

November 2008

SMALL BUSINESS ADMINISTRATION

Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program



GAO

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Highlights of [GAO-09-16](#), a report to congressional requesters

Why GAO Did This Study

The Small Business Administration (SBA) helps small businesses gain access to federal contracting opportunities and helps socially and economically disadvantaged small businesses, known as 8(a) firms, by providing management and contracting assistance. SBA negotiates agency-specific goals to ensure that the federal government meets the statutory goal of awarding 23 percent of contract dollars to small businesses. GAO was asked to (1) describe how SBA sets small business contracting goals and the extent to which federal agencies met these goals; (2) examine the role of SBA staff in supporting small business contracting at selected federal agencies; and (3) examine SBA's overall administration of the 8(a) program. To address these objectives, GAO reviewed SBA guidance and SBA Inspector General (IG) reports, interviewed SBA and other federal officials, and conducted site visits and file reviews at four SBA locations.

What GAO Recommends

GAO recommends actions that include SBA reassessing the resources allocated to achieve program objectives; better ensuring that prospective 8(a) applicants are aware of program requirements; and conducting regular surveillance reviews for the 8(a) program. In responding to a draft of this report, SBA agreed with these recommendations and outlined steps that it has initiated or plans to take to address them.

To view the full product, including the scope and methodology, click on [GAO-09-16](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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What GAO Found

SBA reviews prior year goal achievement and other factors to set individual contracting goals necessary for federal agencies to achieve the government-wide goal of awarding 23 percent of federal contract dollars to small businesses. Individual agency results varied in fiscal years 2000 through 2006, although the agencies collectively achieved or came close to the 23 percent goal. In fiscal year 2006, SBA began using a scorecard to help monitor agencies' small business contracting efforts. Of the 24 agencies rated, half received the lowest rating (for failing to meet at least two contracting goals and other criteria). SBA later reviewed agency progress in implementing small business procurement plans and many agencies improved their ratings.

SBA staff advocate, review, and monitor small business contracting at federal agencies, but resource constraints have limited the ability of staff to fulfill these responsibilities. SBA's procurement center representatives (PCR) work with federal agencies by reviewing proposed acquisitions, recommending contract set-asides, and performing surveillance reviews (which monitor small business contracting at federal agencies). As of August 2008, SBA had 59 PCRs, with many responsible for multiple agencies. SBA has recognized that more PCRs are needed, but has not developed a formal plan to align staff resources with program objectives. Resource constraints also affected SBA's commercial market representatives (CMR), who monitor subcontracting plans. For fiscal year 2006, the SBA IG reported that CMRs monitored less than half of the 2,200 large prime contractors. These resource constraints reduced assurances that SBA can monitor contracting effectively.

SBA's administration of the 8(a) business development program is challenged by several factors, including some participants not understanding the program's purpose and requirements, its staff's diminished ability to conduct business development activities, an inefficient process to terminate firms, and a lack of routine surveillance reviews specific to the program. While SBA has controls in place to determine if firms are eligible to enter the program, firms do not have to participate in an information session or complete an assessment that rates their suitability for the program. Thus, some firms may have entered the program with unrealistic expectations or not clearly understood program requirements. SBA officials said that an emphasis on completing annual reviews of 100 percent of 8(a) firms, which are time intensive, and an inefficient termination process for noncompliant 8(a) firms diminished the time its business development specialists had for providing business development assistance. Delays in terminating firms also could result in noncompliant firms obtaining contracts. Finally, in 2006, the SBA IG recommended that SBA regularly conduct surveillance reviews for the 8(a) program. However, SBA has not yet implemented this recommendation. As a result, SBA has reduced assurances that agencies have complied with monitoring requirements for the 8(a) program.

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Abbreviations

| | |
|----------|--|
| BDS | business development specialist |
| BDMIS | Business Development Management Information System |
| CMR | commercial market representative |
| CoC | Certification of Competency |
| Commerce | Department of Commerce |
| DHS | Department of Homeland Security |
| DOD | Department of Defense |
| DPCE | Division of Program Certification and Eligibility |
| FPDS-NG | Federal Procurement Data System-Next Generation |
| HUBZone | Historically Underutilized Business Zone |
| IG | Inspector General |
| NASA | National Aeronautics and Space Administration |
| OFPP | Office of Federal Procurement Policy |
| OSDBU | Office of Small and Disadvantaged Business Utilization |
| PCR | procurement center representative |
| PEA | price evaluation adjustment |
| SBA | Small Business Administration |
| SBS | small business specialist |
| SDB | small disadvantaged business |
| SOP | standard operating procedure |
| SSA | Social Security Administration |

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United States Government Accountability Office
Washington, DC 20548

November 21, 2008

The Honorable Bennie G. Thompson
Chairman
Committee on Homeland Security
House of Representatives

The Honorable Edolphus Towns
Chairman, Subcommittee on Government
Management, Organization, and Procurement
Committee on Oversight and Government Reform
House of Representatives

In fiscal year 2006, the federal government awarded \$77 billion in contracts to small businesses. Under the Small Business Act, the Small Business Administration (SBA) plays an important role in ensuring that small businesses gain access to federal contracting opportunities. For instance, SBA negotiates agency-specific goals to ensure that the federal government collectively meets the 23 percent statutory goal for contract dollars awarded to small businesses. In addition, SBA negotiates goals for socioeconomic programs such as small disadvantaged businesses (SDB), women-owned businesses, Historically Underutilized Business Zones (HUBZone), and service-disabled veteran-owned businesses.¹ Further, under section 8(a) of the Act, SBA helps eligible socially and economically SDBs, known as 8(a) firms, compete in the economy through various business development activities. In the 8(a) program, SBA business development specialists (BDS) are required to work directly with 8(a) firms and offer assistance such as counseling on financial, marketing, and

¹Congress first enacted requirements for specific procurement goals for federal contracting for small businesses in 1988. Since then, these specific goals have been increased and extended to firms participating in various small business programs. The 8(a) program has no statutory goal, but 8(a) firms also are certified as SDBs. The current government-wide goal for awarding prime contracts to SDBs and women-owned businesses is 5 percent, and HUBZones and service-disabled veteran-owned businesses each have a goal of 3 percent. For instance, under the HUBZone program, certain small businesses located in economically distressed communities may be eligible for set-aside and “sole-source” contracts. Women-owned businesses must be at least 51 percent owned and controlled by women. Currently, there are no set-aside contracts for women-owned businesses. Service-disabled veteran-owned businesses must be at least 51 percent owned and controlled by service-disabled veterans and can be eligible for certain set-aside and sole-source contracts.

management practices. Until recently, SBA also certified small businesses as SDBs.

In addition, procurement center representatives (PCR) and commercial market representatives (CMR) in SBA's Office of Government Contracting work to increase business opportunities for small businesses and ensure they receive a fair and equitable opportunity to participate in federal prime contracts and subcontracts. Further, all federal agencies with procurement authority are required to establish an Office of Small and Disadvantaged Business Utilization (OSDBU) to advocate for contracting opportunities for small businesses.² Procurement staff in most agencies also include small business specialists (SBS), who are responsible for working with OSDBUs and agency contracting officers to advocate for small businesses.

Concerns have been raised about the extent to which federal agencies have met their small business contracting goals and about SBA's efforts to facilitate federal contracting opportunities for small businesses, including those for 8(a) firms. In response to your request, this report (1) describes the actions SBA takes to set these goals and the extent to which federal agencies have achieved their small business contracting goals in recent years, (2) examines the role of SBA staff in supporting small business contracting at selected federal agencies, and (3) examines SBA's overall administration of the 8(a) business development program. In addition, appendix II describes how the use of the SDB certification has changed over time and appendix III provides information on the roles of OSDBUs and federal agency procurement officials.

To address these objectives, we reviewed SBA guidance, our prior reports and those of the SBA Inspector General, and interviewed officials at SBA in the Office of Business Development, Office of Government Contracting, and Division of Program Certification and Eligibility (DPCE).³ To address the first objective, we reviewed the results of SBA's inaugural Small Business Procurement Scorecard for fiscal year 2006 and the midpoint scorecard for fiscal year 2008.⁴ We used data from fiscal years 2000

²15 U.S.C. § 644k. The Department of Defense renamed its Office of Small Disadvantaged Business the Office of Small Business Programs. For simplicity, we use the term OSDBU for all agencies in our study.

³SBA's DPCE certifies 8(a) firms and is centralized in two regional offices (San Francisco, Calif., and Philadelphia, Pa.).

⁴SBA released the second results and progress scorecard at the beginning of fiscal year 2009 on October 22, 2008.

through 2006 on SBA's negotiated small business contracting goals with agencies and small business goaling reports to determine what percentage of agencies' contracting dollars was awarded to small businesses. SBA uses the Federal Procurement Data System-Next Generation (FPDS-NG) to prepare its annual small business goaling reports, which evaluate agencies' performance on the various small business goals.⁵ To assess these data, we reviewed related documentation, including the methodology used to create these reports. For the purposes of this report, we found these data to be reliable. To further understand the process for establishing contracting goals and related achievements, we selected five agencies for our review. We first selected four agencies (the Departments of Commerce, Defense, and Homeland Security; and the Social Security Administration) based on level of contracting activity and SBA's assessments of their goal achievement. The four agencies generally obligated larger amounts of contracting dollars to small disadvantaged businesses and, collectively, they received the full range of scores on SBA's 2006 scorecard. We also included SBA because it sets goals and is responsible for assessing and reporting on goal achievement at federal agencies. To address the second and third objectives, we conducted four site visits at SBA district and area offices in Atlanta, Georgia; Chicago, Illinois; San Francisco, California; and Washington, D.C., and interviewed SBA officials in each location. We interviewed the 8 PCRs and 5 CMRs located in the four locations we visited (out of an agency total of 59 PCRs and 31 CMRs, respectively). In addition, we interviewed 19 BDSs.⁶ We selected these locations based on the number of 8(a) firms in each location and for geographic diversity. For the third objective, we also analyzed at each location a sample of 20 8(a) participant files and additional documentation that SBA provided on participants, contracts, and federal procurement surveillance reviews (which evaluate federal agency controls to ensure compliance with small business contracting requirements). More specifically, we randomly selected two firms (one that received a contract and one that did not) from each year of the 9-year

⁵The Federal Acquisition Regulation requires executive departments and agencies to collect and report procurement data to FPDS-NG. The government uses the reported data to measure and assess the impact of federal procurement on the nation's economy, the extent to which awards are made to businesses in the various socioeconomic categories, and the impact of full and open competition on the acquisition process.

⁶As of September 2007, SBA had 340 full-time equivalent BDSs. SBA officials explained this number might not be a true representation of the number of BDSs that work within the 8(a) program because district offices have discretion in how they use their staff and it is not clear by job title which BDSs work within the 8(a) program.

program and also randomly selected two firms in SBA's mentor-protégé program.⁷ In addition, we interviewed an official from a trade association representing 8(a) and SDB firms and reviewed documents prepared by other trade associations representing 8(a) and SDB firms.

We conducted this performance audit from October 2007 through November 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides a detailed description of our objectives, scope, and methodology.

Results in Brief

SBA reviews prior-year goal achievement and other factors to set individual contracting goals for federal agencies to ensure the government-wide goal of 23 percent is met; in fiscal years 2000 through 2006, the agencies collectively achieved or came close to achieving the 23 percent goal, but individual agency results varied. For the 2008-2009 goal-setting cycle, SBA reviewed each agency's contracting trends, and the effect of each agency's goals on the government-wide average. And, in fiscal year 2006, SBA began using a Small Business Procurement Scorecard to help monitor contracting efforts at agencies. The scorecard evaluates factors such as goals met, progress shown, agency strategies, and top-level commitment to meeting goals. Of the 24 agencies rated in fiscal year 2006, 7 received the highest rating, 5 the middle rating, and 12 the lowest. SBA subsequently reviewed agencies' progress in implementing procurement plans and many agencies improved their ratings. While officials from all four agencies we reviewed cited challenges with the goal-setting process, such as limitations in negotiating and appealing their goals, the individual agencies have been able to achieve the goals, albeit not consistently. For example, the Department of Homeland Security (DHS) consistently met, and the Department of Defense (DOD) came close to, but did not meet, the overall small business goal in each of those years. Federal agencies had a similarly varied record for other small business goals. According to SBA and OSDBU officials, many factors can influence an agency's ability to

⁷SBA's mentor-protégé program is designed to encourage approved mentors to provide various forms of assistance to eligible protégé participants. The purpose of the mentor-protégé relationship is to enhance the capabilities of the protégés and improve their ability to successfully compete for federal contracts.

achieve socioeconomic goals, such as a lack of small business firms that can meet agencies' specialized procurement needs or fluctuations in an agency's procurement cycle.

Resource constraints have limited the ability of SBA staff to carry out core responsibilities. For instance, SBA's PCRs work with federal agencies by reviewing proposed acquisitions and recommending small business set-asides and procurement strategies to agencies, and conducting surveillance reviews of federal agency administration of small business contracting programs. Years of SBA downsizing and budget reductions significantly reduced the resources available for these agency functions, including contracting review and monitoring. As of August 2008, SBA had 59 PCRs, 16 of which also had CMR responsibilities. Many of these PCRs were responsible for multiple agencies and several buying activities (divisions within agencies that purchase goods and services). Our review indicated that some PCRs were responsible for up to six agencies and an average of 5 buying activities, with the number of buying activities per PCR varying from 1 to 12. SBA has recognized that more PCRs are needed, but has not developed a formal plan to align staff resources with program objectives. Some PCRs with whom we spoke stated they were not able to cover all responsibilities effectively because they were "stretched too thin," and some agency procurement officials explained that they rarely interacted with their assigned PCRs. The number of SBA's CMRs, who monitor subcontracting plans of large contractors, also has been reduced significantly in recent years. The CMRs with whom we spoke said they had been unable to carry out their multiple responsibilities, such as compliance reviews of contractors' plans, because of workload demands. SBA's Inspector General (IG) found that in fiscal year 2006, CMRs monitored less than half of the 2,200 large prime contractors. As a result of these constraints, SBA has reduced assurances that staff effectively are advocating for and monitoring federal contracting with small businesses.

SBA's overall administration of the 8(a) business development program is challenged by several factors including an apparent lack of understanding by some participating firms of the program's purpose and requirements, competing demands on limited numbers of staff that diminish the time available to spend on business development activities, an inefficient removal or termination process of 8(a) firms, and lack of routine surveillance reviews at agencies that are specific to the 8(a) business development program.

- While SBA has controls in place to determine a firm's eligibility prior to its admittance to the 8(a) program, participation in an information session

that SBA provides on the program to interested firms is voluntary. SBA also has an online self-assessment tool that helps applicants determine their suitability for the program, but firms are not required to complete the assessment during the application process. As a result, some firms may have entered the 8(a) program with unrealistic expectations of obtaining federal contracts and may not have clearly understood their responsibilities for maintaining and reporting on their eligibility, which also has had implications for staff workload as noted below.

- SBA staff reported challenges related to balancing the time necessary to conduct mandatory reviews with the time needed to conduct business development activities. Specifically, SBA is required by law to conduct annual reviews of participating firms to determine their continued eligibility in the program. For the reviews, firms must submit documentation on finances, taxes, and contracts, but SBA officials said that firms often did not submit this documentation on time, causing staff to expend more time contacting firms and soliciting documentation and making it difficult to complete the reviews in a timely fashion. SBA officials explained that a recent agency emphasis on ensuring the completion of reviews of 100 percent of participants and an inefficient termination process (discussed below) diminished the amount of time staff had to provide business development assistance to firms. Staff said that they made fewer site visits to firms or less frequently held events in which they could introduce federal contracting officials to small businesses. As a result of the workload constraints on staff, SBA is limited in its ability to provide the business development services that form the core of the 8(a) program.
- SBA staff also stated that it was difficult to remove firms from the program that were found to be noncompliant. SBA may terminate firms under several conditions, including failure to follow program procedures and maintain eligibility for participation. For instance, staff stated that the termination process could take up to 120 days, in part because of multiple notification requirements and delays by headquarters in completing its review. In our review of 80 participant files (which included firms that did not receive contracts), we found instances where firms repeatedly were recommended for termination but remained in the program after the recommendations had been made. For example, one firm did not provide the required documentation for 4 of the 8 years it was required to do so. Our review also found one instance of a noncompliant firm receiving a contract. As a result, firms that no longer met program criteria could continue participating and consume SBA resources that otherwise might be used to provide business development assistance to compliant firms.

-
- Finally, SBA has not yet begun to monitor the 8(a) program at federal agencies through required surveillance reviews, as recommended in a 2006 SBA IG report. Under partnership agreements for the 8(a) program, SBA and federal agencies with procurement authority share the responsibilities of contract execution and oversight, monitoring, and compliance with procurement laws and regulations for 8(a) contracts. The IG recommended that SBA regularly conduct surveillance reviews on 8(a) contracts; however, the IG recommendation has not been implemented. Although SBA officials told us they planned to expand surveillance reviews to include the 8(a) program, SBA had not yet incorporated procedures for such reviews into its guidance. Because it has not developed guidance for 8(a) surveillance reviews, SBA has reduced assurance that agencies have complied with procurement laws and regulations for 8(a) contracts.

This report contains recommendations for SBA to (1) assess resources allocated to PCRs and CMRs and develop a plan to better ensure they can effectively meet their mission responsibilities; (2) take steps to better ensure that prospective applicants to the 8(a) program are aware of program requirements; (3) assess the workload of BDSs and improve processes for providing business development assistance and carrying out terminations from the 8(a) program in a timely manner; and (4) increase the effectiveness of surveillance reviews for the 8(a) program. We provided SBA with a draft of this report for its review and comment. SBA agreed with our recommendations and outlined steps that it has initiated or plans to take to address each of them. For example, SBA stated it will work with the Office of Human Capital Management to assess the workload of the BDSs and their knowledge levels and stated this analysis would be completed by the end of the 2009 fiscal year (i.e., September 2009). In addition, SBA expects to implement its proposed plan for creating tools that would assist in the provision of business development assistance for 8(a) firms by March 2009. Further, SBA stated that planned changes to its guidance on streamlining the termination process are expected to be issued by December 2008. SBA's comments are reprinted in appendix V.

Background

Two offices within SBA are primarily responsible for the contracting assistance and business development programs discussed in this report. SBA's Office of Government Contracting administers the prime contracting and subcontracting assistance programs through SBA headquarters and six area offices located across the country. A goal of these programs is to increase business opportunities for small businesses

and ensure that small businesses receive a fair and equitable opportunity to participate in federal prime contracts and subcontracts. Area office directors are responsible for supervising these programs in the field; the Office of Government Contracting staff in the area offices that conduct contracting program activities are PCRs and CMRs. PCRs help increase the small business share of federal procurement awards by initiating small business set-aside contracts (set-asides); reserving procurements for competition among small businesses; and identifying federal agencies with small business sources for goods and services. PCRs also conduct surveillance reviews, which are used to assess federal agencies' management of their small business programs and compliance with regulations and published policies and procedures. CMRs conduct compliance reviews of prime contractors, counsel small businesses on how to obtain subcontracts, conduct and participate in "matchmaking" activities to facilitate subcontracting with small businesses, and provide orientation and training on the subcontracting assistance program for both large and small businesses.

SBA's Office of Business Development administers the 8(a) program. BDSs, who work directly with 8(a) firms, are located in SBA's 68 district offices.⁸ They are required to assist firms with preparing a business plan, conduct annual reviews of the firms' progress in implementing these plans, provide technical assistance, analyze year-end financial statements for certain compliance requirements, and coordinate additional assistance and training for firms through another SBA program.⁹ Additionally, BDSs may have responsibilities related to other SBA programs such as coordinating with resource partners that provide counseling, training, and other assistance to small businesses.

Furthermore, SBA enters into partnership agreements with government agencies to award contracts to qualified 8(a) firms. In order to do so, SBA developed partnership agreements with 39 federal agencies, which delegate SBA's contract execution authority to the agencies. According to SBA, the purpose of the partnership agreement is to streamline the

⁸As of May 2008, 67 of the 68 district offices had 8(a) portfolios. In addition to BDSs who work with 8(a) firms, district office staff include BDSs who work with other SBA business assistance programs and staff who work primarily with lenders.

⁹Through the 7(j) Management and Technical Assistance Program, SBA provides qualifying businesses with counseling and training in the areas of financing, business development, management, accounting, bookkeeping, marketing, and other small business operating concerns.

contract execution process so that 8(a) firms may have more procurement opportunities. Without the partnership agreements, all federal agencies would be required to involve SBA from start to finish in the procurement process when 8(a) firms were the providers of goods and services. The partnership agreement requires that both SBA and the partner agency share the responsibilities of contract execution and oversight, monitoring, and compliance with procurement laws and regulations governing 8(a) contracts. In 2007, the partnership agreements were revised to clarify each agency's role. SBA also plans to revise the agreements in 2009 to make further clarifications on subcontracting requirements.

To qualify for the 8(a) program, a firm must be at least 51 percent owned and controlled by an individual who meets SBA's criteria of socially and economically disadvantaged. Socially disadvantaged individuals include certain members of designated groups, such as Black Americans or Hispanic Americans and individuals who are not members of designated groups.¹⁰ Economically disadvantaged firms include those whose primary owner(s) has \$250,000 or less in personal net worth, adjusted to exclude personal residence and business assets. In addition, a firm must demonstrate its potential for success by being in business for 2 years or meet waiver provisions (a waiver requires the applicant to present copies of contracts or invoices demonstrating performance of work in the industry for which the applicant seeks 8(a) certification).¹¹ The 8(a) program lasts 9 years and once completed, a firm cannot reapply.¹² However, all 8(a) firms automatically are certified as SDBs and SDB firms can reapply for certification every 3 years.¹³

¹⁰13 C.F.R. § 124.103.

¹¹To meet the "potential for success" requirement, firms must be in business for 2 full years immediately prior to the date of application and present supporting documentation for SBA's analysis or apply for a waiver to the 2-year rule and demonstrate that they meet certain conditions, including (1) business management experience, (2) technical expertise, (3) adequate capital, (4) a record of successful contract performance, and (5) the ability to obtain the resources necessary to perform contracts. Firms also must provide documentation on the applicant's business and its owners, including business and personal financial statements and business and personal tax returns.

¹²The 9-year program tenure is divided into two stages—a developmental stage covering years 1 through 4 and a transitional stage covering years 5 through 9. During the transitional years, firms are required to obtain certain levels of non-8(a) contracts to ensure they do not develop an unreasonable reliance on the program.

¹³See app. II for more information on SDBs.

Firms in the 8(a) program are eligible to receive competitive and sole-source set-asides. Competitive contracts can be awarded to 8(a) firms if there is a reasonable expectation that at least two 8(a) firms will submit offers and the award can be made at a fair price. Sole-source contracts can be awarded when the dollar thresholds are \$5.5 million or less for acquisitions involving manufacturing and \$3.5 million or less for all other acquisitions.¹⁴

SBA Considers Prior Goal Achievement of Agencies When Setting Contracting Goals, and Federal Agency Goal Achievement Has Varied in Recent Years

SBA considers such factors as prior-year goal achievement when setting contracting goals for federal agencies; goal achievement among federal agencies varied from 2000 through 2006. Currently, SBA emphasizes quantitative measures for goal setting. For the 2008-2009 goal-setting cycle, SBA reviewed contracting trends at agencies, prior-year goal achievement, and the impact of each agency's goals on the government-wide average. In fiscal year 2006, SBA began using a scorecard to evaluate contracting efforts at 24 agencies; 7 agencies received the highest rating, 5 received the middle rating, and 12 received the lowest rating. In a subsequent review, agency ratings showed improvement, with four agencies receiving the lowest rating. While officials from all agencies we reviewed cited challenges with the goal-setting process, such as limitations in negotiating and appealing their goals, federal agencies collectively have achieved or come close to achieving the government-wide goal of 23 percent, but individual agency performance varied. Federal agencies had a similarly varied record for other small business goals such as the SDB goal and 8(a) negotiated goal. According to SBA and OSDBU officials, many factors can influence an agency's ability to achieve socioeconomic goals, such as a lack of small business firms that can meet specialized procurement needs or fluctuations in an agency's procurement cycle.

¹⁴However, SBA generally may award a sole-source 8(a) contract to an 8(a) firm owned and controlled by an Indian tribe or an Alaska Native Corporation where the value of the procurement exceeds the competitive dollar threshold. If it is DOD procurement, this exemption extends to Native Hawaiian Organizations.

SBA Analyzes Such Factors as Prior-Year Goal Achievement of Agencies and Potential Impacts on Meeting Government-wide Goals to Set Agencies' Contracting Goals

SBA is required to report on contracting goal achievements of federal agencies in an effort to meet the statutory government-wide goal of awarding 23 percent of contracting dollars to small businesses and goals established for four socioeconomic categories (see table 1).¹⁵

Table 1: Statutory Government-wide Small Business and Socioeconomic Goals for Small Business Contracting

| Categories | Percentage of prime contracting dollars |
|---|---|
| Small Business | 23% |
| Socioeconomic Categories | |
| Small Disadvantaged Business | 5% |
| Women-Owned Small Business | 5% |
| HUBZone Business | 3% |
| Service-Disabled Veteran-Owned Small Business | 3% |

Source: Small Business Act, as amended.

Note: A prime contract is awarded directly to a contractor by the federal government.

In previous years, SBA negotiated annual procurement goals with each federal agency so that, cumulatively, the government-wide goal was met or exceeded. Each agency submitted proposed goals to SBA; SBA then adjusted the goals to meet, in aggregate, the statutorily assigned levels.¹⁶ For fiscal years 2008 and 2009, agencies did not submit proposed goals to SBA. Instead, SBA set goals based on trend analysis, prior-year goal

¹⁵In a prior report, we stated it can be difficult to identify how many contract dollars firms received based on a particular socioeconomic program because agencies can count contracting dollars awarded to small businesses under more than one socioeconomic program. See GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-643](#) (Washington, D.C.: June 17, 2008).

¹⁶To get their goal base, agencies would estimate their total prime contract dollars for the next fiscal year using their prior fiscal year procurement budget and estimate any increases or decreases in the procurement budget and then exclude certain categories. Excluded categories not counted in the goal base include nonappropriated funds, internal transactions, mandatory sources, contracts for foreign governments or international organizations, contracts overseas, and contracts not subject to the Federal Acquisition Regulation. Then, the agency would propose goals based on the agency average achievement over 3 years but also take into account the government-wide statutory goals for each of the socioeconomic categories.

achievement, and the impact of each agency's goals on the national average.

Officials from four of the agencies we reviewed cited challenges with the goal-setting process such as limitations in negotiating and appealing their goals. Two agencies said that the goal-setting process was not a negotiation and that SBA did not factor in changes in the agencies' contracting priorities in its goal setting. For example, one agency saw significant increases in information technology spending, which typically involves large contracts for which small businesses might not be competitive, but the small business goal did not reflect this change. Agency officials explained that efforts to appeal the goals were lengthy, resource-intensive, and unsuccessful.

SBA officials explained that they were constrained in their ability to negotiate anything less than full government-wide compliance with the statutory 23 percent goal. They said that in some cases, SBA has reconsidered an agency's request to lower its annual goals but requires the reconsideration to be both unique and compelling. For example, SBA officials said they adjusted the goal for the Department of Health and Human Services in the middle of a fiscal year because the department's contracting priorities shifted to accommodate the purchase of vaccines, which generally are produced by large businesses. However, SBA officials explained that other agencies would need to provide more small business contracting opportunities to compensate. Agencies may appeal to SBA if they disagree on the established goals; if they do not reach agreement, they can submit their case to the Office of Federal Procurement Policy (OFPP) for a final determination.¹⁷ The agencies we reviewed did not have experience disputing their goals through OFPP. In addition, according to SBA officials, in October 2007 the agency established an executive subcommittee within the Small Business Procurement Advisory Council to review the current goal-setting process and provide more transparency on the process.¹⁸



¹⁷In 1974, Congress established OFPP in the Office of Management and Budget to provide overall direction of government-wide procurement policies, regulations, and procedures for executive agencies and to promote economy, efficiency, and effectiveness in federal procurements.

¹⁸Members of the advisory council include the OSDDBU directors from the 24 agencies with procurement authority.

SBA Developed a Scorecard to Evaluate Small Business Contracting Efforts of Agencies

For fiscal year 2006, SBA began using a Small Business Procurement Scorecard to help monitor agencies' small business contracting efforts, including plans and progress in meeting the goals, and to bring greater attention to goal achievement (see fig. 1). SBA officials explained that SBA has limited statutory authority to enforce the goals or impose corrective action on agencies that fail to meet the negotiated small business contracting goals.

Figure 1: Example of a Small Business Procurement Scorecard, Fiscal Year 2006

| | CURRENT STATUS (As of July 25, 2007) | | PROGRESS (As of July 25, 2007) | | COMMENTS |
|--|--|--|--|---|---|
| Initiative SMALL BUSINESS PROCUREMENT Agency Lead: Director, OSDBU |  Green | GREEN STANDARDS _X_ Meets the small business goal, at least 3 socio-economic goals, and shows improvement in the remaining 1 goal. _X_ Meets all Yellow standards: 1. _X_ Meets the small business goals, at least 2 additional socio-economic goals, and improves in at least one of the unmet goals. Credit can also be given for meeting 4 goals, regardless of which ones they are. 2. _X_ Has implemented a strategy to increase the number of competitively awarded contracts to small businesses. 3. _X_ Has demonstrated top-level Agency commitment to small business contracting. 4. _X_ Has a comprehensive small business program that includes written policies and procedures focused on improving the competitive environment and increasing small business participation in the procurement process. 5. _X_ Has small business goal achievement as a rating element for acquisition personnel. 6. _X_ Works cooperatively with SBA on outreach and targeting initiatives. 7. _X_ Meets deadlines for all required strategic plans and annual reports due to SBA. 8. _X_ Has a process to ensure small business data is accurately reported in FPDS-NG. 9. _X_ Enforces small business subcontracting plans and meets subcontracting goals. |  Green | <u>Actions taken this quarter:</u> 1. The agency has met its small business goal, 2 additional socio-economic goals, and improved in at least one of its unmet goals 2. The agency has implemented an aggressive strategy to increase the number of competitively awarded contracts to small businesses. 3. The agency shows top-level agency commitment to small business contracting through internal scorecards, set-aside strategies, goal performance, and top executive meetings on a monthly basis. 4. The agency has a comprehensive and active small business plan that is documented and regularly updated. 5. The agency has built-in goal achievement requirements in their executive management's performance to ensure increased accountability. 6. The agency's OSDBU coordinates with SBA in 8(a) orientation and match-making events to further outreach and marketing initiatives. 7. The agency submitted all plans and reports by the required deadlines. 8. The agency regularly verifies its small business data in FPDS-NG for accuracy. The agency also uses internal/external reports as a tool to rectify discrepancies found in the FPDS-NG system. 9. The agency does have a system in place to enforce small business subcontracting plans and goal expectations. | <ul style="list-style-type: none"> did not meet its SDVO goal; however exceeded in all others with progress. |

Source: SBA.

SBA's 2006 scorecard consisted of three color ratings. To receive the highest (green) rating, an agency had to have met its overall contracting goal for small business and at least three of the socioeconomic goals, shown progress in meeting the remaining two socioeconomic goals, and met the requirements for the middle (yellow) rating. To meet the yellow rating, the agency had to have met two socioeconomic goals, improved in

one other goal, and met other criteria that included top-level commitment by agency officials for small business contracting, cooperation with SBA, and timely and accurate reporting.¹⁹ An agency received a low (red) rating if it failed to meet the requirements for the middle (yellow) standards. Although the scorecard reviewed activity in fiscal year 2006, SBA said it did not publish the scorecard until August 2007.²⁰ At that time, SBA also published ratings on the scorecard for the progress the agencies made on their small business procurement plans through July 25, 2007.

Of the 24 agencies SBA rated in the 2006 scorecard, 7 received the highest rating, 5 received the middle rating, and 12 received the lowest rating. For instance, DHS received the highest (green) rating because it met three out of four socioeconomic goals, had an agency strategy to increase the number of competitively awarded contracts to small businesses, and demonstrated commitment to small business contracting at the higher levels of the agency. The Department of Commerce (Commerce) did not meet two of its socioeconomic goals and therefore received a yellow rating. DOD did not meet its small business goal or socioeconomic goals and received a red rating. The Social Security Administration (SSA) also received a red rating for not meeting its goals and several other criteria, including not having an evaluation factor for acquisition professionals on goal achievement, enforcing subcontracting plans, and meeting subcontracting goals.

However, many agencies showed improvement on the portion of the scorecard that assessed the agencies' progress through July 25, 2007. For instance, of the 12 agencies with a low score for fiscal year 2006, 8 moved up to the middle score. All five agencies that previously received a middle score received the highest rating in terms of progress in implementing their small business procurement plans. Of the agencies we reviewed, DHS

¹⁹More specifically, the agency had to meet the following criteria—development of an agency strategy to increase the number of competitively awarded contracts to small business; demonstrated commitment to small business contracting at the higher levels of the agency (at the Secretary, Administrator, or Director level); cooperative work with SBA on outreach and targeting initiatives; a record of meeting deadlines for all required strategic plans and annual reports due to SBA; and a process to ensure that small business data are accurately reported in FPDS-NG and that small business subcontracting plans are enforced.

²⁰SBA officials explained the fiscal-year end results of the scorecard cannot be determined until all agencies certify their goaling data, which was certified by June 30, 2007. They are working to have the data certified by December 31 to ensure more timely reporting for future scorecards.

and SBA maintained the highest score, Commerce and DOD showed improvement, and SSA continued to receive a low rating (see fig. 2).

Figure 2: SBA’s Small Business Procurement Scorecard Results by Select Agency, Fiscal Year 2006

| Department/Agency | Fiscal year 2006 scorecard results | |
|---------------------------------|------------------------------------|-------------------------------|
| | Results (fiscal year end) | Progress (through 7/25/07) |
| Department of Homeland Security | | |
| Small Business Administration | | |
| Department of Commerce | | |
| Department of Defense | | |
| Social Security Administration | | |

| Results criteria | | Progress criteria |
|------------------|--|--|
| | Green The agency must meet its small business goal, 3 socio-economic goals, progress in 1 goal, and meet all yellow standards | The agency’s current status must be at least a “yellow” with all yellow standards met |
| | Yellow Small business goal, 2 socio-economic goals, progress in 1 goal, must meet all yellow standards | The agency can miss no more than 2 yellow standards regardless of its current status grade |
| | Red Does not meet either of the above conditions | Does not meet either of the above conditions |

Source: SBA.

Some agency officials we interviewed expressed dissatisfaction with the fiscal 2006 scorecard. For example, senior officials from three of the four agencies we selected suggested that SBA did not adequately take into account factors that affected their goal achievements, since an agency could receive the lowest category for barely missing its goals. One official suggested that the scorecard could be improved by focusing on outcome-oriented criteria rather than activity-oriented criteria. For example, the official suggested that rather than looking at the number of outreach events in which an agency participated, SBA could assess the agency based on how many firms received a contract as a result of attending the event. Yet, they acknowledged that the scorecard promoted transparency.

SBA officials regarded the scorecard as a useful tool. They suggested that the inaugural 2006 scorecard had the effect SBA intended—bringing greater transparency to agencies’ current and future small business contracting efforts. Moreover, agency officials have been incorporating the results of the scorecard into their performance plans. For example, according to SBA officials, some agencies have factored the results of the scorecard into the performance evaluations of procurement officials. SBA said that they had plans to improve the scorecard by providing agencies

the opportunity to present their procurement plan for small businesses, progress made toward their plan, and mitigating factors affecting their ability to implement their plan. SBA also is working to better align scorecard reporting time frames toward the earlier part of the fiscal year rather than the end of the fiscal year. In addition, SBA has provided opportunities for agency officials to comment on the scorecard and propose revisions.

In July 2008, SBA issued a midyear scorecard that assessed the progress that agencies made on their fiscal year 2008 small business procurement plans. SBA officials explained that as a result of feedback from other federal agencies, SBA included some different elements on this scorecard than on the 2006 scorecard. For example, SBA assessed whether the agency

- planned significant events to encourage small business participation,
- planned training for contracting staff and managers, and
- planned to collaborate on formulating policy.

SBA reviewed submissions from the agencies to determine if their plans were “acceptable” or “needed work.” In addition, SBA identified best practices at 16 of the agencies (see fig. 3).

Figure 3: Example of SBA's Small Business Procurement Midyear Scorecard, Fiscal Year 2008

| FIRST SCORECARD | FY2008 GOALS | FY2008 PLAN | | COMMENTS FOR AGENCY | | | | | | | | | | | | |
|--|---|-------------|--|---------------------|--|--------|--|---------|--|------------|--|----------|--|-------------------|--|--|
| <p>Initiative</p> <p>SMALL BUSINESS PROCUREMENT</p> <p>Agency Lead:</p> <p>OSDBU Director</p> | <table border="1"> <thead> <tr> <th>Goal</th> <th></th> </tr> </thead> <tbody> <tr> <td>SB 31.90%</td> <td></td> </tr> <tr> <td>SDB 5%</td> <td></td> </tr> <tr> <td>WOSB 5%</td> <td></td> </tr> <tr> <td>HUBZone 3%</td> <td></td> </tr> <tr> <td>SDVOB 3%</td> <td></td> </tr> </tbody> </table> | Goal | | SB 31.90% | | SDB 5% | | WOSB 5% | | HUBZone 3% | | SDVOB 3% | | <p>Acceptable</p> | <p>Actions taken:</p> <p><u> </u>X_ Meets all Plan Requirements:</p> <ol style="list-style-type: none"> <u> </u>X_ Implemented strategic plan to increase the value of competitively awarded contracts to small businesses during the period. <u> </u>X_ Demonstrated top-level Agency commitment to small business contracting during the period. <u> </u>X_ Planned significant events to increase small business participation in the procurement process during the period. <u> </u>X_ Demonstrates that small business data is accurately reported in FPDS-NG during the period. <u> </u>X_ Demonstrates that policies and procedures are into ensure compliance with subcontracting plans and attainment of subcontracting goals during the period. <u> </u>X_ Demonstrated no unjustified bundling has taken place during the period. <u> </u>X_ Planned training to contracting staff/managers in executing small business/socioeconomic procurements during the period. <u> </u>X_ Planned to collaborate on formulation of small business procurement policy initiatives during the period. <u> </u>X_ Agency submits all strategic plans and reports that become due to SBA during the reporting period. | <p>SBA RECOGNIZES THE AGENCY FOR THEIR OUTSTANDING ACHIEVEMENT</p> <p><u>BEST PRACTICES</u></p> <p>has a comprehensive small business program supported by its directive and outreach activities. The directive has many elements that would be useful for other Federal agencies to adopt, if they do not currently have a separate SB directive.</p> |
| Goal | | | | | | | | | | | | | | | | |
| SB 31.90% | | | | | | | | | | | | | | | | |
| SDB 5% | | | | | | | | | | | | | | | | |
| WOSB 5% | | | | | | | | | | | | | | | | |
| HUBZone 3% | | | | | | | | | | | | | | | | |
| SDVOB 3% | | | | | | | | | | | | | | | | |

Source: SBA.

The majority of the agencies had plans that SBA considered acceptable, and SBA identified best practices at three of the four agencies we reviewed. For instance, Commerce's OSDBU director was a member of the Federal Acquisition Regulatory Council and SBA suggested that other

agencies could benefit by having their OSDDBU director join the council as a way to influence policy initiatives. DOD was cited as having a unique plan that set goals and objectives for small business procurement down to the major department level. SBA noted that DHS had a comprehensive small business program and supported it through outreach activities and a directive that was issued by its top-level management. SBA suggested that SSA could improve its scorecard by demonstrating top-level commitment for small business contracting and developing a plan to submit all strategic plans and reports to SBA. SBA's small business plan also was cited as needing work because it did not demonstrate that a policy or procedure was in place for subcontracting goals. SBA said it planned to release the second results and progress scorecard, which would be comparable to its inaugural scorecard, by the end of fiscal year 2008.²¹

Government-wide and Small Disadvantaged Business Goal Achievement Varied in Fiscal Years 2000–2006

For most fiscal years from 2000 through 2006, federal agencies collectively achieved or came close to achieving the government-wide goal for overall small business contracting.²² However, government-wide, the federal agencies did not meet or exceed the overall contracting goal of 23 percent in 4 of the 7 years (see fig. 4).²³ At the select agencies we reviewed, goal achievement varied. For instance, DHS consistently has met its SBA-negotiated (SBA-set) goal since 2004.²⁴ DOD did not meet its goal in any year from 2000 through 2006; however, the agency generally came close each year. DOD's small business goal was 23 percent each year; its goal achievement ranged from a low in 2001 of 20.5 percent to a high in 2005 of 22.6 percent. Other agencies had mixed outcomes in their goal achievement. For example, Commerce and SSA did not meet their SBA-set small business goals in 1 of the 7 years we reviewed. However, in the years these agencies met their goals, they generally exceeded the goals by large margins. SBA did not meet its goals in 3 years (2002 through 2004), but exceeded its goals in 4 years (2000, 2001, 2005, and 2006).

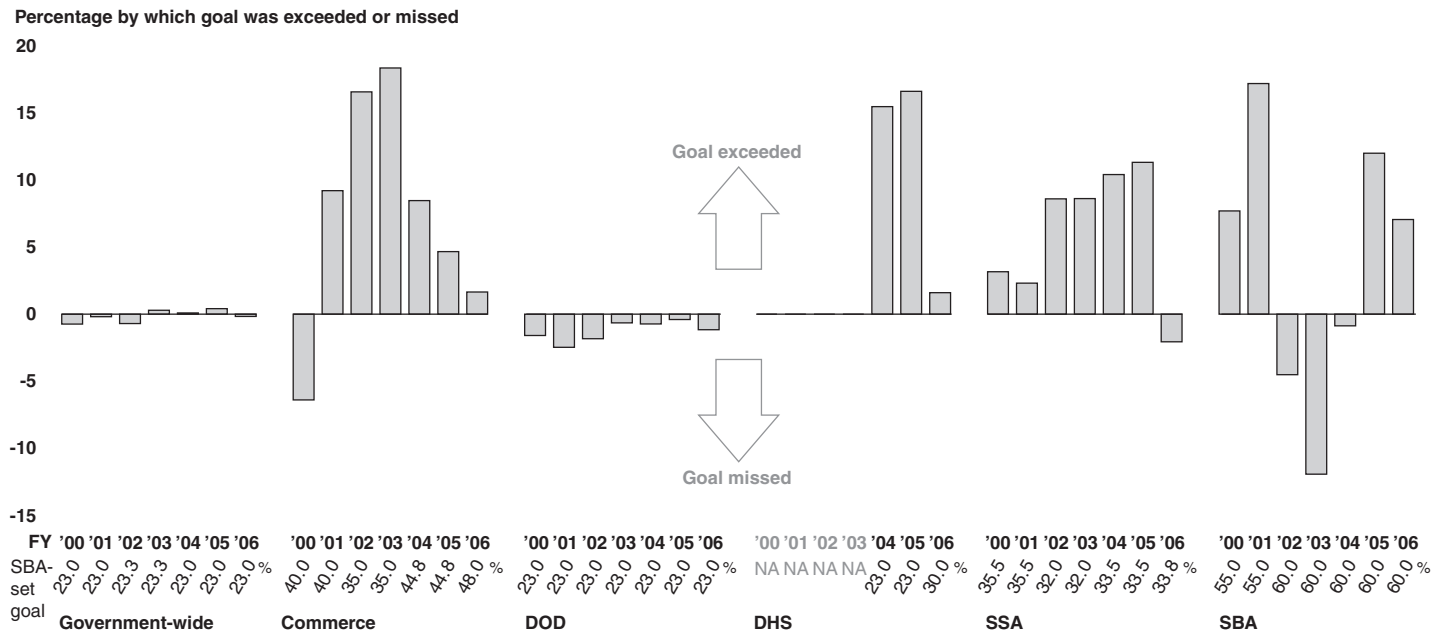
²¹SBA released the second results and progress scorecard at the beginning of fiscal year 2009 on Oct. 22, 2008.

²²As mentioned earlier, SBA negotiated annual procurement goals with each federal agency so that, cumulatively, the government-wide goal could be met or exceeded.

²³The 23 percent goal is statutory and was raised from 20 percent when the HUBZone socioeconomic goal was added in 1997. The HUBZone goal has been 3 percent as of fiscal year 2003.

²⁴We do not have DHS data from all the years we analyzed because the department was formed on Mar. 1, 2003.

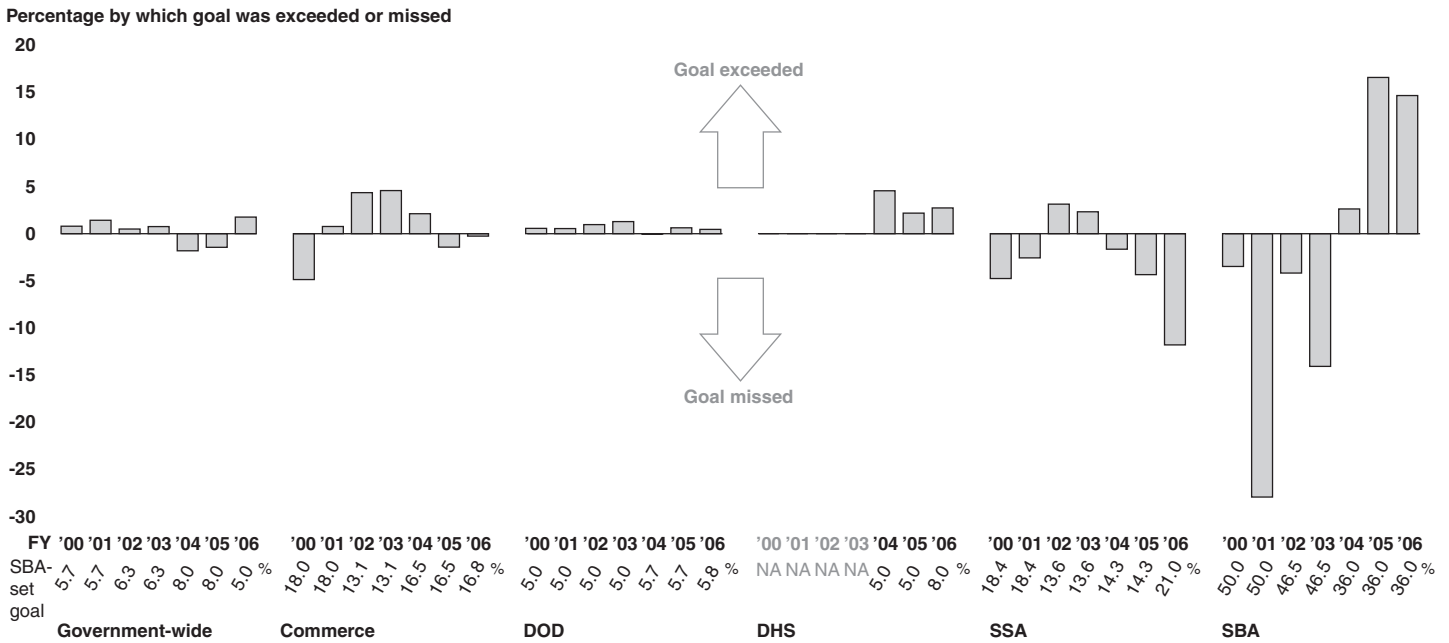
Figure 4: Overall Small Business Goal Attainment Government-wide and at Select Agencies, Fiscal Years 2000–2006



Source: GAO analysis of Small Business Goaling Reports and FPDS-NG Reports on Annual Procurement Preference Goaling Achievements.

Government-wide, federal agencies exceeded the 5 percent statutory goal for SDBs from 2000 through 2006. However, SBA also set goals above this standard in the years we reviewed (the SBA-set goals, both government-wide and for the selected agencies, are shown in fig. 5). In the years that federal agencies did not meet their goals (2004 and 2005), the SBA-set goal was 8 percent. For the select agencies we reviewed, goal achievement varied. For instance, DHS met its goal in all years we reviewed. DOD also met its SDB goal each year. Other agencies had mixed outcomes. For example, Commerce did not meet its goal in 3 of 7 years; however, in 2006 it missed its goal by a slight margin. SSA met its SDB goal in 2002 and 2003. SBA met its goal in 3 out of 7 years. For more information on contracts awarded to firms with SDB certifications, see appendix II.

Figure 5: SDB Goal Attainment Government-wide and at Select Agencies, Fiscal Years 2000–2006

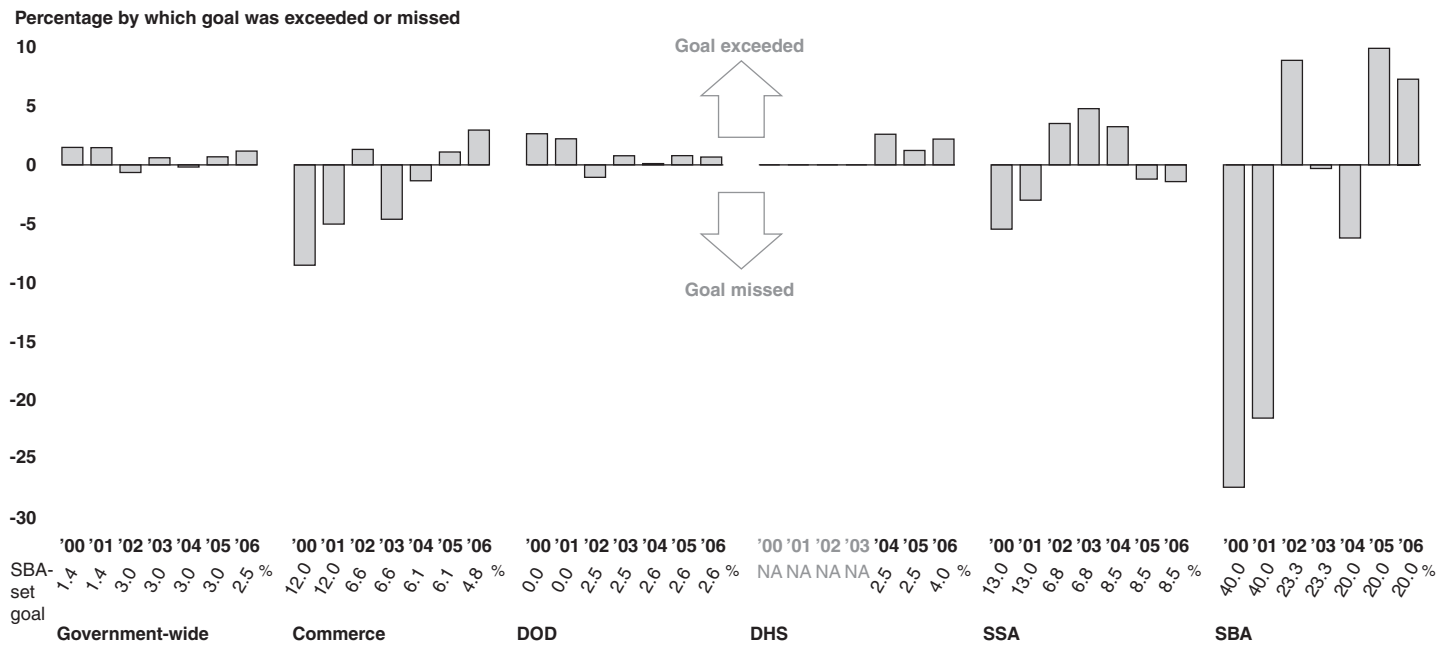


Source: GAO analysis of Small Business Goaling Reports and FPDS-NG Reports on Annual Procurement Preference Goaling Achievements.

Although the statutory provision for setting goals for small business participation in federal procurement contains no contracting goal for the 8(a) program, SBA negotiated an annual goal with agencies until 2007.²⁵ The government-wide goal was met in most years we reviewed, except for 2002 and 2004 (see fig. 6). For the select agencies we reviewed, goal achievement varied. For instance, DHS met its goal in all years we reviewed, but the degree by which it exceeded the goal declined. DOD met SBA’s 8(a) goal in each year except 2002. Commerce met or exceeded its goal in recent years but mostly missed its goal from 2000 through 2004. SSA and SBA also had mixed results and missed their goal in 4 of the 7 years.

²⁵SBA officials explained that they have not negotiated the 8(a) goal since 2007 because it is not a statutory goal.

Figure 6: 8(a) Negotiated Goal Attainment Government-wide, Fiscal Years 2000–2006



Source: GAO analysis of Small Business Goaling Reports and FPDS-NG Reports on Annual Procurement Preference Goaling Achievements.

According to SBA officials and OSDDBU directors, many factors can influence an agency’s ability to achieve socioeconomic goals, such as the focus of the agency’s business plan (that is, the type of contracts required), a lack of small business firms that can meet specialized procurement needs, or fluctuations in an agency’s procurement cycle. For example, the Department of Energy relies on a business model that emphasizes large contracts, which can make achievement of small business goals difficult. SBA and DOD officials explained that small businesses do not provide many of the goods and services that DOD purchases, such as airplanes, tanks, and weapons. Commerce officials explained that SBA’s goal-setting process did not adequately take into account the significant increase in spending associated with the decennial census, which generally relies on larger contracts that are not as conducive for small business contracting opportunities. In contrast, SBA officials explained that other agencies might have fewer contract dollars to spend but require more types of services amenable to small business contracting. Finally, SBA officials stated that changes in an agency’s mission and the types of goods and services purchased could present barriers to goal achievement.

Resource Constraints Limit Ability of SBA Staff to Advocate for, Review, and Monitor Small Business Contracting at Federal Agencies

Resource constraints limit the ability of SBA staff to carry out some of their core responsibilities. SBA staff have advocacy, review, and monitoring roles to facilitate small business contracting at federal agencies. PCRs are procurement analysts who implement SBA's prime contracting program. They can be located where agencies conduct procurements or off-site at SBA's offices. More specifically, PCRs

- review federal agency acquisitions and recommend small business set-asides;
- can dispute a procurement through informal or formal means with the agency's procurement officials in instances where an agency does not accept the recommended set-aside;
- conduct surveillance reviews, which monitor small business contracting at federal agencies;
- recommend procurement strategies to federal agencies to maximize small business participation in federal contracts; and
- counsel and train small businesses on obtaining federal contracts.

However, PCRs have operated under resource constraints as a consequence of overall agency downsizing and budget reductions. As we previously reported, budget reductions in the 1990s resulted in SBA streamlining its field structure and shifting its workload to district or headquarters offices.²⁶ During this time, SBA's workforce declined significantly, from 3,800 to about 3,100 employees (about 19 percent). From 2000 to 2007, SBA restructured its organization and the workforce further decreased by 26 percent. As of September 2007, SBA had 2,166 employees.²⁷

²⁶GAO, *Small Business Administration: Opportunities Exist to Build on Leadership's Effort to Improve Agency Performance and Employee Morale*, GAO-08-995 (Washington, D.C.: Sept. 24, 2008).

²⁷The SBA employee numbers from the 1990s to 2007 do not include employees in SBA's Office of Disaster Assistance because these numbers fluctuate from year to year and include temporary employees, depending on the disaster assistance workload. These numbers also do not include employees in SBA's Office of the IG.

From our review of SBA's August 2008 area office directory, most PCRs covered multiple agencies and "buying activities" within agencies.²⁸ As of August 2008, SBA had 59 PCRs—16 of which also had CMR responsibilities—but expected to increase the number to 66 through additional hiring.²⁹ Some PCRs were responsible for up to six agencies. Almost all the PCRs (55 out of 59) had responsibilities for buying activities at DOD. Twenty-two were assigned exclusively to DOD and 33 were responsible for overseeing DOD and other agencies. DHS and Commerce were assigned 4 and 2 PCRs, respectively, while SSA and SBA were assigned 1. Our review of the number of buying activities for which a PCR was responsible showed an average of 5 activities per PCR, with the number of buying activities per PCR varying from 1 to 12. SBA officials explained that the amount of work also can vary by agency, partly because some agencies had automated contracting processes while others did not.

The reduced staff numbers, multiagency assignments, and other available evidence suggest that PCRs are limited in the extent to which they can carry out some of their responsibilities. According to SBA officials, in 2007, PCRs reviewed about 47,000 new procurement actions of 5.5 million total procurement actions throughout the federal government.³⁰ In 2002, we also reported that the number of set-aside recommendations that PCRs were making annually decreased by about half, from 529 in fiscal year 1991 to 281 in fiscal year 2001.³¹ Reasons for the decline during this period included downsizing (which decreased the number of PCRs), the reassignment of some PCRs to other roles, and the increased size of federal procurements that contributed to fewer set-aside opportunities for small businesses. We had planned to update our 2002 report data on the

²⁸A buying activity can be a federal agency or divisions within federal agencies that purchase goods and services. For example, in DOD, the Naval Air Warfare Center represents a buying activity.

²⁹In its budget request for fiscal year 2008, SBA proposed to fund five additional PCRs. House Small Business Committee, Testimony of SBA Deputy Administrator Jovita Carranza, 110th Congress, 2nd sess., Sept. 19, 2007.

³⁰Total procurement actions can include definitive contracts; purchase orders; indefinite delivery vehicles; and all calls and orders awarded under the indefinite delivery vehicle, over the micro-purchase threshold (which is generally \$3,000 but there are exceptions) plus all modifications to these actions regardless of dollar value, which do not all require PCR review.

³¹GAO, *Small Business Set-Asides: Information on the Number of Small Business Set-Asides Issued and Successfully Challenged*, [GAO-03-242R](#) (Washington, D.C.: Nov. 1, 2002).

number of PCR-recommended set-asides for this report, but because SBA no longer collected this information electronically, the most recent data are from 2001.³² We were able to update information about the number of Form 70s that PCRs issued; the Form 70 reflects some level of discussion or disagreement between agencies and SBA about recommended set-asides. When agency officials reject a set-aside recommendation, PCRs can dispute the procurement through informal or formal means (Form 70s) with the agency's procurement officials. From fiscal years 2003 through 2007, PCRs generally increased the number of informal Form 70s, except for 2007, and decreased the number of formal Form 70s filed annually.³³ Finally, PCRs participated in 94 surveillance reviews from 2003 to 2007, 59 of which were within one agency (DOD). However, SBA did not conduct any surveillance reviews from 1994 through 2002 because of budget constraints.

SBA has recognized that more PCRs are needed and has begun some efforts to streamline some of the PCRs' responsibilities. For instance, at a congressional hearing in September 2007, SBA's deputy administrator cited the importance of the PCRs and mentioned SBA's plan to fund additional PCR positions and fill vacant positions in a timely manner.³⁴ Further, in February 2008, SBA's former administrator testified on efforts to refocus the responsibilities of PCRs from working directly with small businesses to directing contracts to small businesses.³⁵ The BDSs would assume full responsibility for working directly with small businesses. SBA headquarters officials explained efforts were underway for PCRs to coordinate with BDSs when opportunities for small business were identified at federal agencies. In our interviews with PCRs, some mentioned changes in their responsibilities—to interact more with federal agencies to identify small business contracting opportunities and less with small businesses to provide outreach and training on federal contracts—but noted they were still transitioning to their new roles.

³²SBA officials explained the agency is looking into other ways to assess PCR performance and plans to develop a system to track PCR performance in fiscal year 2009.

³³See app. IV for more information on the use of Form 70s from fiscal years 2003 through 2007.

³⁴House Small Business Committee, Testimony of SBA Deputy Administrator Jovita Carranza, 110th Congress, 2nd sess., Sept. 19, 2007.

³⁵House Committee on Small Business, Testimony by SBA Administrator Steve Preston, 110th Congress, 2nd sess., Feb. 7, 2008.

However, SBA officials also explained that SBA currently has no formal guidance or plan in place to review the workload of PCRs and they made PCR assignments by considering the contracting volume of the buying activities and the level of automation of the contract process at the buying activities. The officials explained that in the future, SBA plans to undertake a business re-engineering process to develop a resource allocation system that incorporates the above factors.

According to PCRs and others we interviewed, workload and resource issues have affected their ability to conduct their current work. Officials in three of the four area offices we visited explained PCRs were stretched too thin and were not able to cover all contracting activities effectively.³⁶ More specifically, five of the eight PCRs we interviewed were finding it difficult to provide adequate coverage to one agency, much less several. Our analysis of the field directory indicated that 17 (29 percent) of 59 PCRs were responsible for six or more buying activities. Further, many PCRs explained they had better results in advocating for small business when they were involved with buying activities on an ongoing basis and available to make informal recommendations and answer questions than when they were not. At two of the four agencies we reviewed, OSDDBU officials explained that they rarely interacted with PCRs. In addition, an official from another agency explained they do not rely as much on PCRs for guidance and support since the PCRs appear to be overextended in covering all their responsibilities. Therefore, these agencies may have missed opportunities to identify or advocate small businesses for certain contract opportunities. In addition, an OSDDBU official explained that because PCRs were responsible for several agencies they generally had to focus on agencies that were most challenged to reach their small business goals. Moreover, all the area office directors we interviewed explained that a wave of PCR retirements was expected in the near future and it would be difficult to replace the knowledge and relationships of the current PCRs.

In addition to PCRs, who review agency acquisitions and recommend contracting opportunities for small businesses, SBA's CMRs

- conduct compliance reviews of prime contractors,
- counsel small businesses on how to obtain subcontracts,

³⁶We visited four of the six area offices in SBA.

-
- conduct and participate in “matchmaking” activities to facilitate subcontracting with small business, and
 - provide orientation and training on the subcontracting assistance program for both large and small businesses.

However, the number of staff performing CMR duties has decreased substantially in recent years, as has the number of staff dedicated to performing those duties full time. A 2007 SBA IG report found a significant decrease in the number of full-time CMRs from 24 in 1992 to 3 in 2006 and an increase in the number of part-time CMRs from 3 to 35 over the same period.³⁷ As of August 2008, SBA had 31 CMRs, 16 of whom had additional job functions such as PCR duties, conducting small business size determinations, and issuing certificates of competency.³⁸ These additional roles often take higher priority and reduce the amount of time CMRs are able to spend on subcontracting assistance activities. Moreover, the CMRs with whom we spoke had large portfolios, ranging from approximately 90 to 200 prime contractors. The IG recommended that SBA develop a performance plan that addresses how CMRs would be allocated. Although SBA agreed with this recommendation and stated more resources were needed, SBA still does not formally monitor the workload allocations of the CMRs. SBA officials stated that the agency plans to evaluate CMR workloads and possibly centralize some job functions.

Furthermore, resource constraints have limited the ability of CMRs to perform a key monitoring function. All of the CMRs we interviewed explained that their increased workload diminished their ability to monitor prime contractors through compliance reviews. For instance, one CMR with whom we spoke had not completed a formal compliance review of a prime contractor in 5 years. Some CMRs also noted that the number of on-site reviews they conducted was limited because of budget constraints.

³⁷SBA, *Review of SBA’s Subcontracting Assistance Program*, Audit Report No. 7-33 (Washington, D.C., Sept. 28, 2007).

³⁸The Office of Government Contracting conducts size determinations and Certifications of Competency (CoC). SBA conducts small business size determinations when, for example, a contracting officer or another interested party challenges the size of a small business in connection with a particular procurement. Under the CoC program, SBA conducts a detailed review of a small business to evaluate its responsibility to receive and perform a specific procurement. If SBA determines that a CoC is warranted, SBA notifies the contracting officer for the specific contract. The officer can accept the CoC for the small business and award the contract or may ask SBA for further review. SBA ultimately has conclusive authority to issue or refuse to issue a CoC for a small business.

Furthermore, the SBA IG found in fiscal year 2006 that less than half of the 2,200 large prime contractors were monitored and only 24 percent of those monitored had been reviewed on-site. CMRs are responsible for reviewing subcontracting plans of prime contractors once a contract has been issued. CMRs review the plans to see if prime contractors are meeting their subcontracting goals, whether they have a program in place to achieve their goals, and how well the program is being implemented. SBA guidance also states that conducting compliance reviews is one of the CMR's most important responsibilities. The guidance further states these reviews often are the only formal evaluation of a contractor's compliance with its subcontracting plan and that CMRs should conduct desk audits and on-site reviews of prime contractors to ensure they are upholding their subcontracting plans.

Resource constraints that contributed to extensive workloads and responsibilities encompassing several agencies and activities have hindered the ability of SBA staff to carry out core activities related to monitoring of federal contracting. As a result, SBA has reduced assurance that PCRs and CMRs are ensuring that federal agencies increase their share of federal contracts for small business or are effectively monitoring contracting activity at the federal agencies.

SBA Faces Several Challenges in Effectively Administering the 8(a) Program

SBA faces several challenges in its overall administration of the 8(a) business development program. First, SBA offers voluntary seminars and an assessment tool to help educate applicants on the 8(a) program, but according to SBA officials some applicants still may not understand the program's purpose and reporting requirements. Second, SBA staff said that the recent emphasis on meeting the long-standing statutory requirement to complete annual reviews of 100 percent of 8(a) firms—which are time- and resource-intensive—has diminished their ability to conduct business development activities. Third, an inefficient termination process may result in noncompliant firms remaining in the program and consuming limited SBA resources that otherwise might be used to provide business development assistance to compliant participants. Finally, a 2006 IG recommendation that SBA regularly conduct surveillance reviews of agency oversight of 8(a) contracting has not been implemented. As a result of SBA not conducting such reviews, it has reduced assurance that agencies met their responsibilities under partnership agreements, including oversight of contracting, for the 8(a) program.

The Purpose of the 8(a) Program Is Business Development and Participants Must Meet Annual Reporting and Other Requirements

The purpose of SBA's 8(a) program is to help eligible SDBs compete in the economy through business development.³⁹ Over the course of their 9-year term, 8(a) participants can receive (1) business training, (2) financial assistance, and (3) assistance with forming joint ventures and other strategic agreements. As noted, firms in the 8(a) program also are eligible to receive competitive and sole-source set-aside federal contracts. Because the 8(a) program does not guarantee that participants will receive these contracts, firms in the program have some responsibility for their own success. For example, in all of the locations we visited, district office officials told us that firms with marketing experience and that did significant self-marketing with federal agencies were most successful.

Any firm has the right to apply for 8(a) program participation, but 8(a) eligibility requires a firm to have a minimum of 2 years of business experience or meet waiver provisions. Specifically, prospective 8(a) firms must be in business for 2 full years immediately prior to the date of application and present supporting documentation for SBA's analysis or apply for a waiver to the 2-year rule and demonstrate they meet certain other conditions, including (1) business management experience, (2) technical expertise, (3) adequate capital, (4) a record of successful contract performance, and (5) the ability to obtain the resources necessary to perform contracts. Applicants also must provide documentation on the firm's business and its owners, including business and personal financial statements and business and personal tax returns. According to SBA, firms were able to submit their applications electronically through its Business Development Management Information System (BDMIS) in 2005, but the system was implemented fully as of July 28, 2008.⁴⁰ The system is intended to significantly decrease processing times for 8(a) certifications. SBA's goal is to complete 8(a) certifications within 90 days.

³⁹13 C.F.R. § 124.1.

⁴⁰That is, BDMIS was operational in all the district offices, allowing 8(a) applicants and participants to submit information electronically and BDSs to review the documentation electronically. By September 30, 2008, SBA stated it will convert paper applications currently in process and other paper files to BDMIS-compatible format. However, SBA stated that, by law, it must continue to accept paper applications. When an applicant submits a paper application (does not apply through BDMIS), a BDS will need to enter the data manually into BDMIS for it to be processed. In addition, in an effort to prevent fraud, SBA's Office of General Counsel and Office of IG still require applicants to submit signed forms and required supplemental documentation.

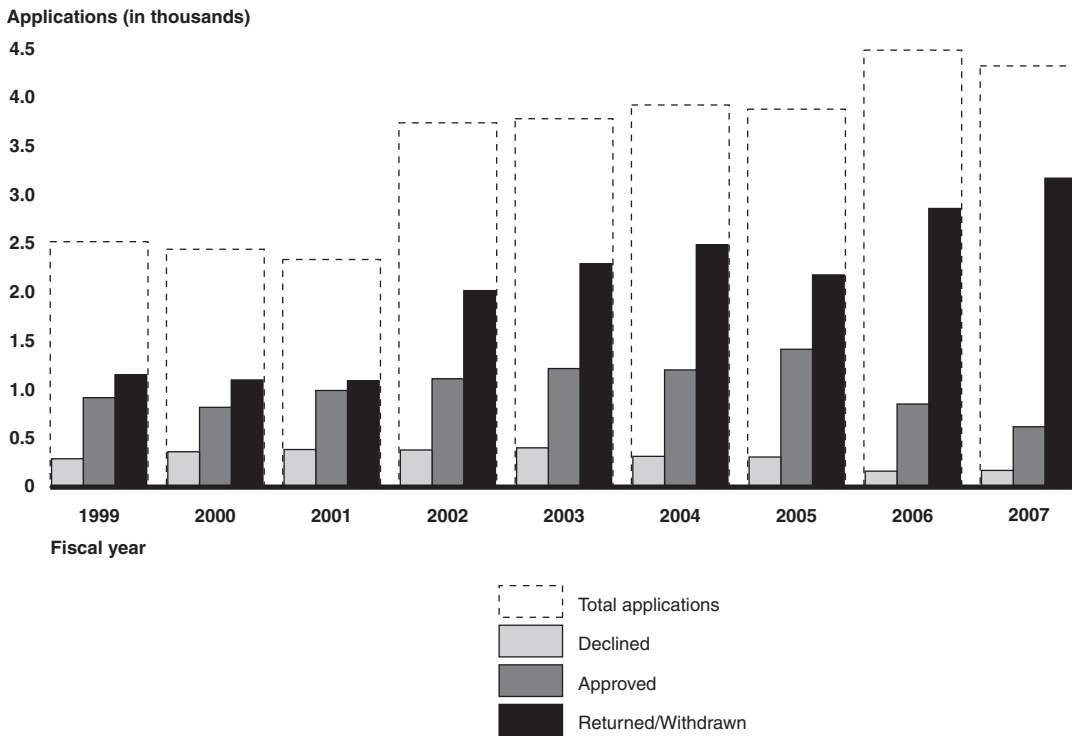
Once approved for the program, participant firms must continue to meet all eligibility criteria (including those for ownership and social and economic disadvantage) and submit documentation that SBA requires to complete mandatory annual reviews. For instance, each year, as part of the annual review, participants must provide SBA with a certification that they continue to meet eligibility requirements as well as financial statements, income tax returns, and a report on all non-8(a) contracts.⁴¹ In conjunction with SBA, each participant also must review its business plan annually and modify the plan as appropriate based on future contract targets and business development needs. Since SBA approves the business plan upon admission, it reviews the plan annually to assess each firm's growth and progress toward attaining the ability to compete in the open market without SBA assistance. Most annual review documents and the updated business plan are due within 30 days after the close of each firm's program year and financial statements are due within 90 to 120 days of the close of the reporting period. Participants sign an agreement upon entry to the program that they will submit all required documentation to SBA on time or face termination.

SBA Uses Voluntary Means to Educate Applicants on 8(a), but Some Applicants Still May Not Understand Program Purpose and Reporting Requirements

The number of applications to the 8(a) program increased sharply in 2002, and remained relatively constant through 2007 (see fig. 7). SBA noted that the numbers could increase during economic downturns or when unexpected events like Hurricane Katrina affected business operations and the applications might be the result of applicants not having a clear understanding of the primary purpose of the 8(a) program as a business development program. That is, firms may have applied to the program because they focused on the contracting preferences they could receive as 8(a) firms and not on the program's requirements for business development. According to SBA officials, a majority of applications were returned because the firms applying submitted incomplete applications. Figure 7 also illustrates that for each year from 2002 through 2007, the number of applications that were either returned or withdrawn exceeded the numbers of approved applications and declined applications. Some SBA officials also noted that often applicants were not prepared or well-suited for the program.

⁴¹To ensure that 8(a) participants do not continue to rely on 8(a) contract awards following graduation from the program, SBA requires that they obtain certain levels of non-8(a) contracts. SBA establishes these non-8(a) business activity targets based on the participant's program year.

Figure 7: Number of 8(a) Applications Received, Approved, Declined, and Withdrawn or Returned, Fiscal Years 1999–2007



Source: GAO analysis of SBA data.

Note: Total applications received in each fiscal year do not equal the sum of all other categories because some decisions can be reconsidered in the following year or carried over from prior fiscal years.

SBA has used several means to educate applicants about the purpose of the 8(a) program and its eligibility and reporting requirements, but none are a prerequisite for program application. SBA offers an information session for firms interested in applying to the 8(a) program, but participation in the session is voluntary. SBA markets these sessions through its resource partners (such as Small Business Development Centers and SCORE) and its Web site, and 8(a) program guidance states that district offices are expected to encourage potential applicants to attend the sessions, which the district offices or resource partners

conduct.⁴² The purpose of the information session is to educate potential applicants about eligibility and the application process and to assist them in making a determination about participation. For example, topics covered in the session include (1) program background, (2) eligibility requirements, (3) application forms, (4) requirements for participation and continuing eligibility such as annual reviews, and (5) available program resources. According to SBA guidance, information sessions may be conducted as workshops with multiple firms or a one-on-one interview with a single firm. At the four district offices that we visited, the BDSs said that their offices conducted workshops for potential applicants. According to SBA, its district offices held 1,912 8(a) workshops in fiscal year 2008 that were attended by more than 42,000 participants. Forty-seven of the 68 district offices, including the 4 we visited, reported that they held workshops monthly or conducted at least 12 workshops in 2008.

SBA officials also explained that in 2007, they developed an online self-assessment tool that firms could use to determine their readiness for the program before they applied. According to the officials, as of October 2008, over 26,000 firms had completed the assessment tool since its inception. The tool includes an audio-visual presentation that provides basic information on the 8(a) program and consists of 23 questions that have accompanying explanations of their relevance to program requirements. For example, SBA asks whether the potential applicant has a current business plan and explains, “Sound business management is core to the success of participating 8(a) certified firms. A key aspect of good management is business planning. Prospective 8(a) firms should have a current, well thought out business plan before applying to the program.” Users’ responses are scored and they receive an assessment profile, which places them in one of seven tracks such as a new business or business with at least 2 years of experience. The assessment results also suggest whether the firm might be a good fit for the program. In addition to the assessment tool, SBA provides a separate informational course, “INSIGHT-Guide to the 8(a) Business Development Program,” to better educate firms about the program. The course is on SBA’s Web site and firms must register basic demographic and business status data prior to taking the course. According to SBA officials, as of October 2008, approximately 30,000 firms had taken the course.

⁴²Currently, SBA partners with SCORE (formerly the Service Corps of Retired Executives), Small Business Development Centers, Women’s Business Centers, and other organizations to provide training, counseling, and other assistance to small businesses.

As with the information session, the 8(a) assessment tool is voluntary and not a prerequisite to completing an application, although SBA officials said they “highly suggested” that firms use the tool prior to application. In addition, some SBA officials felt it was necessary that firms interested in applying to the program be required to participate in a seminar that—like the voluntary information session—explains the purpose of the program and its reporting requirements. They also hoped that current efforts to educate firms prior to applying for certification might help to reduce the number of applications from unprepared firms or firms not well-suited for the program. As illustrated earlier, 73 percent of applications were returned or withdrawn in 2007. Moreover, certification officials told us that in tracking the results of the assessment tool since inception, they found that approximately 60 percent of firms completing the assessment appeared that they did not qualify for the 8(a) program.

Applicants that do not receive adequate information about the program may not be fully aware of their responsibilities for maintaining eligibility and achieving success in the program. Moreover, the lack of a mandatory assessment tool or required educational sessions may have implications for use of SBA resources during a participant’s tenure in the program. That is, firms that do not clearly understand 8(a) eligibility and reporting requirements may increase SBA’s expenditure of resources and staff time. For instance, as discussed in the following sections, firms that did not adhere to (as a result of not understanding) the program requirements may increase SBA’s expenditure of resources and staff time for conducting annual reviews and diminish the time available for other program activities.

SBA Staff Are Required to Review All 8(a) Firms Annually, but Workload Constraints and Firms Not Submitting Required Documentation Challenge Staff to Complete Timely Reviews

The purpose of annual reviews is to determine if a firm should be retained, terminated, or graduated early from the 8(a) program. SBA staff (BDSs in district offices) review documentation that participants submit on financial and tax information, contracting activity, and continued eligibility. For example, BDSs review 8(a) firms to determine if they still qualify as economically disadvantaged according to the 8(a) limits on net worth. Annual review documents are due each year, 30 days after a firm’s certification date, and BDSs are required to complete the review 30 days after receiving all required documentation. If, at that time, SBA has not received the required documentation, the firm has two additional opportunities to supply the information.

Staff workloads relating to the annual reviews appeared to be heavy. Among the 19 BDSs with whom we spoke during our visits to district

offices in Atlanta, Chicago, San Francisco, and Washington, D.C., the number of firms for which they were responsible ranged from 36 to 162, with the majority of BDSs responsible for 90 or more firms. However, portfolio size varies by district office because the concentration of 8(a) firms varies by district office, with the Washington Metropolitan Area district office having the highest number.⁴³ In 2006, that office covered more than 1,000 firms (of a total of 9,667 firms in the program).⁴⁴

SBA has long been required by statute to complete annual reviews of all firms.⁴⁵ SBA officials with whom we spoke acknowledged that in past years not all district offices completed all required annual reviews (see table 2). However, meeting statutory requirements such as 8(a) annual reviews became a priority for SBA under the “reform agenda” developed by SBA’s former administrator in 2006.⁴⁶ In fiscal year 2007, SBA added this measure to the performance scorecards of district offices as part of the agency’s new emphasis on meeting all of its compliance requirements. District office scorecards outline key annual compliance requirements and loan volume goals. Consequently, to achieve the 100 percent statutory goal, BDSs have devoted significantly more time and resources to this activity.

Table 2: Percentage of 8(a) Annual Reviews Completed, Fiscal Years 2003–2007

| Statutory mandate is 100% annually | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|------------------------------------|---------|---------|---------|---------|---------|
| % 8(a) annual reviews completed | 55 | 60 | 77 | 56 | 100 |

Source: SBA.

⁴³The 8(a) firms are assigned to district offices based on their geographic location. However, 8(a) firms that are in the construction industry are assigned based on the location of the construction.

⁴⁴As of May 2008, 67 of 68 district offices had an 8(a) portfolio.

⁴⁵Pub. L. No. 100-656, § 209, 102 Stat. 3853, 3863 (1988), codified at 15 U.S.C. § 637(a)(6)(B). The requirement to complete annual reviews of all program participants, along with other provisions in the law, was intended to prevent firms that were not the intended beneficiaries of the program from participating in the program.

⁴⁶The agenda emphasized (1) meeting all compliance requirements, (2) ensuring that all SBA’s programs operated efficiently and effectively, (3) improving communication, and (4) providing effective training.

However, SBA also has recognized that staff constraints affected its ability to perform annual reviews. According to its 2006 Performance and Accountability Report, a main contributing factor in the agency's inability to complete annual reviews of all 8(a) firms was a lack of staff resources in the district offices. In 2006, when the agency began to emphasize meeting all compliance requirements, it also planned to consider reallocating resources to help ensure that staff could comply with the review requirement. However, given the size of some BDS portfolios in the district offices that we visited, we did not see evidence that SBA had begun this effort.

Additionally, applicants not submitting required documentation contributed to increasing the time and resources needed to complete annual reviews. SBA officials said that a major challenge with conducting and completing annual reviews was that participants had not submitted the required documentation on time, even though participants signed an agreement upon entry to the program that they would do so. Some officials said they were aware that reporting requirements presented a burden for some firms, particularly those that were smaller or did not have contracts and therefore had less incentive to maintain eligibility. In one location, a BDS provided an example of a firm that withdrew from the program prior to its first annual review because the owner was overwhelmed by the amount of documentation that needed to be submitted. Several SBA officials also said that annual reviews were resource-intensive since they required BDSs to type a significant amount of information into the 8(a) database and to repeatedly attempt to obtain required documentation from noncompliant firms. In our review of 80 files, we saw evidence that some annual reviews had taken several months to complete because of missing documentation. SBA officials said that they anticipate that greater automation, through BDMIS, would reduce the time associated with data input for BDSs and allow more time for the BDSs to provide business development assistance.

Delays in completing annual reviews also could result in potentially noncompliant firms receiving contracts. Results from the annual reviews help SBA to fulfill its role in partnership agreements with federal agencies. For instance, SBA must verify that a firm is in compliance before SBA can accept a proposed 8(a) contract from a federal procuring agency. This process is referred to as the "offer and acceptance letter"—an offer letter from the federal agency and an acceptance letter from SBA. Some federal

agency contracting officials reported frequent delays in receiving SBA's acceptance letter.⁴⁷ However, SBA officials explained one reason for the delay may be a result of the agency not providing complete information on the offer letter. SBA officials said that if a firm identified in a federal agency's offer letter had compliance issues, such as missing documentation required for the annual review, they attempted to get the firm back into compliance to accept the offer if the issues were minor and could be resolved within a reasonable time frame. Additionally, SBA headquarters officials explained that in cases where a termination or early graduation was pending, the firm could still receive contracts. In the case of a termination, the firm could still receive contracts during its 45-day appeal period unless SBA had issued a suspension (temporary disqualification) to protect the government's interests.

Competing Demands Have Diminished the Ability of Limited Numbers of SBA Staff to Conduct Business Development Activities and SBA Still Lacks Plan to Improve Service Delivery

SBA officials said that the current emphasis on 100 percent compliance for annual reviews combined with limited district office resources diminished the amount of time spent on business development activities. SBA guidance requires business development specialists to be the primary providers in helping firms develop business plans, seek loans, and receive counseling on finances, marketing, and management practices. More specifically, SBA guidance requires that each district office nurture a relationship with its assigned agencies and buying activities to increase the number of 8(a) contracts. In addition, each district office is required to develop an outreach plan that identifies the groups of people, businesses, agencies, and other organizations that will be targeted for outreach during the year.

However, some BDSs told us that conducting annual reviews consumed most of their time. In three of the four offices that we visited, the BDSs said they previously conducted more site visits with their firms but resource constraints and the time devoted to annual reviews had limited these visits. Some officials also said that their offices previously held marketing and other events to introduce federal agency contracting officials to small businesses and 8(a) and other small businesses to each other, but that they had discontinued or reduced the number of these events. They said that such events provided opportunities for firms to market their services and "interview" with federal agencies, connect with

⁴⁷The agreement also states that if SBA does not respond to the agency within that time frame, the agency can proceed with the procurement.

other firms, and potentially pursue mentor-protégé relationships or joint ventures. The officials also felt that BDSs had fewer opportunities to develop relationships with their firms.⁴⁸ Moreover, prior to the efforts to meet the annual review requirements, a 2004 SBA IG audit also found that SBA had not developed program-wide policy and guidance on how it would deliver business development services to 8(a) firms or tracked the services it was providing to firms.⁴⁹

Subsequently, SBA began some efforts to create tools or strategies to increase and improve the delivery of business development assistance. In its 2006 Performance and Accountability Report, SBA identified improvements in providing individualized business development assistance as one of several program actions that it would carry out for fiscal year 2007. SBA's 2007 Annual Performance Report discussed an 8(a) business development plan that includes (1) creating a business development assessment tool that identifies the individual needs of program participants, (2) using SBA's resource partners to assist in delivering business development, and (3) developing a tracking mechanism to assess firms' progress in meeting their business development needs.⁵⁰ Although these initiatives may help SBA staff to develop and prepare small disadvantaged firms for procurement and other business opportunities in the future, SBA has not completed or implemented the plan. SBA officials explained they were in the process of soliciting feedback on the plan from the resource partners and would then vet the plan within SBA. However, they have not yet established a timetable to complete this process. As a result, BDSs lack some tools that could help them offset existing resource constraints and better provide business development assistance.

⁴⁸We were unable to assess the extent of business development assistance provided to firms because SBA has not implemented its tracking system to date.

⁴⁹SBA IG, *Business Development Provided By SBA's 8(a) Business Development Program*, Report Number 4-22, June 2, 2004.

⁵⁰The assessment tool will allow a firm to answer a series of questions on a number of management and business skills. Further, SBA officials stated the BDMIS will assist SBA in addressing the purpose of the 8(a) program, meet the needs and expectations of the firms in the program, and improve SBA's ability to automate and streamline various processing functions. GAO and SBA IG reports have cited a lack of tracking in place to measure the level of business development assistance provided. See GAO, *Small Business: SBA Could Better Focus Its 8(a) Program to Help Firms Obtain Contracts*, [GAO/RCED-00-196](#) (Washington, D.C.: July 20, 2000) and SBA IG, Report Number 4-22.

SBA Has Not Completed Revisions to an Inefficient Termination Process, Which May Keep Noncompliant Firms in the 8(a) Program and Consume Resources That Could Be Used for Business Development Assistance

Participants in the 8(a) program can leave the program in several ways, including voluntary withdrawal and early graduation, prior to completing the 9-year term.⁵¹ SBA also may terminate firms under several conditions, including failure to follow program procedures; maintain eligibility for participation; maintain ownership, management, and control by disadvantaged individuals; or maintain licenses or charters.⁵² Although participants can be terminated for several reasons, SBA officials told us that most firms were terminated for not providing required documentation. Table 3 shows the volume of voluntary withdrawals, early graduations, and terminations over time. The BDSs with whom we spoke said that only a small percentage of 8(a) firms graduated early and none of the 19 BDSs with whom we spoke had experience in graduating firms early. According to SBA’s report to Congress, approximately 80 to 150 firms were terminated annually from 1999 through 2007, with the exception of 2006 when the number was more than 300. In one district office that we visited, officials pointed out that the number of firms terminated had increased since SBA had added the goal of completing annual reviews of all 8(a) firms to district office scorecards.

Table 3: 8(a) Terminations, Early Graduations, and Voluntary Withdrawals, Fiscal Years 1999–2007

| Fiscal Year | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Voluntary withdrawals | 64 | 67 | 49 | 57 | 56 | 75 | 98 | 95 | 149 |
| Early graduations | 1 | 2 | 1 | 0 | 0 | 11 | 18 | 12 | 12 |
| Terminations | 83 | 126 | 147 | 123 | 92 | 148 | 130 | 318 | 143 |
| Totals | 148 | 195 | 197 | 180 | 148 | 234 | 246 | 425 | 304 |

Source: SBA.

Prior to terminating a participant, SBA headquarters requires proof that the participant has received two notifications from the district office about the agency’s intent to terminate. SBA then issues a letter of intent to terminate and provides the participant with an opportunity to respond in

⁵¹A firm may withdraw from the program at any time. SBA also may graduate a participant early if it determines that the firm has completed the program successfully by substantially achieving the targets, objectives, and goals in its business plan and has demonstrated the ability to compete in the marketplace without the program’s assistance, or no longer meets the economically disadvantaged criteria.

⁵²SBA Office of Business Development, *2006 Report to Congress*. SBA submits annual reports to Congress on the status of former 8(a) participants, including those that have completed the program as well as those that have exited the program through termination, early graduation, and voluntary withdrawal.

writing to justify retention and provide any pertinent documentation. If, following the participant's response or lack of response, SBA headquarters makes a final determination to terminate the firm, it then issues the participant a notice of termination. The participant has 45 days to appeal the decision. During the appeal period, SBA headquarters also can rescind the decision if the participant provides adequate supporting information.

However, because of the lengthy and inefficient termination process, noncompliant firms have remained in the 8(a) program. Results from our review of 80 files provided seven examples of firms that were repeatedly out of compliance at the time of their annual reviews but were not removed from the program. For example, one firm did not provide the required documentation for 5 of the 7 years it was in the program. A total of 25 firms (31 percent of the files we reviewed) were found to be out of compliance. SBA has guidance in place to terminate firms from the program, but SBA officials noted the process could take up to 120 days after a firm was notified of SBA's intent to terminate. In addition, challenges arose when procedures in place did not apply to certain scenarios and when headquarters delayed completing its own assessment of the termination decision. One BDS told us of an instance where he initiated termination of a newly certified firm that was unresponsive after repeated attempts by the district office to communicate. The BDS conducted a field visit and found no facility at the location the firm provided on its application. However, since the BDS was unable to contact the applicant and was unable to provide the required proof-of-notification to headquarters, headquarters was reluctant to proceed with terminating the firm. Our file review showed a total of three instances where BDSs had difficulties in terminating firms because they were unable to locate the firms with the information they provided to SBA. In such cases, district office staff were limited in their ability to carry out timely terminations and remained responsible for completing an annual review until the firm was formally removed from the program.

SBA officials also told us they were revising the 8(a) termination process and that they expect the new process to reduce the time to complete terminations from 120 to 45 days. The officials said that delays under the current process resulted from having to notify firms multiple times—twice by the district office and twice by headquarters. Under the revised process, SBA headquarters would send one notification of SBA's intent to terminate, rather than two, which could reduce the time to complete the terminations. As part of recent efforts to improve agency performance and ensure that all its programs operate efficiently and effectively, SBA has been revising several of its standard operating procedures (SOP),

including the sections of the 8(a) SOP on annual reviews and terminations. However, at the time of our review, SBA had not yet completed changes to the termination process in the 8(a) SOP.

As a result of lengthy and sometimes uncompleted terminations, noncompliant firms may continue to participate in the 8(a) program and receive federal contracts. Our file review showed one instance where a noncompliant firm received a contract; however, our sample was not limited to firms that received contracts. The termination process also has consumed scarce SBA resources and may have affected business development activities. For instance, firms that repeatedly were noncompliant would add to the annual review burden of the staff and reduce the time that could be spent on assisting firms that are in compliance. Finally, SBA's delay in completing revisions that it expects will expedite the termination process limits the ability of district office staff to carry out timely terminations.

SBA Has Not Implemented Recommendations to Routinely Monitor 8(a) Partnership Agreements through Surveillance Reviews

SBA uses surveillance reviews to monitor small business contracting at federal agencies, but the surveillance reviews have not assessed how agencies administered and oversaw 8(a) contracting. Under partnership agreements, SBA and federal agencies with procurement authority share the responsibilities of contract execution and oversight, monitoring, and compliance with procurement laws and regulations for 8(a) contracts. According to SBA's current SOP, the scope of a surveillance review includes assessing (1) management of the small business programs, (2) compliance with regulations and published policies and procedures, (3) outreach programs focusing on small businesses, and (4) procurement documentation. However, the SOP does not address specifically the 8(a) program at the federal agencies and does not include procedures to evaluate the program. SBA's six area offices coordinate with headquarters to determine which contracting activities within agencies will be selected for review during the last quarter of the fiscal year. Criteria used in selecting contracting activities included, among other things, the mission and the workload of the contracting activity, the small business goal achievement and overall level of small business participation over the

prior 2 fiscal years, and experience or known problems with the contracting activity.⁵³

SBA staff conduct surveillance reviews by reviewing contract files and interviewing agency officials.⁵⁴ In some instances, the Office of Government Contracting (in which the PCRs and CMRs work) and the Office of Business Development (in which the BDSs work) informally have shared responsibility for conducting surveillance reviews. More specifically, BDSs accompanied PCRs and CMRs on surveillance reviews to provide assistance in reviewing 8(a) contract files and were supposed to report their findings on 8(a) separately. PCRs were primarily responsible for reporting on all other surveillance review findings.

However, as identified in a 2006 SBA IG report, SBA's surveillance reviews did not monitor agencies' compliance with 8(a) partnership agreements. The IG report also noted that SBA was not aware that the 23 major procuring agencies failed to monitor 8(a) compliance on the contracts they administered and had no requirements for such monitoring. Further, SBA officials could not explain why reviews for the 8(a) program had not been conducted. Our review of reports for 32 surveillance reviews conducted in fiscal years 2006 and 2007 found that 10 assessed 8(a) contract files and that BDSs participated in 8 surveillance reviews. But the BDSs did not report on their findings. The IG report recommended that SBA conduct surveillance reviews on a regular basis to ensure that procuring agencies effectively were monitoring for and enforcing compliance with 8(a) regulations on the contracts they administered.⁵⁵

Although SBA agreed with the IG's recommendations, it has not yet made changes to its guidance for surveillance reviews (that is, the SOP) that would direct these reviews to regularly assess 8(a) contracting activities. As noted, SBA has been revising several of its SOPs and some officials explained that this usually was a lengthy process. But SBA has made some changes as a result of the IG report. According to SBA officials, in 2006,

⁵³Between 2003 and 2007, SBA conducted 94 surveillance reviews (59 within DOD) but did not conduct any reviews from 1994 to 2002 due to a suspension of the program as a result of budget constraints.

⁵⁴SBA Standard Operating Procedure 60 02 7, Prime Contracts Program, Oct. 8, 2004.

⁵⁵SBA, *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, Audit Report No. 6-15 (Washington, D.C., Mar. 16, 2006).

monitoring 8(a) contracting activities during surveillance reviews became the sole responsibility of the Office of Government Contracting. SBA officials said that PCRs and other Government Contracting staff were to complete the reviews, which would increase their efficiency and comprehensiveness because PCRs already conduct (and are experienced in) these reviews. SBA officials explained that by the end of fiscal year 2008, the Office of Government Contracting would begin incorporating the 8(a) program in its surveillance reviews.

Since SBA has not updated its guidance in a timely manner to incorporate the 8(a) program into surveillance reviews, SBA does not have procedures to monitor—and has not been monitoring regularly—how agencies with which it has partnership agreements ensure compliance with 8(a) program requirements. As suggested by the SBA IG in 2006, the integrity of the 8(a) program could be undermined if government officials were unaware of firms violating its regulations. As a result, SBA has reduced assurance that agencies have complied with procurement laws and regulations for 8(a) contracts.

Conclusions

SBA plays an important role in ensuring that federal agencies achieve small business contracting goals, small businesses gain access to federal contracting opportunities, and eligible socially and economically disadvantaged small businesses can compete in the economy. Although federal agencies have OSDBUs and their own offices in place to assist small businesses in finding contracting opportunities, SBA's role is to advocate for and review prime and subcontracting opportunities for small businesses through its PCRs and CMRs, respectively. Their multiple responsibilities include recommending contract set-asides, resolving disputed recommendations, conducting surveillance reviews, and reviewing prime contractor plans for subcontracting. However, resource constraints and increased workload have impaired the ability of PCRs and CMRs to carry out these activities. For example, while SBA has recognized that more PCRs are needed to effectively fulfill their responsibilities, which include making set-aside recommendations, SBA has neither tracked such recommendations since 2001 nor developed other measures that could be used to develop a formal plan to better ensure that PCRs can carry out their responsibilities. Further, years of downsizing at SBA have significantly reduced the number of CMRs, with half of the CMRs performing other functions as well. In view of the continuing difficulties that federal agencies can have in consistently meeting goals for small business contracting, SBA has the opportunity to consider ways in which to maximize the effectiveness of its support to agencies for small business

contracting. By assessing the workloads of PCRs and CMRs and the extent to which core responsibilities are being fulfilled and developing a strategy to effectively allocate limited resources, SBA could help ensure that the people and the resources necessary to identify and review federal contracting opportunities, and ultimately achieve small business goals, are in place.

In addition to reviewing staff responsibilities, SBA also has opportunities to improve some tools and processes that could realize efficiencies that would allow staff to devote more time to core activities such as business development in the 8(a) program. For instance, the 8(a) program does not have a mandatory education requirement such as a seminar or assessment tool for applicants. Consequently, some participants that are not adequately informed about the program's purpose and requirements may have unrealistic expectations of the program and be unprepared to fulfill their responsibilities, such as providing documentation for annual reviews. SBA currently must complete annual reviews of 100 percent of program participants, but staff cited lengthy, resource-intensive efforts to elicit documents from firms as a major reason for delays in completing the reviews. Better education at the front end of the 8(a) program and management of participant expectations could help reduce problems during program tenure, and thus free SBA staff resources for assisting firms with development activities.

As noted above, SBA's resource limitations have affected the ability of its staff to provide key services to small businesses. In the case of BDSs in the 8(a) program, the recent emphasis on completing required annual reviews has diminished the time and resources they have to provide 8(a) firms with business development support and conduct outreach activities that may increase contracting opportunities for them. While acknowledging the resource constraints that SBA faces and the necessity to comply fully with its statutory obligations, we note that the mission of the 8(a) program is business development. Additionally, SBA guidance requires BDSs to be the primary providers in helping firms develop business plans, seek loans, and receive counseling on finances, marketing, and management practices. Although SBA has recognized some organizational challenges and begun to reallocate resources in some district offices, we did not see evidence of these changes during our site visits. SBA has proposed a plan to provide more business development assistance through the creation of electronic tools to identify individual firms' needs and greater utilization of SBA's resource partners in providing assistance to businesses. However, the success of these proposed changes as they relate to the priorities and workload of staff such as the BDSs (and PCRs and CMRs) largely will

depend on the timely development and implementation of these improvements. Furthermore, a lengthy and resource-intensive process for terminating noncompliant participants from the program has resulted in inefficient use of SBA's limited program resources. SBA currently is revising the termination process, but has not developed a timeline for its completion and implementation. Prompt attention to these technological and procedural revisions could allow SBA staff to concentrate more on providing services to eligible firms and help ensure that program funds are targeted to deserving small businesses.

Finally, SBA could improve the utility and effectiveness of its surveillance reviews, which monitor small business contracting at federal agencies. However, SBA has not yet implemented changes that its IG recommended for the review process in 2006; notably, that the agency regularly conduct surveillance reviews at the federal agencies with which it has partnership agreements to ensure compliance with regulations for 8(a) contracting. Without information on compliance with small business contracting requirements that such a review provides, SBA and federal agencies could be unaware of violations within 8(a), a key small business program. SBA indicated that it planned to include 8(a) contracting in the surveillance reviews by the end of fiscal year 2008. By revising its guidance to address the IG recommendation, SBA could improve its oversight of contracting activity in the 8(a) program and overall small business contracting. Such monitoring helps to maintain the integrity of the program and contributes to the achievement of small business and socioeconomic contracting goals.

Recommendations for Executive Action

To improve its administration of the prime contracting, subcontracting, and 8(a) business development programs, we recommend that the Administrator of SBA take the following four actions:

- SBA should assess resources allocated for procurement center representative and commercial market representative functions and develop a plan to better ensure that these staff can carry out their responsibilities.
- To better educate prospective applicants for the 8(a) program and maximize limited SBA resources during program tenure of participants, SBA should take additional steps to ensure that firms applying for the program understand its requirements, and have realistic expectations for

participation. Such steps could include an education requirement, such as a seminar or assessment tool.

- In acknowledgment of the competing demands for business development specialists to complete required annual reviews of 8(a) firms and support the mission of the 8(a) program—that is, develop and prepare small disadvantaged firms for procurement and other business opportunities—SBA should
 - assess the workload of business development specialists to ensure they can carry out their responsibilities. As part of such an assessment, SBA could review the size of the 8(a) portfolio for all business development specialists and determine what mechanisms can be used to prioritize or redistribute their workload;
 - in a timely manner, develop and implement its proposed plan for creating tools that would assist in the provision of business development assistance for 8(a) firms; and
 - develop a timetable for planned changes to the termination process to ensure that staff monitoring 8(a) participants can carry out terminations from the program in a timely manner.
- To increase the usefulness of surveillance reviews for the 8(a) program, SBA should update its guidance to incorporate regular reviews of 8(a) contracting in the scope of the reviews.

Agency Comments and Our Evaluation

We requested SBA's comments on a draft of this report, and the Deputy Associate Administrator for Government Contracting and Business Development provided written comments that are presented in appendix V. SBA agreed with our recommendations and outlined steps that it has initiated or plans to take to address each recommendation.

First, SBA stated that it is assessing statutory requirements and resources for procurement center representatives and commercial market representatives in order to develop a plan that effectively and efficiently fulfills those requirements.

Second, with regard to better educating prospective applicants for its 8(a) program and maximizing limited resources, SBA noted its continuing efforts in developing a plan that assesses individual business development needs of 8(a) participants and proposes a tool that tracks and manages

8(a) firms during their 9 years in the program. SBA also discussed its previous efforts in providing an informational course on the 8(a) program and a self-assessment tool for potential 8(a) firms online. In addition, SBA stated that it has assembled a focus group, composed of offices within SBA and its resource partners, to review the plan and provide feedback. While these actions are consistent with our recommendations, we encourage SBA to take additional steps to ensure that firms applying for the program understand the 8(a) program requirements and have realistic expectations for participation. Such steps could include an education requirement, such as a seminar or assessment tool, that must be completed by the prospective applicant.

Third, SBA stated it would work with the Office of Human Capital Management to assess the workload of the business development specialists and their knowledge levels and stated this analysis would be completed by the end of the 2009 fiscal year (i.e. September 2009). Once completed, SBA plans to explore the possibility of redistributing certain portfolios. In addition, SBA expects to implement its proposed plan for creating tools that would assist in the provision of business development assistance for 8(a) firms by March 2009. Further, SBA stated that planned changes to its guidance on streamlining the termination process are expected to be issued by December 2008.

Finally, SBA noted that its guidance for surveillance reviews was updated on September 26, 2008, to incorporate regular reviews of 8(a) contracting in the scope of the reviews. However, SBA did not disclose how it will monitor the 8(a) program and its partnership agreements with federal agencies. SBA also provided technical comments that we incorporated as appropriate.

We also provided copies of the draft report to Commerce, DOD, DHS, and SSA. All four agencies responded that they had no comments on the draft report.

We are sending copies of this report to the Ranking Member of the House Subcommittee on Government Management, Organization and Procurement, House Committee on Oversight and Government Reform, as well as the Ranking Member, House Committee on Homeland Security, other interested congressional committees and the Acting Administrator of the Small Business Administration. We are also sending copies to the Secretaries of the Department of Commerce, Defense, and Homeland Security and the Commissioner of the Social Security Administration. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your offices have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VI.



William B. Shear
Director, Financial Markets and
Community Investment

Appendix I: Scope and Methodology

To describe the actions the Small Business Administration (SBA) takes to set small business contracting goals and the extent to which federal agencies have achieved their small business goals in recent years, we reviewed pertinent legislation, guidance issued by SBA, our prior reports, and SBA's Small Business Procurement Scorecard for fiscal years 2006 and 2008. In addition, we used data from fiscal years 2000 through 2006 on SBA's negotiated goals with agencies and small business goaling reports to compare the goals of five agencies—the Departments of Commerce (Commerce), Defense (DOD), and Homeland Security (DHS); the Social Security Administration (SSA); and SBA—with the actual dollars awarded for prime contracts and to determine what percentage of their contracting dollars was awarded to small businesses. SBA uses the Federal Procurement Data System-Next Generation (FPDS-NG) to prepare its annual Small Business Goaling Reports, which are used to evaluate the performance of federal agencies in achieving their small business and socioeconomic procurement preference goals. To assess these data, we reviewed related documentation, including the methodology used to create these reports. For the purposes of this report, we found these data to be reliable. We selected the first four agencies—a nongeneralizable sample—based on level of contracting activity and SBA's assessments of their goal achievement. The four agencies generally obligated larger amounts of contracting dollars to small disadvantaged businesses and, collectively, they received the full range of scores on SBA's 2006 scorecard. We also included SBA because it sets goals and is responsible for assessing and reporting on goal achievement at federal agencies. We also interviewed officials at SBA, Commerce, DOD, DHS, and SSA.

To examine SBA's role in supporting small business contracting at select agencies, we reviewed our previous reports, relevant policies, procedures, and regulations; obtained information on SBA resources devoted to such activities; interviewed officials from SBA headquarters and from four of its six area offices; and interviewed officials at four selected federal agencies (see above). We also analyzed the SBA field office directory for the six area offices and identified the number of procurement center representatives (PCR) and commercial market representatives (CMR) in the agency as of August 2008. Area offices have responsibility for SBA's prime contracting and subcontracting assistance programs and their staff can include PCRs and CMRs. We interviewed the 8 PCRs and 5 CMRs who were located in the four area offices we visited (out of an agency total of 59 PCRs and 31 CMRs, respectively).¹ We also reviewed the number of

¹The total agency staff numbers are as of August 2008.

agencies and buying activities assigned to each PCR. Buying activities are agencies or divisions within agencies that purchase goods and services. In addition, we analyzed SBA data on the number of formal and informal Form 70s issued to federal agencies by PCRs. Form 70s are used by PCRs to stop a contract action due to a disagreement between the PCR and contracting officer on a set-aside recommendation for small business. We had planned to update our 2002 report data on the number of PCR-recommended set-asides for this report, but because SBA no longer collects this information electronically, the most recent data are from 2001.² For more information, see appendix IV. Further, we interviewed Office of Small and Disadvantaged Business Utilization (OSDBU) directors, acquisition officials, small business specialists, and contracting officers at our selected agencies. OSDBUs were established to advocate for contracting opportunities for small businesses.³ Small business specialists are responsible for working with OSDBUs and agency contracting officers to advocate for small businesses.

To examine SBA's overall administration of the 8(a) business development program, we reviewed and analyzed 8(a) program regulations, SBA's procedures for administering the program, and previous SBA Inspector General (IG) reports. We interviewed SBA officials in headquarters program offices, 4 of 6 area offices, 4 of 68 district offices, and 1 of 2 Division of Program Certification and Eligibility (DPCE) offices to obtain their perspectives on certification, monitoring activities, and other aspects of the program.⁴ More specifically, we interviewed 19 business development specialists (BDS).⁵ We also conducted site visits to SBA offices in Atlanta, Georgia; Chicago, Illinois; San Francisco, California; and Washington, D.C. We selected these locations based on the number of

²GAO, *Small Business Set-Asides: Information on the Number of Small Business Set-Asides Issued and Successfully Challenged*, [GAO-03-242R](#) (Washington, D.C.: Nov. 1, 2002).

³P.L. 95-507, Small Business Act, section 15 as amended, 1978 (U.S.C. § 644).

⁴At the end of fiscal year 2008, SBA had 68 district offices. The district offices are responsible primarily for administering SBA's 8(a) program and 67 had 8(a) portfolios as of May 2008. In addition to business development specialists (BDS) who work with 8(a) firms, district office staff include BDSs who work with other SBA business assistance programs and staff who work primarily with lenders.

⁵As of September 2007, SBA had 340 full-time equivalent BDSs. SBA officials explained this number might not be a true representation of the number of BDSs that work within the 8(a) program because district offices have discretion in how they use their staff and it is not clear by job title which BDSs work within the 8(a) program.

SBA's total 8(a) firms in each location and for geographic diversity. For each of the district offices that we visited, we reviewed and analyzed a sample of 20 8(a) participant files and additional documentation that SBA provided on the 8(a) program. To select these files, we obtained a list of 8(a) firms within each district office's portfolio that included information on the year the firm was scheduled to graduate, whether the firm had received a contract, and if the firm was part of SBA's mentor-protégé program. For each district office, we randomly selected two firms (one that received a contract and one that did not) from each year of the 9-year program and also randomly selected two firms in SBA's mentor-protégé program.⁶ We reviewed the number of 8(a) applications received, approved, declined, and returned or withdrawn from fiscal years 1999 through 2007. We reviewed and assessed the reliability of SBA's reports to Congress on the 8(a) program from 2001 through 2006. More specifically, we interviewed SBA officials about the data system used and reviewed related documentation. We determined this information was reliable for the purposes of this report. In addition, we reviewed 32 surveillance reviews conducted by the four selected area offices in 2006 and 2007. SBA uses surveillance reviews to assess federal agencies' management of small business programs and compliance with regulations and published policies and procedures. Furthermore, we interviewed business development specialists and business opportunity specialists about their work and processes related to 8(a) applications, annual reviews, and participant terminations at the district offices we visited. We also interviewed an official from a trade association representing 8(a) and small disadvantaged business (SDB) firms and reviewed documents prepared by other trade associations representing 8(a) and SDB firms.

To describe how the use of SDB certification has changed, we reviewed pertinent legislation and regulations, our previous reports, and SBA's IG report on SDB certification. We also interviewed officials at SBA, Commerce, DOD, DHS, and SSA. In addition, we analyzed data from SBA's Dynamic Small Business Search and FPDS-NG from fiscal years 2004 through 2007 to determine the number of SDB firms during this time period and the number of socioeconomic designations each SDB firm had.

⁶We refined our file selection methodology after visiting the Atlanta District Office and did not request contract information at that location. We randomly selected two firms by graduation year and also two firms in SBA's mentor-protégé program, which is designed to encourage approved mentors to provide various forms of assistance to eligible protégé participants. The purpose of the mentor-protégé relationship is to enhance the capabilities of the protégés and to improve their ability to successfully compete for federal contracts.

We conducted this performance audit from October 2007 through November 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Small Disadvantaged Business Certification and Changes to Its Use over Time

This appendix describes how the use of the small disadvantaged business (SDB) certification has changed. The certification's purpose was to assist participating businesses in obtaining federal contracts and subcontracts. The Small Business Administration's (SBA) Office of Business Development performed SDB certifications for the federal government, but suspended its certification program on October 3, 2008. To qualify for the SDB program, a firm had to be at least 51 percent owned and controlled by one or more individuals who met SBA's criteria of socially and economically disadvantaged. Socially disadvantaged individuals include certain members of designated groups, such as Black Americans or Hispanic Americans and individuals who are not members of designated groups. Economically disadvantaged firms included those whose primary owner(s) have \$750,000 or less in personal net worth, adjusted to exclude personal residence and business assets. Unlike the 8(a) program, firms were not required to demonstrate potential for success (for example, by having been in business at least for 2 years). In contrast to the single 9-year term of the 8(a) program, SDB certifications were valid for 3 years and firms had the option to recertify every 3 years. Benefits of the program originally included contract set-asides. In addition, all 8(a) firms automatically were certified as SDBs.

SDB Program Expanded from DOD to Civilian Agencies, but Judicial Decision Limited Implementation

The SDB program was established by the National Defense Authorization Act of 1987 for the Department of Defense (DOD).¹ From 1987 to 1995, SDBs (which were then self-certified) were eligible to receive two main benefits—a 10 percent price evaluation adjustment (PEA) in certain DOD acquisitions, and the ability to compete for contracts set aside for SDBs for certain DOD acquisitions—as well as an evaluation factor or subfactor to credit contractors for the use of SDBs as subcontractors in certain acquisitions. The program was extended to civilian agencies in 1994, but implementation was delayed in the aftermath of a 1995 Supreme Court decision.² The decision resulted in changes to the SDB program. Notably,

¹The program, established by Section 1207 of the Act and codified at 10 U.S.C. § 2323, has been reenacted several times, most recently in 2006. On November 4, 2008, the U.S. Court of Appeals for the Federal Circuit held that Section 1207, i.e., 10 U.S.C. § 2323, as reenacted in 2006, is unconstitutional. *Rothe Development Corp. v. Department of Defense and Department of the Air Force*, C.A.F.C. No. 2008-1017 (2008)

²In *Adarand Constructors, Inc. v. Peña*, 515 U.S. 200 (1995), the Supreme Court held that all federal affirmative action programs that use racial classifications are subject to strict judicial scrutiny. To meet this standard, a program must be shown to meet a compelling governmental interest and must be narrowly tailored to meet that interest.

the SDB set-aside was suspended although agencies could still use the PEA and evaluation credits. SBA also began certifying firms as SDBs in 1998, but on October 3, 2008, SBA published an interim final rule stating it would no longer certify SDB firms. For more details, see the following section.

The authority of most civilian agencies to use the PEA expired in December 2004. After that time, only DOD, the Coast Guard, and the National Aeronautics and Space Administration (NASA) could use PEA authority in awarding contracts; however, DOD has not used it in recent years. DOD is statutorily required to suspend its use of the PEA for 1 year after any fiscal year in which DOD awards more than 5 percent of its eligible contract dollars to SDBs. Since 1999, DOD has determined that it met this requirement and suspended PEA use. At the subcontracting level, agencies could give credit to prime contractors that use SDBs as subcontractors on certain government contracts.

According to Federal Agencies, SDB Certification Was of Limited Benefit

In our January 2001 report on the SDB certification, we reported that several officials cited limitations with the SDB certification because the set-asides or price preferences were not being used.³ In our recent interviews with SBA and agency officials, officials from all the agencies indicated that the certification was not useful at the prime contract level, and they attributed this to the absence of mechanisms, other than full and open competition, to award contracts to SDBs.⁴

- According to DOD officials, the SDB certification did not fill a legitimate departmental need and was not useful to the agency. As discussed above, DOD has not used the PEA since 1999.
- DHS officials we interviewed indicated that the Coast Guard rarely used PEAs to award prime contracts to SDB-certified firms because the agency could reach its 5 percent SDB goal through other small business set-aside programs. The Coast Guard also is proposing to ask for a waiver from

³GAO, *Small Business: Status of Small Disadvantaged Business Certifications*, [GAO-01-273](#) (Washington, D.C.: Jan. 19, 2001).

⁴We interviewed officials at Commerce, DOD, DHS, and SSA. We selected these agencies—a nongeneralizable sample—based on the amount of contracting dollars they awarded to small disadvantaged businesses and the ratings they received on SBA’s inaugural scorecard (for fiscal year 2006) that evaluated agencies’ performance on the various small business goals.

Congress on using PEAs because of their limited value to the agency.

- From the civilian agency perspective, Commerce and SSA officials agreed the SDB certification had limited benefit as a prime contracting tool because their authority to use the PEA expired and due to the absence of a SDB set-aside. They suggested its main benefit was to help firms identify subcontractors.
- Most agency officials with whom we spoke stated they relied on 8(a) firms to meet their SDB goals. (All 8(a) firms automatically qualify for SDB certification.)

SBA officials explained that agencies tended to concentrate on sole-source and set-aside mechanisms in the 8(a), Historically Underutilized Business Zone (HUBZone), and service-disabled veteran-owned business programs, since these provisions make it easier to award contracts to small businesses.⁵ SBA officials suggested some firms might continue to pursue the SDB certification not for federal contracts but because of state and local contracting programs that offer reciprocity to firms that are already SDB- or 8(a)-certified. They also noted that many firms had not sought the SDB certification because it was not worthwhile to them. Finally, in its interim final rule, SBA recognized the benefits of the SDB certification had greatly diminished over the past years.

⁵To qualify for the 8(a) program, a firm must be at least 51 percent owned and controlled by an individual who meets SBA's criteria of socially and economically disadvantaged. Firms in the 8(a) program are eligible to receive competitive and sole-source set-asides. Under the HUBZone program, certain small businesses located in economically distressed communities may be eligible for set-aside and "sole-source" contracts. Women-owned businesses must be at least 51 percent owned and controlled by women. Currently, there are no set-aside contracts for women-owned businesses. Service-disabled veteran-owned businesses must be at least 51 percent owned and controlled by service-disabled veterans and can be eligible for certain set-aside and sole-source contracts.

The Number of SDB Firms
Certified by SBA
Decreased in Recent Years,
Few SDB-only Firms
Received Contracts, and
Most SDB Firms Had
Additional Certifications

SBA has conducted fewer SDB certifications in recent years and we found that few firms that obtained federal contracts had only an SDB certification. Further, as noted above, SBA has stated it will no longer certify SDB firms.⁶ To conduct the SDB certifications prior to issuing its interim rule, SBA headquarters reviewed firms' applications, which had to include evidence demonstrating that the firm was owned and controlled by one or more individuals claiming disadvantaged status, along with certifications or narratives regarding the individuals' disadvantaged status. The firm also had to submit information necessary for a size determination.⁷ According to its implementing regulations, SBA had to tell each applicant whether the application was complete and suitable for evaluation, and, if not, what additional information or clarification was required within 15 days of receipt. If the application was complete, SBA had 30 days (if practicable) to determine whether the applicant met the SDB eligibility criteria. Applicants could appeal SBA's determinations.

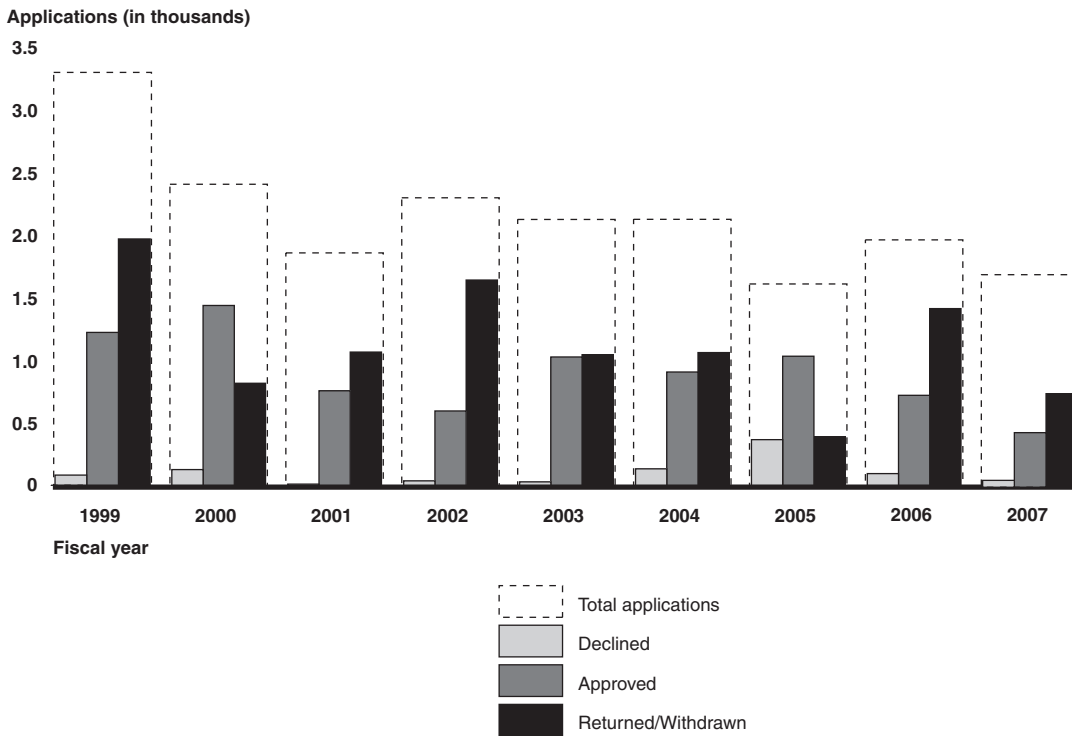
The number of SDB firms that SBA certified decreased from fiscal years 1999 through 2007. For example, in fiscal year 2007, SBA certified 436 small businesses as SDBs, down substantially from 734 certified in 2006 and 1,045 in 2005. In general, SBA admitted fewer firms as SDBs than applied, with the majority of applications returned or withdrawn (see fig. 8). SBA officials explained that the decrease could be a result of the expiration of the authority to use the PEA for most civilian agencies in 2004.

⁶SBA's interim rule shifts the responsibility of certifying firms as SDBs to those limited agencies that have the authority and choose to use PEAs, instead of requiring the 20 agencies that had Economy Act agreements with SBA to fund this service. In addition, the rule allows SDB firms to self-represent their status for subcontracting purposes. The rule stated that SBA took this action because only NASA and the Coast Guard were able to use the SDB PEA and their use of the PEA had been minimal. As a result, SBA did not believe that certifying SDBs government-wide was effective or efficient. Further, some agencies notified SBA they would not reimburse SBA for this service, as required through Economy Act agreements. The rule also stated SBA cannot use its own funds to support the certification because it is not a program but a service SBA agreed to provide through Economy Act agreements.

⁷SBA has established and revised numerical size standard definitions for all for-profit industries that are generally stated either as the number of employees or average annual receipts of a firm. In addition to establishing eligibility for SBA programs, all federal agencies must use SBA's size standards for the federal government contracts it identifies as a small business.

Appendix II: Small Disadvantaged Business Certification and Changes to Its Use over Time

Figure 8: Number of SDB Applications Received and Number of SDB Firms Certified by SBA, Fiscal Years 1999–2007



Source: GAO analysis of SBA data.

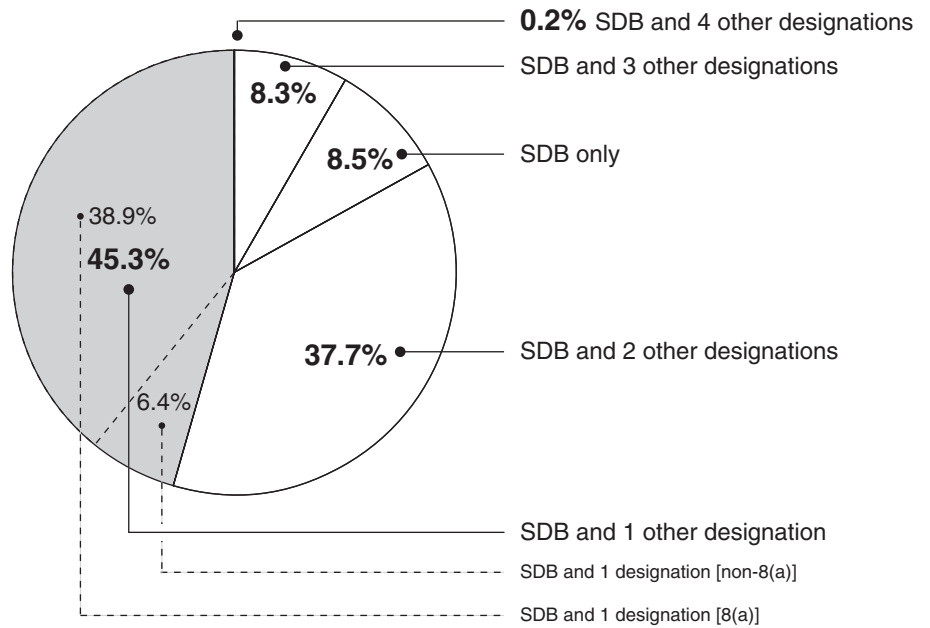
In our review of Federal Procurement Data System-Next Generation (FPDS-NG) data from fiscal years 2004 through 2007, SDB firms with more than one designation were more successful in receiving federal contracts than firms with only one designation.⁸ The majority of SDBs had either one or two additional designations. Fifteen percent (2,416) of the 15,950 SDB-certified firms in that period had only the SDB certification. Of SDBs that received contracts, 8.5 percent were SDB-only firms (meaning they did not have additional certifications). The majority of those firms that received contracts had at least one or two other designations, such as 8(a), HUBZone, or service-disabled veteran-owned (see fig. 9). However, of the 3,546 SDB firms with one other designation that received contracts,

⁸The Federal Acquisition Regulation requires executive departments and agencies to collect and report procurement data to FPDS-NG. The government uses the reported data to measure and assess the impact of federal procurement on the nation's economy, the extent to which awards are made to businesses in the various socioeconomic categories, and the impact of full and open competition on the acquisition process.

Appendix II: Small Disadvantaged Business Certification and Changes to Its Use over Time

85.9 percent also were designated as 8(a) firms. The results of this analysis suggest few firms relied solely on the SDB certification to obtain federal contracts.

Figure 9: Number of Designations for SDBs That Received Contracts, Fiscal Years 2004–2007



Source: GAO analysis of FPDS-NG data.

Appendix III: Roles of Offices of Small Disadvantaged Business Utilization and Agency Officials in Small Business Contracts

In addition to the role of the Small Business Administration (SBA), the Offices of Small Disadvantaged Business Utilization (OSDBU) and federal agency staff have advocacy, review, and liaison roles to facilitate small business contracting at federal agencies. For example, OSDBU officials we interviewed set policy within their agency and functioned as a liaison between small businesses and agency contracting officials. However, the level of involvement the OSDBU directors had in reviewing procurements and acquisition planning differed in the agencies selected for our review, partly reflecting the differing levels of procurement activity in the agencies. For example, the Department of Homeland Security (DHS) and Department of Commerce (Commerce) OSDBU directors were involved in the acquisition planning process with procurement officials, while the Department of Defense (DOD) and Social Security Administration (SSA) OSDBU directors were not. The roles of small business specialists, who report directly to procurement officials at their agencies, also may include being the liaison with SBA and the small business community.

Role of OSDBUs

The OSDBU directors we interviewed explained their roles included advocating for small business and other socioeconomic contracting programs, not just the 8(a) program.¹ They set policy, participated in outreach activities, attended monthly meetings with other OSDBUs, provided internal training and guidance to agency officials, and acted as liaisons between small businesses and contracting officials, among other things. From our discussions with OSDBU directors at selected agencies, the role of the OSDBU directors differed in the level of involvement in reviewing procurements and acquisition planning. For example, Commerce and SSA have policies that outline when OSDBUs became involved in reviewing procurements at certain procurement thresholds. Commerce and DHS OSDBU directors were involved in the acquisition planning process with procurement officials, while DOD and SSA OSDBU directors were not. Of the agencies we reviewed, the size of the OSDBU office varied from 22 staff members in DOD to 1 staff member at SSA (see table 4). Except for DOD, each agency had only one OSDBU office.

¹We interviewed officials at Commerce, DOD, DHS, and SSA. We selected these agencies—a nongeneralizable sample—based on the amount of contracting dollars they awarded to small disadvantaged businesses and the ratings they received on SBA’s inaugural scorecard (for fiscal year 2006) that evaluated agencies’ performance on the various small business goals.

Appendix III: Roles of Offices of Small Disadvantaged Business Utilization and Agency Officials in Small Business Contracts

DOD has multiple offices for each of the military departments (Air Force, Army, and Navy) and its other agencies.²

Table 4: OSDBU Size and Budget and Small Business Contract Dollars and Actions, for Commerce, DOD, DHS, and SSA

| Agency | Staff size (2008 including director) | Budget (FY 2007—actual) | Small business dollars (FY 2006) | Small business actions ^a (FY 2006) | SDB dollars (FY 2006) | SDB actions ^b (FY 2006) |
|----------|--|---------------------------|----------------------------------|---|-----------------------|------------------------------------|
| Commerce | 5 (including 2 vacancies) | \$361,000 | \$1,041,420,608 | 15,416 | \$347,696,162 | 3,089 |
| DOD | 22 ^c (including 2 vacancies) | \$41,966,557 ^d | \$51,316,934,021 | 963,132 | \$14,690,399,904 | 123,784 |
| DHS | 11 | \$1,727,091 ^e | \$4,410,173,942 | 45,604 | \$1,497,052,836 | 7,728 |
| SSA | 1 | \$3,662 ^f | \$258,708,716 | 5,828 | \$74,697,173 | 519 |

Sources: Commerce, DOD, DHS, and SSA (staff size and budget data); and Small Business Goaling report.

^a“Small business actions” include the number of small business contracts awarded or modified for purchase, rent, lease, or supplies of equipment using appropriated dollars.

^b“SDB actions” include the number of SDB contracts awarded or modified for purchase, rent, lease, or supplies of equipment using appropriated dollars. SBA certifies small businesses as SDBs. 8(a) firms automatically are certified as SDBs.

^cIn addition, 23 departments and agencies within DOD each have an OSDBU director and staff. (DOD renamed its Office of Small Disadvantaged Business the Office of Small Business Programs.) This table does not include the “OSDBU” directors and staff in the 23 entities.

^dThe total under the budget includes funding for programs for small businesses that are administered through DOD’s Office of Small Business Programs.

^eThis number is estimated and not actual and includes salaries, benefits, and other expenses.

^fThe SSA OSDBU office does not collect budget information in the same way as the other agencies in the table. SSA numbers reflect expenses used for local travel, conferences, and training.

The differences in staff size and budget may be related to the volume of procurement in each agency. As the table illustrates, DOD spends a much larger amount on small business procurement than SSA. The SSA OSDBU director explained the small business specialist works closely with the OSDBU in reviewing acquisitions. The director believed the staffing level supported the workload of the OSDBU office, which in years past, reviewed from approximately 40 to 45 procurements a year, but this may

²DOD changed the name from OSDBU to the Office of Small Business Programs. For simplicity, we use the term OSDBU for all agencies we reviewed.

change based on the new procurement center representative (PCR) assigned to SSA in January 2008.³

In 2003, we reported on the provision in the Small Business Act that requires OSDBU directors to report to agency heads or deputies and how select agencies were complying with this provision.⁴ We surveyed 24 agencies and determined 11 did not comply, including Commerce and SSA. For instance, we found that Commerce's OSDBU director reported to the Chief Financial Officer and Assistant Secretary for Administration. We also found that the SSA OSDBU director reported neither to the Social Security Administration Commissioner nor the Deputy Commissioner.⁵ The DOD OSDBU director was exempted from the reporting requirement in 1988 when Congress amended the pertinent section of the Act. Both Commerce and SSA disagreed with our findings and concluded that they were in compliance.

Although we did not conduct another evaluation of compliance with this requirement for our selected agencies, we did obtain information on the OSDBU directors' current reporting structure. The DOD OSDBU director continues to be exempt from the reporting requirement. The Commerce OSDBU director said and their organizational charts indicate that the position reports to the Chief Financial Officer/Assistant Secretary for Administration, which is the same reporting relationship we found in our previous report. The organizational chart for DHS illustrates that the OSDBU director reports to the Deputy Secretary of the agency. SSA officials explained that its OSDBU director reports to the Deputy Commissioner for Budget, Finance, and Management, which is a similar reporting position identified in our previous report.

Role of Small Business Specialists

Small business specialists (SBS) at federal agencies also promote the use of small businesses and reviewed procurements. SBSs at the agencies we reviewed (Commerce, DOD, DHS, and SSA) did not report to OSDBUs, but

³SSA was assigned a new PCR who worked with SSA management to implement changes to increase the number of contract actions eligible for review by the SSA OSDBU director.

⁴15 U.S.C. § 644(k)(3). See also GAO, *Small and Disadvantaged Businesses: Some Agencies' Advocates Do Not Report to the Required Management Level*, [GAO-03-863](#) (Washington, D.C.: Sept. 4, 2003).

⁵SBA was not included in the study. The scope of the review included 24 agencies that procured \$200 million or more in goods and services in fiscal year 2001. DHS was not included in the 2003 report since it had not been created yet.

worked with them to implement their small business procurement policies. SBS roles in federal procurement include

- making sure contracting officers take small businesses into consideration when awarding contracts as required by regulation;
- maintaining a liaison with SBA and the small business community to ensure small businesses have access to procurement opportunities;
- helping small businesses tailor their marketing materials for an agency's specific needs;
- conducting outreach and advocacy efforts; and
- conducting internal and external training.

The number of SBSs in an agency varied based on agency size; the differences in staff size also may be related to the volume of procurement in each agency. For example, DOD had approximately 500 SBSs and SSA had 1. Three of the four agencies we reviewed assigned SBSs to their bureaus and departments or divisions; however, SSA had one SBS for all divisions within the agency.

In discussing their work, procurement officials cited some challenges they faced within their agencies to increase opportunities for small business procurement. For example, some officials explained that convincing agency program officials of the benefits of using small business contractors could be difficult because some program officials were risk-averse and perceived costs to be higher when using small business contractors. Some officials explained that training and educating program officials generally helped with this challenge, as did having support from top-level management. In addition, some officials noted that their interaction with SBA staff was limited. For instance, OSDDBU officials we interviewed at two agencies explained that they rarely interacted with SBA's PCRs, whose responsibilities include reviewing proposed agency acquisitions and recommending small business set-asides.

SBA assesses how federal agencies promote small business goal attainment through its procurement scorecard. The scorecard evaluates factors such as goals met, progress shown, agency strategies, and top-level commitment to meeting goals. SBA's inaugural scorecard ratings were based on fiscal year 2006 activities; SBA subsequently reviewed agencies' progress in implementing procurement plans through July 25, 2007, and

appended additional ratings to the scorecard. The scorecard relates to the roles of OSDBUs and SBSs through some of the elements reviewed, such as agency plans and internal policy setting, collaboration on the formation of small business procurement policy, and training provided to contracting staff on small business practices.

Some of the Agencies We Reviewed Also Had Other Programs and Incentives in Place to Enhance Small Business Participation in Contracting

To meet the agency's small business goals, some federal agencies have developed their own programs and contracting mechanisms to promote small business participation in federal procurement. For example, DOD and DHS have mentor-protégé programs, administered through their OSDBUs, in which selected firms provide support and guidance for new firms entering the federal contracting arena. In return, at DOD, the mentor may receive monetary compensation or contracting incentives and at DHS, the mentor may receive contracting incentives. SBA also has a mentor-protégé program that is specific to the 8(a) program and administered by the Office of Business Development and SBA's district offices.

To promote greater competition within small business procurement, several agencies explained that they created internal contracting mechanisms.

- For example, DOD-Navy created the SEAPORT-e initiative, which is a rolling admission program in which firms compete for contracts in 22 types of naval services within seven geographic regions.
- DHS and Commerce developed contracting vehicles to enhance small business participation in information technology contracts.
- At Commerce-Census, Census officials explained they took specific efforts to involve small businesses as subcontractors in the upcoming 2010 decennial census by requiring prospective prime contractors to submit a subcontract participation plan.

Appendix IV: Number of Form 70s and Appeals Filed by SBA's Procurement Center Representatives, Fiscal Years 2003-2007

As stated previously in this report, the responsibilities of the Small Business Administration's (SBA) procurement center representatives (PCR) include recommending that contracts be set aside for eligible small businesses. In 2002, we reported that the number of set-aside recommendations that PCRs were making decreased by half from fiscal years 1991 through 2001.¹ Reasons for the decline during this period included downsizing (which decreased the number of PCRs), the reassignment of some PCRs to other roles, and the increased size of federal procurements that contributed to fewer set-aside opportunities for small businesses.² We planned to update our 2002 report; however, SBA stated they no longer electronically collected information on the number of set-asides. We were able to update information about the number of Form 70s and appeals that PCRs filed; the Form 70 reflects some level of discussion or disagreement between agencies and SBA about recommended set-asides.

In instances where an agency does not accept a PCR's recommendation for a small business set-aside, the PCR may dispute the procurement through informal or formal means to the agency's procurement official. A PCR generally will issue an informal Form 70 after discussing the set-aside and reaching an agreement with the contracting officer to accept the recommended set-aside. If the PCR and contracting officer do not reach an agreement, the PCR submits a formal Form 70 to the contracting officer, which effectively stops the contract action, pending further consideration. If the procurement official refuses to accept the recommended set aside addressed in the Form 70, SBA can appeal the rejection first to the head of the contracting activity (the division within the agency purchasing the goods or services), then to the agency head (known as a secretarial appeal).

From fiscal years 2003 through 2007, the number of informal form 70s increased approximately 71 percent and the number of formal form 70s decreased approximately 60 percent (see table 5). SBA officials explained their goal was to promote productive relationships with federal agencies and using informal complaints was more conducive to achieving this end.

¹GAO, *Small Business Set-Asides: Information on the Number of Small Business Set-Asides Issued and Successfully Challenged*, [GAO-03-242R](#) (Washington, D.C.: Nov. 1, 2002).

²SBA plans to develop a PCR tracking system in fiscal year 2009.

Appendix IV: Number of Form 70s and Appeals Filed by SBA's Procurement Center Representatives, Fiscal Years 2003-2007

Table 5: Total Informal Form 70s, Formal Form 70s, and Appeals Filed, Fiscal Years 2003–2007

| | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | Totals |
|--|------------|------------|------------|------------|------------|--------------|
| Number of informal Form 70s issued | 197 | 344 | 455 | 452 | 337 | 1,785 |
| Number of formal Form 70s issued | 53 | 55 | 41 | 22 | 21 | 192 |
| Number of Head of Contracting Activity appeals filed | 3 | 8 | 10 | 5 | 3 | 29 |
| Number of Secretarial appeals filed | 1 | 3 | 5 | 3 | 0 | 12 |
| Totals | 254 | 410 | 511 | 482 | 361 | |

Source: SBA.

Appendix V: Comments from the Small Business Administration



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

November 7, 2008

Mr. William B. Shear
Director
Financial Markets and Community Investment Team
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Shear:

Thank you for allowing the U.S. Small Business Administration (SBA) the opportunity to comment on your Draft Government Accountability Office (GAO) Report Number: GAO-09-16, entitled, "Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program."

SBA has reviewed your recommendations and the following response indicates the actions already taken or planned to address the issues outlined in the Report:

Recommendation #1:

SBA should assess resources allocated for Procurement Center Representative and Commercial Market Representative functions and develop a plan to better ensure that the staff can carry out their responsibilities.

Response: SBA agrees with the recommendation. SBA is assessing statutory requirements and resources for developing of a plan to most effectively and efficiently fulfill those requirements.

Recommendation #2:

To better educate prospective applicants for the 8(a) program and maximize limited SBA resources during program tenure of participants, SBA should take additional steps to ensure that firms applying for the program understand its requirements, and have realistic expectations for participation. Such steps could include an education requirement, such as a seminar or assessment tool.

Response: SBA agrees with the recommendation. In an effort to refocus the 8(a) Business Development Program to emphasize "business development" the Office of Business Development developed a "Plan to Provide Individualized Business Development Assistance to 8(a) Program Participants." This Plan outlines a methodology for: 1) assessing the individual business development needs of each 8(a) Participant and 2) provides an 8(a) Assessment Tool – which utilizes a comprehensive online approach to assess and provide ongoing tracking and follow up management, technical, financial, and procurement assistance to each 8(a) Participant during its nine-year term. The plan includes the following components:

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- A Focus Group (comprised of representatives from SBA's Office of Business Development, Office of Entrepreneurial Development and Office of Field Operations, (OFO), along with representatives from the Small Business Development Centers – SBA's resource partners, and Business Development Specialists) has been assembled to review and provide feedback on the draft Plan and 8(a) Assessment Tool.
- Secondly, in an effort to ensure that firms that are applying for 8(a) Program certification understand its requirements and have realistic expectations, the Office of Business Development developed an online tool entitled: "INSIGHT: *Guide to the 8(a) Business Development Program.*" This online web based tutorial has been linked to the 8(a) application package in an effort to ensure that prospective applicants access and complete this tool prior to submitting an application for the 8(a) Program. In addition, the Office of Business Development developed an 8(a) Business Development Suitability Tool which is linked to the 8(a) application. This tool is available by visiting: <http://www.sba.gov/aboutsba/sbaprograms/8abd/application/index.html>
- This online course describes the 8(a) Program in detail and culminates with an eligibility self-assessment test. The test consists of a series of simple "yes/no" type questions that evaluate the degree to which the firm meets the basic eligibility criteria. If the firm meets the basic eligibility criteria, the firm can then apply to the 8(a) Program via the electronic online system. If key criteria are not met, the prospective applicant is directed to the SBA resource deemed most appropriate to assist them in their business growth. The firms are still allowed to apply however, due to the statutory and regulatory requirements of the 8(a) Program.

Recommendation #3:

In acknowledgement of the competing demands for business development specialists to complete required annual reviews of 8(a) firms and support the mission of the 8(a) program – that is, develop and prepare small disadvantaged firms for procurement and other business opportunities, SBA should:

3(a) assess the workload of business development specialists (BDS) to ensure that they can carry out their responsibilities. As part of such an assessment, SBA could review the size of the 8(a) portfolio for each BDS and determine what mechanisms can be used to prioritize or redistribute their workload;

Response: SBA agrees with the recommendation. OFO will work with the Office of Human Capital Management (OHCM) to assess the workload of the BDS and their knowledge levels. This workforce analysis will be completed by the end of Fiscal Year 2009. Based upon this workforce analysis, OFO will work with the regional administrators and district directors to examine workloads and explore possible scenarios for the redistribution of certain portfolios.

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3(b) in a timely manner, develop and implement its proposed plan for creating tools that would assist in the provision of business development assistance for 8(a) firms;

Response: The SBA agrees with this recommendation. The Office of Business Development anticipates that the “Plan to Provide Individualized Business Development Assistance to 8(a) Firms” will be implemented by March 2009.

3(c) develop a timetable for planned changes to the termination process to ensure that staff monitoring 8(a) participants can carry out terminations from the program in a timely manner

Response: The SBA agrees with this recommendation. The Office of Business Development revised Chapter 10 of its 8(a) Standard Operating Procedure (SOP) to ensure that actions to terminate a firm’s 8(a) Program participation are processed in a timely manner. The guidance that is outlined in the revised Chapter 10 of the 8(a) SOP will reduce the processing timeframe by streamlining the termination process and utilizing resources of both the district office and the Office of Business Development. The Office of Business Development anticipates that Chapter 10 of the 8(a) SOP will be issued by December 2008. Concurrent with the release, the Office of Business Development will issue a Procedural Notice.

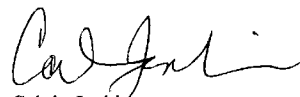
Recommendation #4:

To increase the usefulness of surveillance reviews for the 8(a) program, SBA should update its guidance to incorporate regular reviews of 8(a) contracting in the scope of the reviews.

Response: The SBA agrees with this recommendation. The Standard Operating Procedures for surveillance reviews have been updated in line with the recommendation and were issued on September 26, 2008.

Again, thank you for the opportunity to comment. If you have additional questions or comments, please contact Tiffani Cooper, GAO Liaison at (202) 205-6700.

Sincerely,



Calvin Jenkins
Deputy Associate Administrator
Office of Business Development and Government Contracting

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202)-512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Paul Schmidt (Assistant Director), Bernice Benta, Paula Braun, Tania Calhoun, Nadine Garrick, Fred Jimenez, Julia Kennon, Amanda Miller, Marc Molino, Barbara Roesmann, and William Woods made key contributions to this report.

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