

146010

January 1992

# SMALL BUSINESS

## Problems in Restructuring SBA's Minority Business Development Program



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**Notice:** This is a reprint of a GAO report.

**Resources, Community, and  
Economic Development Division**

B-246386

January 31, 1992

The Honorable Dale L. Bumpers,  
Chairman  
The Honorable Robert W. Kasten, Jr.,  
Ranking Minority Member  
Committee on Small Business  
United States Senate

The Honorable John J. LaFalce,  
Chairman  
The Honorable Andy Ireland,  
Ranking Minority Member  
Committee on Small Business  
House of Representatives

To promote the development of small businesses that are owned and controlled by socially and economically disadvantaged individuals, the Small Business Administration (SBA) administers the Minority Small Business and Capital Ownership Development Program, which includes the 8(a) program.<sup>1</sup> Under the 8(a) program, SBA, acting as a prime contractor, enters into contracts with other federal agencies and subcontracts the work to firms in the program. Firms in the program are also eligible for financial, technical, and management assistance from SBA to aid their development.

The Business Opportunity Development Reform Act of 1988 and subsequent technical amendments significantly changed the 8(a) program and required GAO to report, by February 1, 1992, on SBA's progress in implementing the act's provisions relating to the (1) certification of program applicants, (2) development and maintenance of 8(a) firms' business plans, (3) geographical distribution of noncompetitive 8(a) contract awards, (4) competitive awarding of 8(a) contracts, (5) agency's collection and management of program data, (6) amount and type of management and technical assistance to 8(a) firms, (7) reporting by 8(a) firms about their use of paid consultants to obtain contracts, (8) amount and type of financial assistance to 8(a) firms, (9) limitations on the transfer of contracts if 8(a) firms change ownership, and (10) delays in contract awards resulting from protests of the continuing eligibility of 8(a) firms or of the competition restricted to 8(a) firms.

<sup>1</sup>The 8(a) program gets its name from the section of the Small Business Act, as amended, that authorizes the program.

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The House and Senate Small Business Committees expressed particular concern about the quality of automated information used by SBA to manage the 8(a) program. To address this concern, we have reported on these 10 issues using data available to SBA program managers.

## Results in Brief

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SBA has had difficulty implementing many of the changes mandated by the act, and the agency's lack of valid data on many program activities has hindered the agency's ability to effectively manage the 8(a) program. Specifically, we found the following:

- About 76 percent of all new applications approved or declined by SBA during the first 11 months of 1990 exceeded the act's new requirement to process applications within 90 days. The average processing time for these applications was 117 days. However, SBA's application tracking system, which is manual, does not pinpoint where and why processing delays are occurring.
- About 2,250, or 57 percent, of the 3,922 firms in the program as of October 1, 1991, had the required new or revised business plans approved by SBA. Without approved plans, SBA cannot properly monitor the development of 8(a) firms, and firms are not eligible for contracts. However, SBA has chosen to work with firms to revise their plans rather than withhold contracts as required by the act.
- While the act encourages the equitable geographical distribution of 8(a) contracts, SBA has limited control over such distribution because the act also directs the agency to award contracts to 8(a) firms recommended by procuring agencies. According to SBA, such recommendations occur for about 95 percent of the 8(a) contracts offered. In fiscal year 1990, 8(a) firms in four states and the District of Columbia received about 60 percent of total contract dollars awarded, and 50 firms received about 40 percent of the contract dollars awarded. In addition, about 1,900 firms received no contracts.
- Of approximately 8,300 new 8(a) contracts, totaling about \$3 billion, awarded in fiscal years 1990 and 1991, only 67, totaling \$136 million, were awarded competitively. SBA's management information system does not identify how many of the new contracts met the act's requirements for competition.
- Missing and inaccurate data render SBA's Financial Information System, the primary source of automated data for use in managing 8(a) program activities, inadequate. SBA is aware of these problems and has developed or is in the process of developing specific plans for correcting them.

- SBA does not know the full extent of management and technical assistance provided to 8(a) firms because it does not track the various forms of assistance provided by contractors and others.
- Higher-priority work and the turnover of key staff in the 8(a) program resulted in SBA's not issuing—until more than 2 years after the requirement took effect—an approved form for 8(a) firms to report their use of paid consultants to obtain contracts.
- With the exception of knowing the sum of 8(a) direct loans, SBA does not know the amount of financial assistance it provides to 8(a) firms because the agency does not collect this information.
- The act requires that unless SBA grants a waiver, an 8(a) contract must be terminated when the 8(a) concern performing the contract changes ownership. Without terminating any contracts or granting any waivers, SBA, as of September 30, 1991, had approved 17 requests proposing changes in the ownership of 8(a) firms. SBA believed the act's provisions were not applicable in these cases.
- SBA does not routinely gather information on (1) contract or bid protests involving 8(a) firms or (2) challenges of firms' eligibility to continue participating in the 8(a) program. However, there appear to be few such protests or challenges, and their impact on delaying contract awards appears minimal.

## Background

The Congress enacted the Business Opportunity Development Reform Act of 1988, as amended, because the 8(a) program was not developing firms owned by socially and economically disadvantaged individuals into viable businesses. The Congress noted that obtaining access to the program was lengthy and burdensome, program administration was inefficient, and few firms were able to compete successfully upon leaving the program. To remedy these problems, the act made a number of changes to the program, such as mandating that applications be processed within 90 days, requiring that 8(a) firms submit revised business plans so SBA could better monitor the firms' development, and requiring that firms compete for certain contracts.

The Office of Minority Small Business and Capital Ownership Development (MSB&COD) administers the 8(a) program. To be eligible for the program, a firm must meet the small business size standard established by SBA for the firm's industry and must be owned and controlled by a socially and economically disadvantaged individual. As of October 1, 1991, there were 3,922 firms in the program. For fiscal year 1991, 4,386 new 8(a) contracts

and about 15,600 contract modifications, together totaling \$3.77 billion, were awarded. (See app. I.)

### Certification of Program Participants Is Taking Longer Than Act Allows

The act requires SBA to process an application and decide on an applicant's eligibility for the program within 90 days of receiving a completed application. SBA met the requirement for only about 24 percent of the 268 applications that it approved or declined between January and November 1990. The average processing time for these applications was 117 days. As of October 4, 1991, about 17 percent of the 222 applications in processing at SBA headquarters had already exceeded the 90-day requirement. SBA's manual application tracking system does not pinpoint where or why processing delays are occurring because it (1) does not track all application review stages and (2) often lacks data for stages that are tracked. SBA is developing an automated system to track applications and plans to fully implement it by February 1992. (See app. II.)

### Not All 8(a) Firms Have Approved Business Plans

The act places additional emphasis on the business plan as a tool to aid the development of 8(a) firms by requiring that the plan contain specific information, including an analysis of the firm's strengths and weaknesses, and estimates of contract awards from the 8(a) program and other sources. The act requires that (1) each firm entering the program after June 1, 1989, have a business plan approved by SBA before the firm is eligible for contracts and (2) SBA annually review each plan and, with the firm, modify the plan accordingly to help the firm achieve its business development goals.

In response to the act, SBA adopted a new 33-page business plan form and mandated its use by all new firms beginning in January 1990. SBA also required all incumbent firms to submit revised business plans using the new form. SBA had until July 1, 1991, to review the revised business plans and to advise incumbent firms whether it approved or disapproved their plans. As of October 1, 1991, SBA had received new or revised business plans from 2,700 firms, or 69 percent, of the 3,922 firms in the program. It had approved 2,250, or 83 percent, of the plans received. According to SBA officials, some firms have not submitted business plans because of the time and cost involved in their preparation, while other firms that have not received an 8(a) contract have no incentive to revise their plans. The act requires SBA to withhold contracts until firms have approved business plans. As of October 1991, SBA had not enforced this provision for incumbent firms, electing instead to work with the firms to get them to

submit their revised business plans. Without receiving a new or revised business plan, SBA cannot properly monitor an 8(a) firm's development and guide the firm toward a successful transition from the 8(a) program. (See app. III.)

### Difficulties Exist in Equitably Distributing Noncompetitive Contracts Geographically

The act directs SBA to promote the equitable geographical distribution of noncompetitive 8(a) contracts (sole-source contracts) to the maximum extent practicable. However, neither the act nor SBA has defined equitable geographical distribution. Furthermore, the act directs SBA to award contracts to 8(a) firms recommended by procuring agencies. According to SBA, procuring agencies recommend specific 8(a) firms for about 95 percent of the contracts offered to the program, giving SBA little control over the distribution of contracts. In addition, 8(a) firms are not equitably distributed across the country, and some do a better job of marketing themselves to procuring agencies than others do. In fiscal year 1990, four states and the District of Columbia, which together had about 42 percent of the 8(a) firms that received contracts, received about 60 percent of the total contract dollars awarded; the top 50 firms received about 40 percent of the total contract dollars awarded; and about 1,900 firms received no contracts. (See app. IV.)

### Few 8(a) Contracts Are Competitive Awards

The act mandates competition among 8(a) firms when the total contract price, including the estimated value of contract options, exceeds \$5 million for manufacturing contracts and \$3 million for all other contracts. Of approximately 8,300 new 8(a) contracts awarded in fiscal years 1990 and 1991, totaling about \$3 billion, only 67 contracts, totaling \$136 million, were competitive awards.

While SBA's management information system records the actual value of a contract as awarded, it does not record the estimated value of contract options that may be exercised in the future. As a result, the system does not provide information on how many of the 8,300 new contracts met the financial requirements for competition.

### Weaknesses Exist in Management Information System

The act requires SBA to develop a systematic data collection process and to report to the Congress by April 30 of each year on the status of 8(a) firms and the program's accomplishments during the prior fiscal year. The first report—due April 30, 1991, for fiscal year 1990 activity—was not submitted to the Congress until late October 1991.

SBA's Financial Information System—the primary management information system for the 8(a) program—does not include the data necessary to meet the act's reporting requirements. Instead, SBA had to query its field offices for information needed to compile the fiscal year 1990 report and to respond to our requests for information.

SBA recognizes that its present information system is inadequate for 8(a) program management. In its Financial Integrity Act reports for fiscal years 1989 and 1990, SBA reported a material weakness in internal controls resulting from the system's failure to furnish managers with adequate information about 8(a) services provided through the agency's field offices. SBA has identified several program areas for which new or improved automation is needed, such as 8(a) firms' terminations and graduations from the program and 8(a) contract protests and appeals. As of January 1992, SBA had developed a written plan that identifies specific steps and time frames for automating field offices' activities. However, the agency still needs to develop specific plans for redesigning its Financial Information System. (See app. V.)

## Extent of Management and Technical Assistance to 8(a) Firms Unknown

The act directs us to report on the amount and type of business management and technical assistance provided to 8(a) firms and the criteria by which SBA measures the effectiveness of such assistance. While 8(a) firms, as small businesses, are eligible to receive management and technical assistance from various sources, a portion of the assistance provided under SBA's 7(j) program is targeted specifically to 8(a) firms. Under the 7(j) program, SBA hires contractors to conduct seminars and provide one-on-one assistance in 16 specialized categories, such as accounting and loan packaging, usually at no cost to 8(a) firms.

In fiscal year 1990, SBA spent about \$2.3 million providing assistance under the 7(j) program to 1,204 8(a) firms. Each year, SBA procures a specific amount of assistance for 8(a) firms in each of the 16 categories. However, SBA does not track by category the amount of assistance actually provided to 8(a) firms. According to the Director, Division of Management and Technical Assistance, SBA headquarters does not have a computer network that enables it to collect this information. Consequently, SBA does not know the total amount of assistance provided in each category to 8(a) firms, nor whether the amount is too much or too little.

SBA lacks objective criteria to measure the effectiveness of the assistance provided under the 7(j) program. Instead, the agency relies on various



indicators, such as (1) reports prepared by the contractors providing the assistance and (2) satisfaction surveys of the 8(a) firms receiving the free assistance. SBA recognizes that objective criteria, such as long-term follow-up with 8(a) firms that have received the assistance, are needed to better measure the effectiveness of the assistance. SBA's Office of Advocacy has been requested to develop such criteria, but because of limited resources and the difficulty of this task, SBA considers the development of such criteria to be a long-term goal. In the interim, SBA is concentrating its efforts on improving the evaluation and use of information that is currently available.

SBA does not record or report data on management and technical assistance provided to 8(a) firms by the agency's other programs, such as the Service Corps of Retired Executives. (See app. VI.)

## Requirement to Report the Use of Consultants Recently Implemented

The act requires that beginning June 1, 1989, 8(a) firms report semiannually to SBA their use of agents, attorneys, accountants, consultants, and others paid to assist the firms in obtaining federal contracts. Firms failing to report may be terminated from the program. The act requires SBA to refer any reports raising suspicions of improper activity to the agency's Inspector General. The Congress intended for this provision to discourage improper behavior, such as the use of political influence, in obtaining 8(a) contracts.

SBA did not require 8(a) firms to begin such reporting until October 25, 1991, when an approved reporting form was available. SBA did not submit the reporting form to the Office of Management and Budget (OMB) for approval until February 1991, 20 months after the reporting was to begin. OMB approved the form in May 1991. SBA attributed the delay in submitting the form primarily to having higher-priority work in the 8(a) program and to the turnover of key staff.

## Extent of Financial Assistance Provided to 8(a) Firms Not Fully Known

The act also directs us to report on the amount and type of financial assistance provided to 8(a) firms by SBA. In addition to the new 8(a) direct loans—established by the act—financial assistance is available to 8(a) firms through SBA-guaranteed loans, advance payments,<sup>2</sup> and capital from SBA-sponsored Small Business Investment Companies (SBIC). While 8(a)

<sup>2</sup>Advance payments are cash disbursements made by SBA to an 8(a) firm prior to or during the performance of a specific 8(a) contract to assist the firm in performing the contract; these payments are repaid from the contract proceeds.

direct loans and advance payments are provided solely to 8(a) participants, the other types of financial assistance are available to all eligible small businesses. SBA, however, does not keep information on the amounts of assistance provided to 8(a) firms through its guaranteed loan and SBIC programs and, therefore, does not know the extent of such financial assistance. In fiscal years 1990 and 1991, SBA disbursed \$17.9 million in advance payments to 8(a) firms.

The Congress appropriated \$5 million in each of fiscal years 1990 and 1991 for 8(a) direct loans. SBA made 22 direct loans totaling \$2.8 million in fiscal year 1990 and 22 direct loans totaling \$2.5 million in fiscal year 1991. SBA attributes the low number of 8(a) loans to legislative restrictions placed on the use of loan funds and the process established to obtain a direct loan. SBA interprets the act as allowing only manufacturing firms to use loan proceeds as working capital—a major need of all 8(a) firms. As of December 1990, only 13 percent of the 8(a) firms were manufacturing firms. Also, before a firm can apply for an 8(a) direct loan, the firm must first have been denied a conventional loan and an SBA-guaranteed loan. According to the Director, Office of Business Loans, most 8(a) firms receiving financial assistance from SBA do so through SBA's guaranteed loan program. (See app. VII.)

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## SBA Reviews 8(a) Firms' Change-in-Ownership Requests

The act directs us to report on how SBA administers the act's limitations placed on the transfer of ownership and control of 8(a) concerns that have 8(a) contracts. The act requires that any 8(a) contracts awarded on or after June 1, 1989, be performed by the concern that initially received the contracts. Should the owner or owners upon whom eligibility was based relinquish ownership or control of the concern, the act provides that the contracts be terminated for the convenience of the government. However, the act also provides that the SBA Administrator may, under certain conditions, waive the requirement to terminate a contract, such as when ownership and control of the concern performing the contract passes to another small business concern that is eligible for the 8(a) program.

Between June 1, 1989, when the requirement became effective, and September 30, 1991, SBA headquarters staff received 25 change-in-ownership requests. SBA approved 17 of the requests and declined 5. The remaining three requests were still pending. For the five declined requests, SBA staff advised us that the requested changes in ownership would have rendered the concerns ineligible for the 8(a) program. As a result, no changes in ownership occurred.

SBA did not grant a waiver or terminate a contract for any of the 17 change-in-ownership requests that it approved. For seven of these cases, information provided by SBA was not sufficient for us to determine whether ownership or control of the concerns was relinquished or, if ownership or control was relinquished, whether the concerns had any 8(a) contracts at the time.

For 6 of the remaining 10 cases, the persons upon whom the concerns' eligibility for the 8(a) program was based did not relinquish ownership or control. Therefore, SBA did not need to consider terminating any contracts or granting any waivers.

For two other cases—one involving a change from a sole proprietorship to a partnership and the other a change in one of the partners—ownership and control by the owners upon whom eligibility was based were retained in substantial part, but reduced from 100 percent to half. Another case involved the transfer of ownership of a corporation from one spouse to the other. In all three cases, ownership and control continued to be held by socially and economically disadvantaged individuals. In SBA's view, the requirement to either terminate the contracts or grant waivers did not apply in these three cases.

In the last of the 17 cases, ownership and control of the 8(a) concern was relinquished, but at a time when the concern had no 8(a) contracts. Therefore, the requirement to terminate contracts or grant waivers did not apply.

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## Few Protests of 8(a) Contract Awards

The act also directs us to report on delays in contract awards resulting from a protest of an awardee's continued participation in the 8(a) program or of the competition restricted to program participants. SBA's 8(a) program regulations specify that challenges to the eligibility of a firm to continue in the program must be filed separately with SBA and cannot be part of a bid or contract protest. SBA, however, does not know the actual extent to which such challenges occur because it does not collect this information. The Director, Division of Program Certification and Eligibility, estimated that only four to six challenges occurred during fiscal years 1990 and 1991.

Our search of a computerized data base of contract protests decided by GAO and the General Services Administration Board of Contract Appeals (GSBCA) showed that between the passage of the act in November 1988 and June 30, 1991, 24 protests (involving various issues concerning eligibility

or competition) were decided—18 by GAO and 6 by GSBGA. For this report, we reviewed in detail the nine protests GAO decided during fiscal year 1990. One of the nine protests specifically involved the issue of continuing eligibility—an 8(a) firm's protest of SBA's decision that the firm was ineligible to continue in the program. Two others dealt with the competitive awarding of an 8(a) contract. In the first, an 8(a) firm protested SBA's decision to convert a noncompetitive 8(a) contract offering to a competitive one after the procuring agency was unable to negotiate a contract with the 8(a) firm. In the second, a firm performing a contract protested that a change to the classification of the contract offering and other actions by the procuring agency improperly favored another 8(a) firm in the awarding of a follow-on contract. GAO denied or dismissed these protests. Our discussions with officials from SBA district offices or procuring agencies showed that the protest of SBA's eligibility decision delayed the contract award by 45 days; the other two protests did not delay the contract awards. The remaining six protests we reviewed involved various other eligibility and competition issues.

Although contract protests can also be filed with the procuring agencies, a central data base of such protests does not exist. (See app. VIII.)

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## Conclusions

The Business Opportunity Development Reform Act, as amended, mandated changes to improve the effectiveness of the 8(a) program in developing businesses owned by socially and economically disadvantaged individuals into viable firms. SBA has had difficulty implementing many of these changes, and its lack of valid data on many program activities has hindered its ability to effectively manage the program.

In implementing the mandated changes, SBA has fallen short of achieving the act's goals. Specifically, not all new 8(a) applications are being processed within the act's mandated 90-day time frame, and not all 8(a) firms have new or revised business plans approved by SBA, which hinders SBA's ability to monitor and develop the firms. In addition, conflicting provisions in the act regarding the awarding of 8(a) contracts have placed SBA in a dilemma with respect to achieving the goal of equitably distributing contracts geographically.

In addition to experiencing difficulties in implementing required changes to the program, SBA also has limited valid automated data with which to properly manage the 8(a) program. Specifically, information on the status of each 8(a) application, which would help SBA identify where and why

processing delays are occurring, is not available. In addition, SBA does not know the nature and amount of management and technical assistance provided to 8(a) firms. Such information would enable SBA to determine if current assistance is sufficient and in line with firms' needs. Also, SBA relies primarily on information from the providers of the assistance to assess the effectiveness of the assistance, but objective criteria for judging effectiveness do not exist. Finally, because the extent of financial assistance provided to 8(a) firms is not known, SBA cannot assess whether their financial needs are being met. SBA has begun to improve its data collection and to correct weaknesses in the 8(a) program's management information system. However, SBA has not specifically detailed all of the actions needed and time frames for their implementation.

## Recommendations

In order to ensure that the 8(a) program achieves its objective of promoting the development of small businesses, we recommend that the Administrator, SBA, direct the Associate Administrator, MSB&COD, to

- fully implement the new 8(a) application tracking system and use it to identify where and why delays are occurring in the application process, and work to meet the legislatively mandated 90-day processing time frame;
- either withhold contracts, as required by the act, from all 8(a) firms that fail to provide business plans to SBA for review and approval or request that the Congress revise this provision of the act;
- complete the development and implementation of written plans that detail the specific tasks and time frames for actions to be taken to correct the problems with the 8(a) program's management information system;
- determine the type and amount of management and technical assistance required by 8(a) firms, use this information to procure such assistance in the future, and work with the Office of Advocacy to develop objective criteria for better measuring the effectiveness of assistance provided under the 7(j) program to 8(a) firms; and
- determine the amount of loans and other forms of financial assistance provided to 8(a) firms by all SBA programs and use this information to determine the future financial needs of 8(a) firms.

## Matters for Congressional Consideration

While the act encourages the equitable geographical distribution of 8(a) contracts, SBA has limited control over such distribution because the act also directs the agency to award contracts to 8(a) firms recommended by procuring agencies. Because these two provisions appear to work against each other, the Congress may wish to consider (1) clarifying its intent in

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directing SBA to equitably distribute contracts or (2) eliminating the directive from the act. Should the Congress decide to keep this directive, it may wish to revise the act's provision that requires SBA to award contracts to the firms recommended by procuring agencies, in order to give SBA greater control over the distribution of the contracts.

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## Agency Comments

We discussed this report with SBA officials, who generally agreed with its findings, conclusions, and recommendations. These officials believed two key factors hindered SBA's ability to implement the changes to the program that were mandated by the act. First, numerous personnel changes occurred in the upper echelon of MSB&COD. For example, between January 1991 and September 1991, the position of Associate Administrator, MSB&COD, was filled by four different individuals, while between May 1990 and December 1991, four individuals served as Deputy Associate Administrator for Policy Coordination, Program Certification, and Eligibility. Second, SBA did not have sufficient staff to implement the act's requirements in a timely manner. The same MSB&COD staff that were responsible for issuing the new regulations—which the act required be issued by August 15, 1989—had to implement changes to the program by, for instance, revising operating procedures and developing the new business plan form. As agreed with your offices, we did not obtain written agency comments on this report.

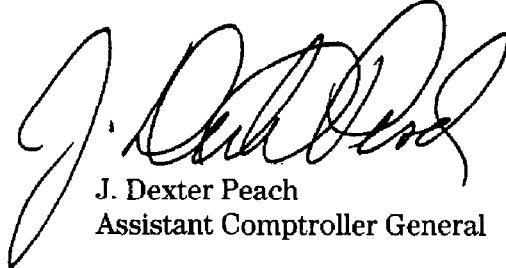
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We conducted our review from October 1990 to December 1991 in accordance with generally accepted government auditing standards. We obtained information presented in this report from our (1) interviews with SBA and other federal agency officials; (2) analysis of data from SBA's Financial Information System and other agency records and reports; and (3) review of legislation, regulations, and procedures pertaining to the 8(a) program. (See app. IX.)

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will provide copies of the report to the Administrator, SBA; the Associate Administrator, MSB&COD; and the Director, OMB. We also will make copies available to others upon request.

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This report was prepared under the direction of Judy A. England-Joseph, Director, Housing and Community Development Issues, who can be contacted on (202) 275-5525. Major contributors to this report are listed in appendix X.



J. Dexter Peach  
Assistant Comptroller General

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**Abbreviations**

BOS	business opportunity specialist
CODS	Central Office Duty Station
DPCE	Division of Program Certification and Eligibility
FIS	Financial Information System
GAO	General Accounting Office
GSBCA	General Services Administration Board of Contract Appeals
MSB&COD	Office of Minority Small Business and Capital Ownership Development
MESBIC	Minority Enterprise Small Business Investment Company
OIRM	Office of Information Resources Management
OMB	Office of Management and Budget
SBA	Small Business Administration
SBIC	Small Business Investment Company
SIC	Standard Industrialization Classification
UMTA	Urban Mass Transportation Administration

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# Overview of SBA's 8(a) Program and the 1988 Legislation

The primary purposes of the 8(a) program are to (1) foster business ownership by individuals who are both socially and economically disadvantaged; (2) promote the competitive viability of such businesses by providing contract, financial, technical, and management assistance; and (3) expand the federal government's procurement program for products and services from small businesses owned by individuals who are both socially and economically disadvantaged. The original Small Business Act of 1953 contained authority allowing the Small Business Administration (SBA) to contract with federal agencies and then to subcontract with businesses to do the work. Amendments enacted in 1978 to the act gave the 8(a) program a firm statutory foundation and articulated that the purpose of the 8(a) program is to develop competitive businesses owned by disadvantaged individuals. The Congress' enactment of the Business Opportunity Development Reform Act of 1988 represented the first major revision of the 8(a) program in 10 years.

## The 8(a) Program

Under the 8(a) program, SBA acts as a prime contractor and enters into contracts with other federal departments and agencies. In its role as prime contractor, SBA subcontracts the work to firms in the 8(a) program.

To be eligible for the program, a firm must be a small business that is at least 51 percent unconditionally owned and controlled by one or more socially and economically disadvantaged individuals. A business is considered small if it meets the SBA-established size standard for its particular Standard Industrial Classification (SIC) code. SIC codes are used to define and classify business activities by industry categories. The size standards are generally expressed in terms of the number of employees or the average annual gross revenues of the firm.

The Small Business Act, as amended, defines socially disadvantaged individuals as those who have been subjected to racial or ethnic prejudice or cultural bias because of their identities as members of groups, without regard to their individual qualities. Ethnic groups that are presumed to be socially disadvantaged include Black Americans, Hispanic Americans, Native Americans, and Subcontinent Asian Americans. Individuals not in the designated groups who can demonstrate that they are socially disadvantaged may also be eligible for the 8(a) program.

SBA regulations define economically disadvantaged individuals as socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired because their opportunities for gaining capital

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**Appendix I**  
**Overview of SBA's 8(a) Program and the**  
**1988 Legislation**

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and credit have been more limited than those of others in similar business lines and market areas. The regulations require that to be considered economically disadvantaged and eligible for the program, the applicant must have a net worth (excluding equity in a personal residence and ownership in the firm) not exceeding \$250,000. While in the program, an applicant cannot have a net worth exceeding \$750,000.

SBA's Office of Minority Small Business and Capital Ownership Development (MSB&COD) administers the 8(a) program through five divisions.

- The Division of Program Certification and Eligibility processes all 8(a) applications and handles all 8(a) program matters concerning eligibility, suspension, graduation, and termination.
- The Division of Program Development handles all aspects of 8(a) businesses' development and serves as the principal contact point between SBA and other federal agencies and departments for all matters concerning 8(a) contracts.
- The Division of Management and Technical Assistance develops, implements, and administers policy relating to management and technical assistance provided under SBA's 7(j) program to 8(a) firms and other qualified businesses. The division maintains a cadre of qualified individuals and organizations to provide the assistance.
- The Division of Minority Small Business Outreach, in addition to performing its minority outreach activities, monitors the geographical and industrial mix of firms in the 8(a) portfolio and follows up on the progress of 8(a) firms that have left the program.
- The Operations Division coordinates the efforts of the four program divisions and serves as MSB&COD's liaison with other SBA offices and program areas.

SBA administers the 8(a) program through its central office, 10 regional offices, and more than 60 district offices. As of October 1, 1991, there were 3,922 firms in the program. During fiscal year 1990, there were 3,924 new contracts awarded and over 14,300 modifications to new and existing contracts; the new contracts and modifications totaled \$3.83 billion. During fiscal year 1991, there were 4,386 new contracts awarded and over 15,600 modifications to new and existing contracts; the new contracts and modifications totaled \$3.77 billion.

## The 1988 Act

The 1988 act and subsequent technical amendments enacted in June 1989 made a number of changes to improve the 8(a) program's organization and participation standards, business development activities, and overall management. The act as amended

- established the Division of Program Certification and Eligibility;
- required SBA to process 8(a) program applications and render decisions on applicants' eligibility within 90 days of receiving the completed applications;
- required SBA to award competitively manufacturing contracts exceeding \$5 million and all other contracts exceeding \$3 million;
- established a maximum term for the program of 9 years, divided into a 4-year developmental period—to help firms overcome their economic disadvantage—and a 5-year transitional period—to prepare the firms for graduation from the program—and provided for specialized assistance for the firms, such as employee training and exemptions from the bonding requirement on federal construction projects for firms in the developmental stage;
- established an 8(a) direct loan program, replacing SBA's business development expense funds, to provide firms with additional financial assistance;
- required firms to increasingly rely on non-8(a) contracts as they approach graduation from the program;
- required firms in the program to report semiannually on their use of paid consultants to obtain 8(a) contracts;
- required SBA to annually report to the Congress information on the program, such as (1) the net worth of program participants, (2) benefits to the economy from the 8(a) program, and (3) additional resources and/or authority necessary to effectively administer the program; and
- required SBA to approve business plans from all new firms entering the program and the modified plans of incumbent firms prior to awarding new contracts.

SBA issued final regulations for the 8(a) program in response to the 1988 act in August 1989 and operating procedures for the program in October 1990. In the interim, SBA issued numerous temporary notices to the field offices to provide guidance on the new procedures required by the act.

# Certification of Program Participants Is Taking Longer Than Act Allows

One of the act's provisions designed to streamline the 8(a) application certification process is the requirement that SBA process 8(a) applications and determine the eligibility of applicants within 90 days of receiving the completed applications. We found that SBA frequently took longer than 90 days to process applications during the 21-month period from January 1990 through September 1991. Because of deficiencies in its application tracking system, SBA does not know where the delays are occurring, nor does it monitor the application as it progresses through the certification process. SBA is developing an automated system intended to correct these deficiencies and plans to have the system fully implemented in all 10 regions by February 1992.

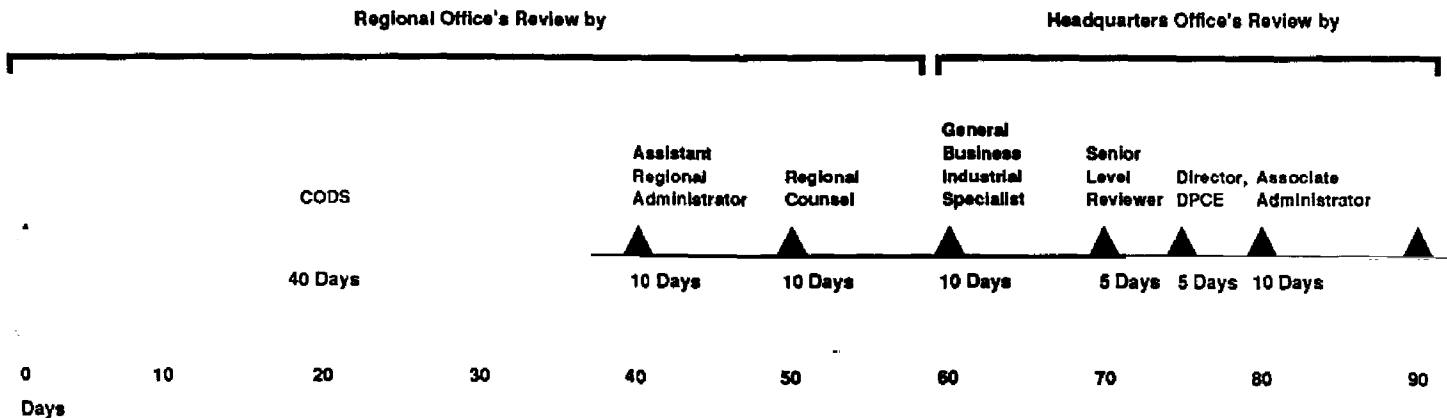
## 8(a) Certification Process

In January 1990, SBA established the Division of Program Certification and Eligibility (DPCE), as required by the act, to process 8(a) applications and to assume responsibility for all 8(a) program matters concerning eligibility, suspension, graduation, and termination. DPCE consists of headquarters staff and employees at Central Office Duty Stations (CODS) located in each of SBA's 10 regions.

Each 8(a) application is initially screened by the CODS to determine whether or not the application package is complete and suitable for evaluation. This had been the responsibility of the SBA district office until June 1991, when SBA transferred this function to the CODS in an effort to expedite the certification process. A CODS is given 15 days to complete its initial screening. The 90-day period does not start until the CODS determines that the application package is complete. Of the 90 days of processing time allowed, SBA allots 60 days for reviews by the CODS and regional office and the remaining 30 days for reviews by the headquarters office and the Associate Administrator. Figure II.1 below depicts the current review process for 8(a) program applications. Even though the district offices have been removed from the application process, each 8(a) application still undergoes seven sequential regional and headquarters reviews.

Appendix II  
 Certification of Program Participants Is  
 Taking Longer Than Act Allows

Figure II.1: 8(a) Application Review Process



Within the 60 days allotted for the regional office's reviews, the CODS is provided 40 days to perform its review of an 8(a) application. This review addresses all issues of eligibility, including determinations of whether (1) the applicant is socially and economically disadvantaged, (2) the applicant owns or controls the firm, and (3) the firm is a small business and has the potential and financial capacity to succeed. The application is then sent to the Assistant Regional Administrator, who is allotted 10 days to review it and either agree or disagree with the CODS' findings. The application is then forwarded to the Regional Counsel, who is allotted the remaining 10 days to render a written opinion regarding the application's legal sufficiency. Once this step is completed, the CODS forwards the application to DPCE at SBA headquarters.

At DPCE, a general business industrial specialist is allotted 10 days, a senior level reviewer is allotted 5 days, and the Director, DPCE, is allotted 5 days to review the application and decide and recommend whether it should be approved or denied. DPCE then forwards the application, along with reviewers' individual recommendations, to the Associate Administrator, MSB&COD, who is allotted the remaining 10 days for a final review and a final decision to approve or deny the applicant's eligibility for the program. If approved, the application is returned to the appropriate district office, where a business opportunity specialist (BOS) is assigned to the firm, and the firm is directed to prepare a business plan.



## Difficulties in Meeting the 90-Day Limit for Processing

SBA's current application tracking system, which is manual, begins tracking 8(a) program applications after the regional offices have completed their review and applications are received at SBA headquarters for review. Statistics we developed from data contained in MSB&COD's application logs show that between January and November 1990, SBA headquarters received 590 8(a) applications. SBA had completed processing and made a final decision to approve or decline 286 of the applications. The remaining 304 applications were still in processing as of November 1990.

We were unable to determine the processing time for 18 of the 286 applications on which a final decision had been made because data in MSB&COD's logs were either missing or incorrect for these applications. Of the remaining 268 applications, 63, or 24 percent, were processed within 90 days, while processing for 205 applications, or 76 percent, exceeded the 90-day limit. The average processing time for the 268 applications was 117 days. For the 205 completed applications for which processing exceeded 90 days, the processing time ranged from 91 days to 255 days. For the 304 applications still in processing, as of November 1990, 224 applications, or 74 percent, had been under review for more than 90 days, with the average being 157 days.

In addition to not complying with the 90-day limit, SBA has also experienced problems with backlogs of 8(a) applications. In January 1991, SBA assigned 11 headquarters and field office staff to temporary duty at the SBA headquarters office to help process a backlog of more than 300 applications. SBA virtually eliminated the backlog, reeducing the number of applications in processing to seven, as of February 19, 1991. However, as of October 4, 1991, the number of applications in processing at SBA headquarters had again increased to 222, or about 70 percent of the backlog that existed at the beginning of 1991.

After SBA reduced its application backlog, we again looked at the processing times to see if they had improved. SBA headquarters received 366 applications between January 1991 and April 1991. We were unable to calculate the processing times for these applications because SBA recorded the date they were received at the CODSS in only 14 instances. However, SBA's weekly progress reports show that the agency continues to experience difficulty complying with the 90-day limit. As of October 4, 1991, the processing time of 38 applications, or approximately 17 percent, of the 222 applications in processing at the SBA headquarters had already exceeded the 90-day limit.

According to the Director, DPCE, several steps have been taken in an attempt to prevent future processing delays and backlogs. DPCE has increased its professional and clerical staff from 10 to 14. DPCE has also instituted a system at SBA headquarters of pairing a less experienced reviewer with a more experienced one in hopes of improving the overall quality and timeliness of application reviews at headquarters. This buddy system should, according to the Director, DPCE, provide the opportunity for less experienced staff to consult with those having more experience on any questions or issues that may arise during the review of 8(a) applications. In addition, SBA transferred responsibility for screening applications for completeness from the district offices to the CODSS. The Director, DPCE, told us that this action was taken because the district offices were not adequately screening the applications for completeness.

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## **Problems With and Plans for Improving SBA's Application Tracking System**

SBA's current manual system for tracking 8(a) applications through the certification process does not allow for determining specifically where or why processing delays occur. For example, the system is not designed to record the dates of review by the regional CODS, Regional Counsel, and Assistant Regional Administrator. The system is designed to show only the date a completed application is received by the CODS. Also, SBA does not begin tracking the application until after the regional office's review has been completed and the application has been forwarded to headquarters. At that time, headquarters enters the date the completed application was received by the CODS and the date the application was received at headquarters. Therefore, SBA headquarters does not know how long an application has been in processing in the region until the application is received from the regional office. In addition, SBA headquarters officials often fail to record information in the tracking system. For example, we found that personnel entered the date the application was forwarded to the Associate Administrator for final review for only 27 of the 590 applications received at headquarters between January 1990 and November 1990. In addition, as discussed in the previous section, the system lacked the dates the applications were received by the CODS for all but 14 of the 366 applications received at SBA headquarters between January 1991 and April 1991.

According to the Director, DPCE, the new automated system will track applications as they progress through each stage of the certification process, from the CODSS' initial review for completeness through the Associate Administrator's final determination of eligibility and any subsequent appeals that may occur. The system will automatically compute when the 90 days and the time allotted for each of the seven review stages expire.

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**Appendix II  
Certification of Program Participants Is  
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**The system will also compute the actual time spent at each level of review. SBA plans to have the system fully implemented by February 1992.**

# Not All 8(a) Firms Have Approved Business Plans

A major objective of the 8(a) program is to develop the businesses into viable concerns that can compete in the open market. Under the 1988 act, one of SBA's primary means of monitoring the development of 8(a) firms is the business plan. However, not all 8(a) firms have business plans approved by SBA that reflect changes mandated by the act.

Firms in the 8(a) program were always required to have business plans. Prior to the 1988 act, the business plan, a part of the application package, was used by SBA to determine whether the firm had the capability to perform an 8(a) contract. With the passage of the 1988 act, the objective of the business plan changed. The plan is now prepared and submitted after a firm has been determined eligible for the program and is used to chart a firm's development and guide it towards a successful transition from the 8(a) program to the private sector.

The 1988 act requires that the business plan of a firm entering the program after June 1, 1989, include certain information, such as (1) an analysis of the firm's strengths, weaknesses, and market potential; (2) specific goals and objectives for the firm's business development during the next 2 years; (3) a transition management plan outlining specific steps to ensure profitable business operations; and (4) estimates of future 8(a) and non-8(a) business activity. The act also requires that (1) each new firm entering the program must have its business plan approved by SBA before it is eligible to receive 8(a) contracts and (2) each firm must annually review its business plan with the BOS and modify the plan as may be appropriate to ensure that the firm is making an effort to achieve the development goals contained in the plan. The act requires SBA to withhold contracts from the firm until its plan is approved. However, the act provides that a firm's currently approved business plan remains valid, and the firm can continue to receive contracts until its modified plan is approved by SBA.

As a result of the legislation, SBA developed a new 33-page business plan and began distributing the form in January 1990 to new firms entering the program. In April 1990, about 17 months after the 1988 legislation was enacted, SBA issued instructions to its field offices to furnish the new business plan form to all incumbent firms. According to a schedule established by SBA, the field offices were to provide each incumbent firm with the form 90 days prior to the firm's anniversary date in the program. The firm then had 60 days to complete its new business plan and return the plan to SBA. SBA had the remaining 30 days to approve or disapprove the plan. Under a schedule established in the SBA notice, district offices had until July 1,

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**Appendix III  
Not All 8(a) Firms Have Approved Business  
Plans**

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1991, to review the revised business plans of all incumbent firms and to advise the firms of its approval or disapproval of their plans.

As of October 1, 1991, SBA had received business plans from 2,700, or 69 percent, of the 3,922 new and incumbent firms in the 8(a) program. SBA approved 2,250, or 83 percent, of the plans received. According to SBA officials, some incumbent firms are reluctant to submit revised business plans because of the time and cost involved in their preparation. Furthermore, firms that are in the program but have not yet received 8(a) contracts have no incentive to revise their business plans. Although the act requires SBA to withhold contracts until firms have approved business plans, the agency had not enforced this provision for incumbent firms as of October 1991, electing instead to have the regional offices work with those incumbent firms that had not submitted revised plans and get them to do so. We were also told that the delay in reviewing the business plans was due to the heavy workload of SBA district office personnel responsible for the reviews.

# Problems Exist in Complying With Requirement to Equitably Distribute Noncompetitive 8(a) Contracts Geographically

The 1988 act directs SBA to promote the equitable geographical distribution of noncompetitive contracts to the maximum extent possible. The Congress adopted this provision to correct the inequitable situation of a few firms' receiving the bulk of the 8(a) contract awards. However, neither the act nor SBA has defined what is meant by equitable geographical distribution.

SBA attempts to promote the distribution of contracts by providing national-buy contract offerings<sup>1</sup> to all 10 regions in cases in which the procuring agency has not recommended a specific 8(a) firm. Similarly, in cases in which a specific 8(a) firm has not been recommended for local-buy contract offerings,<sup>2</sup> SBA will first examine the portfolio of 8(a) firms in the SBA district where the work will be performed or the item will be delivered. If no qualified firm is found, the contract may be offered to 8(a) firms within or outside the region.

SBA 8(a) program officials cited several factors that affect the agency's ability to equitably distribute 8(a) contracts geographically. First, the 1988 act directs SBA to award noncompetitive contracts to the 8(a) firm recommended by the agency offering the contract if SBA determines (1) the procurement is consistent with the firm's business plan, (2) the firm responsibly performs contracts, and (3) the contract award will not result in the firm's exceeding the 8(a) contract support level set forth in the firm's business plan. According to SBA, procuring agencies recommend specific 8(a) firms to SBA for about 95 percent of all national-buy offerings and only slightly less frequently for local-buy offerings.

Second, 8(a) program officials cited the uneven distribution of program participants across the country. For example, many high-technology firms are located in the District of Columbia metropolitan area, while many construction firms are located in the southern United States. Table IV.1 shows our analysis of the fiscal year 1990 8(a) contract awards by state. Nine states and the District of Columbia accounted for about 71 percent of the total value of all contract awards. The four top states and the District of Columbia, which together accounted for about 42 percent of the 8(a) firms that received contracts, accounted for about 60 percent of the contract awards.

<sup>1</sup>National buys are contracts under which the items or services to be purchased will meet the needs of a system in which supply control, inventory management, and procurement responsibility have been assigned to a central office to support the needs of one or more users in two or more locations.

<sup>2</sup>Local buys are contracts under which the supply, service, or product purchased is to meet the needs of one user in one location.

**Appendix IV  
Problems Exist in Complying With  
Requirement to Equitably Distribute  
Noncompetitive 8(a) Contracts  
Geographically**

**Table IV.1: Distribution of 8(a) Firms and Fiscal Year 1990 8(a) Contracts, by State**

Dollars in millions

<b>State</b>	<b>Number of 8(a) firms</b>	<b>Number of contracts</b>	<b>Value of contracts</b>	<b>Percentage of value of all contracts</b>
California	218	1,970	\$774.4	20.22
Virginia	216	2,482	716.8	18.72
Maryland	192	1,856	387.4	10.12
District of Columbia	108	744	255.4	6.67
Texas	138	1,475	181.3	4.73
Colorado	58	551	112.7	2.94
Ohio	74	534	103.4	2.70
New Mexico	41	663	91.5	2.39
New Jersey	51	504	86.2	2.25
Alabama	39	382	79.6	2.08
Florida	39	241	72.7	1.90
Massachusetts	35	486	63.3	1.65
Georgia	54	327	61.0	1.59
Alaska	18	185	55.1	1.44
Tennessee	32	199	54.8	1.43
Oklahoma	21	427	48.9	1.28
Illinois	40	182	45.8	1.20
West Virginia	11	195	44.8	1.17
North Carolina	24	231	44.3	1.16
Washington	62	517	43.3	1.13
Louisiana	31	300	43.2	1.13
Mississippi	17	119	41.3	1.08
South Carolina	16	118	33.0	0.86
New York	65	252	32.5	0.85
North Dakota	7	31	31.2	0.82
Kansas	26	178	31.1	0.81
Pennsylvania	52	485	30.7	0.80
Missouri	30	216	30.7	0.80
Nevada	16	168	29.2	0.76
Puerto Rico	22	82	25.2	0.66
Arizona	31	276	23.4	0.61
Oregon	26	337	21.1	0.55
Idaho	15	236	20.6	0.54
Minnesota	18	61	18.2	0.48
Connecticut	11	111	16.9	0.44
Delaware	2	36	11.9	0.31
Utah	24	161	11.5	0.30
Arkansas	34	166	9.5	0.25

(continued)

**Appendix IV  
Problems Exist in Complying With  
Requirement to Equitably Distribute  
Noncompetitive 8(a) Contracts  
Geographically**

Dollars in millions

State	Number of 8(a) firms	Number of contracts	Value of contracts	Percentage of value of all contracts
Montana	12	52	6.8	0.18
Hawaii	21	126	6.1	0.16
Indiana	14	66	5.5	0.14
Michigan	19	89	5.0	0.13
Kentucky	11	48	4.9	0.13
Rhode Island	6	29	3.9	0.10
South Dakota	11	64	2.6	0.07
Nebraska	10	70	2.5	0.07
Wyoming	5	20	1.8	0.05
Maine	6	32	1.7	0.05
Wisconsin	14	105	1.6	0.04
New Hampshire	1	100	0.5	0.01
Iowa	8	23	0.4	0.01
Virgin Islands	1	5	0.3	0.01
Guam	1	9	0.2	0.01
<b>Total</b>	<b>2,054</b>	<b>18,232</b>	<b>\$3,830.1</b>	<b>100.00</b>

Third, according to a former acting Associate Administrator, MSB&COD, the requirement to equitably distribute contracts geographically is in direct conflict with the mandate that the 8(a) program promote self-marketing as a means of developing small businesses owned by minorities. SBA believes that it would be unfair to have an 8(a) firm that successfully markets itself to a procuring agency lose a particular contract offering to another firm in the interest of equitable geographical distribution. SBA believes that such a contract award would unfairly penalize the 8(a) firm that is trying to develop itself for successful competition after graduation from the 8(a) program.

The distribution of contract awards among relatively few 8(a) firms is a long-standing phenomenon. In 1981, we reported that, on average, the top 50 8(a) firms annually received about 31 percent of all contract awards over a 12-year period.<sup>3</sup> In May 1988, we reported that 50 firms received about \$1.1 billion, or about 35 percent of the 8(a) contract awards during fiscal year 1987.<sup>4</sup> Currently, SBA's data show that of the 3,645 firms in the program at the end of fiscal year 1990, 50, or less than 2 percent, received

<sup>3</sup>The SBA 8(a) Procurement Program—A Promise Unfilled (GAO/CED-81-55, Apr. 18, 1981).

<sup>4</sup>Small Business Administration: Status, Operations, and Views on the 8(a) Procurement Program (GAO/RCED-88-148BR, May 24, 1988).



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**Appendix IV  
Problems Exist in Complying With  
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about \$1.5 billion, or 40 percent of the nearly \$4 billion in total contracts awarded during fiscal year 1990. One 8(a) firm, involved primarily in work on guided missiles and space vehicles, accounted for about \$353 million of the \$1.5 billion. Another 8(a) firm in the wholesale grocery industry accounted for approximately \$82 million.

Conversely, many 8(a) firms receive no contracts. SBA reported that 1,914 8(a) firms, or about 53 percent of the 3,645 firms in the program at the end of fiscal year 1990, did not receive any contracts through the program during the fiscal year. This same situation existed in fiscal year 1989, when 1,648, or 50 percent of the 3,319 firms in the program received no contracts during the fiscal year. SBA reports also show that 2,155, or 55 percent of the 3,922 firms in the 8(a) program at the end of fiscal year 1991 did not receive any contracts through the program during the fiscal year.

# Weaknesses and Problems Exist in Collecting Data and Managing the Program

The 1988 act requires SBA to develop a systematic data collection process and annually furnish specific program information to the Congress. The following discusses in detail the difficulties SBA has encountered in complying with the act's reporting requirements; deficiencies in SBA's Financial Information System (FIS), the primary management information system for the 8(a) program; and initiatives planned or under way to improve SBA's 8(a) program data collection and program management.

## Missed Annual Reporting Requirement

By law, no later than April 30 of each year, the SBA Administrator must submit a report to the Congress that includes

- the average personal net worth of individuals owning participating 8(a) firms;
- a description and estimate of the costs and benefits that have accrued to the government and the economy because of the operations of firms in the 8(a) program;
- the status of firms that have left the program in the last 3 years, including firms that are still in operation, firms that have curtailed operations, and firms that have been acquired by other firms;
- a listing of all participants in the program during the preceding fiscal year, including each firm's name, the race and gender of the disadvantaged owners, and the value of all advance payments received in the preceding fiscal year;
- the total dollar value of all 8(a) contracts awarded during the preceding fiscal year and the percentage that these awards represented of the total sales of (1) all firms in the program during the year and (2) firms in each of the 9 years of participation in the program; and
- the total dollar value of 8(a) contracts awarded for each of the 4-digit Standard Industrial Classification (SIC) codes under which the contracts were classified.

The report must also contain a description of additional resources or authority that SBA may require over the next 2 years to service the expected portfolio of 8(a) firms.

The first report, due April 1991 on fiscal year 1990 program activities, was not submitted to the Congress until October 1991. Several factors accounted for the delay. According to a former acting Associate Administrator, MSB&COD, much of the data needed for the report, such as the net worth of firms in the 8(a) program and information on the firms that had left the program between October 1, 1987, and September 30, 1990, had

to be compiled by each regional office because the FIS data base does not provide the information required.

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## Deficiencies in the Management Information System

SBA's FIS became operational in 1981 to support the 8(a) program. This system was designed to provide accounting and financial information and, except for minor modifications, has remained unchanged since 1981. SBA's acting Associate Administrator for Information Resources Management, in discussing FIS as a management tool, told us that while the system serves its original purpose, it is not a useful tool in helping 8(a) program managers do their job. In addition, according to 8(a) program officials, information in the system is not up to date and is often inaccurate.

In response to many of our requests for information, SBA officials had to repeatedly ask the 10 regional offices to develop the necessary data because either they were not available from FIS or, if available, were of doubtful reliability. For example, data obtained by the Division of Program Development from the regions showed that 35 contracts, totaling approximately \$75 million, were competitively awarded in fiscal year 1990. The division made a special request to the regions for this information only after we questioned the validity of the FIS information, which showed that only 7 contracts, totaling about \$11.4 million, were competitively awarded in fiscal year 1990. Also, when we asked for the number of approved business plans for new and incumbent 8(a) firms, we were told the system does not maintain this information. Again, SBA's Division of Program Development had to obtain the information from the regional offices. It took the division over 2 months to get the data from one of the regions.

We also found that SBA's FIS often contains blank data fields. The data base consists of five files—a company file, a contract file, a transaction history file, a general ledger master file, and a contract modification file. In examining the contracts awarded in fiscal year 1990, we found that 671 of the firms identified in the contract file as receiving 8(a) contracts did not have any sales data recorded in the company file. As a result, anyone using the company file to review 8(a) sales data and/or to determine how well a firm is complying with the requirement to maintain both 8(a) and non-8(a) contracts would receive inaccurate information because such data were absent in the company file.

In 1987, a study by the National Academy of Public Administration discussed the problems and weaknesses of FIS. The report stated that the system urgently needed to be modernized because the 8(a) data base was

not sufficiently current and complete for use by SBA field offices. The report also stated that SBA needed to develop an ad hoc reporting capability.

The weaknesses of FIS were also reported in SBA's fiscal years 1989 and 1990 reports to the President, submitted in compliance with the Federal Manager's Financial Integrity Act of 1982. The reports disclosed a material weakness in internal controls because the system failed to furnish managers adequate information about 8(a) services provided by the field offices. The 1990 report further described this weakness as affecting major functions of the program, including (1) application processing, (2) efforts to develop firms, (3) the awarding of contracts, and (4) the distribution of management and technical assistance.

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## **SBA's Initiatives to Improve the Management Information System**

SBA has several initiatives planned to improve data collection for and management of the 8(a) program. According to an Office of Information Resources Management (OIRM) official, the first stage of these initiatives involves automating the tracking of 8(a) applications and then automating the other activities of the Division of Program Certification and Eligibility (DPCE), such as those relating to firms' terminations and graduations from the program. The second stage involves automating all 8(a) program activities performed by SBA regional and district offices, including activities associated with 8(a) contract protests and appeals. The final stage involves redesigning FIS on SBA's mainframe computer to improve MSB&COD's reporting and accounting capabilities.

MSB&COD's application tracking system will soon be fully implemented, and the office has begun to automate DPCE's other activities. MSB&COD has also developed a plan that identifies the specific tasks and time frames for automating the 8(a) program activities performed by the regional and district offices. According to the Deputy Associate Administrator for Programs, MSB&COD, the office has just begun to develop such a plan for redesigning FIS.

# Amounts and Types of Management and Technical Assistance to 8(a) Firms Unknown

Management and technical assistance is provided to 8(a) firms through SBA's 7(j) program and other SBA-sponsored programs. While a portion of the 7(j) assistance is targeted for 8(a) firms, other sources of assistance are available to them. Such sources include management counseling and training provided by (1) retired business executives under SBA's Service Corps of Retired Executives; (2) the private sector, educational community, and state and local governments under SBA's Small Business Development Center Program; and (3) qualified college-level business students under SBA's Small Business Institute Program. A training program authorized by the 1988 act to improve the skills of 8(a) firms' employees has not been funded by the Congress.

SBA provided 7(j) assistance to 1,204 firms in fiscal year 1990. While 7(j) assistance is available in 16 separate categories, SBA does not track the amount of assistance provided to 8(a) firms in each category. In addition, according to the Director, Division of Management and Technical Assistance, SBA does not record or report data on management and technical assistance provided to 8(a) firms by the agency's other programs. As a result, SBA does not know the full extent of management and technical assistance provided to 8(a) firms, nor does the agency know whether the 7(j) assistance procured each year addresses 8(a) firms' needs.

In addition, MSB&COD relies on a combination of indicators, such as reports provided by recipients and providers of 7(j) assistance, to measure the effectiveness of the assistance. MSB&COD recognizes that objective criteria are needed to measure the effectiveness of the assistance and has requested the Office of Advocacy's help in developing such criteria. However, MSB&COD considers the development of such criteria to be a long-term goal and, in the interim, plans to improve its evaluation of the information currently being submitted by the providers of 7(j) assistance.

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## SBA's 7(j) Program

Established in October 1978 by P.L. 95-507, the 7(j) program, which provides management and technical assistance usually at no cost to 8(a) firms, has the goal of developing the firms' entrepreneurial and managerial self-sufficiency. SBA's 7(j) program is composed of two segments—sections 7(j)(1 through 9) and section 7(j)(10). Sections 7(j)(1 through 9) provide assistance to 8(a) program participants, firms located in areas of high unemployment and low income, and firms owned by low-income individuals. Section 7(j)(10) provides assistance only to 8(a) firms. Various profit and nonprofit entities, including 8(a) firms, provide 7(j)(10) assistance through contracts awarded annually by SBA. The goal of the

7(j)(10) program is to assist participants in making the transition from the 8(a) program to the competitive environment of the private sector.

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## **Types of 7(j) Assistance**

The 7(j)(10) program provides two basic types of management and technical assistance. The first involves seminars and meetings that provide general training. For example, in fiscal year 1991, training was provided on the preparation of government bids and proposals. The second involves 16 categories of specialized assistance, as follows:

1. Accounting Services
2. Production, Engineering, and Technical Assistance
3. Feasibility Studies, Market Analyses, and Advertising
4. Government Contracts Assistance
5. Specialized Assistance
6. Financial Counseling
7. Business Plan Assistance
8. Construction Management Assistance
9. Loan Packaging
10. Computer Programming Services
11. Data Processing Services
12. International Trade Services
13. Service Contracts Assistance
14. Management Training
15. Seminars/Workshops
16. Surety Bond Assistance

SBA's Division of Management and Technical Assistance does not know the quantity of assistance provided in each of the 16 categories. According to the Division's Director, SBA lacks a computer network that would enable SBA headquarters to collect such information from the field offices.

Each year, SBA headquarters receives estimates from the field offices regarding the number of days of specialized 7(j) training that will be needed during the upcoming fiscal year for 8(a) firms and other small businesses. SBA uses these estimates to contract for a specific number of training days each year in each of the 16 categories.

In fiscal year 1990, the Congress appropriated \$8.73 million for the 7(j) program. SBA awarded 129 contracts to provide management and technical assistance to eligible firms. Forty-five, or 35 percent, of the contracts were solely for assistance to 8(a) firms. SBA expended about \$7.3 million of the

1990 appropriation on 7(j) contracts, giving assistance to 2,056 small businesses. About \$2.34 million, or 32 percent of the total expenditure, was used solely for the 8(a) program. In total, 7(j) assistance was provided to 1,204 8(a) firms.

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### **Measuring the Effectiveness of 7(j) Assistance**

SBA's operating procedures designate technical representatives, located in SBA district offices, as responsible for monitoring and evaluating the performance of 7(j) assistance providers; this assessment is to include visiting providers as appropriate. However, according to the Director, Division of Management and Technical Assistance, SBA technical representatives generally do not visit providers because of limited resources and time. As a result, SBA must rely on a combination of indicators to determine whether the 7(j) assistance was provided and to measure its effectiveness. These include (1) the providers' reports describing the nature of 7(j) assistance provided and (2) evaluations from the 8(a) firms receiving the assistance. In addition, after the assistance is provided, a conference that includes the business opportunity specialist (BOS) assigned to the 8(a) firm, the provider of 7(j) assistance, and the 8(a) firm is held, generally over the phone, to discuss the assistance provided.

According to the Director, Division of Management and Technical Assistance, and several other SBA officials, the BOS plays a major role in deciding whether 7(j) assistance is provided and, if it is provided, in measuring its effectiveness in solving an 8(a) firm's problems. These officials told us that the BOS is generally familiar with the firm's problems and the reasons the assistance is needed. Also, the BOS is able to determine from the provider's report whether or not the assistance was geared toward solving these problems. The BOS, these officials pointed out, can judge the effectiveness of the 7(j) assistance on the basis of the 8(a) firm's performance after receiving the assistance. The Director, Division of Management and Technical Assistance, also said that the BOS can evaluate the assistance provider's report to determine whether the assistance described is in line with the time charges submitted by the provider.

Despite these efforts, MSB&COD recognizes that objective criteria are needed to measure the effectiveness of 7(j) assistance and has asked SBA's Office of Advocacy for help in developing them. MSB&COD's Deputy Associate Administrator for Programs told us the office believes that the best measure of the effectiveness of 7(j) assistance is how the firms feel about it. This official said that visits to the firms after they initially receive the assistance and again in about 6 months may be one means of providing a

more objective measure of effectiveness. However, because of limited resources and the difficulty in coming up with criteria to measure effectiveness, MSB&COD considers the development of the criteria to be a long-term goal. In the interim, MSB&COD is concentrating on improving its evaluation and use of the information currently being received from 7(j) assistance providers.

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## **SBA's Skills Training Program**

The 1988 act also directed the establishment of a new type of 8(a) assistance called skills training. Under this program, SBA is to pay the costs of training, at various institutions of higher learning, employees or potential employees of 8(a) firms in the developmental stage of the program. The length of skills training cannot be less than 1 month nor more than 6 months. SBA has not been able to provide this training because the Congress has not provided funding for the program.



# Extent of Financial Assistance to 8(a) Firms Not Fully Known

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Financial assistance is available to 8(a) firms through 8(a) direct loans, SBA-guaranteed loans, 8(a) advance payments, and capital from Small Business Investment Companies (SBIC). While the other forms of financial assistance are available to anyone who is eligible for financial assistance from SBA, the 8(a) direct loans are solely for 8(a) firms. The other forms of financial assistance were available prior to passage of the 1988 act.

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## 8(a) Direct Loans

The Congress established the 8(a) direct loan program to replace SBA's business development expense funds, or grants to 8(a) firms to assist them in performing contracts. The Congress appropriated \$5 million in each of fiscal years 1990 and 1991 for the 8(a) direct loan program. In fiscal year 1990, SBA made 22 direct loans totaling \$2.8 million, or 56 percent of the appropriation. In fiscal year 1991, SBA also made 22 direct loans, totaling \$2.5 million.

At July 1990 hearings before the United States Commission on Minority Small Business, a former Associate Administrator noted two reasons for the limited use of the 8(a) direct loan program. First, SBA interprets the language in the act to restrict the use of 8(a) direct loans for working capital to manufacturing firms only. SBA bases its interpretation on the fact that the business development expense funds, which the direct loans replaced, were restricted this way. As of December 1990, only 13 percent of the firms in the 8(a) program were manufacturers, yet, according to SBA, most 8(a) firms have a need for working capital. Second, the process established to obtain an 8(a) direct loan requires that before a firm can apply for the loan, the firm must have been denied a conventional business loan and an SBA-guaranteed loan. As a result, according to the Director, Office of Business Loans, most 8(a) firms receive financial assistance from SBA through guaranteed loans made under its general business loan program.

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## General Business Loans

The general business loan program is SBA's principal source of financial assistance to small businesses. SBA guarantees 90 percent of loans made for \$155,000 or less, and 85 percent of loans exceeding \$155,000, up to a maximum of \$750,000. In fiscal year 1990, SBA guaranteed loans valued at \$3.6 billion. However, this amount represents guarantees made to all program participants, not just 8(a) firms. SBA does not separately keep information on guaranteed loans made to 8(a) firms. As a result, the extent of financial assistance provided to 8(a) firms through general business guaranteed loans is not known. SBA can also make direct loans under the general business loan program, but funds for such loans have not been

available since fiscal year 1985, with the exception of special loan programs, such as for veterans and the handicapped.

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## Advance Payments

Advance payments are cash disbursements made by SBA to any 8(a) firm prior to or during the performance of a specific 8(a) contract. They are to be repaid at a later date from the contract proceeds. Advance payments are made to assist the firm in meeting the financial requirements of performing the contract. SBA's standard operating procedures for the 8(a) program require that before providing advance payments, the agency must determine that no other form of financing is available or acceptable to support the firm's performance. Statistics provided to us by SBA's Office of Finance, Investment, and Procurement show that in fiscal years 1990 and 1991, SBA disbursed \$10.9 million and \$7 million, respectively, in advance payments to 8(a) firms.

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## Small Business Investment Companies

The Small Business Investment Act of 1958 created the SBIC program to help small businesses obtain equity capital and long-term financing. SBA licenses, regulates, and provides financial assistance to privately owned and operated SBICs. Their major function is to make investments by supplying equity and venture capital to small enterprises for their growth, expansion, and modernization. SBICs provide this type of capital in the form of long-term loans, debt securities, and equity securities. Acting under SBA rules and regulations, SBICs, which are profit seeking, select the small businesses to be financed. In fiscal year 1990, SBICs made 1,360 loans valued at approximately \$1.2 billion to small businesses.

In 1971, the Minority Enterprise SBIC program, formerly referred to as MESBIC, was established solely to provide financial assistance to small firms owned by socially or economically disadvantaged persons, but the assistance was not targeted to 8(a) firms. In fiscal year 1990, MESBICs made 413 loans valued at approximately \$408 million to firms owned by socially or economically disadvantaged individuals.

SBA does not collect information on the amount SBICs or MESBICs invest in 8(a) firms.

# Few Protests of 8(a) Contract Awards

The 1988 act requires GAO to report on the delays in the awarding of contracts caused by protests of (1) a prospective awardee's continued eligibility for the 8(a) program or (2) the conduct of contract competition restricted to firms participating in the 8(a) program.

SBA's 8(a) program regulations state specifically that the eligibility of an 8(a) firm for a competitive contract award may not be challenged by another program participant or others as part of any bid or contract protest. Rather, the regulations require that anyone with information relating to a firm's continued eligibility to participate in the 8(a) program should provide such information to SBA for its review. SBA adopted this provision because it has statutory responsibility for determining a firm's eligibility to participate in the 8(a) program, and SBA considers it inappropriate for other agencies to make administrative decisions regarding program eligibility. According to the Director, DPCE, MSB&COD does not routinely maintain data on the reviews of continuing eligibility that it conducts and, consequently, does not know exactly how often they occur. However, this official estimated that during fiscal years 1990 and 1991, only four to six such reviews were conducted by MSB&COD.

Under the contract appeals process established by the Federal Acquisition Regulations, all firms have the option of filing protests of contract awards with either GAO, the General Services Administration Board of Contract Appeals (GSBCA), or the procuring agency. GSBCA litigates only protests of the procurement of automated data processing services. By law, disputes filed with GSBCA must be resolved within 45 days of the filing of the protest, unless the GSBCA Chairman determines that a longer period is needed. Disputes filed with GAO must be resolved within 90 working days. GAO also offers expedited procedures for cases suitable for resolution within 45 calendar days.

MSB&COD does not routinely maintain data on protests involving the 8(a) program that are filed with GAO, GSBCA, or procuring agencies. Also, we were not able to identify a central data base of contract protests filed with procuring agencies. Therefore, in an effort to develop information on contract protests, we conducted a search using the Lexis data base—a computerized data base that contains information on contract protests decided by GAO and GSBCA. Using the three key terms "8(a) program," "eligibility," and "competition," we developed statistics on the number of 8(a) contract protests that were decided by GAO or GSBCA between November 15, 1988—the date of enactment of the 1988 legislation—and

June 1991—when we conducted our search. Our work identified 18 protests decided by GAO and 6 by GSBGA.

GAO decided nine of the protests during fiscal year 1990. We made a detailed review of the GAO records on these protests to determine the specific nature and outcome of the protests and to learn if any delays occurred in the contract awards as a result of the protests. Our review showed that one of the nine cases specifically involved the issue of continuing eligibility in the 8(a) program—an 8(a) firm protested to GAO a decision by SBA to terminate the firm from the program. Two other protests dealt specifically with the competitive awarding of 8(a) contracts. In one case, an 8(a) firm protested SBA's decision to convert a noncompetitive contract offering to a competitive contract offering after the procuring agency was unable to negotiate a contract with the firm. In the other case, an 8(a) firm, performing a contract to provide technical support services, protested that a change in the Standard Industrial Classification (SIC) code and other actions by the procuring agency improperly favored another 8(a) for a follow-on contract. GAO denied or dismissed the protests.

GAO records generally did not disclose whether a delay in the contract awards had occurred. However, our discussion with officials from the SBA district offices or procuring agencies showed that the protest of SBA's decision on the firm's eligibility delayed the contract award by 45 days, but the other protests had no effect on the awarding of the two other contracts. The following briefly discusses the three contract protests:

- The protest concerning eligibility involved an Army Corps of Engineers contract in excess of \$3 million to build a warehouse and storage facility. After the 8(a) firm that was recommended by the procuring agency for the contract requested that its 8(a) certification be transferred to another business in another state, SBA determined that the firm was ineligible to continue in the program. The firm protested SBA's action to GAO on the basis that SBA had acted in bad faith in terminating the firm's eligibility in the 8(a) program. GAO dismissed the original protest because the firm did not support its allegations with any substantiating facts. The firm requested that GAO reconsider its dismissal of the firm's original protest. In January 1990, GAO denied the firm's request on the basis that the firm again did not provide undeniable proof that SBA had acted in bad faith. According to the Assistant District Director, SBA Fresno District Office, the protest did not delay the awarding of the contract. However, this official told us that the contract was withdrawn from the 8(a) program because the firm declared

ineligible was the only firm in the district that was large enough to qualify for the required bonding.

- One of the protests concerning competition involved an estimated \$7 million contract for engineering and analytical services for the U.S. Army. After three attempts to negotiate the contract with an 8(a) firm, the Army determined that the firm was not acceptable from a technical standpoint and requested that SBA withdraw the firm's nomination. SBA withdrew the nomination and converted the contract to a competitive award, open to all 8(a) firms. On June 14, 1990, the original firm protested this action to GAO. On August 1, 1990, GAO initially denied the protest because the firm did not file it in a timely manner, that is, within 10 days of being notified of SBA's action. On August 20, 1990, the firm requested GAO to reconsider its decision. On November 20, 1990, GAO again denied the protest because the firm did not present any errors in fact or law in GAO's original decision or information not previously considered in the original decision. In discussing this procurement, the Chief, Bid Protest Branch, Contract Law Division, Army's Office of the Judge Advocate General, in consultation with the cognizant contracting specialist, told us that the protest delayed the contract award by about 45 days.
- The other protest concerning competition involved an estimated \$5 million contract for technical support services for the Department of Transportation's Urban Mass Transportation Administration (UMTA). The 8(a) firm filing the protest was awarded a contract in September 1986 that was scheduled to expire in September 1989. UMTA decided to continue to procure the technical support services through the 8(a) program and contacted 15 8(a) firms concerning their interest in the new contract. Four of the firms—including the incumbent 8(a) firm performing the contract—were selected as finalists and ranked by a technical evaluation panel. On the basis of the rankings, UMTA determined that another 8(a) firm was the best qualified to perform the follow-on contract and requested authority from SBA to negotiate a contract with the firm. SBA initially determined that the SIC code was inappropriate for the work planned and requested UMTA to select a new code. UMTA changed the code and, in August 1989, SBA authorized UMTA to initiate negotiations with the firm. In August 1989, the incumbent filed a protest, alleging that the procuring agency improperly favored the firm chosen for the follow-on contract by, among other things, changing the SIC code, ignoring the incumbent firm's successful performance on the prior contract, and ignoring the incumbent firm's experience. In December 1989, GAO dismissed the protest. GAO noted that the incumbent firm had failed to show (1) fraud or bad faith on the part of SBA and UMTA officials or (2) violations of the regulations. According to an UMTA contracting officer, the protest did not delay the

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**Appendix VIII**  
**Few Protests of 8(a) Contract Awards**

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contract award because GAO's decision came before the time the contract was to be awarded.

The remaining six protests dealt with various other issues concerning eligibility or competition, such as whether (1) an agency's decision to reserve a contract for the 8(a) program violated the requirement of full and open competition under the Competition in Contracting Act; (2) an agency acted improperly in assigning a SIC code to a contract, which resulted in eliminating an incumbent 8(a) firm from further consideration for that contract; and (3) SBA has the authority to limit competition for local-buy contracts to specific geographical areas.

# Objectives, Scope, and Methodology

In November 1988, the Congress enacted the Business Opportunity Development Reform Act of 1988 and made a number of major changes to the 8(a) program administered by SBA. The legislation also required that we review SBA's implementation of the legislation's provisions and report the results to the House and Senate Committees on Small Business by February 1, 1992. The 1988 legislation specifically required that we review and report on the

- certification of program participants;
- development and maintenance of 8(a) firms' business plans;
- noncompetitive awarding of contracts to program participants, its effect on the distribution of contracts among program participants, and SBA's use of its authority to equitably distribute contracts;
- number, dollar value, and selection method for competitive and noncompetitive contracts, program participants' dependence on noncompetitive contracts, and the rate of increase in the percentage of competitive contracts awarded as firms approach graduation from the program;
- SBA's collection and management of 8(a) program data;
- amount and type of management and technical assistance provided to program participants, and SBA's criteria for evaluating its effectiveness;
- reporting by program participants concerning their use of consultants and other nonemployees to assist in obtaining contracts;
- type and amount of financial assistance provided to 8(a) firms;
- limitations on the transfer of contracts if 8(a) firms change ownership and control; and
- delays in contract awards resulting from protests of a firm's continued eligibility for the program or of the competition restricted to program participants.

The House and Senate Small Business Committees expressed particular concern about the quality of automated information used by SBA to manage the 8(a) program. To address this concern, we reported on these 10 issues using data available to SBA program managers.

To report on the certification of program participants, we interviewed officials of MSB&COD and reviewed 8(a) program regulations, operating procedures, and other documents for information on the application review process. Using MSB&COD's application logs, we calculated the processing times for the 590 applications received at SBA headquarters during the first 11 months of 1990 to determine (1) SBA's compliance with the act's requirement to process applications within 90 days and (2) the extent of

any backlog in processing. Using the application logs, we also compared the decision by the Associate Administrator, MSB&COD, to approve or deny an application with the recommendation by headquarters and field office staff for each of the 286 applications SBA processed during the first 11 months of 1990 to determine the extent of agreement and disagreement. To determine how well SBA had complied with the 90-day processing requirement for applications received between January 1991 and April 1991, we had to rely on MSB&COD's weekly program activity reports because data on when the applications were received in the regional offices generally were missing from the application logs. We interviewed MSB&COD officials for information on (1) the office's application review process, applications in processing, and the office's application tracking system and (2) actions ongoing or planned to improve the application review process. We had similar discussions with SBA Office of Information Resources Management (OIRM) officials regarding planned improvements to MSB&COD's application tracking system.

To report on the development and maintenance of business plans, we reviewed the 1988 legislation and resulting 8(a) program regulations and operating procedures to determine (1) the legislative requirements regarding the development, submission, and maintenance of business plans and (2) SBA's implementation of these requirements. We obtained and reviewed MSB&COD reports to determine the number of new and incumbent firms that (1) were required to submit business plans, (2) submitted their plans and had them approved by SBA, and (3) failed to submit their plans to SBA for review. We discussed with MSB&COD officials the actions taken and planned to ensure that all firms comply with the requirements regarding business plans.

To report on (1) the number and value of competitive and noncompetitive contract awards, (2) program participants' reliance on noncompetitive awards, and (3) the equitable geographic distribution of 8(a) contracts, we obtained statistics from MSB&COD on fiscal year 1990 and 1991 contracts that exceeded the competitive thresholds and were competitively awarded. We reviewed the 1988 legislation and SBA's 8(a) program regulations and operating procedures regarding the definition of equitable geographical distribution and SBA's authority and procedures for distributing contracts among 8(a) firms. We discussed with MSB&COD officials their efforts to ensure the equitable geographical distribution of contracts and the extent to which procuring agencies recommend specific 8(a) firms for contracts. We developed information on (1) the number and dollar value of fiscal year 1990 contract awards by state and (2) the 50 firms receiving the most



contract awards during fiscal year 1990. We also reviewed SBA's management information system reports to determine the number of 8(a) firms that received contracts during fiscal years 1990 and 1991 and the number of firms that did not receive any contracts during the fiscal years. Using three computer tapes obtained from SBA containing data on 8(a) firms, contracts, and contract modifications, we developed information on the geographic distribution of 8(a) contracts. These data were the best available without querying all SBA district offices.

To address SBA's collection and management of 8(a) program data, we (1) reviewed the 1988 legislation regarding SBA's specific reporting requirements and (2) determined how well SBA has complied with the reporting milestones. We reviewed SBA's Federal Managers' Financial Integrity Act reports for fiscal years 1989 and 1990 as well as GAO reports issued in 1981 and 1988 on prior problems and deficiencies with SBA's data management for the 8(a) program. We also reviewed the monthly 8(a) program reports generated by SBA's management information system for an overview of the types of data routinely collected and routinely reported on by SBA. We interviewed MSB&COD and OIRM officials and reviewed OIRM documents to identify ongoing and planned efforts to improve SBA's collection and management of 8(a) program data.

To determine (1) the type and amount of management and technical assistance provided to 8(a) program participants and (2) SBA's criteria for assessing its effectiveness, we concentrated our efforts on SBA's 7(j) program—the agency's primary management and technical assistance program for 8(a) firms. We reviewed the 7(j) program regulations for information on the specific assistance available to 8(a) firms. We also reviewed SBA's 7(j) procurement requests for fiscal year 1990 for information on SBA's estimate of the nature and amount of 7(j) assistance needed for 8(a) firms during the fiscal year. We obtained and analyzed MSB&COD statistics on the dollar value and number of days of 7(j) assistance provided to 8(a) firms and on the number of firms receiving assistance during fiscal year 1990. We discussed with MSB&COD officials their procedures for providing 7(j) assistance to 8(a) firms and evaluating the effectiveness of such assistance.

To determine 8(a) firms' reporting of their use of paid consultants, agents, and others to obtain contracts, we reviewed the 1988 legislation and 8(a) program regulations for specifics on the reporting requirement. We obtained and reviewed the form developed by MSB&COD to collect this

information and discussed the firm's development with officials of MSB&COD and the Office of Management and Budget.

To determine the nature and amount of financial assistance provided to 8(a) firms, we reviewed SBA monthly management information system summaries for the number and amount of 8(a) direct loans made during fiscal years 1990 and 1991. We compared these figures with the funding levels appropriated by the Congress for the 2 fiscal years to determine whether all funding was used. We interviewed MSB&COD officials and reviewed congressional testimony on the 8(a) program for information regarding the advantages and disadvantages of the 8(a) direct loan program.

To report on the limitations on the transfer of 8(a) contracts if 8(a) firms change ownership, we reviewed the 1988 legislation and 8(a) program regulations regarding (1) restrictions placed on the transfer of 8(a) firms and (2) termination of contracts because of such a transfer. We reviewed the 8(a) program regulations and operating procedures for information on SBA's process for reviewing and approving change-in-ownership requests and obtained statistics on the number of requests that were approved or denied or that were pending as of September 30, 1991. Similarly, we developed information on the number of waiver requests received by SBA as of the same date.

To determine delays in 8(a) contract awards from protests of a firm's continued program eligibility or of the competition limited to program participants, we reviewed the Federal Acquisition Regulations and other documents and interviewed representatives of GAO's Office of General Counsel and the General Services Administration Board of Contract Appeals (GSBCA) for information on the protest process available to 8(a) firms. We searched information in the Lexis data base—a computerized data base containing information on contract protests decided by GAO and GSBCA—and developed statistics on the number of 8(a) contract protests in which eligibility or competition was at issue. We performed our search in June 1991 and developed data going back to November 15, 1988—the date of the 1988 legislation. Although contract protests can also be filed with the procuring agency, we were not able to identify a central data base of such protests. Consequently, the data presented in this report are limited to those contained in the Lexis data base. We reviewed the files for the nine protests decided by GAO during fiscal year 1990 for information on the agencies involved, any delays in contract awards, and the final decisions on the protests.

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**Appendix IX**  
**Objectives, Scope, and Methodology**

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We performed our audit work between October 1990 and December 1991 primarily at SBA headquarters in Washington, D.C., and its regional and district offices in Dallas, Texas.

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