

GAO

Testimony

Before the Committee on Small Business,
United States Senate

For Release on Delivery
Expected at
2 p.m. EDT
Wednesday
July 27, 1994

SMALL BUSINESS

SBA Cannot Assess the
Success of Its
Minority Business
Development Program

Statement of Jacquelyn Williams-Bridgers,
Associate Director
Housing and Community Development Issues,
Resources, Community, and Economic Development Division



020557 / 153018

Mr. Chairman and Members of the Committee:

We are pleased to be here to discuss the Small Business Administration's (SBA) progress in implementing changes to its 8(a) business development program that were mandated by the Business Opportunity Development Reform Act of 1988. This program provides federal contracts to small businesses that are owned and controlled by socially and economically disadvantaged individuals to help the firms develop their business and competitive skills and become viable businesses. Firms in the program are eligible to receive financial, technical, and management assistance from SBA to aid their development.

The Congress enacted this act¹ because it found that few firms leaving the 8(a) program could compete successfully in the commercial marketplace. The Congress also found that gaining access to the program was a lengthy and burdensome process, and program administration was inefficient. To remedy these problems, the act made a number of changes to the program, including requiring SBA to (1) develop and implement a systematic process for collecting 8(a) program data, (2) obtain revised business plans from 8(a) firms so that SBA can better monitor their development, and to annually review each business plan, and (3) competitively award certain 8(a) contracts.

As you may recall, Mr. Chairman, our January 1992 and September 1993 reports discussed the difficulties SBA was experiencing in implementing the act's changes, the agency's lack of reliable program data needed to effectively manage the program, and its problems in developing an effective management information system.² The Congress will soon consider proposals by SBA and others to change the program. Our testimony today may assist the Congress in this effort in that it focuses on SBA's progress in implementing key features of the program that are designed to make it an effective business development program. These are (1) requiring the competitive award of large-dollar-value 8(a) program contracts, (2) distributing 8(a) contracts so that a larger number of firms receive them, (3) improving business planning by 8(a) firms, and (4) requiring 8(a) firms to achieve certain levels of non-8(a) contract dollars as they progress toward program completion. We will also discuss SBA's activities relating to redesign of its management information system.

In summary, Mr. Chairman, while SBA has made progress in improving some aspects of the 8(a) program, it still is not in a

¹"Act" refers to both the 1988 legislation and subsequent technical amendments enacted in June 1989.

²Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992) and Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145, Sept. 17, 1993).

position to evaluate the program's overall success in developing minority businesses that can compete in the commercial marketplace after they leave the program. While the value of 8(a) contracts awarded competitively during fiscal year 1992 exceeded the value of the contracts awarded competitively during fiscal year 1991, the distribution of contracts continues to be concentrated in a very small percentage of 8(a) firms. Also, while SBA has approved new or revised business plans for most 8(a) firms, it could not tell us whether these plans are being annually reviewed, as required by the act, and/or whether the firms are achieving the non-8(a) contract goals agreed upon by the firms and SBA to reduce the firms' reliance on program contracts. Finally, the information that SBA gave us shows that its failure to properly plan the redesign of the program's management information system continues to hamper the implementation of a system capable of providing SBA program managers with fundamental 8(a) program information. The need for information on program results has been reinforced with the enactment of the Government Performance and Results Act of 1993, which requires that selected federal agencies, including SBA, develop the information necessary to make objective evaluations of program performance.

BACKGROUND

The 8(a) program, administered by SBA's Office of Minority Enterprise Development,³ is the federal government's principal vehicle for developing small businesses that are owned by minorities and other socially and economically disadvantaged individuals. As of July 21, 1994, there were 5,352 firms in the 8(a) program. In fiscal year 1993, 5,462 new contracts and 20,404 contract modifications, together totaling \$4.3 billion, were awarded to 8(a) firms.

The Congress has made three major legislative attempts--in 1978, 1980, and 1988--to improve SBA's administration of the 8(a) program and to emphasize its business development aspects. Over the years, reports by GAO, SBA's Inspector General, and others have shown continuing problems with SBA's administration of the program and/or with the program's ability to develop firms that could compete in the commercial marketplace after leaving the program. Problems often cited in these reports were that a large percentage of the total number of contracts was being awarded to very few 8(a) firms, and that SBA lacked the data needed to effectively manage the 8(a) program. These reports made numerous recommendations for improving the 8(a) program. Mr. Chairman, our September 1993 report, copies of which are available today, provides a synopsis of selected reports issued on the 8(a) program since 1975.

³This office was formerly the Office of Minority Small Business and Capital Ownership Development.

8(a) COMPETITIVELY AWARDED CONTRACTS INCREASED

To help develop firms and better prepare them to compete in the commercial marketplace after they leave the program, 8(a) program contracts must be awarded competitively when the total contract price, including the estimated value of contract options, exceeds \$5 million for manufacturing contracts or \$3 million for all other contracts.

As shown in the table below, the percentage of contract dollars awarded competitively increased between fiscal years (FY) 1991 and 1992. While the total number of contracts and contract dollars increased in fiscal year 1993, data were not available to determine the percentage of contract dollars awarded competitively during fiscal year 1993.

Table 1: Percent Increase in Competitive Contract Dollars Since 1991 (Dollars in Billions)

8(a) contracts	FY 1991	FY 1992	FY 1993
Number of contracts awarded	4,576	4,693	5,462
Number of contracts awarded competitively	86	139	N/A
Contract dollars awarded	\$1.60	\$1.70	\$2.20
Contract dollars awarded competitively	\$0.21	\$0.34	N/A
Percent of contract dollars awarded competitively	13	20	N/A

N/A - Not Available.
Source: SBA.

In both our 1992 and 1993 reports, we noted that we were unable to determine how many of the new 8(a) contracts should have been awarded competitively because SBA's management information system did not record the total estimated cost of the contracts, including the value of any contract options that might be exercised in the future. According to SBA, the 8(a) program management information system still has this limitation. Consequently, SBA program managers cannot rely on the management information system for information on the extent to which contracts that meet the competitive thresholds are not being awarded competitively.

8(a) CONTRACTS STILL CONCENTRATED IN SMALL PERCENTAGE OF FIRMS

The act directs SBA to promote the equitable distribution of noncompetitive 8(a) contracts to the maximum extent possible. The

Congress adopted this provision to correct the inequitable situation of a few firms receiving the bulk of 8(a) contracts. However the concentration of 8(a) contracts among a relatively few firms is a long-standing condition that is continuing. As early as 1981, we reported that, on average, 50 8(a) firms annually received about 31 percent of all 8(a) contract awards over a 12-year period.⁴ In recent years, we reported that

- in fiscal year 1990, 50 firms--less than 2 percent of the 3,645 firms in the program--received about \$1.5 billion, or 40 percent of the nearly \$4 billion in 8(a) contracts awarded, and
- in fiscal year 1992, 50 firms--about 1 percent, of the 4,291 firms in the 8(a) program--received about \$1.15 billion, or about 31 percent of the \$3.67 billion in 8(a) contracts awarded.

More recently, SBA data show that

- in fiscal year 1993, 50--about 1 percent of the 4,848 firms in the 8(a) program--received about \$1.08 billion, or 25 percent of the \$4.33 billion in 8(a) contracts awarded, and
- in fiscal year 1994, 50 firms--about 1 percent of the 5,382 firms in the program--accounted for \$742 million, about 33 percent of the \$2.28 billion in 8(a) contracts awarded as of June 1994.

Conversely, about half of the 8(a) firms have not received any contracts since fiscal year 1990. According to SBA, of the 4,848 firms in the 8(a) program at the end of fiscal year 1993, 2,607 firms, or 54 percent, did not receive any program contracts during the fiscal year. This compares to 54 percent of the firms in the program at the end of fiscal year 1992, 55 percent at the end of fiscal year 1991, and 53 percent at the end of fiscal year 1990 that did not receive any 8(a) program contracts during each of those fiscal years. It should be noted, however, that some firms seek SBA certification as an 8(a) firm solely for the purpose of qualifying and obtaining contracts from sources not associated with the 8(a) program. However, SBA does not know the extent to which this is occurring.

⁴The SBA 8(a) Procurement Program--A Promise Unfulfilled (CED-81-55, Apr. 18, 1981).

COMPLIANCE WITH REQUIREMENT FOR ANNUAL
BUSINESS PLAN REVIEWS CANNOT BE DETERMINED

Business plans help to develop 8(a) firms by setting forth, among other things, the firm's business development goals and objectives, estimates of its future 8(a) and non-8(a) contract activity, and specific steps for ensuring profitable business operations after the firm completes its term in the program. The 1988 act requires SBA to annually review each business plan with the firm and modify the plan, as needed, to ensure that the firm's business development goals are realistic and to help the firm achieve them.

In September 1993, we reported that SBA had approved the business plans of about 88 percent of 8(a) firms and that the 12 percent of firms without approved business plans were either relatively new, not receiving 8(a) contracts, or in the process of being terminated from the program. However, we also reported that SBA was not conducting annual reviews of approved business plans as required by the act and that the emphasis given to annual reviews varied among SBA offices. Our September 1993 report noted, for example, that SBA's Philadelphia District Office staff had not conducted annual business plan reviews for 8 of the 15 8(a) firms whose files we reviewed because the staff had placed a low priority on such reviews. Conversely, staff in SBA's New Orleans District Office had conducted annual business plan reviews for all 13 of the 8(a) firms whose files we reviewed.

SBA's data as of July 21, 1994, show that 4,282, or about 80 percent, of the 5,352 firms in the program had new or revised business plans approved by SBA. At the same time, SBA headquarters could not tell us whether these plans are being annually reviewed and/or are being modified to better reflect the firms' business development goals and objective because it does not routinely collect these data from the field offices. However, SBA officials told us that there is a need for this information and SBA plans to direct its field offices to provide it.

COMPLIANCE WITH 8(a) AND NON-8(a)
CONTRACT TARGETS UNKNOWN

To help ensure that firms do not develop an unreasonable reliance on 8(a) contracts as they approach the end of their 9-year term in the program, SBA established levels of increasing non-8(a) business activity that firms in the last 5 years of their program term must achieve. These levels range from a minimum of 15 percent of a firm's revenues during the firm's fifth year to a minimum of 55 percent in its ninth and final year.

SBA field offices, as part of their annual reviews of firms in the program, are responsible for ensuring that firms comply with their non-8(a) contract levels. However, SBA headquarters could

not provide us with any information about the extent to which 8(a) firms are meeting their non-8(a) business levels because SBA does not routinely collect this information from its field offices. As a result, SBA program officials do not know the extent to which firms are achieving these levels and reducing their overall reliance on 8(a) program contracts.

REDESIGN OF 8(a) PROGRAM'S MANAGEMENT INFORMATION SYSTEM CONTINUES TO EXPERIENCE DELAYS

SBA is attempting to develop a systematic process for collecting program data as well as tracking, monitoring, and evaluating 8(a) firms' progress. In January 1992, we reported that SBA's 8(a) program management information system did not provide SBA with the data needed to effectively manage the program and that SBA, recognizing these inadequacies, had begun a four-phased approach to redesign the system.

However, in our September 1993 report, we stated that SBA's initial efforts to redesign the system were not planned in accordance with federal regulations and guidelines. Specifically, (1) a needs determination that defines the system's requirements in relation to SBA's mission was not completed; (2) an analysis of various alternative system designs, including the costs and benefits of each, was not performed according to federal requirements; and (3) SBA's overall plan for implementing the system did not outline software, hardware, and telecommunications requirements, describe how the related systems would be interfaced and integrated, or provide a schedule and cost estimates for the redesign effort. We also reported that SBA had not estimated the total cost of redesigning this system and that SBA's latest time estimate for completing the system redesign was late 1995, 5 years later than it had originally planned.

Mr. Chairman, information SBA gave us shows that its failure to properly plan the redesign effort continues to delay the implementation of a system capable of providing management with basic 8(a) program information. Without such a system, we believe the Congress and program managers cannot determine what assistance is being provided to 8(a) firms, assess the effectiveness of such assistance, or most importantly, assess the program's overall effectiveness in developing 8(a) firms.

SBA's management information system redesign consists of four phases--the Certification Tracking System, the Servicing and Contracting System, the Management and Technical Assistance System, and the Central Office Repository System. The Certification Tracking System is intended to provide SBA with information on the initial 8(a) program applications and on other eligibility issues, such as graduations and withdrawals from the 8(a) program. Currently, this system is capable of generating routine reports on the number and status of applications, but it still lacks the

capability to provide program managers with information on the other eligibility issues.

The Servicing and Contracting System, which is intended to assist field office personnel in servicing 8(a) firms and monitoring contracts, was originally to be implemented in September 1992. The system component for servicing 8(a) firms was implemented in a selected number of field offices in September 1993. Although this component was pilot-tested before being implemented, a May 1994 SBA survey of field office personnel identified a number of major design flaws that, according to SBA, must be corrected if the system is to be a viable work tool and not an impediment to productivity. For example, field office personnel reported that the system is too slow, too difficult to use, and limited in the types of data it will accept. In addition to correcting the flaws in this component of the system, SBA must complete the development of the system component that will provide information on 8(a) contract requirements and awards.

The Management and Technical Assistance System is intended to help SBA record, track, and report on management and technical assistance provided to 8(a) firms. In September 1992, SBA entered into a year-long contract, valued at approximately \$100,000, to develop this system. During the fall of 1993, this system was delivered to SBA for testing. As a result of this and other testing, SBA considers the system unacceptable and must now decide whether to reject the system or spend additional funds to make it acceptable.

The Central Office Repository System, the final phase of the redesign, is intended to (1) accumulate data at the national level and (2) provide SBA with the capability to write reports for all program areas and automated subsystems. However, SBA is considering building these two functions directly into each of the aforementioned systems, obviating the need for this final system.

Mr. Chairman, SBA officials told us last week that they still do not have any estimates of the time or total cost to complete the redesign of the 8(a) program's management information system. SBA estimates that as of June 1994, it had spent about \$1 million on the redesign effort. In fiscal year 1994, SBA had targeted \$950,000 in discretionary funds to complete the redesign work. However, \$600,000 was reprogrammed to meet unanticipated salary and benefit requirements. Of the remaining \$350,000 that could have been spent on the redesign work, only about \$17,500 had been expended as of June 1994.

Last September, the SBA Administrator estimated that it would take SBA up to 2 years to complete the redesign of the management information system. However, because of the problems that SBA continues to experience in its development efforts and the limited funding committed to the redesign effort in fiscal year 1994, we

are concerned that the kinds of delays experienced in the past will continue in the future.

SUMMARY

In summary, Mr. Chairman, while SBA has made progress in improving some aspects of the 8(a) program, it still is not in a position to evaluate the program's overall success in developing minority businesses that can compete in the commercial marketplace after they leave the program. The value of 8(a) contracts awarded competitively increased in fiscal year 1992, but there has been no improvement over the last 5 to 6 years in the dispersion of contracts among 8(a) firms. SBA has over the past several years paid considerable attention to firms' new or revised business plans, but program managers cannot assess whether the business assistance SBA provides to the firms is consistent with their development needs because SBA does not know from one year to the next whether firms are meeting their own business development goals.

Also, despite the investment of several years of effort and approximately \$1 million, SBA's management information system still is unable to provide the most basic data needed to manage the 8(a) program and to evaluate its effectiveness in developing the business skills of firms in the program. Program managers do not know, for example, whether firms nearing the end of their 8(a) program terms have sufficient experience in contracting or contracts outside of the program to provide the firms with a reasonable chance of success after they leave the program. Mr. Chairman, our position has been and continues to be that to effectively manage and assess the 8(a) program, SBA must have knowledge on firms' overall growth and the program's ability to provide the contracting opportunities, management assistance, and other services needed to develop these firms as viable small businesses. This knowledge can be obtained through the use of an effective management information system. Such a system is not yet in place at SBA.

- - - - -

This concludes my prepared statement. I would be glad to respond to any questions that you or Members of the Committee may have.

(385438)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Mail
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested
