

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

*MINORITY BUSINESS
DEVELOPMENT AGENCY*

*Community-Based Enhanced Services Pilot
Project Award Not Effectively Monitored*

Final Audit Report No. EDD-9406-8-0002 / June 1998

Office of Audits, Business and Trade Audits Division



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EXECUTIVE SUMMARY

We performed a performance audit of the Minority Business Development Agency's monitoring and management of Cooperative Agreement No. 03-10-960001-01 to Empower Baltimore Management Corporation (EBMC) and the Council for Economic and Business Opportunity, Inc. (CEBO) in Baltimore, Maryland. This award was a pilot project of the Community-Based Enhanced Services (CBES) initiative, an alternative to the Minority Business Development Center program. In the opinion of MBDA management, the CBES initiative would enable MBDA, with the participation of joint venture partners, to deliver management and technical assistance services to a specific minority business community. Under this pilot program, the Department of Commerce awarded \$240,469 for the project to EBMC--with CEBO as the subrecipient--to establish a comprehensive minority business assistance program in the Baltimore Metropolitan Statistical Area. If the pilot project succeeded, MBDA planned to identify other markets to receive services under a nationwide CBES initiative.

In the past, MBDA has funded a variety of pilot and demonstration projects (also known as special projects) to (1) provide special services that were not otherwise available, (2) demonstrate or test unique or innovative approaches and methods for helping minority business persons succeed in the marketplace as entrepreneurs, or (3) promote minority business formation. Special projects have usually been funded non-competitively out of the agency's discretionary funds.

Clearly, such projects have the potential to be very useful to MBDA and the minority business enterprise (MBE) community. But too often in prior OIG reports, we have found that MBDA's special projects have not successfully enhanced the agency's efforts to foster and strengthen minority businesses as envisioned.

This is not to suggest that the only way for a pilot project to be "successful" is to achieve all the goals and objectives as envisioned. In fact, the opposite may also be true: MBDA and the MBE community can learn a great deal and clearly benefit in some instances when a pilot project does *not* achieve its stated goals and objectives if the project clearly demonstrates (1) how *not* to do something or (2) what will *not* work. But it has been our experience that for any "pilot" project to be successful - - whether meeting the stated goals and objectives or not - - it must be closely monitored and this monitoring must be thoroughly documented. Pilot projects are "special" projects and hence require "special" monitoring. Funded as a cooperative agreement, MBDA was, in fact, authorized and expected to have substantial involvement to make this pilot project succeed. During our audit of this project, however, we did not find the essential documentation to confirm that MBDA effectively monitored and managed the CBES/CEBO pilot project.

MBDA's monitoring and assessment of the pilot project was, in our opinion, ineffective because MBDA did not fully comply with its own basic written policies and procedures when it did not, for example, (1) consistently ensure oversight by the designated project monitors and provide the necessary communication with CEBO officials, (2) prepare and submit quarterly performance

assessment reports, (3) perform source sampling verification of CEBO's documentation, or (4) adequately review CEBO's progress in completing supplemental performance goals established by senior MBDA management.

In a separate report on our financial and performance audit of CEBO, we previously concluded that CEBO did not fully meet its responsibilities to provide quality business services to Baltimore-area minority-owned businesses.¹ Effective monitoring by MBDA of CEBO's progress might have stimulated CEBO to take immediate corrective actions. Thereafter, if CEBO did not take the necessary corrective actions, MBDA and the Department could have recommended suspension or termination of the award and precluded further expenditures.

On page 8, we recommend that the Director, Minority Business Development Agency, take the following actions with respect to future awards under the CBES initiative (or other pilot projects):

1. Assign staff with appropriate technical and business expertise who will, at a minimum, provide the level of oversight and monitoring outlined in the MBDA Handbook.
2. Ensure that future pilot projects are effectively assessed and evaluated in a timely and thorough manner to ascertain whether to continue the project.
3. Develop project-specific performance measures and reporting requirements to reflect the nature of the business development assistance.

In its response to the draft report, MBDA acknowledges that its traditional monitoring procedures are critical to effective management of project awards, and MBDA agreed to implement the recommendations. MBDA states that it has recently devised a set of clear performance measurement criteria that it will henceforth apply to all MBDA awards. MBDA will also require oversight by project staff and adherence to the Project Monitoring Handbook for future pilot awards.

In responding to our draft report, MBDA took exception to our observation that it did not effectively monitor the project and outlined a number of steps taken to monitor the project. In our opinion, the steps did not constitute sufficient and effective project oversight of a pilot project awarded under a cooperative agreement. Such oversight would have included the consistent communication with CEBO officials, the assessment reports, and the source sampling verifications. The recommendations stated above are needed to promote the success of future pilot projects and awards.

¹ *Empower Baltimore Management Corporation and Council for Economic and Business Opportunity*, EDD-9406-7-0001, September 22, 1997.

INTRODUCTION

The Office of Inspector General has completed its performance audit of the Minority Business Development Agency's monitoring and management of Cooperative Agreement No. 03-10-960001-01 to Empower Baltimore Management Corporation (EBMC) and the Council for Economic and Business Opportunity, Inc. (CEBO) in Baltimore, Maryland. This award was a pilot project of the Community-Based Enhanced Services (CBES) initiative, an alternative to the Minority Business Development Center program. Under this pilot program, the Department of Commerce awarded \$240,469 for the project to EBMC--with CEBO as the subrecipient--to establish a comprehensive minority business assistance program in the Baltimore Metropolitan Statistical Area (MSA).

Performance audits are objective and systematic examinations of evidence for the purpose of providing an independent assessment of an organization, program, activity, or function in order to provide information to improve accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the OIG will help the Department's managers implement more efficient and effective operations to better serve its customers.

PURPOSE AND SCOPE OF AUDIT

Our audit was conducted in conjunction with the financial, compliance, and performance audit of EBMC's and CEBO's activities under the CBES pilot project,² in part based on concerns expressed by representatives of MBDA, the Department's Office of Executive Assistance Management, and CEBO. Our audit objective was to determine if MBDA effectively monitored and assessed CEBO's progress during the project.

We reviewed applicable laws, regulations, policies, and procedures concerning MBDA's monitoring and evaluation procedures. These included MBDA's Executive Order 11625; Office of Management and Budget Circulars A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, and A-122, *Cost Principles for Non-Profit Organizations*; DAO 203-26, *Department of Commerce Grants Administration*; MBDA's *Project Monitoring and Evaluation Handbook*; MBDC's Program Competitive Application Kit Package; MBDA's Narrative Reporting Requirements Manual; MBDA's Program Announcement; and the general and special award conditions for the pilot project. As discussed in our findings, MBDA was not in compliance with DAO 203-26, *Project Monitoring and Evaluation Handbook*, and the Narrative Reporting Requirements Manual.

²*Empower Baltimore Management Corporation and Council for Economic and Business Opportunity*, EDD-9406-7-0001, September 22, 1997.

We also evaluated MBDA's management controls over the progress of the pilot project and found that MBDA officials with responsibility for monitoring and assessing CEBO's progress did not effectively meet their responsibilities under departmental and MBDA policies. During our audit, we relied upon computer-processed data products generated by MBDA during our financial, compliance, and performance audit of the pilot project. While we did not assess the relevant general and application controls, we conducted other substantive tests of the data during the audit to ensure that it was sufficiently reliable. We examined pertinent documents and records from February through June 1997, and interviewed key EBMC and CEBO staff in Baltimore and MBDA and OEAM staff at headquarters in Washington, D.C.

The audit was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, *Inspector General*, dated May 22, 1980, as amended.

BACKGROUND

Under Executive Order 11625, the Minority Business Development Agency provides business assistance to persons who are members of groups that the agency determines to be socially or economically disadvantaged, and to business concerns owned and controlled by such individuals. MBDA started, on a pilot basis,³ its Community-Based Enhanced Services (CBES) initiative in the Baltimore MSA as an alternative to the Minority Business Development Center (MBDC) program. Under the pilot program, the Department of Commerce made an award to the Empower Baltimore Management Corporation (EBMC)--with the Council for Economic and Business Opportunity, Inc. (CEBO) as the subrecipient--to help it establish a comprehensive minority business assistance program in the Baltimore MSA. CEBO was chosen because it is a Maryland-based nonprofit organization with many years of experience in minority business development. The original award period was from October 1, 1995, to September 30, 1996 (later amended to November 30, 1996). MBDA provided \$240,469, and the State of Maryland, Baltimore County, and the City of Baltimore contributed \$325,000.

In the opinion of MBDA management, the CBES initiative would enable MBDA, with the participation of joint venture partners, to deliver management and technical assistance services to a specific minority business community. In the initial stage, markets targeted for CBES would undergo a comprehensive community assessment, which would be used to determine the feasibility of providing services to those markets. If appropriate, the assessment would also be used to design a coordinated funding and service delivery strategy for the markets, including the identification of community-based organizations and service providers who would serve as joint venture partners. If the pilot project succeeded, MBDA planned to identify other markets to receive services under a nationwide CBES initiative.

³MBDA Order No.750 defines a pilot project as an independent agency project that is funded to test the result or impact of a specific effort as it relates to minority business development.

The CBES pilot project award required CEBO to provide general management and technical assistance and other business services to minority firms and entrepreneurs in the Baltimore MSA, using its nonfederal funding. The federal funds would also be used to provide specialized enhanced management and technical assistance in two areas: finance and capital development; and marketing and procurement.

MBDA funded the CBES pilot project under a cooperative agreement, instead of under its normal grant instrument, because MBDA recognized the importance of being substantially involved in CEBO's performance. Under Department Administrative Order (DAO) 203-26, *Department of Commerce Grants Administration*, and MBDA's *Project Monitoring and Evaluation Handbook*, a cooperative agreement is the proper legal instrument used to provide financial assistance in a relationship in which substantial departmental involvement is anticipated during performance of the funded activity.

FINDINGS AND RECOMMENDATIONS

MBDA FAILED TO EFFECTIVELY MONITOR AND ASSESS CEBO'S PERFORMANCE

We found that MBDA officials did not effectively monitor CEBO's performance. MBDA's oversight was essential because the project was funded under a cooperative agreement, which anticipates substantial MBDA involvement. In the report on our financial and performance audit of CEBO, we concluded that CEBO did not fully meet its responsibilities to provide quality business services to Baltimore-area minority-owned businesses.

MBDA's monitoring and assessment of the pilot project was, in our opinion, ineffective because MBDA did not fully comply with its own basic written policies and procedures when it did not, for example, (1) consistently ensure oversight by the designated project monitors and provide the necessary communication with CEBO officials, (2) prepare and submit quarterly performance assessment reports, (3) perform source sampling verification of CEBO's documentation, or (4) adequately review CEBO's progress in completing supplemental performance goals established by senior MBDA management.

DAO 203-26 and the Department of Commerce Financial Assistance Standard Terms and Conditions provide for the withholding of award payments and the termination of an award for failure to comply with award provisions. Effective monitoring by MBDA of CEBO's progress might have stimulated CEBO to take immediate corrective actions. If CEBO did not take the necessary corrective actions, MBDA and the Department could have recommended suspension or termination of the award, and precluded further expenditures.

A. Lack of Oversight and Communication by MBDA Management

MBDA officials did not assign sufficient staff or effectively monitor the project. The Project Monitoring and Evaluation Handbook establishes a uniform system to monitor and document the performance of MBDA-funded organizations, and provides standardized guidance, procedures, and formats to ensure all MBDA-funded awards are effectively monitored. The Handbook defines monitoring as "...an Agency tool used to scrutinize and check systematically the performance and the quality of services provided by funded organizations to their minority clients." DAO 203-26, Section 4.04e, requires the designation of a program officer to ensure that the project is being properly carried out; provide programmatic guidance and technical assistance to recipients; provide background and recommendations on programmatic issues, such as amendments to the scope of work or budget; review financial and expenditure reports; and recommend suspension or termination when appropriate. The cooperative agreement between MBDA and EBMC indicated that a "federal program officer" would be assigned to the project as an additional monitor.

MBDA assigned only a project monitor from headquarters and did not assign the federal program officer. We saw little evidence of the project monitor's oversight of CEBO's performance. As a result, we believe that senior MBDA officials were unaware of the full extent of CEBO's lack of performance.

We also found that the lack of effective monitoring caused misunderstanding and confusion among CEBO officials concerning MBDA's reporting and documentation requirements. CEBO officials told us that the relationship with MBDA's top managers was strained and that the only positive person on MBDA's staff was the project monitor. CEBO officials highlight the lack of communications in the third quarter report to MBDA on their performance under the award:

“Performance of the (CBES) prototype has been seriously impaired by poor and inconsistent communications between MBDA and the subrecipient, from the beginning through the current reporting period. Neither party has effectively or forcefully expressed its concerns about the intent, design, or conduct of the project's operations to each other. Both parties seemed to assume that each was fully cognizant of the roles and expectations that each had of the other for the outcome of this project. The result has been confusion regarding by what parameters CEBO's performance would be measured and the documentation and reporting requirements for (CBES) performance. As a result, the (CBES) has performed a considerable volume of work for its clients that cannot be sufficiently documented to be reported as results towards our goals.”

Also, MBDA suggested that CEBO hire a specific consultant to assist in an important merger under the MBDA-CEBO award. Thereafter, neither the consultant nor MBDA discussed the status of the merger with CEBO. The consultant communicated only with MBDA about the status of the merger. The consultant provided his time and attendance reports and schedules of meetings to CEBO, but did not report his progress or results.

MBDA officials took no substantive action to improve communications. The following excerpt is from the final narrative report prepared by CEBO:

“Misunderstanding and confusion regarding MBDA's reporting and documentation requirements (existed). As a result, most of the results reported for the first two reporting periods had little or no supporting documentation. MBDA never approved its draft reporting requirements for the (CBES) project.”

B. Lack of MBDA Performance Assessment Reports

MBDA did not meet requirements for preparing performance assessment reports in the Project Monitoring and Evaluation Handbook and DAO 203-26. MBDA's handbook requires the subrecipient to submit quarterly narrative reports to MBDA no later than 30 days after the end of

each quarter. The subrecipient is also required to submit a final narrative report to MBDA no later than 60 days after the ending date of the award.

DAO 203-26 requires project monitors to review and write assessments of quarterly and final performance reports submitted by the recipient, and promptly report to the Department's Office of Executive Assistance Management on potential and existing problems and/or noncompliance. MBDA's handbook also requires project monitors to ensure that narrative reports are scheduled and received on time from a recipient and to thoroughly review and evaluate the reports, following prescribed procedures and guidance. Monitors are to verify all information and data provided by the recipient. The monitor is also tasked with preparing timely and accurate evaluation feedback reports and/or correspondence to MBDA's Office of Operations and the recipient and subrecipient, including any needed corrective actions.

After CEBO submitted its 1st/2nd Quarter Report in June 1996 and, at a later date, the 3rd Quarter Report, MBDA drafted a single Desk Assessment/On Site Review Report to evaluate the recipient's performance from October 1, 1995 to June 30, 1996. The assessment identified several areas of noncompliance, such as the failure to properly maintain required records and the timely submission of complete quarterly reports.

Assessment reports are due to the recipient/subrecipient no later than 30-45 days after receipt of the quarterly and final narrative reports, depending on whether the MBDA project monitor conducts an on-site visit. However, MBDA did not, as required, transmit the assessment of the 1st/2nd Quarter Report and the 3rd Quarter Report to EBMC and CEBO for corrective action. As a result, CEBO officials could not correct program deficiencies because they were not aware that the MBDA project monitor had noted CEBO's noncompliance with the cooperative agreement. Also, MBDA never prepared an assessment of CEBO's 4th Quarter and Final Narrative Reports.

C. Lack of Source Sampling Verifications

MBDA failed to comply with a required procedure in Chapter 3 of the handbook by not performing source sampling verifications of CEBO's claims of success in attracting procurements and financial packages for minority businesses. Source sampling verifications involve taking a statistical sample of client files; contacting the source of procurement and financing by telephone, correspondence, or on-site visit; and requesting concurrence with the claim. Verifications are required for claims of procurements of \$350,000 or more, or financial packages of \$500,000 or more. MBDA guidelines also suggest that project monitors also conduct source sampling verifications when claimed procurements or financial packages are not well documented in the recipient's files. In those cases, a copy of the sampling results may be provided, at MBDA's option, to the recipient for inclusion in its files as minimum documentation of its claims. Source sampling may be done in conjunction with the assessment of the quarterly report or when monitoring progress at the recipient's offices.

D. Lack of Review of Supplemental Performance Goals

Six months after the grant period began, senior MBDA management established a set of six supplemental performance goals for CEBO's participation in Baltimore empowerment zone activities. The goals were as follows:

1. Involve minority businesses in the empowerment zone's market development activity.
2. Identify minority business.
3. Target minority entrepreneurs in training and education activities.
4. Involve minority entrepreneurs in Fairfield Industrial Park.
5. Involve minority entrepreneurs in growth industrial activities.
6. Involve minority entrepreneurs in other aspects of Baltimore's strategic plan.

However, there is insufficient evidence (*i.e.*, lack of performance assessment reports and verifications) that MBDA effectively monitored and assessed CEBO's accomplishment of these goals, which were important components in measuring the project's success. CEBO officials recalled receiving the goals from MBDA, but did not remember working to achieve them.

E. Conclusion

In the past, MBDA has funded a variety of pilot and demonstration projects (also known as special projects) to (1) provide special services that were not otherwise available, (2) demonstrate or test unique or innovative approaches and methods for helping minority business persons succeed in the marketplace as entrepreneurs, or (3) promote minority business formation. Special projects have usually been funded non-competitively out of the agency's discretionary funds.

Clearly, such projects have the potential to be very useful to MBDA and the minority business enterprise (MBE) community. But too often in prior OIG reports, we have found that MBDA's special projects have not successfully enhanced the agency's efforts to foster and strengthen minority businesses as envisioned.

This is not to suggest that the only way for a pilot project to be "successful" is to achieve all the goals and objectives as envisioned. In fact, the opposite may also be true: MBDA and the MBE community can learn a great deal and clearly benefit in some instances when a pilot project does *not* achieve its stated goals and objectives if the project clearly demonstrates (1) how *not* to do something or (2) what will *not* work. But it has been our experience that for any "pilot" project

to be successful - - whether meeting the stated goals and objectives or not - - it must be closely monitored and this monitoring must be thoroughly documented. Pilot projects are “special” projects and hence require “special” monitoring. Funded as a cooperative agreement, MBDA was, in fact, authorized and expected to have substantial involvement to make this pilot project succeed. During our audit of this project, however, we did not find the essential documentation to confirm that MBDA effectively monitored and managed the CBES/CEBO pilot project.

RECOMMENDATIONS

We recommend that the Director, Minority Business Development Agency, take the following actions with respect to future awards under the CBES initiative (or other pilot projects):

1. Assign staff with appropriate technical and business expertise who will, at a minimum, provide the level of oversight and monitoring outlined in the MBDA Handbook.
2. Ensure that future pilot projects are effectively assessed and evaluated in a timely and thorough manner to ascertain whether to continue the project.
3. Develop project-specific performance measures and specific reporting requirements to reflect the special or pilot nature of the project.

MBDA’s Response to Draft Report and OIG Comments

In its response to the draft report, MBDA acknowledges that its traditional monitoring procedures are critical to effective management of project awards, and MBDA agreed to implement the recommendations. MBDA states that it has recently devised a set of clear performance measurement criteria that it will henceforth apply to all MBDA awards. MBDA will also require oversight by project staff and adherence to the Project Monitoring Handbook for future pilot awards.

MBDA asserts that it was actively involved in the management of the project and held continuing discussions with project staff concerning the quality of operations. In addition, MBDA states that the project substantially achieved the goals for effective assistance that were established at the outset of the award. We do not agree with their assertion, however, as we discussed in our report, issued in September 1997, on EBMC’s and CEBO’s activities. MBDA took exception to our observation that it did not effectively monitor the project and outlined a number of steps taken to monitor the project. In our opinion, the steps did not constitute sufficient and effective project oversight of a pilot project awarded under a cooperative agreement. Such oversight would have included the consistent communication with CEBO officials, the assessment reports, and the source sampling verifications. The recommendations stated above are needed to promote the success of future pilot projects and awards.

We have included MBDA’s complete response to the draft report as an attachment.



ATTACHMENT

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

MAY 28 1998

MEMORANDUM FOR: George E. Ross
Assistant Inspector General for Auditing
Office of Inspector General

From: Paul R. Webber, IV
Assistant Director

Subject: Draft Audit Report No. EDAD-9406-8-000X

This document will set forth the response of the Minority Business Development Agency (MBDA) to the Draft Audit Report dated February 4, 1998, titled "Community-Based Enhanced Services Project Not Properly Managed" (Audit Report No. EDAD-9406-8-000X), hereafter referred to as the "Draft Audit Report." The Draft Audit Report makes certain findings and recommendations concerning MBDA's administration of a project award to Empower Baltimore Management Corporation ("EBMC"), and the Council for Economic and Business Opportunity, Inc. ("CEBO"), in connection with the Agency's pilot Community-Based Enhanced Services Initiative.

The findings of the Draft Audit Report identified deficiencies in the process which MBDA used to track the recipient's performance over the course of the award. MBDA generally accepts these findings, as well as the proposed recommendations set forth on page 8 of the draft report. MBDA takes issue with the Report's conclusion that MBDA officials failed to exercise proper oversight over the project's performance. For the reasons set forth below, we submit that such a conclusion is not consistent with the circumstances of this award.

I. Background

At the outset, MBDA notes that the CBES award was a pilot project for a term of one year. The purpose of the project was to assess the feasibility of certain proposed modifications to MBDA's approach for delivering management and technical assistance.

MBDA officials designed the project so as to enhance the integration of the project into the local business community. The Agency was attempting to explore alternatives to its traditional Minority Business Development Centers (MBDCs). The following issues were of particular focus for MBDA:

1. Utilizing local community-based organizations as service providers to the extent possible, so as to avoid duplication, and build long-term resources in the local market by enhancing the capacity of existing institutions.
2. Increasing the proportion of local matching funds contributed to the project, so as to reduce the overall dependence of the project on MBDA as a funding source.
3. Enabling the project to hire advanced, specialized consultants to facilitate more sophisticated business transactions for larger, more mature minority enterprises.

Under the structure of this pilot initiative, the primary award was made to EBMC to provide regional coordination, and leveraging of Federal and state resources to the project. As the singular organization charged with managing Baltimore's Federal Empowerment Zone, EBMC brought a unique capability to coordinate economic activity within the Zone, and to ensure that MBDA's goals for minority business assistance were achieved. EBMC then made an approved subaward to CEBO, under which that organization was responsible for providing the direct hands-on client assistance to minority businesses which was a major component of the work requirements. At the time of the award, CEBO had a 27-year history of providing business development assistance to Baltimore's minority business community.

The total project cost for this one-year pilot award was \$575,000. The Federal share of the award, representing MBDA's contribution, was \$250,000, or 43.5% of the total project. This compared favorably with the standard cost ratio for MBDC awards, under which the Agency contributes 85% of the annual project cost.

II. The Project Was Programmatically Successful

MBDA submits that the project substantially achieved the goals for effective assistance to the minority business community that were established at the outset of the award. In fact, MBDA management was particularly pleased with certain accomplishments of the project that were directly in line with the pilot's goals of delivering enhanced business assistance to mature, "ready-to-grow" minority enterprises. These accomplishments include the following:

- Participation in the structuring of \$8.5 Million in private financing to facilitate the sale of Parks Sausages, Inc. to Super Bakery. This transaction enabled the transfer of ownership one of the country's largest minority-owned businesses, and was viewed by the City of Baltimore as a major economic development success story.

- Dynatech Integrated Systems, a Columbia, Maryland-based network solutions provider received over \$600,000 in procurements, and over \$500,000 in financing with the project's assistance.
- The project assisted W.W. Contractors in securing at least \$2.7 Million in procurements.

The foregoing major accomplishments were achieved by the project in addition to its ongoing delivery of general client assistance. MBDA has reviewed the project's year-end deliverables under its approved Time-Phased Plan (TPP), and believes that with certain minor exceptions, the goals of the TPP were essentially met.

III. MBDA's Monitoring of Project Performance

Given the pilot nature of this award, EBMC, CEBO and MBDA were each actively involved in the management of this project. The parties held meetings both in Washington, D.C. and in Baltimore, generated extensive written correspondence, and had numerous other communications over the course of this one-year period. Because the project was a pilot, the parties had to make numerous operating decisions.

In addition, not only were discussions taking place among the parties at the management level, but MBDA staff assigned to monitor the project held continuing discussions with project staff concerning the quality of its operations.

MBDA submits that in light of the following factors, the Agency did not fail to exercise proper oversight of the project's performance:

- The Agency designated a project monitor, Juanita Berry, and a project officer, Luis Encinias, in late December of 1995.
- Two detailed post-award conferences were conducted in February, 1996; one at Main Commerce and one on-site at the project's offices in the Baltimore Small Business Resource Center.
- During the on-site visit in February, monitoring and assessment guidance as well as reporting guidance were distributed to every staff member.
- MBDA management, through then-Acting Deputy Director Elio Muller and Assistant Director Paul R. Webber, IV, took a hands-on approach to the project, resolving a number of operational issues directly with the recipients.
- The required 6-month on-site was conducted in May of 1996 and another one was conducted on June 27-28, because staff had changed and it was apparent that prior information had not been passed along. The unusually great turnover of

project staff during the period of this award was a factor which impacted the monitoring of the project.

- The two Government shutdowns and the Blizzard of 1996 occurred shortly after the award of this project, which disrupted MBDA's ability to interface with the project over an extended period.
- The project officer, Luis Encinias, was impacted by a Reduction-In-Force, and was not able to provide continuous assistance to the project.
- After receipt of the recipients' combined 1st and 2nd Quarter QNR, MBDA immediately began to work with CEBO to address monitoring concerns.

As the Draft Audit Report correctly cites, MBDA developed its Project Monitoring and Evaluation Handbook to establish a uniform system to monitor and document the performance of MBDA-funded organizations. A major component of this system is the preparation of written quarterly assessments, which can serve as the basis for refunding decisions or decisions to terminate an existing award.

In this instance, MBDA's involvement with the project was more hands-on, with the Agency having substantial input into the recipients' operations. This approach was necessitated by the pilot nature of the project, and the fact that the award was approved for only one year. While MBDA should have done a better job of producing required quarterly reports, its failure to do so was in part attributable to the fact that it was already working very closely with the recipients, was aware of how the project was performing, and intended to assess the project solely on the basis of its one year of performance.

Toward the conclusion of the one-year pilot, the parties all made an affirmative decision not to seek to establish the project on a permanent basis.

IV. The Final Recommendations of the Draft Audit Report

As stated, the heightened involvement of MBDA in this project over an abbreviated one-year period resulted in the Agency de-emphasizing some of its traditional monitoring procedures. Nonetheless, MBDA concurs with the OIG that such monitoring procedures are critical to the effective management of project awards, and that these procedures should be adhered to. MBDA accepts the recommendations contained at page 8 of the Draft Audit Report, and has taken steps to ensure that future MBDA pilot awards adopt those recommendations. Specifically, the Agency has devised a set of clear performance measurement criteria that pursuant to GPRA will henceforth be applied to all MBDA awards. MBDA management will also make the designation of project monitoring staff and adherence to the Project Monitoring Handbook an absolute requirement for future pilot awards.