

January 2007

# CONTRACT MANAGEMENT

## Protégés Value DOD's Mentor-Protégé Program, but Annual Reporting to Congress Needs Improvement



Highlights of [GAO-07-151](#), a report to congressional committees

## Why GAO Did This Study

Congress authorized the Mentor-Protégé Program to boost the participation of small disadvantaged businesses as subcontractors and suppliers under Department of Defense (DOD) and other contracts. The program provides incentives to major defense contractors (mentors) to help small disadvantaged businesses (protégés) strengthen their ability to compete for contracts. GAO administered a Web-based survey to determine whether former protégés believe the program enhanced their business development; examined the accuracy of the Mentor-Protégé Program Office's annual reporting to Congress; determined whether DOD reported on the progress of former protégés and their contributions to small business goals; and, identified how program funds have been obligated and used.

## What GAO Recommends

GAO recommends that the Secretary of Defense take a number of actions to better evaluate the performance of DOD's Mentor-Protégé Program and to improve annual reporting on the program to the Congress.

DOD concurred with GAO's findings and recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-07-151](http://www.gao.gov/cgi-bin/getrpt?GAO-07-151).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Anne Calvaresi-Barr at (202) 512-4841 [calvaresibarra@gao.gov](mailto:calvaresibarra@gao.gov).

## CONTRACT MANAGEMENT

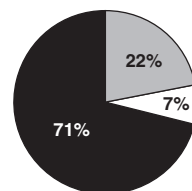
# Protégés Value DOD's Mentor-Protégé Program, but Annual Reporting to Congress Needs Improvement

## What GAO Found

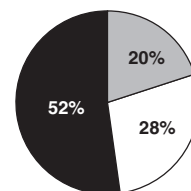
Most of the 48 former protégés that responded to GAO's questionnaire reported that the Mentor-Protégé Program was a valuable experience and enhanced business development. Ninety-three percent of responding protégés reported the Mentor-Protégé Program enhanced, at least to some degree, their firms' overall capabilities. While protégés also attributed increases in contracts and revenues as a result of their participation in the program, about one-quarter reported that the program had no impact on gaining new contracts or on increasing revenues.

### Protégé Attribution of Outcomes to Program Participation

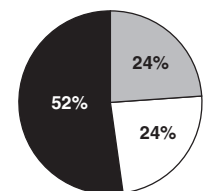
Enhancement of overall capabilities



Increase in contracts



Overall increase in revenues



■ Moderate, great, or very great enhancement attributed to program

■ Some or little enhancement attributed to program

□ No enhancement attributed to program

Source: GAO analysis of protégé questionnaire responses.

Although DOD's annual reports to the Congress indicate the program has increased business opportunities, the accuracy of these reports is questionable, primarily because the data are not validated before the reports are submitted to Congress. Specifically, each March DOD submits its annual report to Congress, based on mentor-prepared reports on protégé progress, but the Defense Contract Management Agency does not complete its validation of the mentor-prepared reports until the following September. In addition, many of the validations are incomplete or not done at all.

GAO could not measure the contribution of the Mentor-Protégé Program to the statutory objective of awarding 5 percent of DOD's contracting dollars to small disadvantaged businesses. To do this, the progress of those protégés completing the program since the program's inception would need to be identified. This data is not available.

Over the past 3 years, the majority of the Mentor-Protégé Program's funds, which totaled about \$70 million, were obligated to mentors. The mentors were reimbursed for the developmental assistance they provided to protégés either directly or indirectly. Defense Contract Management Agency reviews determined that the reimbursements received by mentors during fiscal years 2003 and 2004 were reasonable.

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## **Abbreviations**

CMMI	Capability Maturity Model Integration
DCMA	Defense Contract Management Agency
DOD	Department of Defense
NAICS	North American Industry Classification System
SDB	Small Disadvantaged Business

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United States Government Accountability Office  
Washington, DC 20548

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January 31, 2007

The Honorable Carl Levin  
Chairman  
The Honorable John Warner  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Ike Skeleton  
Chairman  
The Honorable Duncan L. Hunter  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

Each year, the Department of Defense (DOD) obligates hundreds of billions of dollars in contracts for goods and services. To boost the participation of small disadvantaged businesses as subcontractors and suppliers under DOD and other federal and commercial contracts, Congress authorized a pilot Mentor-Protégé Program. The program, which was authorized in 1990<sup>1</sup> and has been continually renewed, provides incentives for major defense contractors (mentors) to help small disadvantaged businesses (protégés) strengthen their ability to compete for defense and other federal contracts as well as commercial contracts.

To ensure that the program is focused on a results-oriented approach to assessing program performance, Congress has required DOD to report annually on trends in the progress made in employment, revenues, and participation in DOD contracts of protégé firms and former protégé firms.<sup>2</sup> Congress also required GAO to study the program's effectiveness.<sup>3</sup> In responding to this mandate, we

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<sup>1</sup>National Defense Authorization Act for Fiscal Year 1991, Pub. L. No. 101-510, § 831 (1990).

<sup>2</sup>National Defense Authorization Act for Fiscal Year 2000, Pub. L. No. 106-65, § 811(d) (1999).

<sup>3</sup>Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. No. 108-375, § 841 (2004).

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- determined whether former protégés believe the Mentor-Protégé Program enhanced their business development,
  - assessed the accuracy of the Mentor-Protégé Program Office's annual reporting to Congress,
  - determined if the Mentor-Protégé Program Office reports on the progress of former protégés and how their progress helped DOD contribute to the statutory objective<sup>4</sup> of awarding 5 percent of its contracting dollars to small disadvantaged businesses, and
  - identified how Mentor-Protégé Program funds have been obligated and used.

In performing our work, we administered a Web-based survey to protégés that completed or left the program during fiscal years 2004 and 2005, obtaining a 63 percent response rate. We reviewed mentor-prepared semi-annual reports, designed to quantify the progress made under active mentor-protégé agreements, and we examined the Defense Contract Management Agency's (DCMA) audit of those reports. In addition, we interviewed protégés, mentors, and Mentor-Protégé Program Office officials. We also obtained funding data from the Mentor-Protégé Program Office and reviewed the criteria established to ensure that costs incurred were reasonable. A complete statement of our methodology is in appendix I. We conducted our review from March 2006 to October 2006, in accordance with generally accepted government auditing standards.

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## Results in Brief

Most of the 48 former protégés that responded to our survey reported that the Mentor-Protégé Program was a valuable experience and helped enhance their business development. About 87 percent of responding protégés reported that support from their mentors helped their business development and corporate infrastructure. About 84 percent stated that mentor support enhanced their engineering or technical expertise; one-fourth directly linked their participation in the program to their ability to meet International Organization for Standardization<sup>5</sup> quality standards; and

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<sup>4</sup>National Defense Authorization Act for Fiscal Year 1987, Pub. L. No. 99-661, § 1207 (1986), codified at 10 U.S.C. § 2323.

<sup>5</sup>The International Organization for Standardization is the world's largest developer of standards. Suppliers meeting these standards have wide acceptance within their vendor industry.

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over one-fifth responded they had received additional training and certifications, such as manufacturing process and control training or Capability Maturity Model Integration<sup>6</sup> certifications. Protégés also reported quantifiable business growth. For example, protégés collectively attributed 95 new contracts and about \$131 million in increased revenue to their participation in the program. Further, about 63 percent reported an increase in employees. Despite the overall value protégés attributed to the program, about one-quarter reported that the program had no impact on gaining new contracts or on increasing revenues.

The accuracy of DOD's annual reports to the Congress is questionable, primarily because the data are not validated before the reports are submitted to Congress. Specifically, each March DOD submits its annual report to Congress, which is based on mentor-prepared reports on protégé progress, but DCMA does not complete its validation of the mentor-prepared reports until the following September. In addition, many of the validations are incomplete, and some mentor-prepared reports are not validated at all. In fiscal year 2004, for example, 40 of the 183 active agreements were not reviewed at all, and 30 percent of the mentor-prepared reports did not have protégés' signatures and/or concurrence, as required to help corroborate data accuracy. If the data are flawed, the report could overstate or understate the success of the program. Yet, DOD does not know the extent of the validation problem or the overall effectiveness of the program because it does not summarize the audits in a meaningful comprehensive report to assess what the findings of the DOD audits mean, how the DOD findings affect the program's operation, or identify any corrective actions that need to be taken to make the program more effective.

Until April 2006, DOD did not attempt to report on the trends of the progress made by protégés after they completed the program, as required by the Fiscal Year 2000 National Defense Authorization Act. Although Mentor-Protégé Program agreements signed since February 2000 required protégés to report their progress for 2 years after they complete the

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<sup>6</sup>A Capability Maturity Model Integration (CMMI)<sup>®</sup> certification confirms that a firm knows the value of establishing effective processes. It is based on the premise that even a quality workforce cannot perform its best when a firm's processes are not understood or not operating effectively. CMMI can be used to guide process improvement across a project, a division, or an entire organization. CMMI helps integrate traditionally separate organizational functions, set process improvement goals and priorities, provide guidance for quality processes, and provide a point of reference for appraising current processes.



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program, they were not doing so. According to protégés we interviewed, they either were unaware or had forgotten that they had agreed to this reporting requirement. Program office officials, when asked if they sent letters to former protégés as a reminder to comply with the 2-year reporting requirement, said the first such letter was sent in April 2006, after GAO asked to see the progress reports. Even if the 2-year post-agreement reporting requirement had been met, we could not determine the contribution of the program to the statutory objective of awarding 5 percent of DOD's contracting dollars to small disadvantaged businesses. To make this determination would require knowing the progress of those protégés completing the program since the program's inception; this information is unavailable.

Over the past 3 years, the majority of the Mentor-Protégé Program's funds, which totaled about \$70 million, were obligated to mentors. The mentors were reimbursed for the developmental assistance they provided to protégés, either directly or indirectly, by subcontracting to Historically Black Colleges and Universities, minority institutions, and certain government-sponsored groups—procurement technical assistance centers and small business development centers. Funds were also obligated to reimburse protégés for their incidental costs, such as travel, and to cover the Mentor-Protégé Program Office's operational costs. DCMA reviews determined that the reimbursements received by mentors during fiscal years 2003 and 2004 were reasonable.

We are making recommendations to improve the accuracy and completeness of the Mentor-Protégé annual reports to Congress, which should help to better assist in evaluating the program. In written comments on a draft of this report, DOD concurred with our findings and recommendations, indicating that implementation of our recommendations is already underway. DOD stated that these actions are expected to fully address GAO's recommendations and are scheduled to be completed by the end of fiscal year 2007.

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## Background

Congress established, as an objective for DOD, the goal of awarding 5 percent of the amount contracted by DOD and subcontracted by DOD's prime contractors to small disadvantaged businesses. The 5 percent goal was not met in the years immediately following its establishment because, according to large DOD prime contractors, there were not enough qualified small disadvantaged businesses available as DOD subcontractors.

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Subsequently, the National Defense Authorization Act for Fiscal Year 1991 required the Secretary of Defense to establish a pilot Mentor-Protégé Program. The purpose of the program is to provide incentives for major DOD contractors (mentors) to furnish small disadvantaged businesses (protégés<sup>7</sup>) with assistance designed to enhance their capabilities and increase their participation as subcontractors and suppliers under DOD contracts, other federal government contracts, and commercial contracts. Since the Pilot Mentor-Protégé Program was authorized, it has been continuously extended. With the passage of the Fiscal Year 2005 National Defense Authorization Act, DOD is now authorized to approve new agreements through September 30, 2010, and program performance is authorized through September 30, 2013.

DOD's Office of Small Business Programs manages the Mentor-Protégé Program. Each year, as required by the fiscal year 2000 authorizing statute,<sup>8</sup> DOD submits to Congress an annual report on the trends in the progress made in employment, revenues, and participation in DOD contracts by protégé firms. To satisfy the requirements of the fiscal year 2000 authorizing statute, DOD's implementing regulations require (1) mentors to report on the progress made under active mentor-protégé agreements, semi-annually, throughout the term of an agreement, and (2) protégés to report progress in each of the 2 years following the completion of their agreements. In addition, DCMA is to conduct annual performance reviews to verify whether the mentors and protégés accurately reported progress and to determine that all costs reimbursed to mentors were reasonably incurred in accordance with the statute and applicable regulations.

From the program's inception through fiscal year 2006, Congress has appropriated \$437.7 million to the program, and DOD has approved 910 mentor-protégé agreements. Funding covers program operational costs and reimburses mentors for providing developmental assistance. Mentor-protégé agreements are usually limited to a 3-year period. At the end of July 2006, there were 149 active mentor-protégé agreements.

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<sup>7</sup>Eligible protégés now consist of small disadvantage businesses, 8(a) certified firms, Women-Owned Small Businesses, firms that employ severely disabled persons, service-disabled veteran-owned businesses, historically underutilized business zone small business concerns, Indian tribe-owned, and Native Hawaiian Organization-owned.

<sup>8</sup>National Defense Authorization Act for Fiscal Year 2000, Pub. L. No. 106-65, § 811 (1999).

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This report is one of a series we have issued on the Mentor-Protégé Program. We reported on the Mentor-Protégé Program in 1992,<sup>9</sup> 1994,<sup>10</sup> 1998,<sup>11</sup> and 2001.<sup>12</sup> In our first report, one of our recommendations was that DOD develop and implement adequate internal controls in the application and approval process and in the oversight of protégé development. In our subsequent reports, we found DOD did not have sufficient data to adequately assess the program's performance in meeting its objectives. Among other things, we recommended that DOD gather more complete information on program performance by strengthening performance reviews and seeking protégé feedback on the extent to which the program had resulted in additional contracting and subcontracting opportunities. DOD concurred with our recommendations to strengthen its data collection and performance reviews, but stated that asking protégés how the program has resulted in additional contracting and subcontracting would be an imposition to protégés. We disagreed because, within the context of statutory reporting requirements, DOD should remind protégés to report on how the program had resulted in contracting and subcontracting opportunities.

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## Most Former Protégés Value Mentor-Protégé Program

To determine whether former protégés believe the Mentor-Protégé Program enhanced their business development, we administered a Web-based survey and received responses from 48 of the 76 protégés that completed or left the program during fiscal years 2004 and 2005. Ninety-three percent of protégés reported the Mentor-Protégé Program enhanced, at least to some degree, their firms' overall capabilities. About 87 percent reported that support from their mentors helped their businesses' development, and about 84 percent stated that mentor support helped their engineering or technical expertise. As an example of specific development support, about 71 percent of protégés reported receiving help with their quality management programs, with one-fourth directly linking the assistance they received to their ability to meet International

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<sup>9</sup>GAO, *Defense Contracting: Interim Report on Mentor-Protégé Program for Small Disadvantaged Firms*, [GAO/NSIAD-92-135](#) (Washington, D.C.: Mar. 30, 1992).

<sup>10</sup>GAO, *Defense Contracting: Implementation of the Pilot Mentor-Protégé Program*, [GAO/NSIAD-94-101](#) (Washington, D.C.: Feb. 1, 1994).

<sup>11</sup>GAO, *Defense Contracting: Sufficient, Reliable Information on DOD's Mentor-Protégé Program is Unavailable*, [GAO/NSIAD-98-92](#) (Washington, D.C.: Mar. 30, 1998).

<sup>12</sup>GAO, *Contract Management: Benefits of the DOD Mentor-Protégé Program are Not Conclusive*, [GAO-01-767](#) (Washington, D.C.: July 19, 2001).

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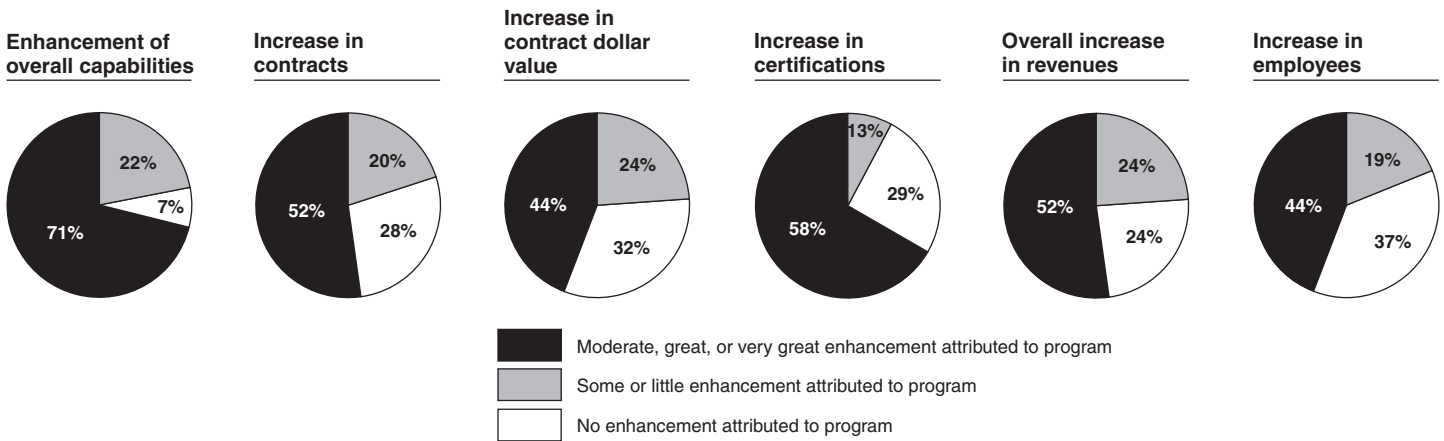
Organization for Standardization quality standards, which increased their business competitiveness. Over one-fifth responded that they had received additional training and certifications, such as manufacturing process and control training or Capability Maturity Model Integration certifications. Finally, nearly 98 percent of the protégés reported that they would recommend the program to other small businesses eligible to participate in the program.

In terms of the level of satisfaction, our survey found about 71 percent of protégés were at least generally satisfied with their experience, with reasons ranging from enhanced capabilities and heightened exposure in the marketplace, to quantifiable business growth. Nearly 80 percent of protégés reported that their mentors provided the anticipated type and level of mentoring. The overall results also indicate that the majority of responding protégés directly attributed some degree of business growth to their participation in the program. Measures of this growth include the number and dollar value of contracts received, overall revenues, new employee hiring, and new certifications. For example, protégés collectively attributed 95 new contracts and about \$131 million in increased revenues, to their participation in the program.

About 15 percent of the protégés reported dissatisfaction with their participation and about 21 percent responded that they did not receive the level of mentoring that they had anticipated. Reasons for dissatisfaction included a lack of mentor commitment to the program, mentor failure to meet the objectives of mentor-protégé agreements, and costs to the protégés that exceeded the return from participation. Furthermore, about 28 percent of protégés reported that their program participation did not produce increases in their contracts and nearly one-quarter reported no impact on revenues.

Figure 1 illustrates the extent to which protégés attributed the enhancement of their overall capabilities as well as increases in contracts, dollar value of contracts, certifications, revenues, and additional employees to the Mentor-Protégé Program.

**Figure 1: Protégé Attribution of Outcomes to Program Participation**



Source: GAO analysis of protégé questionnaire responses.

Note: The percents are rounded and do not include responses of no basis to judge and not applicable.

Appendixes II through IV provide detailed information on the results of our survey.

## Accuracy of Statutorily Required Annual Reporting Is Questionable

The accuracy of statutorily required annual reporting is questionable because DOD's annual performance reviews of mentor-protégé agreements, designed to verify the accuracy of progress made by protégés, are not completed until after DOD sends its annual report to Congress. Specifically, each March DOD submits its annual report to Congress. This report is based on mentor-prepared reports on protégé progress, but DOD does not complete its validation of the mentor-prepared reports until the following September. In addition, not all of the mentor-protégé agreements are reviewed; many of the reviews are incomplete; and many reports were not signed and/or concurred to by protégés. The protégé's signature and concurrence are required to provide corroborating support of the data submitted by mentors. Further, the overall message of the performance reviews is unknown because the reviews, which consist of over a hundred individual audits each year, are not summarized into a single report to assess what the findings of its audits mean, how these findings affect the program's operation, and to identify any corrective actions that need to be taken to make the program more effective.

The Mentor-Protégé Program Fiscal Year 2005 Annual Report to Congress, dated March 31, 2006, shows the trends in the progress of protégé

employment, revenues, and participation in DOD contracts during fiscal year 2005. The information in this report and previous annual reports sent to Congress was derived from mentor-prepared semi-annual reports, which had not been reviewed by DCMA. For example, the DCMA annual performance reviews of the fiscal year 2005 mentor-prepared semi-annual reports were not completed until September 2006, 6 months after the Mentor-Protégé Program Office reported to Congress.

We analyzed the results of DCMA's review of the fiscal years 2003 and 2004 reports, which are shown in table 1. In sum, not all of the mentor-protégé agreements were reviewed, many reports were not signed and/or concurred to by protégés, and many of the reviews were incomplete.

**Table 1: GAO Analysis of DCMA Reviews of Fiscal Year 2003 and 2004 Semi-Annual Reports**

Areas of Analysis	FY 2003	FY 2004
Active agreements	189	183
Active agreements with reports reviewed	125	143
Active agreements not reviewed	64 (34%)	40 (22%)
Reports without protégé signature and/or indication of concurrence or non-concurrence	34 (27%)	43 (30%)
Reports reviewed without verification of all the metrics	28 (22%)	21 (15%)

Source: GAO analysis of DCMA reviews of fiscal year 2003 and 2004 semi-annual reports

## Requirement to Report Trends in Progress Made by Former Protégés Has Not Been Met

Although the Fiscal Year 2000 National Defense Authorization Act established the requirement for DOD to report on the trends in the progress of former protégés for agreements entered into on or after October 1, 1999, the requirement has not been met. Pursuant to the Act, protégés are to report their progress in employment, revenues, and participation in DOD contracts in each of the 2 years following the completion of their agreements. The Mentor-Protégé Program agreement application template was revised in February 2000 to require protégés to sign a statement indicating their willingness to comply with the program's reporting requirements, including the 2-year post-agreement requirement. The Act also required DCMA to determine whether protégés are accurately reporting data during the 2-year post-agreement period. Accordingly, DCMA's implementing guidance states that if the data are either not provided or are not verifiable, the DCMA report should provide the reason why.

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Despite the Act and DCMA's guidance, the 2-year post-agreement-reporting requirement has not been met, and DCMA did not explain in its annual performance reviews that protégé annual reporting data had not been provided.

The protégés we interviewed told us that after their agreement period, they either forgot that they had agreed to the reporting requirement or were not aware of the requirement from the beginning. DCMA officials acknowledged that the reporting shortfall was the result of DCMA not following its own policy. Finally, when we asked Mentor-Protégé Program office officials whether they sent letters to former protégés as a reminder to comply with the 2-year reporting requirement, they said that the first such letter was sent on April 17, 2006, after we first asked about compliance with the 2-year reporting requirement. Program Office officials advised us, in October 2006, that 48 percent of the protégés they attempted to contact<sup>13</sup> responded to the reminder letter.

Part of our requirement to review the Mentor-Protégé Program was to determine if the Mentor-Protégé Program office reports on the progress of former protégés and how their progress helps DOD contribute to the statutory objective of awarding 5 percent of its contracting dollars to small disadvantaged businesses. Even if the 2-year post-agreement reporting requirement had been met, we could not determine the contribution of the program to the statutory objective of awarding 5 percent of DOD's contracting dollars to small disadvantaged businesses. To make this determination would require knowing the progress of those protégés completing the program since the program's inception; this information is not available.

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<sup>13</sup>Eight protégé companies had either gone out of business or had been purchased by a larger company, precluding the program office from contacting them.

## Mentor-Protégé Program Funds Reimburse Mentors, Protégés, and Cover Program Operational Costs

Over the past 3 years, the majority of the Mentor-Protégé Program’s funds were obligated to mentors.<sup>14</sup> The mentors were reimbursed for the developmental assistance they provided to protégés, either directly or indirectly, by subcontracting to Historically Black Colleges and Universities, minority institutions, and certain government-sponsored groups—procurement technical assistance centers and small business development centers. Funds were also obligated to reimburse protégés for their incidental costs, such as travel, and to cover the Mentor-Protégé Program Office’s operational costs. The services are responsible for managing reimbursable mentor-protégé agreements and do so by either modifying existing contracts or awarding new ones.

**Table 2: Mentor-Protégé Program Fiscal Year 2004, 2005, and 2006 Appropriations and Obligations as of October 12, 2006 (Dollars in Millions)**

Fiscal year	Appropriation Received by Program Office <sup>a</sup>	Obligated funds							Un-Obligated Funds	
		Mentors subcontracted to					Incidental Protégé Fees	MPP Office Operational Costs		Totals
		Mentors	HBCU <sup>b</sup>	MI <sup>c</sup>	PTAC <sup>d</sup>	SBDC <sup>e</sup>				
2004	\$25.006	\$18.155	\$1.357	\$1.206	\$0.190	0	\$0.730	\$3.362	\$25.000	\$0.006
2005	\$19.325	\$10.837	\$1.859	\$0.934	\$0.169	0	\$0.481	\$3.787	\$18.068	\$1.257
2006	\$25.543	\$15.250	\$0.251	\$0.479	\$0.042	\$0.078	\$0.149	\$1.936	\$18.185	\$7.358

Source: Mentor-Protégé Program Office

Note: Totals may not add due to rounding.

<sup>a</sup>Funds reflect the effect of DOD reprogramming actions.

<sup>b</sup>HBCU—Historically Black Colleges and Universities are accredited institutions of higher education with the principal mission of educating African Americans.

<sup>c</sup>MI—Minority institutions are accredited institutions of higher education whose enrollment of a single minority or a combination of minorities (American Indian; Alaskan Native; African American; not of Hispanic origin; Hispanic, including persons of Mexican, Puerto Rican, Cuban, and Central or South American origin; Pacific Islander, and/or other ethnic group underrepresented in science and engineering), exceeds 50 percent of the enrollment or 25 percent of the enrollment if of Hispanic origin.

<sup>d</sup>PTAC—Procurement technical assistance centers provide assistance in marketing products and services to the federal, state, and local governments. The Defense Logistics Agency administers the DOD procurement technical assistance program.

<sup>e</sup>SBDC—Small business development centers are administered by the SBA to assist small business owners by providing a wide variety of information and guidance in central and easily accessible branch locations.

<sup>14</sup>Mentor-Protégé appropriations are procurement funds, which can be obligated over a 3 year period.



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As part of its performance reviews of Mentor-Protégé agreements, DCMA is responsible for determining whether the costs reimbursed to mentor firms were reasonable. For the agreements reviewed by DCMA for fiscal years 2003 and 2004, the costs claimed by mentors were determined to be reasonable. DCMA had not completed its review of the fiscal years 2005 and 2006 agreements at the time of our review.

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## Conclusions

The Mentor-Protégé Program has clearly been of value to the majority of protégés that responded to our survey. However, DOD is not measuring the impact of the program on participating and former protégé firms, as Congress intended. Until DOD does so, by obtaining and validating the data Congress requested to measure success, neither DOD nor Congress will have the information it needs to oversee the program.

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## Recommendations for Executive Action

To better evaluate the success of the DOD Mentor-Protégé Program and to improve annual reporting to Congress, we recommend that the Secretary of Defense

- direct DCMA to ensure that all Mentor-Protégé agreements are audited in accordance with DOD regulations and DCMA guidance and that these audits are summarized into a single report so that the Mentor-Protégé Program Office and Congress have reliable data on whether the program is accomplishing its goals and to determine whether any corrective action is necessary, and
- direct DOD's Office of Small Business to submit its annual report to Congress only after the data in the report have been validated by DCMA and require that the annual report contain information on the progress of protégés for 2 years following their completion of the Mentor-Protégé Program.

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## Agency Comments and Our Evaluation


In written comments on a draft of this report, DOD concurred with our findings and recommendations, stating that the implementation of a new DCMA guidebook and revised reporting processes will address the recommendations. DOD expects to complete the revised reporting processes by the end of fiscal year 2007. DOD also noted in its response that many of the recommendations regarding reporting requirements were already being addressed through restructuring and procedural changes that have been underway within DCMA. This is not an accurate depiction of DOD's actions. It was as a result of our work that the Small Business

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Office became aware of the reporting deficiencies. Only then did the Small Business Office identify actions to address these deficiencies.

We are sending copies of this report to the Secretary of Defense, the Director of the Office of Management and Budget, and interested congressional committees. We will also make copies available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have questions about this report or need additional information, please contact me at (202) 512-6986 or [calvaresi-barra@gao.gov](mailto:calvaresi-barra@gao.gov). Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were James Fuquay, Assistant Director; Greg Campbell, Daniel Hauser, Stewart Kaufman, Sean Merrill, Charlie Shivers, and Karen Thornton.

A handwritten signature in black ink that reads "Ann Calvaresi Barr". The signature is written in a cursive, flowing style.

Ann Calvaresi-Barr  
Director  
Acquisition and Sourcing Management

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# Appendix I: Scope and Methodology

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In the absence of data to determine whether former protégés believe the Mentor-Protégé Program enhanced their business development and translated into growing their businesses, we designed and administered a Web-based survey. We pretested the survey with two protégé firms to determine whether (1) the questions were clear, (2) the terms used were precise, (3) the questions were unbiased, and (4) the survey did not place an undue burden on the respondents. Based on the pretests, we made changes to our final survey. In coordination with the Mentor-Protégé Program Office, we identified a universe of 79 protégés that had either completed or terminated Mentor-Protégé agreements during fiscal years 2004 and 2005. We subsequently determined that three protégés would not be included in our survey because two had active agreements and one had no contact information. We selected former protégé firms to reduce the potential for bias responses that could result from protégés with active agreements. Of the 76 eligible protégés that were sent the survey, 48 responded, representing a response rate of 63 percent. The survey consisted of open-ended and close-ended questions to characterize protégé firms' demographics as well as obtain information on their program participation experiences, the adequacy of mentoring, the results attributable to mentoring, and protégés' overall assessment of the program. We did not independently verify the data provided by the protégés. We supplemented the survey by interviewing officials from five protégé firms with active or recently completed agreements. These interviews were conducted to determine if current protégés had opinions of the program that were inconsistent with our survey findings. We also interviewed officials from four mentor firms to obtain their views on the value of their agreements with protégés.

To assess the accuracy of the Mentor-Protégé Program Office's annual reporting to Congress, we reviewed (1) the program's statutory reporting requirements, (2) DCMA mentor-protégé reporting regulations, (3) DCMA reviews of the fiscal year 2003 and 2004 mentor-prepared semi-annual reports, and (4) the fiscal years 2003, 2004, 2005, and 2006 Mentor-Protégé Program Office's annual reports. We also held discussions with officials from the program office, DCMA, and the Army, Navy, and Air Force.

To determine whether the Mentor-Protégé Program Office reports on the progress of former protégés, we reviewed its reports to Congress and held discussions with program office officials. We also interviewed protégés and mentors, asking them if they were aware of the protégés' post-agreement reporting requirement.

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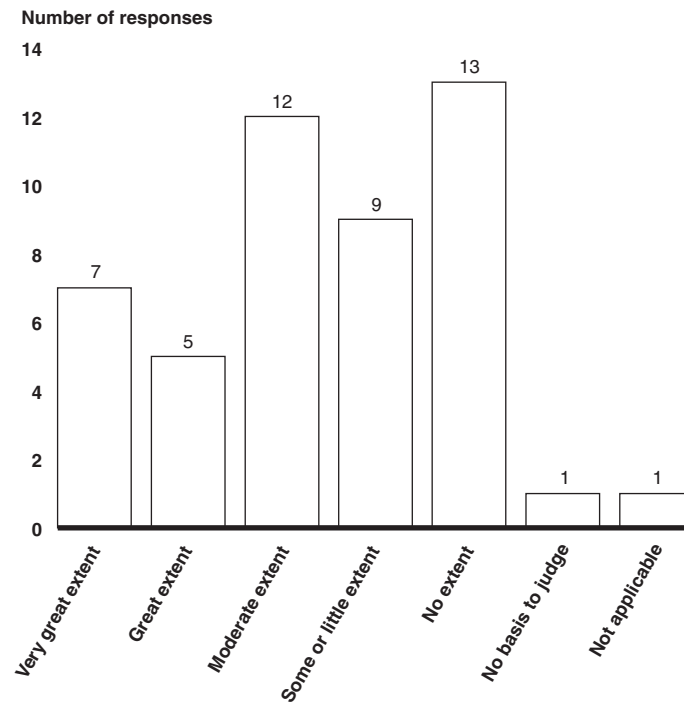
Finally, we obtained DOD funding data for the Mentor-Protégé Program and reviewed the criteria established to ensure that program costs incurred were reasonable. We also reviewed the DCMA audits of those agreements that were reviewed by DCMA for fiscal year 2003 and fiscal year 2004.

# Appendix II: Results Attributable to Mentoring

We asked protégé firms to respond to questions related to the business growth and whether that growth was attributable to their participation in the Mentor-Protégé Program. The questions addressed increases in the number of contracts, revenue increases, expanding numbers of employees, and additional business certifications. The overall results indicate that the majority of responding protégés directly attributed some degree of business growth to their participation in the program for all of the topics discussed above.

The following bar graphs illustrate how protégés attributed increases in contracts, dollar value of contracts, revenues, employees, certifications, and enhancement of overall capabilities to their participation in the Mentor-Protégé Program. The graphs represent the responses of all 48 protégés responding to our survey. The narrative accompanying each graph represents the responses of the subset of the protégés that elected to attribute specific values to each metric.

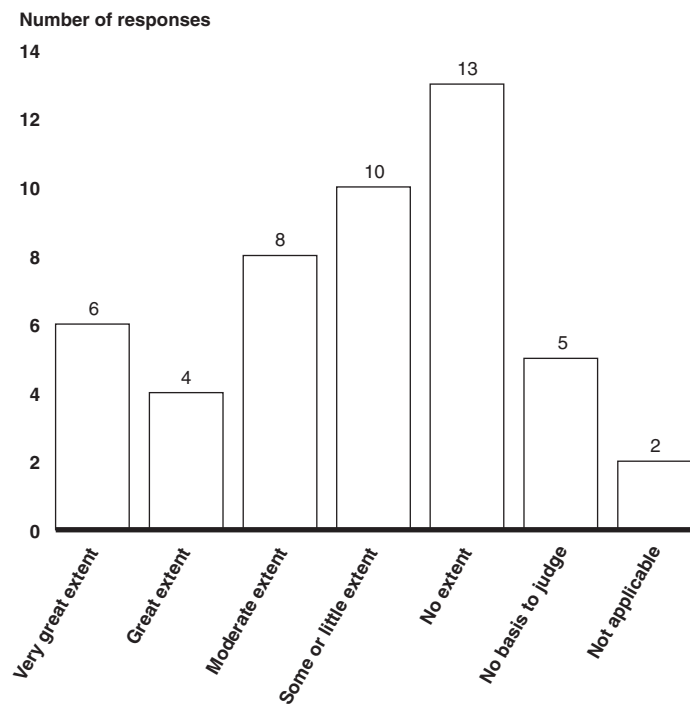
**Figure 2: Extent of Increase in Contracts Directly Attributable to the Mentor-Protégé Program**



Source: GAO analysis of protégé questionnaire responses.

The actual number of increased contracts reported ranged from 1 to 20 contracts, with an average number of contracts of nearly 2, a median of 2, and a mode of 1 contract, among 26 protégés that reported specific contract number increases.

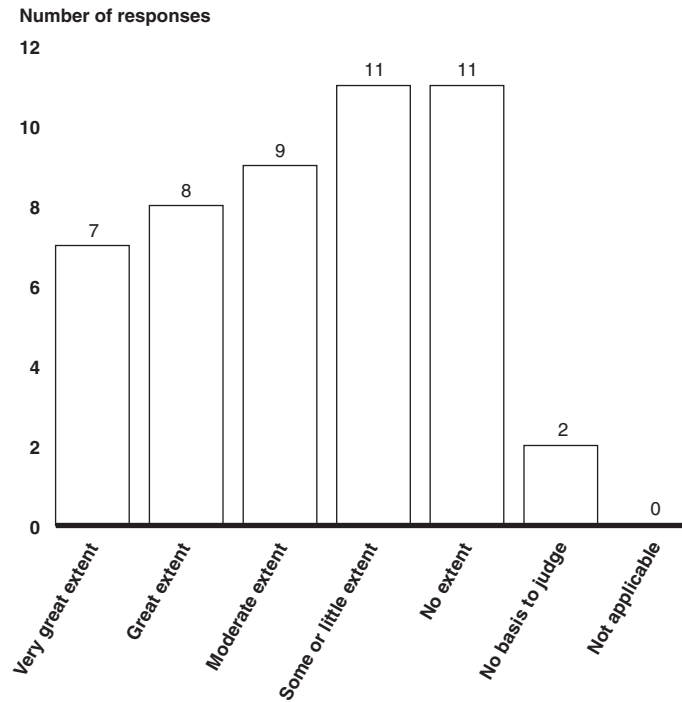
**Figure 3: Extent of Increase in Contract Dollar Value Directly Attributable to the Mentor-Protégé Program**



Source: GAO analysis of protégé questionnaire responses.

The actual increase in contract dollar value reported ranged from \$100,000 to \$20 million, with an average dollar value over \$750,000, a median increase of \$530,000, and a mode increase of \$500,000, among 18 protégés that reported specific increases in contract dollar value.

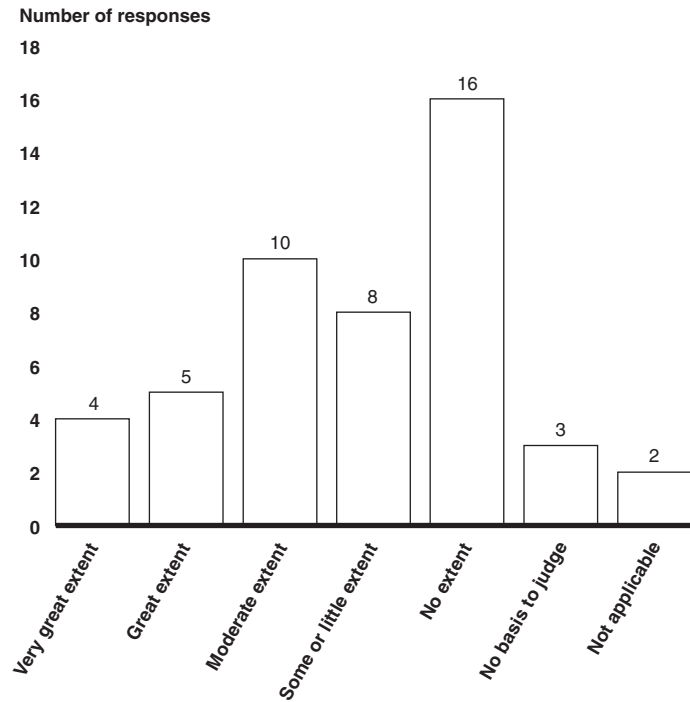
**Figure 4: Extent of Overall Increase in Revenue Directly Attributable to the Mentor-Protégé Program**



Source: GAO analysis of protégé questionnaire responses.

The overall increase in revenue reported ranged from \$25,000 to \$75 million, with an average revenue increase of over \$5.2 million, a median increase of \$1 million, and a mode increase of \$1.5 million, among 25 protégés that reported specific increases in overall revenue.

**Figure 5: Extent of Increase in Employees Directly Attributable to the Mentor-Protégé Program**

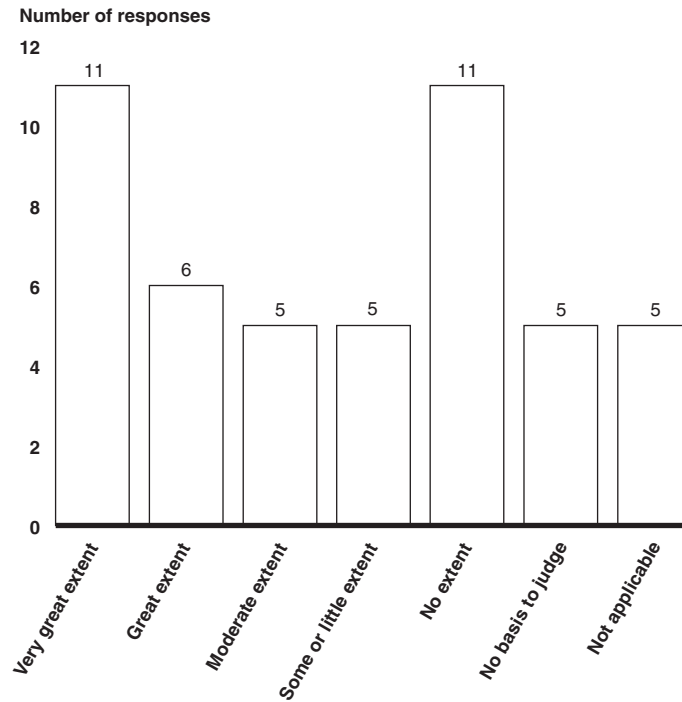


Source: GAO analysis of protégé questionnaire responses.

The extent of increase in employees reported ranged from 1 to 500 employees, with an average increase of 44 employees, a median increase of 17 employees, and a mode increase of 1 employee, among 23 protégés that reported specific increases in employees.



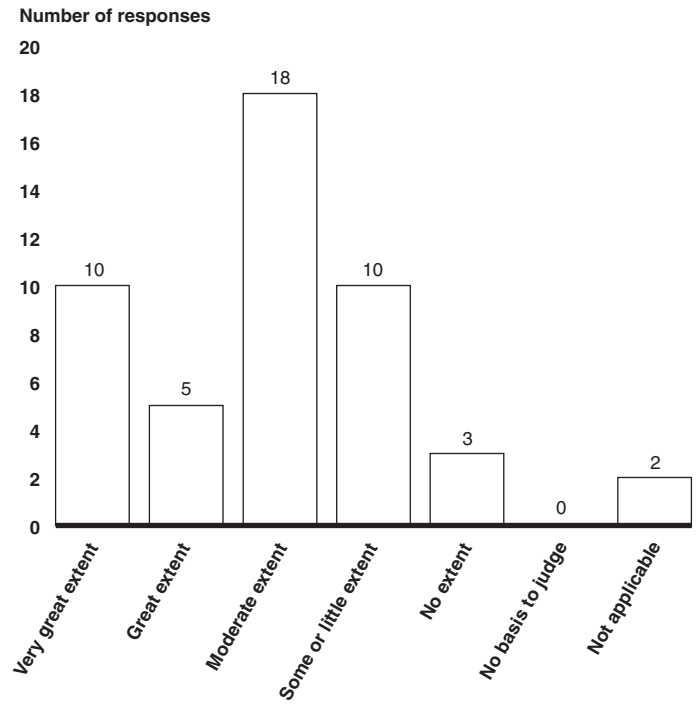
**Figure 6: Extent of Increase in Certifications Directly Attributable to the Mentor-Protégé Program**



Source: GAO analysis of protégé questionnaire responses.

The extent of increase in the number of certifications reported ranged from 1 to 60 certifications, with an average increase of 5 certifications, a median increase of 1 certification, and a mode increase of 1 certification, among 27 protégés that reported specific increases in certifications.

**Figure 7: Extent of Enhancement of Overall Capabilities Directly Attributable to the Mentor-Protégé Program**



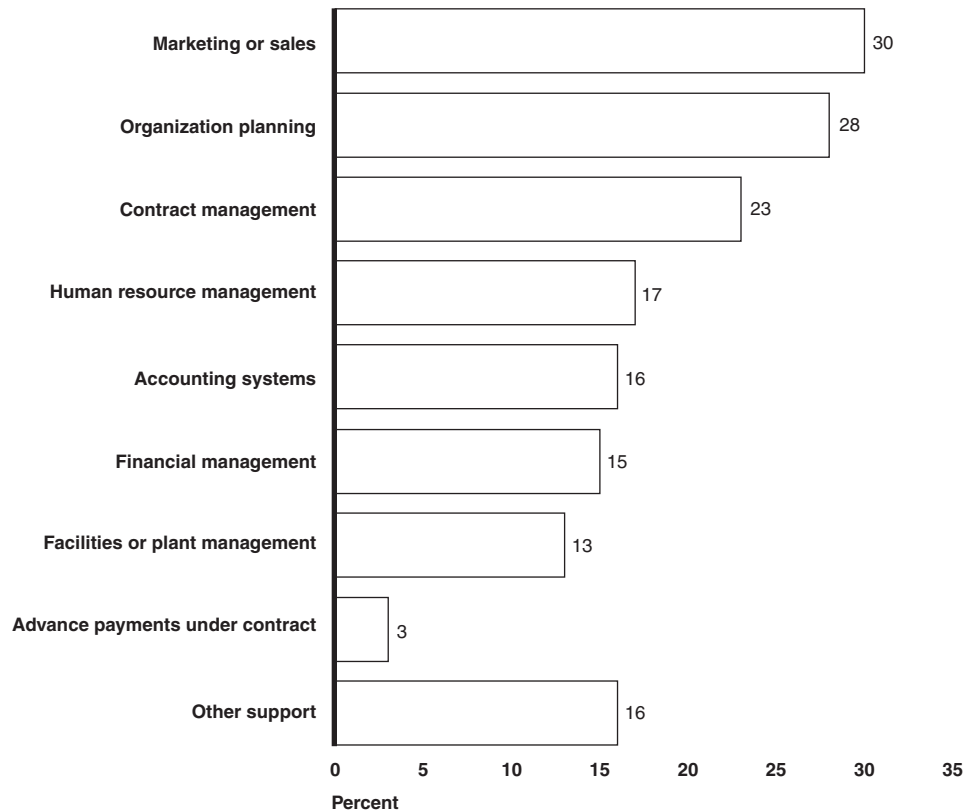
Source: GAO analysis of protégé questionnaire responses.

The vast majority of protégés reported that some degree of enhancement of overall capabilities was attributable to their participation in the program, with 15 reporting the program provided enhancements to a great or very great extent.

## Mentor's Support Provided to Protégés

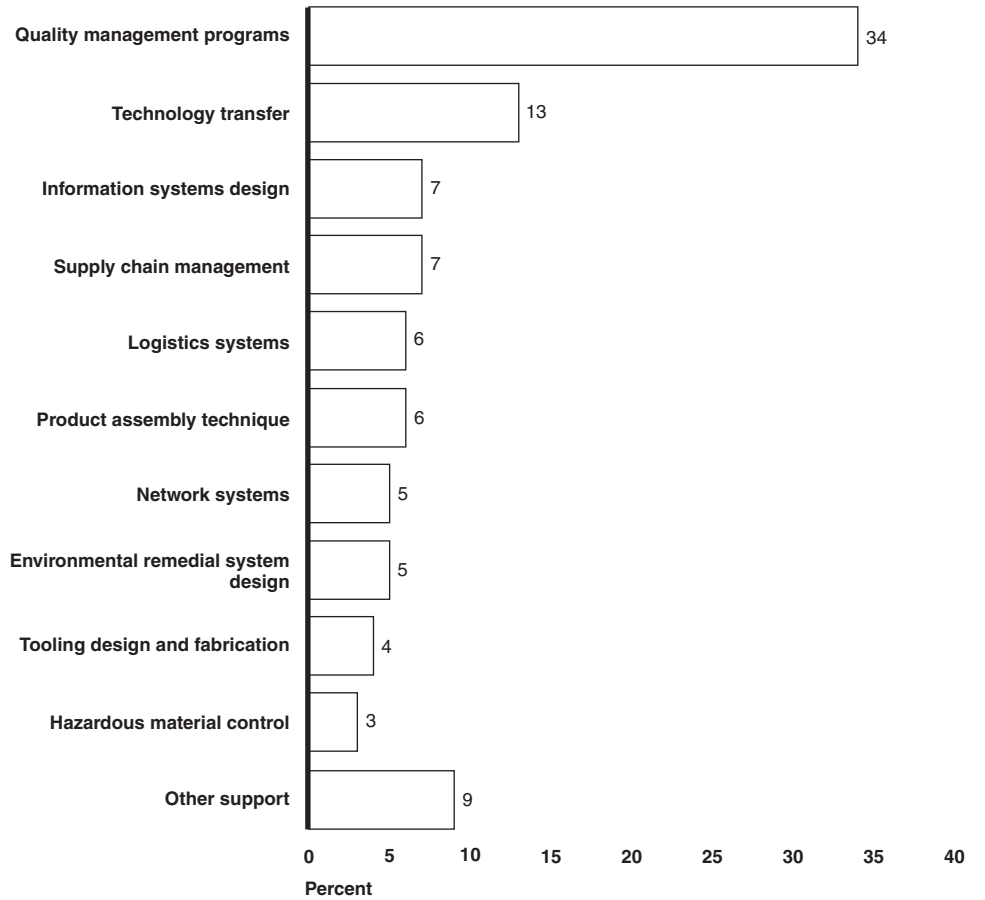
The figures below portray the types of support that protégés received through participation in the Mentor-Protégé Program. Figure 8 shows the different types of business management and corporate infrastructure support and the number of protégés reporting support for each type. Figure 9 shows the different types of engineering or technical support and the number of protégés receiving support for each type.

**Figure 8: Business Management/Corporate Infrastructure Support**



Source: GAO analysis of protégé questionnaire responses.

Figure 9: Engineering or Technical Support

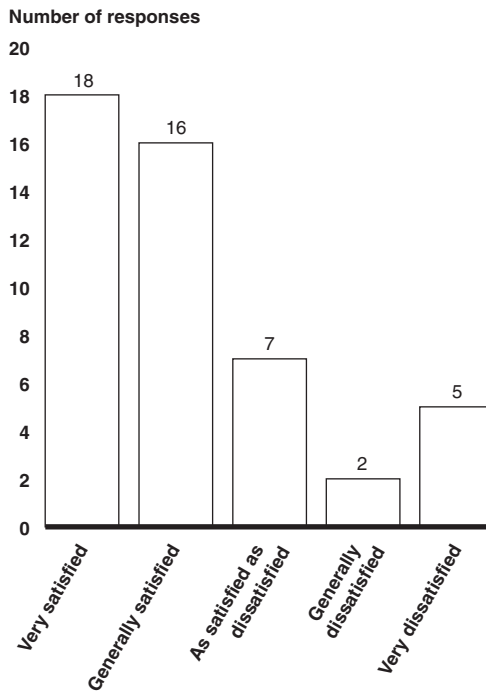


Source: GAO analysis of protégé questionnaire responses.

## Level of Satisfaction, Perceived Value, and Willingness to Recommend the Program to Others

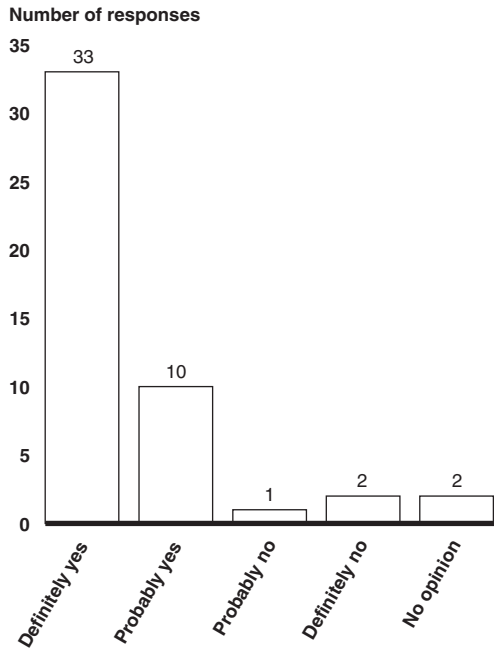
To determine former protégés' overall assessment of the Mentor-Protégé Program, we asked (1) how satisfied or dissatisfied participants were with the program; (2) whether the Mentor-Protégé experience was valuable (regardless of whether participants realized an increase in contracts and/or revenues); and (3) if they would recommend participation in the DOD Mentor-Protégé Program to other eligible small firms. The following bar graphs present how the protégés responded to these questions.

**Figure 10: Level of Satisfaction with Participation in the Mentor-Protégé Program**



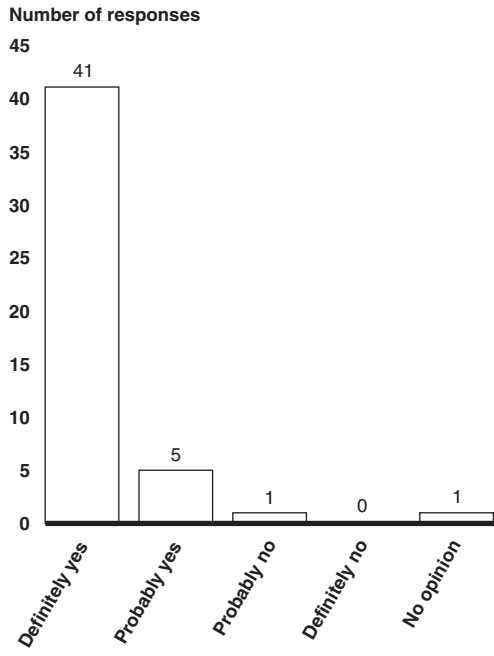
Source: GAO analysis of protégé questionnaire responses.

**Figure 11: Response to Whether the Mentor-Protégé Program Provided a Valuable Experience**



Source: GAO analysis of protégé questionnaire responses.

**Figure 12: Response to Whether Protégés Would Recommend the Mentor-Protégé Program to Other Eligible Firms**



Source: GAO analysis of protégé questionnaire responses.

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# Appendix III: Mentoring Completion, Adequacy, and Helpfulness

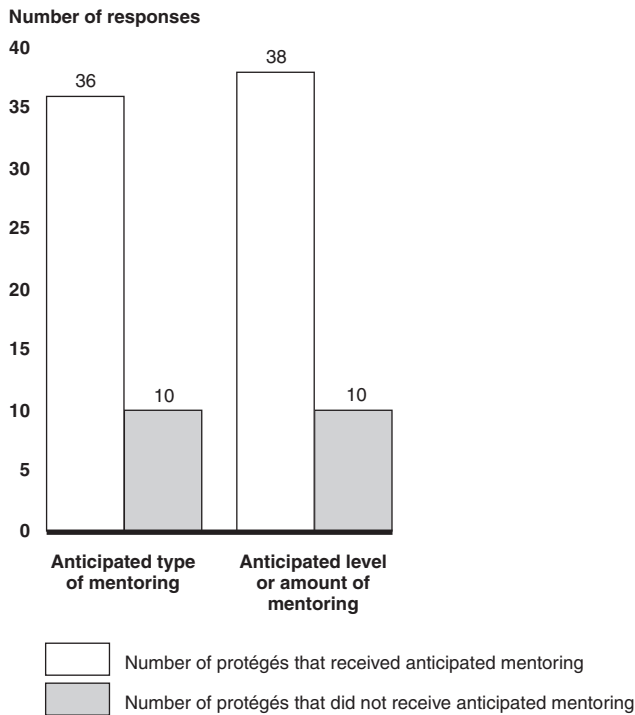
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Of the 48 protégés that responded to the survey, 42, or about 88 percent, completed the agreement they signed with their mentors. For the six protégés that terminated their agreement before it was scheduled to end, two reported their agreements were terminated early because their companies no longer qualified for the program and four reported that they chose to end their participation in the program. For the two agreements that ended because of a change in their eligibility, one reported that it grew out of its small business status, and the other reported that it was acquired by a publicly traded large business. For the four protégés that chose to terminate their agreements, the reported reasons for their decision included high cost both in resources and money, the program's paperwork burden, and a lack of commitment from their mentor.

Of the protégés that responded to questions regarding their mentors' ability to provide the anticipated type and level of mentoring, about 80 percent reported that their mentors provided the anticipated type and level of mentoring. Figure 13 shows the specific reporting results.



**Figure 13: Mentors' Ability to Provide Anticipated Mentoring**

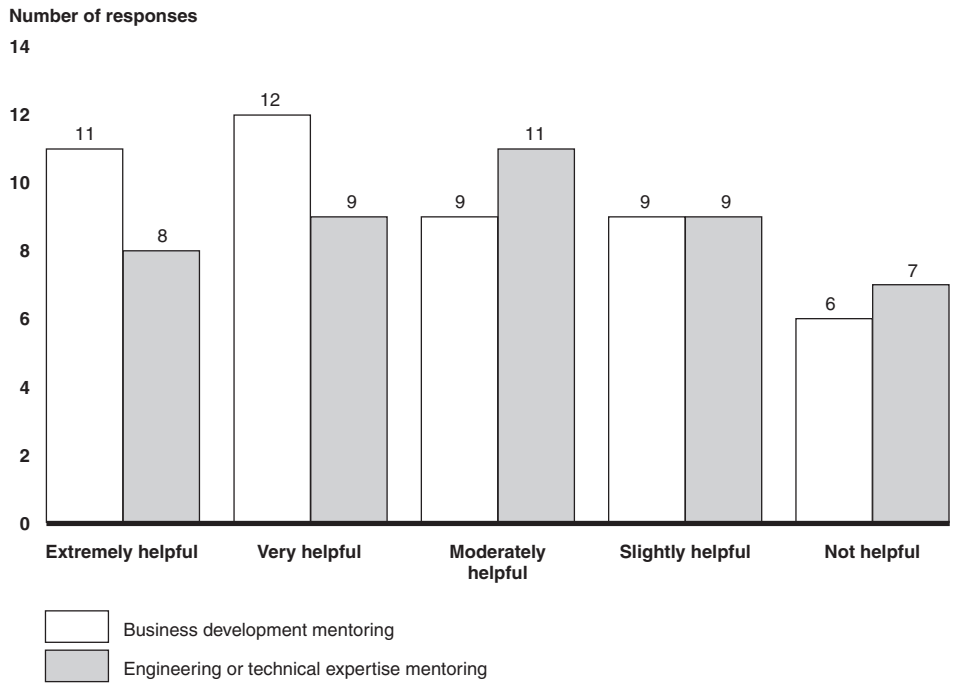


Source: GAO analysis of protégé questionnaire responses.

Note: "Not Sure" responses are not included.

To address the adequacy of mentoring specifically related to business development and engineering or technical expertise, we asked protégés to provide responses on their program experiences with both. Their responses are depicted in Figure 14. Most reported the mentoring they received in both areas was helpful to some degree. However, 6 protégés, or nearly 13 percent, reported that the business development mentoring they received was not helpful, and 7 protégés, almost 16 percent, reported that mentoring related to engineering or technical expertise was not helpful.

**Figure 14: Mentor Helpfulness with Business Development and Engineering or Technical Expertise**



Source: GAO analysis of protégé questionnaire responses.

Note: Numbers include respondents providing actual responses, but do not include "Not Applicable" or "Not Sure" responses.

# Appendix IV: Composition of Responding Protégé Firms

Through analysis of the responses from the 48 protégé firms that completed our survey, we were able to identify basic demographic information for our respondents. For example, over 70 percent of protégés reported having small and disadvantaged business status, and just over 35 percent reported being women-owned small businesses. Table 3 depicts the socioeconomic categories reported by protégés.

**Table 3: Socioeconomic Categories Reported by Protégés**

Reported Socioeconomic Category	Percentage Reporting Socioeconomic Category
Small disadvantaged business (SDB)	70.8%
SDB owned and controlled by an Indian Tribe	2.1%
Woman-owned small business	35.4%
HUBZone small business	10.4%
Service-disabled veteran-owned small business	4.2%
Other <sup>a</sup>	10.4%

Source: GAO analysis of survey responses.

<sup>a</sup>Other responses were specified by respondents and included minority-owned business, veteran-owned business, former 8(a) business, small business, and recently acquired by large business.

Notes: No Protégés reported being SDB owned and controlled by a Native Hawaiian Organization or an Entity Employing the Severely Disabled.

Percents shown add to more than 100 percent due to rounding and because respondents could answer with more than one response.

The year that each responding protégé firm was established ranged from 1957 to 2001, with about 85 percent having been established within the last 25 years and 60 percent opening for business between 1990 and 2001. In terms of business size, as many as 900 employees were reported by protégés, with an average of 166 employees and a median of 76 employees. For gross revenue, nearly 45 percent reported receiving more than \$10 million in 2005 and about 85 percent earned at least \$1 million. Protégés also reported that their percentage of current business with DOD averaged almost 54 percent. The median was even higher, at 65 percent of their total. Additionally, about 48 percent of the protégé firms reported that they are currently working as a subcontractor for their former mentor firm.

## Developmental Assistance Providers

We also asked protégés whether they received any of their developmental assistance from Historically Black Colleges and Universities, minority institutions, procurement technical assistance centers, and small business development centers. The results are shown in table 4.

**Table 4: Distribution of Institutions Providing Development Assistance to Protégés**

Development assistance institution	Percentage of respondents receiving assistance from provider <sup>a</sup>
Historically Black Colleges or Universities	47.8%
Minority institutions	10.0%
Procurement technical assistance centers	19.5%
Small business development centers	23.8%

Source: GAO analysis of survey responses.

<sup>a</sup>Percentages adjusted to only reflect respondents that were sure of their assistance providers.

Note: Percents shown add to more than 100 percent due to rounding and because respondents could answer with more than one response.

## North American Industry Classification System Codes

We asked protégés for their North American Industry Classification System (NAICS) codes. In total, 39 of 48 survey respondents provided 47 different NAICS codes that represent their businesses. It is not unusual for a firm to have more than one NAICS code. Below are the code descriptions reported that had at least four responding protégés. The number beside each code description is the number of protégés reporting the code description.

- Engineering services—14
- Computer systems design services—11
- Custom computer programming services—10
- Other computer related services—10
- Facilities support services—9
- Research and development in the physical, engineering, and life sciences—8
- Computer facilities management services—7
- Other management consulting services—5
- Administrative management and general management consulting services—4
- Remediation services—4
- Environmental consulting services—4

# Appendix V: Comments from the Department of Defense



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

JAN 10 2007

Ms. Ann Calvaresi-Barr  
Director, Acquisition and Sourcing Management  
U.S. Government Accountability Office  
441 "G" Street, N.W.  
Washington, DC 20548

Dear Ms. Calvaresi-Barr:

This is the Department of Defense (DoD) response to the GAO draft report, 'CONTRACT MANAGEMENT: Protégé's Value DoD's Mentor-Protégé Program, but Annual Reporting to Congress Needs Improvement (GAO Code 120530/GAO-07-151), dated December 7, 2006.

Although the Department concurs with the GAO findings, many of the recommendations regarding reporting requirements were already being addressed through restructuring and procedure changes within the Defense Contract Management Agency (DCMA) supported by the Department of Defense Small Business Programs Office. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

Linda B. Oliver  
Acting Director  
Small Business Programs Office

Enclosure:  
As stated



GAO DRAFT REPORT – DATED DECEMBER 7, 2006  
GAO CODE 120530/GAO-07-151

“CONTRACT MANAGEMENT: Protégé’s Value DoD’s Mentor Protégé Program,  
but Annual Reporting to Congress Needs Improvement”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS

**RECOMMENDATION 1:** The GAO recommended that the Secretary of Defense direct Defense Contract Management Agency (DCMA) to insure that all Mentor-Protégé agreements are audited in accordance with DoD regulations and DCMA guidance and that these audits are summarized into a single report so that the Mentor-Protégé Program Office and Congress have reliable data on whether the program is accomplishing its goals and to determine whether any corrective action is necessary.

**DOD RESPONSE:** Concur. Although the Department and DCMA (Defense Contract Management Agency) concur with the GAO report, there is additional information that was not addressed or referenced in the report, which addressed conditions for 2003 and 2004. At that time, responsibilities for the Mentor-Protégé Program were dispersed throughout DCMA, which was at the time of the audit being restructured to establish a separate DCMA Mentor-Protégé Division (DCMAC-CP) with personnel dedicated to the Mentor-Protégé Program working closely with the Office of the Secretary of Defense (OSD) and the military services to effect program improvement. The Mentor-Protégé Division Concept of Operations and revised DCMA guidebook, Mentor-Protégé Program for Small Business (OSD), were provided to GAO.

More specifically, annual Mentor-Protégé Agreement Performance Reviews will now be completed three weeks prior to funding decision dates. An Executive Summary will be prepared 45 days after the end of each fiscal year to include: a summary of all reviews conducted, comments on mentor performance, return on investment, percent of performance improvement and milestone achievement. The Executive Summary will be prepared for each of the military services with a consolidated report provided to the Office of the Secretary of Defense Small Business Programs Office.

**RECOMMENDATION 2:** The GAO recommended that the Secretary of Defense direct DoD’s Office of Small Business to submit its annual report to Congress only after the data in the report have been validated by DCMA and require that the annual report contain information on the progress of Proteges for two years following their completion of the Mentor-Protégé Program.

**DOD RESPONSE:** Concur. Under the revised DCMA Mentor-Protégé Program procedures, a Post Agreement Workload has been established and as agreements are

completed, they are placed in a follow-up status. A specific reporting format has been developed and will be sent to the Protégé for each of the two years following completion of the agreement. It will not be required of those Proteges who enter into another agreement with the same or a new Mentor since they will be required to report under that agreement.

It is anticipated that the implementation of the new guidebook and revised reporting processes will address the GAO findings and recommendations. The changeover to the new formats and reporting requirements will be completed by the end of fiscal year 2007.

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