



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

Contract Awards to Small Businesses Under the Mentor- Protégé Program

DOE/IG-0898

November 2013




Department of Energy
Washington, DC 20585

November 20, 2013

MEMORANDUM FOR THE SECRETARY

FROM:


Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Audit Report on "Contract Awards to Small
Businesses Under the Mentor-Protégé Program"

BACKGROUND

The goal of the Department of Energy's Mentor-Protégé Program is to provide an opportunity for eligible small businesses to receive developmental assistance in business and technical areas. The Program is designed to improve capabilities to perform contracts and subcontracts for the Department and other Federal agencies. The *Small Business Act*, as amended, requires the Federal Government to establish contracting goals, with at least 23 percent of all prime contracts awarded to small businesses. Based on the Department's business model, this goal translated to 7 percent for prime contracts and 52 percent for subcontracts for Fiscal Year 2013.

The Department utilizes the Mentor-Protégé Program to increase the participation of small businesses as prime contractors, as well as subcontractors to prime contractors. Department prime contractors, as mentors, enter into agreements with eligible protégé firms to provide developmental assistance to enhance the business and technical capabilities of the protégé firms and to promote and foster long-term business relationships. During calendar years 2010, 2011 and 2012, the Department's prime contractors had over 100 mentor-protégé agreements in place. The objective of this audit was to determine whether the Department effectively managed the Program.

RESULTS OF AUDIT

Our audit disclosed a number of weaknesses in the Department's management of its Mentor-Protégé Program. Specifically, we identified:

- Thirteen firms that were permitted to participate in the program even though they already appeared to possess the capabilities typically developed by small businesses, prior to selection as protégés. Specifically, each of these small businesses had already completed Federal procurement transactions totaling between \$7 million and \$111 million prior to joining the Program.
- Six mentor-protégé agreements that exceeded the recommended terms of up to 6 years. In fact, several agreements lasted as long as 10 years.

- Four protégés that successfully graduated from the Program at one Department site were permitted to subsequently enter into similar mentor-protégé agreements at other sites.

These findings, coupled with the practical limitations on the number of available Program slots, led us to conclude that small businesses most suitable for inclusion may not have had the opportunity to participate. This occurred because the Department did not have an adequate control structure in place for effective oversight of the Program. Specifically, the Department lacked sufficient policies to assist mentors in the solicitation and selection of protégés, did not monitor the progress of each protégé throughout the duration of the agreement, and did not maintain an adequate tracking system to accurately account for all protégé activities.

The goals of the Mentor-Protégé Program are laudable and have been recognized as such by the small business community. It is clearly in the interest of the Department and, for that matter, small businesses, to ensure that: (1) the most suitable small businesses are selected to be protégés; and (2) that the benefits of the Program are broadened by allowing participation only for the length of time necessary to fulfill the required tasks. As such, we have made recommendations designed to improve the Department's implementation and execution of the Program.

MANAGEMENT REACTION

Management concurred with the report's recommendations and identified planned actions to address our recommendations. We consider management's comments responsive to the report's recommendations.

Management comments are included in Appendix 3.

Attachment

cc: Deputy Secretary
Acting Under Secretary for Science and Energy
Acting Under Secretary for Nuclear Security
Acting Under Secretary for Management and Performance
Chief of Staff
Director, Office of Small and Disadvantaged Business Utilization

**REPORT ON CONTRACT AWARDS TO SMALL BUSINESSES UNDER
THE MENTOR-PROTÉGÉ PROGRAM**

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CONTRACT AWARDS TO SMALL BUSINESSES UNDER THE MENTOR-PROTÉGÉ PROGRAM

Mentor-Protégé Program

The Department of Energy (Department) had not always effectively managed the Mentor-Protégé Program. The goal of the Department's Program is to provide an opportunity for eligible small businesses to receive developmental assistance in business and technical areas in order to improve capabilities to perform contracts and subcontracts for the Department and other Federal agencies. However, our review of protégés at the Oak Ridge Reservation, the Savannah River Site and the Hanford Site found that several small businesses had received significant Federal awards prior to becoming a protégé. Additionally, six mentor-protégé agreements were for durations that appeared excessive. Also, in four instances small businesses had graduated from the Program at one site and later participated at another Department site under similar mentor-protégé agreements.

Prior Federal Awards

Several protégés at the three sites had received significant Federal procurement awards prior to becoming a protégé and, therefore, appeared to already possess the capabilities needed to compete for contracts and subcontracts at the Department and other Federal agencies. These capabilities are typically developed by small businesses through participation in the Program. For example, developmental assistance to be provided to one protégé at the Savannah River Site included the mentor assisting the protégé with developing knowledge and expertise in areas of procurement and Federal Acquisition Regulation contracts. Assistance included the development of technical and business processes, such as proposal development, accounting systems, cost estimating, project management systems and labor relations. However, our review of Federal procurement records disclosed that the small business had numerous Federal procurement transactions prior to becoming a protégé at the Savannah River Site, actions totaling more than \$110 million, including many Department procurements.

Other protégés received significant Federal awards, many with the Department, prior to joining the Program, including a protégé at the Hanford Site that had Federal procurement transactions totaling more than \$102 million. Similarly, we observed one protégé at the Y-12 National Security Complex and one at the Oak Ridge National Laboratory that had received previous Federal awards of more than \$61 million and \$47 million, respectively.

Furthermore, an additional nine protégés at the Oak Ridge Reservation, the Savannah River Site, and the Hanford Site had also received Federal awards prior to entering the Program, totaling between \$7 million and \$28 million. The fact that these protégés all received significant Federal awards prior to entering the Program tends to indicate that they should have already had the capabilities that are typically developed by participation in the Program. As a result, these businesses may not have been the most suitable candidates for the Program.

Lengthy and Successive Mentor-Protégé Agreements

We also found that the duration of several mentor-protégé agreements appeared excessive. Specifically, six protégés had participated in the Department's Program and had agreements that

exceeded 7 years, including two in excess of 8 years and three in excess of 10 years. Many of these agreements had no substantial change in the developmental assistance required by the protégé. Once a protégé is selected under the Program, an agreement must be executed between the mentor and the protégé and approved by the Office of Small and Disadvantaged Business Utilization (OSDBU). This agreement establishes the needed assistance to be provided by the mentor and the protégé's commitment to work with the mentor to support the mentor's programs and to keep communications open. According to the Program Manager, while no written formal policy had been implemented, it was the Department's practice to recommend a 2-year initial agreement with a maximum of four 1-year extensions.

In addition, four protégés completed the Program at one Department site and subsequently entered into similar mentor-protégé agreements at other sites. For example, we observed that a protégé graduated from the Program at Oak Ridge National Laboratory and subsequently participated in the Program at the Savannah River Site. Similarly, another protégé graduated from the Program at the Y-12 National Security Complex and then participated in the Program at the Oak Ridge National Laboratory. While reviewing agreements for these protégés, we noted that the assistance sought was similar to that of the previous agreement and focused on promoting the technical and business capabilities through developmental programs, assisting in marketing and proposal development, and networking with potential customers for the protégé's services.

Guidance, Monitoring and Tracking

These issues occurred because the Department and its prime contractors did not have an adequate control structure in place for effective oversight of the Program. Specifically, mentors did not always give adequate consideration to protégés' existing capabilities when selecting them for the Program. In addition, the Department lacked sufficient policies to assist mentors in the solicitation and selection of protégés, did not monitor the progress of each protégé throughout the duration of the agreement and did not maintain an adequate tracking system to accurately account for all protégés.

Policies and Procedures

The Department lacked formal written policies and procedures to assist mentors in the solicitation and selection of protégés. More specifically, the Department's OSDBU did not have policies and procedures in place to ensure that the most suitable protégés were identified and placed into the Program. Department requirements are listed in Department of Energy Acquisition Regulation (DEAR) Subpart 919.70, which outlines the general requirements for both the mentor and protégé and emphasizes that only small businesses should be eligible according to socioeconomic designations. Among other things, the protégés must:

- Be eligible for receipt of Government contracts;
- Have been in business for at least 2 years prior to application for enrollment into the Program; and

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- Be able to certify as a small business according to the North American Industry Classification System for the services or supplies the protégé will be providing under its subcontract with the mentor.

We reviewed the Small Business Administration's Mentor-Protégé Program, a Federal prime contract-based program, and found that it contrasted significantly with that of the Department. Specifically, the Small Business Administration had established stringent requirements for participation in its Mentor-Protégé Program. The protégé must meet the following criteria:

- Be in the developmental stage of the 8(a) Business Development program;
- Have never received an 8(a) contract;
- Be less than half the standard size of a small business based on its primary North American Industry Classification System code; and
- Be in good standing in the 8(a) Business Development program and be current with all reporting requirements.

We also identified some disincentives for Department mentors to select protégés that are most suitable for participation in the Program. The Department routinely includes a contract clause addressing the Program in its prime contracts for site operations. Under cost-plus-award-fee contracts, a mentor firm may earn award fees associated with its performance as a mentor. Thus, some mentors appeared to select protégés that had already shown the ability to successfully perform on a significant number of contracts. For example, one mentor informed us that it required small businesses to have had a previous contract with the mentor prior to being selected as a protégé. Another mentor stated that it had selected its respective protégé because the protégé had successfully performed on the prior contract with the mentor.

Furthermore, protégé designation can be beneficial to both parties. Mentors may count mentor-protégé agreements towards meeting small business subcontracting goals. The DEAR allows mentors to award non-competitive subcontracts to the protégé on the sole basis of being a protégé, which was the case for the majority of protégé awards we reviewed. In fact, many mentors we reviewed guaranteed protégés subcontracts ranging from \$100,000 to \$4 million. The mentor is then allowed to count these awards towards its established small business subcontracting goals.

Monitoring and Tracking Mentor-Protégé Agreements

In addition, OSDBU did not effectively monitor the progression of protégés throughout the mentoring process. DEAR 919.7013 states that the mentor must submit progress reports to the Department's Mentor-Protégé Program Manager semi-annually. An OSDBU official stated that the process is to retain progress reports in the official case file once a semi-annual progress report is received. However, we found no evidence that OSDBU received and reviewed these

reports to follow up on the progress of the protégés. In fact, progress reports were not included in 19 of 20 official protégé case files we reviewed. One mentoring official stated that he did not complete progress reports on his protégés.

The Department also lacked an effective tracking system capable of identifying mentor-protégé agreements that appeared excessive in duration or were awarded after successfully completing the Program at another site. OSDBU's limited tracking system included records for 153 mentor-protégé agreements. However, we identified 15 agreements that were not included in the tracking system and numerous records in which pertinent information was not included.

Opportunities for Improvement

Without defined policies and procedures in place to help sites appropriately select small businesses for participation in the Program, mentors may continue to non-competitively award contracts to businesses already capable of receiving contracts and subcontracts at the Department and other Federal agencies. As a result, small businesses most suitable for participation in the Program may not be receiving the benefits of the Department's Program and limited mentoring resources will not be allocated in the most effective manner. Furthermore, by focusing on the most suitable small businesses to participate in the Program, the Department will increase the number of viable small businesses that could be utilized by the Department and its contractors. Thus, it is imperative that the Department manage the Program to ensure that small businesses most suitable for participation are selected to be protégés and only for the length of time necessary to fulfill the required tasks.

RECOMMENDATIONS

To strengthen controls over the Mentor-Protégé Program and ensure that the Department and its contractors are reaching the most suitable small businesses for participation in the Program, we recommend that the Director, Office of Small and Disadvantaged Business Utilization, in conjunction with each cognizant Program Secretarial Officer:

1. Develop detailed policies and procedures to ensure sites select small businesses most suitable for participation in the Program;
2. Establish effective monitoring of the progression of protégés throughout the mentoring process; and
3. Improve the tracking system for mentor-protégé agreements to ensure that it is complete, accurate and accessible across the Department's complex.

MANAGEMENT RESPONSE

Management concurred with the report's recommendations and indicated that corrective actions were planned to address the issues identified. In response to Recommendation 1, the OSDBU stated that it will revise current policy to provide a definition for small businesses most suitable for participation in the program. Regarding Recommendation 2, OSDBU stated that it will

further develop procedures to ensure the Mentor-Protégé Program Manager submits semi-annual reports to the cognizant contracting officer and that mentors submit progress reports semi-annually. Addressing Recommendation 3, OSDBU indicated that it will implement numerous changes to better track and monitor agreements from approval to expiration and that the tracking system will be made available Department-wide.

AUDITOR COMMENTS

The Department's planned corrective actions are responsive to our recommendations.

We modified our report, as necessary, in response to management's comments. Management's comments are included in Appendix 3.

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of the audit was to determine whether the Department of Energy (Department) effectively managed its Mentor-Protégé Program.

SCOPE

This audit was conducted between July 2012 and November 2013, at the Office of Small and Disadvantaged Business Utilization (OSDBU) Headquarters in Washington, DC, the Oak Ridge Reservation in Oak Ridge, Tennessee, the Savannah River Site in Aiken, South Carolina, and the Hanford Site in Richland, Washington. The scope included the Department's management of small business awards under the Mentor-Protégé Program that were in effect during calendar years 2010, 2011 and 2012.

METHODOLOGY

To accomplish our audit objective, we judgmentally selected a sample of 3 Department sites from a universe of 18 sites. This selection was based on the number of mentor-protégé agreements in effect at the three field sites visited. Because a judgmental sample of Department sites was used, results are limited to the sites or locations selected. Additionally we:

- Reviewed applicable laws and regulations pertaining to the execution of contracts awarded to small businesses;
- Reviewed prior reports issued by the Office of Inspector General;
- Interviewed officials at OSDBU and the three sites we visited to gain an understanding of their roles and responsibilities as well as procedures for managing the Program;
- Obtained a listing of mentor-protégé agreements from OSDBU and compared information in the listing to data received directly from Department sites;
- Obtained and reviewed all 60 mentor-protégé agreements at the 3 sites visited, representing approximately 59 percent of the agreements in effect at the 18 Department sites during the audit period;
- Obtained and reviewed protégé subcontracts at the three sites we visited; and
- Searched the Federal Procurement Data System for prior Federal procurements to protégés at the three sites we visited.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain

Appendix 1 (continued)

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed compliance with the *GPRRA Modernization Act of 2010* and found that performance measures had not been established for the Mentor-Protégé Program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did rely on computer-processed information in the Federal Procurement Data System to achieve our audit objective. We confirmed the validity of the data by comparing it, where appropriate, to information taken from a Department acquisition system.

We held an exit conference with Office of Small and Disadvantaged Business Utilization officials on November 20, 2013.

PRIOR REPORT

- Audit Report on [Review of the Department of Energy's Contract with AHTNA Government Services Corporation Contract No: DE-AC52-04NA25282](#) (OAS-L-09-01, October 2008). This review found that the AHTNA Government Services Corporation (AHTNA) contract, an Alaskan Native Corporation, was managed in accordance with Small Business Administration (SBA) 8(a) program requirements. However, the review noted certain issues that, if corrected, could enhance the National Nuclear Security Administration's (NNSA) management of Alaskan Native Corporation contracts. In the case of AHTNA, the review found that NNSA had not properly monitored compliance with subcontracting limitations and did not always submit contractual documents to the SBA. Furthermore, NNSA did not adhere to requirements designed to ensure that the contractor performed the required amount of work on the contract. Specifically, NNSA did not have a formal documented process for monitoring the percentage of work performed by AHTNA and reporting the results to the SBA. The review also found that NNSA was not providing the SBA with all contractual documents required by the Code of Federal Regulations and the Partnership Agreement between the Department and the SBA.


MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

September 10, 2013

MEMORANDUM FOR: GREGORY H. FRIEDMAN
INSPECTOR GENERAL

FROM: LADORIS G. HARRIS 
DIRECTOR
OFFICE OF ECONOMIC IMPACT & DIVERSITY

SUBJECT: Response to the Draft Audit Report on "Contract Awards to Small
Businesses under the Mentor-Protégé Program"

The Department of Energy (DOE) welcomes the opportunity to continue to work with the Office of the Inspector General's to (OIG) improve upon the process of how awards are made to small businesses under the Mentor-Protégé Program. The Office of Small and Disadvantaged Business Utilization (OSDBU) within the Office of Economic Impact and Diversity (ED), is committed to effective program management and strives to enhance the program to ensure best business practices.

Previous Audit

OIG has not conducted an audit previously on contract awards to small businesses under the DOE Mentor-Protégé Program (MPP).

Program Background

The OSDBU is responsible for the management and administration of the DOE MPP. A DOE Mentor-Protégé Pilot Initiative was launched in June 1995. A MPP Pilot initiative was developed to encourage DOE prime contractors to help energy-related small disadvantaged, 8(a), and women-owned small businesses to enhance their business and technical capabilities to ensure full participation in the mission of DOE. A permanent MPP was implemented December 1999. The program was implemented to foster long-term business relationships between DOE prime contractors, small business entities and minority institutions of higher learning and to increase the overall number of these small business entities and minority institutions that receive DOE prime and subcontract awards.

The draft audit report made three recommendations. The OSDBU, National Nuclear Security Administration (NNSA), Oak Ridge Operations Office, Savannah River Operations Office, Richland Operations Office and MA concur with all three recommendations. However, the OSDBU will be the primary action office for addressing the recommendations as the organization with programmatic and operational authority to manage the Department's Mentor Protégé Program.



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RECOMMENDATION 1: Develop detailed policies and procedures to ensure sites select small businesses for participation in the Program that truly need developmental assistance.
MANAGEMENT RESPONSE: CONCUR

OSDBU is currently operating and managing the program in accordance with 48 Code of Federal Regulations (CFR) 919.700, implemented in the Department of Energy Acquisition Regulations (DEAR) Subpart 919.70. This subpart identifies eligibility requirements for Protégés (see attachment). There is currently nothing in 48 CFR 919.7007 or DEAR Subpart 919.70, which defines “small businesses for participation in the program that truly need developmental assistance.” Consequently, the OSDBU will define the small businesses that based on our organization’s objectives meet the criteria for participants that “truly need developmental assistance.” Estimated completion date for the policy revisions is September 30, 2014.

RECOMMENDATION 2: Establish effective monitoring of the progression of Protégés throughout the mentoring process.

MANAGEMENT RESPONSE: CONCUR

The OSDBU will further develop activities to ensure that the DOE Mentor-Protégé Program Manager submits semi-annual reports to the cognizant contracting officer regarding the participating Mentor's performance in the Program for use in the award fee determination process and that the Mentor submits progress reports to the DOE Mentor-Protégé Program Manager semi-annually. Estimated completion date is September 30, 2014.

RECOMMENDATION 3: Improve the tracking system for Mentor-Protégé agreements to ensure that it is complete, accurate and accessible across the Department’s complex.

MANAGEMENT RESPONSE: CONCUR

Improvement of the tracking system includes applying on-line, submitting progress reports and other report types on-line, notifications to participants on-line and overall tracking and monitoring agreements from approval to expiration. Upon deployment, the tool will be available DOE-wide. Estimated completion date is September 30, 2014.

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