

MBDA Can Improve Processes to More Effectively Monitor Cooperative Agreements

FINAL REPORT NO. OIG-17-029-A

SEPTEMBER 5, 2017



U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation



September 5, 2017

MEMORANDUM FOR: Chris Garcia
Acting National Director
Minority Business Development Agency

FROM: Mark H. Zabarsky
Assistant Inspector General for Acquisition
and Special Program Audits

SUBJECT: *MBDA Can Improve Processes to More Effectively Monitor
Cooperative Agreements*
Final Report No. OIG-17-029-A

Attached is our final audit report conducted to review Minority Business Development Agency (MBDA) grant programs as part of our annual risk-based audit plan. Our audit objective was to review the adequacy of MBDA's management of its cooperative agreements. Specifically, for the MBDA Business Center (MBC) program, we (1) evaluated controls over application review and award approval processes; (2) reviewed processes for monitoring performance and compliance with programmatic requirements for MBC awards; and (3) determined whether performance accomplishments reported by MBCs are supported and verified.

Overall, we did not find significant problems with the process for awarding cooperative agreements; however, opportunities exist to improve the administering of these agreements. Specifically, we found the following:

- I. *MBDA did not provide adequate oversight for some MBCs and did not identify, resolve, and maintain documentation of MBC deficiencies. We found that MBDA did not have a fully effective process for detecting and following up on MBCs with deficiencies identified during site visits and reviews of performance reports and single audit reports.*
- II. *MBDA's oversight of program income and non-federal cost share requirements does not ensure MBCs provide their share of project costs for each funding period. MBDA did not ensure MBCs comply with financial assistance award terms for collecting and using program income. In addition, neither MBDA nor NOAA ensured MBCs regularly met their share of total project costs.*
- III. *Current policies and procedures do not ensure quality reporting of some of MBDA's performance accomplishments. We found problems regarding MBDA maintaining required supporting documentation and verifying and validating the accuracy of performance accomplishments submitted by MBCs.*

On August 17, 2017, OIG received the MBDA's response to the draft report's findings and recommendations, which we include within the report as appendix B. MBDA management agreed with all findings and recommendations and noted actions it has and will take to address them.

Pursuant to Department Administrative Order 213-5, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M). We appreciate the cooperation and courtesies extended to us by your staff during our audit. If you have any questions or concerns about this report, please contact David Sheppard, Regional IG for Audit at (206) 220-7970 or Lisa M. Kelly, Project Manager, at (206) 220-4715.

Attachment

cc: Joann Hill, Chief of the Office of Business Development, MBDA
Ronald Marin, Chief Financial Officer, MBDA
Tania White, Audit Liaison, MBDA



Report in Brief

September 5, 2017

Background

The Minority Business Development Agency (MBDA) was established in 1969 to lead federal government efforts to promote the growth and global competitiveness of minority business enterprises. Although MBDA has developed a variety of programs in addition to advocacy, research, and information efforts, it has committed significant resources to the MBDA Business Center (MBC) program to accomplish its goals. From fiscal years (FYs) 2012 through 2016, the MBC program accounted for about 45 percent of MBDA's annual appropriations.

Why We Did This Review

Our audit objective was to review the adequacy of MBDA's management of its cooperative agreements. Specifically, for the MBC program, we (1) evaluated controls over application review and award approval processes; (2) reviewed processes for monitoring performance and compliance with programmatic requirements for MBC awards; and (3) determined whether performance accomplishments reported by MBCs are supported and verified. Overall, we did not find significant problems with the process for awarding cooperative agreements; however, opportunities exist to improve the administering of these agreements.

MINORITY BUSINESS DEVELOPMENT AGENCY

MBDA Can Improve Processes to More Effectively Monitor Cooperative Agreements

OIG-17-029-A

WHAT WE FOUND

Overall, we did not find significant problems with the process for awarding cooperative agreements; however, opportunities exist to improve the administering of these agreements. Specifically, we found the following:

- *MBDA did not provide adequate oversight for some MBCs and did not identify, resolve, and maintain documentation of MBC deficiencies.* We found that MBDA did not have a fully effective process for detecting and following up on MBCs with deficiencies identified during site visits and reviews of performance reports and single audit reports.
- *MBDA's oversight of program income and non-federal cost share requirements does not ensure MBCs provide their share of project costs for each funding period.* MBDA did not ensure MBCs comply with financial assistance award terms for collecting and using program income. In addition, neither MBDA nor the National Oceanic and Atmospheric Administration (NOAA) ensured MBCs regularly met their share of total project costs.
- *Current policies and procedures do not ensure quality reporting of some of MBDA's performance accomplishments.* We found problems regarding MBDA maintaining required supporting documentation, and verifying and validating the accuracy of performance accomplishments submitted by MBCs.

WHAT WE RECOMMEND

We recommend that the MBDA National Director

1. Comply with the interagency agreement and the *Department of Commerce Grants and Cooperative Agreements Manual (Grants Manual)* by ensuring that program analysts: (a) document results of their site visits; (b) document recommended remedies for deficiencies identified through site visits; (c) document that single audit findings have been fully resolved; and (d) provide all this information to the NOAA grants officer for inclusion in the official award file.
2. Coordinate with NOAA Acquisition and Grants Office (AGO) to ensure the grants officer provides single audit reports for MBDA's review and comment as required by the interagency agreement.
3. Comply with the interagency agreement and *Grants Manual* by ensuring the program office notifies the grants officer when there are potential or existing problems, financial inconsistencies, or noncompliance on MBC agreements.
4. Implement procedures to work with the grants officer to: (a) identify and follow up with MBCs that have not met program income and non-federal cost share requirements during each funding period of the agreement; and (b) ensure program income collected that exceeds the budgeted amount is used to further program purposes.
5. Establish guidance to assist MBCs in reporting jobs created and retained.
6. Implement the necessary controls for verifying the reasonableness and accuracy of MBC reported jobs created and retained data before approving the transactions.
7. Enforce procedures detailed in the *MBDA Business Center Program Standards Handbook* requiring that MBCs submit mandatory documents to support performance transactions.
8. Ensure performance results are verified and included in the appropriate annual performance reports.
9. Implement procedures to ensure that supporting documentation to validate MBC performance accomplishments and monitor cooperative agreements are properly stored, maintained, and accessible to program office staff.

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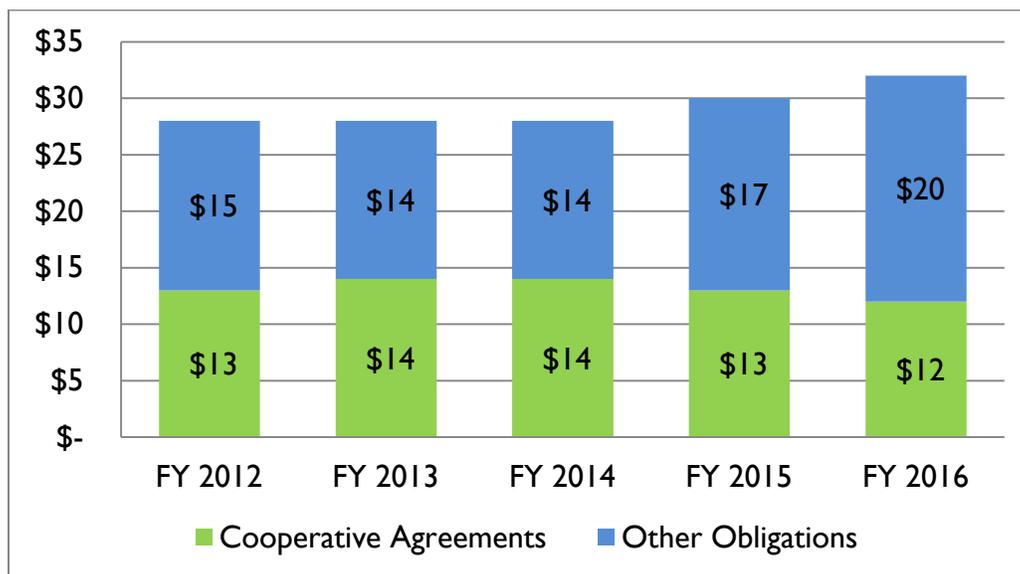
Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.

Introduction

The Minority Business Development Agency (MBDA) was established in 1969 to lead federal government efforts to promote the growth and global competitiveness of minority business enterprises through the mobilization and advancement of public and private sector programs, policy, and research.¹

Although MBDA has developed a variety of programs in addition to advocacy, research, and information efforts, it has committed significant resources to the MBDA Business Center (MBC) program² to accomplish its goals. From fiscal years (FYs) 2012 through 2016, the MBC program accounted for about 45 percent of MBDA's annual appropriations. In FY 2016, MBDA used about \$12 million of its approximately \$32 million in program funds for the MBC program (see figure 1).

Figure 1. MBDA Appropriations for FYs 2012–2016 (in millions)



Source: OIG analysis of Office of Management and Budget, FYs 2014–2017 appendixes, *Budget of the U.S. Government*, and cooperative agreements

Under this program, MBDA follows a competitive process to award cooperative agreements³ to a network of MBCs throughout the country. MBCs provide to minority-owned businesses technical services designed to help minority-owned businesses obtain access to contracts, financing, and global markets. The MBC program is a fee-for-service program. In exchange for

¹ Executive Order 11458 established the Office of Minority Business Enterprise. In 1979, the Office was renamed the Minority Business Development Agency.

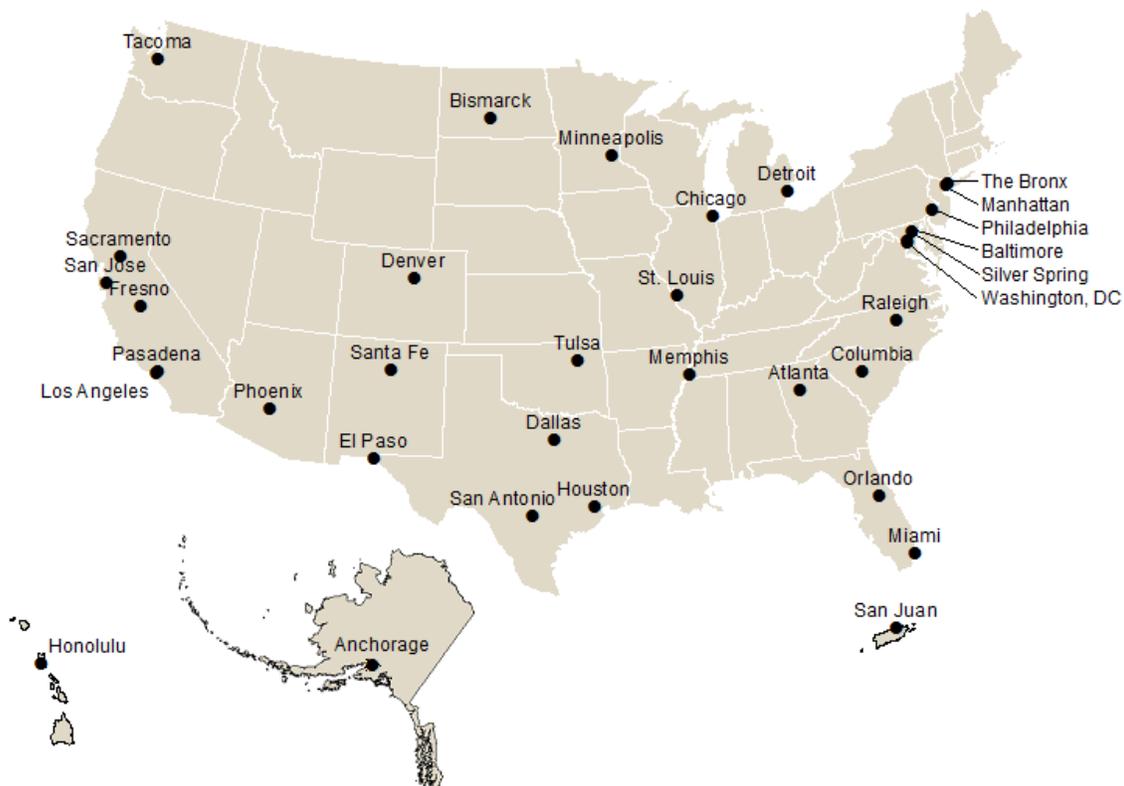
² The MBC program is the agency's primary method for delivering technical assistance and business development services to eligible minority businesses. MBC focuses on job creation, exports, and securing domestic public and private contracts and financing transactions for clients.

³ Using this type of funding instrument allows MBDA program staff to have substantial programmatic involvement, which means MBDA can assist, guide, coordinate, and participate in MBC activities.

assistance and services provided, MBCs generate program income by charging minority business clients annual membership and other fees approved by MBDA. Amounts collected from clients must be used to further program objectives.

In 2012, MBDA consolidated support functions and staff by centralizing operations in Washington, D.C. The cost savings achieved through the reorganization allowed for an expansion of the MBC Program. MBCs are located in geographical areas with high minority populations (see figure 2 below).

Figure 2. MBDA Business Center Program Locations at September 30, 2016



Source: OIG review of MBDA Business Centers, Projects for FY 2016

Alongside MBDA, the National Oceanic and Atmospheric Administration (NOAA) Acquisition and Grants Office (AGO) Grants Management Division plays a key role in monitoring the MBC program. Based on an interagency agreement between the two, NOAA AGO provides grant management support and financial oversight for MBDA's financial assistance awards.⁴

⁴ During FYs 2011–2016, the years included in the scope of our audit, MBDA and NOAA AGO signed interagency agreements with one another annually. Throughout this report we refer to the annual agreements collectively as the interagency agreement.

Objectives, Findings, and Recommendations

Our audit objective was to review the adequacy of MBDA's management of its cooperative agreements. Specifically, for the MBC program, we (1) evaluated controls over application review and award approval processes; (2) reviewed processes for monitoring performance and compliance with programmatic requirements for MBC awards; and (3) determined whether performance accomplishments reported by MBCs are supported and verified. Overall, we did not find significant problems with the process for awarding cooperative agreements; however, opportunities exist to improve the administering of these agreements. Appendix A further explains the objective, scope, and methodology of our audit.

MBDA's process for awarding cooperative agreements to MBCs generally followed the agency's guidelines. We reviewed three MBC applications and found (1) panel members generally reviewed and scored applications according to requirements; (2) the selecting official's funding recommendation was based on the highest scoring applicant; (3) the NOAA grants officer executed cooperative agreements according to the selecting official's recommendation; and (4) award files contained records demonstrating compliance with application review and approval requirements.

However, we found that MBDA's oversight and guidance of its MBCs was not adequate to ensure

- MBDA program analysts consistently identified and documented deficiencies and resolutions found during site visits and single audits;
- MBCs complied with terms of the financial assistance agreements for collecting and using program income and meeting cost share requirements;
- MBCs reported reliable data on jobs created and retained; and
- MBCs provided required supporting documentation for validating and properly reporting performance accomplishments.

Furthermore, MBDA did not always coordinate with NOAA to identify MBC operators that had single audits, to verify whether audit findings in single audit reports were resolved, and to ensure that MBCs met non-federal cost share requirements. Consequently, both MBDA and NOAA missed opportunities to take actions to resolve MBC noncompliance with award requirements. It is important that MBDA use every tool available, including its interagency agreement with NOAA, to improve its oversight over the millions of dollars in financial assistance that it awards annually to MBCs, particularly in an environment of increasingly scarce resources. However, inconsistency in how MBDA program staff monitor their assigned MBCs, and lack of follow-up when specific deficiencies are found, demonstrate that changes are needed to ensure that federal funds are used efficiently and effectively. For example, site visits, follow-up on issues found in performance reports, and single audits are valuable tools that can be used to protect federal grants and American taxpayers' dollars. For these tools to be effective, MBDA must maintain records; coordinate oversight with the grants officer; and, for MBCs with single audits, track findings, monitor the severity and frequency of such findings, and oversee the MBCs' timely implementation of corrective action plans.

I. MBDA Did Not Provide Adequate Oversight for Some MBCs and Did Not Identify, Resolve, and Maintain Documentation of MBC Deficiencies

We found that MBDA did not have a fully effective process for detecting and following up on MBCs with deficiencies identified during site visits and reviews of performance reports and single audit reports. For some MBCs, MBDA did not maintain documentation recording the results of such visits. The *Department of Commerce Grants and Cooperative Agreements Manual (Grants Manual)* and MBDA's interagency agreement with NOAA AGO establish responsibilities between the grants officer and program officer so that the grants officer and program office staff detect and resolve noncompliance with award terms and conditions, but those responsibilities were not always followed or enforced.

A. MBDA Staff Did Not Always Retain Documentation Explaining the Results of Site Visits and Maintain Those Records in the Award File

The interagency agreement requires MBDA to provide or make the following documentation available to the grants officer for the official award files: (1) internal memoranda and all correspondence regarding specific award files; (2) recipient performance reports; and (3) written evaluations of performance reports and of any on-site visits. Also, the interagency agreement and *Grants Manual*⁵ require that MBDA communicate to the NOAA grants officer any recommendations for resolving potential or existing problems or situations of noncompliance. However, we found that MBDA did not consistently comply with the terms of the interagency agreement or *Grants Manual*. Examples follow:

- MBDA program analysts could not provide new project site visit⁶ reports for five locations and periodic site visit⁷ reports or other records for four of the six MBCs we selected for review.⁸ Some site visit reports were unavailable because they were not retained by MBDA when former program analysts responsible for monitoring the MBCs left the agency. Other site visit reports were not available because staff suffered computer crashes and were unable to recover the records. Maintaining documentation is extremely important because it allows others who might assume responsibility for oversight of the financial assistance award to know what prior events and decisions have transpired and the basis for those decisions.

⁵ The *Grants Manual* requires program offices, like MBDA, to report to the grants officer, within 30 days, on potential or existing problems, whereas the interagency agreement requires MBDA to report problems in a timely manner.

⁶ The purpose of the new project site visit is to observe a new recipient's MBC office facilities, verify staffing levels, discuss strategies for achieving performance goals, and communicate areas of concern.

⁷ The periodic site visit is used to evaluate areas not normally covered in the semi-annual and year-end performance reports, such as review of client files, documents supporting awarded transactions, and MBC operations.

⁸ The cooperative agreements included in this part of our audit started in 2011 and 2013 and ended in 2016. Subsequently, we selected 21 cooperative agreements that started more recently, in April 2016, and found new project site visits that were conducted for 18 of the 21 MBCs and the reports were in the NOAA Grants Online system. We did not perform a detailed review of the 18 new project site visit reports.

- In July 2015, two MBDA employees participated in a site visit to the Manhattan MBC and identified several areas of concern, such as:
 - multiple programs operating in the office space designated for the MBC;
 - MBC's use of funds, which according to the MBC budget were set aside for MBC staff salaries but as of the day of the site visit three MBC staff positions were vacant; and
 - the MBC director's lack of understanding of program rules and legal requirements, resulting in executing lease agreements on behalf of MBDA and renting MBC office space to minority businesses.

MBDA could not provide documentation showing whether the MBC took corrective action to resolve the identified deficiencies. Although MBDA notified the grants officer of the potential problems at this MBC, by the time the grants officer began planning a site visit to the MBC, the award period ended, and the MBC operator was not given a new MBC award. Consequently, the grants officer did not conduct a site visit.

Because MBC awards last up to 5 years, MBDA and NOAA AGO can experience staff turnover during that time period. Therefore, maintaining a complete award file allows a new grants officer or program analyst to take over responsibility and attain a sufficient understanding of all prior monitoring and the current status of performance.

B. MBDA Has Not Ensured NOAA Identifies MBCs With Single Audit Findings and MBCs Take Corrective Action on Audit Issues

The interagency agreement requires that the NOAA grants officer maintain the official award files in accordance with the Grants Manual. The interagency agreement and Grants Manual require that the grants officer include in the award file or have available for easy access single audit reports for MBDA's review and comment.

However, we found that grants officers did not always provide single audit reports to MBDA for review and comment. Using the Federal Audit Clearinghouse Image Management System,⁹ we determined that eight MBC operators¹⁰ met single audit requirements during their award periods, ranging from FYs 2011 through 2016, and were required to have a single audit conducted during those years. Of the eight MBC operators that had single audits conducted during their award periods, we found 26 instances of audits not being placed in the MBC's award file for MBDA to review. Some of the single audit results were excluded from the award files because NOAA AGO

⁹ The Federal Audit Clearinghouse operates on behalf of Office of Management and Budget (OMB). Its primary purposes are to distribute single audit reporting packages to federal agencies, support OMB oversight and assessment of federal award audit requirements, maintain a public database of completed audits, and help auditors and auditees minimize the reporting burden of complying with single audit requirements.

¹⁰ Entities eligible to operate MBDA business centers include for-profits (such as sole proprietor ships, partnerships, LLCs, and corporations), nonprofits, state and local governments, Native American Tribes, and educational institutions (such as universities). One MBC operator can have multiple awards from MBDA, resulting in one MBC operator running more than one MBC.

incorrectly concluded that MBC operators did not meet the single audit threshold requirement, and NOAA AGO staff responsible for searching the Image Management System did not realize a single audit was conducted. Consequently NOAA AGO staff did not obtain and put the single audit reports in the award files.

By not recognizing when single audits are required and by not obtaining single audit reports, neither NOAA AGO nor MBDA can ensure corrective actions were taken to resolve the findings, and therefore, miss opportunities to correct deficiencies. To illustrate:

- The Seattle MBC had two audit findings¹¹ and \$18,145 in questioned costs.
- One organization operating three California MBCs (in San Jose, Fresno, and San Francisco) had an audit finding, covering the year ending December 31, 2015, indicating that its finance department lacked the resources to maintain internal control over its federal program.

Furthermore, MBDA does not have a process for detecting MBCs that had single audits even when NOAA AGO did not provide MBDA the reports. Although the interagency agreement and Grants Manual require that the grants officer provide MBDA with single audit reports, MBDA is still responsible for monitoring and oversight of the work being conducted under an award. MBDA staff have the ability to search the Image Management System and can access single audit results, which would allow them to meet the monitoring and oversight responsibilities even when NOAA AGO does not provide the single audit reports. The interagency agreement states that MBDA shall have primary responsibility for monitoring an MBC's performance and compliance with the terms and conditions of the award. Discussions with program office staff indicated that they were unaware that the single audit threshold applies to cumulative federal awards and did not review single audit reports.

Additionally, when the award file contained single audit reports, MBDA did not have adequate processes to monitor single audit findings and confirm that MBCs had implemented corrective actions necessary to close findings. The interagency agreement requires MBDA to review, analyze, and comment on audit reports along with the recipient's response to audit reports, and audit determination appeals. However, MBDA could not provide evidence indicating it was aware of, reviewed, or commented on audit reports and the recipients' response(s) to audit findings. For example:

- The single audit report for the year ended December 31, 2011, disclosed the Seattle MBC did not (1) consistently charge fees to eligible clients; (2) record minimal program income; and (3) have adequate controls to ensure accurate and timely completion of its semi-annual performance reports.

¹¹ One audit finding cited a lack of proper procedures and controls for program income. A second audit finding disclosed, for 9 of 12 months that the auditor tested, that the federal share of program costs that the MBC claimed were not based on actual costs incurred (which is a requirement for agreements funded on a cost reimbursement basis). Rather than paying for costs with recipient funds and then seeking reimbursement of allowable costs from MBDA, the MBC drew down funds on the MBC award based on an amortized amount.

- A nonprofit organization running the Federal Procurement Center in Washington, D.C. did not establish the required number of strategic partnerships within the 60-day timeline outlined in the cooperative agreement with MBDA.

Single audits are valuable tools that can be used by NOAA and MBDA to strengthen accountability and oversight by providing them with information useful in the analyses of both program-wide problems and problems at specific MBCs.

Recommendations

We recommend that the MBDA National Director

1. Comply with the interagency agreement and Grants Manual by ensuring that program analysts: (a) document results of their site visits; (b) document recommended remedies for deficiencies identified through site visits; (c) document that single audit findings have been fully resolved; and (d) provide all this information to the NOAA grants officer for inclusion in the official award file.
2. Coordinate with NOAA AGO to ensure the grants officer provides single audit reports for MBDA's review and comment as required by the interagency agreement.

II. MBDA's Oversight of Program Income and Non-federal Cost Share Requirements Does Not Ensure MBCs Provide Their Share of Project Costs For Each Funding Period

MBDA did not ensure MBCs comply with financial assistance award terms for collecting and using program income. In addition, neither MBDA nor NOAA ensured MBCs regularly met their share of total project costs. Although MBDA has a primary responsibility to monitor MBC performance and compliance with the terms and conditions of the award, the agency relies solely on NOAA's review during the awards closeout process to ensure MBCs adhere to both their program income and cost share requirements. Waiting to determine compliance with program income and cost sharing requirements during the closeout process rather than throughout the award period diminishes MBDA's assurance that MBCs are providing the required level of funding as intended by the agreement. As such, program income and matching requirements should be assessed routinely and periodically during the performance period and not just at award closeout.

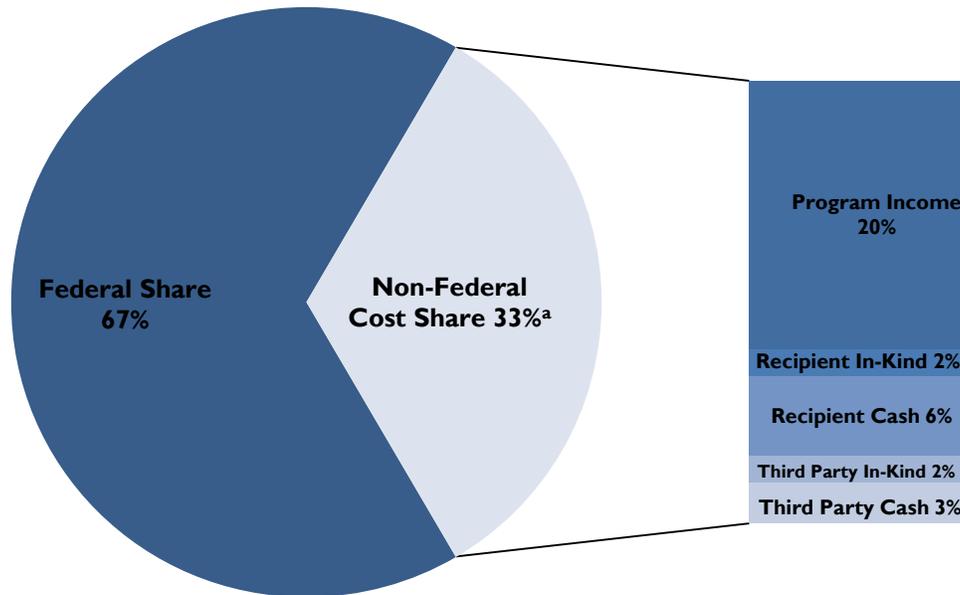
A. MBDA Does Not Ensure Business Centers Collect and Use Client Fees According to Program Requirements

MBCs collect fees from minority business clients in exchange for technical assistance and business development services. Fees collected, called program income, are applied to the MBCs' share of project costs (called non-federal cost share¹² as shown in figure 3 on

¹² MBCs share in total project costs by contributing cash, providing in-kind (non-cash) contributions, or through in-kind contributions paid by a third party. Amounts contributed, called non-federal cost share, are reported to MBDA quarterly in a federal financial report.

the next page). The project budget includes the amount of program income the MBC is expected to collect during each annual funding period. For each funding period, MBCs must make up any uncollected program income through cash or in-kind contributions.¹³ If fees collected during the year exceed the budget, the additional amounts must be used by the MBC in the same funding period to further its program.¹⁴

Figure 3. MBDA Business Center Cost Share Example



Source: OIG analysis of Federal Funding Opportunity MBDA-OB-2016-2004577

^a For awards commencing in 2016, the MBC program requires recipients to share a minimum 33 percent of total project costs. The non-federal cost share attributed to program income and other categories varies.

We found that MBDA did not consistently ensure MBCs collect and use program income according to the terms specified in their financial assistance agreements. The agreements identify the minimum amount of program income to be collected annually for each MBC. However, we found that 23 of the 30 MBCs we reviewed did not collect approximately \$3.3 million in program income as required by their agreements. Additionally, because MBDA did not closely monitor program income, it did not identify and address unallowable sources.

For example, one MBC reported over \$342,000 in program income from minority business clients, which included rental fees the MBC collected for subleasing office space. Program income in the form of rental fees is not an allowable form of non-federal cost share for the MBC program unless it is accepted in advance by MBDA and pre-

¹³ In-kind contributions are non-cash contributions such as the donation of goods or services.

¹⁴ With the grants officer's written approval, MBCs can carry forward excess program income into the following funding period.

approved by NOAA. In this instance, the MBC did not have prior approval to use rental fees to fund a portion of the non-federal share of project costs.

The remaining 7 MBCs reported collecting a combined program income of approximately \$1 million in excess of amounts needed to fund their non-federal share of project costs during a funding period. The *MBDA Business Center Program Standards Handbook (Handbook)* states that if an MBC generates more program income during a funding period than is allocated to the award's non-federal cost share for such funding period, the excess program income must be used by the MBC in furtherance of eligible project objectives. However, MBDA was unable to explain how the excess program income collections were used to further project objectives.

In addition, the interagency agreement and *Grants Manual* state that MBDA is responsible for (1) monitoring project activities to ensure goals are achieved and the project is properly carried out and (2) reviewing financial and performance reports for consistency with the approved project and notifying the grants officer when there are potential or existing problems or non-compliance with award terms. Twice a year (in semi-annual and year-end performance reports),¹⁵ MBCs (1) report to MBDA the amount of program income collected; (2) briefly summarize how program income is earned and used to further program objectives; (3) identify problems encountered in generating program income; and (4) propose steps to resolve any related issues. Consequently, the program analysts are aware of the status of the program income collections for their assigned MBCs. MBDA is required to notify the grants officer when there are financial inconsistencies such as the differences in program income collections we identified during the audit. However, contrary to what we found, MBDA's program manager informed us program income collections were met in recent years, and the program manager did not provide explanations for the differences we sent to MBDA.

NOAA AGO also plays an important role in the MBC program by providing administrative support and financial oversight for MBDA's financial assistance awards. One of NOAA AGO's responsibilities is to review financial reports (Standard Form 425) that MBCs submit quarterly. Its review ensures reports are completed correctly and contain information on program income. However, NOAA's review of the financial reports alone does not show the amount of non-federal cost share attributed to program income. MBDA has MBC performance reports that contain program income details, including program income that should have been collected but was not. But NOAA AGO does not use performance reports during its review, so this information is not always relayed to NOAA AGO. As a result, NOAA AGO's financial report reviews would not explain how MBCs accounted for program income shortfalls and whether excess program income was used during the period it was collected to further program objectives.

¹⁵ Performance reports summarize the MBC's accomplishments during the reporting period; contain the MBC's reasons for not meeting performance goals; and describe the steps taken as well as actions planned to overcome difficulties encountered in attaining performance goals. The report includes the amount of program income the MBC agreed to collect according to the approved project budget, the amount collected to date, and the amount waived.

Currently, MBDA relies on NOAA AGO's review of the final financial report to make sure MBCs collected and used program income according to agreement terms. Because NOAA AGO's final financial report review occurs after the award has ended, and due to the financial report's limited visibility on program income, NOAA AGO's financial report review cannot provide reasonable assurance that MBCs collected and used program income during each funding period as required by the agreement.

MBDA's effective monitoring of its business centers assists in identifying and reducing fiscal program risks as early as possible, thus protecting federal funds and ensuring these funds are properly accounted for and used for their intended purpose.

B. Oversight of Non-federal Cost Share Requirements Is Not Adequate

We found MBCs did not always meet their portion of total project costs, and MBDA did not adequately ensure the MBCs met their required share. MBCs are required to share in a portion of the total project costs not borne by the government by contributing cash and in-kind contributions. Amounts contributed, called non-federal cost share,¹⁶ must be paid out at the same rate as the federal share unless otherwise approved by the grants officer.¹⁷

Monitoring non-federal cost share is the joint responsibility of both MBDA and NOAA AGO.¹⁸ However, MBDA does not adequately monitor MBCs to ensure non-federal cost share requirements throughout the award period and before the award period ends are met. Instead, MBDA exclusively relies on the grants officer's review of federal financial reports at the end of an award to address potential noncompliance with non-federal cost share requirements. To illustrate, analyzing federal financial reports, we found 8 MBCs reported that they did not meet their non-federal cost share requirement at the end of their respective award periods. As of mid-March 2017, 6 of the 8 MBC awards identified in table I were officially closed without any documentation in the award file explaining how the non-federal cost share shortfalls were resolved. Of the remaining 2 awards that were not closed, the award file for one documents the grants officer's request for the MBC to provide additional information regarding its non-federal cost share shortfall. As shown in table I below, the combined shortfall in required non-federal cost share totaled nearly \$2.8 million.

¹⁶ Non-federal cost share means the portion of project costs not paid by federal funds. For example, a 20 percent non-federal cost share on a \$100,000 project would be \$20,000, where \$80,000 is provided by the federal government and \$20,000 is provided by the recipient.

¹⁷ The *Grants Manual* states the non-federal cost share is to be paid at the same general rates as the federal share. Exceptions to this requirement may be granted by the grants officer based on sufficient documentation demonstrating previously determined plans for, or later commitment of, cash or in-kind contributions.

¹⁸ MBDA has an interagency agreement with NOAA AGO pursuant to which NOAA AGO provides grant management services, including monitoring of non-federal cost share. However, the agreement also states MBDA shall have primary responsibility to monitor grantee performance and compliance with award terms.

Table I. Summary of Non-Federal Cost Share Shortages on MBC Awards Ended in 2016

MBC Location^a	Remaining Non-Federal Cost Share^b
Albuquerque, NM	\$1,969.39
Atlanta, GA	\$33,428.16
Bridgeport, CT	\$113,700.31
Manhattan, NY	\$604,673.44
Mobile, AL	\$8,268.00
San Juan, PR	\$306.04
Washington, DC	\$1,994,627.52
Williamsburg, NY	\$32,233.00
TOTAL	\$2,789,205.86

Source: OIG analysis of federal financial reports

^a The award period for the MBC in Bridgeport, CT is September 2013 to August 2016. For all other MBCs listed in this table, the award period is April 2011 to March 2016.

^b MBCs must expend federal funds using the same ratio as the non-federal cost share. We calculated remaining non-federal cost shares based on actual expenditures and ratios for each award.

Waiting until an award ends to resolve noncompliance with non-federal cost share requirements could cause the government to contribute more than its negotiated share of the project costs at the taxpayer's expense,¹⁹ and, if a more aggressive response is necessary, limits the type of enforcement action the government can take. For instance, actions that are ordinarily effective when taken during the award period, such as temporarily withholding award payments or partially suspending an award, have little benefit at the closeout phase of the award and do not encourage MBC cooperation.

Recommendations

We recommend that the MBDA National Director

3. Comply with the interagency agreement and Grants Manual by ensuring the program office notifies the grants officer when there are potential or existing problems, financial inconsistencies, or noncompliance on MBC agreements.
4. Implement procedures to work with the grants officer to: (a) identify and follow up with MBCs that have not met program income and non-federal cost share requirements during each funding period of the agreement and (b) ensure program

¹⁹ The government could pay more than its share of project costs when an MBC's ratio of federal expenditures exceeds the ratio of its non-federal cost share.

income collected that exceeds the budgeted amount is used to further program purposes.

III. Current Policies and Procedures Do Not Ensure Quality Reporting of Some of MBDA's Performance Accomplishments

MBDA evaluates each MBC's performance based on specific performance elements set at the beginning of each financial assistance agreement. Examples of performance elements include creating and retaining jobs, dollar value and number of contracts awarded, and dollar value and number of awarded financial transactions. Each MBC is required to report on the attainment of the program performance elements twice during each program year. MBCs report performance accomplishments to MBDA through the customer relationship management (CRM) system. CRM leaves the performance accomplishments in a pending status until an MBDA program analyst reviews documentation supporting the performance accomplishment, and then either approves or declines the transaction. For awarded contract transactions, financing transactions, jobs created, and jobs retained, the Handbook requires the MBC to provide their assigned MBDA program analyst with a copy of the following completed and signed documentation:

- Client Engagement Form
- Client Transaction Verification Form
- Internal Transaction Verification Form
- MBDA Business Center Attestation Form

The *Handbook* also requires MBDA program analysts to conduct regular reviews of the MBC's data that are input into the CRM system, validate transactions, and review performance reports. During FY 2016, MBDA program analysts approved over 2,300 transactions.

Although MBDA has policies and procedures in place, it did not consistently follow those procedures, and it could do more to strengthen internal controls over monitoring MBC self-reported performance accomplishments. We found problems regarding MBDA maintaining required supporting documentation, and verifying and validating the accuracy of performance accomplishments submitted by MBCs.²⁰ For example, two program analysts relied on the MBCs' "honor system" to submit accurate information (see finding A below) and annual performance reports contained duplicate and unverified information (see finding B below).

²⁰ For the purposes of this audit, we are describing data quality by using terms defined in Government Accountability Office guidance. Data reliability refers to the accuracy and completeness of data, given the uses for which they are intended. Accuracy refers to the extent that recorded data reflect the actual underlying information. Completeness refers to the extent that relevant records are present and the fields in each record are populated appropriately. GAO, July 2009. *Assessing the Reliability of Computer-Processed Data*, GAO-09-680G, Washington, DC: GAO, 4-5.

Government Accountability Office (GAO) internal control standards and guidance emphasize the need for federal agencies to have control activities in place to help ensure that program participants report information accurately.

Furthermore, the Federal Records Act requires appropriate management and preservation of federal government records, regardless of physical form or characteristics that document the organization, functions, policies, decisions, procedures, and essential transactions of an agency.

Effective management of these records is critical for ensuring that sufficient documentation is created; that agencies can efficiently locate and retrieve records needed in the daily performance of their missions; and that records of historical significance are identified, preserved, and made available to the public.²¹

A presidential memorandum on managing government records emphasized the importance of having a well-managed records management program to assess the impact of programs, to reduce redundant efforts, to save money, and to share knowledge within and across their organizations.²²

A. *Methodology for Validating Jobs Created and Retained Is Unreliable*

Some of the jobs created and retained numbers accepted by MBDA were unreasonable when compared to other information available to program analysts. Also, while MBDA provides a definition of jobs created or retained, it has not provided MBCs guidance on how jobs created or retained are to be calculated and reported. The lack of guidance has led to MBCs reporting inaccurate and questionable data on jobs created or retained. Without specific guidance, MBDA cannot ensure that MBCs are calculating this information consistently or accurately. Examples follow:

- For FY 2016, the Riverside, California MBC reported 400 jobs retained for one of its minority business clients. However, the client self-reported to the MBC that it had only 32 employees—potentially overstating jobs retained by 368 employees. Additionally, during FY 2013, the same MBC reported 300 jobs retained for a minority business client, but the client self-reported that it had only 130 employees.
- The Seattle MBC reported that one of its clients created 566 jobs during FY 2016, but there was not a contract award, a financing transaction, or additional information explaining the contract or financing that led to the creation of those jobs.
- During FY 2013, the Denver MBC repeatedly reported 47 jobs retained for each time a client received a contract award or financing. For FY 2013, MBDA reported that this client retained a total of 1,456 jobs.

²¹ GAO, June 2002. *Information Management: Challenges in Managing and Preserving Electronic Records*, GAO-02-586, Washington, DC: GAO, 4.

²² Presidential Memorandum, “Memorandum for the Heads of Executive Departments and Agencies - Subject: Managing Government Records,” November 28, 2011.

Furthermore, discussions with MBDA program analysts found that they use different methods to validate jobs created and retained. One program analyst accepted without verification the information provided on the client transaction verification form, while another program analyst did not use the transaction verification form. Both program analysts indicated they rely on the “honor system” when validating the number of jobs created and retained. While it is clear that MBCs have created or sustained jobs, the full extent of this accomplishment is unclear because of the lack of guidance and inconsistencies in the collection, reporting, and verification of job information. MBDA cannot be assured that information on jobs created and retained is accurate and MBCs are meeting expected levels of performance.

B. Annual Performance Reports Contained Unverified and Duplicate Performance Accomplishments

We found that controls to ensure accurate reporting of performance accomplishments need to be improved. Specifically, discussions with MBDA program analysts and review of CRM reports revealed that MBDA does not consistently obtain, maintain, and validate performance accomplishments from MBCs as required by the *Handbook*. The examples below illustrate ineffective verification and validation controls when MBDA assesses the progress and success of its MBC performance accomplishments.

- MBDA did not obtain the mandatory forms, as required in its *Handbook*, to support the approval of performance accomplishment transactions for the Williamsburg MBC, which had a five-year award period ending March 2016. MBDA accepted the MBC’s performance transactions as reported on spreadsheets instead of obtaining the forms described in the *Handbook*. Table 2 below shows the value of certain performance transactions reported in FYs 2012 through 2014 that were not properly validated by MBDA.

Table 2. Summary of Williamsburg MBC’s Performance Transactions Not Validated but Included in Annual Performance Reports for FYs 2012–2014

Fiscal Year	Awarded Contracts	Financing Transactions	Jobs Created	Jobs Retained
2012	\$32,525,172	\$2,011,778	250	90
2013	\$25,897,848	\$115,000,000	0	0
2014	\$21,239,708	\$0	3	0
Total	\$79,662,728	\$117,011,778	253	90

Source: OIG analysis of performance transactions in the CRM system

- MBDA included over 200 transactions in its FY 2012 annual performance report that were not validated and were in a pending approval status in the CRM system. As shown in table 3 below, this resulted in reporting over \$139 million in contract awards, \$559 million in financing awards, and 720 jobs created and retained that were not validated.

Table 3. Performance Transactions Not Validated but Included in the FY 2012 Annual Performance Report

Performance Transactions	Number of Transactions Not Validated	Value of Transactions Not Validated	Value of Performance Transactions Reported in 2012 APR	Percent of Total
Awarded contracts	113	\$139,697,855	\$2,207,782,256	6%
Financing transactions	41	\$559,996,663	\$1,376,692,577	41%
Jobs created and retained	47	720	16,730	4%

Source: OIG analysis of performance transactions in the CRM system

- MBDA counted over 100 transactions that occurred from October 1, 2013 through November 20, 2013 in both its FYs 2013 and 2014 annual performance reports. These actions were appropriately included in the FY 2014 report but mistakenly included in the FY 2013 report. The duplicate transactions totaled over \$19 million in contract awards; nearly \$72 million in financing transactions; and 424 jobs created and retained.
- We judgmentally selected a sample of 99 transactions. We then traced the transactions to supporting documentation and found that 47 did not have any of the mandatory forms as required by the *Handbook*. Also, MBDA was unable to provide all of the mandatory forms supporting an additional 11 transactions. Consequently, MBDA did not ensure that valid and required source documentation was available to support the data collected for \$1.9 billion in awarded contracts; \$311 million in financing to Minority Business Enterprises; 697 jobs created; and 599 jobs retained. According to MBDA staff, this occurred for two reasons. First, two program analysts lost records when their computer hard drives crashed in 2015 and 2016. Documents on their computers were not saved in a central location, such as on a MBDA computer network shared drive, and efforts to recover the information were unsuccessful. Second, another MBDA program analyst who had validated transactions left the agency, and the supporting documentation was not obtained and properly stored. Federal regulations require that agencies preserve records containing adequate and proper documentation of decisions and essential transactions.

When MBC self-reported performance accomplishments are not substantiated, it limits MBDA's ability to accurately measure progress toward meeting the agency's performance goals and increases the risk of reporting erroneous data to internal and external stakeholders such as Congress, OMB, and taxpayers.

Recommendations

We recommend that the MBDA National Director

5. Establish guidance to assist MBCs in reporting jobs created and retained.
6. Implement the necessary controls for verifying the reasonableness and accuracy of MBC reported jobs created and retained data before approving the transactions.
7. Enforce procedures detailed in the Handbook requiring that MBCs submit mandatory documents to support performance transactions.
8. Ensure performance results are verified and included in the appropriate annual performance reports.
9. Implement procedures to ensure that supporting documentation to validate MBC performance accomplishments and monitor cooperative agreements are properly stored, maintained, and accessible to program office staff.

Summary of Agency Response and OIG Comments

In response to our draft report, the agency concurred with all recommendations and described both completed and planned actions to address each recommendation. As stated in the agency's response, MBDA initiated interagency negotiations with NOAA Grants Management Division (GMD) and is working with NOAA GMD and the NOAA Grants Online unit to strengthen its processes for improved monitoring of MBDA cooperative agreements. We have included the agency's formal response as appendix B of this report.

Appendix A: Objectives, Scope, and Methodology

The objective of our audit was to review the adequacy of MBDA's management of its cooperative agreements. We focused on the MBC program and evaluated controls over application review and award approval processes; reviewed processes for monitoring performance and compliance with programmatic requirements; and determined whether performance accomplishments reported by MBCs are supported and verified. To accomplish our objectives we performed the following:

- Reviewed OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, *Department of Commerce Grants and Cooperative Agreements Manual*, *Department of Commerce Financial Assistance Standard Terms and Conditions*, *MBDA Business Center Program Standards Handbook*, and the Federal Funding Opportunity for the MBC Program to understand requirements related to financial assistance awards and the MBC Program.
- Reviewed MBDA strategic plans and annual performance reports and Department of Commerce Annual Performance Plans/Annual Performance Reports to understand how the Agency measures performance and to determine the Agency's performance goals and accomplishments.
- Interviewed officials at MBDA in Washington, D.C. and staff at NOAA Grants Management Division to understand their oversight of the MBC Program and also interviewed MBDA program analysts assigned to monitor business centers as well as an MBDA business development specialist who participated in a site visit to an MBC.
- Accessed award applications, panel member evaluation forms, funding recommendation memos, federal financial reports, semi-annual and annual performance reports, new project site visit reports for awards started in 2016, and other records from the NOAA Grants Online System.
- Obtained detail transaction reports for fiscal years 2012 through 2016 from MBDA's Customer Relationship Management System.
- Accessed and reviewed single audit reports obtained from the Federal Audit Clearinghouse Image Management System.
- Obtained client engagement forms, client transaction verification forms, internal transaction verification and attestation forms and other records supporting performance accomplishments from staff in the MBDA Office of Business Development.
- Reviewed site visit reports prepared by NOAA Grants Management Division staff.

Our audit included judgmental selections of MBDA business center awards funded in 2011 through 2016. We chose awards based on risk factors including whether the MBC operator had an award in the past, performance ratings on semi-annual and annual progress reports, the amount of the award, and return on investment. We followed a judgmental selection

methodology to choose 99 performance transactions reported to MBDA between 2012 and 2016, which we included in our audit.

While we identified and reported on internal control deficiencies, no specific instances of fraud, illegal acts, significant violations, or abuse were detected during our audit.

We did not solely rely on computer-processed data to perform this audit. Although we could not independently verify the reliability of all of the information we collected, we compared the information with other available supporting documents to determine data consistency and reasonableness. Based on these efforts, we believe the information we obtained is sufficiently reliable for this report.

We conducted audit fieldwork from April to December 2016 at MBDA's office in Washington, D.C. and at Commerce OIG offices in Seattle, WA, and Anchorage, AK, under the authorities of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, dated April 26, 2013. We conducted this audit in accordance with generally accepted government auditing standards. We complied with those standards that require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives.

Appendix B: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
 Minority Business Development Agency
 Washington, D.C. 20230

DATE: August 2, 2017

MEMORANDUM FOR: Mark H. Zabarsky
 Assistant Inspector General for Acquisition and Special Program Audits

FROM: Chris Garcia
 Acting National Director
 Minority Business Development Agency

[Handwritten signature of Chris Garcia] 8/17/2017

SUBJECT: MBDA Response to Office of Inspector General Draft Report, MBDA Can Improve Processes to More Effectively Monitor, Cooperative Agreements," June 22, 2017

The Minority Business Development Agency (MBDA), U.S. Department of Commerce welcomes the Office of Inspector General (OIG), Office of Audit and Evaluation, U.S. Department of Commerce report entitled, "MBDA Can Improve Processes to More Effectively Monitor Cooperative Agreements," dated June 22, 2017. The report is a summary of the OIG's findings to its standard audit review of Commerce-based programs and is part of the OIG's annual risk-based audit plan. The OIG conducted a review of the MBDA Business Center (MBC) program for two separate program designs – (1) MBC Program 2011-2015 and (2) the newly competed and awarded MBC Program 2016 through the current performance period.

The OIG found that MBDA's oversight and guidance needed improvement to ensure:

- MBDA program analysts consistently identify and document deficiencies and resolutions found during site visits and single audits;
- MBCs comply with terms of the financial assistance agreements for collecting and using program income and meeting cost share requirements;
- MBCs report reliable data on jobs created and retained; and,
- MBCs provide adequate supporting documentation for validating and properly reporting performance accomplishments.

MBDA concurs with all of OIG's findings and recommendations for improvement. MBDA will work with NOAA Grants Management Division (GMD) and NOAA Grants Online (GOL) unit to strengthen its processes for improved monitoring of MBDA cooperative agreements.

Accordingly, MBDA has implemented the following immediate actions:

- MBDA Acting National Director conducted a full review of the OIG report and recommendations with MBDA's Office of Business Development (OBD) staff to address OIG concerns.
- MBDA Acting National Director has embedded himself in the OBD weekly staff meetings and is also engaged in weekly operations.
- MBDA Acting National Director initiated site visits with MBDA Business Centers.
- MBDA implemented a new After Action Report (AAR) organization-wide to capture follow-up activities and action items.
- MBDA has begun the process of hiring a third-party management and consulting firm to assist with process and process management improvements.
- MBDA initiated Inter-Agency negotiations with NOAA GMD and GOL for new year services and need for improvement and enforcement that address OIG concerns.
- MBDA conducted a review of its Salesforce Customer Relationship Management system for corrections and better monitoring.
- MBDA will conduct a mandatory grants management training program for all MBDA Center operators for grant compliance.

The following are responses to the OIG recommendations and initial proposed corrective actions to address the OIG's findings and recommendations.

I. MBDA Did Not Provide Adequate Oversight for Some MBCs and Did Not Identify, Resolve, and Maintain Documentation of MBC Deficiencies

Item: OIG found that MBDA did not have a fully effective process for detecting and follow-up on MBCs with deficiencies identified during site visits and reviews of performance reports and single audit reports.

Response: MBDA concurs with the OIG's findings.

The NOAA Grants Online (GOL) System houses MBDA official grant award files. MBDA will work with NOAA Grants Management Division and Grants Online System, and the MBDA Customer Relationship Management (CRM) team to explore the development and best implementation of a reporting/performance tracker. The tracker will note when deficiencies are found during site visits and performance reports and will also track the date on which the deficiencies have been adequately addressed. **MBDA will share the OIG findings and request system updates for NOAA Grants Online. MBDA will direct its CRM system team to configure a solution that will allow for tracking of reported deficiencies by December 31, 2017.**

Item: MBDA Staff Did Not Always Retain Documentation Explaining the Results of Site Visits and Maintain Those Records in the Award File

Response: MBDA concurs with the OIG's finding.

MBDA has already implemented new processes and procedures to ensure records are maintained electronically through the NOAA Grants Online System. It is mandatory for all MBDA Program Analysts to capture official records and communications through the NOAA Grants Online system. **The MBDA Program Analyst Handbook has been updated to include this new procedure and Program Analysts were informed of the new record protocols on March 30, 2017.**

Item: MBDA Has Not Ensured NOAA Identifies MBCs with Single Audit Findings and MBCs Take Corrective Action on Audit Issues

Response: MBDA concurs with the OIG's finding.

MBDA will work with NOAA Grants Management Division (GMD) and Grants Online System to explore the development and best implementation of a Single Audit reporting tracker. The proposed requirements for the tool may include: (i) system flags to identify which awardees are required to have a single audit report; (ii) status updates of uploaded reports; and, (iii) status updates regarding compliance (including corrective actions). MBDA will enforce its interagency agreement with NOAA to ensure single audit reviews are conducted collaboratively. MBDA will institute quarterly meetings with NOAA GMD to review single audit findings and corrective actions on audit issues and document corrective measures on Grants Online. **MBDA is scheduled to meet with Grants Management Division unit to discuss these requests and to develop an anticipated timeline for implementation.**

II. MBDA's Oversight of Program Income and Non-federal Cost Share Requirement Does Not Ensure MBCs Provide Their Share of Project Costs for Each Funding Period

Item: MBDA Does Not Ensure Business Centers Collect and Use Client Fees According to Program Requirements

Response: MBDA concurs with the OIG's finding.

Program income is a subset of non-federal cost sharing requirements and varies from one grant awardee to another. The collection of fees is important to the program. However, it should be noted that MBDA has found that MBCs charge clients for services rendered. Yet, the invoicing to a client does not guarantee the client will pay the invoice on time or at all. This challenge is common among businesses across many (if not all) business sectors.

The timely ability for the MBC grantee to notify the Grants Officer and propose alternative non-federal share solutions is imperative. MBDA will expand its efforts to track and monitor fees collected on a quarterly basis. A new process will be implemented to include fees invoiced vs. fees collected. A new financial report will be collected by MBDA and shared with the NOAA GMD through the NOAA Grants Online System. The collection of this information will be done on a quarterly basis and will provide improved timeliness of information. It is anticipated that 3rd quarter reports will include year-to-date data. Deficiencies pertaining to client fees uncollected will be identified and collaboratively addressed between the awardee, MBDA and NOAA GMD. **MBDA will implement this new procedure by October 31, 2017.**

Item: Oversight of Non-Federal Cost Share Requirements is Not Adequate

Response: MBDA concurs with the OIG's finding

MBDA has relied on NOAA GMD to provide oversight with respect to non-federal cost share requirements and compliance. MBDA will implement quarterly reporting of non-federal cost sharing and submit these newly implemented reports into the Grants Online System. MBDA will also conduct quarterly reviews of the awardee's non-federal cost share contribution status with NOAA GMD. Subsequent enforcement action (if deemed necessary) will follow and be recorded in NOAA Grants Online system. **MBDA will implement this new procedure by October 31, 2017.**

III. Current Policies and Procedures Do Not Ensure Quality Reporting of Some of MBDA's Performance Accomplishments

Item: Methodology for Validating Jobs Created and Retained is Unreliable

Response: MBDA concurs with the OIG's finding.

The methodology used to validate jobs created and retained is based on client feedback and written attestations by the client that information provided is accurate. This process of collecting information directly from clients served is a common industry practice and as minimally intrusive to the minority business client.

MBDA provides MBCs with definitions for each performance measure in the program Federal Funding Opportunity Announcement (FFO). The program does limit the extent to which a job is created or retained through the assistance of the MBC. The following is the program definition in the FFOs for Jobs Created and Jobs Retained:

- **Jobs Created** - Defined as the number of new full time and/or part time employment opportunities reported on the client's payroll during the funding year. Persons on paid sick leave, paid holiday and paid vacations are included as employees, as are salaried officers and executives of corporations. However, proprietors and partners of unincorporated businesses are not considered employees under this definition.
- **Jobs Retained** - Defined as the number of existing full time and/or part time employee positions retained and reported on the client's payroll during the funding year. Job retention pertains to maintaining the status quo of persons employed by the client in lieu of subjective and objective decisions made by the client to reduce its work force due to economic conditions, lack of capital, and failure to secure necessary contracts and/or sales. Persons on paid sick leave, paid holiday and paid vacations are included as employees, as are salaried officers and executives of corporations. However, proprietors and partners of unincorporated businesses are not considered employees under this definition.

MBDA has observed that the program definition is limiting and does not properly account for true economic impact (in terms of jobs created and retained). MBDA has learned that it is possible for one contract awarded to have an immediate impact on the minority-business client's direct hires and indirect hires (via sub-contractors) that are directly affiliated with the award itself. In other words, one contract awarded to a single minority firm can have a multiplier effect downstream in the subcontracting value chain.

The MBC program and program definitions were not intended to prohibit capturing the true economic impact as it relates to job creation and retention that minority businesses provide to the U.S. economy. MBDA can do better in terms of providing increased clarity by distinguishing whether or not the number of jobs created is immediate to the minority client or if the count is related to the minority client's subcontractors/value chain. **MBDA will modify its CRM system to distinguish between immediate and secondary impact of jobs created and/or retained by December 31, 2017.** MBDA will also explore uses of U.S. Census Bureau administrative data to improve accuracy and reliability of information for jobs created and retained.

Item: Annual Performance Reports Contained Unverified and Duplicate Performance Accomplishments

Response: MBDA concurs with the OIG's finding.

It is mandatory for all MBDA Program Analyst staff to review, (on occasion) challenge, and verify all recorded transactions submitted by the MBC. **The MBDA**

Program Analyst Handbook has been updated to include this new procedure and Program Analysts were informed of the new record protocols on March 30, 2017. If a Program Analyst fails to adhere to the protocols, he/she may be subject to disciplinary action. MBDA will also modify its CRM system to flag duplicate transactions to the Program Analyst for further analysis. The MBDA CRM system will be updated by October 31, 2017.

MBDA concurs with OIG's recommendations to:

- Establish guidance to assist MBCs in reporting jobs created and retained.
- Implement the necessary controls for verifying the reasonableness and accuracy of MBC reported jobs created and retained data before approving transactions.
- Enforce procedures detailed in the Handbook requiring that MBCs submit mandatory documents to support performance transactions.
- Ensure performance results are verified and included in the appropriate annual performance reports.
- Implement procedures to ensure that supporting documentation to validate MBC performance accomplishments and monitor cooperative agreements are properly stored, maintained, and accessible to program office staff.

Under the leadership of the Acting Director, MBDA **also concurs with recommendations 1 through the revised 4** and will continue to thoroughly review agency operations to identify failures and abuses pertaining to the IG findings above, as well as other potential instances of waste, fraud, and abuse. MBDA has developed a strong working relationship with the Office of General Counsel ("OGC") senior staff, and OGC attorneys will be assisting MBDA with its efforts to address the concerns outlined in this report. Additionally, the Acting Director is committed to maintaining a compliant and transparent relationship with the IG as DOC endeavors to improve MBDA activities in pursuit of its goals to create business opportunities for minority businesses in the United States.

MBDA will provide OIG with an update on the action items noted above **no later than March 31, 2018**. MBDA appreciates OIG's work and recommendations to strengthen the MBDA Business Center program.

Cc: Consuella Jordan, Special Advisor, Office of the Secretary and Office of the National Director, MBDA
Antori Miranda, Special Advisor, Business Development for Office of the National Director, MBDA
Efrain Gonzalez, Jr., Associate Director, Office of Business Development, MBDA
Joann Hill, Chief, Office of Business Development, MBDA
Nakita Chambers, Program Manager, Office of Business Development, MBDA
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