Office of Inspector General

Audit Report

OSDBU LACKS EFFECTIVE PROCESSES FOR ESTABLISHING, OVERSEEING, AND MANAGING ITS SMALL BUSINESS TRANSPORTATION RESOURCE CENTERS

Office of the Secretary

Office of Small and Disadvantaged Business Utilization

Report Number: ZA2017106

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Memorandum

U.S. Department of Transportation

Office of Inspector General

Subject: **ACTION:** OSDBU Lacks Effective Processes for Establishing, Overseeing, and Managing Its Small Business Transportation Resource Centers
Office of the Secretary
Office of Small and Disadvantaged Business Utilization
Report No. ZA2017106

Date: September 26, 2017

From: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition and Procurement Audits

Reply to Attn. of: JA-60

To: Director, Office of Small and Disadvantaged Business Utilization

Since its creation in 1978,[1] the Department of Transportation's (DOT) Office of Small and Disadvantaged Business Utilization (OSDBU) has been charged with supporting small and disadvantaged businesses seeking opportunities to participate in federally funded contracts. OSDBU's specific mission is to (1) ensure that the small business policies and goals of the Secretary of Transportation are implemented in a fair, efficient, and effective manner; (2) implement the Department's activities on behalf of small businesses, in accordance with the Small Business Act; and (3) provide opportunities, technical assistance, and financial services to the small business community. The Department's Office of the Secretary (OST) is responsible for overseeing OSDBU's fulfillment of its mission, as well as developing and implementing departmental financial assistance and financial management guidance.

To help fulfill its mission, OSDBU's Regional Assistance Division (RAD) maintains 13 Small Business Transportation Resource Centers (Centers) nationwide, which are operated by tax-exempt host organizations.[2] Overall, the

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[1] DOT established OSDBU in 1978 in accordance with the Small Business Act, Public Law No. 95-507.
[2] These hosts represent various types of 501(c) organizations (e.g., educational institutions, civic leagues, and chambers of commerce), which hire staff to run the Centers.

Centers serve as stewards for OSDBU's Bonding Education Program[3] (BEP) and the Women and Girls in Transportation Initiative[4] (WITI). In addition, the Centers provide assistance to applicants seeking to participate in OSDBU's Short Term Lending Program[5] (STLP), as well as free business coaching, technical workshops, and information on procurement opportunities. Between 2013 and 2016,[6] OSDBU obligated approximately $8.1 million for its Centers' operations and programmatic needs.[7]

Given the important role the Centers play in helping the Department meet its mission, and since neither they nor OSDBU have been the focus of a previous OIG review, we initiated this audit to assess OSDBU's oversight of its Centers. Accordingly, our audit objectives were to assess OSDBU's (1) processes for establishing the Centers and (2) oversight of the Centers' compliance with cooperative agreements and achievement of program objectives.

We conducted our work in accordance with generally accepted Government auditing standards. To perform this audit, we reviewed the Code of Federal Regulations (CFR), DOT's Financial Assistance Guidance Manual (FAGM), and the terms of OSDBU's cooperative agreements with its Centers. In addition, we interviewed officials from OSDBU and the Departments of Defense and Commerce. We also developed a statistical sample and selected 5 of the 13 OSDBU Centers to conduct site visits. Finally, we selected a statistical sample of dollars obligated, which allowed us to project the total amount of potential improper payments and funds put to better use. See exhibits A and B, which list the full scope and methodology and the entities we visited or contacted.

RESULTS IN BRIEF

OSDBU lacks a defined framework for establishing, renewing, and managing its Centers. Specifically, OSDBU does not have written policies and procedures for determining how many Centers are needed, where they should be located, and what geographic areas they cover. Furthermore, while the Department has accounting and financial management policies and guidance, OSDBU does not have a clear methodology for determining funding needs for new or existing Centers. According to OSDBU representatives, significant staff turnover over time

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[3] Authorized under Public Law No. 97-449, 49 U.S.C. § 332, BEP is a hands-on, multicomponent program for businesses that need help to become bond-ready to compete for transportation-related contracts.

[4] Authorized under 49 U.S.C. 332, WITI places qualified female college students in transportation-related internships.

[5] Title 49, Code of Federal Regulations (CFR), Part 22.

[6] The Centers have varying performance periods that are on neither a fiscal-year nor a calendar-year basis, with some exceptions. OSDBU enters into 1-year cooperative agreements with the host organizations, which can be extended for 2 additional years at OSDBU's discretion.

[7] OIG computation based on funds obligated during the periods of performance for the Centers' cooperative agreements.

has led to an overall lack of historical knowledge about and documented processes for Center funding. As a result, OSDBU cannot ensure Center resources are being allocated in the most efficient and effective manner to best serve the small business community. OSDBU also experiences limited interest from organizations that could host its Centers. As a result, it sometimes faces the option of selecting a Center host that has challenges delivering services to its clientele. For example, one Center—whose host organization is located more than 600 miles from most of the small businesses in its region—is limited in the outreach it can provide due to logistical (e.g., resource and time) constraints. While recognizing this problem, OSDBU has done little to rectify the situation, such as exploring additional advertising avenues or conducting an assessment to determine the reasons for limited interest from potential host organizations.

OSDBU also lacks effective processes for overseeing and managing Center performance and financial resources. Based on Federal financial assistance regulations[8] and the Government Accountability Office's (GAO) position on performance measures,[9] a best practice for program improvement is to incorporate effective performance measures that are both quantitative (i.e., output-based) and qualitative (i.e., outcome-based). Yet while the Centers are required to meet a series of output-based deliverables—which we found most of the five Centers in our sample were able to meet and, in some cases, exceed—OSDBU lacks effective, outcome-oriented measures of the Centers' collective performance. OSDBU officials have acknowledged that reevaluating their performance measures could prove beneficial and are taking steps to implement some outcome-based measures. We also found that OSDBU was not adequately documenting its required annual performance reviews or conducting required annual site visits. OSDBU staff recognize they could do a better job of documenting their annual reviews and cite resource constraints as the reason they did not conduct all of the required site visits. However, alternative oversight methods—such as a review conducted via videoconferencing or telephone—could have served nearly as well and would not require travel expenses. In addition, OSDBU lacks effective internal control practices and sufficient oversight from OST to ensure funds are properly managed. Overall, we found that OSDBU's lack of financial internal controls has led to noncompliance with Federal regulations and the Department's FAGM, an increased potential for violations of appropriations law, as well as

[8] 2 C.F.R. § 200.210, Information contained in a Federal award; 2 C.F.R. § 200.301, Performance measurement.

[9] According to GAO, program performance measurement involves the collection and reporting of a program's inputs, such as dollars, staff, and workload or activity levels; outputs or final products; outcomes of products or services; and efficiency, such as productivity measures.

$346,927 in improper payments[10] and $57,758 in overdue deobligations[11]—which could potentially be $1,168,907[12] when combined and projected across all 13 Centers for a 3-year period.[13] Due to a lack of internal controls and oversight, OSDBU officials were not fully aware of Federal financial management requirements.

We are making recommendations to improve OSDBU's management and oversight of its Centers.

BACKGROUND

Section 15(k) of the Small Business Act requires every Federal agency with procurement powers to establish an OSDBU and a Director, who reports directly to the head of the agency or the deputy. DOT's OSDBU reports to the Secretary of Transportation via the Office of the Deputy Secretary.

Title 49 of the United States Code (U.S.C.), Section 332,[14] authorizes DOT, under its Minority Resource Center (MRC), to design and carry out programs to help minority and women-owned businesses and entrepreneurs compete for contracts and subcontracts for the maintenance, restructuring, improvement, and rehabilitation of the Nation's transportation infrastructure and to make arrangements to carry out such programs. OSDBU refers to the MRC as its Small Business Transportation Resource Center (SBTRC) Program, which is housed under OSDBU's RAD. Moreover, DOT Order 1101.7a defines MRC's mission as (1) providing planning, analysis, evaluation, and management of OSDBU's various financial assistance and business training programs and (2) administering the provisions of 49 U.S.C. § 332, including advocacy, outreach, and financial services.

The SBTRC Program utilizes cooperative agreements with chambers of commerce; trade associations; educational institutions; and business-centered, community-based organizations to establish Centers to provide training, technical assistance, and information to DOT grantees and recipients, prime contractors, and subcontractors. These host organizations agree to provide staff, office space, and

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[10] Per the Office of Management and Budget's (OMB) Memorandum, *Issuance of Part III to OMB Circular A-123, Appendix C* (March 22, 2010), improper payments include payments for ineligible services and any payment that should not have been made under statutory, contractual, administrative, or other legally applicable requirements.
[11] Unused funds that were not deobligated when the period of performance ended.
[12] Our $1,168,907 estimate has a precision of +/-$307,933 at the 90-percent confidence level.
[13] For the Centers' 2013 through 2016 project years.
[14] Public Law No. 97-449. Under 49 U.S.C. § 332, OSDBU has a duty to provide outreach and financial services on behalf of small and disadvantaged businesses and those certified under 49 C.F.R. Parts 23 and 26, as disadvantaged business enterprises, and to develop programs to encourage, stimulate, promote, and help small businesses become better prepared for, obtain, and manage transportation-related contracts and subcontracts.

administrative support for each Center. In turn, OSDBU is responsible for providing funding, a dedicated program contact, and technical assistance to the Centers.

OSDBU LACKS A DEFINED FRAMEWORK FOR ESTABLISHING, RENEWING, AND MANAGING ITS CENTERS

OSDBU's framework for establishing, renewing, and managing its Centers has three key weaknesses. These include: (1) insufficient justification—i.e., a business-case rationale as well as documented policies and procedures—for establishing, renewing, and managing the regional Centers, including determining the number of Centers, where they are located, and their respective geographic service areas; (2) an unclear methodology for determining the Centers' funding needs; and (3) limited competition from organizations that could host the Centers.

OSDBU Lacks a Defined Business Case for Establishing Its Centers

In accordance with the Small Business Act and Title 49 U.S.C. § 332, OSDBU established its SBTRC Program to help small businesses prepare for, obtain, and manage transportation-related contracts. This program currently comprises a total of 13 Centers, covering various geographic service areas (see table 1).

Table 1. OSDBU's 13 Regional Small Business Transportation Resource Centers

Regional SBTRC	Areas Served
Capital	Washington, DC, metro area
Central	Arkansas, Kansas, Mississippi, Missouri
Great Lakes	Illinois, Indiana, Michigan, Ohio, Wisconsin
Gulf	Louisiana, New Mexico, Oklahoma, Texas
Mid-Atlantic	Delaware, Maryland, New Jersey, Pennsylvania
Mid-South Atlantic	Georgia, South Carolina, Tennessee
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, Vermont
Northern Plains	Iowa, Minnesota, Montana, North Dakota
Northwest	Alaska, Idaho, Oregon, Washington
South Atlantic	Kentucky, North Carolina, Virginia, West Virginia
Southeast	Alabama, Florida, Puerto Rico, U.S. Virgin Islands
Southwest	Arizona, California, Hawaii, Nevada
West Central	Colorado, Nebraska, South Dakota, Utah, Wyoming

Source: OSDBU

We found that OSDBU lacks written policies and a clear and consistent methodology for determining its needs for its SBTRC Program (e.g., how many Centers to establish, where they should be located, and which geographic areas they should cover to optimize service performance). Specifically, OSDBU acknowledged that prior to 2006, it is unknown how many Centers existed or what methodology was used. Furthermore, according to OSDBU, in 2006 the Office expanded to nine Centers based on a spreadsheet analysis of small business data, which included the number of small and/or disadvantaged businesses within each State and DOT funds provided to the States. Per those officials, OSDBU used this analysis method again in 2009 to expand from 9 to 11 Centers. However, OSDBU has not provided supporting documentation showing who created, reviewed, or approved the analyses or if the data was indeed used as the basis for establishing the Centers. According to OSDBU representatives, a high turnover among senior officials within their organization led to the lack of historical knowledge. As a result, OSDBU officials could only make assumptions about how the data were used, who used them, and what approvals or decisions resulted from that information. Moreover, when OSDBU created the last two Centers (established in 2015), the Office did not follow the same methodology shown in the spreadsheets. Rather, OSDBU officials made their determination based on an undocumented review of the Centers that identified several underserved areas.

In the absence of written policies and procedures, OSDBU has developed a regional framework, which may not provide the most effective or efficient means of servicing the small business community. As table 1 illustrates, many of the Centers cover sizeable geographic areas. While most of the Centers are in States with the largest populations and the greatest number of small businesses in their respective regions, this is not always the case. For example, the Northern Plains Region covers Iowa, Minnesota, Montana, and North Dakota. Yet, according to an official at the Center—which is located in Billings, Montana—most of the region's small businesses are located in Minneapolis-Saint Paul, Minnesota, which has a significant impact on the Center's ability to provide effective outreach in the region. Furthermore, due to limited funding, two of the five Centers we visited concentrated most of their outreach on small businesses in the host organization's State. For example, the Northwest Center has four States in its region (Alaska, Idaho, Oregon, and Washington), but an official there told us that, due to limited funding, Center staff can only get to Alaska once a year.

Like DOT, both the Departments of Defense and Commerce have established nationwide small business outreach centers under their Procurement Technical

Assistance Program (PTAP)[15] and Minority Business Development Agency (MBDA),[16] respectively. Yet, in contrast to OSDBU, PTAP has developed and documented specific policies and practices for establishing its Centers' geographic coverage areas, including mechanisms for regularly assessing geographical service areas and small businesses within an area.

As a result of our audit, OSDBU is open to conducting assessments to improve its support to small businesses, and the Office is working on an operating procedures manual, which will include steps for establishing new Centers.

OSDBU Lacks a Clear Methodology for Determining Center Funding

While the Department has accounting and financial management policies and guidance, OSDBU does not have a clear, documented methodology for determining funding levels for new or existing Centers to ensure available resources are sufficient for achieving program objectives. While OSDBU does submit an annual budgetary request—including an overall description of the SBTRC Program—to OST, the request does not indicate how funds are to be allocated across each of the 13 Centers. As such, it is unclear how OSDBU determines a new Center's initial funding and whether funding remains adequate over time. We attempted to determine the funding amounts for the Centers when they were first established but were unable to do so due to a lack of historical data and supporting documentation. OSDBU officials told us that the same spreadsheet analysis used to establish the Centers' regional coverage areas was also used to establish initial funding levels for the SBTRC Program. However, as discussed above, we question the reliability of that data and its use. Those officials also said the existing Centers' current funding (including incremental increases) is based on the prior year's history, the Centers' current financial needs, and follow-up discussions, but the decision process has not been formalized. In summary, OSDBU does not have an official, documented methodology to support how it determines funding increases over time or funding levels for future Centers, should the need arise.

In addition, it is not clear whether OSDBU gives consideration to the size of the regional service areas and related operational needs, such as travel funds, when determining funding requirements for each Center. Our examination of the

[15] Under PTAP, PTACs help businesses pursue and perform under contracts with the Department of Defense, other Federal agencies, State and local Governments, and Government prime contractors. PTAC services—which are available either free of charge or at a nominal cost—include assistance in identifying contract opportunities and preparing and submitting bids.

[16] MBDA funds a nationwide network of MBDA business centers, which are operated by local public or private-sector entities. These centers provide a range of business consultation and technical services that include private equity and venture capital sourcing, surety bonding assistance, identification of procurement and competitive bid opportunities, merger and acquisition support, and loan packaging.

13 Centers’ 2016 funding amounts indicated that they ranged from $140,000 to $232,000, with very little rationale for the variation.[17] The Capital Center, which serves firms located in the District of Columbia and several nearby counties in Maryland and Virginia, receives $144,000 while the Southwest region, which serves all of Arizona, California, Hawaii, and Nevada, receives only slightly more at $160,000. The lack of a clear funding rationale has led at least one Center official to question the amount of money the Center receives, calling the funds both insufficient and disproportionate to what other Centers are allocated—which underscores the lack of transparency in how such decisions are made.

Given the overall lack of an effective and documented process for funding decisions, OSDBU officials agreed that a reassessment is needed to better determine and justify funding amounts for each Center. In the meantime, as noted earlier, OSDBU is working on a procedures manual that will include steps for determining funding levels for new and existing Centers.

OSDBU Faces Limited Interest From Organizations That Could Host Its Centers

When it solicits host organizations for its Centers, OSDBU only receives one or (on rare occasions) two bidders. Furthermore, the current host organization often is the sole bidder. Even OSDBU’s two newest Centers each received only one bid. In comparison, a representative from one of the Department of Commerce’s MDBA centers told us that MDBA generally gets multiple bidders when it solicits a hosting opportunity.

While OSDBU advertises opportunities to prospective host organizations in the Federal Register, www.grants.gov, and its own website, its strategy for addressing low competition is to rebid. However, this strategy neglects other options, such as exploring additional advertising avenues or conducting an assessment of potential host organizations and analyzing the reasons for their lack of participation.

According to DOT’s OSDBU and Center representatives, the low interest among potential bidders may be due to the low dollar amounts of the cooperative agreements. An MBDA representative also speculated that potential host organizations may be reluctant to bid because of their collaborative working relationships with and respect for the current Center staff.

[17] This includes only funds for the Centers’ operations (which mostly go toward salaries and travel); not included is funding for BEP and WITI. Yet even when these programs are added, a significant variance still exists, with funding ranging from a low of around $168,000 to a high of nearly $295,000.

Overall, the low number of bidders has resulted in the selection of hosts that may not be able to deliver optimal service to the small business communities in their regions. For example, some host organizations have focus areas or titles that may discourage potential clients from working with Center staff. Specifically, we interviewed representatives at two Centers hosted by organizations whose non-OSDBU-related outreach focused only on specific small business populations.

According to Center representatives, their outreach efforts have been affected by misperceptions about whether they were serving only the host organization's small business clientele and the general lack of awareness that the Centers are a component of DOT or OSDBU. Centers have tried to distinguish their identities from host organizations by creating separate websites, email addresses, and business cards but are restricted by OSDBU from using the DOT logo to identify the Centers as part of the SBTRC Program.

When we asked whether OSDBU had considered evaluating the factors that impact competition, officials acknowledged that they could benefit from doing so and recognized the need to broaden their marketing efforts to increase competition among potential host organizations. Furthermore, in April 2017, OSDBU began developing a database of potential host organizations in an effort to increase the number of bids in the future.

OSDBU LACKS EFFECTIVE PROCESSES FOR OVERSEEING CENTER PERFORMANCE AND FINANCIAL MANAGEMENT

We found several areas for improvement in how OSDBU oversees the Centers' performance and conducts annual evaluations and site visits. We also found that OSDBU lacks effective financial internal controls and oversight from OST to ensure funds are properly managed in accordance with Federal requirements and DOT's FAGM. This has led to instances of improper payments and overdue deobligations.

Weaknesses Exist in OSDBU's Oversight of Its Small Business Transportation Resource Center Program

We found that while OSDBU has performance measures and mechanisms in place for overseeing the Centers' performance, some weaknesses exist in the Office's oversight efforts. Specifically, OSDBU (1) lacked effective outcome-based performance measures for its SBTRC Program, which limits OSDBU's ability to evaluate the full impact of the Centers' collective work and (2) was not fully meeting its oversight responsibilities for conducting annual performance reviews and site visits to evaluate the Centers' performance. Without effective performance measurements and oversight practices, OSDBU is limited in its ability to fully assess the Centers achievement of program objectives.

GAO defines program performance measurement as the regular collection and reporting of a range of data, including a program's inputs, workload or activity levels, outputs or final products, outcomes of products or services, and efficiency (e.g., productivity measures). Other data might include information on customer satisfaction, program timeliness, and service quality. Per GAO, performance measures can (1) show the accountability of processes and procedures used to complete a task, as well as program results; (2) demonstrate how efficiently resources, such as dollars and staff, are being used; and (3) assess how effectively an agency achieves its goals.

According to Federal financial assistance regulations,[18] as a best practice, Government agencies making Federal awards (including cooperative agreements) can include performance goals, indicators, milestones, or anticipated outcomes with expected timelines for accomplishment. The anticipated outcomes should align with the agency's strategic goals and objectives or its performance goals for the program. Further, performance should be measured in a way that helps the awarding agency improve program outcomes, share lessons learned, and spread the adoption of promising practices.

OSDBU Lacks Effective Outcome-Based Performance Measures for Its SBTRC Program

Based on the Federal financial assistance regulations noted above and GAO's position on performance measures, a best practice for program improvement is to incorporate effective performance measures that are both quantitative and qualitative. OSDBU's cooperative agreements include a number of performance-related, output-based deliverables (see table 2).

[18] 2 C.F.R. §§ 200.210 and 200.301.

Table 2. Centers' Achievement of Key BEP, WITI, OGL, and STLP Deliverable Requirements for 2016

Deliverable	Capital	South Atlantic	Mid-South Atlantic	Northwest	Southwest
BEP—deliver 2 programs	1	2	6	2	4
WITI—host 1 event to market the program	1	2	4	1	10
WITI—participate in 5 events to market the program	4	14	5	3	0
STLP—prepare a minimum of 4 STLP applications	0	0	5	2	0
Other Government Loans[19] (OGLs)—prepare 3 applications	0	4	0	4	12
STLP—deliver 5 workshops	2	10	6	14	8

= Did Not Achieve Goal

Source: 2016 annual performance review for each Center, as provided by OSDBU.

Based on our review, most of the five Centers in our sample were able to meet and, in some cases, exceed established requirements. For instance, three Centers exceeded four of the six deliverable requirements. Only the Capital Center had significant problems achieving most of its deliverables. According to Center officials, their BEP program was not implemented until the last quarter of 2016, and the Center reportedly experienced problems in achieving its other deliverables due to a change in management.

Nevertheless, we found these deliverables alone do not provide an effective measure of how well the Centers collectively meet program objectives for providing assistance to small businesses. For example:

- **Bond Assistance.** The Centers are required to deliver at least two Bonding Education Programs in each performance period, specifically a series of classes to help small businesses apply for bonding certification. The Centers currently collect and track various BEP data outputs, including total bonding capacity obtained by businesses attending the programs. However, OSDBU has not

[19] OGLs are loans from other Federal, State, or local sources.

(1) assembled and analyzed much of this information or (2) used outcome-based measures to evaluate program success. OSDBU recently developed a worksheet that will track the number of participants, graduates, and their pre- and post-bonding levels—all of which OSDBU officials say will allow them to speak directly to BEP program efficacy. In addition, according to OSDBU officials, the BEP is implementing a new system that tracks more than just bonding levels to include other factors, such as contracting dollars obtained and jobs created. However, since this is a new effort, it remains unclear whether OSDBU's efforts will prove successful. Furthermore, OSDBU has developed a draft BEP policy that incorporates qualitative measures but has yet to implement it. Specifically, the policy calls for a report for each BEP event that includes observations, research conducted, background of the market's transportation-related contracts and needs of the small business community, approach, methodology, results, data collected, market limitations, discussions, conclusions, and implications.

- **Loan Assistance.** OSDBU requires its Centers to generate a minimum of four applications for the STLP. In the past, the Office required Centers to generate a minimum of seven applications for the STLP; however—due to continually declining numbers of applications—it has reduced the requirement in favor of a mix of four STLP applications and three applications from other government loans (OGLs). OSDBU uses output-based measures to track the number of approved STLP and OGL applications (as shown in table 2). However, supplementing these existing measures with ones more outcome oriented is important to ensuring the Centers achieve program goals. For example, understanding some of the reasons why some applicants are not approved would provide an additional measure that OSDBU could use to improve the Centers' efforts in assisting small businesses seeking loans.

We also found that OSDBU lacks performance measures for other deliverables listed in the Centers' cooperative agreements:

- **Outreach Services**. Although the cooperative agreements require Centers to maintain two databases for outreach services, no performance measures have been established to assess their overall impact. The first database includes "100–150 firms that have the capacity and capabilities, and are ready, willing and able to participate in DOT contracts and subcontracts immediately." These firms are supposed to receive bonding assistance, business counseling, and direct referrals to DOT agencies. The second database matches regional transportation-related small businesses with opportunities identified through sources such as FedBizOpps.gov.[20] However, OSDBU does not track how

[20] FedBizOpps.gov is the single point of entry for Federal Government procurement opportunities over $25,000.

many businesses were helped through the use of either database. OSDBU officials said they plan to revise the cooperative agreements to require only the first database and include related performance measures.

- **Planning Committees and Collaborative Efforts.** OSDBU does not track two other requirements listed in the cooperative agreements, specifically, that the Centers must (1) establish regional planning committees that consist of officials or experts at Federal, State, and local transportation agencies and (2) collaborate with the Department of Defense and agencies such as the Small Business Administration to offer business counseling services to transportation-related small businesses. OSDBU also does not have performance measures to assess the impact and effectiveness of these committees or collaborations. When we raised this issue, OSDBU officials said they will develop performance measures for the regional planning committees and reevaluate the requirement for collaborating with other agencies.

OSDBU officials recognize the need to reassess their performance measures and have started to establish outcome-based (i.e., qualitative) measures. For example, in 2015, OSDBU began asking the Centers to report data on how many small businesses had successfully obtained new transportation-related contracting dollars due to the direct assistance of the Center. According to OSDBU officials, this measure, along with the BEP and STLP measures, allows the Office to assess not only the Centers' performance but their impact on the economic competitiveness of the small business community. However, we found wide variances in reported dollars (ranging from $0 to $676 million)—raising questions about the reliability of the reported information. In addition, one Center representative expressed confusion about how to report the information, citing unclear guidance from OSDBU. OSDBU's continued efforts to strengthen performance measures for its Centers will be important in fostering improved services to the small business community.

OSDBU Is Not Fully Meeting Its Oversight Responsibilities for Evaluating the Centers' Performance

In accordance with the cooperative agreements, OSDBU is responsible for conducting annual (1) performance evaluations based on the Centers' annual reports and (2) site visits. However, we found that OSDBU is not adequately fulfilling its duties as required.

- **Annual Performance Evaluations.** We did not find documented evidence (e.g., review notes, signatures, and checklists) that OSDBU had evaluated the five Centers in our sample to determine the accuracy of their submitted annual performance reports. OSDBU representatives stated they conduct annual performance evaluations by comparing the Centers' self-reported data against verification documents the Office receives—specifically, BEP graduation certificates and STLP application signature pages. However, OSDBU has not provided documented evidence of such comparisons. In addition, OSDBU has not provided documentation showing how the Office verifies the Centers' self-reported results for the number of WITI or STLP workshops held. Without adequately documented reviews, the Centers lack guidance—other than verbal feedback, perhaps—to help them improve performance, and OSDBU cannot track historical trends to see how the Centers perform over time. When we raised these issues, OSDBU officials acknowledged that obtaining supporting documentation is important for verifying the Centers' performance results.

In addition, the annual performance evaluations do not cover all of the Centers' performance requirements outlined in the cooperative agreements. We found that about half of the 19 requirements are not addressed in the annual evaluations. Moreover, the cooperative agreements do not clearly state whether the Centers are only required to achieve them once or on a recurring basis. For example, although the cooperative agreements require Centers to provide at least 20 hours of individual or group counseling, the performance evaluations do not include a review as to whether the Centers met this goal.

- **Annual Site Visits.** OSDBU is also required to conduct annual site visits to review such items as the Centers' performance, program files, and databases of businesses served. Yet OSDBU only conducted 6 site visits between 2013 and 2016—instead of what should have been 48 (assuming all the Centers were visited annually). OSDBU officials say they were not able to meet this yearly requirement due, in part, to budgetary constraints. However, until OSDBU officials make regular site visits, they may not be fully aware of potential problems. For example:
    - During one of our field visits, a Center representative told us that DOT funds were used to pay for a host organization employee, even though the individual did not perform any work for OSDBU's Center. After the representative reported the matter, OSDBU called the host organization, and the employee was removed from the Center's payroll. The Center later provided documentation, which we have confirmed, that these improper payments[21] occurred between 2013 and 2015 and amounted to $69,312. OSDBU is currently working to recover these funds from the host organization.
    - Furthermore, some Centers reported that their project directors were performing tasks on behalf of the host organizations, although that is prohibited by the OSDBU cooperative agreement.

[21] Under OMB Circular A-123, payments for ineligible services or services not received are improper payments.

After we raised these issues with OSDBU, the Office's then Director issued a letter to the Centers and their host organizations reiterating work restrictions. OSDBU officials also told us that, as of April 2017, they are now verifying the timesheets of all Center staff. In any case, OSDBU might have identified and corrected the above problems far sooner if it had conducted the required annual site visits. And, if such annual visits proved to be difficult at times, other potential actions might have served nearly as well—such as a desk review[22] conducted via videoconferencing, email, or telephone.

OSDBU Lacks Effective Financial Internal Control Practices To Ensure Funds Are Properly Managed

According to GAO, internal controls provide reasonable assurance that organizations are following applicable regulations and providing reliable financial reports.[23] This is further supported by Federal regulations[24] and the FAGM, which cite the need for financial management controls in managing cooperative agreement funds.[25] Yet we found that even though departmental policies for managing Federal funds exist, OSDBU lacked effective financial internal controls for its SBTRC Program, and those officials responsible for the Program were not fully aware of those procedures. This has led to (1) inappropriate financial management practices and (2) a failure to obtain required annual financial reporting statements from the Centers. These shortfalls, combined with a lack of oversight from OST, have resulted in various improper payments and violations of Federal regulations and the FAGM, and have increased the potential for violations of appropriations law. [26] Also, while we did not find any such occurrences, having strong financial controls is key to protecting against violations of the Anti-Deficiency Act (ADA).[27]

OSDBU Lacks Appropriate Financial Management Practices for Managing SBTRC Program Funds

The absence of effective internal controls and departmental oversight puts OSDBU at risk of financial mismanagement or the inappropriate recording of

[22] A desk review involves a request for documentation from the non-Federal entity, which is then reviewed for compliance with Federal and DOT requirements.
[23] GAO, *Standards for Internal Control in the Federal Government* (September 2014).
[24] 2 C.F.R. § 200.302, Financial management; 2 C.F.R. § 200.327, Financial reporting; 2 C.F.R. § 200.328, Monitoring and reporting program performance; 2 C.F.R. § 200.343, Closeout.
[25] The Centers' cooperative agreements are funded through purchase orders, which are used to disburse and track funds.
[26] 31 U.S.C. § 1501(a), Recording statute. Agencies are required to record the full amount of its contractual obligation against funds available at the time an award is executed.
[27] 31 U.S.C. § 1341(a)(1)(A), Limitations on expending and obligating amounts. An officer or employee of the Federal Government or the District of Columbia may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.

funds. For example, to prevent overspending, OSDBU makes numerous manual adjustments to its accounting system, moving funds between lines of accounting, sometimes weeks or months after an invoice has been submitted. This practice creates the risk of using funds for other than their intended purpose—resulting in improper payments. The lack of effective internal controls has also resulted in overdue deobligations. For example:

- **Failure To Expend Funds Against the Appropriate Accounting String**. We found instances of improper payments in our sample where OSDBU expended $207,830 in charges that had been obligated for a different award against a different accounting string. Such errors are not consistent with Federal cost accounting standards. According to OSDBU officials, this sometimes occurred to avoid late payments while they waited for a line of accounting to be set up for a new award that was already incurring costs. However, we also identified instances where funds were redistributed from one line of accounting to another, 2 years after the payments had been made and the cooperative agreement had expired. This practice could lead to violations of appropriations law and the ADA unless corrected. We reported these issues to OST's Budget and Program Performance Office,[28] who said they were not previously aware this was happening. Based on our findings, we estimate that $621,475 or 7.6 percent of OSDBU's $8.1 million in obligations for the 13 Centers might have been incorrectly recorded and expended.[29]
- **Expending Funds Outside of Applicable Periods of Performance**. We also found that OSDBU made $139,097 in improper payments when it incorrectly used funds to cover costs incurred outside of the award's performance period.[30] According to Federal financial assistance rules, payments must come from funds obligated for use during the period in which a cost was incurred. Moreover, spending funds for costs incurred during a different period risks violating the ADA because the agency could be spending funds in excess of what is available to cover the costs. Based on our findings, when projected across OSDBU's 13 Centers, we estimate that $396,702—or 4.9 percent of OSDBU's reported $8.1 million in obligations—might have been spent outside of the performance periods.[31]

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[28] This office is responsible for coordinating oversight activities involving budget and performance for DOT programs and offices.

[29] Our $621,475 estimate has a precision of +/-$176,868 (or +/- 2.2 percent of the obligated amount in the universe) at the 90-percent confidence level for the Centers' 2013 through 2016 project years.

[30] For OSDBU's Centers, there are multiple types of awards, such as cooperative agreements and BEP and WITI amendments to add additional funding or scope of work. Each award has a unique start and end date (period of performance).

[31] Our $396,702 estimate has a precision of +/-$145,569 (or +/- 1.8 percent of the obligated amount in the universe) at the 90-percent confidence level for the Centers' 2013 through 2016 project years.

- **Failure To Timely Deobligate Funds**. Furthermore, OSDBU has not ensured that funds were deobligated in a timely manner and put to better use. Prompt closeout is important so that unused funds can be made available for other purposes. According to Federal financial assistance regulations[32] and the FAGM, when a cooperative agreement ends, the Centers are required to identify and report any unused funds that should be deobligated. The FAGM also provides a closeout checklist for agencies to follow and includes a step for ensuring that final unused funds have been deobligated. Yet OSDBU does not require the Centers to notify the Office about such funds or follow the FAGM's checklist. Moreover, OSDBU officials stated that they did not do a formal closeout unless there was a change in host organizations. Nevertheless, in one instance where the host organization changed, we found that OSDBU did not follow the closeout process.

  In our review of financial records for the five Centers in our sample, we identified $57,758 in funds that were not deobligated when the period of performance ended. Based on our finding, when projected across OSDBU's 13 Centers, we estimate that $150,730—or 1.9 percent of OSDBU's reported $8.1 million in obligations—potentially could be deobligated and put to better use.[33]

OSDBU Does Not Enforce Federal Financial Reporting Requirements for its Centers

OSDBU does not enforce a clause in its cooperative agreements requiring the Centers to submit mandatory financial reports in accordance with Federal and DOT rules. Federal financial assistance regulations require annual financial reports with a status of Federal expenditures and unobligated balances.[34] Also, the FAGM calls for (1) recipients to submit an annual financial statement that reconciles budgeted versus actual costs and (2) agencies to examine excessive overruns and underruns to determine whether recipients need assistance to meet project goals or stay on budget. When explaining why OSDBU has not required the Centers to submit these financial reports, OSDBU officials told us that they were previously unaware of these requirements.

Had OST ensured that OSDBU staff were aware of these requirements, it is likely that OSDBU would have required and reviewed the mandatory financial reports. This, in turn, may have prevented expenditures in excess of obligated amounts.

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[32] 2 C.F.R. § 200.

[33] Our $150,730 estimate has a precision of +/-$53,321 (or +/- 0.7 percent of the obligated amount in the universe) at the 90-percent confidence level for the Centers' 2013 through 2016 project years.

[34] 2 C.F.R. § 200.327 requires OSDBU, on no less than an annual basis, to collect Federal Financial Reports on Standard Form 425.

We reviewed OSDBU's financial records for the five Centers in our sample and found one improper payment where OSDBU approved expenses that exceeded the available funds obligated for that year, resulting in an overage of $4,111. While OSDBU did correct this overage in the following year, such a practice could result in the inefficient use of Federal funds and is not consistent with Federal guidelines and laws related to the proper recording of obligations.

Overall, we identified a total of $346,927[35] in improper payments resulting from OSDBU's poor financial management practices and $57,758 in overdue deobligations. When projected across all 13 Centers over a 3-year period,[36] we estimate that $1,168,907[37] could potentially have been put to better use had OSDBU complied with Federal financial management requirements. OSDBU acknowledges the weaknesses in its financial management practices and is developing internal controls to prevent further occurrences. However, the issues we have identified may persist unless OST increases it oversight to ensure that OSDBU complies with Federal financial management requirements and implements effective financial internal controls.

CONCLUSION

We identified significant weaknesses in OSDBU's management and oversight of its SBTRC Centers. Developing and implementing written policies and procedures, outcome-oriented performance measures, and stronger financial internal controls are essential for ensuring OSDBU and its Centers are truly effective in achieving program objectives and assisting the small business community. Such improvement is also critical to ensure that taxpayer dollars are properly managed and expended in accordance with defined program requirements, Federal regulations, and departmental guidance.

RECOMMENDATIONS

To improve the Office of Small and Disadvantaged Business Utilization's (OSDBU) oversight of its regional Centers, we recommend that the Director of OSDBU:

1. Develop and implement written policies and procedures for establishing new Centers or making adjustments to existing ones—including determining each

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[35] This total includes the improper recording of cooperative agreement funds ($207,830) and funds spent outside of performance periods ($139,097).
[36] For the Centers' 2013 through 2016 project years.
[37] This total includes our projection estimates for the improper charging of cooperative agreement funds ($621,475), funds spent outside of performance periods ($396,702), and overdue deobligations ($150,730) for the Centers' 2013 through 2016 project years. Our $1,168,907 estimate has a precision of +/-$307,933 (or +/-3.8 percent of the obligated amount in the universe) at the 90-percent confidence level for the Centers' 2013 through 2016 project years.

Center's initial financial resource needs, changes to funding levels, locations, geographic areas of coverage, and small business/client populations.

2. Conduct a baseline program needs assessment of current funding levels, locations, geographic areas of coverage, and small business/client populations to be served—and take corrective actions as needed to meet determined needs.

3. Develop and implement an action plan for increasing future competition for Center operation.

4. Develop and implement performance measures for cooperative agreement requirements that assess how well the Centers achieve program objectives and desired outcomes.

5. Implement policies and procedures to ensure OSDBU personnel comply with existing monitoring requirements for conducting annual performance evaluations and site visits.

6. Recover the $69,312 in improper payments for unallowable labor charges.

7. Implement policies and procedures to ensure that OSDBU's financial management practices comply with appropriation law, Federal regulations, and the Department's Financial Assistance Guidance Manual. Implementing this recommendation could potentially put $1,168,907 in funds to better use.

8. Take action to correct the $346,927 in improper payments related to OSDBU's financial management practices identified in this report.

9. Deobligate the $57,758 remaining on cooperative agreements that have ended, as identified by this audit as funds that could have been put to better use.

To improve OSDBU's oversight of its regional Centers' performance and financial management practices, we recommend that the Director of OSDBU work with the Office of the Secretary of Transportation to take immediate action to:

10. Develop and implement a process to perform periodic financial assistance management reviews of OSDBU to ensure that OSDBU is informed about and complies with existing financial management assistance laws, regulations, and guidance.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided OSDBU with our draft report on August 17, 2017, and received its response on September 15, 2017, which is included as an appendix to this report. OSDBU concurred with all 10 recommendations and provided appropriate planned actions and completion dates for recommendations 1 through 10.

ACTIONS REQUIRED

We consider all recommendations as resolved but open pending completion of the planned actions.

We appreciate the courtesies and cooperation of OST and OSDBU representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225, or Darren Murphy, Program Director, at (206) 220-6503.

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cc: The Secretary
DOT Audit Liaison, M-1

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit between October 2016 and August 2017 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.

Our audit objectives were to assess OSDBU's (1) processes for establishing the Centers and (2) oversight of the Centers' compliance with the cooperative agreements and achievement of program objectives.

To conduct this audit, we selected a statistical sample (stratified probability proportional to size) comprising 5 of the 13 Centers in our universe[38]—whose obligated funds of $2.7 million represented 33.2 percent of the total $8.1 million obligated for the 13 Centers' 2013 through 2016 project years.[39] The Centers selected were (1) Capital—Washington, DC, (2) Mid-South Atlantic—Atlanta, GA, (3) Northwest—Everett, WA, (4) Southwest—Sacramento, CA, and (5) South Atlantic— Durham, NC. To ensure the accuracy of the data set provided by OST in July of 2016, we verified (1) all existing SBTRC regions were included, (2) the amount of the grant matched the amounts in the current cooperative agreements, (3) that total amount of funds obligated was accurate, and (4) the fiscal years correctly corresponded to all other data categories. Overall, we found that the data were sufficient for our audit purposes.

To assess OSDBU's processes for establishing the Centers, we interviewed OSDBU representatives to gain an understanding of their responsibilities and practices for establishing and funding the Centers. We also interviewed personnel from the Department of Commerce's Minority Business Development Agency (MBDA) and the Department of Defense's Procurement Technical Assistance Centers (PTAC) to compare their nationwide small business outreach centers to OSDBU's Small Business Transportation Resource Center Program and to identify best practices. Finally, to verify our findings, we conducted follow-up interviews with representatives from the five sampled Centers, OSDBU, and several non-sampled Centers.

To assess OSDBU's oversight of the Centers' compliance with the cooperative agreements and achievement of program objectives, we developed and used a standardized checklist of criteria. The checklist compared the deliverables of the

[38] Based on data provided by OSDBU in June 2016. The Centers' project years have varying start and end dates.
[39] Based on purchase orders provided by OSDBU in January 2017.

cooperative agreements to the quarterly and yearly reports of the five sampled Centers produced for OSDBU. We also interviewed OSDBU officials in Washington, DC, to determine which oversight policies, procedures, and responsibilities were in place for overseeing the Centers and managing funds. In addition, during our site visits to the five sampled Centers, we reviewed cooperative agreement files and interviewed Center representatives to determine responsibilities and practices for executing the terms of the cooperative agreements, reporting results, and tracking the use of funds. We conducted a field visit to Denver, CO, to attend OSDBU's annual conference for its 13 Centers and interview representatives from Centers outside our sample. Moreover, we tested OSDBU's internal controls for its oversight of the Centers by conducting field visits and interviews; reviewing OSDBU's draft policies and procedures for its Regional Assistance Division, Bonding Education Program, and Women and Girls In Transportation Initiative; and comparing OSDBU's oversight and financial management practices to relevant Federal and DOT criteria.[40]

To assess OSDBU's financial management practices, we analyzed all purchase orders for the five Centers in our sample to (1) determine if costs were incurred and payments made within the period of performance, (2) confirm whether the assignment of the invoice matched the line of accounting for which the funds had been obligated (i.e., the purpose), and (3) calculate the amount of any remaining funds or overages on the purchase order. Our sample design allowed us to estimate the obligated amounts that were not expended in compliance with Federal regulations.

[40] Such criteria include but are not limited to 49 U.S.C. § 332; 2 C.F.R. Part 200; OMB Circular A-123; DOT's FAGM (2009 and 2016); and the current cooperative agreement terms for each Center.

EXHIBIT B. ENTITIES VISITED OR CONTACTED

Within DOT

DOT Office of Civil Rights

Federal Highways Administration Office of Civil Rights

Federal Transit Administration Office of Civil Rights

Office of the Secretary of Transportation

Office of Small and Disadvantaged Business Utilization (OSDBU)

The following Small Business Transportation Research Centers within OSDBU:

- Capital Small Business Transportation Research Center
- Great Lakes Small Business Transportation Research Center
- Gulf Small Business Transportation Research Center
- Mid-South Atlantic Small Business Transportation Research Center
- Northern Plains Small Business Transportation Research Center
- Northwest Small Business Transportation Research Center
- South Atlantic Small Business Transportation Research Center
- Southwest Small Business Transportation Research Center
- West Central Small Business Transportation Research Center

Outside DOT

Department of Commerce, Tacoma Minority Business Development Agency Center

Department of Defense, Washington Procurement and Technical Assistance Center

Government Accountability Office

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
Darren Murphy	Program Director
Aisha Evans	Project Manager
Curtis Dow	Senior Analyst
Paul Stark	Senior Analyst
Teri Vogliardo	Senior Analyst
Amy Berks	Senior Counsel
Barbara Hines	Associate Counsel
Petra Swartzlander	Senior Statistician
Makesi Ormond	Statistician
Jane Lusaka	Writer-Editor

APPENDIX. AGENCY COMMENTS

U.S. Department of
Transportation
**Office of the Secretary
of Transportation**

Subject: **INFORMATION:** Management Response to Office of the Inspector General (OIG) Draft Report: OSDBU Oversight of Its Small Business Transportation Resource Centers

Date: **September 15, 2017**

From: Willis Morris
Director, Office of Small and Disadvantaged Business Utilization

To: Mary Kay Langan-Feirson
Assistant Inspector General for
Acquisition and Procurement Audits

The Department of Transportation (DOT) Office of Small and Disadvantaged Business Utilization (OSDBU) ensures that small businesses are treated fairly and have an opportunity to compete and be selected for a fair amount of the agency's contracting and subcontracting dollars. OSDBU's Small Business Transportation Resource Centers (SBTRC) help OSDBU meet its mission by providing technical and financial assistance to the nation's Small Business community to prepare them to compete and participate in federally funded contracts. OIG's audit included SBTRC data from 2013 through 2016 project years. OSDBU is firmly committed to implementing actions to improve its management and oversight of the SBTRCs. As the Office of Inspector General (OIG) noted in its draft report, OSDBU has performance measures and mechanisms in place for overseeing the SBTRCs and started establishing outcome-based measures. At the time this audit was performed, we had several actions already underway or completed to further enhance the management and oversight of SBTRCs. These actions include the following:

- Established an independent cooperative agreement evaluation panel in May 2017. The panel is composed of representatives from the Office of Secretary (OST) Office of the General Counsel, Office of the Assistant Secretary for Research and Technology, Federal Highways Administration, Federal Transit Administration, and the Federal Aviation Administration. The panel meets when there is a grant competition and a proposal needs to be evaluated. The independent panel provides constructive and useful information to OSDBU on promoting SBTRC cooperative agreement opportunities and strengthening its selection process for SBTRC awardees.

- Started a baseline program needs assessment of the SBTRC program to review current funding levels, locations, geographic areas of coverage, and small business populations. This assessment is expected to be completed by March 31, 2018.

- Completed seven Grant Compliance site reviews in accordance with DOT guidance and Federal regulations during fiscal year 2017.

- Developing and implementing Standard Operating Procedures (SOP) to ensure that OSDBU has written policies and procedures requirements in place that meet Departmental and Federal grant and financial management oversight requirements. This is expected to be completed by March 31, 2018.

Upon review of the OIG's draft report, we concur with all the recommendations as written. We plan to implement each recommendation by the following dates:

RECOMMENDATION	TARGET ACTION DATE
1, 2, 4-5, and 7	March 31, 2018
3	December 31, 2017
6	December 31, 2018
8 and 9	December 31, 2017
10	September 30, 2018

Regarding recommendation 6, to recover improper payments for unallowable labor charges, OSDBU is working with OST Offices of Budget and General Counsel to determine the appropriate steps in recovering the improper payment of $69,312. We anticipate DOT will be repaid in one lump sum; however, there is a possibility that a payment arrangement may need to be established to recover these funds, this is based on recent discussions OSDBU has had with the organization who owes the money.

OSDBU acknowledges OIG's comments regarding recommendation 7 that implementing policies and procedures to ensure that OSDBU's financial management practices are following appropriation laws, Federal regulations, and the Department's Financial Assistance Guidance Manual, could potentially put $1,168,907 to better use.

In regards to recommendation 8, taking action to correct the $346,927 in improper payments, OSDBU requested $290,888.88 in improper payments be reclassified through OST Office of Budget. The Enterprise Service Center has fully processed this request. OSDBU continues to work with OST Office of Budget to correct the remaining improper payments.

We appreciate the opportunity to respond to the OIG draft report. Please contact Michelle Harris, Program Manager, Regional Assistance Division, at (202) 366-2253 with any questions.