

Performance Audit Report



Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Assure Success and Avoid Abuse



**U.S. Small Business Administration
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To: John Shoraka
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SUBJECT: Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Assure Success and Avoid Abuse

This report presents the results of our audit on *Protégé Benefits from Joint Venture Agreements with Mentors*. Our audit objectives were to (1) determine the extent to which the joint venture agreement between a mentor and protégé resulted in substantial benefits to the 8(a) participant, and (2) assess the SBA's oversight of Mentor Protégé Joint Venture Arrangements.

We appreciate the courtesies and cooperation of the Offices of the Business Development and Field Operations during this audit. If you have any questions concerning this report, please call me at (202) 205-7390, or Riccardo R. Buglisi, Director, Business Development Programs Group at (202) 205-7489.

/s/
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EXECUTIVE SUMMARY

Benefits of Mentor Protégé Joint Ventures Are Unknown: Robust Oversight Is Needed to Assure Success and Avoid Abuse

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What OIG Audited

The Small Business Administration (SBA) helps socially and economically disadvantaged small businesses gain access to federal contracting opportunities through its 8(a) Business Development Program. As a part of the 8(a) Program, the SBA established the Mentor-Protégé program, in which experienced firms mentor 8(a) firms (the protégé) to enhance capabilities of the protégé, provide various forms of business development assistance to the protégé, and improve the protégé's ability to successfully compete for contracts. Under this program, the mentor and protégé may joint venture as a small business for any government contract.

The objectives of this audit were to (1) determine the extent to which the joint venture agreement between a mentor and protégé resulted in substantial benefit to the 8(a) participant, and (2) assess SBA's oversight of the Mentor-Protégé program's Joint Venture Arrangements. We identified the nine district offices with the highest total procurement dollars, and judgmentally selected three SBA district offices that serviced those joint ventures. We also reviewed files, and interviewed SBA officials and senior managers of three 8(a) firms participating in joint ventures. These three joint ventures had contracts valued at approximately \$350 million out of a total universe of \$1.7 billion in estimated 8(a) joint venture contracts.

OIG Recommendations and Agency Comments

We made six recommendations to the SBA that include developing measurable outcomes, oversight procedures, and an information system to ensure protégés benefited from joint venture agreements. On August 29, 2012, we provided a draft of this report to SBA management for comment. On October 1, 2012, management submitted formal comments. Management generally concurred with all six recommendations, was fully responsive to three recommendations, and partially responsive to three recommendations.

What OIG Found

The SBA cannot ensure that the 8(a) Mentor-Protégé program is achieving its intent of helping small disadvantaged businesses. We found the SBA did not measure whether a protégé substantially benefited from a joint venture arrangement. This occurred because SBA's policies lacked performance measures to assess whether 8(a) firms benefited from the joint venture agreements and the mentor-protégé relationship. Further, SBA officials viewed joint venture arrangements as an incentive for the Mentor to participate in the program rather than as entities to be monitored. As a result, the SBA did not establish performance measures to monitor program performance and mitigate risks inherent in the 8(a) Program. Such risks include when non-8(a) firms perform the majority of the work on a contract, and the 8(a) firm receives little or no developmental benefit from the arrangement, which is a major goal of the 8(a) Program.

Further, the SBA did not effectively oversee joint venture agreements between a mentor and 8(a) firm or protégé. Specifically, the SBA did not evaluate the protégé's lack of capacity when approving a joint venture; validate joint venture information provided by the protégé; or capture vital information on joint ventures in its multiple information systems. Staff workloads, inadequate information systems, and problems with availability and quality of data contributed to ineffective oversight. As a result, the SBA could not determine the universe of 8(a) participants in joint venture agreements; whether the participants complied with or abused program requirements; or the program's success.

Change in SBA Specialists' Workload: June 2011 to January 2012

Decline In Number of Specialists	Growth In Number of 8(a) Firms	Growth in Average Number of 8(a) Firms Per Specialist
-38%	+11%	+85%

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Introduction

The Mentor-Protégé program enables mentors¹ and 8(a) participants, known as protégés, to joint venture as a small business for 8(a) procurements set aside for participants in the 8(a) Program. Several prior Small Business Administration (SBA or the Agency) Office of Inspector General (OIG) and Government Accountability Office (GAO) reports² noted that the SBA was not properly monitoring its Mentor-Protégé program. Furthermore, a previous OIG [audit](#) found program abuse through violations of work performance requirements by protégés.³ The current audit focused on joint venture arrangements under the Mentor-Protégé program. We performed this audit because of the high risk for potential program abuse where non-8(a) participants used their protégés as a way to receive 8(a) contracts and performed most of the work on the contract.

Objectives

The objectives of this audit were to (1) determine the extent to which the joint venture agreement between a mentor and protégé resulted in substantial benefit to the 8(a) participant, and (2) assess SBA's oversight of the Mentor-Protégé Program's Joint Venture Arrangements.

To address these objectives, we reviewed SBA guidance, prior OIG, and GAO reports, and interviewed SBA officials in the Offices of Business Development and Field Operations. We identified the top nine district offices with Mentor-Protégé activity and with the highest total procurement dollars. These nine district offices' contract dollars totaled over \$1 billion. From the top nine district offices, we judgmentally selected our sample of three district offices with Mentor-Protégé activity. Washington, DC; Baltimore, MD, and San Antonio, TX were the district offices chosen. From those district offices, we judgmentally selected three 8(a) participants with mentor-protégé and joint venture agreements with closed 8(a) contracts or task orders in fiscal years 2009 and 2010. We reviewed the case files for the three firms at the district office and joint venture firm's office. Additionally, we interviewed staff at the three district offices and senior management of the three 8(a) firms awarded a joint venture 8(a) contract with a mentor.

We conducted this audit from September 2010 through July 2012 in accordance with generally accepted government auditing standards. Those standards 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I contains a detailed description of our scope and methodology.

¹ Mentors can be 8(a) participants that graduated or are in the last five years of the 8(a) program, other small businesses, or large businesses [13 Code of Federal Regulations (CFR) 124.520(b)].

² Appendix I of this report has a list of prior coverage audit reports.

³ SBA OIG, *Audit of Two 8(a) Sole Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program*, Report Number 7-19, (Washington, D.C., March 30, 2007).

Background

Overview of the 8(a) Program

In 1978, Congress amended the Small Business Act of 1958 to give the SBA statutory authority for its 8(a) Program for minority-owned businesses. To qualify for the 8(a) Program, a firm must be at least 51 percent owned and controlled by an individual or individuals who meet SBA's criteria of being socially and economically disadvantaged. Also, the individual owner(s) must be of good character and citizen(s) of the United States. The participant must also qualify as a small business under the size standard that corresponds with its primary industry classification, and show a reasonable potential for success. Firms admitted to the 8(a) Program are eligible to receive business development assistance from the SBA including preferential contracting arrangements with the Federal Government.

Participation in this business development program encompasses two phases over a nine-year period. The first phase, which covers a four-year period, is the developmental stage. During this time, the 8(a) participants receive:

- specialized training,
- individual counseling assistance,
- high-level executive development support, and
- eligibility to obtain set aside and sole-source government contracting opportunities, which can be done through Joint Ventures arrangements.

The second phase, which covers the remaining five years, is the transitional stage.

While continuing to receive assistance, participants are expected to decrease their reliance on 8(a) contracts by increasing their amount of non-8(a) contracts to demonstrate their progress in developing a viable business that is not solely reliant on the 8(a) Program.

In 2010, Congress enacted the Small Business Jobs Act (the Act) to provide critical resources to help small businesses continue to drive economic recovery and create jobs. The Act granted the SBA authority to establish new mentor-protégé programs for small businesses owned and controlled by service-disabled veterans and women, and for Historically Underutilized Business Zone businesses, modeled on SBA's existing Mentor-Protégé program available to 8(a) participants.

Mentor-Protégé Program

In 1998, the SBA established the Mentor-Protégé program as a part of the 8(a) Program. The program encourages private-sector relationships and expands SBA's efforts to identify and respond to the developmental needs of 8(a) participants. The 8(a) participants are eligible to receive 8(a) sole source and 8(a) competitive contracts. Mentors provide technical and management advice, financial assistance in the form of equity investments or loans, subcontract support, and help in performing prime contracts through joint venture agreements with 8(a) firms. Mentors and protégés can only perform 8(a) contracts as a joint venture, if the SBA approves the mentor-protégé agreement.

Importantly, as an incentive for the mentor, the SBA's mentor-protégé program allows the mentor and protégé to jointly pursue 8(a) contracts without the two firms being considered "affiliated"⁴ for purposes of SBA's small business size standards. The SBA revised the 8(a) regulations, effective March 2011, to clarify and strengthen certain provisions in the 8(a) Program, including the Mentor-Protégé program. Detailed explanations of the Mentor-Protégé program and the revised regulations are included in Appendices II and III.

Joint Venture Arrangements

Joint Venture arrangements are one of the means by which mentors and their protégés can benefit from participating in the Mentor-Protégé program. Participants in the 8(a) Program may joint venture with a large company to bid on Federal procurements that are set aside for 8(a) participants. This can be on a competitive or non-competitive basis. For each participant, there are different incentives, for example:

- for the protégé or 8(a) firm, the incentive is the opportunity to develop the capacity to perform on larger contracts and the ability to successfully compete for contracts.
- for the mentor or large business, the incentive is the exclusion from the affiliation rules⁵ for the duration of the joint venture agreement. The exclusion enables joint ventures – between large businesses and 8(a) participants – that would not otherwise qualify under the program, to receive federal contracts set aside for the 8(a) Program.

To joint venture on an 8(a) contract, the mentor and protégé must sign a joint venture agreement, which among other requirements, sets forth its purpose and the responsibilities of the parties involved.

The 8(a) Program regulations permit a joint venture between a group of businesses with interests in carrying out no more than three specific or limited-purpose contracts for joint profit over a two-year period.⁶ The businesses may combine their efforts, property, money, skills, or knowledge, for conducting business generally, but not on a continuing or permanent basis, according to regulatory guidance.⁷ Appendix III provides a more detailed explanation of the revised 8(a) regulations pertaining to the joint ventures. See Appendix IV for a detailed explanation of the joint venture arrangements.

Administering Offices

Two offices administer the 8(a) Business Development Program within the SBA: the Office of Business Development and the Office of Field Operations. The Office of Business Development is responsible for developing and implementing the 8(a) Program's policies, and approval of

⁴ SBA's regulation Title 13 CFR 121.103(a)(1-2), *General Principles of Affiliation* defines affiliation as occurring when an individual controls or has the power to control the other individual, or a third party or parties controls or has the power to control both. If firms are affiliated, the employees or revenues of the firms are combined to determine whether they meet SBA criteria to be considered a small business.

⁵ SBA's regulation 13 CFR 121.103(h)(3) *Affiliation Based on Joint Ventures* rule states, when a joint venture of two or more businesses submits an offer, as a small business, for a Federal procurement without regard to affiliation as long as each business is small under the size standard corresponding to the North American Industrial Classification System code assigned to the contract.

⁶ According to SBA's regulation 13 CFR 121.103(h) *Affiliation Based on Joint Ventures*, a joint venture can exist between two or more individuals or businesses.

⁷ Title 13 CFR 121.103(h), *Affiliation Based on Joint Ventures*.

mentor-protégé applications. The Office of Field Operations, through its Business Opportunity Specialists (Specialists) located in 68 district offices throughout the nation, is responsible for approving joint venture agreements and monitoring participants in the 8(a) Program.

The Specialists perform a variety of functions pertaining to the 8(a) Program, especially for the mentor-protégé relationships and joint venture agreements. Specialists help 8(a) participants by assisting in the preparation of a business plan and reviewing documentation provided during the 8(a) application screening process. After the SBA approves a firm's participation in the 8(a) Program, Specialists continue to assist and service the 8(a) firm. This includes assisting the 8(a) firm through the application process for the mentor-protégé program or with a joint venture agreement. Appendix V lists more of the Specialist responsibilities.

The Specialists use three stand-alone information systems to collect 8(a) participant information. The three systems are the Business Development Management Information System (BDMIS), the Electronic 8(a) system or E-8(a), and the Activity Contract Report (ACR). Each system has a different purpose and functionality; however, some of the information collected overlaps. For the purposes of this report, we focused on the data collected by each information system on 8(a) participants after approval into the mentor-protégé program and after the SBA approved a joint venture agreement. According to SBA officials, they are developing a new consolidated system with an expected completion date of December 2012.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Review of Internal Controls

The SBA's Standard Operating Procedures⁸ (SOP) provide guidance on the implementation of internal control systems. The Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, requires agency managers to continuously monitor and improve the effectiveness of internal controls. During our review, we identified significant internal control deficiencies related to SBA's policies and information systems used to monitor the 8(a) Program. The SBA's policies lacked performance measures to assess whether 8(a) firms benefitted from the joint venture agreements and mentor-protégé relationship, and did not provide specific guidance on key oversight activities to the Specialists, such as to validate information submitted by the protégé. Further, the systems SBA staff used for monitoring 8(a) participants has been an existing concern of the OIG. For a number of years, the OIG's *Fiscal Year Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration* identified critical challenges with the information systems used to monitor the 8(a) Program. In response to our previous recommendations to improve the information systems, SBA's management has developed multiple systems yet none have been fully implemented. If the SBA implements our fourth recommendation in this report, it will strengthen their internal controls.

⁸ SBA's SOP 00 02, *Internal Control System*

Results

The SBA lacked performance measurements for joint venture arrangements and did not collect information specific to joint ventures. As a result, the SBA did not have the information necessary to determine whether mentor protégé joint ventures benefited the 8(a) participant. This lack of information weakened SBA's ability to effectively oversee and assess the development of 8(a) participants with mentor and protégé joint venture agreements. The SBA's weak oversight of the 8(a) participants in mentor protégé joint venture agreements increased the risk of program abuse by participants.

Finding: The SBA Did Not Measure Whether Joint Ventures Provided Benefits to 8(a) Small Businesses

The SBA cannot ensure that the joint venture arrangements under the Mentor-Protégé program are achieving the intent of helping small disadvantaged businesses. We found that the SBA did not measure whether a protégé substantially benefited from a joint venture arrangement— a vehicle for assisting an 8(a) firm—because SBA's policies lacked such performance metrics. Further, Agency officials viewed the joint venture arrangement as an incentive for the mentor to participate in the program. Consequently, they did not define or establish performance metrics for the joint venture arrangements. As a result, the SBA was unable to monitor program performance and mitigate two risks inherent in the Mentor-Protégé program. The first risk is that non-8(a) firms perform a majority of the work on a contract effectively making it a non-8(a) contract awarded and reported as a small business set aside. The second risk is that the 8(a) firm receives little or no developmental benefit from the arrangement, a major goal of the joint venture arrangement and the 8(a) Program.

Joint Venture Arrangements are to Build Protégé's Capacity

The purpose of the Mentor-Protégé program is to assist the protégé with meeting the goals established in its approved business plan and to perform on government contracts through joint venture arrangements. Joint venture arrangements enable an 8(a) participant— lacking the necessary capacity to perform effectively on a contract— to work with a more capable firm to develop the necessary capacity to do so independently. The ability of a firm to meet requirements of a contract requires capacity in certain areas, such as the firm's ability to provide adequate and appropriate management, labor, equipment, plant, bonding and financial resources to complete the contract successfully.⁹ The SOP allows joint ventures only when the:

- 8(a) participant lacks the capacity to perform the contract on its own;
- Joint Venture arrangement is fair and equitable;
- Joint Venture will be of substantial benefit to the 8(a) participant; and
- 8(a) participant brings substantial resources and/or expertise to the Joint Venture.¹⁰

We found that the SBA did not identify and measure the lack of capacity for the joint venture arrangements we reviewed. In addition, the SOP lacked criteria or metrics to assess whether

⁹ SBA's SOP 80 05 3, *8(a) Business Development Program Internal Guidelines*

¹⁰ SBA's SOP 80 06 3, *8(a) Business Development Program Internal Guidelines*

the 8(a) participant would obtain substantial benefit or resources from a joint venture. Without obtaining the information or better defining the benefits, the SBA cannot measure program success. Generally, best practice studies have shown that successful programs include performance measurements.

Mentor-Protégé Program-Joint Ventures Lacked Performance Measures

One of SBA's "Priority Goals" as cited in *SBA's Strategic Plan for Fiscal Years 2011-2016*, is to increase small business participation in government contracting while ensuring that the benefits of SBA's small business programs flow to the intended recipients. In determining whether the SBA achieved these goals, the SBA needs reliable data. In May 2012 budget guidance the OMB emphasized the need to use evidence and rigorous evaluation in budget, management, and policy decisions to make government work effectively.

In our opinion, strong evidence is based on relevant performance measures, which in turn is based on quality data. Without collecting appropriate data, the SBA cannot develop the evidence it needs to measure program success. Having well designed programs that include measurements and evaluations would enable the SBA to assess the success and benefits to 8(a) participants with joint venture agreements.

We found that the SBA does not capture basic program data required by SBA policy, such as:

- The specific capacity the protégé lacks, which is necessary to justify a joint venture; and
- Whether the 8(a) participant benefited from the joint venture, and in what manner.

Further, the joint venture arrangements we reviewed lacked performance indicators, a critical aspect of effective program management. Performance indicators measure how well objectives are being achieved. As a result, SBA's program officials did not know whether the 8(a) participant benefited from the joint venture agreement or the joint venture arrangement's success.

We believe the following would be minimal indicators that the SBA could track in the Mentor-Protégé program, such as the:

- number or total universe of joint venture arrangements and the associated contract dollars;
- number of 8(a) participants in SBA's Mentor-Protégé program that received joint venture contracts and other business development assistance;
- 8(a) participant's growth after completing the joint venture arrangement; and
- percentage of the 8(a), mentor-protégé and non-mentor protégé participants that graduated from the 8(a) Program and still in existence, after completion of 8(a) contracts.

If the SBA collected such data and utilized indicators such as these, management would have the necessary information to make decisions based on performance data for the mentor protégé joint venture program. In addition, SBA staff would have metrics to assist in their monitoring of the program, and to determine if the 8(a) participants benefited from the joint venture arrangements.

Accountability Required Performance Measurement

Federal agencies operate more effectively, according to OMB, when they focus on outcomes; set clear and measurable goals to clarify priorities; and drive performance and accountability and improvement.¹¹ Accountability for performance requires performance measurements and reporting. When the management of a program, activity, or entity systematically collects and analyzes performance data to assess how well a program works is basic effective management.¹² Program evaluations often consist of four components—inputs, processes, outputs, and outcomes. For example, performance measures address program staffing and resources (inputs), the type or level of program activities conducted (processes), the direct products or services delivered by a program (outputs), or the results of those products and services (outcomes). Such evaluations are designed to answer a range of questions about programs to assist decision-making by program managers and policymakers.¹³ A model for evaluating joint venture arrangements between a mentor and protégé might look like Figure 1, below.

Figure 1 Model for Evaluating Joint Venture Agreements' Components

Contexts (program setting)	Inputs (available resources)	Program Processes	Program Results
Legal Authorities	The Joint Venture Agreement (allows the establishment of the relationship)	Approval of Mentor-Protégé agreement	Output- Contract Deliverables Completed
Program Purpose-To develop the protégés' lacking capacity (i.e. management, labor, equipment)	Servicing by Specialists to 8(a) Firm	Approval of joint venture agreement	Outcome- Capacity to perform the contracts and capabilities gained by the Protégé, e.g., enhanced contract negotiation techniques, project management skills for larger projects, proposal preparation, learning more complex accounting systems, etc.
Internal Controls-SOP, Code of Federal Regulations (CFR) Requirements, Authorization and Annual Reviews	Operational Database to track the program	Internal Controls-SOP, CFR, Annual Reviews	
Split Oversight Responsibility; Program Management and Field Operations	Sufficient and Qualified Staff	Specialists monitor whether mentors provide capacity needs to the joint venture arrangements	

Source: SBA-OIG Analysis.

SBA Policy Defined the Joint Venture Arrangement as a Legal Entity

According to SBA management, the joint venture arrangement and its implied benefits to the Mentor were designed to be an incentive for companies to participate in the Mentor Protégé

¹¹ <http://goals.performance.gov>

¹² See OMB Circular A-123. See Section IV Assessing Internal Control A. Sources of Information.

¹³ GAO. U.S. GAO *Designing Evaluations: 2012 Revision*. GAO-12-208G (Washington, DC: January 31, 2012).

program. Therefore, the Agency did not establish performance measurements. While SBA managers view this arrangement as an incentive, SBA's policy describes a joint venture as *"An agreement between an eligible 8(a) participant and one or more other business concerns to establish a new legal entity solely for the purpose of performing a specific 8(a) contract."*

The incentive is, therefore, that a non-8(a) firm, along with its 8(a) partner as a separate entity, can be awarded 8(a) contracts. However, the joint venture arrangement, established as an incentive, has inherent risks for the government. The risk occurs after the joint venture agreement is approved and a contract is awarded by the procuring agency. The risks are twofold. One is that non-8(a) firms perform a majority of the work on these contracts making it in effect, a non-8(a) contract that is reported as a small business set aside. The other risk is that the 8(a) firm receives little or no developmental benefit from the arrangement, a goal of the joint venture arrangement.

Specialists Could Not Measure Benefits

The Code of Federal Regulations requires that the protégé provide the Specialists (1) the value of each contract; (2) the percentage of the contract performed; and (3) the percentage of revenue accrued to each mentor and protégé of a joint venture for all federal contracts awarded to the joint venture.¹⁴ Another evaluation factor requires SBA staff to verify that the protégé documented—in their annual business plan—the technical and management assistance provided by the mentor.¹⁵

The SBA's 18 Specialists that we interviewed at the Washington, DC, San Antonio, TX, and Baltimore, MD, district offices did not have clear guidance to determine how and whether the protégé benefited from the joint venture. The SBA policy¹⁶ requires the Specialists to examine all joint ventures as part of the 8(a) Program annual review that all 8(a) firms must undergo. Specifically, the Specialists must review whether:

- (1) Joint Venture participants complied with prime contractor performance requirements;
- (2) Financial records were recorded and kept as required;
- (3) Personnel of each Joint Venture participant performed work as stipulated in the agreement and proposal;
- (4) Equipment was used and accounted for as stipulated;
- (5) The SBA approved all amendments to the joint venture agreement; and
- (6) 8(a) participant(s) received substantial benefit from the Joint Venture.

Item (6) was the only step in the review process that addressed the benefits of the joint venture to the protégé. However, it was up to each Specialist to determine the derived benefits as the SBA provided no further guidance or measurements to define the outputs or outcomes. The SBA regulations only focused on evaluating the overall mentor-protégé relationship, but lacked criteria necessary to evaluate joint venture agreements between a mentor and protégé. The 8(a) Business Development SOP provided only broad guidance on joint ventures after approval, and did not include outcome performance metrics. In addition, the protégé self-

¹⁴ SBA's regulation Title 13 CFR 124.520(f)(1)(iv), *Evaluating the Mentor-Protégé Relationship*. Effective March 2011, this regulation was renumbered as 124.504(g)(i)

¹⁵ SBA's regulation Title 13 CFR 124.520(f)(1)(i)&(v), *Evaluating the Mentor-Protégé Relationship*.

¹⁶ SBA's SOP 80 05 3, *8(a) Business Development Program Internal Guidelines, Chapter 8 Joint Ventures and Teaming Arrangements*

reported this information to the Specialists. Therefore, the information may not have been accurate or verified (see Finding II for more information).

Conclusion

The SBA cannot tell whether it is achieving its “Priority Goal” of increasing small business participation in government contracting while ensuring that the benefits of its programs, such as Mentor-Protégé, flow to the intended recipients. Without measures of program performance, the SBA is unable to determine whether the 8(a) participants benefit from the joint venture arrangements. Treating the program’s joint venture arrangement as an incentive—and not as an entity requiring oversight—places SBA program managers in a weak position to determine the effectiveness of these arrangements. As a result, SBA’s management is unequipped to determine whether the joint venture arrangements under the Mentor Protégé program fulfill the intent, and meet the requirements of the law, while minimizing risk to the government.

Recommendations

To ensure the SBA achieves its “Priority Goal” of increasing small business participation in government contracting while ensuring that the benefits of SBA’s small business programs flow to the intended recipients, we recommend that the Associate Administrator for the Office of Government Contracting and Business Development:

1. Develop specific measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to the protégé.
2. Use the information identified in Recommendation 1 to develop procedures to assess risk and better support decisions concerning the direction and, administration of the Mentor-Protégé program so as to minimize risk.

Finding: Weak Oversight May Lead to Abuse of Mentor Protégé Joint Ventures

The SBA did not effectively oversee 8(a) firms that have joint venture agreements within the Mentor Protégé Program. Specifically, the SBA:

- Did not evaluate the protégé’s lack of capacity to perform a government contract on its own, even though developing a protégé’s capacity is the reason for the joint venture;
- Did not validate, through the Specialists, joint venture information provided by the protégé; and
- Did not capture critical information on joint ventures in SBA’s multiple information systems.

These conditions existed because information was not provided to the Specialists; they had a high case workload, and possessed a wide range of responsibilities that affected the quality of the oversight performed. In addition, SBA’s policies did not require validating information submitted by protégés, and SBA’s information systems lack key data. Furthermore, the

information systems that the Specialists used to monitor the 8(a) participants did not have data fields to enter joint venture information. All Specialists used a stand-alone Microsoft Excel spreadsheet to capture the joint venture information but the quality of the data submitted was poor because it had duplicate and missing information.

As a result, the SBA could not determine (1) the universe of 8(a) participants in joint venture agreements, (2) whether the participants complied with program regulations, and (3) the program's success. In addition, the Agency was unable to identify whether any program abuse occurred between the firms. For example, the SBA did not know how many mentors had multiple protégés located in different geographic areas that were serviced by other SBA district offices. Specifically, in at least one case, a mentor had multiple protégés and at least two joint venture agreements with two protégés performing on contracts that the mentor managed, thereby violating SBA regulations.

The SBA Did Not Evaluate Protégé's Lack of Capacity

Current SBA policy requires the Specialist to review the capacity the 8(a) firms lack as part of the joint venture approval process, and how the Mentor "will provide that missing capacity." Joint Venture regulations prohibit the SBA from authorizing the 8(a) contract if the 8(a) firm brings little to the joint venture. For the 8(a) joint ventures we reviewed, the SBA did not ensure that the case files contained information or documentation describing the protégé's lack of capacity. Only 1 of the 18 joint venture agreements we reviewed had a vague statement addressing the capacity need in that "the firm lacks the necessary capacity to perform this contract on its own." The remaining 17 did not describe the lack of capacity within the case files. For all three firms that we reviewed, the joint venture agreements did not have any specific statements on the type of capacity the firms lacked to perform the contracts.

We could not determine whether the 8(a) participant benefited or gained capacity because benefits were not documented in the file. We attempted to verify this during our case file review of one joint venture arrangement and found that there were actually 11 joint venture agreements¹⁷ between the two same entities. None of the 11 agreements we reviewed described the lack of capacity. However, each joint venture agreement had a purpose statement that stated "to bid on viable Request for Proposals." We believed that omission of lack of capacity and the use of general statements indicated that the firms were only interested in obtaining contracts, which could be a form of abuse and a violation of the affiliation rule.

Specialists Did Not Validate Joint Venture Information Provided by the Protégé

A key step in program oversight involves ensuring that information critical to a program's performance is valid and reliable. Current Agency policy requires Specialists to review documentation submitted by 8(a) firms without performing any independent validation of the data. Based on our interviews with Specialists from three district offices, validating information submitted by protégés was challenging. For example, 11 of the 18 Specialists told us they did not verify the self-reported information submitted by the 8(a) firms because of their workload and other collateral duties. Five of the 18 Specialists verified some of the self-reported data with information in the Central Contractor Registry or Dynamic Small Business System.

¹⁷ The 11 joint venture agreements are a subset of the 18 joint ventures agreements.

Furthermore, Specialists for the three firms that we reviewed did not monitor the percentage of work performed and whether the protégé managed the joint venture, as is required.

Specialists Did Not Monitor Percentage of Work Performed by Protégé

The majority of the Specialists we interviewed did not monitor the percentage of work performed. Further, based on our observations, the SBA relied on the businesses' self-certification and small business protests of a contract award as a way of being informed of any program abuse. Ten of the 18 Specialists stated they did not collect data or verify the percentage of work performed on contracts by the protégé. Two of the remaining Specialists monitored the percentage of work by requiring the protégé to submit additional documentation. For example, one Specialist required documentation with a percentage of work estimate performed by each party. Even though the SOP required the 8(a) participant to perform a significant percentage of work on the contracts, it did not require Specialists to calculate or verify the percentages to ensure that the protégé gained work experience on the contract. Under new regulations issued in March 2011, the Protégés are required to perform at least 40 percent of the work completed by the joint venture. Given its current oversight practices, the SBA is not in a position to effectively oversee compliance with this new requirement.

Protégé Capacity to Manage Joint Venture is Questionable

We questioned the protégés' independent capacity to manage the joint ventures' financial records because the mentors managed the financial records in the three 8(a) firms we reviewed, contrary to SBA regulations. For all three firms, the mentor managed the financial records; however, the protégé was designated as the managing partner in the joint venture agreement. For example, for Firm A, the protégé lived in Texas, where the joint venture entity was located. The mentor, however, resided in Maryland, and established the joint venture bank account at a local Maryland bank where the mentor already had a personal banking relationship. Further, the mentor had more designated signatories on the joint venture bank account than the protégé, which made determining ownership and control of the joint venture unclear.

The mentor managed and controlled the sophisticated financial software used for maintaining the accounting records of the joint venture. All three protégés had access to the joint venture financial information with at least one having limited access. For example, one protégé had to rely on the mentor to query and provide financial reports for the joint venture firm. We identified these non-compliant activities during our site visits with the protégés. Had the Specialists monitored the joint venture after approval, they may have identified the potential for program abuse.

Specialists' Multiple Responsibilities Affected Quality of Oversight

The Specialists are the SBA's primary resource for providing developmental assistance to the firms and for overseeing program compliance. However, we found that the Specialists' wide range of assignments affected their level and quality of monitoring. A recurring concern we found during our interviews of 18 Specialists and the 5 Lead (supervisory) Specialists was the competing demands placed on the Specialists that diminished their time available for business development activities and oversight. The GAO also reported similar findings in

November 2008 and March 2010.¹⁸ For example, some of the Specialists stated they had to work overtime to complete the mandated annual reviews intended to assess whether the 8(a) firms were eligible to continue participation in the 8(a) Program. To assist with their workload, and help them complete their annual reviews within the specified timeframes, one Lead Specialist stated he conducted orientation and outreach workshops, a task usually done by the Specialists. For additional details regarding Specialists responsibilities, see Appendix V.

For the three district offices that we visited, Specialists were responsible for monitoring between 42 and 106 participants in the 8(a) Program. Those numbers could increase due to changes in staffing or an increase in participants. As shown in Table 1, the number of Specialists decreased, while the number of 8(a) firms and mentor-protégé participants increased from June 2011 to January 2012.

As the number of Specialists fluctuated, the remaining Specialists assumed collateral duties and acquired additional 8(a) firms to monitor. This further reduced the available time to monitor their existing assigned 8(a) firms. According to SBA district office management, the ideal number of 8(a) firms per Specialist was between 30 and 40, which as of January 2012 was the norm on a nationwide basis as shown in Table 1. However, for the district offices that we visited, the average number of assigned 8(a) firms per Specialist were 72 for Baltimore, MD; 43 for San Antonio, TX; and 88 for Washington, DC. The workload per Specialist in these three offices was not within the ideal range cited by SBA officials, possibly indicating an imbalance in workload across SBA’s 68 district offices.

Table 1 SBA Specialists’ Workload Nationwide

As of date	Number of Specialists	Number of Mentor-Protégé ¹⁹	Number of 8(a) Firms	Average Number of 8(a) Firms Per Specialist
June 2011	344	484	6990	20
January 2012	212	630	7751	37
Percent Change	-38%	+30%	+11%	+85%

Source: SBA-OIG Analysis

Some of the 18 Specialists we interviewed also served as the technical support contact person for their district office; performed administrative duties part-time; maintained a Microsoft Excel spreadsheet of approved joint ventures for the district office; or addressed needs of other SBA programs. Collateral duties, along with the limited number of Specialists, and increasing numbers of 8(a) firms impacted the Specialists’ ability to monitor 8(a) firms. Some Specialists had effective practices for servicing their assigned 8(a) participants. Refer to Appendix VI for the list of *Effective Practices for Servicing 8(a) Participants*.

¹⁸ GAO. *Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program*, GAO-09-16, (Washington, D.C.: November 21, 2008); and GAO, *Steps Have Been Taken to Improve Administration of the 8(a) Program, but Key Controls for Continued Eligibility Need Strengthening*, GAO-10-353, (Washington, D.C.: March 2010).

¹⁹ We do not have the number of joint venture agreements resulting from Mentor-Protégé relationships because that information is not captured by SBA processes.

In addition, the Specialists' wide range of tasks and heavy workload further limited the level of monitoring dedicated to 8(a) firms that participate in the Mentor-Protégé program and awarded 8(a) joint venture contracts. Specialists could easily miss indicators of program abuse when reviewing annual self-reported 8(a) documentation between the mentor and protégé, who performed on the contract. Specialists monitored their caseload as time permitted, in between their collateral duties. The lack of effective oversight increased the vulnerability for program abuse.

Moreover, Specialists' workload could potentially increase as the SBA develops three new Mentor-Protégé Programs based on the existing 8(a) Mentor-Protégé Program. The SBA's management has not determined which SBA staff will assist and monitor mentor-protégé participants for the forthcoming women-owned, veteran-owned, and Historically Underutilized Business Zone Mentor-Protégé programs.

SBA's Multiple 8(a) Information Systems Did Not Collect Joint Venture Information

The SBA used three information systems to capture information on 8(a) participants; however, none collected joint venture information. The Electronic 8(a) or E-8(a) system, the Business Development Management Information System (BDMIS), and the Activity Contract Report (ACR) were three stand-alone information systems Specialists used for monitoring 8(a) firms. The SBA's inadequate systems used to monitor 8(a) participants have been an existing concern of the OIG and have been a recurring Management Challenge.²⁰ Currently, a new system is in development to replace BDMIS, which the SBA expects will be operational in December 2012.

For example, none of the three information systems contained data fields for Specialists to input joint venture information, such as the joint venture name or awarded contracts. Instead, the systems collected the 8(a) firms' contact and annual review information. The Specialists input the annual review and firm information into the BDMIS and E-8(a) systems. Additionally, they entered information into the ACR system, which tracked day-to-day communication between the Specialists and their assigned 8(a) firms. Specialists told us the information captured was duplicative amongst each system and an inefficient use of their time.

Prior to 2009, the SBA only collected basic 8(a) information, not joint venture information. In response to a 2009 OIG audit report, which recommended improved monitoring and internal controls over the joint venture agreements, the SBA implemented an Excel® spreadsheet to track approved joint venture contracts. However, the spreadsheet did not capture the name of the mentor or protégé. This made it difficult to match the name of the joint venture with the respective mentor and protégé. Consequently, the SBA did not know the universe of joint ventures under the Mentor-Protégé program.

Poor Data Quality and Availability Hampered Oversight

The quality and availability of data collected and available also hampered the SBA's oversight of Mentor-Protégé joint ventures. Senior SBA officials told us they did not know the exact number of joint venture agreements. Therefore, we attempted to calculate the number of joint venture

²⁰ SBA OIG. *Fiscal Year 2012 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration*, Report Number 12-01.

agreements between mentors and protégés, but found data collection errors—such as duplicate information and incorrectly typed 8(a) case numbers—in the spreadsheet and other data provided to us by the SBA. For example, we found approved joint ventures listed multiple times. Because we questioned the reliability of the data, we contacted the individual district offices to obtain their joint venture information, and to confirm the mentor for the joint venture. We also contacted the 68 district offices to determine the number of joint venture agreements between a mentor and protégé since the Agency did not track this information.

The majority of the 68 district offices responded to our request for joint venture information, but some had difficulty providing the requested information. Some offices obtained the information from the 8(a) firms, contract files, or the Federal Procurement Data System-Next Generation (FPDS-NG). When we requested fiscal years 2009 and 2010 closed contracts information, three offices took months before providing us the number of closed contracts; and two never responded, even after multiple follow-up requests. Eleven district offices did not have the closed 8(a) contracts readily available. Three of these 11 district offices had to request the information from the 8(a) firms because they did not have it in their files. One district office reported that they did not have any closed contracts during our scope; however, we found one closed contract for that district office through searching FPDS-NG.²¹

To determine the universe of mentor-protégé relationships that resulted in joint venture agreements, we compared a list of approved mentor-protégé agreements to a list of all approved joint venture agreements. We matched whether the joint venture was between a mentor and protégé based on the 8(a) case number, which is a common numerical identifier used for all 8(a) firms. Based on our analysis, our best estimate was 122 approved joint venture agreements between a protégé and mentor. However, we were uncertain of the number of contracts awarded because the database— at the time of our review— did not contain this information.

During our case file review of sample 8(a) firms, we identified discrepancies between the number of awarded joint venture contracts in the file and what was reported in the annual review documentation. Our analysis of the annual review documentation found the 8(a) firms' self-reported information submitted for joint venture agreements on *Attachment B: Mentor-Protégé Worksheet of SBA's Annual Review* documentation did not include all of the federal contracts awarded to the joint ventures. The SBA did not know basic contract information, such as the number of contracts awarded or the associated procuring dollars. As a result, the SBA did not know whether joint venture participants complied with the three contracts awarded within the two-year period limitation requirement.²²

Conclusion

The SBA was not positioned to proactively identify potential abuse in the Mentor-Protégé program. The SBA could not, for example, identify if a mentor was performing most of the work on a joint venture contract. The lack of verification procedures, the Specialists' wide range of assignments, and the quality and availability of data affected their level and quality of oversight.

²¹ The Federal Procurement Data System-Next Generation is a system used to capture contract information. Reports have found information maintained in the system is not reliable.

²² Title 13 CFR 121.103 (h), *Affiliation Based on Joint Ventures*

Further, the lack of a central information system exacerbated the challenges confronting the Specialists in monitoring the 8(a) firms and joint venture agreements. Once the SBA approved the joint venture agreement, it performed minimal oversight to ensure that the protégé complied with regulations and SBA policies making the program more vulnerable to abuse and weakening its ability to succeed.

Recommendations

We recommend that the Associate Administrator for the Office of Government Contracting and Business Development, in coordination with the Associate Administrator for the Office of Field Operations:

3. Develop and implement procedures for the Specialists to use to as part of the annual review, to verify information submitted by 8(a) firms, that considers a combination of:
 - a. conducting site visits to verify information (i.e. who controls the joint venture);
 - b. collecting quarterly or semiannually contract status updates;
 - c. collecting performance of work reports (as mandated in March 2011 update of regulations); and
 - d. conducting a joint venture closeout evaluation to verify that capacity was gained by the 8(a) firm.

While deploying the new information system, to better manage and monitor joint venture arrangements in the Mentor-Protégé program, we recommend that the Associate Administrator for the Office of Government Contracting and Business Development:

4. Collect and maintain complete up-to-date and accurate data on 8(a) firms that have joint venture arrangements in the Mentor-Protégé program. At a minimum the system should:
 - a. collect and maintain a universe of joint venture arrangements under the Mentor-Protégé program; and
 - b. interface with other pertinent information systems, including Federal Procurement Data System-NG and the Dynamic Small Business Search.

We recommend that the Associate Administrator for the Office of Field Operations:

5. Assess the workload of the Specialists to ensure they are able to carry out all of their responsibilities related to the 8(a) Program including better management and monitoring of joint venture arrangements. As part of this assessment, consider alternate approaches to service and monitor 8(a) firms with mentor protégé and joint venture agreements.

6. Implement controls ensuring that the Specialists document in the Summary Report their determination of the 8(a) firm's lack of capacity to perform on a given contract, and how the Mentor will provide that missing capacity.

Agency Comments and Office of Inspector General Response

On August 29, 2012, we provided a draft of this report to the SBA's Office of Government Contracting and Business Development (GCBD) and Office of Field Operations for comment. On October 1, 2012, SBA management submitted its formal written comments, which are included in their entirety in Appendix VII.

Management Comments

Management generally agreed with all of the recommendations. While management generally concurred with our recommendations, we determined that management did not provide sufficient information to address recommendations number three, five, and six. A summary of management comments to the report and recommendations— and our response— follows.

Management also offered four technical comments on the overall report. Specifically, management stated that,

The Report, as written, focuses on the Joint Venture arrangements that are permitted under the 8(a) Business Development Mentor Protégé Program. In doing so, there are several statements that will most likely be misconstrued by an uninformed reader and are misleading in respect to the purpose of the Mentor Protégé program.

We subsequently met with the GCBD management, and agreed to revise specific statements as addressed in the following table.

Table 2 Agency Technical Comments and OIG Response

Comment Number	Draft Report	Agency Comment	OIG Response
1	<p>Executive Summary Further, SBA officials view joint venture arrangements as an incentive for the Mentor to participate in the program rather than as entities to be monitored. As a result, the SBA is unable to monitor program performance and mitigate risks inherent in the 8(a) Program.</p>	<p>Although SBA did not directly request a change, SBA clarified that, while it is correct that SBA officials view the allowance of joint venture arrangements as an incentive for the Mentor to participate in the program, it in no way inhibits the Agency’s ability or its perception of the need to monitor such arrangements for performance or compliance with program rules.</p> <p>In addition, the SBA advised that current program guidance set forth in 13 CFR § 124.520(e) & (f), along with Chapter 9 of SOP 80 05, clearly articulate monitoring and oversight requirements related to approved Mentor-Protégé Agreements. Similarly, oversight and monitoring expectations for approved joint ventures are set forth in 13 CFR § 124.513 and are further articulated in Chapter 8 of SOP 80 05. While they do not specifically indicate how these factors are measured, these guidelines stipulate the pertinent factors to be considered when evaluating proposed Agreements and associated benefits.</p>	<p>Text changed in Executive Summary (final report) to read <i>As a result, the SBA did not establish performance measures to monitor program performance and mitigate risks inherent in the 8(a) Program</i></p> <p>We do not disagree that guidance is provided to the Business Opportunity Specialists (Specialists) to monitor and oversee the mentor protégé joint venture agreements. However, the Standard Operating Procedures do not provide specific guidance to SBA personnel on key oversight activities, as discussed in this report. Further, where guidance was provided, we found that Specialists did not always fully comply with requirements. Therefore, the SBA needs to implement better controls to ensure compliance.</p>
2	<p>P. 6 Mentor-Protégé Program <i>The 8(a) participants are eligible to compete for 8(a) contracts set aside for only small businesses.</i></p>	<p>The Agency wanted clarification that 8(a) participants are eligible to compete for contracts set aside for only approved 8(a) participants.</p>	<p>Text changed in final report to read <i>The 8(a) participants are eligible to receive 8(a) sole source and 8(a) competitive contracts.</i></p>
3	<p>P. 7 Joint Venture Arrangements <i>Importantly, as an incentive for the mentor, the SBA’s...to jointly pursue 8(a) contracts set aside for small businesses.</i></p>	<p>The Agency believed the statement was out of context but made no suggestion as to revisions.</p>	<p>Text changed in final report to read <i>We revised the sentence for clarity by removing ‘set aside for small business’ from the sentence.</i></p>
4	<p>P. 7 Joint Venture Arrangements <i>The exclusion enables large businesses or mentor participants that would not otherwise qualify under the program, to receive federal contract set aside for 8(a) small business. In other words, it allows a large business to be considered a small business.”</i></p>	<p>The Agency understood the message conveyed by the OIG, but said that the statement should be revised to more appropriately convey the relationship.</p>	<p>Text changed in final report to read <i>The exclusion enables the joint venture – between a large business and 8(a) participants – that would not otherwise qualify under the program, to receive federal contracts set aside for the 8(a) Program</i></p>

Recommendation 1 - Develop specific, measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to protégé.

Management Comments

Management stated that the Agency is currently working to develop metrics to enable Business Opportunity Specialists to better measure the benefits of both the Mentor-Protégé relationships, as well as joint ventures. Further, the Agency's One-Track CMS, which is still being developed, will have monitoring and oversight features for both Mentor-Protégé Agreements and Joint Venture Agreements.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 2 - Use the information identified in Recommendation 1 to develop procedures to assess risk and better support decisions concerning the direction and, administration of the Mentor-Protégé program so as to minimize risk.

Management Comments

Management stated that the SBA's Office of Program Review, a sub-office within the Office of Business Development, will evaluate proposed and existing program policies to mitigate program abuse.

OIG Response

We consider management comments to be responsive to our recommendation and expect that their evaluation of proposed and existing program policies will identify actions for mitigating program abuse.

Recommendation 3 - Develop and implement procedures for the Specialists to use to as part of the annual review , to verify information submitted by 8(a) firms, that considers a combination of:

- a. conducting site visits to verify information (i.e. who controls the joint venture);
- b. collecting quarterly or semiannually contract status updates;
- c. collecting performance of work reports (as mandated in March 2011 update of regulations); and
- d. conducting a joint venture closeout evaluation to verify that capacity was gained by the 8(a) firm.

Management Comments

Management stated that the One-Track CMS will have capabilities for periodic reporting and that the revised SOP 80 05 3 will stipulate requirements for the site visits and closeout activities.

OIG Response

We believe management partially responded to this recommendation because they discussed the tools used to monitor the reporting. However, management did not respond to whether the Specialists will verify the information submitted into the One-Track CMS. Specifically, management did not state whether Specialists will conduct site visits and verify that capacity was gained by the 8(a) firm. Without verifying this information, the SBA will not know if the 8(a) participant is benefiting from the arrangement and continuing with its business development.

Recommendation 4 - Collect and maintain complete up-to-date and accurate data on 8(a) firms that have joint venture arrangements in the Mentor-Protégé program. At a minimum the system should:

- a. **collect and maintain a universe of joint venture arrangements under the Mentor-Protégé program; and**
- b. **interface with other pertinent information systems, including Federal Procurement Data System-NG and the Dynamic Small Business Search.**

Management Comments

Management has already begun to address this recommendation by developing the One-Track CMS and assuming no technological or environmental obstructions, management anticipates that the system will interface with other available sources of relevant data, including FPDS-NG and DSBS.

OIG Response

We believe management's comments are responsive to the recommendation. However, we note the One-Track CMS will not be able to address all of the recommendations. For example, the BOS still must perform analysis of the data that resides in the system and information they observe during site visits.

Recommendation 5 - Assess the workload of the Specialists to ensure they are able to carry out all of their responsibilities related to the 8(a) Program including better management and monitoring of joint venture arrangements. As part of this assessment, consider alternate approaches to service and monitor 8(a) firms with mentor protégé and joint venture agreements.

Management Comments

Management stated that it completed a study to assess the critical job duties and performance standards of the BOS. Based on the results, new critical elements and performance standards were put in place to better monitor and manage the work load consistently across districts.

OIG Response

We believe management was partially responsive to this recommendation. Management did not state whether or not the study included monitoring joint venture agreements associated with the Mentor Protégé program or how new critical elements and performance standards impact the BOS workload.

Recommendation 6 - Implement controls ensuring that the Specialists document in the Summary Report their determination of the 8(a) firm's lack of capacity to perform on a given contract, and how the Mentor will provide that missing capacity.

Management Comments

Management stated that Chapters 8 and 9 of SOP 80 05 established procedures for district office staff to use for determining 8(a) firm's lack of capacity to perform regarding the approval process for joint ventures. Management stated that it will ensure that these procedures are being followed by district office staff and will include them as a component to Quality Service Reviews.

OIG Response

We consider management comments partially responsive to our recommendation. While management stated that it would ensure that district staff properly documented the lack of capacity, it did not provide sufficient explanation of how the control would be implemented. In addition, management did not explain the relevance or frequency of the quality service reviews, nor specify who performs the reviews.

Actions Required

Please provide your management decision for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target dates(s) for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205-7390 or Riccardo R. Buglisi, Director, Business Development Programs Group at (202) 205-7489.

Appendix I: Scope and Methodology

Our objectives were to (1) determine the extent to which the joint venture agreement between a mentor and protégé resulted in substantial benefit to the 8(a) participant, and (2) assess SBA's oversight of the Mentor-Protégé Program's Joint Venture Arrangements. To address these objectives, we reviewed program regulations, guidance, and related reports. We examined case files at the SBA district offices and contractual files at the 8(a) participant's office.

We interviewed Small Business Administration's (SBA) staff to discuss their process for monitoring 8(a) participants awarded an 8(a) joint venture contract. Specifically, we met with SBA management in the Offices of Business Development and Field Operations. In the three district offices, we interviewed the district directors, assistant district directors, attorneys, and 23 Business Opportunity Specialists, including the Lead Business Opportunity Specialists. Additionally, we interviewed the 8(a) participants selected in our sample to determine their interaction with the SBA staff and program compliance.

To evaluate program guidance, policies, and procedures (including regulatory guidance changes), we reviewed the Code of Federal Regulations, parts 121 and 124, before and after the March 2011 regulatory revisions effective date. We analyzed the SBA's Standard Operating Procedure 80 05 3 chapters on the *Mentor-Protégé Program, Joint Venture and Teaming Arrangements*, and *Participant Review Process* to understand the existing guidance provided to SBA staff involved with screening, approving, and monitoring 8(a) applicants and participants. To identify existing concerns and recommendations with the mentor-protégé and joint venture programs, we examined multiple reports on SBA's mentor protégé and joint venture programs. Specifically we used reports including our *Reports on the Most Serious Management Challenges Facing the Small Business Administration*, and reports from the Government Accountability Office and Congressional Research Service that pertain directly to X. A detailed list of all of the reports reviewed is included in this Appendix, under *Prior Coverage*.

To determine the population of 8(a) participants with a mentor-protégé and joint venture arrangements, we had to estimate the universe. We compiled an estimated list by matching a common identified number, such as the 8(a) case number, for an approved mentor protégé list as of November 2010, with a list of approved joint ventures. We concluded 122 mentor-protégé relationships created joint venture entities.¹ For the 122, we searched USASpending.gov to calculate the total awarded contract dollars. We determined that the 122 mentor-protégé relationships had total contracts totaling approximately \$1.7 billion. Of the \$1.7 billion, we grouped the joint venture entities within their respective district offices to identify the top district offices with the highest total procurement dollar. We identified nine district offices with the Mentor Protégé activity and the highest procurement dollars totaling over \$1 billion.

From the top nine district offices, we judgmentally selected our sample of three SBA district offices with Mentor Protégé activity and joint venture contracts. Washington, DC; Baltimore, MD; and San Antonio, TX were the chosen district offices.

¹ Joint Venture entities were the businesses created between an 8(a) participant and mentor seeking approval for an 8(a) joint venture agreement.

Appendix I: Scope and Methodology

From those district offices, we judgmentally selected three 8(a) participants with mentor-protégé and joint venture agreements with closed 8(a) contracts or task orders in fiscal years 2009 and 2010. Additional selection factors considered include the type of 8(a) contract awarded, the total 8(a) contract dollar amount, and the number of joint venture agreements for the mentor and protégé. The three 8(a) firms' joint venture agreements had associated contracts valued at approximately \$350 million. We interviewed staff at the three district offices and senior management of the three 8(a) firms awarded a joint venture 8(a) contract with a mentor.

We conducted this audit from September 2010 through July 2012 in accordance with generally accepted government auditing standards. Those standards 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We performed appropriate data reliability procedures for our sample testing. We questioned the completeness of SBA's approved joint venture information because we later found an additional mentor protégé relationship with a joint venture agreement that was not included on SBA's list. For assurance of the data used in our sample, we corroborated information with Agency documents, and acknowledged our existing concerns with the SBA's identified systems that maintain 8(a) participant information.

Prior Coverage

U.S. Small Business Administration, Office of Inspector General Reports:

- ▶ [Audit Report Number 07-19](#), *Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in SBA's Mentor-Protégé Program*, March 30, 2007.
- ▶ [Report Number 8-01](#), *Fiscal Year 2008: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration*, October 16, 2007.
- ▶ [Report Number 9-02](#), *Fiscal Year 2009: Report on the Most Serious Management Challenges Facing the Small Business Administration*, October 20, 2008.

U.S. Government Accountability Office Audit Reports:

- ▶ Report Number GAO-09-16, *Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program*, November 2008.
- ▶ Report Number GAO-10-353, *Steps Have Been Taken to Improve Administration of the 8(a) Program, but Key Controls for Continued Eligibility Need Strengthening*, March 2010.

Appendix I: Scope and Methodology

- ▶ Report Number GAO-11-548R, *Mentor–Protégé Programs Have Policies That Aim to Benefit Participants but Do Not Require Post-agreement Tracking*, June 2011.
- ▶ Report Number GAO-12-84, *Federal Contracting: Monitoring of Tribal 8(a) Firms Need Attention*, January 2012.

Congressional Research Service Reports

- ▶ Report Number 7-5700, R41722, *Small Business Mentor-Protégé Programs*, January 6, 2012
- ▶ Report Number 7-5700, R41722, *Small Business Mentor-Protégé Programs*, March 19, 2012.
- ▶ Report Number 7-5700, R41722, *Small Business Mentor-Protégé Programs*, May 14, 2012.

Appendix II: Mentor-Protégé Program

The SBA regulations¹ govern various aspects of administering and monitoring the Mentor-Protégé program. These regulations provide a general overview, eligibility requirements, benefits, guidance for written agreements, and factors for the evaluation of the program. In addition to the Code of Federal Regulations, staff from the SBA are required to follow the 8(a) Program's Standard Operating Procedures 80 05 3 for detailed information and guidance.

The purpose of SBA's Mentor-Protégé program is to enhance the capability of 8(a) participants to compete more successfully for federal government contracts. A mentor may be either a large or a small business, must be eligible for award of a government contract, and must be able to provide developmental assistance to enhance the capabilities of the protégés. An incentive for non-8(a) firms to participate as mentors is the exception to the affiliation rule.² The SBA's mentor-protégé program permits a waiver of the affiliation rule³ for joint ventures between mentors and 8(a) protégés, allowing them to jointly pursue 8(a) contracts set aside for small businesses without the two firms being considered "affiliated" for purposes of SBA's small business size standards. In other words, it allows a large business arrangement to be considered a small business.

The SBA requires that mentors and protégés enter into a written mentor protégé agreement, approved by the SBA's Associate Administrator for Business Development, which assesses the protégé's needs and describes the assistance the mentors will provide. This agreement generally obligates the mentor to furnish assistance to the protégé for at least one year. To help ensure that protégés benefit from participation in the mentor-protégé program, regulations require the SBA to review mentor-protégé relationships on an annual basis in determining whether to approve its continuation for another year. In addition, SBA staff must approve all changes to a mentor-protégé agreement, in advance. The SBA annually requires the 8(a) Program participant to submit a business plan and an "Annual Update" with the participant status information.

The Specialists review the submitted documentation for completeness, while having collateral duties for other SBA programs. As of January 2012, there were 630 active mentor-protégé agreements, a 30 percent increase since November 2010.

¹ Title 13 CFR 124.520, *What are the rules governing SBA's Mentor-Protégé program?*

² Title 13 CFR 121.103(b)(6), *Exceptions to Affiliation Coverage.*

³ Title 13 CFR 121.103(a)(1-2), *General Principals of Affiliation* defines affiliation as occurring when an individual controls or has the power to control the other individual, or a third party or parties controls or has the power to control both. It does not matter whether control is exercised, so long as the power to control exists. The firms' numbers of employees or revenue are factors used to evaluate the size of a firm. Additional control factors include ownership, management, previous relationships and contractual relationships.

Appendix III: Regulatory Changes to the Mentor-Protégé Program¹ and Joint Venture Requirements²

Mentor-Protégé Program

Pre-March 2011	Post-March 2011
This is new language added to the rule; the former regulations (pre-March 2011) did not address these issues.	Language added that mentor protégé agreements must include a timeline on when the mentor will provide assistance to the protégé and address how the assistance to be provided will help the protégé firm meet the goals established in its SBA approved business plan.
Generally, mentors will have no more than one protégé at a time. However, SBA may authorize additional protégés as long as the relationships are not adversely affecting the development of either protégé.	Keeps the same language, but adds text that limits the number of protégés any mentor could have to three.
In order to demonstrate its favorable financial health, a firm seeking to be a mentor must submit its federal tax returns for the last two years to SBA for review.	A firm seeking to be a mentor must submit Federal income tax returns, audited financial statements, including any notes, or, in the case of a publicly traded entity, its filings with the Securities and Exchange Commission, for the previous three years to demonstrate financial health.
Prior to the March 2011 revised regulations, the Code of Federal Regulations did not specify that nonprofit entities could be mentors.	SBA allows non-profit entities to be mentors.
Regulation stated that only 8(a) participants in good standing could be protégés, but did not specify whether the exemption from affiliation could continue after the protégé exits the program.	The exclusion from affiliation enjoyed by joint ventures between protégés and their mentors ends when the protégé leaves the 8(a) BD program except as to contracts awarded to the joint venture prior to the protégé's program exit.
This is a new paragraph added to the rule; the former regulations (pre-March 2011) did not address this issue.	Precludes 8(a) firms from being mentors and protégés at the same time.
This is a new paragraph added to the rule; the former regulations (pre-March 2011) did not address this issue.	To receive the exclusion from affiliation for both 8(a) and non 8(a) procurements, the joint venture must comply with the requirements set forth in 124.513 (c).
Provides that the SBA can disapprove continuation of a mentor-protégé agreement if the mentor has not provided promised assistance or if assistance has not resulted in any material benefits or developmental gains to the protégé.	Establishes procedures requiring mentors to respond to SBA findings that assistance promised in a mentor protégé agreement has not been provided. Mentors must respond within 30 days explaining why the assistance was not provided and setting forth a definitive plan as to when it will provide such assistance. If a mentor 1) fails to respond, 2) does not supply adequate reasons for a failure to provide the agreed upon assistance, or 3) does not set forth a definite plan to provide the assistance, SBA will terminate the mentor-protégé agreement and the firm will be ineligible to again act as a mentor for two years. SBA may also recommend to the relevant procuring agency to issue a stop work order for each Federal contract for which the mentor and protégé are performing as a small business joint venture and consider the mentor's failure to comply with the terms of the mentor-protégé agreement as a basis for debarment.

¹ Title 13 CFR 124.520, *What are the rules governing SBA's Mentor-Protégé program?*

² Title 13 CFR 124.513, *Under what circumstances can a joint venture be awarded an 8(a) contract?*

Appendix III: Revised 8(a) Regulatory Changes to the Mentor-Protégé Program and Joint Venture Requirements

Joint Venture Arrangements

Pre-March 2011	Post-March 2011
13 CFR Section 121.103(h), a joint venture is an entity with limited duration. Specifically, joint ventures can submit no more than three offers over a two-year period, starting from the date of the submission of the first offer.	A specific joint venture can be awarded three contracts over a two-year period, starting with the date of the award of the first contract. However, the same entities that form one joint venture can form other joint ventures amongst themselves or with other entities and be awarded three additional contracts.
This is a new paragraph added to the rule; the former regulations (pre-March 2011) did not address this issue.	If the joint venture is a separate legal entity, the 8(a) participant(s) must own at least 51% of the joint venture entity.
Not less than 51% of the net profits earned by the joint venture must be distributed to the 8(a) participant(s).	The 8(a) participant(s) must receive profits from the joint venture commensurate with the work performed by the protégé or if the joint venture is a separate legal entity, commensurate with the ownership interest of the 8(a) participant(s).
For an 8(a) contract, the protégé must perform a significant amount of the work done by the joint venture.	Generally, for an 8(a) contract, the 8(a) participant(s) must perform at least 40% of the work done by the joint venture.
SBA must approve a joint venture agreement prior to the award of an 8(a) contract on behalf of the joint venture.	When a joint venture has been established and approved for one 8(a) contract, a second or third 8(a) contract may be awarded to the joint venture provided that the SBA's prior approval is obtained of an addendum to the joint venture agreement setting forth the performance requirements for the contract(s).
This is a new paragraph added to the rule; the former regulations (pre-March 2011) did not address this issue.	8(a) participants must report to SBA annually and at the completion of a contract how the performance of work requirements were met for contracts performed as a joint venture.

Appendix IV: Joint Venture Arrangements

There are three different types of joint venture agreements. Table 1 provides a brief description of the joint venture type and contract eligibility for both the 8(a) and non-8(a) small business programs.

Table 1 Joint Venture Type and Eligibility

Type of Joint Venture	Contract Offers Eligibility Description
Two or more small non-8(a) businesses	Can submit contract offers as a small business without regard to affiliation, as long as each firm is small under the size standard corresponding to the North American Industry Classification System (NAICS) code assigned to the contract.
Two or more small businesses with at least one business as an 8(a) Participant	Can submit contract offers for competitive 8(a) procurements without regard to affiliation as long as each firm is small under the size standard corresponding to the NAICS code assigned to the contract and other regulatory criteria in 13 CFR 124.513(b) are met.
One large business and one small business approved by SBA to participate in SBA's mentor-protégé program	Can submit contract offers on any Federal government procurement, as long as the protégé qualifies as small and for purposes of 8(a) sole source requirements has not reached 8(a) sole source requirements dollar limits. If the procurement is to be awarded through the 8(a) BD program, SBA must approve the joint venture pursuant to 13 CFR 124.513.

Source: Title 13 CFR 121.103(h), *How Does SBA Determine Affiliation?* And Title 13 CFR 124.513 *Under what circumstances can a joint venture be awarded an 8(a) contract?*

Protégés can have multiple joint venture agreements with a mentor. The Specialists are required to review the joint venture agreements and supporting documentation for completeness before granting approval. If the district office management approves the joint venture agreement, the Specialist monitors the 8(a) firms' approved joint venture agreements until the contracts are completed or the 8(a) participant leaves the 8(a) Program.

The 8(a) regulations further allow mentor protégé joint ventures to bid on an infinite number of non-8(a) contracts and the SBA is not required to approve or monitor non-8(a) joint venture contracts between a mentor and a protégé. Guidance for joint venture is included in the CFR and the SOP for the 8(a) Program.¹ The regulations address size concerns for an 8(a) joint venture, contents of a joint venture agreement and any amendments, performance of work, contract execution, and inspection of records. In addition to the CFR, the 8(a) SOP provides staff more detail on what factors to consider when reviewing joint ventures for the 8(a) Program, among other things.

The regulations that became effective in March of 2011 require each 8(a) participant that performs an 8(a) contract through a joint venture to report to the SBA how the performance of work requirements were met on the contract.

¹ The joint venture regulations are throughout 13 CFR, however 13 CFR 124.513 provides guidance on circumstances that a joint venture is awarded an 8(a) contract.

Appendix V: Responsibilities of the Specialists Overseeing the 8(a) Program

Listed below is a brief summary of responsibilities Specialists must perform to manage the 8(a) Program:

- (1) analyzing change of ownership or business structure reports;
- (2) conducting orientation with potential and current 8(a) firms;
- (3) evaluating individual and business eligibility for the 8(a) Program;
- (4) inputting and updating data into SBA's systems used to monitor 8(a) participants;
- (5) performing statutory annual reviews of 8(a) firms for continued program eligibility;
- (6) providing:
 - a. maximum opportunities for the 8(a) firms by striving to increase the 8(a) share of prime contracts and 8(a) participation in subcontract opportunities; and
 - b. a proposal and supporting documentation for 8(a) firms leaving the 8(a) Program;
- (7) reviewing:
 - a. documentation during the 8(a) application screening process; and
 - b. mentor-protégé agreements for completeness ;
- (8) reviewing and approving joint venture agreements.

Appendix VI: Effective Practices for Servicing 8(a) Participants

Based on OIG Observations, these are the suggested best practices for SBA's servicing of 8(a) participants who enter into 8(a) Joint Venture Contracts:

- A Mentor-Protégé Review Board that consists of the Lead Business Opportunity Specialist (Specialist), Assistant District Director, District Office Attorney, and District Director review all mentor-protégé and joint venture agreements. (We observed this in the Washington, DC Metropolitan Area District Office.)
- Preliminary in-person (face-to-face) meetings with the Specialist, 8(a) participant, and mentor to explain the Mentor-Protégé Program and Joint Venture Agreements. (We observed this in the Baltimore, MD, and Washington, DC Metropolitan Area District Offices.)
- Quarterly status reports from the 8(a) participant on the mentor-protégé and joint venture progress. (We observed this in the Baltimore, MD District Office.)
- Proposed and Actual action plans from the 8(a) participant submitted to the Specialist. (We observed this in the Washington, DC Metropolitan Area District Office.)
- District offices maintain a log of issues related to mentor protégé and joint venture participants. (We observed this in the Washington, DC Metropolitan Area District Office.)
- Training sessions specifically focused on mentor-protégé and joint venture district office issues for District Office staff. (We observed this in the Washington, DC Metropolitan Area District Office.)
- Enforce remedial measures and termination as an enforcement method. (We observed this in the Washington, DC Metropolitan Area District Office.)

Appendix VII: Agency Comments



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

Date: September 28, 2012

To: John K. Needham
Assistant Inspector General for Auditing

From: John Shoraka
Associate Administrator for Government Contracting
and Business Development

Robert Hill
Associate Administrator for Field Operations

Subject: Draft Report Entitled "Benefits of Mentor Protégé Joint Ventures are Unknown:
Robust Oversight is Needed to Avoid Abuse and Assure Success

Thank you for the opportunity to respond to your Draft Report of August 29, 2012 regarding the subject noted above. Based on our review, the Offices of Government Contracting and Business Development and Field Operations generally concur with your recommendations and offer the following comments.

The Report, as written, focuses on the Joint Venture arrangements that are permitted under the 8(a) Business Development Mentor Protégé Program. In doing so, there are several statements that will most likely be misconstrued by an uninformed reader and are misleading in respect to the purpose of the Mentor Protégé program. In this regard, in its Executive Summary, the Report states, "*Further, SBA officials view joint venture arrangements as an incentive for the Mentor to participate in the program rather than as entities to be monitored. As a result, the SBA is unable to monitor program performance and mitigate risks inherent in the 8(a) program.*" While it is correct that SBA officials view the allowance of joint venture arrangements as an incentive for the Mentor to participate in the program, it in no way inhibits the Agency's ability or its perception of the need to monitor such arrangements for performance or compliance with program rules.

First, it is important to note that the Mentor-Protégé Program is a tool designed to encourage successful entities, for-profit or non-profit, that demonstrate the ability and commitment to assist in the development of 8(a) BD program participants to provide various forms of business

development assistance to protégé firms, including assistance in performing prime contracts with the Government through joint venture arrangements.

In this regard, current program guidance set forth in 13 CFR § 124.520(e) & (f), along with Chapter 9 of SOP 80 05, clearly articulate monitoring and oversight requirements related to approved Mentor-Protégé Agreements. Similarly, oversight and monitoring expectations for approved joint ventures are set forth in 13 CFR § 124.513 and are further articulated in Chapter 8 of SOP 80 05. While they do not specifically indicate how these factors are measured, these guidelines stipulate the pertinent factors to be considered when evaluating proposed Agreements and associated benefits.

We would also like to point to several statements in your report that we recommend you consider revising. On page 6 under the Section entitled “Mentor-Protégé program”, you state, “*The 8(a) participants are eligible to compete for 8(a) contracts set aside for only small businesses.*” This statement is technically incorrect. In the context presented, it would be correct to say 8(a) participants are eligible to compete for contracts set aside for only approved 8(a) participants.

The same applies to your statement at the top of page 7 that reads, “*Importantly, as an incentive for the mentor, the SBA’s...to jointly pursue 8(a) contracts set aside for small businesses.*” Again, in this context, the contracts to which you refer are those set aside for only approved 8(a) participants. Also, on page 7 in the second bullet under the Section entitled, “Joint Venture Arrangements”, states, “*The exclusion enables large businesses or mentor participants that would not otherwise qualify under the program, to receive federal contract set aside for 8(a) small business. In other words, it allows a large business to be considered a small business.*” These are factually inaccurate statements. First, there are no provisions in the Mentor-Protégé program that would allow a mentor or large business to receive a contract set aside for an 8(a) participant, as is implied by that statement. Further, while an approved joint venture under the Mentor Protégé Program is considered small for the purpose of performing the 8(a) contract, at no time is the Mentor, if it is in fact a large business, considered to be small. While we fully understand the message you are attempting to convey, as presented, the statements are misleading and should be revised to more appropriately convey the relationship.

Recommendation 1: Develop specific measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to protégé.

SBA is currently working to develop metrics to enable BOSs to better measure the benefits of both the Mentor-Protégé relationships, as well as joint ventures. Additionally, the new automated program management information system that is currently under development, One-Track CMS, will incorporate monitoring and oversight features for both Mentor-Protégé Agreements and Joint Venture Agreements. Through these tools, BOSs will have access to more current and reliable performance data related to each.

Recommendation 2: Use this information identified in Recommendation 1 to develop procedures to assess risk and better support decisions concerning the direction and administration of the Mentor-Protégé program so as to minimize risk.

The Office of Business development recently added a risk mitigation component to its Office of Program Review. Through that office, all program policy, existing and proposed, will be evaluated with the intent of mitigating program abuse. These evaluations will be based on all relevant data that is available.

Recommendation 3: Develop and implement procedures for the Specialists to use as part of the annual review, to verify information submitted by 8(a) firms that considers a combination of:

- a. Conducting site visits to verify information (i.e. who controls the joint venture);**
- b. Collecting quarterly or semiannually contract status updates;**
- c. Collecting performance of work reports (as mandated in March 2011 update of regulations); and,**
- d. Conducting a joint venture closeout evaluation to verify that capacity was gained by the 8(a) firm.**

As noted above, One-Track CMS, as designed, will facilitate the requirement for and the provision of the noted periodic reporting. Additionally, these requirements, including the site visits and closeout activities, will be stipulated in the revised SOP manual which is currently under development.

Recommendation 4: Collect and maintain complete up-to-date and accurate data on 8(a) firms that have joint venture arrangements in the Mentor-Protégé program. At a minimum the system should:

- a. Collect and maintain a universe of joint venture arrangements under the Mentor-Protégé program; and**
- b. Interface with other pertinent information systems, including Federal Procurement Data System-NG and the Dynamic Small Business Search.**

As you are aware, One-Track CMS is designed to collect all pertinent data related to an approved firm's participation in the 8(a) BD program. Such data will include activities related to any aspects of the program through which the firm receives a benefit, to include expected outputs and outcomes. As planned and designed, assuming no technological or environmental obstructions, we fully anticipate that the system will interface with other available sources of relevant data, including FPDS-NG and DSBS.

Recommendation 5: Assess the workload of the Specialists to ensure they are able to carry out all of their responsibilities related to the 8(a) program including better management and monitoring of joint venture agreements. As part of this assessment, consider alternate approaches to service and monitor 8(a) firms with mentor protégé and joint venture agreements.

The Office of Field Operations convened a peer team of District Director across the nation to assess the Critical job duties and performance standards for the BOS and all three levels. After the assessment new Critical element and Performance standards were put in place documented

by new position descriptions and evaluation measures to better monitor and management the work load consistently across districts.

Recommendation 6: Implement controls ensuring that the Specialists document in the Summary Report their determination of the 8(a) firm's lack of capacity to perform on a given contract, and how the Mentor will provide that missing capacity.

Chapter 8 and 9 of SOP 80 05 establish procedures for district office staff to use for determining 8(a) firm's lack of capacity to perform regarding the approval process for joint ventures. We will ensure that these procedures are being followed by district office staff and will include them as a component to Quality Service Reviews (QSR).

As we have briefly noted, many of the recommendations provided in this report are currently being addressed by ongoing initiatives in the Office of Business Development. Upon full implementation of those initiatives SBA will be in a position to proactively identify potential abuse in its 8(a) BD program, to include the Mentor-Protégé program. The implementation of the recent regulatory changes; the enhanced procedures that will be implemented through the revised SOP manual; and, the roll-out of One-Track CMS will substantially improve SBA's ability to effectively conduct ongoing oversight and monitoring of the activities of 8(a) BD program participants.

Again, we appreciate the opportunity to provide comments related to this draft report.