptcies per each 10,000 firms listed with Dun & Bradstreet. Although the Dun & Bradstreet data is useful for providing some data concerning the characteristics of bankrupt firms, it in no way provides true failure rate data for all businesses. For example, the 1974 report shows that 57 percent of firms that failed in 1973 were less than five years old. This does not mean that 57 percent of all firms under five years old failed, but rather that of the firms going bankrupt



in 1973, 57 percent were less than five years old. To develop true failure rate data, two elements, i.e. the number of failures and the total number of firms, are available.

i. The investigators observed that, because of numerous statistical discrepancies in CDR "printouts" and problems with timely receipt in the regions and by contractors, the CDR system is inadequate to serve as a manpower tool so that a valid and accurate judgement can be made relative to an organization's performance. It must be understood that the printouts were sent to contractors, not as a management tool, since they had furnished the original data, but rather to permit them to correct any transaction errors they found on the "Client List" which was sent out with the printout. Moreover, OMBE is fully aware of all problems associated with CDRs and has taken and is continuing to take aggressive corrective actions. Finally, it is agreed that the most effective way to qualitatively evaluate a client's progress or failure is on a one-on-one basis; but we also concur with the Investigative Staff that this course of action would be prohibitively expensive. Therefore, in absence of the required personnel and money to accomplish this, the types of remedial actions described in this report constitute reasonable and prudent and productive alternatives.

V. OMBE Procurement Practices

Report Finding: There has been a general disagreement between OMBE and the Department of Commerce, Procurement over the absence of competition and the procurement methods followed by OMBE in selecting the organizations to be awarded contracts. OMBE has utilized regional and field office personnel comparatively inexperienced and untrained in procurement matters to review new contract proposals, renewals, and contract administration without the benefit of a formal procurement system. As a result, major problems have developed in the timely processing of contracts.

As of June 30, 1974, 52 contracts totaling \$6.7 million had not been finally processed with the result that OMBE's FY 1975 budget request was reduced about \$2.5 million by Senate and House action. Some organizations have been penalized severely because of the delays, requiring them to borrow

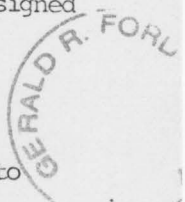


funds for short periods at high interest rates; moreover, some employees left the organizations because of payroll difficulties and lack of confidence in their future. OMBE and the Department of Commerce, Procurement are now working closely together in an attempt to set up a more compatible procurement system and thus overcome many of the present problems which have led to substantial criticisms by officials of the organizations and the Department of Commerce, Procurement.

The chapter is critical of OMBE procurement practices. It states that rules have not been followed, that procedures have not been documented and that experienced staff has not been properly selected or trained. The results of this condition are illustrated by examples of OMBE taking too long to process contracts, delaying contract awards and writing contracts that are not well-administered, and of using sole source procurements. The accumulated impact of the poor procurement practices and the resulting deficiencies led to general disagreement between Department of Commerce Procurement and OMBE. The chapter concludes with an observation that a strengthened Department of Commerce Procurement, in contrast to its formally passive role, is welcomed by OMBE and will enhance expectations for major improvements in OMBE procurement practices.

Response: The Department's views on this matter are substantially different from those rendered in the chapter. In 1972, when the Department successfully obtained appropriation authority to provide financial assistance to public and private firms for the mobilization of business resources and for the conduct of technical and management assistance programs, it did so recognizing certain salient expectations.

The expectations derived from the fact that the new authority was designed to give to the OMBE program discretion in areas previously handled by the Small Business and Economic Development Administrations. Further, the contractors and grantees of these two agencies were known and scheduled to become OMBE projects and to receive financial assistance from OMBE. Last, the substantial increase in appropriated funds for the OMBE programs meant that many new groups, generally fitting the model of the SBA and EDA projects, were to be mobilized by OMBE staff and funded. These expectations were that most



of the firms receiving financial assistance were going to be non-profit firms, that the QMBE financial assistance program would provide almost all of the income revenue for the firms, that all of the firms selected to receive financial assistance would have verifiable records of direct or indirect experience in minority enterprise development and assistance. The Department also decided that the provision of financial assistance, from the appropriation authority, would be done principally with contracts rather than grants. This significant decision meant extensive formal procurements with specialized non-profit firms, a unique arrangement given past practices of using grants in similar situations. These Departmental policy decisions were implemented by the Assistant Secretary for Administration and the Procurement staff responsible to him; and by the Director, Office of Minority Business Enterprise, and the program and administrative staff responsible to him. The implementation was personally monitored by the Assistant Secretary and the entire situation was under the constant review of the Departmental General Counsel.



The structure established by these policies and assignments was within the limits of general Departmental regulations and authority. The structure required that procurement policy, regulations, procedures and guidelines were under the control and supervision of the Department's Procurement staff, a unit reporting to the Assistant Secretary. The structure further required that program policy, regulations, procedures and guidelines were under the control and supervision of OMBE, a unit reporting to the Secretary.

In sum, OMBE has no "procurement practices" in the legal or operating sense. Procurement issues and problems are the Assistant Secretary's responsibility. Program issues and problems are the Director's. When the two areas interact, joint resolution of issues and problems is required, either on a case-by-case basis or in a task-force like environment.

None of this is meant to minimize the issues and concerns of the situation, or the real problems that we face in this area. It is only meant to show that the conclusions and theme of the Chapter do not accurately reflect OMBE's proper role in the procurement process.

In addition to these general comments, some specific allegations should be addressed.

- a. OMBE does not follow normal procurement procedures to the letter but... bend(s) the rules....As a result, formal contract procedures and directives were not prepared or followed by OMBE during the original contracting and to a large extent the same conditions have prevailed to the present time.

Normal procurement procedures are outlined and codified in 41 CFR 1; 41 CFR 13; Departmental Administrative Order 208-0 and its Handbook for Supply Management; the Handbook for Field Contract Administration (OMBE); and, a formal series of procurement instructions used by the Procurement Division.



These five documents establish the procurement system of the Department. Procurement activities for the Office of Minority Business are conducted in accord with this system.

OMBE's project development and processing activities are systemized and defined in another group of documents. These documents described in detail the policy and procedural matters that are shared with the Procurement staff in the joint effort to purchase responsible and effective services for OMBE. OMBE Order 215-1 describes the project planning and scheduling system that has been in existence in earlier forms, since February 1972. OMBE Order 216-1 and its Manual describe in extensive detail the procedures and guidelines for OMBE staff to conduct their activities in program and project development and monitoring. This is but the latest version of a Manual originally issued in May 1972, under the overall supervision of the Assistant Secretary and the Director of OMBE. OMBE Order 102-1 describes the current structure of delegations of authority within OMBE.

A systematic review of these documents will reveal that the Department responsibly and prudently observed all legally required procurement procedures since the inception of the OMBE program. Further it will reveal that OMBE program and project practices were well documented, and both formulated and implemented in accord with appropriate Procurement procedures.

b. There has been a general disagreement between the Department of Commerce, Procurement and OMBE over...procurement...practices followed by OMBE.

The Department, of which Procurement and OMBE are both units, regularly reviews the effectiveness, usefulness and acceptance of its central administrative services. We know of no general disagreement, although there are areas of mutual concern that are continually subjected to study, evaluation, and resolution as material problems are identified.

c. Because of the resultant carry-over of funds...OMBE's budget request for FY 75 was reduced.



While it is true, as the report states, that OMBE's FY 1975 budget request was reduced by \$2.5 million because of the carryover of FY 1974 funds, the reasons for the carryover are not accurately stated. The carryover resulted from a combination of OMBE's inability to submit requests for procurement action within the pre-established deadlines (because of the overwhelming number of contracts expiring, and requiring renewal, at the end of the fiscal year), an overburdened workload in the Procurement Division, and a planned, specific decision to carryover a certain amount of funds, the expenditure of which OMBE did not judge to be warranted in FY 1974, but which would be required in FY 1975. Although the precise reasons for the Congressional decision to cut the appropriations request are not known, the amount of funds carried over because of



OMBE's inability to complete procurement requests within the deadlines was a relatively small percentage of the total carryover. This leads to the probable conclusion that the budget reduction cannot be attributed to OMBE's administrative shortcomings in FY 1974.

d. OMBE had not finalized their contracts.

OMBE is not authorized to finalize contracts. Procurement authority and responsibility is delegated by Departmental Administrative Order 208-2 to the Office of Administrative Services and Procurement. The process leading to finalizing contracts does, however, involve a number of administrative actions by such offices as Audits, Legal, OMBE and Procurement.

e. ...a Department of Commerce 1974 Task Force study reported that difficulties in OMBE program planning contributed to rushed, incomplete contracting activity in the last few months of the fiscal year.

The study conclusion applied to all Departmental units, not solely to OMBE.

f. ...most of the field officer's time was spent on administrative matters... relating to contracts...each contract renewal requires that regional office work commence 6 months in advance of the renewal date... The project officer has little time for programmatic involvement.

On page 75, the report states that "field officers were given prime responsibility for administering contracts". That statement is inaccurate. Field officers are not authorized to administer contracts. Field officers, rather than administering contracts, monitor the technical performance of contractors. Monitoring necessarily requires a large amount of paperwork in order to analyze and document contractor performance. Procurement systems, that are effective, prudent and observe proper safeguards require a long lead time before award or renewal. When a field officer monitors a contract that is to be considered for renewal, he or she begins to shape part of the monitoring and some of the paperwork to create a file with which to make a responsible renewal recommendation. The actual work associated with developing the



programmatic basis, which is used by OMBE and Procurement in contract renewal considerations, is an integral part of effective contract monitoring.

g. ...minimal training was afforded field officers and to other regional personnel designated to administer contracts.

Again, OMBE is not authorized to administer contracts. The statement in paragraph 1, Page 78, that the Director's remarks on training is inconsistent with this statement is therefore incorrect, since the Director was speaking about training for authorized activities. Extensive formal training in project development and management was provided to field officers in September 1973, March 1974, and May 1974. On-site regional office briefings were given in November, 1973 through January, 1974; in August 1974 through November 1974; and in December 1974 through February 1975. On-site assistance to individual field officers and regular headquarters review and comment on field officer work is an ongoing feature of our management system, initiated in October, 1973. These training sessions have been extensive and very productive.

h. Because of the lack of experience of OMBE procurement people, the delays encountered in finalizing new contracts and renewals and the contract exceptions raised by the Department of Commerce internal auditors, the Department, in cooperation with OMBE, established in mid-1974 a procurement responsibility in each regional office area with the addition of an Administrative Contracting Officer and a secretary.

This statement implies that OMBE has procurement authority and its failure in the procurement field led to the assignment of the Administrative Contracting Officer. Both the statement and implication therein are erroneous. Prior to mid-1974, contract administration was assigned to the Departmental Procurement staff in Washington. The regionalization of this function was designed to assure that contract administration, a procurement function under the supervision and direction of the Departmental Office of Administrative Services and Procurement, and contract monitoring, an OMBE function, were well coordinated at the regional office level.



i. The basic procedures for contract renewals are...extensive...cause delays...and encourage over-control at OMBE headquarters' level.

This summary of procedures listed on page 79 is incorrect. In item (2) a requisition is forwarded to Procurement, rather than a "contract package to OMBE headquarters." Procurement issues a Request for Proposals, obtains the comments of OMBE (including the OMBE Director) on the proposals, obtains other counsel and advice, and then negotiates a contract with a selected contractor. In Item (4), there is a confusing observation that Procurement monitors contracts because of OMBE's lack of procurement expertise. Again, OMBE is not authorized to conduct procurement operations and Procurement does not monitor the technical aspects of contractors' efforts.

j. The Investigative Staff feels, however, that major improvements in procurement can be expected only when overall procurement responsibility is centralized in Commerce Procurement; contracts are competed to the maximum extent possible; and, OMBE regional personnel assigned contract administration responsibilities receive proper training and are provided the opportunity to obtain adequate field experience in contract matters.

This statement apparently did not consider the fact that overall procurement responsibility in the Department has been centralized since 1969, prior to the creation of the OMBE funded program. With regard to greater use of competition, the Report of The Task Force on Financial Safeguards in Department Programs and Activities, agreed that OMBE must control pre-identification of contractors, but should explore ways of introducing competitive selection of contractors into its program. While the Department continues to operate an adequately supported sole-source procurement program for OMBE, in accord with this Secretarial-level policy, OMBE and Procurement have recently identified program areas susceptible to competitive selection of contractors. This is an on-going program and competitively awarded contracts will continue to be made where feasible and practicable.



VI. MANAGEMENT AND TECHNICAL ASSISTANCE

Report Finding: Management and Technical Assistance (M&TA) is considered by OMBE to be a key factor in the ultimate success of a minority business. This assistance is required to be provided to minority businesses by the funded organizations under the terms of their contracts with OMBE. Although OMBE has announced annual goals for the amount of assistance to be provided collectively and established individual goals for each organization, the actual assistance provided has been much less than anticipated and is predominately oriented to the initial period of contact with the minority businesses, with little follow-on assistance after a firm begins operations. OMBE has contributed to the lack of assistance in the follow-on stage because of strong emphasis in other higher priority program areas. Moreover, employees of the funded organizations are considered to lack a depth of expertise in M&TA to provide this kind of assistance even if staffing and time were available.

OMBE has not taken effective measures to utilize the capabilities available within its own organizations in the area of M&TA. One of its funded organizations, well known to OMBE, has pioneered a very successful approach to providing continuous M&TA to selected minority businesses. The approach followed is to provide full-time management assistance, including access to minority financial information for analysis and evaluation of the progress of the business, so that timely assistance can be rendered when needed. This organization is so successful that over 80 of its assisted businesses are individually grossing over \$1 million annually; yet, despite the successful practices demonstrated by this firm, OMBE has not implemented any similar type program in any of its other funded organizations even though the Department of Commerce Management Task Force in 1973 suggested that this program be used as a model for establishing similar projects in other areas.



This finding presumably derives from the specific major conclusions:

a. OMBE has played the "numbers game," that is, many minority businesses have been started (perhaps as fast as they go out of business) with apparent lack of concern in regard to the initial selection of quality-type clients that possess the potential of succeeding in the competitive world.

b. OMBE has, ready at hand, the example of an outstanding BDO (Colorado Economic Development Association, CEDA), which it has failed to replicate.

c. In contrast....clients said that OMBE personnel seldom, if ever, called on them.

Response: We do not concur with the Report Finding or the specific statements. Our sub-responses are listed in the same order as the above allegations

a. The "numbers game" statement is one that is so frequently leveled at OMBE (and other Federal agencies) it demands close analysis.

-- OMBE has played "the numbers game" As noted in earlier comments, OMBE was compelled for the lack of any other system then available, anywhere, to measure the performance of its funded organizations on the basis of certain indicators which could be readily quantified.

-- ...(perhaps as fast as they go out of business) This statement is untrue, with no basis in fact. The report does not provide any data to substantiate this assertion.

-- Apparent lack of concern in regard to the initial selection of quality-type clients As noted earlier, the BDOs and CCACs advise many clients, upon completion of their initial screening, that they should not go into business. Indeed, some BDOs run as high as a 7-1 ratio on clients screened vis-a-vis clients whose projects are actually handled. Often, BDO personnel advise that they would

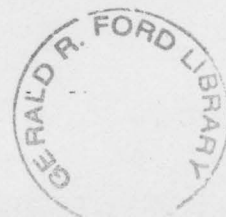


like to be even more restrictive, to work only with those clients involved with ventures of scale. The BDOs, however, are supported by taxpayers' money, and as much as they might like to restrict their limited resources to clients with a high success potential, such a course would violate the program's obligation to the Congress and to the minority constituency.

b. We share the Investigative Staff's enthusiasm for CEDA, which is a superb organization. We also share the Staff's regret that OMBE does not have another hundred organizations like CEDA...although it is not mentioned in the report, there are a number of organizations with similarly impressive track records.

The success of CEDA rests primarily upon a personal relationship built up over many years between its Executive Director and the local banks, and reflects also the unique commercial and demographic characteristics of the Denver area. Such a relationship and such an environment cannot be replicated by a fiat. The success of other crack BDOs similarly reflects the personal dynamism and local reputation of their Directors, and particular local situations.

There is a time problem here which was totally overlooked by the Investigative Staff. Without exception, all of the best BDOs have been on the scene for years, and are led by Executive Directors who have demonstrated outstanding performance over a long period of time. New BDOs (and the great majority are less than three years old) are earning their reputations now. If the Committee were to look at OMBE organizations three years from now, we believe that they would find many CEDA's, i.e., each of them responding differently to different local environments, but each of them responding as efficiently as CEDA.



c. It is not a functional responsibility of OMBE personnel to "call on" clients. OMBE is a wholesaler; it retails through funded organizations. OMBE is neither staffed nor funded to deal directly with clients, nor should it be. As a general rule, except for handling routine inquiries, the only direct contact OMBE personnel in the regions should have with clients is when they conduct sample telephone checks to verify the validity of their organization's performance data.

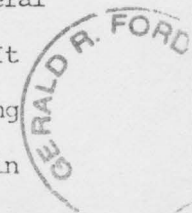


VII. OMBE COORDINATION OF MINORITY ENTERPRISE PROGRAMS IN THE FEDERAL GOVERNMENT

Report Finding: The report concludes that, although "huge sums of money and effort" have been expended by various agencies for the minority enterprise program, the "limited information" available does not indicate an impressive record of success. Further, contrary to OMBE's claims of a leadership role which it plays in interagency coordination, most of the involvement of other Federal agencies is concluded to be the result of efforts of dedicated staff personnel within those agencies, and not because of any leadership, guidance, or assistance provided by OMBE. SBA is specifically and extensively cited as another Federal agency with a substantial program to benefit minorities in business which is a "mirror image" of OMBE's program, and with whom there is little coordination or cooperation by OMBE. Finally, the various specific task forces of the Interagency Council for Minority Business Enterprise are discussed and found generally to be ineffective.

Response:

a. The report uses a quotation from the 1972 OMBE Progress Report, which characterizes data reported by Federal agencies as "inputs" and proceeds to conclude that, regardless of the amount of "input", there is no evidence of success or failure of minority businesses as a result. The issue of measurement of the success or failure rate for minority businesses in general is discussed elsewhere in this response, and it is not necessary to repeat that discussion here, except to state that the problems in determining the success or failure of businesses assisted as a result of direct Federal agency efforts are the same as those experienced in determining the results of OMBE-sponsored efforts. With regard to the specific data used in the report, the "inputs" on the part of the government are outputs when perceived through the eyes of the minority business person. It means that opportunities were provided for minority businesses to sell \$755 million of goods and services to the Federal Government in FY 1974, as compared to less than \$13 million in FY 1969. It enabled minority businesses to obtain direct and guaranteed loans amounting to almost \$700 million in FY 1974, as compared to less than \$200 million in



FY 1969. These outputs result from new opportunities made available to the minority business community that were previously available only to the majority business community and are consistent with OMBE's principle mandate to create access to opportunities.

b. With reference to the lack of leadership, guidance and assistance provided by OMBE, we offer some specific examples of the leadership role and continuing guidance offered by OMBE to other Federal agencies. The greatly increased Federal purchasing activity indicated in the abovementioned statistical data is a direct result of the establishment of the Procurement Task Force within the Interagency Council for Minority Business Enterprise. Guidance, direction and staff support for both the Task Force and the Interagency Council are provided by OMBE. In each fiscal year OMBE has, with concurrence from participating agencies, established higher procurement goals which have been exceeded in every instance.

The minority bank deposit and concessions programs cited as being primarily the product of an unnamed agency, were both conceived, coordinated and monitored by OMBE. Section 8(a) of the Small Business Act was virtually unknown and seldom used (less than \$9 million in FY 1969) before OMBE came into existence. Rather than being "endorsed" by OMBE, as stated on pages 104-105 of the report, the correct statement is that "major emphasis" was recommended by OMBE to the Secretary of Commerce, who sought and secured the endorsement of the Administration. SBA responded affirmatively to this endorsement and the 8(a) program got underway. OMBE, in studying this legislation perceived the benefits of Section 8(a) for minority businesses, made this known to Federal agencies, encouraged them to use it and assisted them in establishing annual goals, with the result that, since FY 1969, well over \$700 million of minority business sales to the Federal Government have been made through this program.

c. That the 8(a) program is "totally SBA's -- lock, stock and barrel" (page 105 of the report) is essentially irrelevant in light of OMBE's role of coordination and stimulation. Most, if not all, small business programs are vested in SBA by legislation. Similarly, farm and rural programs are likewise the Department of Agriculture's.



OMBE was created in part to uncover programs existing in other departments and agencies which could impact positively on minority business. OMBE has discharged this responsibility. In fact, the Investigative Staff gave this due recognition on pages 91, 92 and 93 of its report. It is not OMBE's mission, nor does OMBE have the legislative authority, to regulate programs of other agencies. It is OMBE's mission to encourage those who have such authority to assure that minorities get a piece of the action.

The assertion that OMBE utilizes SBA's programs in the execution of its own programs to the extent that they "appear...to be mirror images of each other's programs", indicates a basic lack of understanding of the relative responsibilities of the two agencies. OMBE must "utilize" programs of SBA, and other agencies, since OMBE has no direct assistance programs comparable to those of SBA, with the exception of the technical assistance programs. OMBE's mandate is to coordinate and stimulate the direct assistance efforts of other agencies. There can be no duplication, since the responsibilities are one step removed from one another.

d. With reference to the 8(a) program, the implication that the lack of definitive guidelines for graduation of firms from the program is due to OMBE's inaction, is misleading. OMBE has repeatedly and continually tried to assist SBA in establishing such criteria, which are critically needed. Since this program was established by legislation in SBA, however, OMBE can only continue to attempt to influence, but cannot direct SBA to develop needed criteria.



Finally, with regard to coordination between SBA and OMBE, the report states (page 101) that such coordination was nonexistent prior to August 1974, when SBA initiated a meeting to explore ways of working together. Such meetings have, in fact, been held on a continuing basis since the creation of OMBE in 1969. Former Secretary of Commerce, Maurice Stans, and later Under Secretary of Commerce, James Lynn, personally called and presided over these meetings. These meetings resulted in the establishment of the MESBIC program (conceived by OMBE), strengthening the 8(a) program (identified by OMBE, as mentioned previously, as an unusually useful tool for minority businesses), and a strengthened SBA bank loan guarantee program. It is unfortunate that as the OMBE program gained momentum, relations between OMBE and SBA became increasingly strained. However, when one looks at SBA's basic mission (serving all small businessmen), this is understandable. Since January 1974, as noted in the report, OMBE and SBA have intensified efforts to effect closer coordination.

e. The report is critical of the general failure to correct the problems raised in the report of the Task Force on Education and Training of January 10, 1974. In recognition of the serious deficiencies in the education and training program, and to assist in the resolution of these problems, OMBE has committed \$200,000 of its FY 1975 program funds to be transferred to the Office of Education to implement the findings of the Task Force report. Similarly, OMBE has recently provided \$265,589 to support salaries and support expenses for full-time Executive Directors of MBOCs in 10 selected cities. Inasmuch as most of the past and continuing problems with the MBOCs are due to the lack of ongoing direction, this effort was established as a pilot program and will be expanded if successful.

VIII. Augmentation of OMBE Staff not Identified in the Annual Budget Request Report Findings:

a. The Department of Commerce employees who provide central services to OMBE are not accounted for by OMBE as falling within its authorized personnel strength ceiling as established by the Congress each Fiscal Year.



b. The use of Department of Commerce personnel by OMBE may represent an infraction of Congressional imposed strength ceiling and the use of appropriated funds may also be inconsistent with the intent of the Congress.

c. OMBE's total authorized personnel strength is 245 and OMBE does not have an authorized ceiling for consultants and experts.

d. OMBE does not specifically or separately show in the annual budget presentations the information concerning its utilization of DOC personnel; therefore, it fails to show an accurate and true picture of OMBE's total staffing.

Response:

a. The Department of Commerce employees who provide services to OMBE are authorized as part of the Department of Commerce General Administration's Working Capital Fund and Consolidated Working Fund (page 224 of the FY 1976 Budget Appendix) and are therefore properly not included under OMBE's authorized personnel strength.

b. OMBE's employment ceilings are not increased by the DOC personnel who provide central services to OMBE. The use of a Working Capital Fund to provide central services in a Department was established pursuant to 5 USC 607; therefore, the use of appropriated funds for this purpose is consistent with the intent of Congress.

c. OMBE's total staffing consists of the 245 full-time permanent positions and 50 other positions (full-time temporary, part-time, intermittent, and consultants and experts). These positions are specifically shown in OMBE's FY 1976 budget justification to Congress (MBE-30). The Department of Commerce personnel that provide central services to OMBE are part of the total staffing of the Department of Commerce General Administration's Working Capital Fund and Consolidated Working Fund.

IX. Community Development Corporations

Report Finding:

The Investigators recommended against the transfer of the Community Development Corporation (CDC) program to OMBE at the present time.



Response:

The discussion is somewhat inaccurate on page 126 in suggesting that H.R. 14449 provides a means for the President by Reorganization Plan subject to Congressional disapproval, to transfer the Community Services Administration to the Department of Health, Education and Welfare (HEW) and the CDC program to Commerce. The Community Services Administration is the successor agency to the Office of Economic Opportunity. Its two significant program elements are the Community Action Programs (CAPs) and the Community Economic Development Program which consists essentially of administration of about 35 grants to community development corporations. Under the Reorganization Plan, if not disapproved by Congress, the President could transfer the Community Action Program to HEW and the Community Development Program to Commerce.

The legislation requires that the Community Economic Development Program, if transferred to Commerce, be set up in a separate Community Economic Development Administration. Accordingly, the Investigators' recommendation against transfer of the CDC program to OMBE at the present time are somewhat beside the point. The Act signed by the President in January 1975, provides that any such transfer, if effectuated through the reorganization plan, would be to a separate agency in the Department of Commerce.

The statement that OMBE has pushed for CDCs is inaccurate. The decision to propose transfer of the CDC program to Commerce was made in the Executive Office of the President. The Department of Commerce and OMBE, of course, testified in support of that decision.

