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businesses are to succeed. The Investigative Staff found, however, that although there is general acknowledgement within and outside of OMBE of the importance of MSTA, no definitive directions or guidance has been issued by OMBE to fully implement this phase of their minority program. Only recently, in the second half of FY 1974, has OMBE established and partially staffed the position of Business Training and Education. As a minimum, OMBE should require its funded organizations to hire the expertise required, minimize the emphasis on other programmatic areas, and modify its objectives that stress "numbers of clients served, number of loan packages prepared, and number of procurement contracts awarded," and emphasize identification of the strongest potential businessmen, new and existing, and concentrate on assisting those individuals to succeed.

C. Status of OMBE Assisted Businesses

OMBE does not currently have a reliable reporting system to provide complete information on the achievements of funded organizations. As a result, OMBE is unable to show with reasonable accuracy how many minority businesses are successful or have failed, and more importantly, the reason(s) for the successes and failures. Also, OMBE is without a proven system to provide an identification of those business characteristics that tend to increase the probability of business failure. Thus, 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 its funded organizations provide assistance to minority businessmen to help them obtain loans. The majority of loans made to minority businessmen are SBA-guaranteed and made through private sources. Although SBA reports on the general status of minority



loans, the Investigative Staff was informed that SBA does not maintain centralized records on loan packages of minority enterprises because OMBE is responsible for the funding and the production of these organizations. In summary, neither SBA nor OMBE maintain separate records concerning the current condition of loans (including arrearages) made to minority businesses assisted by OMBE funded organizations.

1. OMBE Minority Business Failure Rate

In attempting to measure the success of the minority enterprise effort, various failure rates for small business and/or minority businesses have been reported by the Government and the private sector.

OMBE as recently as March 1974, in an appearance before the House Permanent Select Committee on Small Business, testified that the preliminary results of an OMBE in-house failure rate survey among 5,000 assisted business firms showed the failure rate to be 7.9 percent for OMBE assisted businesses. In his testimony, the Director of OMBE said that a detailed analysis of the survey results would be completed in June 1974. The detailed analysis was to include an examination of failures by geographic location, type of business, age of business, type of OMBE-sponsored assistance provided, etc. Based on the knowledge gained through this effort, the Director said OMBE would modify its program.

The Investigative Staff reviewed the survey results and discussed the merits of the survey with the responsible OMBE official. He advised that the survey was not finalized and the results were not published because of serious weaknesses associated with the method used for measuring the failure rate. Some of the problems associated with the survey included (1) a scientific sample was not obtained as the criteria used for selecting minority businessmen was not representative of businesses receiving OMBE assistance,



(2) many clients were reluctant to provide financial indicators such as sales and income information, and (3) the response rate to the survey questionnaire was low. When undertaken, the survey was looked at as an in-house evaluation to measure or attempt to measure the failure rate of OMBE assisted businesses and the information was not meant for public dissemination.

Although used in the above-mentioned hearings, the decision to not promulgate the failure figures resulting from the survey was made by the then Assistant Secretary for Administration in the Department of Commerce. The reasons cited for this decision were included in a memorandum to the Director of OMBE on May 22, 1974, which stated:

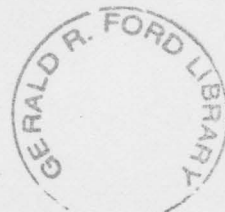
"This is a follow-up to our previous discussions concerning a valid method of measuring the failure rate of OMBE assisted businesses. The main problem I see with the recent study is that the method for measuring the failure rate was not discriminating enough for our needs. More specifically:

1. The concept of failure was not presented in definitive financial terms. (Sales, profits, etc.)
2. The failure rate found in this study, if measured in the same manner in the future, is likely to increase. Does this mean the OMBE program is less effective over time?
3. After exhausting many statistical references, a comparable failure rate statistic for all businesses was not ascertainable.

"Considering these problems, I do not believe that we should promulgate the figures.

"We still, however, need a method to determine the failure rate of OMBE assisted businesses or, alternatively, to measure the success rate."

This aborted effort to secure information on OMBE successes and failures represents part of a continuing unsuccessful effort by OMBE to arrive at this type of information. For instance, at about the same time that the



in-house study was in progress, OMBE negotiated on a sole source basis, a firm fixed price contract for \$45,000 on June 15, 1973, with an independent contractor, to perform a statistical study of the causes of minority business successes and failures. The draft report submitted to OMBE on June 25, 1974, like the in-house study, has not been finalized because OMBE in a memorandum to the Investigative Staff said it has serious reservations about the study, and therefore, a decision has been made to not disseminate it.

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

2. General Business and Minority Business Failure Rates

Information obtained by the Investigative Staff revealed that the opportunity for success of a small business and a minority business in particular, is at best difficult to achieve as the failure rate is very high, over 50 percent. A 1974 Dun and Bradstreet report on Business Failure Record for 1973 showed that the first 5 years of business operations are the hardest and that 57 percent of all concerns failing in 1973 were in operation 5 years or less. There was an even larger proportion of "neophytes" among the casualties in the retail industry which has the highest concentration of minorities; of 9,345 failures in 1973, 63.5 percent of the total were in the retail industry.

The report included failure trends by regions and states, an examination of which showed for the 4 states with the highest number of OMBE funded organizations failures were generally much higher in those states than in most of the other states, in the respective regions, as follows.



FAILURE TRENDS BY REGION'S AND STATES
(Rates Per 10,000 Listed Concerns)

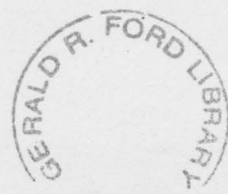
	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Middle Atlantic Region</u>	50.1	51.5	54.7	53.1
New York	60.6	63.8	70.1	66.7
<u>South Atlantic Region</u>	30.2	27.0	23.4	23.0
District of Columbia	46.2	39.0	54.9	61.1
<u>East North Central Region</u>	46.9	44.5	42.2	41.3
Illinois	37.1	48.2	38.8	43.7
<u>Pacific Region</u>	104.2	90.8	72.5	74.1
California	111.1	90.0	74.1	81.1

Moreover, using liabilities as an indicator of the size of the business and thus showing a relationship with the smaller size of minority businesses in general, the report indicated that 70.9 percent of the failures had liabilities of \$100,000 or under.

A study completed in 1974 by SBA indicated that survival rates of SBA-financed minority businesses was substantially the same as survival rates for the general business community. The findings on the extent of overall minority viability included:

- 53 percent of SBA minority borrowers studied, either discontinued or were expected to discontinue their new businesses within the first 2 years of operation, compared to 50 percent normally expected of all new businesses in general. Minority discontinuances within 4 years after a business started were substantially the same as in the entire business community.

Although the SBA analysis covered loans made between July 1, 1967 and June 30, 1970, a period prior to full operation of OMBE, the SBA study noted that there are no official estimates of business discontinuances.



The Department of Commerce made a comprehensive study of business survival in the 1950's, but the series of statistics on which the study was based was discontinued in 1962. The 53 percent failure rate cited in the SPA study probably reflects the high risks facing new businesses. As a substantiation of the risks encountered by minority businesses, the Investigative Staff noted in examining a 1973 National Minority Business Directory that a reference was included in the Directory indicating that of 3,000 firms listed in the previous years directory, a total of 1,600 or about 53 percent, had gone out of business. The 1973 Directory, listing a smaller number of firms, showed that of 2,200 firms, 800 were new.



VI. PERFORMANCE MANAGEMENT SYSTEM

The OMBE Performance Management System was developed as a management tool to measure "how well" the OMBE program was operating in terms of actual results compared to budgeted resources consumed. Its basic objectives are primarily to provide to OMBE and the Congress a statement of program objectives and results and to provide for an ongoing program management review technique. The performance measures used by OMBE relate primarily to: clients assisted, loan packages prepared and approved showing the number and dollar value, procurement contracts obtained, clients receiving Management Services and Technical Assistance (MSTA), new businesses established, buy outs secured, and businesses expanded.

OMBE has repeatedly indicated in testimony before the Congress, in external reports, and in internal documents that it either has or will have the capability of providing information on the progress of minority businesses including the reasons for success or failure of minority businesses through its Performance Management System.

The Investigative Staff found, however, that as of December 1974, the System established in June 1972 falls far short of its planned objectives and its principal output relates to statistical data (numbers) which are used by OMBE to quantify or measure total agency performance against projected agency goals. These "numbers" do not reflect accomplishments of the individual OMBE funded organizations, that is actual versus planned; nor, is there available in schedule, tabular or, in any form a ready summary (monthly, quarterly, or annually) showing the accomplishments of the various funded organizations within each of the 6 OMBE regional offices.

To evaluate the performance of individual OMBE funded organizations in the area of new business starts and buy outs, as well as in other program areas



for FY 1974, it was necessary for the Investigative Staff to request this type of information directly from the 4 regional offices visited because this type of information was not compiled or available in OMBE headquarters. To prepare the data, it was necessary for the OMBE regional offices to go back to raw data, utilize manual and automated information, and to reconstruct some records to be responsive to the request. Three of the 4 regional offices contacted furnished the information in a reasonable period of time. One regional office, San Francisco, after repeated requests (including direct involvement of the OMBE Director) could not, or would not, furnish the complete information even after a lapse of 2 months, and the request for the additional information was dropped at the completion of the investigation.

An evaluation of the information furnished indicated that OMBE was not fully implementing its time phased plan for each contracted organization. The time phased plan included in each OMBE contract sets forth the expected goals for each program area and is used to evaluate the performance of each funded organization during the program year by comparing actual versus planned goals. Ostensibly, OMBE uses the comparative data and other information in deciding whether an organization should or should not be refunded.

The Investigative Staff noted that separate goals were not generally established for each funded organization in FY 1974, and as a result, more attention was given to the performance of each region and the total thereof in reaching the total OMBE established goals.

In examining the detail of the data furnished, the Investigative Staff reached the conclusion that OMBE was continuing to fund and "carry" organizations that were poor or marginal performers. For example, in the San Francisco region (covering 5 western states) of 27 organizations with established goals



of 200 new business starts and buy outs for FY 1974, OMBE reported only 31 new businesses and buy outs, or an actual accomplishment of 19 percent of plan. This dismal picture of performance is further aggravated when it was noted that only 3 organizations produced all 28 of the new business starts with only 1 organization producing 23; and, of the 23 buy outs reported, only 7 organizations were involved. As a consequence, of the 27 contracted organizations in this region funded for \$6.9 million in FY 1974, 67 percent or 18 of the organizations did not produce any new business starts or buy outs. Further, as reported by OMBE, of the total organizations involved in National Programs during FY 1974, only 14 new business starts and buy outs were produced out of 700 planned, or 2 percent of the established goal. It is obvious to the Investigative Staff that from the above examples OMBE funded organizations are completely incapable of meeting OMBE established goals for new business starts and buy outs.

OMBE has placed a great deal of emphasis on outside studies to assist it in providing the kind of information not forthcoming from the Performance Management System. At present, OMBE is engaged in various studies and activities to furnish the desired information. For example, OMBE has negotiated sole-source contracts costing \$419,983 for a 2-part study that is being conducted to:

- (1) Develop a methodology that could be used to determine the benefit/cost ration associated with the OMBE program and produce an interim report based on data collected from a selected group of OMBE funded Business Development Organizations.
- (2) Conduct a benefit/cost analysis of the OMBE Business Development Organizations and the Construction Contractors' Assistance Centers programs.

The study is scheduled to be completed in March 1975 unless a further slippage is experienced as the original completion date established was January 1975.



In view of the critical need for current, complete, and reliable information on the reason for minority business failure and related information on successes, the Investigative Staff believes that as a minimum OMBE should:

- (1) Perform a comprehensive appraisal of the Performance Management System to identify its weaknesses and develop concrete recommendations to overcome the weaknesses.
- (2) Establish a time-phased plan to modify the system on a priority basis.
- (3) Consider developing a new system responsive to OMBE's needs, if the present system is found to be unwieldy and not subject to major changes.
- (4) OMBE should aggressively monitor the new or revised system to ensure that it produces information in a timely manner so that OMBE can evaluate and utilize this information to effectively carry out its programs.

Client Data Reporting System

OMBE established the Client Data Reporting (CDR) System as the primary technique to collect data on contractor/grantee performance for use in the Performance Management System. After a period of development and testing during the Summer of 1972, the CDR system was implemented in September 1972 at which time each funded Business Development Organization was provided with CDR forms and completion instructions and was directed to begin utilizing this reporting system immediately.

An OMBE headquarters official quite candidly admitted that this system did not work, stating the criteria was constantly changing and contractors complained of the numerous forms to be administered. He also stated clients refused to furnish to OMBE funded organizations financial data regarding the status of their businesses fearful this information would be turned over to the Internal Revenue Service. Because of this and other problems, several changes in this reporting system have been made by OMBE.



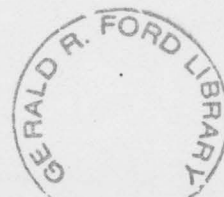
In a memorandum dated May 17, 1974, the Director of OMBE said that his agency was (still) experiencing some difficulty with the CDR system and identified the inherent problems in the current CDR system as follows:

- (1) The client data collection system is either fragmented or in some instances nonexistent.
- (2) There are too many forms in use--some of which are not necessary.
- (3) An unnecessary number of data elements are requested from the client.
- (4) A broad range of nondefined Management Service and Technical Assistance (MSTA) categories exist.
- (5) Forms are organization oriented, rather than function oriented.

In order to have a more accurate and useful Performance Management System, as well as a more reliable management tool, the OMBE Director recommended the following changes relating to the CDR System:

- (1) A new series of standardized forms will be developed that report on services rendered to clients. The emphasis of the forms will be placed upon the type of service rendered by the contractor/grantee which relate to the OMBE Performance Management System indicators, rather than tailoring individual reporting forms for each type of funded organization.
- (2) Quantifiable performance data, currently reported in the narrative reports, will be reported on the new functional CDRs.
- (3) Only statistical data will be included on the CDRs.
- (4) MSTTA categories will be limited to 12 basic categories with appropriate definitions.

Furthermore, an OMBE report titled "Proposed CDR System," dated May 16, 1974, stated "at the present time, OMBE Performance Management System (PMS) data collection system is cumbersome, fragmented, incomplete, and not adequate for collecting data on services performed by all of our contractor/grantees."

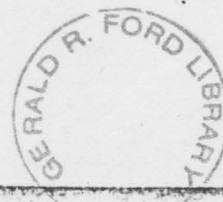


According to OMBE officials, OMBE's present processing system is limited and although it can generate specific data in a report form, much of the information obtained and stored in the system is not retrievable. However, OMBE is planning to install a new Data Management System that OMBE officials claim should be in operation the early part of 1975. This system when fully operational, hopefully, will allow OMBE the flexibility to use various programs to extract specific data not now obtainable. Comparative data will be an important derivative of this new system.

An OMBE official, who has been with this agency since its inception, said OMBE has not been able to measure its successes and has a deficiency in not being able to obtain the basic "hard" data to make valid, reliable, comparisons of funded organizations and to measure the effectiveness of its programs.

Another OMBE official admitted that promises were made to the Congress in hearings concerning failure rate of minority businesses that should not have been made. He said OMBE cannot and perhaps never will be able to provide an accurate failure rate picture.

The end result of the CDR system input is a tabulated computer "print-out" report of information extracted from the original CDRs furnished to OMBE headquarters by the funded organizations via the regional offices. These reports (print-outs) are sent to the regional offices to be used as a management tool for the purpose of evaluating the performance of the funded organizations. The Investigative Staff, during its numerous contacts with OMBE regional personnel, learned that few, if any, regional people utilized this "print-out" report since they considered it generally untimely, and inaccurate (when compared to their own manually compiled statistics) and therefore of little value. Furthermore, a copy of the print-out is sent to OMBE funded organizations for their use.



Officials of funded organizations advised the Investigative Staff that the print-outs reflected information previously sent in to OMBE by them and were of no value to the organizations. In addition, the print-outs were not timely and the information contained therein was often in conflict with the data originally submitted.

The Investigative Staff's review of minutes of a meeting of Regional Directors held in July 1974, noted that several Regional Directors voiced their dissatisfaction with the CDR System and were critical of this system stating that it was unworkable as a management tool. Every Regional Director indicated that the actual performance figures listed in the OMBE "print-out" were lower than those reported, particularly in the area of buy outs and new business starts. The OMBE Director acknowledged during this meeting that the CDR system provides more data than OMBE is presently capable of using productively.

Numerous discrepancies were noted by the Investigative Staff of data maintained by the Regional Offices when compared to an identical category of data listed in the "print-outs." The prevalence of such a frequent divergence in the statistical accomplishments of the organizations leads the Investigative Staff to conclude that an accurate and valid assessment of an organization's performance cannot be substantiated by use of the "print-out." Consequently, the system is inadequate to serve as a management tool so that a valid and accurate judgment can be made relative to an organization's performance.

An OMBE official said the only meaningful way to qualitatively evaluate a client's progress (or failure) was on a one-on-one basis (that is a personal on the spot audit of the minority business), however, he acknowledged this would be a very expensive type of survey. The Investigative Staff concurred.



VII. OMBE PROCUREMENT PRACTICES

Since the original contract actions in 1972, OMBE has followed the sole-source (directed) method of procurement in selecting its contractors. As a result, there has been a general disagreement between the Department of Commerce, Procurement and OMBE over the use of this method of procurement and other related practices followed by OMBE. According to an OMBE official, OMBE has stressed that the only way to implement a minority business enterprise program was to not follow normal procurement procedures to the letter but to bend the rules to allow new organizations, staffed primarily by minorities to be responsive to OMBE's program needs to serve minorities. The attitude of OMBE was that the situation was unique and unique measures were warranted. As a result, formal contract procedures and directives were not prepared or followed by OMBE during the original contracting and to a large extent the same conditions have prevailed to the present time.

Up to the October 1973 decentralization of OMBE to 6 regional offices, the procurement activities were centralized in 1 office at OMBE Washington headquarters. Following the decentralization action, however, many more individuals (regional personnel) became involved in the procurement activities and the effort became fragmented. In addition, a formal procurement system was not established within OMBE as guidance to people comparatively inexperienced in procurement practices.

With the reorganization of OMBE, specialist categories were established in the regions to achieve an improved delivery system in servicing the funded organizations (contractors). Field officers, a specialist position, were given the prime responsibility of administering the contracts. The Investigative Staff observed, as previously discussed, that personnel assigned to these



positions were not qualified through appropriate education, experience, or training, to perform this function adequately. As a result, major problems in the processing of contracts and grants emerged. The main problem area was the extensive delays in processing contract actions.

The Investigative Staff noted that there were 52 contracts involving a like number of organizations that were not signed as of June 30, 1974. These 52 contracts totaling \$6.7 million required further processing. According to OMBE records, \$5.1 million was reserved or obligated for 17 of the contracts by November 11, 1974; and the remaining 35 contracts for \$1.6 million had not been finalized as of that date. Because of the resultant carry over of funds from FY 1974, OMBE's budget request for FY 1975 was reduced by about \$2.5 million by Senate and House action.

Several organizations contacted by the Investigative Staff strongly complained about OMBE's procurement practices stating that OMBE had not finalized their contracts on the due date and in some instances, final execution of the contracts extended many months beyond the due date. The failure of OMBE to finalize their contracts, according to organization officials, placed an unexpected financial burden on these organizations forcing some of them to borrow operating funds; in one instance, at rates as high as 13 percent for a short-term loan. Also, in this interim period, some experienced key personnel left these organizations when payrolls could not be met and because of a lack of confidence in the future of the organizations.

An official of a national organization advised the Investigative Staff that his contract was negotiated in April 1974 but was not finalized until October 1974, and then only after he personally traveled to Washington, D. C., and "walked" the contract through the Department of Commerce, Procurement.



In addition, many contractors experienced difficulty during FY 1974 concerning various items related to their contracts, such as: untimely approval of advance payments, delays in clearance of expenditures, and clarification of contract terms, particularly the scope of work. Further, a Department of Commerce 1974 Task Force study reported that difficulties in OMBE program planning contributed to rushed, incomplete contracting activity in the last few months of the fiscal year. At the time of the study, 2 OMBE letter contracts awarded in 1972 remained undefinitized; others were 6-9 months old.

During its visit to regional office areas, the Investigative Staff learned that most of the field officers' time was spent on administrative matters processing papers--that is reviewing and checking the flow of forms, reports, correspondence, proposed expenditures, etc., relating to contracts. Presently, under current procedures, each contract renewal requires that regional office work commence 6 months in advance of the renewal date to prepare a contract package. Thus, the project officer has little time for programmatic involvement with the organizations.

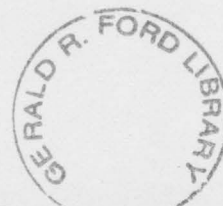
The Investigative Staff noted that the OMBE's Director, while testifying before the House Subcommittee on Minority Small Business Enterprise and Franchising, on March 21, 1974, said that OMBE regional offices had adequate professional staffs to process contracts. He also stated that positive measures had been initiated to overcome the contract processing delays by conducting for regional contract personnel a series of on-site training sessions. He said these training sessions had been extremely productive and would continue for several months. The OMBE Director also stated that OMBE contract processing deadlines would be met without major difficulties.



OMBE officials contacted by the Investigative Staff conceded that delays in contract actions have produced hardships for certain funded organizations. The officials placed the blame for the delays on the fact that the contract processing activity was previously centralized in Washington, D. C., and when this function was transferred to the region, many field officers, new to contract administration, required additional training (on-the-job) in contract procedures. This admission concerning the need for further training of field officers is inconsistent with the OMBE Director's previous remark that the regions had "adequate professional staff" to process contracts. The Department of Commerce Audit Report of July 17, 1974, also commented that there was a shortage of qualified people in OMBE regions to carry out their responsibilities of monitoring and evaluating contracts and processing contracts for renewals.

The Investigative Staff found that minimal training was afforded field officers and to other regional personnel designated to administer contracts, and as a result, they spent most of their time in this endeavor simply because they are untrained.

Because of the lack of experience of OMBE procurement people, the delays encountered in finalizing new contracts and renewals, and the contract exceptions raised by the Department of Commerce internal auditors, the Department, in cooperation with OMBE, established in mid-1974 a procurement responsibility in each regional office area with the addition of an Administrative Contracting Officer and a secretary. All of these personnel are to be paid from OMBE funds. The assignment of procurement personnel to the regions is experimental and an evaluation will be made after 1 year to determine if the program should be continued. Personnel for this assignment are new hires who will require some training and a period of time for orientation. As planned,



this procurement specialist, responsible to the Department of Commerce, Procurement, should help provide procurement expertise now lacking in OMBE regional personnel.

The basic procedures established for contract renewals are as follows:

- (1) A field officer reviews the performance of a contractor and recommends whether the contract should be continued or discontinued.
- (2) The field officer's recommendation and the contractor's performance is reviewed by a Regional Review Board which makes its recommendations to the regional director. The regional director reviews the Board's recommendations and forwards the contract package to OMBE headquarters with his independent recommendations.
- (3) After the contract is reviewed and if approved by OMBE headquarters, it is signed off by the Director of OMBE and sent to Commerce Procurement for final action.
- (4) Commerce Procurement reviews the contract for form, content, and general compliance with Commerce Procurement regulations. The time-frame upon which a contract is handled at Commerce depends on the priority given the OMBE contract based on other Commerce commitments. An OMBE official advised the Investigative Staff the reason Commerce Procurement continues to monitor the finalized contract is a lack of confidence in OMBE personnel to adequately perform the procurement functions.

A Department of Commerce, Procurement official made the following comments to the Investigative Staff concerning OMBE's procurement practices:

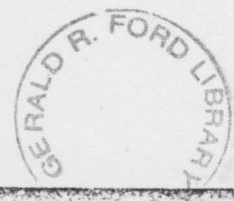
- (1) The OMBE procurement cycle followed in processing new and renewal contracts is very extensive. There is too much over-control from OMBE headquarters as it is reluctant to delegate final responsibility, and more importantly, authority to the regions.
- (2) The one-year contract period contributes to the delays incurred in the procurement cycle and consideration should be given by OMBE to extending the period to 18 months or 2 years. If this is not possible, options to renew contracts should be considered.
- (3) Excessive time expended on contract processing is reducing the time OMBE can devote to programmatic matters.
- (4) The OMBE contracts are unique because of the general absence of competition.



- (5) Until very recently, the equipment purchased by OMBE funded organizations with Government moneys was not centrally controlled. Commerce Procurement has assumed control over the equipment and it is claimed that accountability has been established.
- (6) Commerce Procurement is striving to reduce its processing time for OMBE contracts from over 100 plus to 90 days or less.

This Procurement official advised that stringent controls will continue to be placed on contractors by Commerce Procurement so that the contractors will not have any flexibility especially in regard to expenditures until such time as the contractors have proven themselves. In addition, the Procurement official said that a problem noted with many contractors was their inability to fully understand the terms of the awarded contracts. Therefore, in many instances, they did not adhere to the contract provisions. This problem is being resolved through combined effort of OMBE, the Administrative Contracting Officer, and Commerce internal audit, by holding a post-award orientation with each contractor and explaining in detail the terms of the contract. The ultimate objective is to have the Administrative Contracting Officer's take over more of the procurement role--leaving the contracting to the contracting people so that OMBE can redirect its resources along programmatic lines.

OMBE is also currently participating in a Procurement Task Force effort with Commerce Procurement to study the present OMBE procurement system with the purpose of making recommendations for improvement of the procurement process. The specific areas being addressed are: (1) Modification and issuance of OMBE operating regulations and procurement regulations; (2) Preparation of an application handbook for use by the procurement specialists and others; (3) Preparation of guidelines for long-range planning in organizing and managing the OMBE and Commerce Procurement funding process; and (4) Assessment of procedural changes designed to increase regionalization and improve the procurement process in the short term.



The Investigative Staff is of the opinion that the mentioned objectives are certainly worthwhile efforts if adequately planned, managed, and vigorously implemented by both parties. In addition, a closer working relationship between OMBE and Commerce Procurement is certainly laudable as it appears that there has been a lack of confidence in each of the parties concerning the procurement process to be followed on OMBE contracts. Further, Commerce Procurement in assuming a more active role in the procurement affairs of OMBE, represents an improvement over its former passive role as noted by the Department of Commerce Task Force in a 1974 study report.

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



VIII. MANAGEMENT SERVICES AND TECHNICAL ASSISTANCE

The OMBE 1972 Progress Report on the Minority Business Enterprise Program succinctly articulated the value of Management Services and Technical Assistance (MSTA) when it stated the following:

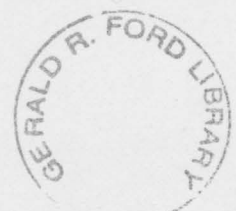
"Once a minority business has been financed, no matter how carefully the mix of debt and equity financing has been calculated, no matter how carefully the financial projections have been worked out, and no matter how successful the business may look on paper, the business will not succeed if the men in charge do not know how to manage."

Under Executive Order 11625, OMBE was specifically charged with the responsibility to "provide financial assistance to public and private organizations so that they may render technical and management assistance to minority business enterprises."

OMBE is committed to provide such assistance by both direct service and also by generating private, state and local initiatives to provide these services. Using the bulk of the funds provided by a \$40 million supplemental budget appropriated for FY 1972, OMBE moved to expand a local delivery network by directly supporting and monitoring the efforts of local business development organizations

The point of contact between OMBE and the potential or active minority businessman is the Local Business Development Organization. The Local Business Development Organization assists the prospective minority businessman in developing plans and creating a business "package." They identify, contact and counsel potential minority entrepreneurs; provide information and data; help prepare business plans, loan applications and feasibility studies; serve as a liaison with Government and private sources of financial aid, and assist with initiation and expansion of businesses.

In addition to the Local Business Development Organization, OMBE also funds the Construction Contractors' Assistance Centers which were created to provide specific assistance to local minority construction contractors on such matters



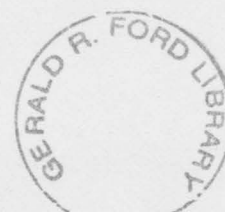
as general management, financing, bid preparation and cost scheduling.

OMBE, in order to utilize the resources of the private sector, developed the concept of the Business Resource Centers as a link between the activities of the Local Business Development Organization and the resources of the private business community. As designed, Business Resource Centers are intended to provide a pool of private experts who help identify and ensure the availability of capital and financial assistance for minority businesses, stimulate market demand for minority produced goods and services, provide a clearing house for information on business opportunities, supply full-time management consultants and technical experts and develop a reservoir of experienced volunteers.

Lastly, OMBE also offers supplements to budgets of educational institutions as well as franchisors, manufacturers, banks, and professional firms to assist their provision of management development training for minority entrepreneurs.

The basic MSTI includes the following:

- (1) Steps to assure that the business has an adequate accounting and control system, as well as the internal or external capability to maintain and use the system effectively, especially for providing timely and adequate information to businessmen, financiers, Government tax related agencies, suppliers, and customers as required.
- (2) Steps to assure that the business has adequate technical capability in such areas as marketing, personnel management, production processes, legal affairs, purchasing, distribution, and financing, or that the business can obtain helpful assistance as needed in these and other technical areas.
- (3) Steps to assure that the business has adequate management capability in such areas as planning and scheduling, financial and production control,



and organization and motivation, or that the business can obtain helpful assistance as needed in these and other management areas.

The ideal condition under which MSTA could be provided the minority businessman, to the greatest extent possible or necessary, it from their preoperational stage to the point where the business can operate profitably--independent of special assistance.

An OMBE funded organization in its quarterly report prepared for OMBE commented as follows:

"This organization should begin focusing on more profitable businesses, i.e., counselors should concentrate on creating viability in a business and emphasizing profits for that business. They should not encourage marginal or potential failure kinds of businesses. In other words, the guidelines and criteria for setting up and/or packaging a business should be revised to reflect a new approach to minority business development."

In another quarterly report this same organization commented as follows:

"From an outreach point of view I believe that the BDO emphasis should be redirected (mainly) toward follow-up assistance to those businesses already in existence rather than loan packaging. This is so, because of the prevalent economic climate, high interest rates, and the specific comments and recommendations business people make to me. I realize that we are supposed to do follow-up anyway, but we are rated [by OMBE] on our volume and dollar amount of loans packaged rather than businesses saved or made stable and viable through management assistance follow-up. This is an observed fallacy I determine to be inherent in the stated goals of our contracts. These goals should be rewritten, and/or directed to reflect the present economic climate."

An official of this organization, when interviewed by the Investigative Staff reiterated that quantity rather than quality was emphasized. He further stated that politically it was more salable to cite the number of new businesses created and the number of loans made and, if the name of the game is to get significant numbers of minority-owned businesses into the "mainstream" of the economy, it will be an arduous task to keep these businesses viable. Untold additional resources would be required, yet there is no guarantee these businesses will survive.



A significant observation by the Investigative Staff was the continuance of funded organizations (especially during this nation's present economic crisis) to devote their time and effort on loan packaging rather than in providing management and technical assistance. The OMBE Management Task Force study quoted a Business Development Organization staff member's comment when he said, "we spend as much time on management and technical assistance as we have to, but as little as we can get by with."

The Investigative Staff appreciates with others that good management practice are essential for the survival of a business entity whether it be a minority- or majority-owned firm. However, the Investigative Staff's concern is that OMBE has played the "numbers game," that is, many minority businesses have been started (perhaps as fast as they go out of business) with apparent lack of concern in regard to the initial selection of quality-type clients that possess the potential of succeeding in the competitive business world. It is recognized that it would be a herculean task to provide the ideal MSTA to every OMBE client. Consequently, OMBE must--through its funded organizations and the private sector--thoroughly evaluate those minority businesses presently ongoing and possessing the potential to survive so as to concentrate the MSTA effort on those businesses.

It is also essential that OMBE counseling personnel be aware of the failure/success potential of a minority business and have access to the client's financial statements on an ongoing basis rather than learn about a client's severe financial problem only after it is too late to help him.

The OMBE Management Task Force in its report of July 13, 1973, recognized the need for practical business education for both Business Development Organization staff members and OMBE clients. This report noted that in order for the Business Development Organization to provide high quality service to the client,



the Business Development Organization staff member should be highly trained and have some business experience. As previously discussed in detail in the section of this report dealing with organizations, the Investigative Staff concluded that few funded organizations possess in-depth MSTA expertise.

As stated in the minutes of the September 1974 OMBE Regional Directors' Meeting, one Regional Director obtained resumes on the capability of the funded organizations in his region to provide MSTA and found that this capability was generally lacking.

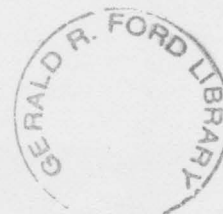
The Task Force report suggested the need for specialized local training programs for Business Development Organization staff members so the members could then use a modification of this system in training its clients. The Investigative Staff believes, however, that the organizations should hire qualified personnel with the necessary qualifications.

This Task Force study also identified one Business Development Organization (of over 100 such organizations funded), the Colorado Economic Development Association (CEDA), located at Denver, Colorado, as having an excellent business training program for its clients and noted that this organization's program could be used as a model for establishing similar projects in other areas.

The Investigative Staff, during its contact with numerous OMBE and organization officials, noted that the operations of the CEDA were well known to OMBE personnel and acknowledged to be very successful in producing viable businesses.

A. Colorado Economic Development Association (CEDA)

The Investigative Staff visited the CEDA organization and was impressed with the unique concept followed in promoting minority business enterprises and the apparent successes realized by this organization. There is only one other OMBE funded organization in the Denver, Colorado, area.



CEDA was originally established in November 1968 to participate in the Economic Opportunity Loan program initiated by SBA. After about 6 months in the program this organization found that it was difficult for minorities to obtain loans under this program. The present chairman of CEDA met with bankers in the Denver area to discuss the plight of the minorities seeking business venture type loans. Subsequently, it was arranged by the area bankers to place CEDA in the active loan packaging business on behalf of the minority businessmen. In June 1969, this organization was funded for \$23,000 by SBA and in November 1971, received a \$35,000 grant from the Economic Development Administration. In January 1972, OMBE awarded CEDA a 2-year contract for \$280,000. CEDA is a non-profit organization and is active only in the Denver metropolitan area.

The staff of CEDA has a complete (100 percent) staff turnover every 2 years by design. The professionals on the staff are young, recent college graduates. Prior to leaving CEDA, the professionals will indoctrinate the new incoming personnel and make themselves available for assistance if needed even after leaving CEDA. The outgoing professionals leave for better jobs usually obtained with CEDA's help.

Presently, about \$70 million are outstanding in loans packaged by CEDA. CEDA claims it completes 15 to 20 loan packages a month and that 72 percent of the loan packages submitted to the banks are approved. A CEDA official claimed that the failure rate of clients is about 10 percent.

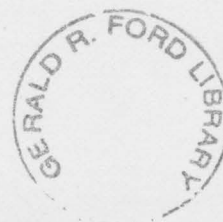
The successful operation of this organization (CEDA claims over 80 firms individually gross over \$1 million a year) is attributable to the endeavors and leadership of the executive director, who runs this organization strictly along business lines.



The executive director of CEDA based the success of his organization on adherence to a tightly controlled program; for example, this official stated that when a prospective client appears at this organization, a compulsory course is offered on "what it takes to be a businessman." After attending this course, CEDA's experience indicates that 90 percent of those originally considering going into business do not return, thus providing an effective screening process. In addition, CEDA runs a complete analysis on all clients to evaluate their potential as businessmen. CEDA also proposes the acquisition of ongoing firms by its clients and believes that "buy-outs" contribute to the success of the program, the rationale being that "buy-outs" have a better chance to survive than a new venture because they are ongoing businesses and the usual start-up problems have been overcome.

One of the major reasons for CEDA's success (unique to this OMBE-funded organization) is its ability to develop monthly client financial statements by use of a computer service available within CEDA, and to provide this information to accountants for analysis. In addition, the client's financial history is also developed and analyzed by CEDA. Arrangements for this data are made as part of the loan agreement entered between the client, the lending institution (bank), and CEDA, thus avoiding the problem most OMBE organizations have in obtaining this type of financial data.

CEDA also utilizes the private sector by assigning 10 to 15 clients (businesses) to an accountant whose services are paid for by the clients. The accounting work is supervised and guided by CEDA and as a result of this close scrutiny, counseling can be provided, when needed, on an immediate and timely basis.



The success story of CEDA was mentioned by OMBE in the FY 1974 appropriations hearings as a prime example of a very successful operation of one of its funded organizations. At that time, OMBE stated that CEDA had leveraged its funds in excess of 40:1 (based on OMBE funding to CEDA of \$280,000 for a 2-year contract).

Yet the successful practices followed by this organization have not been implemented by OMBE in any of its other funded organizations, although the Management Task Force in 1973 suggested that CEDA's program be used as a model for establishing similar projects in other areas. The Investigative Staff is of the opinion that the Management Task Force's suggestion should have been vigorously pursued by OMBE.

B. Follow-up of Clients of OMBE
Funded Organizations

According to the terms of their contracts, OMBE funded organizations (contractors) are responsible for providing not only initial assistance to businessmen clients of the organizations but also to provide assistance thereafter as needed to insure the success of the business, if possible. The Investigative Staff noted that generally the funded organizations did not continue to assist a businessman once the initial assistance, whatever the form, was completed. Moreover, OMBE regional personnel also did not generally call on these businessmen to ascertain if assistance was needed or to evaluate the quality of assistance previously provided by the OMBE funded organizations.

During its visits to OMBE funded organizations, the Investigative Staff found that all of the organizations were aware that follow-up assistance was required of them, but they all stated they had insufficient time and staffing to perform this task adequately. Some of the organizations were more active than others in furnishing some follow-up assistance. However, the majority of the organizations

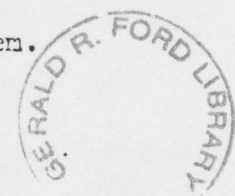


said that they were unable to do as much follow-up assistance as was necessary.

OMBE's efforts to increase the quantity of follow-up assistance by its funded organizations have largely been ignored by the organizations because of increased goals established by OMBE each year in other program areas. In reporting META assistance, OMBE records do not make a distinction between assistance provided prior to operations and that provided subsequently. As a result, OMBE has attempted to evaluate the assistance provided to businessmen by personal visits, and using client sampling techniques and telephonic inquiries, however, this effort is not a part of a full-time ongoing evaluation system in OMBE.

The Investigative Staff was advised by regional officials that OMBE was fully aware of the importance of evaluating the quality of assistance initially provided, to organization clients, and to ascertain if follow-up assistance was also provided and, if so, to determine the quality of this assistance. The lack of follow through by OMBE regional personnel was explained as a sheer lack of time because of concentrated effort on other higher priority items, such as contract monitoring.

The Investigative Staff contacted a limited number of clients selected randomly for the sole purpose of determining the extent to which OMBE and its funded organizations contact or visit clients once they are in business. Because of the relatively small number of clients contacted, this sampling was not ample enough to draw a specific conclusion. A number of the clients said that they were visited from time-to-time by representatives from the funded organizations. The assistance received from the organizations ranged from general calls, to see how things were going, to providing specific technical assistance in response to specific requests for identified problem areas. In some instances, the contacts were made by telephone. In contrast, most of clients said that OMBE personnel seldom, if ever, called on them.



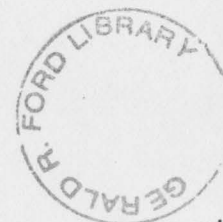
IX. OMBE COORDINATION OF MINORITY ENTERPRISE
PROGRAMS IN THE FEDERAL GOVERNMENT

Executive Order 11625 issued on October 13, 1971, clarified 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. This Executive order gave the Secretary and, through him, the Office of Minority Business Enterprise (OMBE) increased authority over all Federal activities in the minority enterprise field. (OMBE was created in 1969 as the coordinating agency within the Department of Commerce for the minority enterprise program.) In addition to other things, the Executive order also directed the departments and agencies of Government to cooperate with the Secretary in expanding the overall Federal effort concerning the minority enterprise programs.

OMBE's Annual Progress Reports on the overall status of the minority business enterprise programs have shown substantial increases in the value of Federal grants, loans and guarantees to minority businesses; increased private sector resources in the form of equity and debt capital (borrowed money), loans of various types, and financial assistance provided minority enterprise; and commitments of technical assistance from national and professional organizations.

The table below, made available to the Investigative Staff, indicates the growth in Federal funding for the program for the FYs 1969 to 1974:





PRELIMINARY SUMMARY FISCAL YEARS 1969-1974
FEDERAL FUNDS OBLIGATED TO MINORITY BUSINESS DEVELOPMENT
AS OF SEPTEMBER 16, 1974

Category	Fiscal Year 1969	Fiscal Year 1970	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Cumulative Total
Financial Grants, Loans and Loan Guarantees by Federal Agencies	\$200,000,000	\$315,236,045	\$434,019,716	\$472,617,473	\$ 670,185,569	\$ 742,640,000	\$2,834,698,803
8(a) Procurement by Federal Agencies	8,884,141	21,814,292	66,120,409	151,598,150	207,954,732	272,141,414	728,513,138
Direct and Subcontract Procurement by Federal Agencies	<u>3,972,365</u>	<u>8,220,042</u>	<u>77,863,045</u>	<u>242,254,264</u>	<u>523,516,566</u>	<u>483,024,037</u>	<u>1,338,850,319</u>
Total	<u>\$212,856,506</u>	<u>\$345,270,379</u>	<u>\$578,003,170</u>	<u>\$866,469,887</u>	<u>\$1,401,656,867</u>	<u>\$1,497,805,451</u>	<u>\$4,902,062,260</u>

In addition, the preliminary summary of FY 1974 Federal funding for minority business development by individual departments or agencies was as follows:



PRELIMINARY SUMMARY OF FEDERAL FUNDING FOR MINORITY BUSINESS DEVELOPMENT FOR FISCAL YEAR 1974
AS OF SEPTEMBER 16, 1974



Agency	8(a) Procurement	Direct and Subcontract ^{1/} Procurement	Loans and Loan and Bond Guarantees	Grants	Total
ACTION	\$ 173,289	\$ 30,000	-	-	\$ 203,289
Agriculture	2,592,150	-	-	-	2,592,150
Atomic Energy Commission	917,592	8,000,000	-	-	8,917,592
Commerce, Department of ^{2/}	2,916,263	81,268,000	\$ 500,000	\$48,455,000	133,139,263
Defense, Department of ^{3/}	144,130,949	52,300,000	-	-	196,430,949
EEOC	1,554,686	309,000	-	-	1,863,686
Environmental Protection Agency	2,595,683	10,700,000	-	-	13,295,683
General Services Administration	41,498,624	5,729,000	-	-	47,227,624
Health, Education and Welfare	20,205,075	23,746,000	-	-	43,951,075
HUD, Department of ^{3/}	2,281,643	185,235,798	-	9,259,000	196,776,441
Interior, Department of	1,228,571	74,260,000	-	-	75,488,571
Labor, Department of	3,719,768	10,592,000	-	-	14,311,768
NASA	11,796,765	7,880,000	-	-	19,676,765
OEO	693,336	162,039	-	33,126,000	33,981,375
Postal Service	218,694	-	-	-	218,694
Redevelopment Land Agency	596,209	761,200	-	-	1,357,409
SBA	1,343,673	345,000	651,300,000	-	652,988,673
State (A.I.D.), Department of	664,623	7,209,000	-	-	7,873,623
Transportation, Department of	16,522,712	1,556,000	-	-	18,078,712
Treasury (IRS) Department of	165,346	62,000	-	-	227,346
Veterans Administration	15,163,727	12,879,000	-	-	28,042,727
Justice, Department of	836,382	-	-	-	836,382
National Weather Service	39,355	-	-	-	39,355
Civil Service Commission	30,901	-	-	-	30,901
Executive Office of the President	229,398	-	-	-	229,398
General Accounting Office	26,000	-	-	-	26,000
Total	\$272,141,414	\$483,024,037	\$651,800,000	\$90,840,000	\$1,497,805,451

- ^{1/} Subcontract Procurement includes that portion of a Government Prime Contract awarded to a Non-Minority firm that is in turn subcontracted to a Minority firm.
- ^{2/} Awaiting recalculation of final figures.
- ^{3/} Awaiting final figures.

From the above figures it can readily be seen that the vast machinery of the Federal Government has been cranked up and huge sums of money and effort have been put into the minority enterprise program. However, as stated in the Fiscal Year 1972 OMBE Progress Report:

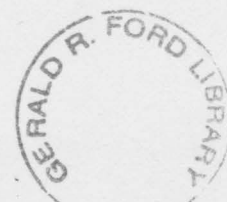
"The emphasis of this report has been on the amounts of money and effort that have been put into the OMBE program.

"But inputs, while they gauge our commitments, are a poor measure of our effectiveness. The test of the OMBE program must be the extent to which minority businesses flourish under its auspices and ultimately the rate at which they graduate out of the program."

It seems to the Investigative Staff that this statement made in 1972 is still applicable today. OMBE's record, or, for that matter, the record of the Federal Government as a whole is not very impressive in this regard, based on limited information available on successes and failures in the program. Concerning the leading role played by OMBE in the increases shown in financial grants, loans and loan guarantees, 8(a) procurement, and direct and subcontract procurement by Federal agencies, the Investigative Staff was not persuaded by its observations during this study that OMBE played as strong or as an important a role as indicated in various OMBE reports and releases. Based on contacts with operating officials of several Federal agencies and officials of OMBE funded organizations, the Investigative Staff is of the opinion that the Federal agencies accepted the "challenge" and assumed their responsibilities for the program as they were charged in Executive Order 11625, in some instances with little guidance or assistance from OMBE.

A. Minority Enterprise Programs in
Federal Agencies

Officials of the Department of Defense, General Services Administration, and Department of Health, Education, and Welfare were contacted by the Investigative

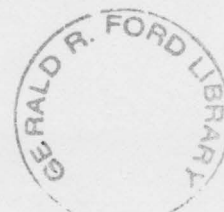


Staff to determine the extent of OMBE's involvement in the minority enterprise programs of these agencies. All of these officials directly responsible for the operation of their agency programs stated that they received little or no assistance from OMBE, either directly or indirectly in carrying out the objectives of their programs. The officials expressed the view that the progress shown in the minority enterprise programs was accomplished largely because of the total commitment by the heads of the agencies, establishment of separate offices and units to act as focal points for the programs, and creation of professional staff dedicated to the effort.

Officials of the SBA were also contacted and the specific information obtained from the officials together with the Investigative Staff's observations appear in a separate presentation following this section.

A director in one agency said that his office was established to perform some of the same functions that OMBE was supposed to do. As now organized, this office, with headquarters in Washington, D. C., has representatives located throughout the agency at field locations. At the time of the interview, the organization was heavily involved in minority banking--securing deposits of Government funds for these banks, establishment of concessions in the agency, and obtaining 3(a) procurement for minorities. In view of the success of this program at this agency, this director said he has been asked by other agencies to implement a similar type of program in their agencies. The director advised the Investigative Staff that he believes that if OMBE were carrying out its responsibilities the effort should be coordinated and implemented by OMBE.

On the overall subject of OMBE coordination and assistance, the director commented that since his involvement in the program--about 3 years, his office had not received any assistance from OMBE. He considered OMBE to be ineffective



and unable to make an appreciable contribution to the program. He stated that if any problems arise, the agency usually consults with the SBA and calls on the capable staff (in his opinion) there to assist the agency to overcome any obstacles it may encounter.

An official in another agency stated that his staff of 12 people operated without funding or policy support from OMBE although the agency's FY 1974 program showed over \$40 million of Federal funds were obligated for minority business development. This agency concentrates its activity with the socially disadvantaged minorities, including the physically handicapped. The official, a former OMBE employee, stated that a vacuum existed in the OMBE program and that his agency with the assistance of other Federal agencies accepted the responsibility without any help or support from OMBE. As a former OMBE employee this official could possibly be termed as biased and less than objective about OMBE, however, the Investigative Staff feels that his comments were made in a sincere manner and are reflective of comments made by others which are shared by the Investigative Staff based on its own observations obtained during the investigation. Some of the more pertinent comments made by this official concerning OMBE appear below:

- OMBE has concentrated too much of its efforts on funding new organizations which were formed primarily to perpetuate their own existence, thus simply providing jobs for minorities and incidentally assisting minority businessmen.
- OMBE has not yet achieved credibility with the minorities and taxpayers.
- Federal agencies involved in minority business enterprise programs are making the program work because of the dedication of a few people in each agency and not because of OMBE's leadership or contribution.
- The 8(a) procurement program (see page 103) while comparatively successful, numberwise, requires considerably more coordination because it is fragmented among 25 or more agencies, and no one is centrally responsible.



In addition, the number of successful graduates are very, very few, less than 40 according to SPA's congressional testimony, and "everyone says they have done their part (over \$720 million have been obligated since FY 1969)--but the client has failed."

In addition this official outlined what he termed to be some inherent OMBE problems, as follows:

- (1) OMBE takes a great deal of credit by inference.
- (2) OMBE is made up of a high rate of second hand personnel.
- (3) OMBE is highly political from both the executive and legislative level and contracts to organizations were awarded on political grounds.
- (4) OMBE director cannot make a clean decision because of potential intimidation from political pressure groups.
- (5) OMBE internally has a prejudice problem among its various minorities.
- (6) OMBE sets goals but does not formalize them.

Furthermore, this official expressed concern both as a taxpayer and as a civil servant that OMBE will continue to "spread itself all over the country paying off political debts having bought the conscience of the minority community."

As a partial solution to some of OMBE's problems this official offered the following recommendations:

- (1) Remove OMBE from the Commerce Department and make it an independent agency. (At present OMBE cannot get other agencies to respond to the program, the response received to date is forthcoming only because the agencies are properly disposed to the program.)
- (2) Funding should be altered to get the money to the businessman more directly and the program should concentrate on a few growth firms.
- (3) Qualified people should be selected to clean up the agency and remove unproductive personnel.

Officials from another Federal agency said that their office was created in 1969 after the original Executive Order 11453 was issued, with emphasis on 8(a) procurements. This office, responsible for small business minorities, and other.



represents the Assistant Secretary of the Department, and acts as a single point of contact on all 8(a) matters. A close working relationship has been developed with SBA because (1) it is an experienced and on-going organization, (2) additional personnel are not required, (3) concentration of 8(a) is in SBA, and (4) all programs, no matter how managed, must eventually go through SBA.

The officials said that beyond meeting with the agency and SBA initially to implement the program, OMBI has had no input, provided no coordination, or given any direction to this program. They also said that the OMDE data system established to provide information on the minority business enterprise program was not working. Concerning graduates from the 8(a) procurement program, the officials said there were very few, if any, firms graduating because definitive criteria had not been developed within the Government to determine when a firm had or was eligible to graduate.

B. Small Business Administration (SBA)

The SBA provides a diverse and comprehensive approach to the minority business enterprise program. Specifically, the agency offers disadvantaged persons direct loans, loan guarantees, loan packaging assistance, the Minority Enterprise Small Business Investment Company (MESBIC) Program, counsel and assistance in forming local development companies, the 8(a) contract program, surety bond guarantees, and the 406 Management and Technical Assistance Program.

Most of these program elements are also utilized by OMBE in the execution of its minority business enterprise programs. So much so, they appear in the opinion of the Investigative Staff to be mirror images of each other's programs and; thus, there is a real need to coordinate, combine, and clarify the programs to eliminate confusion, duplication, and overlapping functions with the purpose



of promoting a uniform and more efficient approach to the whole minority business enterprise program.

As noted by the OMBE Director in his introductory remarks in September 1974, prior to an address by the Deputy Administrator of SBA before a joint gathering of the 2 agencies, "at least 75 percent of the OMBE activities are dependent on SBA." Further, another OMBE official when talking to the Investigative Staff put it very succinctly when he said "if SBA were to close its doors to OMBE, we would be out of business."

The Investigative Staff interviewed top officials of the SBA and were advised that it presently has a minority enterprise department in every segment of the agency and has asked for additional funding to hire 200 additional personnel to handle this program. Furthermore, SBA is presently reorganizing its regions to include an "Executive" to speak for the minority enterprises. In addition, while these programs are handled in various line components of the agency, a minority enterprise staff element (directed by an Assistant Administrator) has been created to bring together all the agency's services in a coordinated thrust.

SBA has 89 field offices throughout the country and a total authorized staffing of 4,176 personnel and has asked the Congress for additional funding to hire about 200 more permanent people that can be utilized in delivering assistance to the minority enterprise program. Moreover, about 40 people are involved in the civil rights segment of this agency merely to oversee that minorities get their share of Government contracts. According to an agency official as much as 30 percent of the total agency personnel are committed to the minority enterprise program.

As stated by an SBA official, during FY 1974, of its total 27,176 loans, 25 percent or 6,859 loans were made to minorities (including the Economic



Opportunity Loans) and expressed in dollars, 16 percent of the loans were to minorities. Approximately 370 personnel are involved in the financial area dealing with minorities. This official said SBA has set a goal of 25,000 volunteers helping small businesses and it would like to get 10,000 of them involved in the minority enterprise program providing management assistance to the minorities. This would include such organizations as Service Corps of Retired Executives (SCORE), Active Corps of Executives (ACE), etc. In addition, the agency has initiated a program called Small Business Institution involving about 300 colleges and universities, and contracts have been given to these institutions (about \$5,000 each) for the utilization of graduate students to assist minority entrepreneurs with such basic business principles as accounting and cash flow matters.

The Investigative Staff noted that the OMEE's programs also include providing similar type of management assistance, recruiting technical expertise available from organizations such as SCORE and ACE, and working with colleges and universities to utilize graduate students in its programs.

An SBA official advised the Investigative Staff that in August 1974 SBA and OMEE officials met in a major effort to determine where these agencies can best work together as far as the minority business enterprise program is concerned. He said this meeting was the first serious effort to coordinate some real understanding between these agencies, although previous discussions have been held to identify areas where the agencies could work together, including agreements of understanding. Furthermore, he emphasized the point that this meeting was initiated by SBA and not by OMEE. Of particular concern to this official was the excessive number of delivery systems competing for the minority enterprise



clients and the obvious lack of a dissemination process, through any coordinated effort of OMDE, to share mutual goals, interests, and accomplishments. Consequently, each agency involved in this program had to "discover" that the other agency had achieved. For example, most of the agencies involved in the program do not have a common data collection system that can be mutually used and shared. A requirement for such a system was established as a prerequisite in the beginning of the OMDE program and the subject was assigned to the Data Subcommittee of the Interagency Council for Minority Business Enterprise for study and implementation, apparently without success.

In an October 1974 meeting of Minority Business Opportunity Committee representatives from various agencies from all over the country, the Deputy Administrator of SBA included in his remarks the following:

--- This Administration has mounted the most massive support for minority enterprise in the history of our Nation and yet one continuously hears people wonder about whether or not we are committed to this cause. One of the reasons for this is that many of the people in Government agencies are "turf oriented" and see only the programs in their own agencies and view others as competition.

-- In order to cure one area of total blindness, OMDE and SBA have set up regular meetings between top management of the organizations. We have traded lists of resources each has available to help minority small business. We were both astonished to see what each of us was doing and we resolved to put together some joint projects to see if we could do more.

-- OMDE, ACTION, and SBA are now engaged in a pilot program in 3 SBA districts to see just how far we can go if we pitch all of our resources into the pot together, stop worrying about turf, and go flat out--we want to find ways to keep our services from duplicating each other.



-- The problem is that in too many areas we are cutting each other up when we should be figuring out ways to work together to help the Administration goal of increased success for minority enterprise. We must put all our assets in the pot--OMBE its \$50 million plus affiliates, SBA its outreach in 89 cities and through its volunteer and college programs, the Agencies with their \$45 billion in purchasing.

While the present efforts now taking place including the pilot program between OMBE, ACTION, and SBA are obviously a step in the right direction, it does serve to point out the shortcomings in the minority enterprise program because of the lack of sustained effective leadership and coordination between OMBE and other Federal agencies vitally involved in the success of the program. The Investigative Staff feels, however, that this is only a start and much more needs to be done in a formal comprehensive manner to overcome the noted weakness in the program and to ensure that the program is a viable one because of the tremendous stakes involved, that is, making sure that the minorities become a part of the economic mainstream of this country.

SBA 8(a) Program

The essence of the 8(a) program is that SBA can do what no other Government agency is authorized to do--that is to award production, construction or service contracts to selected disadvantaged business concerns on a negotiated basis for purposes generally left to the discretion of SBA, but guided by the overall purview of the Small Business Act and Section 407, Title IV of the Economic Opportunity Act.

The Small Business Act, as amended, sets forth the basic legal authority for the conduct of the 8(a) program. The specific applicable language is shown on the following page.



"Section 8(a)--It shall be the duty of the Administration and it is hereby empowered, whenever it determines such action is necessary--

- (a) To enter into contracts with the United States Government and any department, agency, or officer thereof having procurement powers obligating the Administration to furnish articles, equipment, supplies, or materials to the Government. In any case in which the Administration certifies to any officer of the Government having procurement powers that the Administration is competent to perform any specific Government procurement contract to be let by any such officer, such officer shall be authorized in his discretion to let such procurement contract to the Administration upon such terms and conditions as may be agreed upon between the Administration and the procurement officer; and
- (b) To arrange for the performance of such contracts by negotiating or otherwise letting subcontracts to small business concerns or others for the manufacture, supply, or assembly of such articles, equipment, supplies, or materials, or parts thereof, or servicing or processing in connection therewith, or such management services as may be necessary to enable the Administration to perform such contracts."

The impetus for the 8(a) program as it is known today came from outside the SBA and the proposal to use the agency's dormant section 8(a) authority was made by the Department of Defense. The need was for a legal means to direct Federal contracts to minority firms. The actual implementation of the program was closely tied to a Presidential announcement of October 2, 1967, launching a new test program in 5 cities--"to mobilize the resources of private industry and the Federal Government to help find jobs and provide training for thousands of America's hardcore unemployed."

Initially, the program was used only in the manufacturing industry and managed as a pilot project to develop "know-how" and test procedures. SBA agreed to participate in the pilot program, after which it reported that the program was workable if collateral action to provide essential program support, staffing, absorption of start-up costs, procurement requirements, etc., was taken. The 8(a) program was given major emphasis in early 1969 and after due consideration by the Administration, it was endorsed by OMBL.



Beginning in early 1969, program emphasis gradually shifted to the view that the program should be directed to minority participation in manufacturing and related industries. By March 1969, SBA had oriented the 8(a) program to create, foster, and support minority-owned and operated enterprises--particularly in the creation of new businesses, which can compete successfully (graduate) in the open market as viable, taxpaying enterprises within a clearly defined span of time. On June 16, 1969, the Office of Business Development was established in SBA to handle the 8(a) program. And, effective August 1970, the 8(a) program was altered to expand the term "minority" to include disadvantaged (i.e., to assist small concerns owned by socio-economically disadvantaged persons become self-sufficient, viable businesses capable of competing effectively in the market place).

The program to place Government contracts with minority-owned firms became a major activity in keeping with a recommendation of an interagency committee set up as a coordinating device by OMBE and a subsequent Presidential directive.

The Administrator of SBA in testimony before the House Subcommittee on Minority Small Business Enterprise and Franchising in October 1973 stated the 8(a) program is totally SBA's--lock, stock, and barrel. And in response to the question, "Is the SBA 8(a) Contract Program tied to or involved in any way with the OMBE funding or the business resources of OMBE?" He said, "No." SBA officials disclaim any OMBE involvement as "a coordinator" in the 8(a) program stating that about 127 SBA personnel are totally involved in the 8(a) program to assist minorities to get a share of Government contracts. Yet, the OMBE Director in testimony before this very same Subcommittee stated the 8(a) program is one of the major program objectives of OMBE and that OMBE participates in the 8(a) program. However, the Investigative Staff noted the degree

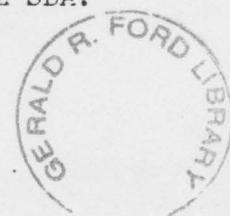


with which OMBE participates is strictly informational--that is OMBE merely gets the word out to the minority businessman to make him aware of the opportunities that exist in the 8(a) area.

OMBE is studying the 8(a) program under a contract with a private firm. The study was initiated by OMBE under its mandate in the Executive Order and it decided to conduct a full review of the program, to determine its success in assisting minority firms to reach a competitive posture and, if and where indicated, to recommend appropriate modifications to the goals, design, structure, administration, and/or operation of the program. The formal study in progress during the Investigative Staff's review was suspended for a period of time to overcome certain objections raised by SBA, which were subsequently resolved and the study is continuing.

The contractor performing the study issued a report under a prior letter contract. The report titled "Options for the Future in Minority Business Enterprise Procurement" contained pertinent information, as follows:

- Contracts are not awarded according to standard competitive procurement procedure. Rather, they are negotiated between the contractor, SBA, and the buying agency; SBA is in a type of middleman role.
- SBA signs 2 contracts, 1 in the role of supplier and another in the role of buyer, for every minority contract. As a result, SBA has a legal responsibility concerning contract performance.
- The program was also to be associated with technical and managerial assistance for the minority contractor. This task was originally a sole function of SBA, but the development of the enlarged OMBE program has shifted the center of this assistance away from SBA.



- There is an official limitation on the amount of time a minority company is allowed to participate in the program. Stemming directly from the "graduation" objective of the 8(a) program, this limitation was designed to structure the framework of participation in the program so as to make "graduation" happen after 3 years for any given firm, 4 years at the most.
- Because of graduation, 8(a) is viewed officially as an avenue for the minority firm to travel on the way to free market competition, both public and private. Yet, it seems that graduation has occurred rarely. The retention of the current 8(a) procurement program concept, with contracts being awarded to provide a public sector market for minority businesses, almost all of which do not "graduate," will most likely produce a long term buyer-supply relationship between the Government and minority firms.

A SBA official advised the Investigative Staff that he considers the 8(a) concept good, however, he was critical of the implementation and referred to the program "as a bag of worms." He continued that although the ultimate goal is to graduate these minority firms into the competitive work-a-day-world, to date, and since the start of this program, only 33 firms of a total of 1,400 have graduated.

The Investigative Staff queried an OMBE official as to OMBE's justification for inferentially taking credit for the successes in the minority enterprise programs, especially the 8(a) program. In response, he stated "OMB remains a low profile agency but has acted as a 'catalyst' and therefore, caused others to do it." He very frankly admitted he did not know how effective OMBE is but said things are happening in the minority community.



In a SBA study to evaluate the 8(a) program completed in March 1974, OMBE was identified most often as both the most and least helpful of the other Government agencies involved in assisting disadvantaged persons. This study also stated the most recurring comments referred to the need for quality assistance after the awarding of a contract. There was also concern expressed about the need for coordination between the various organizations engaged in rendering Management Services and Technical Assistance, as well as the quality of the services rendered.

An agency official was critical of the obvious lack of expert planning to properly utilize available resources stating OMBE did not have sufficiently qualified talent to involve itself in the 8(a) program and furthermore, no one was being held accountable. He said that Management Services and Technical Assistance is available to assist minority contractors but it is not properly concentrated.

Another agency official involved in the 8(a) program said it uses the SBA structure and finds this to work most satisfactorily because it is drawing on the experience of an on-going concern and, therefore, a minimum number of its personnel are required to administrate this program since the concentration of the 8(a) program is in SBA. This official very explicitly stated, "all programs, no matter how you massage them, must go through SBA."

An OMBE official, when discussing OMBE's role as a coordinator, said OMBE cannot exercise any clout over the old established agencies and therefore, coordination of other Federal agencies involved in the minority enterprise program is minimal and difficult to accomplish. He opined that parochial interests interfere with a good working relationship between agencies; that each agency is self-sufficient and involved in the minority enterprise program on its own



initiative; and, for them to be relegated to a subordinate role, would be difficult to accept. Therefore, this OMBE official said he was uncertain as to whether "coordination" attempts by OMBE were all "pluses."

C. The Interagency Council on Minority Business Enterprise

Under authority of Executive Order 11625, the Under Secretary of Commerce requested the heads of all Federal departments and agencies with resources allocated for the promotion of minority enterprise to appoint a secretarial or administrator level executive to the Inter-Agency Committee on Minority Business Enterprise to insure cooperation in the coordination of Federal activities for minority enterprise. (The name was subsequently changed to Interagency Council on Minority Business Enterprise.) The Under Secretary of Commerce is Chairman of the Council and OMBE provides Executive Secretariat resources.

The Council's major functions are:

- (1) To act as the central point for emphasizing the Administration's policy on minority business enterprise.
- (2) To function as a sounding board for discussing policy alternatives.
- (3) To provide a source of key individual contacts within each agency to promote minority enterprise.
- (4) To become a forum for the establishment of substantive task forces which address themselves to specific issues.

Under the aegis of the Interagency Council, a number of task forces have been set up to deal with specific issues and problems, including:

- (1) Task Force on Procurement for Minority Enterprise.
- (2) Task Force on Minority Business Concessions.
- (3) Task Force on Education and Training.

OMBE provides Executive Secretariat resources for all of these groups.



1. Task Force on Procurement

The Interagency Task Force on Procurement for Minority Enterprise was created by and reports to the Interagency Council on Minority Business Enterprise. Membership includes every department and agency with significant procurement activity. This group is chaired by the Commissioner of the Federal Supply Service, General Services Administration. The purpose of this Task Force is to examine, explore, and analyze Government procurement policies in order to determine the extent of minority entrepreneurs in Federal procurement, the opportunities available to minorities through procurement techniques such as the SBA 8(a) program, the effectiveness of these procurement techniques to increase the actual and potential business opportunities for minority entrepreneurs, and to act as an action arm to implement the Presidential memorandum on procurement dated December 5, 1969.

Minutes of the September 19, 1974, meeting of the Interagency Council reported Council's member agencies awarded more than \$270 million in 8(a) procurement in FY 1974, surpassing the goal of \$250 million. It was noted that DOD awarded approximately 53 percent of all 8(a) procurement in FY 1974 and GSA awarded about 15 percent of the 8(a) contracts. Jointly, DOD and GSA awarded 68 percent of the total 8(a) contracts. Of the remaining 21 agencies in the program, 11 of them were unable to achieve their FY 1974 goals, and of this number, 7 agencies achieved less than 60 percent of their established goals. One agency reported reaching only 2.6 percent of its target figure.

In the opinion of the Investigative Staff, the establishment of an Interagency Task Force on Procurement with top level agency officials represented speaks well for the program and should prove valuable in setting policy, annual goals, and in securing support for the 8(a) program. However,

it appears that the Task Force's major concern is to increase the number and dollar value of 8(a) contracts awarded each year; for instance, the FY 1975 objectives were increased to \$275 million, an increase of \$25 million over FY 1974 goals.

This increase reflects, as previously commented on by the Investigative Staff, the general attitude and concern of OMBE and other agencies with sheer numbers as a measure of satisfactory performance and not enough attention to how many firms "graduate" from the program. Apparently, the Task Force and SBA are recognizing that more needs to be done in this regard as noted by the minutes of the meeting "...that the FY 75 8(a) goal reflected a change in program emphasis from number and dollar value of contracts to successful participation in and graduation from the 8(a) program by minority firms... SBA field staff will be spending more time than ever working with those already in the program, seeing that there is a steady flow of contracts to participants, and increasing the number of graduates."

The Investigative Staff noted, however, that the minutes of the meeting did not indicate just how participants would be helped to successfully perform on their contracts and how to increase the number of graduates. Unless a comprehensive plan is developed to deal with the matter, implemented across the board, monitored and fully supported by all concerned agencies, the Investigative Staff sees little evidence that appreciable improvements can be expected to overcome the dismal picture painted by SBA when it said "only 33 firms to date (September 1974) have successfully graduated from the Program."

2. Task Force on Minority Concessions

Membership of the Concession Task Force include representatives of every department and agency for the development of minority concessions in

Federal facilities. This group is chaired by the Commissioner of the Public Building Service, General Services Administration. The Concessions Task Force is designed to expand the number of minority entrepreneurs who operate business concessions on Federal Government facilities and in Federal Government buildings.

It was reported during the meeting of the Interagency Council on September 19, 1974, that only 58 concessions remained of the 115 that were established by Federal agencies. Minutes of this meeting indicated failures were due to a number of problems including:

- (1) Inadequate feasibility studies and site selection.
- (2) Overly optimistic original estimates of gross receipts and concessionaire capabilities.
- (3) Inadequate follow-up management and technical assistance to established concessionaires.

The Chairman of the Concession Task Force in appraising the problems of the concessions' program stated that the Task Force, in the future, would emphasize support of existing concessionaires and the establishment of fewer but stronger, new, viable concessions rather than the promotion of a large number of new concessions. As a partial solution to the problems, a proposed interagency agreement between OMB-SBA-GSA was being finalized to assure that careful pre-evaluation of potential concession opportunities and follow-up assistance to concessionaires will be made available.

The status of the concessions established by Federal agencies appears on the following page:



Minority Business Concessions
As of September 1974

<u>Fiscal Year</u>	<u>Total Concessions Established</u>	<u>Concessions Still In Operation</u>	<u>Failure Rate (Percent)</u>
1971-1972	77	32	58
1973	27	16	40
1974	11	10	9
1975	<u>0</u>	<u>0</u>	<u>-</u>
Total	<u>115</u>	<u>58</u>	<u>50</u>

In an earlier Interagency Council meeting, the comment was made "whether promoting concessions also meant promoting failure for minority entrepreneurs. The conclusions seemed to be that this failure rate (37-38 percent at that time) was not excessive compared to the general failure rate for all businesses."

The Investigative Staff believes that the concession program as now implemented is promoting too many failures and a hard look should be taken at the program by the Interagency Council and OMBE to determine if the program should be continued. As noted in the May 9, 1974, Interagency Council minutes, the OMBE Director said in response to a question that, OMBE had a general policy which precluded provision of OMBE assistance to any concession which did not have a potential annual gross of \$150,000 or more. He also noted that there was a need to be more cautious about helping minorities into businesses which are not viable in the long run. Moreover, as noted in the summary statement of the Task Force, OMBE's limitation of a gross minimum of \$150,000 in the first year virtually excludes all existing minority concessions or potential minority concessions.



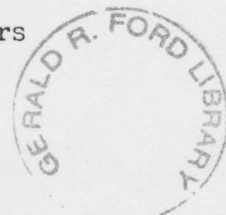
3. Task Force on Education and Training

Executive Order 11625 directed Federal departments and agencies to assist and cooperate with the Secretary of Commerce in his responsibility to coordinate Federal plans, programs, and operations which may contribute to the strengthening of minority business enterprise. By way of implementing this program, Health, Education, and Welfare (HEW) was requested by the Interagency Council to establish a Task Force on Education and Training for Minority Business Enterprise. The Chairman and Vice Chairman of this Task Force, established in 1972, are representatives of HEW and the Department of Labor, respectively.

This Task Force advises the Secretary of HEW and the Secretary of Commerce of problems associated with the education and training needs of the minority entrepreneur and makes recommendations as to the legislative and programmatic actions required to ameliorate these problems. Also, this Task Force is to identify and evaluate existing and proposed programs and funding to insure that priority areas are addressed and to avoid wasteful duplication and fragmentation of Federal efforts to respond to the education and training needs of minority business.

The major activity of this Task Force, covering 18 months, was a study of the important problem of developing management and business skills for existing and future minority business owners through education and training. A report was issued on January 10, 1974, and the study led to 6 basic findings:

- (a) The alarmingly high failure rate of minority-owned businesses is attributable primarily to poor management and business skills of the owners and managers of these enterprises.
- (b) There is a chronic shortage of trained minority talent available to meet the pressing need for owners, managers and business technicians in the growing number of new and expanding minority business firms.



- (c) Management and business skills are critical elements in the survival and successful growth of minority business enterprises.
- (d) Education and training programs designed to provide needed management and business skills must become an integral part of the national strategy to expand minority business ownership.
- (e) Entrepreneurship as a career opportunity for minority youth is given inadequate attention within the total educational system.
- (f) There is a wide range of existing national, state, and local resources which can be enlisted to support or conduct minority business enterprise education and training programs for existing, potential, and future entrepreneurs.

This study, as well as numerous other studies of minority business enterprise programs, indicates that the program has not suffered because of a lack of studies. Additionally, the findings of this Task Force are not entirely new revelations. In the opinion of the Investigative Staff, some of the observations have appeared in other studies, and have been recognized by other individuals associated with the program. The key question is when and how, if ever, will the recommendations made by this Task Force be implemented. In other words, the mere articulation of a problem does not resolve it. And, as important, how much will this effort cost the taxpayer and from what sources will the revenue be generated?

Some of the specific observations included in the report reflect similar views of the Investigative Staff, as follows:

- A frequent complaint from the minority community heard throughout the Task Force's public hearings was the need for more effective communication about business venture and management training opportunities.
- There is no need to reinvent the wheel in developing and implementing minority business education and training programs. The Federal Government, through such agencies as the Small Business Administration, the Office of Minority Business Enterprise, the United States Office of Education, and the



Department of Labor, has accumulated valuable experience in small business management training generally, and in minority business enterprise and training specifically.

- Evaluation is a necessary ingredient of the comprehensive program. A sustained monitoring process must be made a part of the total effort to insure that the best techniques and methods are used, and the greatest impact is had on the target population.
- To achieve the most effective use of all resources available, there must be a closer coordination of efforts and leadership among the various Federal agencies that are contributing to the minority enterprise program.
- At the present time, no single Federal agency has ultimate responsibility for minority business education and training development.

The interpretation placed upon the above observations by the Investigative Staff is that this program area is highly fragmented, uncoordinated, and in a real sense, leaderless and; thus, reflects unfavorably on OMBE's ability to adequately lead, coordinate, and oversee its responsibilities in this program area.

D. Minority Business Opportunity Committee

There are more than 85 programs throughout the Federal Government that promote the development of minority business enterprise. Coordination of these programs presents a formidable task which requires participation at all Federal levels, both in Washington and in the field. A special mechanism for accomplishing this task at the local level is the Minority Business Opportunity Committee (MBOC). MBOCs were established as standing committees of Federal Executive Boards and Federal Executive Associations by direction of the Office of Management and Budget in February 1970.

Members are representatives of Federal agencies located within the geographical areas of the MBOCs. They are responsible for supporting and

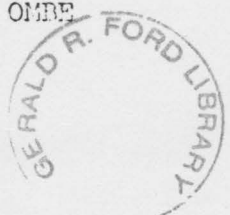


implementing the national programs within the Federal governmental structure, and for bringing together local heads of Government agencies so that they may improve the availability of Government financing, procurement opportunities, technical advice, and other business resources. By April 1974, 35 MBOCs were in operation in cities which have a potential for minority entrepreneurs and a substantial Federal presence.

According to a July 1974 Department of Commerce MBOC Handbook on Guidance and Procedures, the MBOC:

- (1) Is in a position to exert great leverage and should concentrate its efforts on coordinating the Federal presence by addressing certain tasks, including:
 - Make or continue the minority enterprise effort as a priority at the local level.
 - Assist in promoting minority enterprise programs in its areas.
 - Develop, coordinate, disseminate, and exchange among Federal agencies, information on the creation and growth of minority SBA business enterprises.
- (2) Concentrate Government sector support on special projects, including:
 - Increasing minority procurement such as the section 8(a) program.
 - Coordinating Federal efforts at the local level to identify and disseminate information (a) on the goods and services minority firms can provide, and (b) on Federal business opportunities suitable for minority firms.
- (3) In coordination with each member agency, develop and establish minority enterprise goals for the MBOC and each member agency at the local level.

As outlined in the MBOC Handbook, OMBE's role in cooperation with the Office of Management and Budget is to provide program direction, coordination, and executive secretaries. As executive secretary of the MBOC, the OMBE

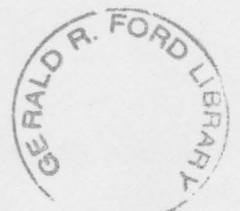


Field Officer (assigned on a part-time basis) has a unique role. He is the only Federal employee on the MBOC whose primary job is coordination of the minority business enterprise program within both the public and private sectors. The MBOC Chairman is expected to look to him for continuity, professional guidance, information and assistance in formulating policies.

The Investigative Staff found during its visits to the regional offices that the MBOCs met occasionally or not at all and that the OMBE Field Officer assigned as MBOC executive secretary generally was not active. A consensus of the individuals contacted indicated that the level of activity of the executive secretary had dropped substantially since the OMBE reorganization and decentralization of October 1973.

An MBOC Chairman in one region advised the Investigative Staff that OMBE had not supported the MBOC program in that area. He felt that the issue narrowed down to OMBE regional priorities and that the MBOC program had a lower priority. He described the program as having a "semi-orphan status." The Chairman commented on certain observations made at the October 1974 National MBOC meeting, as follows:

- (1) Other MBOC chairmen were experiencing more difficulties with OMBE support than was being experienced by his office.
- (2) Some chairmen did not know the OMBE Field Officer assigned to their MBOC as executive secretary.
- (3) Part-time assistance of the executive secretary was inadequate and self-defeating. To overcome the problem, the MBOC membership succeeded in convincing OMBE to fund a pilot test at 10 locations with full-time executive secretaries assigned.
- (4) MBOC membership has repeatedly complained that the OMBE required reporting form to show program progress is too complex and detailed, and OMBE instructions are too general and confusing. Also, the form has limitations for use at the field level.
- (5) OMBE headquarters and regional offices have done little to support the MBOCs in the field.

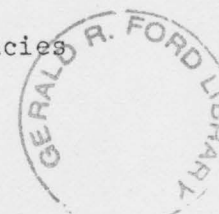


On a more personal note, this chairman said that there is no procurement experience available on the MBOC in his area and OMBE should take steps to provide this expertise. Until recently, this MBOC had no direct relationship with the local OMBE funded organizations. In addition, the Regional Director has not delegated MBOC authority to field office personnel.

An agency official advised the Investigative Staff that in order for a local MBOC to be effective, it must have some clout and also some resources (funding and staffing) to sustain the organization. A regional office employee, previously very active with the MBOC as executive secretary, apprised his Regional Director that "for a number of reasons, our MBOC-FEB (Federal Executive Board) mechanism is not working like it should. My assessment of this situation is that the reason for this is the diminished support that has been given to the MBOC-FEB mechanism since the decentralization."

The Investigative Staff noted that apparently the Interagency Council is aware that the MBOC is not functioning adequately as top level agency officials have been reminded to increase their support of the program at the local level. In the September 1974 Interagency Council minutes, one Under Secretary said that based on a review within his agency, "many MBOCs were inactive or unsure of whether their line of authority flowed to the Office of Management and Budget or OMBE and the Department of Commerce." Included in the same minutes were comments made by the Council Chairman emphasizing that MBOCs are the major mechanism for mobilizing and coordinating Federal resources at the local level to promote minority business development. He stressed that member agencies should increase their support through different forms:

- (1) Higher level agency participation on the MBOC.
- (2) Better Coordination and direction from Council members and national agencies to their local agency representatives on MBOCs.
- (3) Agency headquarters offices could provide more guidance and training to their agency's representatives to MBOCs.



X. AUGMENTATION OF OMBE STAFFING NOT IDENTIFIED
IN THE ANNUAL BUDGET REQUEST

OMBE's permanent staff is augmented by other personnel from the Department of Commerce, generally permanent employees working full-and part-time on OMBE matters. The majority of these individuals-new employees, are assigned to Commerce procurement, audit, legal, and security investigation staffs. OMBE also shares on a reimbursable basis the costs of other services provided by the Department of Commerce to its several bureaus including OMBE. These employees are not accounted for by OMBE as falling within its authorized personnel strength ceiling as established by the Congress each fiscal year. In addition, OMBE employs consultants and experts on a need basis, to provide services that are not generally available and cannot be provided from within OMBE. The use of consultants has declined from a high of 25 in FY 1971 to a low of 2 in FY 1974.

The authorized and actual personnel strength of OMBE personnel for the period FY 1970 through FY 1975 is included in the table below:

AUTHORIZED AND ACTUAL PERSONNEL STRENGTH
(Fiscal Years 1970-1975)

<u>Personnel Strength</u>	<u>1970</u>	<u>1971</u>	<u>Fiscal Years</u>		<u>1974</u>	<u>1975</u>
			<u>1972</u>	<u>1973</u>		
Authorized	50	114	309	278	245	245
Actual	58	60	228	245	225	-

As of September 23, 1974, the number of personnel identified as employed by OMBE was 257.

OMBE data indicates that the cost of the reimbursable services provided by the Department is increasing significantly each year as are the number of people. For FY 1975, the estimated cost shown is about \$2.2 million, an

increase of about \$600,000 over the actual cost incurred during FY 1974. The number of additional people specifically identified as assigned to OMBE programs in FY 1975, as of November 1974, were 39, or an increase of 62 percent over those actually utilized (24 people) by OMBE during FY 1974. The Investigative Staff was advised, however, that other personnel not readily identifiable and working part-time would raise the overall total of people from 39 to about 50 or 60 people.

Personnel information and an analysis of the indirect cost information related to the reimbursable services for FYs 1973, 1974, and 1975, as prepared by OMBE, is included in the table on the following page:



PERSONNEL INFORMATION AND AN
ANALYSIS OF INDIRECT COST
(Fiscal Years 1973-1975)

	<u>NO. OF PEOPLE</u>	<u>FY 1973 ACTUAL COST</u>	<u>NO. OF PEOPLE</u>	<u>FY 1974 ACTUAL COST</u>	<u>NO. OF PEOPLE</u>	<u>FY 1975 ESTIMATED COST</u>
Audit Services <u>1/</u>	20	\$484,000	20	\$604,353	20	\$586,900
Legal Services <u>2/</u>	2	45,675	2	41,800	2	62,300
Security Investigations <u>3/</u>	2	30,603	2	15,000	5	126,800
EDA Accounting <u>5/</u>	N/A	53,585	N/A	118,600	N/A	132,000
General Assessments & General Expenses <u>5/</u>	N/A	70,443	N/A	76,355	N/A	74,320
Working Capital Fund <u>5/</u>	N/A	701,370	N/A	750,526	N/A	941,200
Administrative Services Contract <u>4/</u>	...	...	...	...	12	205,000
Space Cost	...	...	...	...	N/A	37,000
Total Cost		<u>\$1,385,676</u>		<u>\$1,606,634</u>		<u>\$2,165,520</u>

NOTE:

- 1/ Average GS Grade 12 12 12
- 2/ Average GS Grade 11.6 12.5 13
- 3/ Average GS Grade 11 11 11.6
- 4/ Average GS Grade 11
- 5/ The Average GS grade and number of people are difficult to determine because no employee in either of these offices provide services for OMBE on a full-time basis. The cost identified in each fiscal year is based on OMBE's share of departmental charges for services provided.

Some of the estimated FY 1975 services for which OMBE will reimburse the Department are included in the following listing:

DEPARTMENT OF COMMERCE REIMBURSABLE
PROGRAMS - FISCAL YEAR 1975

<u>Project Title</u>	<u>FY 1975 Estimate</u>
Reimbursable Work-Policy Development	\$ 1,200
Departmental Communications Activity	12,550
Management Analysis Intern	6,500
Federal Information Centers	1,600
Executive Seminar Center	14,250
Federal Executive Institute	3,600
Department-Wide Campaigns	340
Disadvantaged and Underutilized Training	400
Junior Fellowship Program	25,320
Junior Technician Program	34,500
Federal Executive Board	670
OMBE Contracts	205,000
ALS For Administration-Special Advisory Group	1,560
Investigations and Security	126,800
Audit Services	586,900
Legal Staff	62,300
Departmental Printing	400
HTIC Service	130
Special and Emergency Services	1,700
Western Union Telex	2,600
Security Inspection Service	4,000
Total	<u>\$1,092,320</u>

When the estimated additional personnel numbering 50 or 60 people is added to OMBE's actual permanent strength of 225 people at June 30, 1974, or the 257 people employed as of September 23, 1974, OMBE will easily exceed its authorized strength ceiling of 245 people. This use of additional personnel by OMBE may represent an infraction of the Congressional imposed strength ceiling and the use of appropriated funds may also be inconsistent with the intent of the Congress.

The Investigative Staff was advised that OMBE does not have an authorized ceiling for consultants and experts. OMBE is limited, however, by its budget



and its ability to justify the need for using consultants and experts instead of utilizing permanent OMBE employees. Additionally, consultants and experts must be able, according to OMBE, to provide services that are not available and cannot be provided from within OMBE.

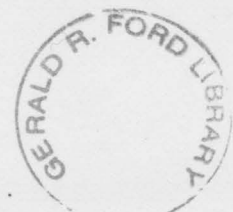
The number of consultants and the related cost for FYs 1971 through 1974 is set out below.

CONSULTANTS EMPLOYED
FISCAL YEARS 1971-1974

<u>Fiscal Year</u>	<u>Number</u>	<u>Compensation</u>
1971	25	\$174,757
1972	10	84,367
1973	2	6,544
1974	<u>2</u>	<u>33,541</u>
Total	<u>39</u>	<u>\$299,209</u>

The Investigative Staff noted that some of the consultants subsequently were hired by OMBE as permanent employees.

Since OMBE does not specifically or separately show in the annual budget presentations the information concerning its utilization of additional personnel, the Investigative Staff is of the opinion that this omission fails to show an accurate and true picture of OMBE's total staffing. In order to enable review of the ostensible increase in OMBE staffing and the related cost, the Investigative Staff recommends that OMBE be required to fully justify such increases, and include in future budget requests information on all proposed staffing increases.



XI. COMMUNITY DEVELOPMENT CORPORATION

The Community Development Corporation (CDC) is an outgrowth of a 1966 amendment to the Economic Opportunity Act of 1964 that provided for the development of special programs by which residents of urban low-income areas may, through self help and mobilization of the community at large, with appropriate Federal assistance, improve the quality of their economic and social participation in community life in such a way as to contribute to the elimination of poverty and the establishment of permanent economic and social benefits. The Act was further amended in 1972, Title VII, Part A, to include rural areas.

The purpose of the Act is to establish special programs of assistance to private locally initiated community corporations and related nonprofit agencies, including corporations, or organizations conducting activities which:

- (1) Are directed to the solution of the critical problems existing in particular communities or neighborhoods (defined without regard to political or other subdivisions or boundaries) within those urban and rural areas having concentrations or substantial numbers of low-income persons;
- (2) Are of sufficient size, scope, and duration to have an appreciable impact in such communities, neighborhoods, and rural areas in arresting tendencies toward chronic unemployment, and community deterioration; and
- (3) Hold forth the prospect of continuing to have such impact after the termination of financial assistance under this Title.

According to the FY 1974 congressional testimony by an Office of Economic Opportunity official, the CDC program is an experimental program working with private market mechanisms to stimulate economic opportunities for the residents of economically disadvantaged communities. He stated that a community development corporation (a) is an organization created and controlled



by residents of such communities, and (b) is charged with the responsibility of developing a comprehensive plan for the economic development of its area, to stimulate, finance, and in many cases own and operate, economic entities that lead to betterment of the community.

In setting up a CDC, the members of a community -Black, Chicano, Indian, or White,urban or rural-get together and form a corporation, usually nonprofit. The corporation then raises money by pursuing venture capital, short and long term loans, other investments, and seed money from banks, foundations and Federal sources. Technical assistance is sought to help insure development of the economic, human, and physical resources of a community. The next step is for the fully capitalized corporation to either invest in or make loans to a variety of subsidiary, profit-oriented corporations or cooperatives each of which is expected to benefit the community by providing ownership and employment, by developing skills, or by simply bringing income to the community. As of June 30, 1974, there were 35 operating CDCs.

Since its inception the CDC programs have had an uncertain future as they were shifted from one activity to another within the Office of Economic Opportunity (OEO). This unstable condition persists today as the legislative future of OEO itself is in doubt. Information provided by the OMBE Chief Counsel indicated as of December 1974 that House and Senate conferees had agreed on a bill, H.R. 14449, which continues OEO as an independent agency. The bill also provides that no earlier than March 15, 1975, the President can submit to Congress a Reorganization Plan which transfers the Community Services Administration (known formerly as OEO) to HEW and the Community Development Corporation to Commerce. Should the Congress pass the bill and if the bill is not vetoed by the President, the OMBE Chief Counsel has stated that Commerce could be administering the CDCs as early as June 30, 1975.

GERALD R. FORD LI

OiBE Preparation for Transfer of CDCs

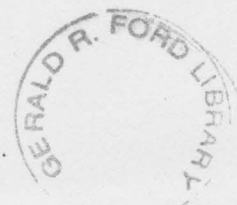
OiBE has aggressively pursued the transfer of the CDCs from OEO to the Department of Commerce/OiBE. Contingent on the passage of enabling legislation, OiBE has included budget requests for transfer of the CDC program in both FY 1974 and FY 1975 for \$37,700,000 and \$39,527,000, respectively.

The CDC budget as submitted by OEO including personnel data for FYs 1972, 1973, and 1974, appears below:

<u>CDC BUDGET</u>			
<u>Fiscal Years 1972, 1973, and 1974</u>			
	<u>Budget</u>	<u>Personnel</u>	
		<u>Authorized</u>	<u>Actual</u>
FY 1972	\$25.0 million	48	38
FY 1973	\$30.0 million	45	38
FY 1974	\$39.3 million	45	38

The OiBE Chief Counsel has been designated as the focal point for coordinating all OiBE preparations for the possible transfer of the CDC programs to OiBE. Since June 1973, the Chief Counsel and a legislative specialist have devoted considerable effort to planning for an orderly and smooth transition of the CDC program in the event authorizing legislation is enacted. As a part of the contingency planning, the OiBE legal staff has familiarized key OiBE personnel with the essentials of the CDC programs; conversely, principal operating officials of the CDCs have been briefed on the existing OiBE programs. In addition, the Director of OiBE has addressed gatherings of CDC leaders, and visited a number of CDCs to conduct on-site evaluations as to their effectiveness and resource needs.

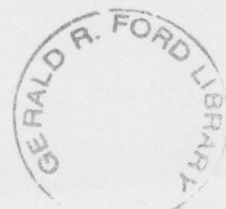
Also, OiBE contracted with the Planning Research Consultants in February 1973 for the sum of \$59,955 to furnish the following:



- (1) Prepare briefing materials for the OMBE staff;
- (2) Analyze various decentralization alternatives;
- (3) Design organizational alternatives for merging the CDC program into OMBE;
- (4) Develop recommended administrative guidelines; and
- (5) Design 4 demonstration programs for possible implementation should the CDCs transfer to OMBE.

On May 1, 1974, the Planning Research Consultants issued an interim report on its examination of the possibilities for decentralization of the Community Economic Development (synonymous with CDC) program. The report included various observations and conclusions, some of which are set forth below:

- Any consideration of the concept of decentralization must be cognizant of the fact that the Community Economic Development program is a national demonstration program which has always been an under-funded and inadequately staffed program.
- CDC officials have previously made negative responses to Office of Management and Budget proposals to decentralize its program.
- OMBE does not intend to announce any plans to decentralize the CDC program before the OMBE decentralization (initiated in October 1973) has yielded a "significant track record."
- CDC's have expressed concern with respect to decentralization as follows: interference with local relationships, program continuity and administrative uniformity; improper timing of institutionalization of program decentralization; and, lack of faith in the regionalization of Federal program administration in general, and belief, that there is no cost-effectiveness in staff expansion which can show clear program administration benefits, especially where there are inherent program budgetary constraints.
- Reasons cited for opposition to decentralization by CDC discussion group members were the history of CDC relationships with regional offices of Government agencies, the unevenness of the application of the program standards and resources under regional administration, and the fear that decentralization would divide the CDC's after their long effort to unite around common problems and goals.



From the beginning, the Director of OMBE has proposed for consideration the decentralization of the CDC program if it is transferred to OMBE. Reasons cited by the OMBE Director for this proposal have included the existing structure of the OMBE regional offices and the availability of a technical staff to serve the CDCs. Apparently, a dilemma has developed over the proposed transfer and decentralization since the CDC representatives would not agree to such a step and OMBE would not drop this proposal from their requirements in the event a transfer is authorized. The OMBE Director iterated in the FY 1975 appropriation hearings that the greatest contribution OMBE can make to the CDC program is greater resource development capability in both the Federal and private sectors through its sponsored programs, funded organizations, and regional resource development specialists.

In view of its general findings concerning OMBE program results and the identified weaknesses of the OMBE regional staffs, the Investigative Staff is of the opinion that the contemplated transfer of the CDC program to Commerce/ OMBE and the proposed decentralization may not be to the best interest of the Government. As previously noted, OMBE is still experiencing difficulties related to its own decentralization and needs additional time to resolve many of the problems it faces. The Investigative Staff feels that the addition of a new major program whose scope and functions are not identical to those of the OMBE program as testified to by OMBE, although there are complementary areas, would tend to compound OMBE's problems and possibly overwhelm it. Further, the strong possibility exists that the CDC program would not be materially assisted or strengthened by the proposed transfer of the program to the Department of Commerce/ OMBE. It should be noted, however, that the Investigative Staff did not look into the specific merits of the proposed transfer.

