

February 1994

DEFENSE CONTRACTING

Implementation of the Pilot Mentor-Protege Program





United States
General Accounting Office
Washington, D.C. 20548

150805

National Security and
International Affairs Division

B-247530

February 1, 1994

The Honorable Sam Nunn
Chairman, Committee on Armed Services
United States Senate

The Honorable Dale Bumpers
Chairman, Committee on Small Business
United States Senate

The Honorable Ronald V. Dellums
Chairman, Committee on Armed Services
House of Representatives

The Honorable John J. LaFalce
Chairman, Committee on Small Business
House of Representatives

This report responds to the statutory requirement that we provide a report on the Pilot Mentor-Protege Program within the Department of Defense (DOD). As specified by section 831 of the National Defense Authorization Act for Fiscal Year 1991 (P.L. 101-510), our objective was to determine whether the purposes of the pilot program were being achieved during the initial 2-year period after implementation and recommend whether the program should be reauthorized and extended governmentwide.

Background

To provide incentives for prime contractors to increase small disadvantaged business¹ (SDB) participation in DOD subcontracting, the Congress, in 1990, mandated the Pilot Mentor-Protege Program. The program's objective is to foster the business development of SDBs so as to increase the capabilities of such firms to participate as subcontractors and suppliers in DOD contracts, other government contracts, and commercial contracts. The program authorized the formation of mentoring relationships between major prime contractors and subcontractors, who are approved by DOD as mentor firms, and SDBs (proteges). The mentors and proteges jointly develop a tailored developmental assistance program, meeting their mutual needs, which is set forth in a mentor-protege agreement that is submitted to DOD. DOD then determines the agreement's compliance with statutory and regulatory requirements.

¹To qualify as a small disadvantaged business, a company must not exceed the Small Business Administration's standards for number of employees or annual sales and must be independently owned (at least 51 percent) and operated by socially and economically disadvantaged individuals.

The pilot program authorizes a broad array of forms of developmental assistance that may be provided to the protege by its mentor. For example, it includes general business management skills development, such as financial and personnel management, marketing, and proposal development assistance. Additionally, loans and limited capital investment are permitted to meet the protege's needs for working capital, and a mentor can award subcontracts to its protege on a noncompetitive basis.

The pilot program provides incentives, in the form of cash reimbursement, credit towards SDB subcontracting goals,² or a combination of both, to encourage a mentor to provide developmental assistance to its proteges.

The pilot program began on October 1, 1991. The DOD Office of Small and Disadvantaged Business Utilization (OSADBU) is responsible for program management and administration.

Our March 1992 interim report³ on the program discussed

- the regulatory implementation of the program,
- the initial participation of eligible mentor and protege firms,
- deficiencies in the program's implementation strategy and management of the program that are likely to impair success, and
- recommendations to correct any impediments to the program.

The Congress has appropriated a total of \$120 million for the pilot program—\$30 million in fiscal year 1992 and \$45 million each in fiscal years 1993 and 1994. The pilot program terminates on September 30, 1999. Section 813(c) of the National Defense Authorization Act for Fiscal Year 1994 (P.L. 103-160), extended the authority to establish agreements between mentors and proteges to September 30, 1995.

Results in Brief

Because implementation of the pilot program has been slow during the specified 2-year review period, sufficient information is not available to determine whether the program's purposes can be achieved or whether reauthorization and extension is warranted. For example, at the end of fiscal year 1993, 124 proteges were receiving assistance from mentors;

²In acquisitions exceeding \$500,000 (\$1 million for construction), prime contractors are required to establish a subcontracting plan that specifies the percentage goal of subcontract awards to SDBs.

³Defense Contracting: Interim Report on Mentor-Protege Program for Small Disadvantaged Firms (GAO/NSIAD-92-135, Mar. 30, 1992).

however, 76 proteges, or about 60 percent of the total, had entered the pilot program in the last 3 months of fiscal year 1993.

OSADBU officials said that all fiscal years 1992 and 1993 appropriated funds for the pilot program have been committed. According to the DOD's Comptroller Office, \$47.3 million had been obligated at the end of fiscal year 1993. Furthermore, as of September 30, 1993, DOD had neither (1) complied with its own regulation to assess progress and accomplishments realized under any of the agreements, although a few had been in effect for more than 2 years, nor (2) compiled the required data on the eight measures that it planned to use to judge program success.

DOD obtained some initial participation on a "credit-only" basis and limited participation through a combination of credit and cost reimbursement through the mentor's overhead cost pool. DOD's initial implementation of the authority to directly reimburse mentors' cost, on average, is exceeding \$1 million over a 3-year period in support of each protege.

Unless additional nonmonetary incentives are developed to encourage mentor participation, it is unlikely that the program will reach the number of proteges envisioned by the Congress, or result in any significant increase in the total of subcontracts awarded to SDBs.

Implementation of the Pilot Program Has Been Slow

The pilot program was not fully implemented on October 1, 1991, as originally intended. DOD's initial policy guidance implementing the program only authorized "credit" towards attaining mentor firms' SDB subcontracting goals or direct reimbursement of mentor costs through the addition of a line item in existing contracts. DOD did not take action to encourage program managers to sponsor mentor-protege agreements until December 5, 1991. The Congress, in December 1991, authorized and appropriated funds to the program for fiscal year 1992. In January 1992, the DOD Comptroller included the fiscal year 1992 funds appropriated for the pilot program in a list of appropriations offered for rescission. Although the Congress, in May 1992, rejected the proposed rescission of the program's fiscal year 1992 appropriations, DOD policy and regulations were not amended until October 1992 to permit the reimbursement of mentor costs through either indirect cost pools or separate agreements. Additionally, it was not until December 1992 that DOD published a notice in the Commerce Business Daily announcing its intent to issue for public comment in January 1993 a draft solicitation for the award of cooperative

agreements.⁴ The solicitation was issued on April 12, 1993, with proposals due by May 17, 1993. Awards of cooperative agreements to mentors were made in August 1993.

As of September 30, 1993, DOD had approved 136 mentor-protege agreements, with 72 mentors providing assistance to 124 proteges. As shown in table 1, participation in the pilot program has been achieved principally through the use of cost reimbursable agreements. At the end of fiscal year 1993, 96 proteges, or 77 percent, were to be receiving assistance for which their mentors would be reimbursed. This includes the August 1993 cooperative agreements⁵ to 46 mentors assisting 74 proteges. On average, each protege can be expected to receive almost \$1.2 million of assistance during the 3-year period of the cooperative agreement award. The remaining 22 of the 96 proteges can potentially receive, on average, over \$2 million of assistance paid over a 3-year period from the approximate remaining \$45 million in fiscal year 1992 and 1993 funds.

Table 1: Mentor-Protege Agreements Approved in Fiscal Years 1992 and 1993

Type of agreements	Fiscal year 1992 quarters				Fiscal year 1993 quarters				Total
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	
Reimbursable	0	0	1	2	4	4	4	82	97
Credit	1	6	4	2	5	11	4	6	39
Total	1	6	5	4	9	15	8	88	136^a

^aEleven proteges are involved in both reimbursable and credit agreements and 1 is involved in 2 reimbursable agreements. Thus, a total of 124 proteges were receiving assistance at the end of fiscal year 1993.

The remaining 23 percent of the proteges are involved in credit-only agreements where developmental assistance costs incurred by mentors, which are not reimbursed by the government, can be recognized as "credits" toward the attainment of any of the firms' SDB subcontracting goals at more than a dollar-for-dollar basis. Multipliers of two, three, and four times the amount expended are authorized, depending on the specific type of costs incurred.

⁴A cooperative agreement is used to furnish assistance by the government to the recipient (in this case, the mentor) to accomplish an authorized public purpose, instead of acquiring property or services for the direct benefit of the government.

⁵The total estimated reimbursable cost for the cooperative agreements is \$86,445,470. This includes \$30,146,484 for the first year and \$28,738,878 and \$27,560,108 in the second and third years, respectively.

The Pilot Mentor-Protege Program was designed to be a private-sector version of the Small Business Administration's (SBA) Minority Small Business and Capital Ownership Development Program, more commonly referred to as the Section 8(a) Program.⁶ The Senate Committee on Small Business has stated that the Pilot Mentor-Protege Program can potentially provide assistance to many more small and disadvantaged businesses than the Section 8(a) Program.⁷ SBA's primary source of management and technical assistance for 8(a) firms is its 7(j) program. In September 1993, we reported that under the 7(j) program, SBA hires contractors to conduct seminars and provide one-on-one assistance to 8(a) firms and other small businesses. In fiscal year 1992, SBA provided about \$7.8 million in 7(j) assistance to 2,754 firms.⁸

At an average cost of over \$1 million per protege, it is unlikely the pilot program, as currently funded, will reach more small and disadvantaged businesses than the Section 8(a) Program.

Oversight of the Pilot Program Is Inadequate

OSADBU has not adequately provided management oversight of the pilot program. According to OSADBU officials, resource constraints have prevented sufficient oversight of the program.

DOD regulations require mentors to report semiannually on the progress made under active mentor-protege agreements. Among other things, the reports are to discuss the progress achieved in providing the developmental assistance under each mentor-protege agreement. As of September 30, 1993, the regulatory progress reporting requirement was applied to 40 agreements that were at least 6 months old.⁹ For those agreements, OSADBU should have received 63 progress reports by the end of fiscal year 1993. However, only 11 progress reports were received. As of November 1993, OSADBU officials had not evaluated any of the progress reports or followed up on the delinquent ones.

⁶The 8(a) program promotes the development of small businesses that are owned and controlled by socially and economically disadvantaged individuals. Firms in the program are eligible for financial, technical, and management assistance from SBA to aid their development.

⁷Legislative and Oversight Activities, Special Report of the Committee on Small Business, United States Senate (Senate Report No. 103-127, 103d Cong., 1st Sess., p.21, Aug. 6, 1993).

⁸Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145, Sept. 17, 1993).

⁹As of September 30, 1993, 96 of the agreements were less than 6 months old and the progress reporting requirement had not been applied.

DOD regulations also require the OSADBU to conduct annual performance reviews of the progress and accomplishments realized under approved mentor-protege agreements. According to DOD policy, it will measure the overall success of the pilot program by the extent to which the program results in

- (1) an increase in the dollar value and percentage of subcontracts awarded to SDBs by mentor firms under DOD contracts;
- (2) an increase in the dollar value of contract and subcontract awards to protege firms (under DOD contracts, contracts awarded by other federal agencies, and under commercial contracts) since the date of their entry into the program;
- (3) an increase in the number and dollar value of subcontracts awarded to a protege firm (or former protege firm) by its mentor firm (or former mentor firm);
- (4) an improvement in the participation of SDBs in DOD, other federal agencies, and commercial contracting opportunities that can be attributed to the development of SDBs as protege firms under the program;
- (5) an increase in subcontracting with SDB concerns in industry categories where SDBs traditionally have not participated within the mentor firm's vendor base;
- (6) the involvement of emerging SDBs in the program;
- (7) an expanded relationship between mentor firms and protege firms to include non-DOD programs; and
- (8) the development of protege firms that are competitive as subcontractors and suppliers to DOD or in other federal agencies or commercial markets.

OSADBU had performed no performance reviews as of November 1993.

OSADBU officials told us that they did not have the resources to effectively provide management oversight of the pilot program through fiscal year 1993. The pilot program is not allocated a full-time position. OSADBU officials said that they were advised by the DOD Comptroller that because the pilot program was funded through a procurement appropriation, none

of the funding could be used to pay for needed program administration services—an operation and maintenance function. OSADBU officials expect to obtain about \$1 million in fiscal year 1994 operations and maintenance funding from the military services to be used to provide oversight, monitoring, and data support for the program. Additionally, section 8148 of the Department of Defense Appropriations Act for Fiscal Year 1994 (P.L. 103-139), provides transfer authority that should remove the impediment to using some of the appropriated funds to improve management and oversight of the pilot program. OSADBU officials expect to award a contract in the second quarter of fiscal year 1994 to get help in managing the pilot program.

Limited Range of Alternative Incentives

There is a sharp disparity between the level of SDBS participation in the present pilot program and the scale that the Congress now seems to envision for a fully implemented program. When our interim report was issued in March 1992, participation in the pilot program was limited. Program funding had been proposed for rescission, rendering it unavailable to finance reimbursement of mentors' assistance costs or other incentives. At that time, credit against mentors' subcontracting goals was the only incentive OSADBU could offer to enhance participation. We felt that because DOD did not rigorously enforce subcontracting goals, the credit-only incentive might not be sufficiently attractive to many potential mentors. The result, we said, might constrain participation to a level below the apparent congressional expectations.

According to OSADBU officials, DOD is not required to test any incentives that were not specifically mentioned in the authorizing legislation. For example, OSADBU officials advised us that, because the statute did not specifically authorize such arrangements, the Department did not reserve a portion of the appropriated funds for use as award fees to encourage more mentors to enter into credit-only or other nonreimbursable arrangements. However, some contracting officers are now beginning to use mentor-protege relationships as a source selection factor in awarding contracts.

Matters for Congressional Consideration

We are not able to recommend that the current pilot program be extended because sufficient information is not available to determine whether the program's purposes can be achieved or whether reauthorization and extension is warranted. The Congress may wish to consider delaying its decision until the OSADBU conducts its required performance review of the

progress and accomplishments realized under approved mentor-protege agreements. However, since there are indications that the current pilot program, with its heavy reliance on reimbursement as mentor incentive, is not the optimal way to increase subcontract awards to SDBs, the Congress may wish to have DOD test a broader range of incentives.

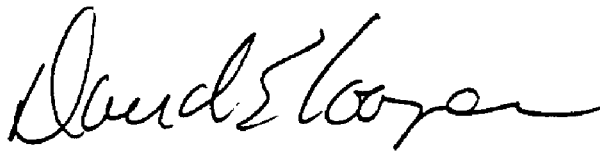
Scope and Methodology

We reviewed the legislation and DOD regulations and examined the files of approved mentor-protege agreements maintained by OSADBU. We met with OSADBU officials in the Office of the Secretary of Defense, as well as corresponding officials in each of the military departments. We interviewed selected mentors, proteges, and industry association spokespersons and discussed their expectations and experience with the program. We also reviewed source selection and contract negotiation files and met with contracting personnel responsible for the September 1993 award of the 46 cooperative agreements for reimbursement of assistance costs. We also met and discussed the program with representatives of the SBA's Office of Minority Small Business and Capital Ownership Development.

We conducted our review of the Pilot Mentor-Protege Program between April and December 1993 in accordance with generally accepted government auditing standards. We did not obtain agency comments that were fully coordinated within DOD. However, we did discuss our findings with DOD program officials, and the report reflects their oral comments as appropriate.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of the report to the Chairmen of the House and Senate Committees on Appropriations, Senate Committee on Governmental Affairs, and House Committee on Government Operations; the Secretary of Defense; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

Please contact me on (202) 512-4587 if you or your staff have any questions concerning this report. Major contributors to this report were Patrick S. Donahue, Bradley C. Vass, and Russell R. Reiter.

A handwritten signature in black ink, appearing to read "David E. Cooper". The signature is fluid and cursive, with the first name "David" being more prominent than the last name "Cooper".

David E. Cooper
Director, Acquisition Policy,
Technology and Competitiveness Issues

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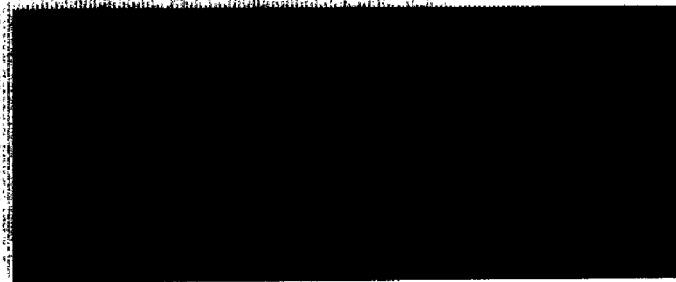
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