

**BUSINESS DEVELOPMENT
PROVIDED BY SBA'S 8(A) BUSINESS
DEVELOPMENT PROGRAM**

REPORT NUMBER 4-22

June 2, 2004

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**U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: June 2, 2004
Report Number: 4-22

To: Albert B. Stubblefield
Acting Associate Administrator for Business Development

From: Robert G. Seabrooks /s/
Assistant Inspector General for Auditing

Subject: Business Development Provided by the 8(a) Business
Development Program

The Office of Inspector General (OIG) completed an audit survey of the business development activities provided by the U.S. Small Business Administration's (SBA) 8(a) Business Development program (8(a) program). Based on the results of the audit survey, we determined that a full audit of the 8(a) program's business development activities is not warranted at this time because SBA has not established criteria for delivering and measuring business development services. This report presents the results of our review.

BACKGROUND

The purpose of the 8(a) program is to assist small businesses owned and controlled by socially and economically disadvantaged individuals and economically disadvantaged Indian tribes, Native Hawaiian Organizations and Community Development Corporations compete in the mainstream of the American economy through business development. The Small Business Act lists various types of business development that SBA is expected to provide to 8(a) firms.

In the past, the OIG and the General Accounting Office (GAO) issued audit reports that criticized the 8(a) program for various weaknesses including (1) a lack of meaningful performance indicators to assess the effectiveness of the program and (2) the large number of contract awards gained by a relatively few number of firms. In order to comply with the Government Performance and Results Act (GPRA), SBA is required to submit annual reports to

Congress detailing the success of the program. As a result, SBA established performance indicators to identify and define the program's achievements. However, previous audit work completed by the OIG and GAO revealed that the indicators did not accurately measure success, as it is defined by public law. Additionally, GAO has criticized SBA for its failures to develop data necessary to track its business development efforts. Without a centralized system to track this information, it is difficult to assess the effectiveness of the program.

Contracting assistance is an important aspect of the 8(a) program. The goal is to help 8(a) firms receive sole source and competitive 8(a) contracts from participating federal agencies. However, in the past, a large percentage of the dollar value of 8(a) contracts went to only a few companies, which leads to questions about the effectiveness and fairness of the program. To address this issue, SBA has developed several programs, including the mentor-protégé and joint venture projects, in an effort to include more firms in the contracting process.

OBJECTIVES AND SCOPE

The survey objectives were to (1) determine the nature and extent of business development services being provided to program participants and (2) follow up on past audit recommendations related to the 8(a) program. We completed a survey rather than a comprehensive audit of the program and, accordingly, our scope was limited. In order to assess the business development services, we interviewed 8(a) officials from headquarters and SBA's Washington, Richmond and Kansas City district offices. The three district offices were judgmentally selected from SBA's 68 district offices. Additionally, we reviewed the changes that have been made to the program within the last two years and the changes that are currently being proposed for the program. We reviewed the Small Business Act, Code of Federal Regulations (CFR), Office of Management and Budget (OMB) Circulars, GAO's *Standards for Internal Control in the Federal Government*, Inspector General Act, and current and new draft 8(a) Business Development Standard Operating Procedures (SOP). In order to determine SBA's compliance with past audit recommendations, we reviewed the files on SBA OIG and GAO audit report recommendations issued within the past five years.

Audit survey work was conducted in Washington, D.C. from November, 2003 to January, 2004. The survey was conducted in accordance with generally accepted Government Auditing Standards.

AUDIT RESULTS

SBA's district offices and resource partners provided various types of business development assistance to 8(a) firms, but the effort was neither tracked nor strategically managed. Also, SBA did not address five audit recommendations in a timely manner.

Finding 1: The 8(a) program did not develop policies and procedures to provide required business development services

SBA had not developed program-wide policy and guidance detailing how the agency would deliver the business development services to 8(a) companies required by the Small Business Act. Also, SBA did not track the business development that was being provided. Although SBA provided various business development and training through its district offices and resource partners, the assistance provided was independently developed by each district office and, as such, was neither coordinated, tracked, monitored, evaluated, nor consistently delivered among the various district offices. As a result, SBA was unable to determine whether it was fulfilling its mission as outlined in the Small Business Act and whether it was utilizing government resources efficiently and effectively to deliver business development services.

Although the Small Business Act has required SBA to provide 8(a) business development assistance for over 25 years, the Agency had not developed central policy and guidance detailing how it would deliver the business development services. The Small Business Act, as amended, lists the following specific examples of business development activities that SBA is expected to deliver:

- developing comprehensive business plans;
- providing non-financial services including but not limited to (I) loan packaging, (II) financial counseling, (III) accounting and bookkeeping assistance, (IV) marketing assistance, and (V) management assistance;
- obtaining equity and debt financing;
- establishing regular performance monitoring and reporting systems to assure firms comply with their business plans;
- analyzing and reporting the causes of success and failure of small business concerns participating in the program;
- providing assistance with surety bonds; and
- special management and technical assistance designed to meet specific needs.

This list of assistance required by law differed from 13 CFR §124. The CFR contained a few new forms of assistance not specified in the Small Business Act, and it ignored others. The CFR did not detail how any of the assistance would be provided. Specifically, the CFR listed the following support:

- sole source and competitive 8(a) contract support;
- financial assistance;
- transfer of technology or surplus property; and

- training to aid in developing business principles and strategies to enhance their ability to compete for both 8(a) and non 8(a) contracts.

Although the SOP is supposed to provide detailed guidance as to how to carry out its operations, the 8(a) program's SOP was silent on the types of business development assistance SBA was to provide, and it failed to provide guidance to SBA's employees on how to carry out the assistance listed in the Small Business Act.

Our survey revealed that each of the three surveyed district offices independently developed informal training and assistance without central guidance and direction from the program office. Examples of business development activities occurring at the district offices include:

- advising and referring participants on external resources available for financing, training and other identified assistance needs;
- hosting internal training seminars on a wide variety of topics (e.g. cost proposal workshops and Defense Contract Audit Agency training courses);
- assisting 8(a) companies on an individual basis on how to market to the federal government;
- assisting firms with Mentor-Protégé and joint venture opportunities;
- sponsoring forums to introduce firms to procuring agencies/contracting officers;
- assisting firms to comply with annual update requirements;
- helping firms to apply for the section 7(j) academy;
- working with contracting officers to market and promote the 8(a) program; and
- conducting 8(a) program orientation training.

Although SBA and its resource partners provided various types of business development assistance, the assistance was not coordinated, tracked, monitored, evaluated, nor necessarily the same at each office.

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, mandates the establishment of management controls for agency programs that ensure that "...all program operations...comply with applicable laws and regulations...." GAO's *Standards for Internal Control in the Federal Government*, otherwise known as the *Green Book*, also emphasized the need for management to develop detailed policies, procedures, and practice to fit their agency's operations.

The central 8(a) program office appeared to have emphasized providing contracting assistance rather than all the business development activities listed in the Small Business Act. This is evidenced by the CFR devoting about 20 pages to contracting assistance and only two pages to providing all other types of business development, and the SOP devoting about 35 pages to contracting assistance while not providing any guidance on other types of business development.

As a result of the lack of detailed guidance, individual district offices developed their own types of assistance and relied on their own employees and resource partners to provide

whatever support they could provide. Due to this unstructured business development strategy, program participants may not have received the full benefits the program is supposed to offer, and 8(a) firms may not have been treated equally in obtaining needed business development. District offices may also have been duplicating each other's efforts in developing the services they were providing. Also, since SBA lacked measures and data to assess its business development activities, SBA was unable to determine how efficiently and effectively it was utilizing government resources to deliver business development services and whether it was delivering all of the business development services required by law.

The previous Associate Administrator for Business Development (Associate Administrator) took positive steps to address the lack of guidance concerning business development. Specifically, 7(j) funds, which are appropriated to provide technical or management assistance to individuals or enterprises eligible for assistance under sections 7(j) and 8(a) of the Small Business Act, will be used exclusively to assist in the development of 8(a) firms. Under the new plan, 7(j) contractors will be required to collect data to help measure the level of business development provided. The Associate Administrator also worked with the OIG to update the SOP.

Recommendations:

We recommend that the Associate Administrator for Business Development:

- 1A. Ensure that the draft SOP is finalized and that it includes a list of specific business development activities SBA is to provide and details the processes for delivering these services.
- 1B. Ensure that SBA collects sufficient data, which will allow SBA to analyze and report on the amount of business development provided to 8(a) firms and more effectively measure achievements of the program's expected results.

Other Matter

At the start of the audit survey, we noted that SBA failed to fully address audit recommendations from several prior audit reports on the 8(a) program. These included OIG's March 2001 report, "*Results Act Performance Measurement for the Minority Small Business and Capital Ownership Development Program*" and two GAO's July 2000 reports, "*SBA Could Better Focus Its 8(a) Program to Help Firms Obtain Contracts*" and, "*SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission.*"

OMB Circular A-123 requires managers to promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations. Managers are required to complete, within established timeframes, all actions that correct or otherwise resolve the appropriate matters brought to their attention. Further, the Inspector General Act and OMB Circular A-50 require management decision/resolution

regarding audit recommendations within a six month period and implementation of management's decision within one year to the extent practicable.

After we discussed these outstanding recommendations with the Associate Administrator, SBA took action to finalize GAO's recommendations. The Associate Administrator expected to provide final resolution to the OIG report shortly.

SBA Management's Comments

The Acting Associate Administrator for Business Development agreed with the report. He stated that their senior managers have committed to developing the in-depth guidance needed to implement recommendation 1A by June 1, 2005. He further stated that the procedures to implement recommendation 1B will be part of the proposed electronic annual review. He anticipates having the final deliverable for this review by March 31, 2005. His response is included as Attachment 1.



The findings included in this report are the conclusions of the Office of Inspector General's Auditing Division. **The findings and recommendations are subject to review, management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decision for each recommendation within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendation.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-7577.

Attachments

U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

Attachment 1



Date: May 26, 2004
To: Bob Seabrooks, Assistant IG for Auditing
From: Al Stubblefield, Acting AA for Business Development (FOIA Ex. 6)
Subject: Response to Survey Report on Business Development

Thank you for the opportunity to comment on your survey report on the business development provided by the 8(a) Business Development program. I have reviewed your draft and agree with your general observations. However, I would like to comment on the individual recommendations.

Recommendation 1A. I am happy to state the once we obtain the Administrator's approval, we will promulgate the SOP. We anticipate promulgation will occur very shortly. The SOP's language on business development significantly expands on the current SOP. However, we know more work is needed. Our senior managers have committed to developing in-depth guidance by June 1, 2005.

Recommendation 1B. Our office is establishing procedures to accomplish this through the annual review process, and this will be part of the proposed electronic annual review. The contractor that is developing the electronic annual review is making good progress. We anticipate having the final deliverable by March 31, 2005.

Thank you, again, for working with us on these issues. If there are questions or if my office can provide any assistance, please contact Jim Parker at 205-3644.

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