



NOTICE



Public Law 117-263 requires the Office of Inspector General to post written responses received from nongovernmental organizations or business entities specifically identified in an OIG report within 30 days of publication.

To comply with this statute, this attachment includes written responses in their entirety. The content of each response is the sole responsibility of the submitting organization and their inclusion here does not imply our endorsement or agreement. Questions regarding the content of the attached responses should be directed to the respective nongovernmental organization or business entity. We reaffirm the findings and recommendations in our report.

As required by generally accepted government auditing standards, Department of Commerce management's official response to our evaluation is included in the report, along with OIG's assessment of their response.



April 7, 2023

Patricia McBarnette, Division Director
United States Department of Commerce
Office of the Inspector General
Washington, D.C. 20230

Re: Response to Final Report No. OIG-23-014-I, NIST Must Improve Monitoring of MEP to Prevent Waste of Financial Resources, MARCH 13, 2023

Dear Ms. McBarnette:

Thank you for the opportunity to respond to the findings and recommendations in the subject audit report referenced above. The A.L. Philpott Manufacturing Extension Partnership, doing business as GENEDGE Alliance ("GENEDGE"), is a political subdivision of the Commonwealth of Virginia whose core mission is to establish and maintain industrial and manufacturing jobs in the Commonwealth. GENEDGE is one of the 51 MEP Centers that form the Hollings Manufacturing Extension Partnership (MEP) National Network.

This response is limited to Finding II of the report relating to alleged inadequate oversight of conflicts of interest by NIST with respect to the MEP Centers. GENEDGE disagrees with this finding and the allegation that GENEDGE itself engaged in transactions presenting a conflict of interest for several reasons. As previously discussed herein, GENEDGE is a political subdivision of the Commonwealth of Virginia. In that capacity, members of the GENEDGE board of Trustees are subject to the Virginia State and Local Government Conflict of Interests Act, Code of Virginia § 2.2-3100, et. seq. which establishes standards of conduct for public officers and employees. GENEDGE accounts are also subject to audit by the Auditor of Public Accounts pursuant to Va. Code § 30-133.

In FY 2021, GENEDGE retained an external CPA team to supplement the Commonwealth's audit function and complete an audit covering the period beginning July 1, 2020 through June 30, 2021 pursuant to the single audit requirement for Federally funded programs. The external audit team completed its report on November 19, 2021. The report identified several areas requiring corrective action by GENEDGE. Management concurred with the majority of the auditors' findings and immediately implemented a corrective action plan. Note 8 to the Financial Statements component of the report addressed Related Party Transactions and included a discussion regarding certain board members who "are either co-owners or executives at companies with which [the Center] engages for consulting services." The OIG Report focused on this note in the context of conflicts. However, the note also indicates that, "[s]tandard terms and manner of settlement for these amounts apply as with any of the Organization's vendors and third-party contractors." Accordingly, none of these board members received any personal financial benefit from the transaction.



Pursuant to 2 C.F.R. § 200.112, GENEDGE disclosed in writing to NIST its potential conflicts of interest, in accordance with the Department of Commerce's Financial Assistance Standard Terms and Conditions, Section F.01(a). GENEDGE submitted its completed audit to the Federal Audit Clearinghouse and the NIST Compliance Office conducted a desk review of the report.

The Compliance Office subsequently contacted GENEDGE to provide assistance as the organization worked through the provisions of the Audit Resolution Determination letter issued by NIST on June 9, 2022. The external CPA firm also reviewed NIST's perspective on our satisfactorily clearing findings and GENEDGE ultimately received a "clean" FY 22 audit in part due to the assistance of NIST's oversight and guidance.

For these reasons, GENEDGE respectfully disagrees with OIG's final report finding inadequate oversight of conflicts of interest by NIST with respect to the MEP Centers.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bill Donohue", is centered below the text "Sincerely,".

Bill Donohue
President, Executive Director
GENEDGE
276-732-5755 (Mobile)
bdonohue@genedge.org

April 4, 2023

Patricia McBarnette
Division Director
United States Department of Commerce
Office of Inspector General
Office of Audit and Evaluation
Washington, DC 20230

Dear Ms. McBarnette:

Pennsylvania MEP (PA MEP) is the Hollings Manufacturing Extension Partnership (MEP) center for Pennsylvania. We are one of the MEP national network's nonprofit organizations dedicated to improving the competitiveness and resiliency of American small manufacturers. This letter is being written in response to the recent publication "NIST Must Improve Monitoring of MEP to Prevent Waste of Financial Resources." Although the report's recommendations focus on NIST, we would like to clarify that PA MEP and NIST MEP management have followed previously-established policy and procedures, and that our actions have maximized investment in the program and the resulting economic benefit to the Commonwealth of Pennsylvania and the nation.

Executive Compensation

PA MEP is identified in the report in the section on executive compensation as it relates to subrecipients. MEP Center Boards and subrecipient Boards, comprised of business and organization executives, practice good governance when evaluating executive compensation by following recognized best practices and local market competitiveness. MEP Center Boards, subrecipient Boards, and host organizations realize that in order for Centers to provide high return on investment, they must provide compensation that is competitive within their markets and, in the case of subrecipients, representative of the full scope of their business operations, which may extend beyond the MEP program.

NIST Oversight

The MEP evaluation conducted by the Office of Inspector General makes it clear that MEP Centers are following statutory requirements and regulations provided by Congress, the Office of Management and Budget, the Department of Commerce, NIST and MEP. The MEP cooperative agreement mechanism is instrumental to the execution of the MEP program. As a public-private partnership the MEP program receives extensive program oversight including NIST MEP annual reviews and peer panel reviews in years three, five and eight of a Center's operation. MEP Centers are also subject to semi-annual activity reports and reviews of their annual operating budgets for renewal. Lastly, MEP statute requires Secretarial recommendation for a MEP Center to continue to receive federal funding in operating years six through ten before a mandatory open re-competition. Outside of the federal program review, Centers are subject to independent, annual financial audits. Federal funding for any particular MEP Center is not guaranteed in perpetuity and is reviewed systematically in accordance with federal law. As



the latest independent study attests, financial resources invested into this program are not wasted but provide a significant return on investment: \$18.10 in economic impact for every \$1 in federal funding invested.¹

PA MEP respectfully agrees with and supports Appendix C, NIST's December 20, 2022 response to the OIG Draft Report. We understand that NIST is developing an action plan in response to the final report. We look forward to reviewing that plan and working with NIST to implement it, as appropriate.

Respectfully submitted,

Heidi McKenna
Board Chair, PA MEP
President, The Fredericks Company/Televac

Rikki Riegner
Executive Director, PA MEP

¹ <https://research.upjohn.org/reports/285/>