

GAO

Report to the Committee on Small
Business and Entrepreneurship, U.S.
Senate

April 2006

DOE CONTRACTING

Improved Program Management Could Help Achieve Small Business Goal





Highlights of [GAO-06-501](#), a report to Committee on Small Business and Entrepreneurship, U.S. Senate

DOE CONTRACTING

Improved Program Management Could Help Achieve Small Business Goal

Why GAO Did This Study

Federal policy requires that small businesses receive the maximum practicable opportunity for providing goods and services to federal agencies through prime contracts—direct contracts between the government and a contractor. The Department of Energy (DOE) buys more than \$20 billion in goods and services annually. GAO was asked to (1) discuss DOE’s key efforts to increase small business prime contracting opportunities and (2) identify the management challenges DOE faces in improving its small business prime contracting performance. In addition to these objectives GAO is providing information on the management of small business programs by other federal agencies that either share certain characteristics with DOE’s largest program offices or that have components that share certain characteristics with these offices.

What GAO Recommends

GAO recommends that DOE define the concrete steps it will take to achieve further progress toward its annual goal, collect relevant performance information to better gauge the effectiveness of its efforts, and use performance information to support program improvements as needed.

In commenting on this report, DOE concurred with the findings and recommendations and described steps it will take to further improve its small business efforts.

www.gao.gov/cgi-bin/getrpt?GAO-06-501.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gene Aloise at (202) 512-3841 or aloisee@gao.gov.

What GAO Found

Key DOE efforts to increase small business prime contracting have included identifying more contracting opportunities for small businesses, expanding small business development and outreach activities, and increasing program management and oversight. The department has had some success in redirecting to small businesses portions of contracts to manage large DOE facilities, as well as in securing additional small business prime contracting opportunities from the department’s other contracts. As a result, the total dollars awarded annually as prime contracts to small businesses have increased, and the share of procurement dollars awarded to small business in 2005 was DOE’s second highest ever. Despite these gains, however, DOE was unable to meet its small business prime contracting goal in 4 of the past 5 years (see table below).

DOE faces two key management challenges to improving its small business program. Addressing these challenges will bring DOE’s small business program more in line with the practices associated with high-performing organizations and with principles contained in the Government Performance and Results Act. Specifically, DOE has not defined the concrete steps necessary to enable it to achieve its prime contracting goal and does not collect sufficient information to effectively assess its small business program efforts, identify problems, and implement changes that could further increase small business prime contracting.

Other federal agencies with missions or agency components with missions similar to DOE periodically comprehensively evaluate their programs to determine effectiveness, identify problems and make changes intended to improve performance. GAO obtained information from the following three agencies: the National Aeronautics and Space Administration, the Department of the Army (U.S. Army Corps of Engineers), and the Department of Health and Human Services (Centers for Disease Control and Prevention).

DOE’s Small Business Contracting Goals, Achievements, Fiscal Years 2001 through 2005

Dollars in millions					
	2001	2002	2003	2004	2005
DOE goal	5.00%	3.70%	3.70%	5.06%	5.50%
DOE achievement	2.89%	3.11%	4.08%	4.18%	4.15%
DOE achievement	\$588.6	\$634.4	\$904.2	\$943.6	\$947.6
Difference between goal and achievement	\$429.7	\$120.4	\$84.2	\$198.7	\$308.3

Source: GAO analysis of DOE data.

Note: Data are adjusted for inflation and expressed in 2005 constant dollars.

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Abbreviations

DOE	Department of Energy
FPDS-NG	Federal Procurement Data System—Next Generation
NASA	National Aeronautics and Space Administration
NNSA	National Nuclear Security Administration
SBA	Small Business Administration

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United States Government Accountability Office
Washington, DC 20548

April 7, 2006

The Honorable Olympia J. Snowe
Chair
The Honorable John F. Kerry
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The federal government spends nearly \$300 billion annually to obtain goods and services ranging from military aircraft to office supplies, from nuclear waste storage to grounds keeping. While most of these purchases are through contracts with large businesses, the federal government's policy is to contract with small businesses to the maximum extent feasible.¹ Among other things, directing federal funds to small businesses can increase competition and contribute to the economic well-being of the nation.² The Small Business Act, as amended by the Small Business Reauthorization Act of 1997 requires that the federal government, as a whole, award at least 23 percent of federal prime contracting dollars to small businesses annually.³ The Small Business Administration, which oversees the federal small business program, negotiates an appropriate individual prime contracting goal with each federal agency,⁴ including the Department of Energy (DOE). The specific percentage goal varies from agency to agency, depending upon agency program missions, procurement requirements, and past procurement history. Both the Federal Acquisition Regulation and DOE-specific acquisition regulations govern the

¹The Small Business Administration (SBA) defines small businesses as enterprises that (1) are independently owned and operated; (2) are not dominant in their field of operation; and (3) meet SBA-defined criteria for company size and sales volume, which vary depending on industry type. SBA uses the term "other than small business" for all entities that are not small businesses. For the purposes of this report, a large business fits the SBA definition of "other than small business."

²*See, e.g.*, 15 U.S.C. § 631(a) (declaration of policy set out in the Small Business Act).

³15 U.S.C. § 644(g). Prime contracts are direct contracts between the government and a contractor.

⁴Certain categories of procurements are excluded from this requirement. These include federal agencies that fund contracts primarily with funds from agency-generated sources (e.g., the U.S. Postal Service) and contracts not under the Federal Acquisition Regulation (e.g., the Federal Aviation Administration).

administration of the department's procurements. In addition, DOE has issued internal guidance in the form of acquisition letters, secretarial memoranda, and other communications to outline additional small business requirements. Broadly, these requirements direct procurement officials to contract with small businesses unless specific and limited circumstances prevent doing so. For example, an exemption from small business prime contracting requirements is allowed if capable small businesses cannot be found to perform the needed work at a fair price.

DOE is the largest civilian contracting agency in the federal government, with procurements of approximately \$22.8 billion for fiscal year 2005, or more than 90 percent of its annual budget. DOE relies primarily on "facility management contractors"—traditionally large businesses and universities—to manage operations at sites across the country. These contractors maintain the nation's nuclear weapons stockpile, clean up radioactive and hazardous wastes, and conduct complex scientific research, among other activities. According to DOE, in fiscal year 2005, the department paid 87 percent of its procurement dollars to 43 facility management contracts. Given the broad scope and complexity of the work conducted, many of these contracts are for hundreds of millions of dollars annually, with four contracts exceeding \$1 billion annually. The remaining 13 percent of DOE's procurement dollars were awarded through contracts with nonfacility management contractors, many of them small businesses, for things like legal services and facility design and construction activities.

The administration of DOE's small business program spans several different organizational units. DOE's Office of Small and Disadvantaged Business Utilization (referred to in this report as DOE's Small Business Office) is responsible for establishing small business policy and implementing the department's small business program, including engaging in small business outreach and business development activities and encouraging the department to meet its small business contracting goal. DOE's Office of Procurement and Assistance Management and the Office of Acquisition and Supply Management of the National Nuclear Security Administration (NNSA) set overall procurement policy and are responsible for ensuring that these policies are followed by procurement officials and contracting officers throughout the department. In addition, these offices coordinate with DOE's Small Business Office in setting small business policy. The NNSA and DOE program offices such as the Office of Science and the Office of Environmental Management determine their

procurement needs and identify small business contracting opportunities.⁵ Small business contacts in each program office support the small business activities within their respective organizational units.

In 1999, a change in federal procurement policy affected how DOE set its annual small business prime contracting goal and measured its achievement. Prior to the change, federal policy allowed DOE to include the small business subcontracts of its large facility management contractors when developing its goal and calculating its small business prime contracting achievement.⁶ This prior policy, which applied only to DOE, reflected a view that the facility management contractors were acting as surrogates for the department and, therefore, the subcontracts were equivalent to DOE prime contracts. In 1999, the Office of Federal Procurement Policy changed the policy so that DOE could not include the subcontracts issued by facility management contractors when developing small business prime contracting goals or when calculating actual achievements.⁷ Given this decision, DOE's small business prime contracting goal was adjusted downward from 18 percent in 1999 to 5 percent in 2000. DOE's fiscal year 2006 goal for small business prime contracting is 5.5 percent of its total contracting dollars.

In 2004, we testified that DOE had and would continue to have difficulty meeting its near-term and long-term small business prime contracting goals but was taking steps to improve results, including enhancing its small business outreach efforts and assessing facility management contracts up for renewal to identify work that might be redirected to small businesses.⁸ For this report, you asked us to (1) provide an update on DOE's key efforts to increase small business prime contracting opportunities and the results of these efforts to date and (2) identify the

⁵NNSA is a separately organized agency within DOE with its own procurement organization and program offices. For purposes of this report, NNSA is referred to as a "program office," as are DOE's Office of Environmental Management, Office of Science, and other program-based organizational elements.

⁶A subcontract is any contract entered into by a prime contractor or subcontractor to provide supplies and/or services in support of a prime contract or subcontract.

⁷The Office of Federal Procurement Policy within the Office of Management and Budget issues policy letters and is responsible for resolving any disagreements between the Small Business Administration and federal agencies on small business prime contracting goals.

⁸GAO, *Department of Energy: Achieving Small Business Prime Contracting Goals Involves Both Potential Benefits and Risks*, [GAO-04-738T](#) (Washington, D.C.: May 18, 2004).

management challenges DOE faces in improving its small business prime contracting performance. In addition to these two objectives, at your request, we are providing information on the management of small business programs by other federal agencies that either share certain characteristics with DOE's largest program offices or that have components that share certain characteristics with these offices.

To evaluate DOE's key small business efforts and their results to date, we reviewed federal regulations, DOE guidance and management directives concerning small business prime contracting, departmentwide and program-specific small business plans, and budget documents. We reviewed DOE contract data from the Federal Procurement Data System, the federal government's repository of information regarding the nature and value of contract awards, as well as from a DOE-specific procurement database. In addition, we reviewed the activities of the DOE Small Business Office and the small business prime contracting activities at NNSA and DOE's Offices of Environmental Management and of Science, which collectively account for the bulk of DOE's prime contracting. In conducting these reviews, we interviewed DOE small business, procurement, and program officials.

To identify the management challenges DOE faces in improving its small business prime contracting performance, we compared the management practices of DOE's small business program with established management principles. We interviewed DOE small business and procurement officials and reviewed program guidance, management directives, and program performance plans to determine the current practices supporting the DOE small business program. We compared and contrasted these practices with general management principles embodied in the Government Performance and Results Act of 1993 and literature regarding effective management practices at federal agencies.

In addition, to illustrate some of the ways in which other federal agencies approach the management of their small business programs, we obtained information on the practices of the small business offices at three other agencies that either share certain characteristics with DOE or that have agency components that share certain characteristics with DOE: the National Aeronautics and Space Administration (NASA), the Department of the Army (U.S. Army Corps of Engineers), and the Department of Health and Human Services (Centers for Disease Control and Prevention). Although DOE is unique in relying on facility management contractors to accomplish much of its mission, the chosen comparison agencies or agency components are similar enough to DOE to provide useful insight

within the context of their small business programs. We selected these three agencies because each has annual procurement activity on a scale as large, or larger, than the three DOE program offices examined in this study, and each agency has consistently been able to award a larger proportion of its procurement dollars to small businesses than has DOE. Additionally, like DOE, these agencies or their components that we visited must consider public safety and national security concerns to execute sound procurement decisions. Finally, these agencies or their relevant components have missions that share similarities with those of the DOE program offices we examined. For instance, both the U.S. Army Corps of Engineers and DOE's Office of Environmental Management have environmental cleanup as a key component of their mission. Basic scientific research is central to the missions of both the Department of Health and Human Services' Centers for Disease Control and Prevention and DOE's Office of Science. NASA, like DOE, employs large firms to carry out facility management contracts, although to a much lesser extent.⁹ We interviewed small business, contracting, and procurement officials and staff from these agencies, and reviewed program planning and guidance documentation. We conducted our work between February 2005 and March 2006 in accordance with generally accepted government auditing standards.

Results in Brief

DOE has increased the total prime contracting dollars awarded to small businesses since 2001 through three key efforts, although the department still fell short of its goal in most years. First, DOE increased the procurement opportunities available to small businesses. Specifically, DOE identified larger procurements that could be split and partially redirected from existing facility management contracts to small businesses. DOE also set aside for small businesses many nonfacility management contracts that were either new or up for renewal. These nonfacility management contracts, however, represent a declining share of total DOE procurements. Second, DOE expanded small business development and outreach activities. For example, DOE revamped its mentor-protégé program—which pairs an established contractor with a less-experienced small business protégé—and participation increased from 5 pairs in 2002 to 48 pairs in 2005, although just one of the protégés

⁹GAO has previously reported on aspects of NASA's small business prime contracting performance. See GAO, *Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses*, [GAO-01-346](#) (Washington, D.C.: Feb. 16, 2001).

has been awarded a prime contract to date. Third, DOE strengthened management and oversight of its small business program. For example, in 2002 DOE began to track, on a quarterly basis, the proportion of total procurement dollars awarded by each program office to small businesses. Collectively, these improvement efforts increased awards to small business from about \$589 million in 2001 to about \$948 million in 2005. However, they have not been sufficient to enable DOE to consistently meet its small business prime contracting goals. Since 2001, DOE has fallen short of its goal by at least \$120 million every year except 2003, when it exceeded its goal by \$84 million. In 2005, it appears that DOE missed its small business prime contracting goal of 5.5 percent of total procurement dollars by about \$300 million, although its estimated achievement of 4.15 percent would represent its second highest performance since 2001. The three program offices we reviewed—Office of Environmental Management, Office of Science, and NNSA—are responsible for the vast majority of DOE's large facility management contracts and control over 90 percent of DOE's procurement dollars. However, in large part because of their reliance on facility management contracts, these program offices account for less than half of the nearly \$1 billion in small business procurements that DOE made in fiscal year 2005.

DOE faces two key management challenges to improving its small business program practices. Addressing these challenges would bring DOE's small business program more in line with practices of high-performing organizations and with principles contained in the Government Performance and Results Act. The key management challenges are as follows:

- Although DOE establishes an annual small business prime contracting goal, the department has not defined concrete steps that will enable it to achieve this goal. DOE has identified a number of activities in its small business strategic plan that it believes will contribute toward achieving its goal, such as conducting the mentor-protégé program and maintaining a procurement forecast. However, it has not defined what it specifically expects to accomplish from each activity or established a way to measure if these activities are indeed advancing DOE toward its goal. For example, for the mentor-protégé program, the department has not identified the number or value of small business prime contracts it expects to result from the program.
- DOE does not use performance information to evaluate and improve program performance. The department does collect some performance data, but it does not collect sufficient information to allow it to effectively

assess its small business program efforts, identify problems, and implement changes that could further increase small business prime contracting over time. For example, DOE does not collect data on the specific reasons that nonfacility management contracts may not have been awarded to small businesses, even though department policy requires that all such new contracts be reserved for small businesses to the extent possible.

Although the manner in which federal agencies with similar missions or with organizational components similar in mission to DOE carry out their small business programs is comparable in several ways to DOE's practices, there are important differences. Specifically, the agencies differed substantially from DOE in their efforts to evaluate their small business programs for effectiveness, to identify performance problems, and to implement a program of corrective action to further strengthen small business performance over the long-term. For example, Department of the Army guidance requires that detailed performance reviews of the U.S. Army Corps of Engineers and other component offices' small business programs be completed once every 3 years. Improvement plans are required to address any deficiencies. Similarly, Health and Human Services provides for comprehensive evaluations of the small business program at the Centers for Disease Control and Prevention, and NASA evaluates the small business activities at the agency's procurement centers. We did not evaluate the effectiveness of these agencies' small business practices. However, over time, these agencies awarded a greater share of their procurement dollars to small businesses than DOE.

We are recommending that DOE take a more systematic approach to managing its small business program to include the following: defining the concrete steps DOE will take to achieve further progress toward its annual goal; collecting relevant performance information to better gauge the effectiveness of its efforts; and using performance information to support program improvements, as needed.

DOE generally concurred with our findings and recommendations, but expressed concern that, in comparing DOE to other federal agencies, we did not fully appreciate the department's management and operating contract business model. The report does recognize that the use of large facility management contractors to perform much of DOE's work has constrained the department's ability to contract with small businesses. The report also recognizes that other federal agencies do not face a similar constraint. We believe the comparisons we made between DOE and other agencies are appropriate because we compared key management practices

of each agency's small business program, which are not dependent on the particular business model used to accomplish the agency's mission. DOE's written comments are reprinted in appendix II.

Background

DOE has more than 50 major sites in 35 states where the department carries out its varied missions, including developing, maintaining, and securing the nation's nuclear weapons capability, cleaning up the nuclear and hazardous wastes resulting from long-term weapons production, and conducting basic energy and scientific research and development. This work is overseen primarily by DOE's largest program offices—the NNSA, the Office of Environmental Management, and the Office of Science—and is primarily carried out through facility management contracts. DOE has a workforce of 16,000 federal employees; the department relies on the more than 100,000 employees of its contractors to manage its facilities and achieve its missions.

DOE's contracts with small businesses occur in several different ways. First, small businesses receive direct contracts from a portion of DOE's procurement outlays that are not awarded as facility management contracts. Second, small businesses may compete for and receive facility management contracts. Historically, small businesses have not performed these contracts, though in a few cases small businesses have won such contracts after DOE identified ways to limit the contract's scope of work. Third, small businesses receive subcontracts from DOE's prime contractors. In 2004, approximately 17.5 percent of facility management contract dollars went to small businesses as subcontracts. Subcontracts, however, do not count toward achieving DOE's small business prime contracting goal.

Advocacy responsibilities for small business contracting rest primarily with a small business office—usually called the Office of Small and Disadvantaged Business Utilization—at each executive-branch agency. In general, officials in these small business offices are responsible for negotiating an annual small business prime contracting goal with the Small Business Administration (SBA), establishing each agency's small business policy and guidance, coordinating agencies' small business outreach efforts, and monitoring small business performance with respect to the goal. Within DOE, the department's Office of Procurement and Assistance Management and NNSA's Office of Acquisition and Supply Management also play important supporting roles in promoting small business prime contracting. These offices establish overall department procurement policy and prepare more specific guidance to reflect contracting requirements consistent with federal acquisition regulations. These

procurement offices also maintain data on DOE's prime contracts, including annual obligations to small businesses, and work with the Small Business Office staff to monitor small business performance and implement small business policies. DOE's program offices are responsible for identifying small business prime contracting opportunities and providing contracting oversight. The SBA calculates DOE's annual small business prime contracting achievement using data from the Federal Procurement Data System–Next Generation, a governmentwide procurement database that is administered by the General Services Administration.

DOE Efforts to Increase Contracts with Small Businesses Have Had Partial Success

DOE's efforts to increase its prime contracts with small businesses have increased the department's total expenditures on small business prime contracts since 2001. However, the increases were not sufficient to achieve the department's small business prime contracting goal in 4 of the past 5 years.

Key Efforts to Increase Small Business Contracts Focused on Expanding Contracting Opportunities, Finding More Qualified Small Businesses, and Improving Program Management and Oversight

DOE's approach to increasing its prime contracting with small businesses focused on three main areas: (1) identifying more contracting opportunities for small businesses, (2) expanding small business development and outreach activities to create a larger pool of qualified small businesses, and (3) improving program management and oversight.

Identifying More Contracting Opportunities for Small Businesses

DOE's effort to increase the opportunities for small businesses to win contracts with the department included restructuring or "breaking out" portions of projects historically conducted by the department's facility management contractors and redirecting that work to small businesses, modifying procurement strategies to expand opportunities for small businesses, and continuing to emphasize the award of nonfacility management contracts to small businesses.

To redirect portions of projects traditionally performed under facility management contracts, DOE's Office of Environmental Management

identified nine such projects that it believed could be reserved for competition among small businesses as prime contracts. These prime contracts, summarized in table 1, are collectively worth about \$745 million, and many involve multiyear environmental cleanup, construction, and facility operations activities that are essential to the mission of this office. As of September 2005, the Office of Environmental Management had successfully awarded seven of these contracts and obligated about \$266 million.¹⁰ In December 2005, this office awarded an eighth small business contract, the second at Paducah, Kentucky. In December 2005, the Office of Environmental Management cancelled the ninth contract, which involved the Fast Flux Test Facility procurement at Hanford, Washington, due to budgetary constraints and the need to focus resources on more important projects.

Table 1: Major Office of Environmental Management Procurements That Redirect Work Traditionally Performed by Large Businesses with Facility Management Contracts to Small Business Prime Contracts

Dollars in millions

Project and location	Brief description of work	Contract value	Amount obligated ^a
222-S Lab, Hanford, WA	Analytic work on waste samples	\$58.8	\$4.2
Columbus Closure Project, OH	Environmental cleanup	42.1	34.6
Glass Waste Storage Building #2, Savannah River Site, SC	Construction of waste storage facility	63.2	59.3
Grand Junction Office Mission Support, CO	Technical, project management, and administrative services	159.5	120.1
Portsmouth Infrastructure, OH	Facility management contract for facility operations services	48.8	13.6
Portsmouth Remediation, OH	Facility management contract for environmental cleanup	141.3	28.2
Paducah Infrastructure, KY	Facility management contract for facility operations services	39.9	6.4
Paducah Remediation, KY	Facility management contract for environmental cleanup	191.6	N/A ^b
Fast Flux Test Facility, Hanford, WA	Deactivation, decontamination, and decommissioning of reactor facility	N/A ^c	N/A ^c

Source: DOE.

^aAs of September 30, 2005.

^bDOE awarded this contract in December 2005.

¹⁰Although the total award value of these contracts is about \$745 million, the SBA uses annual obligations in its measure of DOE's small business achievements. Award value often spans multiple years over the life of a contract.

⁶DOE made an initial award of this contract in 2004 for \$235 million. However, the award was protested and DOE withdrew the solicitation. The procurement was subsequently cancelled in December 2005.

In comparison with the Office of Environmental Management, NNSA and the Office of Science identified relatively fewer procurements that could be redirected from their facility management laboratory contracts and set aside for small businesses. NNSA and Office of Science procurement officials said that redirecting work from facility management contracts to small businesses was not a priority in their programs because removing mission-related work from the contractors managing the laboratories could diminish the department's ability to ensure the work at these laboratories is effectively accomplished. However, these officials were trying to identify mission-related work that could be moved from facility management contracts to small business contracts when a compelling "business case" could be made for doing so. For example, in 2004 NNSA awarded a contract to a small business for design, construction, and integration services for radiation sensors. These services were previously provided under the Sandia National Laboratories facility management contract. This award has an overall value of \$80 million, of which \$71.5 million had been obligated through the end of fiscal year 2005. In addition, NNSA and the Office of Science recently collaborated with the Office of Environmental Management to develop a small business information technology contract to provide services at the three DOE facilities in Oak Ridge, Tennessee. DOE plans to award this approximately \$130 million contract in fiscal year 2006. These information technology services are currently being performed by three large businesses as subcontractors to the facility management contractors at the Oak Ridge sites. Science is also considering breaking out select small business subcontracts from the Thomas Jefferson National Accelerator Facility contract and awarding these as prime contracts.

To further expand opportunities for small businesses, DOE also modified procurement strategies. Its two efforts in this area were led by the Office of Environmental Management and NNSA. These two efforts were as follows:

- In 2004, the Office of Environmental Management established "indefinite delivery/indefinite quantity" contracts in which it preapproved 8 large and 14 small businesses to provide services on environmental cleanup and deactivation, demolition, and removal of facilities on an as-needed basis. These contracts authorize a maximum of \$800 million in total contract task orders through 2009. Through fiscal year 2005, almost \$24 million in task orders had been issued, all of which went to small businesses. Officials cited a variety of possible reasons for the limited use of this

contract mechanism so far, including contract officers' unfamiliarity with implementation procedures and security issues surrounding administration of the contracts.

- An NNSA initiative—known as the “tri-lab initiative”—involved combining procurements common to the Sandia, Lawrence Livermore, and Los Alamos national laboratories, such as facility security, maintenance services and computer hardware, and purchasing of goods and services from small business suppliers. According to NNSA, most of the targeted procurements were for support services, such as temporary staff, rather than direct mission laboratory work. The three laboratories initially estimated that as much as \$187 million in procurements could be redirected to small businesses in fiscal year 2005, with a goal of \$300 million by 2007. However, before NNSA could fully take advantage of any potential benefits, the initiative was canceled. According to NNSA officials, the cancellation was primarily due to congressional concerns regarding the potential impact on the department's ability to ensure that the laboratories' projects are effectively accomplished, as well as concerns that some small businesses could lose existing laboratory subcontracts if NNSA awarded the work as new prime contracts through the tri-lab initiative.

Finally, DOE's efforts to expand contracting opportunities included continuing to emphasize the importance of directing nonfacility management contracts to small businesses. DOE procurement officials said that nonfacility management contracts issued by the department are reserved for small businesses whenever possible. Exceptions would involve situations in which only a large business supplier was available, such as for utilities. Between fiscal years 2001 and 2004, the percentage of these contracts awarded to small businesses increased from 48.7 percent (753 out of 1,546 contracts) to 53.0 percent (831 out of 1,569 contracts). In fiscal year 2004, small businesses received 61 percent (\$282 million) of the total dollars spent on these new nonfacility management contracts.

Expanding Small Business Development and Outreach Activities

DOE has attempted to increase its use of small businesses by increasing the pool of small businesses willing and able to provide goods and services to the department. This effort has involved a variety of business development and outreach activities, including establishing a small business advisory team with participation by small businesses, pairing large and small businesses as mentors and protégés to assist in developing small businesses' capabilities, and periodically hosting small business conferences to discuss upcoming contracting opportunities and to help small businesses understand the intricacies of the federal procurement

process. DOE contends that many of these activities will help to expand both prime contracts and subcontracts with small businesses.

The extent to which these efforts contribute to DOE's small business prime contracting achievements is generally unclear. For example, regarding the pairing of small and large businesses in DOE's mentor-protégé program, since 2002 the number of business pairs has increased from 5 to 48, but only one participating small business has subsequently received a prime contract from DOE. Similarly, while attendance at DOE's annual small business conference has increased since 2004, and the feedback DOE collects from participants is generally positive, DOE does not know the extent to which the conferences have led to small businesses receiving prime contracts.

In addition to these DOE-wide efforts managed by the Small Business Office, the Offices of Environmental Management and Science, as well as NNSA also pursue small business development and outreach activities, including attending small business conferences, managing a mentor-protégé program, and providing other training support for small businesses. For example, NNSA conducts biweekly outreach to small businesses by inviting interested small businesses to meet with NNSA procurement officials to discuss their capabilities and learn of upcoming procurement opportunities. NNSA has held 318 of these sessions between March 2002 and January 2006. Nine small businesses attending one or more of the sessions have obtained 25 DOE prime contracts worth about \$66 million. Also, Sandia National Laboratory, which primarily conducts work for NNSA, runs its own mentor-protégé program that intends to build the long-term capacity of small businesses.

Improving Program Management and Oversight

To strengthen DOE's management and oversight of its small business program, the Small Business Office took the following main actions:

- In 2002, it began quarterly reviews of the prime contracting achievements of each program office. These reviews are intended to track the department's progress toward meeting its overall small business goal and to communicate results to program office officials and the Secretary of Energy.
- In 2004, it attempted to improve coordination among the department's small business, procurement, and program offices by establishing the Advance Planning Acquisition Team. The team includes officials from these DOE offices and intends to collectively review upcoming procurements, identify potential small business contracting opportunities,

and exchange information on promising practices for improving DOE's small business achievements.

- In 2004, it began to review all contracts over \$3 million not reserved for small businesses to determine if small business opportunities had been adequately considered.

The department, however, does not collect data that indicate the extent to which these efforts have directly or indirectly affected DOE's small business prime contracting achievement. Therefore, the impact of these efforts is unclear.

Despite Increasing Its Contracting with Small Businesses, DOE Prime Contracting Achievement Continues to Fall Short of Its Annual Goal

Despite DOE's efforts to strengthen its small business program, the department has not achieved its small business prime contracting goal in 4 of the past 5 years. Table 2 shows that DOE's procurement dollars awarded to small businesses as prime contracts increased steadily during the 5-year period, and the amount nearly doubled between fiscal years 2001 and 2005.¹¹ However, except for fiscal year 2003, DOE failed to meet its annual small business prime contracting goal, falling short by more than \$120 million each year.

Table 2: DOE's Small Business Prime Contracting Goals and Achievements, Fiscal Years 2001 through 2005

Dollars in millions					
	2001	2002	2003	2004	2005a
Goal	5.00%	3.70%	3.70%	5.06%	5.50%
Achievement	2.89%	3.11%	4.08%	4.18%	4.15%
Achievement	\$588.6	\$634.4	\$904.2	\$943.6	\$947.6
Difference between goal and achievement	\$429.7	\$120.4	\$84.2	\$198.7	\$308.3

Sources: GAO analysis of Fiscal Year 2001-2004 Small Business Administration Goaling Achievement reports; 2005 data from Federal Procurement Data System – Next Generation.

¹¹Unless otherwise specified, all dollar values in the remainder of this section are reported as constant 2005 dollars.

Notes: The fiscal year 2005 Federal Procurement Data System – Next Generation data are preliminary, as of the issuance of this report, and provide only an initial estimate of the department's fiscal year 2005 performance. The final Small Business Administration Goaling Achievement report for FY05 is yet to be published. GAO has previously questioned the reliability, accuracy and completeness of the Federal Procurement Data System and the data of its predecessor system. However, we determined that the federal data system's small business contracting data, which are used by the Small Business Administration to assess the prime contracting achievement of each federal agency, were sufficiently reliable for purposes of this report. See appendix I for further information on how we determined data reliability. Percentages are of procurement dollars, and all dollars are constant fiscal year 2005.

To some degree, DOE's small business prime contracting achievements have been limited because the department's small business prime contracting achievements occurred primarily from procurements that were directed to nonfacility management contracts, which have been a declining portion of DOE's overall procurement outlays. Between fiscal years 2001 and 2005, more than 98 percent of the approximately \$4 billion DOE obligated to prime contracts with small businesses went to nonfacility management contracts. Only since fiscal year 2005 did DOE direct facility management contracts to small businesses—\$41.8 million for infrastructure and remediation activities at Portsmouth and \$6.4 million for infrastructure activities at Paducah. At the time of our review, DOE had obligated \$2.7 million to the Paducah remediation facility management contract, which was awarded in December 2005. During this time period, DOE's facility management contracts were taking an ever-increasing share of total procurement dollars. In 2001, DOE obligated about \$14.8 billion to its facility management contracts, which was about 80 percent of total procurements that year. In 2005, DOE obligated \$19.8 billion to its facility management contracts, which was about 87 percent of the department's total procurement outlays.

In analyzing DOE's inability to meet its small business prime contracting achievement goal, it is also worth noting that the program offices we reviewed—the Offices of Environmental Management, and Science, and NNSA—accounted for slightly less than half of the approximately \$948 million in small business prime contracting achievements in fiscal year 2005 despite having responsibility for almost 90 percent of DOE's total procurement dollars. According to preliminary data from DOE's Small Business Office, in 2005 the Office of Environmental Management directed about \$198 million, or 2.9 percent of its procurement dollars to small businesses; NNSA directed \$237 million, or 2.6 percent; and the Office of

Science directed about \$30 million, or 1.1 percent.¹² In contrast, more than half of DOE's fiscal year 2005 contracting with small businesses originated from the DOE offices that are collectively responsible for only 10 percent of the department's total procurement dollars. These offices include, for example, the Office of Fossil Energy and Office of Energy Efficiency and Renewable Energy. These smaller program offices within DOE directed about \$469 million, or 21 percent, of their procurement dollars to small business prime contracts, slightly more than the combined small business prime contracts at the Offices of Environmental Management, and Science and NNSA. However, DOE's other program offices are responsible for substantially fewer multimillion dollar facility management contracts than the Offices of Environmental Management, and Science and NNSA.

Two Key Management Challenges Hinder DOE's Efforts to Further Improve Its Small Business Contracting Performance

DOE faces two management challenges in further improving its small business prime contracting performance. First, although DOE negotiates an annual small business prime contracting goal, it has not identified concrete steps—referred to as program objectives—that are expected to contribute in a specific measurable way to achieving its goal. Second, it does not use performance information to evaluate and improve program performance. Both types of practices are commonly associated with high-performing organizations and are consistent with principles contained in the Government Performance and Results Act. More specific information on these model practices and DOE's comparative practices can be found in table 3.

¹²The Federal Procurement Data System does not report achievement data by DOE program office. The achievements by program office reported here are estimated from DOE's internal data system, and totaled \$934 million in September 2005, the most recent data available. This total differs slightly from the \$947.6 million in small business achievements calculated by the federal data system.

Table 3: Practices of High-Performing Organizations Compared with DOE Small Business Program Practices

Suggested practice	Characteristics of practice	Why it is important	Extent to which DOE employs this practice
Establish program goals.	Goals should be measurable, specific, and realistically represent something the organization can be expected to achieve.	Focuses an organization's efforts on achieving specific outcomes and allows an assessment of future performance against the goals.	Fully: In accordance with the Small Business Act, DOE negotiates an annual small business prime contracting rate that takes into account agency mission, procurement requirements, and past performance.
Define program objectives.	Program objectives can be thought of as the concrete steps, path, or approach an organization intends to take to reach a goal or goals. Objectives should be focused on the specific results an organization wishes to achieve. They should also be measurable so that progress on these objectives—success or failure—can be easily determined.	Program objectives help lay out the strategy an organization will employ to achieve its program goals. Having objectives that are measurable allows management to assess the success or failure of specific efforts to achieve its goals.	Partially: DOE has identified a number of activities in its small business strategic plan that it believes will contribute toward achieving its goal. However, it has not laid out what it specifically expects to accomplish from each activity or established a way to measure if these activities are indeed advancing it toward its goal.
Use performance information to evaluate and improve program performance.	Organizations should regularly collect and analyze performance information to assess whether program activities are having the desired results. Organizations should comprehensively evaluate the performance of their programs on a periodic basis.	Timely collection and analysis of performance data allows organizations to measure progress toward achieving their goals and to adjust program activities and policies as necessary. In addition, periodic comprehensive evaluations of program performance can reveal systemic problems and promote continuous program improvement over the long term.	Partially: The department does collect some performance data, but does not collect sufficient information to allow it to effectively assess its small business program efforts, identify problems, and implement changes that could further increase small business prime contracting over time.

Sources: GAO analysis of guidance published by the Governmental Accounting Standards Board, the National Academy of Public Administration, the IBM Center for the Business of Government, and prior GAO reports regarding effective managing for results practices.

DOE Has Not Effectively Detailed How It Will Achieve Its Small Business Prime Contracting Goal

Although DOE negotiates a small business prime contracting goal each year—5.5 percent in fiscal year 2005—DOE has not specified the concrete steps the department will take to achieve its small business prime contracting goal or how progress toward that goal can be measured. In a literature review of the practices of high-performing organizations, we found that such organizations often define specific program objectives indicating how the organization intends to achieve its goals. These objectives are measurable and are focused on the specific results an organization wishes to achieve. Well-defined objectives help an organization gauge its progress in achieving its programmatic goal.

While DOE's small business strategic plan identifies a number of activities—which the department refers to as “objectives”—that the department believes will contribute toward achieving its goal, these objectives do not lay out what it specifically expects to accomplish from each activity or establish a way to measure if these activities are indeed advancing it toward its goal. Among the “objectives” the department has identified are maintaining a procurement forecast, conducting a small business breakout study of facility management contracts, and conducting a mentor-protégé program. DOE has not indicated how these actions are intended to contribute to achieving its small business prime contracting goal, and thus how the success of these actions should be measured. For example, for the mentor-protégé program, the department has not laid out the number or value of small business prime contracts it expects to result from the program.

In addition, the department has not established program objectives for those key departmental efforts holding the greatest promise to increase the department's small business prime contracting. For example, DOE currently sets aside prime contracts for small businesses from two categories of procurements: nonfacility management contracts and facility management contracts. Yet, the department has not specified the extent to which each of these types of procurements should contribute towards achievement of DOE's small business prime contracting goal or how the success of DOE's efforts to set aside small business contracts in these areas might be assessed. For example, 61 percent of obligations to new nonfacility management contracts went to small businesses in 2004. However, only 28 percent of the total obligations for nonfacility management contracts went to small businesses. Whether or not DOE has been successful in reserving such contracts for small businesses and whether the department's efforts should be further improved are unclear. Defining an appropriate objective regarding the small business awards for nonfacility management contracts could increase DOE's understanding of its efforts in this area and provide a much clearer means of assessing its progress.

Similarly, the department has not established an objective for the extent to which DOE might create small business opportunities from facility management contracts. As discussed earlier, the proportion of procurements associated with facility management contracts has been increasing. Generally, the department has begun to recognize that to further increase its small business prime contracting performance over the long term, it may be necessary to increase the small business opportunities redirected from facility management contracts. Furthermore, Congress

recently required DOE to study the feasibility of changes to facility management contracts so that additional small business prime contracting opportunities might be provided.¹³ To date, the Office of Environmental Management has led the department's effort in redirecting such contracts to small businesses by setting aside a number of small business opportunities culled from facility management contracts. Other program offices have done so to a lesser degree or have plans to do so in the future but have not yet awarded those contracts. As DOE continues to consider what small business opportunities it is reasonably able to draw from facility management contracts, establishing a program objective would encourage the department to maximize these opportunities.

DOE Does Not Use Performance Information to Evaluate and Improve Program Performance

DOE does not systematically analyze the performance of its small business program to determine the effectiveness of specific activities or policies in advancing its goal, although the department does collect some performance information. DOE's main effort to collect and analyze performance information consists of tracking the proportion of total procurement dollars going to small businesses as prime and subcontracts at both the agencywide level and the program office level. The prime contracting data are tracked quarterly. Additionally, the Small Business Office collects information on a few of its small business development and support activities, such as attendance at and participants' views on the quality of small business conferences. Also, DOE's procurement office collects and tracks aggregate data on the extent to which facility management and nonfacility management contracts have been awarded to

¹³Section 6022 of the 2005 Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief (Pub. L. No. 109-13) requires the SBA administrator, the Chief Counsel for Advocacy of the Small Business Administration, the chairman of the Defense Nuclear Facilities Safety Board, the Secretary of Energy, and the NNSA administrator to jointly conduct a study regarding the feasibility of possible changes to management and operating contracts (referred to as facility management contracts in this report) and other management contracts within DOE to encourage new opportunities for small businesses to increase their role as prime contractors. In conducting the study, they are required to jointly consider the need for sound management practices at facilities managed by prime contractors, safety, security, and necessary oversight of facilities, and the resources required to implement findings of the study. According to SBA officials, at the time of our review, the study was still under way, and a report date had not been determined.

small businesses and whether such contracts involve multiyear agreements.¹⁴

DOE does not, however, collect sufficient information to provide the department with insight on whether or how specific policies or processes should be changed to further increase small business prime contracting. For example, as noted earlier, DOE's policy is to set aside for small businesses all new nonfacility management contracts to the extent possible; in fiscal year 2004, about half of all new nonfacility management contracts were awarded to small businesses and half were not. However, the department does not require procurement staff to report the reasons that contracts have not been awarded to small businesses. The Federal Procurement Data System allows agencies to report several reasons for nonawards that include the following: no known small business source; a small business was solicited but did not make an offer; and a known small business source existed, but no offer was solicited. Such information might help DOE assess if staff are having difficulty identifying small businesses capable of performing DOE contracts, if small businesses are having problems preparing offers, or if time constraints are limiting staff efforts to solicit offers from small businesses, for example. A senior procurement analyst with DOE's Office of Procurement and Assistance Management said the department does not collect this type of information because it has not viewed it as useful. However, high-performing organizations regularly collect and analyze performance data to develop information on the effectiveness of their efforts—determining whether or not these efforts are achieving the desired results.

In addition, many high-performing organizations also conduct periodic program reviews or audits to identify systemic problems and determine what adjustments to policy or practice should be made to improve performance over the long run. While the department does conduct some limited assessments of the small business efforts carried out by the individual program offices, these assessments do not routinely result in documented plans for improved long-term performance. For example,

¹⁴DOE's procurement office also has a balanced scorecard program intended to assess the efficiency and effectiveness of the department's overall procurement program. The balanced scorecard is a conceptual framework intended to translate an organization's vision and goals into a set of performance indicators that measure progress toward these goals. Through the balanced scorecard, an organization monitors both its current performance and its efforts to improve processes. The balanced scorecard does not, however, include a specific effort to assess the effectiveness of the small business program.

DOE's procurement office requires program offices to periodically review compliance with overall federal acquisition regulations, including specific requirements regarding small business prime contracting. But according to the manager of this effort, these limited compliance reviews have not identified problems with any program office's small business practices that have required corrective action. In addition, DOE's Small Business Office conducts an informal assessment of a program office's efforts to meet its small business prime contracting goal when that office does not achieve its goal. However, the Small Business Office officials said they tend to focus on near-term obstacles that the program office faces in awarding small business contracts rather than on systematically evaluating the program office's management of its small business prime contracting efforts. Problems identified often include such things as bid protests and delayed appropriations that impede the award of anticipated small business contracts. Similarly, any planned corrective action tends to focus on a program office's ability to identify additional contracting opportunities for small businesses in the near-term, rather than on programmatic changes that might improve performance over the long-term. Furthermore, because the assessment is informal, it is not documented, leaving the Small Business Office without a written plan that can be used to hold a program office accountable for achieving results. Thus, when the department's three largest program offices appeared unable to meet their small business prime contracting goals in fiscal year 2005—leaving DOE short of its 5.5 percent small business goal—the department had little information to fully account for the shortfall or systematically determine a course of possible corrective action to make program improvements.

Other Federal Agencies Use Formal Program Evaluation to Guide Changes in Their Small Business Programs

The small business management practices employed by federal agencies having a mission or agency component with a mission similar to DOE's provide examples of strategies for small business program evaluation and continuous improvement. Unlike at DOE, each agency is required to use performance information gained from periodic program reviews to help identify and direct program improvement efforts. We did not assess the specific small business practices employed by these agencies to determine if they were effective or the impact these practices may have had upon their small business prime contracting.¹⁵ However, over time, these

¹⁵For further information on our work at these federal agencies, including the limitations of the data and information we obtained, please refer to appendix I.

agencies and the components we visited have awarded a greater share of their procurement dollars to small businesses and more often met their prime contracting goals than has DOE.¹⁶

In general, the small business programs at the three agencies we visited carry out activities similar to those conducted by DOE. As with all federal agencies, procurements are subject to the requirements of the Small Business Act and the Federal Acquisition Regulation, which together require small business contracting procedures and set-asides meant to ensure small businesses are afforded maximum practicable opportunities for federal prime contracts. As such, each small business office has a role in articulating and establishing agency small business contracting policy, as well as conducting small business outreach and development activities. As at DOE, these agencies, their components that we visited, or both, also promote the use of small businesses among agency contracting and procurement staff, train agency staff on federal and agency small business contracting requirements, maintain databases of potential small business vendors, and track and report small business accomplishments, periodically reporting results to senior agency officials.

In contrast to DOE, however, NASA, the Department of the Army, and the Department of Health and Human Services use formal program evaluation to guide programmatic changes. In conjunction with the Office of Procurement, the NASA small business office performs a comprehensive review of NASA's procurement offices on a rotating three-year basis.¹⁷ The purpose of the audit is to ensure that the small business program is being appropriately implemented and to bring to management's attention issues that hinder progress toward agency goals. This review also examines how well the small business goals are being met, what the major impediments to small business utilization are, and what steps can be taken to improve small business usage within the procurement center. A recent review of NASA's Kennedy Space Center found that occasionally small business specialists found it difficult to balance their procurement and small business work duties and recommended some organizational changes that would help staff surmount such difficulties. Another recent review of the

¹⁶Because these goals are negotiated at the parent organization level, the Department of the Army does not directly negotiate a goal with the SBA. However, Army and the U.S. Army Corps of Engineers both have consistently exceeded the goal negotiated between SBA and the Department of Defense, its parent department.

¹⁷This NASA review is called the "Procurement Management Survey Report."

Goddard Space Flight Center identified a strained relationship between the SBA's procurement center representative, who assesses NASA procurements for small business opportunities, and procurement center staff. The review recommended mediation from the Small Business Administration regional office to improve that relationship. In addition, the Goddard review also included a recommendation to further reinforce the importance of small businesses to NASA by having newly-hired staff and some others participate in an internal training course sponsored by the NASA small business office. According to NASA small business officials, this course is intended to show that the use of innovative and technically competent small businesses make business sense for NASA, regardless of the particular small business contracting goal, and can contribute substantially to the agency's ability to achieve its scientific mission. The Director of NASA's small business office said that one of the main functions of his office staff is ensuring that program and procurement officials throughout the agency understand the business and mission benefits of contracting with small businesses.

Similarly, the Department of the Army is subject to an annual small business program review by the Department of Defense (DOD) small business office, in which the Army must be evaluated on a number of factors that are both qualitative and quantitative, such as whether the organization has been able to meet its internal prime contracting goal, whether its performance has improved over the prior year, and the quality of organization's small business improvement plan. If DOD officials are unsatisfied with the performance rating earned by the Army, the head of the organization may be required to implement a performance improvement plan, which must be reviewed with senior department officials in the Office of the Under Secretary for Acquisition, Technology, and Logistics. Army officials said they believe that elevating these concerns to a higher department level helps ensure problems are corrected. In addition, the Army is required to outline a minimum of three program improvement initiatives it intends to pursue during the year. These initiatives must include implementation milestones and criteria for assessing whether the initiatives have been successful. For example, in 2004, the Army identified an initiative to establish the policies and procedures of the Army-managed mentor-protégé program. This initiative ultimately led to a number of policy changes, an independent Army mentor-protégé program, and a workshop to help small businesses understand how to develop a formal mentor-protégé agreement with a DOD prime contractor.

Although the Army requires its subordinate organizations to report small business prime contracting progress annually, which is substantially less often than such performance is tracked at DOE, the Army evaluates the small business program performance of each subordinate Army organization, including the U.S. Army Corps of Engineers, by conducting comprehensive performance audits at least once every 3 years. These comprehensive audits of Army small business programs are intended to generate a program improvement plan to address any deficiencies identified during the audit. Deficiencies that require corrective action must be reported to the Secretary of the Army. Army officials said they believe that yearly performance reviews and a periodic comprehensive evaluation together help ensure that needed programmatic changes are implemented.

The Department of Health and Human Services also employs program evaluations with the aim of producing small business program improvements. Health and Human Services is in the initial stage of using the agencywide balanced scorecard, an evaluation framework Health and Human Services uses to assess its performance in a number of diverse areas, to periodically evaluate its small business program. Part of this effort includes surveying a wide range of small business program stakeholders—agency employees, customers, and vendors—to determine both the quality and quantity of services provided not only by Health and Human Services’ small business office, but also by the small business specialists assigned to operational divisions, such as the Centers for Disease Control and Prevention.¹⁸ To determine the effectiveness of the agency’s small business program, these surveys target questions for the different stakeholders. For instance, employees of the operational divisions are asked how well small business specialists are supporting their procurement efforts, whether they understand small business contracting requirements, and how much the small business specialists are involved in advanced acquisition planning, among other things. The agency also surveys potential small business contractors on the quality of support they receive from small business specialists, in particular whether staff has sufficiently explained how to do business with Health and Human Services, whether they have been adequately informed of contracting opportunities, and whether they have received help resolving problems with solicitation issues. Health and Human Services intends to aggregate

¹⁸According to the director of Health and Human Services’ small business office, these activities are the result of departmental small business policies and are required not only of the Centers for Disease Control, but of other operational divisions as well.

results and provide a descriptive statistical analysis, using the data to drive the small business program's continuous improvement efforts. For example, the results are intended to help determine if additional program oversight, such as program audits or on-site monitoring, is necessary. Health and Human Services intends for this evaluation to be conducted once every 2 years. Each operational division, including the Centers for Disease Control, must subsequently prepare a summary report that identifies needed changes, a plan to address any performance areas requiring improvement, and target dates for completing improvements. This report must be submitted to Health and Human Services' management and appropriate agency stakeholders.

Conclusions

DOE has made progress since 2001 not only in increasing the total dollars it awards to small businesses, but also in increasing the share of its procurement dollars awarded to such businesses. Nonetheless, it has been able to achieve its annual small business prime contracting goal just once in the last 5 years. DOE's performance as well as its future potential in this area is clearly constrained by the department's traditional reliance on a limited group of large firms and universities to manage high-cost projects in which public safety and national security are important concerns. Moreover, the share of the department's procurement dollars going to such projects is increasing, whereas the share going to projects more commonly performed by small businesses is declining. These circumstances create hurdles for DOE that other federal agencies do not face.

In spite of these circumstances, DOE has made substantial efforts to improve its small business prime contracting performance. However, the department has not accompanied these efforts with a clear understanding of how they affect prime contracting performance, which efforts are working well and which are not, and what changes might be made to improve the effectiveness of these efforts. If DOE can combine its small business improvement efforts with a clear strategy for achieving its annual goal, with performance information that indicates its efforts are effective, and with program evaluations that help to identify problems and lead the department to address them, DOE can more credibly demonstrate that—even if it continues to fall short of its prime contracting goal—it has done all it possibly can to give small businesses the maximum practicable opportunity to contract with the department.

Recommendations for Executive Action

To improve DOE's management of its small business prime contracting program and to help ensure that small businesses receive the maximum practicable opportunity for DOE prime contracts, we recommend the Secretary of Energy direct the Office of Small and Disadvantaged Business Utilization, the Office of Procurement and Assistance Management, and the NNSA Office of Acquisition and Supply Management to jointly establish a systematic, organized, and disciplined approach to achieving the department's small business goal. Such an approach should include the following three steps:

- Define small business program objectives that collectively identify the steps or approach DOE intends to take to reach its annual prime contracting goal. These objectives should focus on the specific results the department intends to achieve, should clearly contribute directly to DOE's prime contracting performance, and should be measurable so that progress can be determined.
- Identify, collect, and analyze performance information that will allow the department to determine whether the small business program activities it carries out are achieving the desired results.
- Periodically conduct a comprehensive evaluation of the department's and program offices' small business programs to determine if changes are needed and use these assessments to guide improvement efforts.

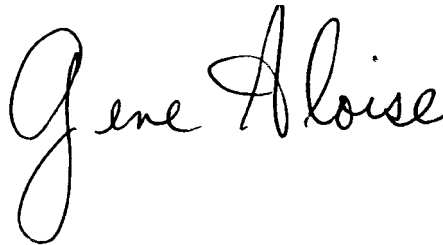
Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Energy for review and comment. In written comments, the Director of the Office of Small and Disadvantaged Business Utilization stated that DOE concurred with findings and recommendations and was taking steps to further improve its small business efforts. For example, DOE stated it would take further steps to identify the approach it will take to reach its annual prime contracting goal, to better assess the effectiveness of its existing small business efforts and identify areas of improvement, and conduct periodic evaluations of the department's small business programs. However, DOE expressed concern that we did not fully appreciate the department's management and operating contract business model, especially in making comparisons to the small business programs at other federal agencies. The report does recognize that the use of large facility management contractors to perform much of DOE's work has constrained the department's ability to contract with small businesses. The report also recognizes that other federal agencies do not face a similar constraint. We believe the comparisons we made between DOE and other agencies are

appropriate because we compared key management practices of each agency's small business program, which are not dependent on the particular business model used to accomplish the agency's mission. Furthermore, in selecting the three federal agencies to contrast with DOE's small business program, our intent was to provide information on specific small business practices that differed somewhat from DOE's own practices and that might provide examples for DOE as it continues its improvement efforts. DOE also provided technical comments on the draft report, which we incorporated as appropriate.

We are sending copies of this report to the Secretary of Energy and the Administrator of the NNSA. We will also make copies available to others upon request. This report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3841 or aloisee@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff who made key contributions to this report are listed in appendix III.

A handwritten signature in black ink that reads "Gene Aloise". The signature is written in a cursive style with a large, looped initial "G".

Gene Aloise
Director, Natural Resources and Environment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) provide an update on the Department of Energy's (DOE) key efforts to increase small business prime contracting opportunities and the results of these efforts to date and (2) identify the management challenges DOE faces in improving its small business prime contracting performance. In addition to these objectives, we are providing information on the management of small business programs by other federal agencies that either share certain characteristics with DOE's largest program offices or that have components that share certain characteristics with these offices.

To conduct our work, we interviewed DOE headquarters and program office officials, as well as representatives from the Small Business Administration (SBA), and collected and analyzed data from federal and DOE procurement databases. We also interviewed officials from the small business offices at the Department of Defense, the Department of the Army, the Department of Health and Human Services, and the National Aeronautics and Space Administration (NASA).

To gain an understanding of DOE's key small business management efforts and results to date, we obtained and reviewed DOE policy guidance and management directives concerning small business prime contracting, including internal memoranda, small business and procurement guidance, agencywide and program-specific small business plans, budget documents, and other related documents. To further gain an understanding of the DOE Small Business Office and Office of Procurement and Assistance Management roles and responsibilities with regard to small business prime contracting, we reviewed the Federal Acquisition Regulation, as well as the DOE-specific supplement to these regulations. We also interviewed DOE officials in the Small Business Office and small business officials from the department's program offices, as well as officials in the Office of Procurement and Assistance Management and their counterparts at the National Nuclear Security Administration (NNSA). We also interviewed officials at SBA to learn about federal small business policy, how small business goals are established with the federal agencies, how they ensure the federal government meets these goals, and what role they have in overseeing small business activities nationwide.

To determine DOE's small business prime contracting achievement for fiscal years 2001 through 2004, we reviewed SBA's federal goals report. To determine DOE's small business prime contracting achievement for fiscal

year 2005, and to determine expenditures to date toward specific contracts, we relied on the Federal Procurement Data System—Next Generation (FPDS-NG),¹ the federal government’s repository of information regarding the nature and value of federal procurement actions. This database contains detailed information on government contract actions over \$25,000 and summary data for procurements of less than \$25,000. We have previously issued reports critical of the reliability, accuracy, and completeness of FPDS-NG data and the data of its predecessor system² and remain concerned about some aspects of the data system. However, based on the following measures, we determined that the data of interest were sufficiently reliable for the purposes of this report. We interviewed DOE officials and officials from the General Services Administration, the agency responsible for the FPDS-NG system, to determine the steps taken to ensure accuracy and completeness of procurement data in FPDS-NG. In addition to FPDS-NG, we also used data taken from a DOE-specific procurement database, called the Procurement and Assistance Data System and maintained by DOE’s Office of Procurement and Assistance Management, to determine fiscal year 2005 prime contracting achievements for DOE’s largest program offices: the Office of Environmental Management, the Office of Science, and NNSA. As appropriate, we converted dollar values to constant 2005 dollars using Gross Domestic Product price indices from the Bureau of Economic Analysis.

To identify the main challenges DOE faces in improving its small business prime contracting performance, we reviewed the management practices of DOE’s small business program and compared these against established management principles identified in select literature from leading organizations on effective management practices at federal agencies. For example, we reviewed guidance published by the Governmental Accounting Standards Board, the National Academy of Public Administration, and the IBM Center for the Business of Government, regarding effective management practices. We also reviewed prior GAO reports concerning managing for results, as well as the Government

¹For a discussion of this system, see: GAO, *Improvements Needed to the Federal Procurement Data System-Next Generation*, [GAO-05-960R](#) (Washington, D.C.: Sept. 27, 2005).

²See GAO, *Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size*, [GAO-03-740T](#) (Washington, D.C.: May 7, 2003) and GAO, *Reliability of Federal Procurement Data*, [GAO-04-295R](#) (Washington, D.C.: Dec. 30, 2003).

Performance and Results Act of 1993. We also reviewed program guidance, management directives, including DOE internal guidance entitled Managing Critical Management Improvement Initiatives, and program performance plans to determine the current practices supporting the DOE small business program. To gain a further understanding of DOE's small business management efforts, we also interviewed DOE Small Business Office officials and staff, and DOE Procurement Office officials.

To provide information on how other federal agencies address small business program management challenges, we obtained information on the practices of the small business offices of three other agencies that either share certain characteristics with DOE or have component organizations that share characteristics with DOE: the National Aeronautics and Space Administration, the Department of the Army (U.S. Army Corps of Engineers), and the Department of Health and Human Services (Centers for Disease Control and Prevention). We selected these agencies because each has annual procurement activity on a scale as large as or larger than the three DOE offices examined in this study and each agency has been able to award a larger share of its procurement dollars to small business than has DOE. Additionally, like DOE, these agencies must consider public safety and national security concerns to execute sound procurement decisions. See table 4 for a comparison of each agency's 2004 total procurements and small business prime contracting achievement information. Finally, these agencies were chosen to reflect the complexity of the varied missions at DOE. Both the U.S. Army Corps of Engineers and DOE's Office of Environmental Management have environmental cleanup as a key component of their missions; scientific research conducted by the Centers for Disease Control and Prevention is similar in scope and complexity to that conducted by DOE's Office of Science; and both the NNSA and NASA have highly technical and complex missions.

Table 4: Comparison of DOE, Department of Defense, Health and Human Services, and National Aeronautics and Space Administration Small Business Prime Contracting Performance, Fiscal Year 2004

Dollars in billions

Agency	Total procurements	Total small business prime contracting	Small business prime contracting achievement	Small business prime contracting goal
Department of Energy	\$22.0	\$0.9	4.2%	5.1%
Department of Defense	210.7	46.9	22.3	23.0
Department Of the Army ^a	55.5	15.5	27.9	26.6
U.S. Army Corps of Engineers ^a	8.8	3.5	39.5	40.4
Health and Human Services	7.9	2.3	29.6	30.3
Centers for Disease Control and Prevention ^a	0.98	0.13	13.6	30.3
National Aeronautics and Space Administration	\$12.5	\$1.8	14.5%	16.2%

Sources: GAO analysis of procurement and contracting data provided by federal agencies reviewed and SBA 2004 goaling report.

^aSBA only reports data for the totality of agency procurements. The data for the Department of the Army (U.S Army Corps of Engineers), and the Centers for Disease Control and Prevention were provided by department officials.

To provide information on the small business program management and oversight at these agencies, we obtained and reviewed documentation of agency-specific procurement regulations, small business and procurement policy guidance, management memoranda, small business strategic plans, budget documents, and other related documentation. In addition, we interviewed cognizant officials at each agency concerning this information. We did not assess the specific small business practices of these agencies to determine if they were effective. Instead, we obtained information on small business program activities to identify practices that somewhat differed from DOE's practices and that could serve as examples DOE might want to consider as it further seeks to improve its prime contracting performance. Although the examples we highlight in this report are consistent with established management principles, we did not determine if these practices, as implemented by the federal agencies we visited, have had a direct impact on their small business prime contracting.

The Department of Defense maintains a small business office for each major component of the agency, and the operations of each are overseen by the Department of Defense's small business office. Therefore, we interviewed small business officials in the small business offices at the Department of Defense, the Department of the Army, and the U.S. Army Corps of Engineers. The Department of Health and Human Services, in contrast, has a central agencywide small business office that is supported

by a small business specialist in each of its 11 operating divisions, such as Centers for Disease Control and Prevention. Therefore, we interviewed small business officials from the department's small business office, as well as the small business specialist and procurement officials at the Centers for Disease Control. NASA's small business office is similarly centralized, so we conducted interviews with officials from this office only.

We conducted our work between February 2005 and March 2006 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Department of Energy



Department of Energy

Washington, DC 20585

April 3, 2006

Mr. Gene Aloise
Director
Natural Resources and Environment
U.S. Government Accountability Office
701 56th Avenue, Suite 2700
Seattle, Washington 98104

Dear Mr. Aloise:

The Department of Energy (DOE) appreciates the opportunity to provide its management response to the Government Accountability Office (GAO) draft report titled, *DOE Contracting, Improved Program Management Could Help Achieve Small Business Goal* (GAO-06-501). We acknowledge the GAO's recognition of the many successful and important small business initiatives the Department has undertaken. However, we continue to be concerned with the GAO's lack of appreciation of the Department's management and operating (M&O) contract business model and its comparison to other Federal agencies. This M&O business model has been utilized successfully for over fifty years to meet the Department's national security, environmental, and scientific missions. In addition, no other agency has the unique responsibility to manage the Nation's nuclear weapons and supply chain infrastructure, including handling special nuclear materials and the associated essential safety and security requirements.

The enclosed "Response to Recommendations for Executive Action" should be included in the appendix to the final report. As regards the specific recommendations of the report, I want to assure you that the Office of Small and Disadvantaged Business Utilization, the Office of Procurement and Assistance Management, and the NNSA Office of Acquisition and Supply Management are already working together on behalf of small business, and we will continue to do so in order to establish a systematic, organized, and disciplined approach to achieving the Department's small business goals.

In closing, the significance of DOE's contribution to the small business economic base of the Nation, when considered beyond the single data point of goal achievement, is impressive and noteworthy. DOE has awarded over \$1.5 billion contracting dollars over the last two fiscal years to small businesses in the United



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Response to Recommendations for Executive Action

To improve DOE's management of its small business prime contracting program and to help ensure that small businesses receive the maximum practicable opportunity for DOE prime contracts, we recommend the Secretary of Energy direct the Office of Small and Disadvantaged Business Utilization, the Office of Procurement and Assistance Management, and the NNSA Office of Acquisition and Supply Management to jointly establish a systematic, organized and disciplined approach to achieving the department's small business goal. Such approach should include the following steps:

- 1) Define small business program objectives that collectively identify the steps or approach DOE intends to take to reach its annual prime contracting goal.

The Department will re-examine, and attempt to better articulate through existing planning and policy documents, those concrete steps it is already taking to reach its prime contracting goal, as well as to identify and initiate additional ones. DOE has in place a number of significant steps to optimize its small business program performance, including a Department-wide strategic plan for small business programs. Additional steps include an annual call to program and field offices to prospectively identify small business opportunities that may be awarded to small business, the publication of an annual forecast of contracting opportunities, the negotiation of departmental goals with the SBA, the negotiation of goals and the tracking and analysis of achievements on a quarterly basis by program activity and contracting office, and enactment of policy improvements to ensure that small business opportunities are identified early in the acquisition cycle. DOE will also continue to target small businesses for participation in acquisitions under the General Federal Supply Schedules.

- 2) Identify, collect and analyze performance information that will allow the Department to determine whether small business program activities it carries out are achieving the desired results.

DOE will continue to identify, collect and analyze performance information to determine whether DOE's small business program activities achieve desired results. The Department's ultimate objective is to better assess the effectiveness of existing efforts, while identifying additional areas for improvement. DOE will continue to track and evaluate the performance of its program offices in achieving their individual goals as well as the department's overall small business goals.

- 3) Periodically conduct a comprehensive evaluation of the Department's and program offices' small business programs to determine if changes are needed and use these assessments to guide improvement efforts.

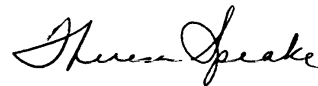
We concur that a periodic comprehensive evaluation of the small business programs should be conducted to support program improvements as needed.

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States. Those dollars provide a meaningful and sustained economic boost to the local economies where they operate, providing hundreds of jobs in areas of the country where, absent a DOE presence, economic growth would be hindered.

Should you have any questions regarding the DOE response, please contact me at (202) 586-8383.

Sincerely,



Theresa Speake
Director
Office of Small and Disadvantaged
Business Utilization

Enclosures

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Gene Aloise (202) 512-3841

Staff Acknowledgments

In addition to the individual named above, William R. Swick, Assistant Director; Doreen Feldman; Kevin Jackson; Carolyn Kirby; Michael L. Krafve; Harry Medina; Dominic Nadarski; Cynthia Norris; John W. Stambaugh; Stan Stenersen; and Virginia Vanderlinde made key contributions to this report.

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