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March 10, 1975

MEMORANDUM FOR THE CHAIRMAN

Re: Office of Minority Business Enterprise
of the Department of Commerce

By directive dated June 24, 1974, the Committee requested that an investigation be made of the Minority Business Enterprise program of the Department of Commerce.

The investigation has been completed and the results are set forth in this report.

Respectfully submitted,

C. R. Anderson
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Chief of the Surveys and
Investigations Staff
House Appropriations Committee



Office of Minority Business Enterprise
of the
Department of Commerce

David A. Schmidt

David A. Schmidt, Director
Surveys and Investigations Staff
House Appropriations Committee



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I. INTRODUCTION

A. Directive

By directive dated June 24, 1974, the Committee requested that an investigation be made of the Office of Minority Business Enterprise of the Department of Commerce. The investigation was to include some measure of the effectiveness of the program as well as data concerning arrearages on loans which the Office of Minority Business Enterprise assists businessmen in obtaining.

B. Scope of Inquiry

The information requested by the Committee was developed by the Investigative Staff through a review of the authorizing Executive Orders, regulations, guidelines, reports, and pertinent documents of the Office of Minority Business Enterprise (OMBE) of the Department of Commerce. Interviews were conducted with officials of OMBE at its headquarters in Washington, D. C.; representatives of the Department of Commerce--Office of Administrative Services and Procurement, Office of Audit, and Office of Investigations and Security; representatives of the General Accounting Office assigned to the Office of Audit; and headquarters' officials involved in the minority business enterprise program at the Small Business Administration, General Services Administration, and the Departments of Defense, and Health, Education, and Welfare, located in Washington, D. C. In addition, during visits to 4 of the 6 OMBE regional offices and 4 of the 12 field offices, the Investigative Staff interviewed OMBE regional and field representatives. Also, 26 OMBE funded organizations were visited including 2 national headquarters, a state OMBE, a banking group in one city, and selected clients of funded organizations for discussions and observations concerning their role and efforts in the minority business enterprise program.



C. Background

On March 5, 1969, by Executive Order 11458, the President of the United States created the new Office of Minority Business Enterprise in the Department of Commerce. The objective of the Executive Order was to set in motion a nationwide program to foster and broaden minority business enterprise among members of minority groups. It directed the Secretary of Commerce to oversee and coordinate all Federal programs--and, to the extent possible, all private efforts too--to accomplish one basic goal: to involve more fully Blacks, Mexican-Americans, Puerto Ricans, Indians, and others in the private enterprise system. It provided further that these minority members be increasingly encouraged to enter the field of business, both in the areas where they lived and in the larger commercial community--not only as workers, but also as managers and owners.

Among other things, the Secretary of Commerce was ordered to:

- Coordinate as consistent with Law, the plans, programs, and operations of the Federal Government which affect or may contribute to the establishment, preservation and strengthening of minority business enterprise.
- Promote the mobilization of activities and resources of state and local governments, businesses and trade associations, universities, foundations, professional organizations and volunteer and other groups towards the growth of minority business enterprise and facilitate the coordination of the efforts of these groups with those of Federal departments and agencies.
- Establish a center for the development, collection, summarization and dissemination of information that will be helpful to persons and organizations throughout the nation in undertaking or promoting the establishment and successful operation of minority business enterprises.

To further strengthen and expand the minority business enterprise effort, the original Executive Order 11458 was superseded on October 13, 1971, by



Executive Order 11625. This latter Order was issued to improve the government's efforts by clarifying the authority of the Secretary of Commerce (a) to implement Federal policy in support of the Minority Business Enterprise program; (b) to provide additional technical and management assistance to disadvantaged businesses; (c) to assist in demonstration projects; and (d) to coordinate the participation of all Federal departments and agencies in an increased minority enterprise effort.

The expanded authority provided to the Secretary included:

"Within constraints of Law and appropriations therefore, and according to his discretion, provide financial assistance to public and private organizations so that they may render technical and management assistance to minority business enterprises, and defray all or part of the costs of pilot or demonstration projects conducted by public or private agencies or organizations which are designed to overcome the special problems of minority business enterprises or otherwise to further the purpose of this order.

"With the participation of other Federal departments and agencies as appropriate, develop comprehensive plans and specific program goals for the minority enterprise program; establish regular performance monitoring and reporting systems to assure that goals are being achieved; and evaluate the impact of Federal support in achieving the objectives established by this order.

"Require a coordinated review of all proposed Federal training and technical assistance activities in direct support of the minority enterprise program to assure consistency with program goals and to avoid duplication."

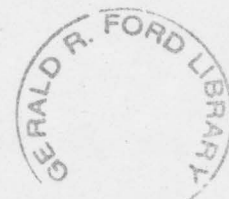
On April 1, 1969, OMBE began operations as an office within the Department of Commerce. Although OMBE was to be headed by an Assistant to the Secretary of Commerce, to date, the position has not been authorized and the principal official of the Office is a Director, GS-18 appointee.

Until October 1973, OMBE activities were centralized in Washington, D. C., with one field representative assigned in each of 30 cities located throughout



the country. In October 1973, OMBE decentralized its activities and established regional offices in Atlanta, Chicago, Dallas, New York, San Francisco, and Washington, D. C. At the same time, field offices were established in 12 cities where field representatives were previously assigned. From a small policy body of approximately 30 people, OMBE has grown to where it has a staff of 257 permanent people as of September 1974. In addition, OMBE organizations have also grown from 35 affiliate organizations as of June 30, 1970-- through grants funded by Economic Development Administration and Small Business Administration, to over 300 organizations as of June 30, 1974, all funded primarily through contracts with the Department of Commerce/OMBE.

Annual appropriations have increased substantially since 1969. Initial funding was provided through an allocation of \$40,000 of Office of Economic Opportunity funds to the Department of Commerce, arranged through the Bureau of the Budget--now Office of Management and Budget. Beginning in FY 1970 when \$1,294,000 was appropriated, OMBE has received regular appropriations aggregating \$146,152,000 through FY 1974, and the FY 1975 budget request was for \$52 million, reduced \$2.5 million by congressional action.



II. HIGHLIGHTS AND OBSERVATIONS OF INVESTIGATIVE STAFF

A. Highlights of Findings

Executive Order 11458, issued on March 5, 1969, created the new Office of Minority Business Enterprise in the Department of Commerce. The objective of the Executive Order was to set in motion a nationwide program to foster and broaden minority business enterprise among minority groups; and, it also provided that minority members (Blacks, Mexican-Americans, Puerto Ricans, and others) be increasingly encouraged to enter the field of business, both in areas where they lived and in the larger commercial community--not only as workers, but also as managers and owners. In addition, the Executive Order directed the Secretary of Commerce to oversee and coordinate all Federal programs--and, to the extent possible, all private efforts too--to involve more fully these minority members in the private enterprise system.

This Executive Order was superseded on October 13, 1971, by Executive Order 11625 which among other things clarified the authority of the Secretary of Commerce to implement Federal policy in support of the minority business enterprise program. Executive Order 11625 also gave the Secretary and, through him, the Office of Minority Business Enterprise (OMBE), increased authority over all Federal activities in the minority enterprise field. In addition, it directed the departments and agencies of Government to cooperate with the Secretary in expanding the overall Federal effort concerning the minority enterprise program.

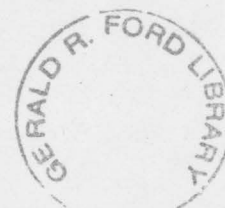
OMBE, in carrying out the objectives of the Executive Order, has grown from a small policy body of about 30 people to a staff of 257 permanent people as of September 1974. Its funded organizations have also grown from 35 affiliates to over 300 organizations, and annual funding has increased



from \$40,000 in the first year to \$52 million requested for the FY 1975 budget. In total, OMBE has received regular appropriations amounting to \$146,152,000 through FY 1974.

The "heart" of the OMBE system is the funded business development organizations, they are considered a delivery system--an OMBE mechanism for the delivery of the necessary capital, business opportunities, and management resources to minority people to increase minority business ownership. It is OMBE policy to select these organizations, most of which are new and formed especially in response to the OMBE program, without resorting to any form of competition. Usually, the firms--nonprofit type, are pre-identified and pre-qualified by OMBE. In contracting with the organizations (a few have received grants) consideration has been given to geographical dispersion with major concentrations in large metropolitan areas. These organizations have also been deliberately selected by OMBE to maintain racial balance primarily among 4 minority ethnic groups--Blacks, Spanish surnames, Orientals, and American Indians--on the premise that each organization formed with individuals primarily from the same ethnic group can better communicate with and provide services to minority individuals from the same ethnic background.

Since FY 1972, when OMBE first exercised its contracting authority and first received Federal appropriations, it has issued over 644 contracts and grants with Blacks receiving the highest number 413, followed by the Spanish surname group with 106. Each contract and grant represents a funded organization. During this period, OMBE has followed the practice of renewing the contracts and grants of its funded organizations almost regardless of performance, actual nonrenewals and terminations have totaled only 45 since 1972. Indications are that OMBE expects to continue its dramatic growth pattern



placing organizations in more communities, extending coverage to states not having any organizations like Alaska and Hawaii, including the Virgin Islands, and establishing new organizations to assist other ethnic groups not previously represented by separate organizations.

It is a paradox that OMBE, charged with furthering the economic well being of minorities deprived so long because of racial segregation and other factors, should follow essentially the same practices--polarization and racial segregation--in attempting to improve economic conditions for the minorities.

OMBE made a major organizational change in October 1973 when it reorganized its headquarters and decentralized its operations with the establishment and implementation of 6 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 positions 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 businessmen, 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.

OMBE has often emphasized that it is involved in a business venture, an investment program, which must ultimately be measured as it is in the private sector, that is return-on-investment in terms of sales, profits, and jobs created. These terms relate primarily to the number of new businesses, buy-outs, and expansions of existing businesses attributed to OMBE funded organizations.

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.

OMBE does not make loans, but rather provides assistance to minority businessmen to help them obtain loans through its funded organizations. Generally, the loans made to minority businessmen are SBA-guaranteed and made through private sources. Neither SBA nor OMBE maintain separate records concerning the current condition of loans (including arrearages) made to minority businesses assisted by OMBE.

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 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 Client Data Reporting system is designed to generate information from the funded organizations concerning individual program accomplishments to be used in the OMBE Performance Management System to measure how well the OMBE program is proceeding in terms of actual results versus budgeted resources consumed. Since its implementation in September 1972, the Client Data Reporting system has been beset with many problems. It has been found by OMBE and the funded organizations to have many shortcomings, and is considered to be nonresponsive and completely unworkable for the purpose for which it was intended. The system has undergone many changes in the past and currently is in the process of being changed again.

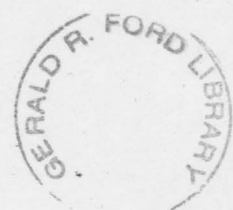
Management Services and Technical Assistance (MSTA) is considered by OMBE to be a key factor in the ultimate success of a minority business. This assistance is required to be provided to minority businesses by the funded organizations under the terms of their contracts with OMBE. Although OMBE has announced 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 MSTTA 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 MSTTA. One of its funded organizations, well known to OMBE, has pioneered a very successful approach to providing continuous MSTTA 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.

The Secretary of Commerce and, through him, OMBE have been provided authority to coordinate all Federal activities in the minority enterprise field. Government departments and agencies have also been directed to cooperate with the Secretary in expanding the overall Federal effort concerning minority enterprise programs. Substantial sums of Government money, about \$4.9 billion, and effort have been put into the programs since FY 1969. However, the effectiveness of the program is difficult to assess accurately because it is highly fragmented among 20 or more Government departments and agencies--more than 85 programs; there is a need for more effective communication and closer coordination; and a lack of an overall monitoring and evaluation mechanism.



One area, the SBA 8(a) procurement program with a total of over \$700 million obligated has had only 33 firms "graduate" (obtain a level of self-sufficiency) out of the program of a total of 1,400 firms reported on by SBA. According to OMBE, the test of its program is "the extent to which minority businesses flourish under its auspices and ultimately the rate at which they graduate out of the program."

Federal agencies involved in the progress of the minority enterprise program attribute the achievements shown as largely due to their own individual efforts and dedication, disclaiming OMBE's role as being a vital factor in the growth of the program. Parochial interests of the agencies and of OMBE have impeded coordination and cooperation between the agencies leading to duplication and overlapping of functions. SBA, the principal competitor of OMBE and predecessor in the minority enterprise program, has many similar program interests and possesses a much larger organization--permanent staffing and field offices. These 2 agencies have very recently started "to talk" to each other to see if they can resolve their differences and work out mutually advantageous arrangements so that each can be more effective.

The Inter-Agency Council on Minority Business Enterprise, as organized, was intended to have top-level representatives from all Federal departments and agencies. Its principal role was to act as the central point for emphasizing the Administration's policy on minority business enterprises. Operating functions of this Council are carried out under several Task Force groups that study specific issues and problems. The results of some of the studies indicate that continuing problems persist in coordinating minority enterprise programs; for example, DOD and GSA perform the major portion of the 8(a) procurement program making up the short-fall of other agencies; insufficient emphasis is directed towards "graduating" more minority firms out of the 8(a)



program, thus contributing to a long term buyer-supplier relationship between the Government and minority firms; the concessions program in Federal facilities is encountering difficulties, the failure rate for concessions established in 1971-1972 is 58 percent; education and training programs (vital to the success of minority-owned businesses) in Federal departments and agencies are highly fragmented and uncoordinated, and thus show a lack of effective leadership and Minority Business Opportunity Committees, standing committees of Federal Executive Boards and Federal Executive Associations, charged with assisting the promotion of minority enterprise programs in geographical areas are not meeting regularly, or not at all, and as a consequence, are largely ineffective.

OMBE permanent staffing is augmented annually with permanent employees of the Department of Commerce working full and part time on OMBE matters. The majority of these employees are assigned to Commerce procurement, audit, legal, and security investigation staffs. These employees are not accounted for as being within OMBE's authorized annual personnel strength ceiling; nor is the use of these employees by OMBE reported separately in the annual OMBE budget requests.

There may be a possible violation of the OMBE authorized personnel ceiling because of this annual augmentation action. The costs for the services rendered by Commerce permanent employees to OMBE, on a reimbursable basis, is rising rapidly from \$1.6 million in FY 1974 to an estimated cost of \$2.2 million in FY 1975. Specific identifiable personnel involved are 39 people, with 10 or 20 more people not readily identifiable and working part-time on OMBE matters.



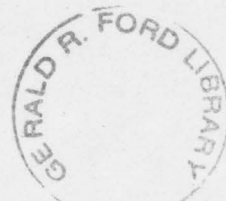
The Community Development Corporation program, a part of the Office of Economic Opportunity, was established as an experimental program working with appropriate Federal assistance and private market mechanisms to stimulate economic opportunities for the residents of economically disadvantaged communities. OMBE has aggressively pursued the transfer of this program to the Department of Commerce/OMBE with the purpose of folding the program, with its budget of \$39.3 million in FY 1974 and authorized personnel strength of 45 people, into the OMBE operation. The status of the proposed transfer is still under consideration by the Congress.

The addition of this major program whose scope and functions are not identical to those of the OMBE programs, although there are complementary areas, would provide an added burden to OMBE in a period when it is struggling to overcome many of its own problems which threaten to overwhelm it. A strong possibility exists that the new program might not be materially assisted or strengthened by the proposed transfer.

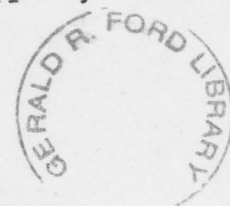
B. Comments and Opinions of Top OMBE Officials

Comments and opinions of top OMBE officials concerning OMBE and the minority enterprise program are summarized below:

- OMBE is being paralyzed because of internal infighting between minorities. There is a power struggle to gain control of the agency by Blacks. They want one of their own to be Director again. (About 80 percent of OMBE is made up of minorities, and Blacks make up 59 percent of this total.)
- OMBE is subjected to constant political pressure from members of the Congress, funded organizations, and local elected officials.
- OMBE Director did not select the Regional Directors at the time of the decentralization in October 1973.



- OMBE-funded organizations are very dominant, powerful, and, in every sense of the word, "control" the agency.
- OMBE-funded organizations are ineffective, serving their own end, that is, continuing their existence, and the practice of funding organizations should be changed in favor of other methods to assist minority businesses, such as turning over the program to the private sector. Department of Commerce officials have been advised of the ineffectiveness of the funded organizations.
- OMBE-funded organizations, formed along ethnic lines, have advocates within the agency among their own ethnic groups that protect the organizations regardless of performance. (Since the establishment of OMBE, only 45 organizations have had their contracts terminated or not renewed; therefore, OMBE is "carrying" weak and unproductive organizations.)
- OMBE is being forced to expand its funding of minorities to include Eskimos, Hawaiians, Puerto Ricans, Jewish, Greeks, Polish, and Italians because of pressure from advocates of these "minorities."
- OMBE program is not working and there is little expectation that it will work in the near future.
- OMBE productivity per person is very low because many people are incompetent. A few capable people are carrying the majority of the workload. Since it is difficult under Civil Service regulations to separate people because of nonperformance, OMBE officials have learned to work around underperformers in order to avoid direct confrontations.
- OMBE's Performance Management System, designed to establish program objectives (goals), measure performance of funded organizations, and assist in short and long range planning of the agency, is not working, even though considerable effort has been devoted in trying to make the system work. (The impression is that possibly certain factions may not want the system to work because a true picture of the productivity of the organizations would then be available.)
- OMBE coordination with SBA on minority programs was practically nonexistent prior to the present Director's taking office. At present, a dialogue is taking place between upper echelon officials.
- Minority businesses assisted by the program represent a threat to small business firms that have made it largely on their own.
- Inter-Agency Council on Minority Business Enterprise is not very active and has had limited success. One of the reasons for its failings is that agencies are not sending top officials to the meetings who can speak for, and commit the agency to support, the minority programs.



- OMBE got off to a poor start, personnel wise, because many employees originally hired were not qualified to be part of a business program; the employees were made up of individuals previously rified by Commerce, had reached their peak in other agencies, or were politically connected.
- OMBE has fewer professionals today than at the time of the reorganization because many good people were driven out.
- OMBE does not have a good feedback system so that successful practices can be circulated within OMBE and, as a result, OMBE constantly "reinvents the wheel."
- OMBE personnel should not be involved in contract administration. This responsibility should be turned over to Commerce Procurement, who are the experts anyway.
- OMBE's effort to have the Community Development Corporation transferred to it would compound OMBE's problems. The inference in making such a transfer is that OMBE has the capability to manage another program.
- OMBE's programs need more active leadership from OMBE headquarters.
- A formal assessment of the effectiveness of the OMBE program is not currently available. It is questionable whether OMBE's contribution to the minority business enterprise program can ever be realistically evaluated, at least not in the near future.
- The large number of organizations formed in OMBE was due to the riots of the 1960s. With too many organizations, funding is inadequate to hire the number of people needed with the best expertise.
- Many OMBE employees were involved in social action programs prior to OMBE employment. "You can't send a social worker to do business with a banker."

C. Investigative Staff Observations
and Recommendations

The pertinent observations made by the Investigative Staff during its investigation of the minority business enterprise program, including specific recommendations, appear on the following page.



1. Observations

Notwithstanding OMBE's comments and pronouncements,

- the OMBE program has all the aspects of a socioeconomic program and few of the features of a business program.
- OMBE's growth from: a small policy body of about 30 people to a permanent staff of 257 people (almost 900 percent increase); 35 affiliates to over 300 organizations (about a 900 percent increase); and \$40,000 in initial funding to \$52 million requested in FY 1975, together with still larger plans in the near future, indicate that OMBE's presence in the minority enterprise program is looming disproportionately to its demonstrated accomplishments.
- OMBE-funded organizations are an end unto themselves, self-perpetuating, continuing to exist to provide employment for their staffs, and the minority businessman is a secondary consideration. (About 2,000 organization people are paid with OMBE funds.)
 - (a) Organizations are created along racial lines to serve their own ethnic groups.
 - (b) Organization people do not generally possess the business background to provide substantive assistance to help minority businesses become viable.
 - (c) A high OMBE official said that 90 percent of the organizations' people are unproductive. (One regional director said that OMBE is getting more results from unfunded organizations than from OMBE-funded organizations.)
 - (d) Unproductive organizations continue to be funded because of political support received from local and national levels, and because of ethnic advocates within OMBE.
- OMBE personnel at the regional and field levels generally are lacking in appropriate education and business skills and thus are inhibited in providing effective leadership and support to funded organizations with similar shortcomings.
- OMBE appears to be divided along racial lines and morale of employees is affected--discontent was noted and some employees expressed their discontent in the 4 regional offices visited and in Washington headquarters. Also, some officials of funded organizations remarked about the lack of cohesion within OMBE.



2. Recommendations

The Investigative Staff believes, on the basis of its investigation, that the minority business enterprise program as implemented by OMBE has been largely unsuccessful and sees little hope for major improvements in the program either in the short or long term. On the plus side, within OMBE and its funded organizations, jobs and opportunities have been provided to professional and semiprofessional individuals from the minority groups; however, this "byproduct" was not considered the primary objective for establishing the OMBE program, as it was initially considered to be and still is a business investment and not a socioeconomic program.

As a minimum, therefore, the Investigative Staff believes that the following alternatives should be explored:

- (a) 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.
- (b) 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.



- (c) That OMBE be removed from Commerce and transferred to SBA or reestablished 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.



III. OMBE FUNDED ORGANIZATIONS

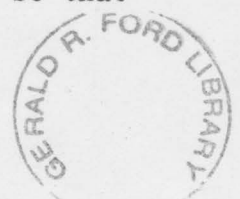
As planned and designed, the "heart" of the OMBE system is the funded business development organizations where current or prospective minority businessmen can receive, or be guided to, any form of managerial or technical assistance in the start-up phase or improvement of an existing business; that is, from the initial idea, through loan application and cash flow projection, to the long range plans of the enterprise. These organizations constitute a delivery system--an OMBE mechanism for the delivery of the necessary capital, business opportunities, and management resources to the people in communities with significant minority population. According to OMBE, the program's long term effectiveness will depend in a large measure on the ability of this network of funded local business organizations to deliver close-in, one-for-one guidance to minority businessmen.

The primary goals established for this program were to increase minority business ownership through (a) establishment of new businesses, (b) purchase of existing businesses which have established growth potential, and (c) expand significantly the size of existing businesses.

A. Original Organizations

OMBE contracts are awarded on a sole source (directed) basis as a result of a Department of Commerce policy decision. In furthering this policy and to maintain program control, OMBE prequalifies and preidentifies potential contractors, and as a result all competitive considerations are eliminated by OMBE.

OMBE, unlike most Federal financial assistance programs, receives its primary authority through an Executive Order, rather than legislation. OMBE provides financial assistance to public and private organizations so that



they may render technical and management assistance to minority business enterprises. In addition, it is authorized to provide technical assistance, planning grants, and funds for study, training, and research. The bulk of its contracts are awarded to nonprofit local business development organizations engaged to help minority citizens create new businesses and expand existing ones. Most of the grants awarded by OMBE have been to state government OMBE-type organizations, although a few grants have been awarded to nonprofit organizations.

It should be noted that neither OMBE nor any of its funded organizations make loans; however, one of the primary purposes of its funded organizations is to assist clients (entrepreneurs) in seeking loans and to prepare loan packages for submission to financial institutions who make loans to minorities.

OMBE became a major user of contracting services shortly after the Congress passed a supplemental FY 1972 appropriation of \$40 million in February 1972. Previous to this significant increase in new appropriations, OMBE's largest budget was \$3.6 million; and, it was a small policy body without program funds to establish local business development organizations.

After approval of the supplemental appropriations, OMBE entered a crash program and in a period of about 6 weeks--February to March 1972, issued contracts to about 80 to 90 organizations totaling about \$17.2 million. Then, as now OMBE did not compete the contracts but entered into negotiations with the contractors on a sole source basis and cited Title 10 U.S.C. Section 252 (c)(10) as justification for not obtaining competition because it was impracticable to do so.

Available OMBE records indicate that the crash program was instituted by OMBE because of considerable pressure to "get the funds out," and apparently



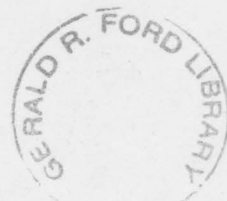
the emphasis to issue contracts to new organizations continued during the remainder of FY 1972 and carried over into FY 1973. Overall, OMBE issued 175 contracts in FY 1972 and 194 contracts in FY 1973, most of which were on a negotiated sole source base. To handle the initial volume of new contracts, the Department of Commerce Procurement Staff and OMBE established an assembly line procedure, developed a standard contract format regardless of the type of organization, and relaxed normal contract procedures including the deferral of required documentation until after the contracts were executed.

A Commerce procurement official advised the Investigative Staff that the effort would have been more painful if it were not known about 6 months prior to the time this supplemental was made available that it was forthcoming. This allowed time to establish a task force on how to deal with the volume of new organizations.

An OMBE official who participated in the crash program advised the Investigative Staff that the actions taken were considered justified at that time because the program was unique and time was of the essence. He readily admitted that some mistakes were made and that OMBE is still trying to rectify some of them but, on balance, the program was implemented in a timely manner. He indicated that probably some of the original organizations would not have been funded if sufficient time had been available to make a full review of the organizations.

B. Growth and Proliferation of OMBE Organizations

From FY 1970 through FY 1974 OMBE received appropriations totaling \$146,152,000 of which \$123,740,993 has been used to fund OMBE organizations which received a total of 614 contracts and 30 grants. These organizations, mostly new and created especially in response to the OMBE program, have had



an impressive growth in numbers from 35 affiliates (funded through grants from the Economic Development Administration and the Small Business Administration) as of June 30, 1970, to over 300 organizations at June 30, 1974, of which over 285 received contracts and 15 received grants from OMBE, in 1974. OMBE's expanded program for minority business development has resulted in the establishment of funded organizations in 48 of 50 states, and Puerto Rico.

The table below shows the dramatic growth in the number and type of OMBE-funded organizations as well as the number and dollar amount of the contracts and grants awarded by OMBE by fiscal year as of June 30, 1974. Some of the contracts were for periods beyond one year. Each contract and grant represents an OMBE-funded organization.



CONTRACTS AND GRANTS FUNDED BY OMBE
FISCAL YEARS 1972, 1973, AND 1974
(AS OF JUNE 30, 1974)

<u>Organizations</u>	<u>FY 1972</u>		<u>FY 1973 ^{1/}</u>		<u>FY 1974</u>		<u>FY 1972-1974</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Total Number</u>	<u>Total Amount</u>
Contracts:								
Local Business Development Organization	80	\$23,878,195	79	\$ 8,814,677	115	\$30,347,902	274	\$ 63,040,774
Construction Contractors Assistance Center	9	1,361,740	13	1,718,316	21	3,512,767	43	6,592,823
Minority Business and Trade Association	8	2,092,061	15	1,805,095	16	3,273,765	39	7,170,921
Business Resource Center	7	1,010,445	16	2,398,693	26	3,530,419	49	6,939,557
National Business Development Organization	6	1,062,232	4	1,987,944	8	3,802,643	18	6,852,819
Private Resource Programs	15	2,348,130	9	2,105,500	14	3,066,993	38	7,520,623
Contracted Support Services	28	3,903,010	21	2,242,066	42	7,433,951	91	13,579,027
Business Management Development	15	1,398,341	13	1,182,473	9	1,184,734	37	3,765,548
Experiment and Demonstration	4	505,332	12	2,096,015	9	1,418,318	25	4,019,665
Grants:								
State OMBE	3	405,000	12	1,905,261	15	1,928,451	30	4,238,712
Total	175	\$37,964,486	194	\$26,256,040	275	\$59,499,943	644	\$123,720,469

^{1/} \$17,904,000 of FY 1973 funds were impounded by OM&B: \$16,790,000 - Program Contract/Grant Funds
\$ 1,114,000 - Salary and Expense Funds.



Although OMBE-funded organizations are located throughout the country, there is a heavy concentration of organizations in major urban population centers. According to a 1973 OMBE study, about 80 percent of the funds were equitably distributed on the basis of minority population, business potential, and other factors; however, too many organizations were approved in some locations and too few in other areas. As a consequence, the study indicated 21 states were not adequately funded. This gap in organization placement is considered a current problem by OMBE and it plans to request additional funding of about \$12 million in FY 1976, to fund new organizations in the 21 states and the Virgin Islands.

OMBE records indicate that it has oversaturated certain metropolitan areas with organizations, many of which have 4 or more organizations. Extreme examples of this condition were noted by the Investigative Staff in Chicago, Los Angeles, New York City, and Washington, D. C., areas, where a total of 99 organizations, or 32 percent of all OMBE-funded organizations are located.

The number and type of organizations located in each of these metropolitan areas as of June 30, 1974, appear in the table on the following page:



OIEE-FUNDED ORGANIZATIONS
LOCATED IN SELECTED METROPOLITAN AREAS
AS OF JUNE 30, 1974

<u>Organization</u>	<u>Chicago</u>	<u>Los Angeles</u>	<u>New York City</u>	<u>Washington, D.C.</u>	<u>Total</u>
Local Business Development Organization	3	9	10	8	30
Construction Contractors Assistance Center	1	1	2	2	6
Minority Business and Trade Association	1	3	2	9	15
Business Resource Center	2	-	1	1	4
National Business Development Center	-	3	2	-	5
Private Resource Programs	1	-	7	1	9
Contracted Support Services	2	5	6	10	23
Business Management Development	1	-	-	1	2
Experiment and Demonstration	1	1	2	-	4
State OIEE	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	<u>13</u>	<u>22</u>	<u>32</u>	<u>32</u>	<u>99</u>

During its field visits and contacts with OIEE regional personnel and officials of funded organizations the Investigative Staff noted that many individuals commented that OIEE could be more effective if there were fewer organizations in a given area. The consensus of the people contacted was that the element of competition was always present in that each wanted to do its own thing; consequently, each organization actively seeks clients. Concomitant with this attitude was the lack of real cooperation between the organizations, although assistance to minority entrepreneurs was the ostensible reason the various organizations were funded by OIEE.



The Investigative Staff was advised during its visits to the Washington, D. C., OMBE regional office and to some of the funded organizations in the Washington, D. C., area, that serious consideration was being given to "folding together" 7 of the funded organizations into 1 super business development organization to form a 1-stop organization. The obvious advantages stated for such an action were: (a) the private business community and Federal agencies could look to one centralized organization for all minority business enterprise; (b) a pooling together of the best talent from all of the organizations; (c) economies and cost savings in equipment, supplies, and rental space; (d) coordinated approach on all issues concerning minorities; (e) better utilization of experience and training available in the present organizations; and (f) elimination of present conflicts and vying between organizations concerning funding, clients, and assistance from the private and Federal sectors.

A further point to be made concerning the proliferation of organizations in a metropolitan area involves the multiplicity of individuals employed in overhead, administrative type of positions such as Presidents, Executive Directors, and Deputies. In addition, the Investigative Staff observed that most of the organizations visited were located in choice sections of the business community, occupied space in impressive office buildings, and had executive style furniture, superior to that generally found in executive offices in the private/Federal sector. A Department of Commerce, Procurement official who had also visited some of the organizations characterized the space and furnishings as "lavish" and much better than that occupied by his supervisor, a GS-18 senior Government executive.

The Investigative Staff noted that the consideration being given by OMBE in this instance to establishing a 1-stop organization is consistent with an



earlier recommendation in a 1971 report by the President's Advisory Council on Minority Business Enterprise. In this report, the Council recommended as point 6, "Establishment of a local office for providing one-stop servicing for minority enterprise assistance." OMBE has, however, interpreted this recommendation to mean that one-stop servicing exists at each of the funded organizations rather than establishing one organization in a community to provide all OMBE services to minority entrepreneurs. OMBE records indicate that there are some communities with only one organization.

According to an OMBE 1976 Preview Memorandum on long range plans, "OMBE intends to grow and become substantial." In this regard, OMBE planned to request substantial increases in contract and grant funds for FY 1975 and FY 1976, in the amounts of \$81,850,000 and \$158,650,000, respectively. Thus, OMBE fully expects to fund more and not fewer organizations in the near future. OMBE also intends to request added funds to increase its present staffing from 257 people to 414 permanent positions. The expanded coverage of minorities, as planned, will include extending the OMBE delivery system to rural areas, establishing city government OMBE-type organizations, and providing new organizations to serve other ethnic groups such as Polish, Greeks, and Italians--thus creating multiethnic organizations.

With regard to the above proposed expansions, OMBE (1) awarded a grant in June 1974 for \$270,629 to the U. S. Conference of Mayors for assistance in developing a comprehensive program for exploiting the resources and capabilities of local governments throughout the United States to foster growth of the minority entrepreneurship, and (2) was in the process as of December 1974 of awarding 5 grants for a total of \$530,000 to local communities or community organizations for the purpose of revitalizing subareas of city neighborhoods, which are considered by OMBE to be multiethnic projects.

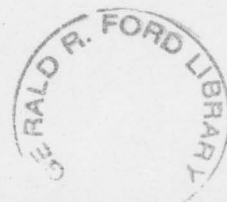


The Investigative Staff is of the opinion that OMBE at present has too many funded organizations to be managed effectively, and the answer to this problem is not to increase funds and create more organizations, but to consolidate existing organizations by carefully screening the performance of these organizations to eliminate poor or marginal performers. Many OMBE regional office representatives advised the Investigative Staff that the number of organizations assigned to each project officer were too many for the project officers to do an effective job of monitoring the contracts and grants.

C. Renewal of OMBE Contracts and Grants

OMBE usually renews the contracts and grants of its funded organizations. A March 1974 Department of Commerce Task Force Report on Financial Safeguards in Department Programs and Activities noted that approximately 80 percent of all OMBE contracts are renewals. Information provided by OMBE indicated that from FY 1972 through FY 1974, OMBE failed to renew or terminated only 45 contracts and grants, or 7.7 percent of the total 584 contracts and grants issued by OMBE, excluding one-time projects or nonrenewals because of policy changes. In this regard, the Investigative Staff noted that most of the original 35 organizations (affiliates) are still a part of the OMBE-funded organizations.

The nonrenewals and terminations of OMBE contracts and grants by fiscal year appear on the following page:



CONTRACTS AND GRANTS
NONRENEWALS AND TERMINATIONS
AS OF JUNE 30, 1974

<u>Reasons For Nonrenewals or Terminations</u>	<u>FY 1972</u>	<u>FY 1973</u>	<u>FY 1974</u>	<u>Total</u>
<u>Nonrenewals</u>				
One-Time Project	1	16	8	25
Nonperformance	-	6	26	32
Policy Change	-	2	33	35
Ineffective Management	-	-	3	3
Reason not Stated	-	-	2	2
<u>Terminations</u>				
Nonperformance	-	3	2	5
Ineffective Management	-	2	-	2
Contractor or Request	-	-	1	1
Total	1	29	75	105
Less:				
One-Time Project	1	16	8	25
Policy Change	-	2	33	35
Actual Nonrenewals and Terminations	-	11	34	45

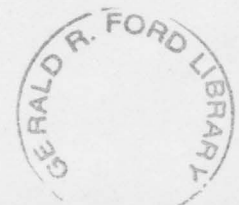
The limited number of nonrenewals and terminations experienced by OMBE as of June 30, 1974, represents, in the opinion of the Investigative Staff, a lack of emphasis by OMBE in weeding out its poorer performers. OMBE has concentrated its attention on funding more and more organizations and, once funded, assisting these organizations to meet established national goals. Under this approach, the performance of individual organizations has generally been a secondary consideration as long as established national goals were reasonably met. Thus, better performing organizations made up the shortfall of weaker performers. An example of this practice is illustrated by an internal OMBE evaluation made in February 1974 of a national organization. According to the evaluation, this organization, during the first half of



FY 1974, when compared to all OMBE business development organizations, produced at a cost of 9 percent of the outlay to all of the organizations: 64 percent of all loan packages, 66 percent of all dollar loans, 22 percent of the number of all contracts obtained, and 33 percent of the dollar value of all the contracts.

The Investigative Staff gained the impression that OMBE probably was "gun-shy" in arriving at a decision to not renew an organization because of potential political repercussions within the minority community. Apparently, heavy pressures have been applied from all levels when the news was received that an organization might not be refunded. One regional director stated that it was very difficult to not refund an organization. When such an action is considered, the regional office has to fully document all of the problems incurred under the contract in order to justify its decision to outside groups that may question the proposed action. As a generalization, the regional director said that the worst organizations usually have the strongest clout. He cited as an example that when one organization was recently defunded, OMBE received 107 letters protesting the action.

Nevertheless, the Investigative Staff feels that inferior, poorer performing organizations should be identified by OMBE in a systematic manner and defunded to make room for other more competent organizations. On the former point, the Investigative Staff found that OMBE's performance management system does not provide the mechanism for showing the performance of individual organizations compared to annual goals established for the organizations. Currently, incomplete data on individual performance is maintained manually at the regional level and this information is not always forwarded to OMBE Washington headquarters.

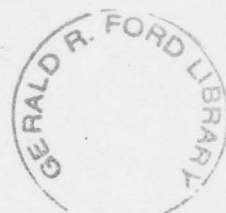


D. Ethnic Group Makeup of OMBE Organizations

It is OMBE policy to select and fund separate organizations consisting primarily of 4 minority ethnic groups: Blacks, Spanish surnames, Orientals, and American Indians. (OMBE also classified some of its organizations as White.) The ostensible reason for this policy is that organizations made up of ethnic groups can better communicate with and provide services to minorities from the same ethnic background. This attitude apparently is a spill-over from the civil rights turmoil of the 1960s and the actions that followed. Thus, in carrying out the program objectives to better the economic conditions of minorities in this country, OMBE has provided funds and assistance to establish, foster, and perpetuate segregated minority organizations, and has given every indication of continuing this practice in the future.

The ethnic groups with the greatest number of organizations are the Blacks which have received the most contracts--413, followed by the Spanish surname group with 106. Each contract received represents either a new OMBE-funded organization or renewal of funding to an existing organization.

The table on the following page shows the OMBE-funded contracts and grants by ethnic group for the period FY 1972 through FY 1974, by type of organization:



OMBE FUNDED CONTRACTS AND GRANTS BY ETHNIC GROUP
FISCAL YEARS 1972, 1973, AND 1974
(AS OF JUNE 30, 1974)

<u>Organizations</u>	<u>Black</u>		<u>Spanish Surname</u>		<u>Oriental</u>		<u>American Indian</u>		<u>White</u>		<u>Funded Contracts & Grants</u>	
	<u>Cumu- lative Total</u>		<u>Cumu- lative Total</u>		<u>Cumu- lative Total</u>		<u>Cumu- lative Total</u>		<u>Cumu- lative Total</u>		<u>Cumu- lative Total</u>	
	<u>FY 1974</u>	<u>FY 72-74</u>	<u>FY 1974</u>	<u>FY 72-74</u>	<u>FY 1974</u>	<u>FY 72-74</u>	<u>FY 1974</u>	<u>FY 72-74</u>	<u>FY 1974</u>	<u>FY 72-74</u>	<u>FY 1974</u>	<u>FY 72-74</u>
Contracts:												
Local Business Development Organization	81	202	22	49	3	5	7	13	2	5	115	274
Construction Contractors Assistance Center	14	28	7	15	-	-	-	-	-	-	21	43
Minority Business and Trade Association	13	32	2	4	-	-	-	-	1	3	16	39
Business Resource Center	15	28	1	3	-	-	-	-	10 ^{1/}	18	26	49
National Business Development Organization	4	9	2	5	-	-	2	4	-	-	8	18
Private Resource Programs	4	15	3	7	-	-	-	-	7	16	14	38
Contracted Support Services	28	59	8	21	1	2	1	2	4	7	42	91
Business Management Development	5	20	-	2	-	-	1	4	3	11	9	37
Experiment and Demonstration	8	20	-	-	-	-	1	3	-	2	9	25
Grants:												
State OMBE	-	-	-	-	-	-	-	-	15 ^{2/}	30	15	30
Total	<u>172</u>	<u>413</u>	<u>45</u>	<u>106</u>	<u>4</u>	<u>7</u>	<u>12</u>	<u>26</u>	<u>42</u>	<u>92</u>	<u>275</u>	<u>644</u>

^{1/} Organizations generally have mixed staffs but OMBE classifies according to predominate ethnic group.

^{2/} State OMBEs are classified white by OMBE.



As noted in the table, the grants to State OMBEs are not for organizations, as such, but to support either new or existing offices or units within a state government responsible for furthering minority business enterprise in that state. The one state OMBE visited by the Investigative Staff was headed by a minority and the make up of the staff was predominantly from the minority groups.

Under the present OMBE concept, not only are the funded organizations staffed primarily by minorities, they also follow ethnic lines in assisting minority clients, that is Black organizations predominately assist Blacks, and Spanish American organizations assist Spanish speaking clients. Although many organization officials believed strongly in the efficacy of this approach, a few others voiced equally as strong views opposing this practice. They stated that to the extent possible their organizations assisted clients from all racial groups including individuals from the White majority group, however, they generally assisted individuals primarily from their own ethnic group.

An executive director of a funded organization, a member of a minority group, advised the Investigative Staff of his immediate concern over the polarization and racial segregation of OMBE organizations. He characterized his concern by depicting the present situation as "Blacks putting themselves in a 'Black box,' 'Browns' in a 'Brown box,' and 'Yellows' in a 'Yellow box.'" In the opinion of the executive director, this mentality was contrary to the intent of the OMBE program which he considers to be a business program but which--in reality and as promulgated--is a social-economic program.

As a further example of the racial aspects related to OMBE-funded organizations, the Investigative Staff was provided with a copy of an August 21, 1974, letter between this organization and a senior OMBE field officer concerning a



new employee--Caucasian—who potentially could not be hired by this organization because he was not a member of the ethnic minority. In the letter, the executive director stated:

"OMBE policy as you have implied it to me seems inconceivable and blatantly discriminatory and contrary to all of the principles of the OMBE program and basic principles of our country.

"It is my personal objective as the Executive Director of xxx to provide the services for which we have been contracted to the small business community with priority for those who are socially and economically deprived. A person's ethnic background or religion has little bearing on his capability in providing these services to the minority business community, as long as that individual has purity of purpose and necessary technical skills to professionally render his service.

"Racial discrimination is something we both have fought all our lives and I cannot be that much of a hypocrite to condone such hiring practices."

While the matter discussed above may be an extreme example of a general condition and not typical of OMBE activities, the Investigative Staff noted in the visits to funded organizations that most of the employees were members of the ethnic minority.

In the opinion of the Investigative Staff, it is a paradox that OMBE, charged with furthering the economic well being of minorities who have been deprived for so long because of racial segregation and other factors, should follow essentially the same practices--polarization and racial segregation--in attempting to improve economic conditions for the minorities. In a word, the OMBE program should promote integration and not separatism.



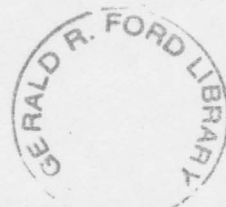
IV. OMBE REORGANIZATION AND DECENTRALIZATION

Through September 1973, OMBE operated most of its activities from a central administrative office in Washington, D.C. In October 1973, acting on the specific recommendations of a Department of Commerce Management Task Force study, OMBE carried out a major organizational change when it reorganized and decentralized its headquarters operation with the establishment and implementation of 6 new regional offices and 12 new field offices.

The Management Task Force study of July 1973 noted that a reorganization "will not provide an instant solution to all of OMBE's problems." However, the new organization was expected to produce improvements in program execution as listed below:

- Improve the service to the OMBE client (minority businessman) by increasing the supportive and evaluative interaction between the OMBE staff and the contractor (funded organization).
- Improve tailoring of the OMBE program to regional needs, and improve the coordination of various types of contractors in a region, through increased on-site observation.
- Improve utilization of management and technical assistance, and the generation of minority procurement contracts and franchising opportunities, by focusing specialized expertise on local implementation of commitments by national organizations.
- Improve the quality of data in the OMBE Performance Management System through increased on-site verification of contractors' reports.

Thus, the primary justification for the decentralization action was to place OMBE representatives in the field throughout the country so that they would have a better understanding of local business problems and be in a position to be more responsive to the immediate needs of the minority businessman. Moreover, as important, the regional and field office staffs would be able to work more



closely on a continuous basis with the OMBE funded organizations.

Included in the Task Force study were recommendations that the regional and field offices be staffed with specialists in areas such as finance, business education, construction contracting, and Government and private procurement. These specialists assisted by some generalists and considered by OMBE to be "front-line troops," would be responsible for carrying out established program goals.

A. Regional Offices

All 6 of the regional offices presently have about the same type of positions including a Regional Director and Deputy. Most of the personnel assigned to these offices and classified by OMBE as specialists, previously worked in its central administrative office in Washington, D.C., and as a part of the reorganization and decentralization, were reassigned to the newly created positions. As recommended in the Task Force study, OMBE established specialists positions in each of the regional offices to include:

- Business Training and Education
- Finance and Business Development
- Government Procurement
- Private Procurement
- Construction and Contractor Assistance
- Project Officer

To evaluate the qualifications of OMBE personnel assigned to the specialist positions, the Investigative Staff visited 4 of the 6 regional offices and interviewed a representative number of individuals; in 2 of the offices visited, all of the professional personnel were interviewed. The Investigative Staff



concluded that individuals assigned to specialist positions generally did not possess the educational and/or business background considered necessary to carry out the duties and responsibilities set out by OMBE for these positions. Furthermore, these individuals had received minimal on-the-job training and as a result were unable to effectively perform their duties as specialists.

The Management Task Force noted that in performing its study that frequent complaints were made by OMBE staff professionals that they needed training. Frequently mentioned were (1) the need for training in analysis and report writing, (2) the need for general business education and training, and (3) a program to orient employees to all elements of the OMBE program by providing exposure beyond narrow program specialities.

During the 1973 and 1974 hearings on the OMBE reorganization before the House Subcommittee on Minority Small Business Enterprise and Franchising, Permanent Select Committee on Small Business, the Director of OMBE indicated that the OMBE staffs in the various regional offices were technically skilled and he felt that there would be little or no need for additional training of assigned personnel.

At one point in his testimony, the OMBE Director said:

"We have now put specialists in the field of our OMBE staff which we did not have before in construction activities which provides greater opportunities for minority businessmen today.

"We're addressing long-held problems about finances and equity capital availability by putting specialists out in the field where we did not have them before."

He also testified, "For those vacancies which do exist in the regional offices, we are pleased to find an abundance of applicants who are enthusiastic about the program and highly trained with business backgrounds."



Apparently OMBE was unsuccessful for the most part in hiring the better qualified individuals. On the overall question of the training received by the specialists, during a Regional Directors meeting in May 1974, the minutes of the meeting contained a reference to a discussion on the role and function of the specialist. One of the Regional Directors questioned "whether after 12 to 18 months the specialist will have a 100 percent job and that they should have assigned to them some contractual duties." According to the minutes, the Director of OMBE commented that his:

"National Programs Division needs to have time to indicate clear functional roles for the Specialists as to exactly what they are to be doing...Most of the Specialists have had no definite training. Step (1) should be to design the functions and roles; Step (2) immediate training; and Step (3) increase executives' education and training."

In addition, he said that OMBE should take a good look as to the designation of a specialist.

The following specific examples of staffing deficiencies in the background and experience of various specialists, based upon the requirements of the position held, were noted by the Investigative Staff during its interviews of regional personnel:

Business Training and Education Specialist

- Develops and implements education and training programs (finance, accounting, marketing, etc.) for Business Development Organization (BDO) staff members.
- Assists BDO Directors in establishing client education programs.
- Works with universities, Business Resource Centers, and local school systems to develop institutionalized business education and management training programs in the community.

Example - 1

A staff member of one regional office, formerly designated as a Project



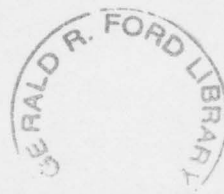
Officer, was recently assigned to the newly created position of Business Training and Education Specialist in this regional office. He advised the Investigative Staff that (1) his educational background and work experience was in the food management field; (2) he had no prior experience or training in education, as such; (3) OMBE had no job description for his new assignment and he was attempting to write one without the benefit of any OMBE guidance or information; and (4) he did not really understand the requirements of the position. He has a GS-14 rating.

Example - 2

An employee in another regional office and with an advanced degree in education and 16 years experience in education, including 18 months with the Economic Development Administration and 18 months with a community development organization in Chicago, joined OMBE in 1971 and worked in the Office of Technical Assistance. After OMBE decentralized in October 1973, he was assigned to the regional office as a Senior Field Officer, the position he now holds. Based on his background, the Investigative Staff believes this individual qualifies for the position of Business Training and Education Specialist. On the other hand, the Education Specialist in this office, recently assigned to this position, freely admitted he is not qualified to hold the position and serves in this capacity most reluctantly. This employee's education and experience background is predominately business oriented. For instance, he holds a degree in business administration, and has worked as an auditor and accountant. Both of these employees have a GS-14 rating.

Example - 3

A regional employee in another office assigned to the position of Education and Training, and holding an advanced degree in urban economics, complained that about 5 percent of his time was spent in his specialty while 95 percent was



spent as a Field Officer administering contracts. This employee said he had received no training in contract administration and was learning this specialty on-the-job. He frankly admitted that "we are kidding ourselves to call the Field Officer a specialist for they do not possess the training to qualify as portfolio analyst." He further added that regional personnel perform in-house reviews of contracts renewals, beginning at least 6 months in advance of the contract termination date simply because they are not qualified in this area and consequently require more time and effort to do the job. This employee did not have any previous business experience. He has a GS-13 rating.

Example - 4

An employee of a regional office in the position of Minority Business Opportunity Specialist has a B.A. degree in Sociology and a M.A. degree in Education. Prior to his OMBE employment, he worked for HANPOWER, Department of Labor, and for a youth program at Waco, Texas. He stated most of his experience was in social/education training. His primary responsibility is administering contracts and the handling of the routine paper flow from organizations. This person was critical of OMBE for not placing its personnel in jobs for which they are most qualified stating education and training is not given much priority in OMBE. He has a GS-12 rating.

Private Procurement Specialist

- Works with Regional Purchasing Councils to obtain support for OMBE programs among private firms.
- Aids private firms in preparing individual minority procurement programs.
- Develops procurement opportunities with private firms and notifies BDOs of such opportunities.
- Advised OMBE contractors of means to improve responses to procurement opportunities.



Example

A Private Procurement Specialist assigned to one regional office, who claimed an undergraduate degree in business administration, said his prior work experience consisted of 2 years with the Health and Welfare Council of a city government and 3 years as a clerk in the accounting office for the Department of Commerce. His primary responsibility is to locate and furnish certain expertise (management and technical assistance) for OMBE funded organizations which they themselves cannot locate. He also works with the Regional Purchasing Council and contacts corporate executives to get their cooperation to bring minorities into the economic mainstream. However, the employee stated that he devoted about 35 percent of his time talking to and counseling individuals who visited the regional office and inquired about going into business. In addition, this specialist said he has responsibility for administering 5 contracts (funded organizations) that take up a large part of his time. It appeared to the Investigative Staff that this OMBE employee devoted more time to other duties than those required in his specialty.

Project Officer

- Is responsible for support and evaluation of most OMBE funded organizations in a geographic area.
- Reviews all reports and recommends on requests for advance payment for those contractors.
- Makes frequent on-site visits to contractors.
- Evaluates the quality and quantity of assistance that contractors provide their clients, and assists the contractor in improving those services.
- Discusses quality of BDO assistance with clients, banks, SBA, and corporate purchasing agents and feeds back ideas for improvement to the BDO.
- Works with the OMBE contractor to develop, refine, and operate a



management-by-objectives system for contractor operations.

- Gives advice and guidance to contractors on program matters and technical requirements of his contract.

Example - 1

An employee in one regional office with an undergraduate degree in sociology holds the position of Project Officer and has prime responsibility for the administration of 3 contracts and 1 grant to a State OMBE. This employee's only experience was 7 months of teaching in the Neighborhood Youth Program. This employee has a GS-11 rating.

Example - 2

Another regional office employee in the position of Project Specialist came to OMBE in January 1972 as a Program Assistant in the Community Programs Division. He claims to have attended college 2 years and his only work experience included bookkeeping and accounting for a consulting firm, and previously he had an equity in a dress shop. His primary responsibility is to deal with organizations, banks, and clients, and spends the bulk of his time "spreading the word" about the Rural Economic Development Act (Farmers Home Loan) as a means to foster loans for the socially and economically disadvantaged. He claims 50 percent of his time is spent in an official travel status. He has a GS-9 rating.

Construction Contractor Assistance Specialist

- Monitors and evaluates the performance of Construction Contractor Assistance Centers (CCACs) through frequent on-site visits, review of routine reports, interviews with clients, contractors, and construction firms and managers.
- Recommends on requests for advance payment for CCACs.
- Assists CCACs and some EDOs in the preparing of manuals or procedures for construction contractors, covering local statutes, bonding requirements, contract provisions, etc.



- Develops alternative sources of bonding for minority construction contractors.
- Identifies and publicizes contract and sub-contract opportunities for minority construction firms.

Example

An employee assigned to a regional office as a Technical Support Officer has the prime responsibility to render technical assistance to Construction Contractors Assistance Centers but has had no prior training or experience in the construction business. This individual said he had an undergraduate degree in economics, and prior to his OMBE employment he worked as a clerk-typist and voucher clerk for HEW, and in the audit section of HEW and GSA. He came to OMBE in February 1972 and was assigned to the Field Operations Division where he reviewed proposals and monitored contracts. When OMBE decentralized he was assigned to his present position. In addition to his other duties, this person is administratively responsible for 3 contracts. He has a GS-14 rating.

Government Procurement Specialist

- Serves as Executive Secretary of Minority Business Opportunity Committees (MBOCs).
- Develops procurement opportunities, such as SBA 8(a) opportunities, with local government offices, and notifies BDOs of such opportunities.
- Advises OMBE contractors of means to improve responses to procurement opportunities.

Example

An employee with an undergraduate degree in economics and with 18 years of prior Government experience joined OMBE in 1971 as a Special Assistant to the Director. After a reassignment to another program area, this employee was transferred to a regional office in October 1973 and assigned to the position of Government Procurement Specialist. His Government experience prior to



joining OMBE included employment as a machinist, letter carrier, and economist. This employee has not received any special training in Government Procurement. He stated his primary duties include working with Minority Business Opportunity Committees. He has a GS-13 rating.

1. Comments by Regional Personnel

A regional director when discussing the qualifications of his people quite frankly admitted his staff was far from professional and said, "You can't send a social worker to talk business with a banker." He bemoaned the fact that the regional staff was not hired by the regional director for the specific purpose of filling each slot with a qualified person but said his staff came to the regional office based on longevity--not talent. Another regional director said that he favored hiring new people at lower salaries and allowing them to grow with the system, but this was not possible since most of the personnel slots were already filled.

A field officer when discussing the regional specialist said the "so called specialist" does not have the qualifications to go with his job description since most do not have any business experience. He said he was embarrassed when regional people offer to assist organizations since the technicians in the organizations are generally more qualified than the regional specialists.

A regional director stated that the organizations have better qualified people than people on his staff who are supposed to be monitoring the organizations.

The Management Task Force studying ways to improve OMBE noted that the division directors prior to the reorganization had little or no voice in the selection of their staffs. Also, in the original agency staffing and in recent headquarter's reorganization, staffing decisions were made by the OMBE Director



and his staff and many assignments were made to achieve racial balance, without regard to the abilities or preferences of the individuals.

Even though this observation was made by the task force, OMBE apparently acted without consulting the prospective regional directors in selecting the staffing for the 6 regional offices. It should be noted that the decentralization action was approved and executed by OMBE without the benefit of a trial run or establishment of a pilot office.

2. Duties Performed by Regional Personnel

During its interviews of regional personnel, the Investigative Staff observed that most of the personnel classified as specialists were heavily involved in the annual OMBE effort related to the preliminary work required to renew a contract, a function for which the personnel had received little or no formal training. The nature of work performed on the contracts, on a continuous basis, involved the more routine tasks of processing the paper flow from the contractors (funded organizations) to OMBE, such as advance payments, requests for travel, review of contemplated expenditures in excess of \$200.00, and review of Client Data Reports which show the performance of the organizations in various program areas. Many of the personnel interviewed acknowledged that they merely served as a conduit between the organizations and OMBE headquarters. This same thought was expressed by one of the executive directors of a funded organization interviewed by the Investigative Staff.

A regional employee told the Investigative Staff that he merely "pushed paper" with the emphasis placed on paper control of the organizations by "intimidation" and not ability or experience. He said that this type of "management" hindered rather than enhanced the organization's ability to get things done.



The Investigative Staff concluded from its interviews with regional personnel that OMBE was overemphasizing administrative matters to the detriment of overall program objectives. In this regard, the Director of OMBE recognized this weakness in his operations and so stated at a regional directors' meeting held during July 1974. The minutes of the meeting included the following remarks by him:

"Much of the day-to-day emphasis of our program concern appears to be in administrative matters rather than on truly programmatic concerns. Obviously administrative matters must be handled, and handled well, but we must assure that administrative efforts do not dominate our perspective concerning the real reason and anticipated results of the OMBE program; that is, program performance or services to our clients, the minority business people."

The Investigative Staff in performing its review failed to note any definitive program indicating that OMBE was taking strong measures to reduce the amount of effort devoted to administrative matters; in fact, the opposite appeared to be true in that subsequent actions resulted in more emphasis on administration and less on program objectives.

3. Observations and Comments of Organization
Officials Regarding OMBE Regional Personnel

The Investigative Staff interviewed a number of officials of OMBE funded organizations to ascertain (1) the type of assistance provided the organizations by OMBE regional personnel, (2) their assessment of the assistance provided, and (3) their appraisal of OMBE regional personnel.

The officials said that their organizations received a minimum amount of attention from OMBE regional personnel and the assistance received generally was nontechnical, primarily related to contract procedures and OMBE reporting requirements. Few of the officials could recall receiving technical assistance



on business related issues or, for that matter, requesting any such assistance from OMBE. Many of the officials professed to have staffs possessing the required technical expertise to service the needs of their clients, and as a result, did not need OMBE's help.

Based on the contacts with OMBE regional personnel usually related to administrative compliance with contract procedures, the officials opined that they were not overly impressed with the capabilities of regional personnel and because of recognized limitations in their educational and business backgrounds they are not of much value to the business oriented organizations. The Investigative Staff noted that most of the officials interviewed appeared to be unfamiliar with the OMBE regional staff structure and were unaware that the regional business specialist types were available for the specific purpose of assisting the OMBE funded organizations. A general criticism leveled at OMBE by organization officials was the high turnover rate of field officers assigned to their organization; some organizations have had as many as 5 field officers in the past 2 years. One organization said it was dealing with the third field officer in 3 months.

Other specific areas criticized by the organizations included:

- lack of communication or feedback on reports submitted to OMBE,
- overinvolvement by OMBE in minor detail matters related to contract administration,
- infrequent contacts with OMBE regional personnel.

B. Field Offices

In addition to the 6 regional offices, OMBE also has 12 field offices (satellite offices) located in major cities throughout the country that are comprised of a small number of OMBE personnel to provide day-to-day assistance to organizations and to work with other Federal agencies. These field offices

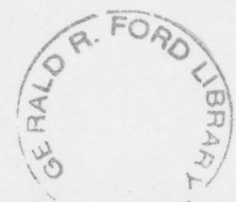


are generally staffed by 1 field officer and 1 secretary. The exceptions being the Los Angeles field office which has 3 field officers and the Albuquerque field office which has 2 field officers. Prior to the decentralization, the field officer was called a field representative, and he was responsible for publicizing the OMBE program. He assisted in identifying private and government procurement opportunities, and served as executive secretary of the Minority Business Opportunity Committee. He also promoted OMBE programs with SBA, local banks, and community organizations. The work performed was in the nature of public relations.

Since decentralization of OMBE, the role of the field officer has diminished and his original functions have been divided among the regional office staff. The primary role of a field officer is now that of a contract administrator.

A field officer advised the Investigative Staff that most of his time is spent on processing paper, that is reviewing and checking the flow of forms, reports, correspondence, etc., related to contracts. Also, extensive effort is devoted to the refunding and renewing of contracts. Under current procedures, each contract renewal requires that the paper work commence 6 months in advance of the contract termination date. Therefore, this field officer said he has no program involvement and has little or no contact with the organizations or clients. Other field officers interviewed by the Investigative Staff indicated that they were also heavily involved in contract administration.

The OMBE Director in March 1974, while testifying before the House Subcommittee on Minority Small Business Enterprise and Franchising said, in reference to satellite offices (field offices) planned but not then operational



at Raleigh, Birmingham, Detroit, Pittsburgh, and Denver, that the problem encountered in not opening these offices was due primarily to the training of qualified personnel for the administration of contract activity. He also said that OMBE was assessing the situation in those cities and he felt very strongly that Detroit and Pittsburgh would have field offices just as soon as personnel were prepared to staff those cities. The Investigative Staff noted during its review that none of the above planned field offices have been opened by OMBE.

At a Regional Directors Meeting in May 1974, a discussion took place on the need for field officers. The OMBE Director said that a strong case had been made by regional directors for reducing the number of field officers. A point was also raised by those present at the meeting to consider the replacement of existing field offices with OMBE telephone numbers for referral.

A July 1974 Department of Commerce audit report on the decentralization of OMBE concluded that there was a high ratio of clerical staff and other overhead expenses associated with field offices. The report also pointed out:

"In some instances, these offices may be unnecessary and the type the OMBE Task Force proposed avoiding. Additionally, we found poor distribution of projects and personnel between offices to accomplish work load requirements. As a result, there may be increased travel costs and ineffective use of the professional staff.

"We recommended that the Director, OMBE, consider evaluating and, as appropriate, realigning the work load and staffing of the Regional Offices and eliminating unnecessary Field Offices for the purpose of attaining economies and improving operations."

The Director of OMBE apparently agreed to consider possible actions to implement the stated recommendations. The Investigative Staff noted, however, that no firm decision has been reached by OMBE to either reduce the number of field officers or to discontinue the existing field offices.



The Investigative Staff found that 10 of the 12 field offices have one full-time secretary for each field officer. According to OMBE information, the ratio for the regional offices is about 1 secretary for every 2 professionals. Effective utilization of the field office secretaries is of concern to OMBE because of the low workload level and the fact that the field officer is usually away from the office about 50 percent of the time. A regional director said he had strongly recommended that all field offices in his region be closed and that the personnel be reassigned to the regional office. He, in addition to the reasons noted above, said that many of the organizations to be visited were located in cities away from the field office sites and, therefore, could be covered as well from the regional office.

The Investigative Staff feels that in view of the reduced role of field officers under present OMBE policy, their lack of experience in contract administration, and under-utilization of the secretaries, that substantial economies in costs associated with a field office and improved operating efficiency could be achieved by OMBE, if the field offices were closed and related personnel transferred to the cognizant regional offices.

C. OMBE Staffing

OMBE staffing, since the decentralization action of October 1973, appears disproportionate, almost a 1:1 ratio, as to the number of people in headquarters compared to the number in the regional offices. In addition, the ratio of secretary/clerical personnel to the professional staff is 1:1.6. The Investigative Staff believes that consideration should be given by OMBE to correcting this imbalance by shifting some of the headquarters personnel to the regions and by reducing the overall number of secretary/clerical personnel because (a) a large portion of the OMBE workload has or is being shifted to



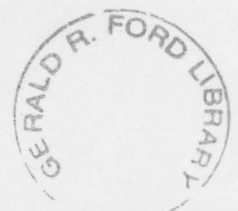
the regional offices, (b) the responsibility for monitoring (contract administration) of over 300 OMBE funded organizations has been transferred from headquarters to the regions, and (c) the high number of secretary/clerical employees in relation to professional employees is questionable.

OMBE furnished information, as of September 1974, indicating that of the 257 permanent OMBE employees, 134 were working in headquarters and 123 were assigned to the regional offices. The details relating to this staffing show that of the 134 assigned to headquarters activities, 78 were professionals and 56 were secretary/clerical; and, of the 123 assigned to the regions, 81 were professionals and 42 were secretary/clerical. Thus, for every 1.6 professionals, OMBE has 1 secretary/clerical employee, an unusually high ratio in the opinion of the Investigative Staff.

The Department of Commerce Audit Office in its report of July 1974, suggested the transfer of some headquarters personnel to the regions. This was suggested due to the assumption of contract renewal authority by the regions and personnel who previously performed this function in headquarters would then be available to administer contract actions in the regions.

All of the regional directors advised the Investigative Staff that they needed additional staffing to handle the heavy workload in contract administration. One of the regional directors believed that the personnel could be made available from the headquarters staff as he noted that a disproportionate number of people were assigned to headquarters activities.

Information on OMBE personnel assigned to headquarters and regional offices showing the number of professionals and secretary/clerical personnel and their general schedule classification appears on the following page:



LISTING OF OMBE PERSONNEL ASSIGNED TO HEADQUARTERS AND REGIONAL OFFICES SHOWING NUMBER
OF PROFESSIONALS AND SECRETARIAL/CLERICAL PERSONNEL AND GENERAL SCHEDULE CLASSIFICATION
AS OF SEPTEMBER 23, 1974

Office	Professionals	Secretary/Clerical	Total	General Schedule												GS-6 and Under
				18	17	16	15	14	13	12	11	10	9	8	7	
Headquarters	78	56	134	1	2	3	20	10	16	12	6	-	10	6	16	32
Regions:																
Atlanta	13	4	17	-	-	-	1	5	1	4	-	-	1	-	2	3
Chicago	8	4	12	-	-	-	1	3	2	1	-	-	1	-	1	3
Dallas	10	6	16	-	-	-	1	4	2	2	-	-	1	-	1	5
New York	12	6	18	-	-	-	1	4	3	4	-	-	-	-	1	5
San Francisco	10	4	14	-	-	-	1	1	3	1	3	1	-	-	1	3
Washington, D.C.	13	6	19	-	-	-	1	3	6	2	1	1	-	-	1	4
Field Offices:																
Albuquerque	2	1	3	-	-	-	-	1	-	-	-	-	-	-	1	1
Boston	1	1	2	-	-	-	-	1	-	-	-	-	-	-	-	1
Cleveland	1	1	2	-	-	-	-	-	-	1	-	-	-	-	-	1
Kansas City	1	1	2	-	-	-	-	1	-	-	-	-	-	-	-	1
Los Angeles	3	1	4	-	-	-	-	1	1	-	1	-	-	-	-	1
Memphis	1	1	2	-	-	-	-	-	1	-	-	-	-	-	-	1
Miami	1	1	2	-	-	-	-	-	1	-	-	-	-	-	-	1
New Orleans	1	1	2	-	-	-	-	-	-	1	-	-	-	-	-	1
Philadelphia	1	1	2	-	-	-	-	1	-	-	-	-	-	-	-	1
Phoenix	1	1	2	-	-	-	-	1	-	-	-	-	-	-	-	1
San Antonio	1	1	2	-	-	-	-	-	1	-	-	-	-	-	-	1
St. Louis	1	1	2	-	-	-	-	-	1	-	-	-	-	-	-	1
Total	<u>159</u>	<u>98</u>	<u>257</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>26</u>	<u>36</u>	<u>38</u>	<u>28</u>	<u>11</u>	<u>2</u>	<u>13</u>	<u>6</u>	<u>24</u>	<u>67</u>

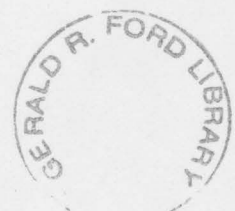


The average general schedule classification (GS) grade as reported by OMBE for its personnel for the FYs 1970-1974, is as follows:

<u>Fiscal Year</u>	<u>Average GS Grade</u>
1970	11.4
1971	11.1
1972	10.8
1973	10.8
1974	10.6

According to statistics compiled by the Civil Service Commission, the average GS grade for full-time permanent employees of executive agencies as of September 1974, was 8.1. Although there has been a slight decline in OMBE's average grade structure, it is still substantially higher than the average of executive agencies.

OMBE staffing is made-up predominately of people from various ethnic backgrounds. Of the total of 261 permanent and temporary employees on hand as of January 8, 1975, members of minority ethnic groups comprise 200 or 77 percent of the total. Blacks, the largest minority group, number 155 or 59 percent of the total. A schedule of the staffing of employees as categorized by OMBE appears on the following page.



OMBE STAFFING AS OF JANUARY 8, 1975

<u>Headquarters</u>	<u>Black^o</u>			<u>Spanish Speaking</u>			<u>Oriental/Indian</u>			<u>Nonminority</u>			<u>Grand Total</u>
	Male	Fe- male	Total	Male	Fe- male	Total	Male	Fe- male	Total	Male	Fe- male	Total	
Office of Director	3	6	9	3	3	6	1	0	1	1	3	4	20
President's	1	2	3	0	0	0	0	0	0	1	1	2	5
Advisory Council													
Chief Counsel	1	4	5	0	0	0	0	0	0	2	1	3	8
Public & Congress- sional Affairs	1	2	3	1	0	1	0	0	0	3	1	4	8
Program Research & Development	0	2	2	2	0	2	0	1	1	1	1	2	7
Field Operations & Administration	14	25	39	2	0	2	0	0	0	8	6	14	55
National Programs	<u>10</u>	<u>10</u>	<u>20</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>5</u>	<u>15</u>	<u>38</u>
Subtotal	30	51	81	9	5	14	1	1	2	26	18	44	141
Percent			(58)			(10)			(1)			(31)	(100)
<u>Regional Offices</u>													
Chicago	7	4	11	3	2	5	1	0	1	1	1	2	19
Atlanta	7	9	16	1	1	2	0	0	0	2	0	2	20
Dallas	5	5	10	5	3	8	0	0	0	0	1	1	19
New York	6	6	12	3	3	6	0	0	0	1	0	1	19
San Francisco	3	6	9	3	2	5	0	0	0	4	3	7	21
Washington, D. C.	<u>8</u>	<u>8</u>	<u>16</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>1</u>	<u>4</u>	<u>22</u>
Subtotal	36	38	74	17	11	28	1	0	1	11	6	17	120
Percent			(62)			(23)			(1)			(14)	(100)
Total	<u>66</u>	<u>89</u>	<u>155</u>	<u>26</u>	<u>16</u>	<u>42</u>	<u>2</u>	<u>1</u>	<u>3</u>	<u>37</u>	<u>24</u>	<u>61</u>	<u>261</u>
Percent of Total			59			16			2			23	100



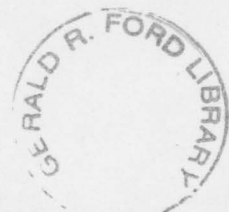
V. PROGRAM RESULTS - FUNDED ORGANIZATIONS

In various OMBE reports, documents, and in hearings before Congressional Committees, OMBE has described its program as an investment program and stated that it is not a handout or a welfare program. OMBE's goal has been and continues to be, to bring the minority businessman into the mainstream of the economic system of this country. According to official statements of OMBE, the program's success must ultimately be measured as it is in the majority sector, that is return-on-investment in terms of sales, profits, and jobs created. OMBE has stated that the final test of the effectiveness of the program must be, however, the extent to which minority businesses flourish under its auspices and ultimately the rate at which they graduate out of the program.

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.

A. New Businesses Established, Buy Outs, and Expansions

OMBE records are inconclusive concerning the specific number of new minority businesses formed, buy outs, and expansions of existing businesses. The final adjusted FY 1974 Performance Management Report indicated that for FY 1974, only 262 new business starts and buy outs were reported by OMBE, or 12 percent of the 2,200 new business starts and buy outs planned. This poor

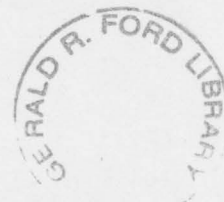


performance record represents almost a 50 percent decrease, percentage-wise, from FY 1973 performance when OMBE reported 420 new business starts and buy outs, or 23 percent of the planned performance of 1,800 new business starts and buy outs. The status of expansions of existing businesses as an indicator of performance measurement was dropped from the FY 1974 report because according to OMBE it has not developed a definitive criteria that can be used to determine business expansions.

OMBE officials were unable to adequately explain the poor performance record for FY 1973 and FY 1974. They believe, however, that OMBE's reporting system has serious deficiencies with regard to tracking the actual number of new starts and buy outs attributable to OMBE contractors and grantees. A great deal of OMBE effort has been expended, unsuccessfully, to resolve disputed printout figures showing the actual performance of its funded organizations.

One Regional Director in a memorandum to the Investigative Staff, stated that his office has always been on the horns of a dilemma concerning which set of figures to use -- those appearing in a machine printout based on reports received from the organizations, or those compiled by his staff based on follow-up work with the organizations and client sampling to verify if the organizations had rendered the alleged services reported, including the number of new starts and buy outs.

The Investigative Staff noted that the lack of refined data is a general condition within OMBE as different sets of figures have been used at various times to show the program accomplishments for the same period of time. For example, the final FY 1974 Performance Management Report showing OMBE performance for the current and previous year indicated different sets of figures



(increases and decreases) for FY 1973, for comparison purposes, than appeared in the original FY 1973 Report.

Furthermore, the Director fo OMBE used still different figures on FY 1973 accomplishments--grossly inflated, when testifying before the House Appropriations Committee on April 3, 1974, in justifying the agency's FY 1975 budget request. At that time, the OMBE Director spoke in glowing terms that OMBE had met the majority of its goals established through the Performance Management System (PMS), and had exceeded them in several instances. In particular, he stated that OMBE data indicated that, in FY 1973, 1,175 new businesses were started, 528 buy outs were effected, and 3,771 expansions were completed. This contrasts with the Performance Management Reports of August 1974, showing only 262 new businesses and 159 buy outs. The information on expansions was not even available.

The table on the following page illustrates the inflated information used in the FY 1975 hearings and the conflicting data appearing in various OMBE reports; and, thus highlights the serious deficiency in OMBE's Performance Management Report system to yield accurate, complete, and meaningful information on program accomplishments.



INCONSISTENCIES IN STATISTICS PRESENTED TO THE CONGRESS
BY OMBE, PURPORTING TO REFLECT THEIR
FY 1973 PROGRAM ACCOMPLISHMENTS

	<u>FY 1973 Goals (Plan)</u>	<u>FY 1973 Performance Management Report</u>	<u>Reported to the Congress in FY 1975 Budget Hearings (April 1974)</u>	<u>FY 1973 Performance Management Report (August 1974)</u>
Clients Assisted	20,000	20,600	21,606	22,873
Management Services and Technical Assistance	16,000	8,075	12,362	13,164
Loans Approved (number)	4,000	3,225	3,648	3,874
Loans Approved (\$s)	\$160.0M	\$128.0M	\$145.4M	\$158.3M
Procurement Contracts (number)	1,250	1,400	1,474	1,134
Procurement Contracts (\$s)	\$141.0M	\$126.6M	\$185.4M	\$ 70.4M
New Businesses	1,000	810	1,175	262
Buy Outs	800	535	528	159
Expansions	2,700	2,500	3,771	Not Available



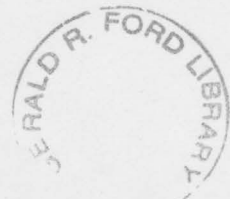
B. OMBE Program Emphasis

Under its original policy OMBE has stated that it stressed business development, emphasizing loan packaging and new business starts. Emphasis was put on very simple survival management and technical assistance, like book-keeping and legal services and other type of assistance for minority businessmen. The new policy adopted in March 1974 was directed toward concentrating business development assistance--more sophisticated management and technical help--on existing businesses throughout the country of the larger and more profitable type.

Pursuant to the original policy, OMBE funded organizations have placed special emphasis on assisting clients both current and prospective business enterprises in preparing loan packages and in securing procurement awards. To a such smaller extent they have provided clients with Management Services and Technical Assistance (MSTA). However, it is questionable that the funded organizations have the capability to provide this type of service.

While OMBE is of the opinion that it is more difficult to quantify MSTTA than loan packaging services, they have stated that MSTTA is more critical to the overall viability of minority business development. MSTTA has been defined to include all assistance provided, utilizing the management or technical expertise at the disposal of an OMBE funded organization to solve a significant problem encountered by a businessman. Assistance in the areas of finance and procurement, where a contract or loan of a fixed dollar amount is sought, is specifically excluded from the MSTTA category.

As mentioned in the FY 1974 OMBE Performance Management Report, the FY 1974 experience in providing MSTTA does not support the recent OMBE - sponsored statements that programmatic emphasis has been shifted away from



creating new enterprises to increasing the ability of existing firms to survive and prosper. OMBE has stated that currently, in view of fluctuations in the economy, compounded by the effects of the energy crisis and widespread high cost of credit, that minority businesses require more and higher quality management and technical assistance to stay in business or to avoid losing gains that have been made in the last few years.

The Investigative Staff noted that OMBE funded organizations continue to emphasize loan packaging in FY 1974 as they did in FY 1973. Moreover, this same emphasis is continuing in FY 1975. This concentration of effort on loan packaging resulted in a wide disparity between plan and actual accomplishments with regard to MSTA. The preliminary figures compiled by OMBE indicates that only about 50 percent of the goals established for the funded organizations for MSTA were achieved in both FY 1973 and FY 1974.

To the extent that MSTA was provided, the Investigative Staff found that the assistance rendered was predominately on the front-end, that is, pre-loan or pre-procurement (contract award). Minimal assistance occurred after a loan was approved or a contract awarded. This lack of follow through assistance, considered critical for long-range success of a minority businessman, was not being provided because the funded organizations were (1) heavily committed to maintaining a high loan volume, (2) available staffing lacked in-depth MSTA expertise, and (3) sufficient time or staffing was not available to provide one-on-one assistance to a needy businessman.

In evaluating the shortcomings of the OMBE organization in serving the needs of the minority entrepreneur, various study groups and organizations have commented on the tremendous need for expert, continuing management and technical assistance from OMBE funded organizations if disadvantaged small

