Summary of Findings

The small business code in the GSA's master procurement database has become a misleading indicator of how well the government is meeting its small business goals.

An analysis of the leading 1,000 federal contractors coded as small businesses in the General Service Administration's (GSA's) master FY 2002 prime contract file reveals that over seven percent of the dollars awarded to these 1,000 firms went to companies that cannot be characterized as small businesses. Furthermore, an additional 18 percent of these dollars went to firms exhibiting inconsistent and questionable small business code designations.

In fiscal year 2002, the GSA reported that 70,814 companies received a total of $48.5 billion in prime contract dollars as small vendors. The 1,000 largest small contractors accounted for $25.6 billion, or 53 percent, of the FY 2002 small business total. These same 1,000 companies, combined with their parent company affiliates, also reported receiving $48.9 billion as large firms, $138 million as foreign firms, $653 million as domestic contractors performing outside the United States and $2 billion as "Other," a business category that includes state and local governments, non-profit institutions and Historically Black Colleges and Universities. Overall, the parent companies of the Top 1,000 small businesses received a total of $77 billion in prime contracts.

Among these Top 1,000 companies $1.6 billion in contracts coded as small business awards went to 32 firms Eagle Eye designated as large businesses and another $275 million went to 8 firms designated as "Other." A total of $438 million in 8(a) and small business set-aside dollars went to firms that are probably large and not qualified to participate in these programs. A total of $4.5 billion went to 167 firms exhibiting inconsistent small business coding, but which may have valid claims to be considered a small business in certain markets.

Small business coding problems directly impact important federal benchmarks such as annual agency small business contracting goal achievement as well as measures of the progress of various small business contracting incentive and preference programs. The same coding problems also call into question whether small business program dollars and incentives are being awarded to qualified program participants.

There are a number of possible explanations for small business coding inconsistencies in the FY 2002 contracts database, which contains reports on over 200,000 individual prime contracts. Possible explanations include:

- Erroneous company size codes assigned by contract officers
- Large firms acquiring small firms during the fiscal year
- Small firms growing out of some but not all of their size standards during the fiscal year

- Firms such as 8(a)s acquiring new employment-based NAICS size standards after growing out of old revenue-based size standards
- Firms designating all revenues as received by a small business when the firm is qualified as small in just one or a small number of NAICS categories
- Incorrectly assigned parent company affiliations
- Solicitations set aside for small businesses no qualified small business bidders
- Vendor deception

This study does not attempt to assign blame or prove guilt but rather describe the scope of the small business coding problem in order to improve contract data reporting. This, in turn, will lead to better, more informed small business policy making and better enforcement of existing procurement policies and regulations.

Introduction

The Individual Contract Action Report (ICAR) master contract database, now maintained by the General Services Administration's (GSA's) Federal Procurement Data System (FPDS) is the government's main record of how agencies spend available procurement dollars. In FY 2002, this file reported procurement data for over 80,000 companies, 200,000 contracts and over 700,000 contract transactions annually.

Among the approximately four dozen key data elements collected by contract officers for each contract action are a variety of business type and socioeconomic indicators specifying company size (small, large, etc.) and ownership characteristics (i.e.minority-owned, woman-owned, veteran –owned). Many decisions about procurement policy are based upon the analysis of spending trends in these data categories.

According to the U.S. Small Business Administration (SBA), a business is classified as small if it is independently owned and operated and not dominant in its market. A firm must also fall under certain employment and revenue thresholds to be considered small. These thresholds are known as "size standards." They are assigned and administered by the SBA's Size Standards Office.

The size standards used by all agencies in FY 2002 were extensively modified by the SBA in October, 2000. At that time, the SBA transformed the old Standard Industrial Classification (SIC) Code-based system to one based on the North American Industrial Classification Code (NAICS). Businesses are coded as small or large based on either a three-year average revenue threshold or an employment threshold established for each separate, six-digit NAICS category. Socioeconomic company data collected along with business size information as part of the ICAR data collection process applies only to small vendors.[1]

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[1] U.S. Small Business Administration, *Guide to SBA's Definitions of Small Business*, downloaded from www.sba.gov August 21, 2003, page 1.

Small businesses self-certify themselves as small or large on each bid they submit, or when they register their companies in the Department of Defense's Central Contractor Registry (CCR) or the SBA's ProNet contractor databases. Enforcement of the size standard by the SBA occurs only when a company's size classification is protested by a contracting officer, another bidder, or by the SBA. During fiscal year 2002, the SBA processed 383 size protests. Of these, 110, or 29%, were dismissed on procedural grounds. Of the cases accepted for review, 85 firms were found to be other than small.[2]

The inconsistent application of business size codes in the ICAR quarterly procurement data releases has been evident for years. Selections of data coded as being awarded to small businesses in the ICAR file routinely contain numerous, large vendor recipients. With the growth of GSA Schedule and multiple award-type contracts, the number of individual tasks issued on contracts each year is rising rapidly, along with the opportunity for introducing errors. In FY 2002, 22,012, or 31 percent, of the 70,814 firms reporting small business prime contract revenue also reported receiving dollars coded under other types of business.

This has called into question the ICAR file's integrity and raised questions about the extent to which the ICAR file can be relied upon to assess fundamental measures of small business participation in the federal marketplace. As GSA Associate Administrator Felipe Mendoza admitted before the U.S. House of Representatives' Small Business Committee at its May, 2003 hearings, "The FPDS is not a reliable source for determining a contractor's size."[3]

Nonetheless, information entered into the FPDS system plays a critical role in determining the success or failure of small business procurement policies each year. Drawing extensively from data in the ICAR file, this study provides a preliminary, statistical assessment of the extent to which awards made to businesses ranked among the 1,000 largest small vendors in FY 2002 were miscoded.

Data Sources and Methodology

Description of Core ICAR Procurement Data

To perform this analysis Eagle Eye extracted all contract transaction records from the FPDS ICAR file coded as being awarded to small businesses in FY 2002. These records were formatted in a manner that permitted additional, small business information to be merged from the SBA's ProNet small business file (downloaded August, 2003) and the

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[2] Fred Armendariz, "Prepared Remarks of Mr. Fred C. Armendariz, Associate Deputy Administrator, Small Business Administration," presented at the U.S. House of Representatives Small Business Committee Hearings, "Are Big Businesses Being Awarded Contracts Intended for Small Businesses?", May 7, 2003
[3] Felipe Mendoza, "Prepared Remarks of Mr. Felipe Mendoza, Associate Administrator, US General Services Administration," presented at the U.S. House of Representatives Small Business Committee?", May 7, 2003.

DoD's master CCR database (April, 2003 version). All pertinent small business information was merged into a master file for analysis.

The GSA's FPDS ICAR database provided the original, source data used in this study. The ICAR database is an electronic file containing data fields corresponding to all the information elements collected by contract officers on the DD-350 (defense) and 279 (civilian) ICAR forms. Each ICAR record represents information about one unique contract obligation on an unclassified prime contract typically worth at least $25,000.

In FY 2002, a total of over 700,000 ICAR transactions were reported on over 200,000 individual prime contracts. Small, sub-$25,000 obligations can be made on an SF-279 but are more commonly reported in bulk through the SF-281 small purchase report. There is no upper limit to the value of contracts reported in a DD-350 or SF-279 report; all reported contracts are included in Eagle Eye's database.

In FY 2002, each contract office collected information on every transaction they administered and forwarded this information to their bureau's or agency's procurement data office. This office took responsibility for performing preliminary data validation and forwarding valid transaction records to the FPDS each quarter for further editing and publication. With the adoption of the new FPDS-Next Generation reporting system, these procedures will change over time to provide more direct input from the original contract entry system.

Contained in each ICAR transaction record is information describing the financial, competitive, statutory and other characteristics of the obligation. Over the entire course of a contract's duration, a contract officer might fill out numerous DD-350 or SF-279 forms for a single contract. This is because the dollars contained in a single obligation may not represent the total value of a contract. Some small contracts have only one obligation, but some large contracts can have well over 100.

Each DD-350 or SF-279 report forms the basis of a separate record in Eagle Eye's ICAR contracts database. Each record shows a unique combination of the following data elements: reporting agency, contract number, contract modification number, contracting office order number, contracting office code, action date, and amount of obligation (or de-obligation). Each time a new form is filled out a separate task has been documented.

One of the key fields captured in the ICAR report data entry process is the Type of Business Code which identifies the size and nature of the recipient vendor on each transaction. It is the assignment of this code to the procurement data that helps agencies measure the amount of small business procurement done during the year and it is the inconsistent application of this code to the procurement data that this study assesses. The available Type of Business Code assignments are listed in Table 1, below.

Limitations of the ICAR Data

The ICAR file has structural limitations. The ICAR file includes reports from all major cabinet-level and independent agencies with appropriations authority and which are

required to report procurement spending to the GSA. However, a number of federal and quasi-federal organizations issuing contracts are excluded from the ICAR reporting process: Congress and the Government Accounting Office; the Court System; the Federal Aviation Administration; the Tennessee Valley Authority; the U.S. Postal Service; The Federal Deposit Insurance Corporation; the International Monetary Fund and the World Bank; classified agencies like the Central Intelligence Agency and the National Security Agency. Although Eagle Eye publishes Postal Service and FAA contract databases, neither Postal Service nor FAA contract information was used in this analysis.

Table 1: ICAR Type of Business Codes

Code	Description
	NOT REPORTED/NOT AVAILABLE
A	SMALL, MINORITY-OWNED BUSINESS
B	OTHER SMALL BUSINESS
C	LARGE BUSINESS
D	JWOD NONPROFIT AGENCY
E	NONPROFIT EDUCATION ORGANIZATION
F	NONPROFIT HOSPITAL
G	OTHER NONPROFIT ORGANIZATION
H	STATE/LOCAL GOVERNMENT – EDUCATIONAL
J	STATE/LOCAL GOVERNMENT – HOSPITAL
K	OTHER STATE/LOCAL GOVERNMENT
L	FOREIGN CONTRACTOR
M	DOMESTIC CONTRACTOR PERFORMING OUTSIDE U.S.
U	HISTORICALLY BLACK COLLEGE/UNIVERSITY OR MINORITY INSTITUTION (HBCU/MI)

Credit card purchases are excluded from the ICAR data file. Federal credit card spending totaled about $14 billion in FY 2002. Credit cards are most commonly used for small, open market purchases that fall under the $25,000 reporting threshold for the ICAR file. Records of this spending are reported separately by the GSA in highly aggregated databases, making them unusable for the purposes of this analysis.

Non-credit card purchases under $25,000 are also excluded from this analysis. These purchases are colloquially referred to as "281 purchases," named after the government's Form 281 used to report them. Form 281 data is collected separately to the GSA in highly aggregated totals that are marginally useful for research purposes. Form 281 purchases totaled about $15 billion in FY 2002.

Creating the Preliminary FY 2002 Small Business Ranking

To calculate small business spending from the ICAR file for this study, Eagle Eye first selected all FY 2002 ICAR transaction records coded A or B in the ICAR Type of Business field from the master ICAR file maintained on our computer network. Code A is defined by the GSA as representing "Small, Minority-Owned Business" and Code B represents "All Other Small Business."[4]

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[4] U.S. General Services Administration, Type of Business Code Lookup Table, May, 2003.

With every small business transaction copied into a single file, this file was then merged with Eagle Eye's master Company Lookup File using the DUNS number as the linking field. Maintained continuously by Eagle Eye, the Company Lookup File contains up-to-date parent company assignments for every company DUNS number in the master ICAR file. Eagle Eye merged the two files to add a current Parent Company assignment to every record in the core small business file.

Once the Parent Company assignment was made, Eagle Eye sorted, totaled and ranked the small business contract file by the Parent Company Name to come up with the Top 1,000 small businesses for FY 2002. From this file we extracted every Parent Company Name into a Small Business Parent Company File. We linked this file back into the master Company Lookup file to obtain all known DUNS numbers for each listed small business Parent in FY 2002. We then linked this Small Business Parent file back to the master contract database to obtain overall Parent company totals based on Parent Company Name.

This file was then merged with the Central Contractor Registry (CCR) and ProNet company files, again using the DUNS number as the linking field, to obtain the small business assignments for each of the Top 1000 ranked businesses from these two independently maintained government databases. The official CCR and ProNet small business indicators helped to validate Eagle Eye's small business designations, described below.

The Central Contractor Registry

The Central Contractor Registration (CCR) plays a supporting role in this study. The CCR is the primary vendor database for the Department of Defense (DoD), NASA, Department of Transportation (DoT), and Department of Treasury. The CCR collects, validates, stores and disseminates company-related data in support of agency missions.

Both current and potential government vendors are required to register in CCR in order to be awarded contracts by the DoD, NASA, DoT and Treasury. As part of the registration process, the CCR collects extensive company information, including:

- DUNS Numbers
- Company and contact names, addresses, phone numbers, faxe numbers and e-mail addresses
- Socioeconomic information, including company size and ownership characteristics
- Billing and payment information

Eagle Eye used the DUNS number field to link the ICAR and CCR databases. This, then, enabled the extraction of the small business code assigned to each DUNS number in the CCR. Eagle Eye compared a total of 26 different CCR small business codes to the ICAR Codes A and B. If the business size status indicator in the CCR showed a DUNS number

as a small firm, Eagle Eye combined this evidence with the small business size indicators in the ProNet and ICAR files to assign the Eagle Eye small business flag.

ProNet

The SBA's Pro-Net small business file also plays a supporting role in this study. Pro-Net is an Internet-based database of information on more than 195,000 small, disadvantaged, 8(a), HUBZone, and woman-owned businesses. Through the Pro-Net system the SBA collects extensive information about the size and socioeconomic characteristics of all registered small businesses. Pro-Net is the government's largest data repository of exclusively small business information.

Eagle Eye downloaded the August version of the entire Pro-Net database and linked it to the master ICAR file on the common DUNS number field enabled Eagle Eye to add ProNet's Small Business Flag to the core contract transaction file. A "Y" in the ProNet Small Business field and a "Y" in the CCR Small Business Field combined with company revenues falling under the largest small business revenue thresholds provided confirmation of a firm's small business status for the purposes of this analysis.

Assignment of Eagle Eye Small Business Classification

For this analysis Eagle Eye developed a four-character Business Size Status coding scheme to identify small firms in the ICAR data that appeared to be coded correctly, questionably, or incorrectly. These codes include:

Table 2: Eagle Eye Business Status

EE Status	Description
1	Likely Small Business
2	Partial Small Business
3	Likely Large Business
4	Other

The codes were assigned according to the following criteria:

EE Size Status 1, Likely Small Business: Eagle Eye performed three passes on the data. If, on the first pass, a parent company's small business revenues equaled 100 percent of the parent company revenues AND these revenues totaled less than $90 million (the highest three-year average, non-financial small business revenue threshold) these companies were coded as Likely Small Businesses. Secondly, if both the CCR and ProNet small business flags showed "Y" and total parent company revenues were less than $90 million, then these companies were also coded as Likely Small Businesses. Finally if 95 percent or more of a parent company's contract dollars were coded as Business Types A or B in the ICAR file AND they were coded as a small business in either the CCR or the ProNet databases, then these companies, too, were flagged as Likely Small Businesses.

EE Size Status 2, Partial Small Business: If between 1% and 95% of a parent company's total prime contract dollars were coded as Business Type A or B in the ICAR file, and no

other business code was assigned, then this firm was considered a Partial Small Business and flagged for further research. Primarily because of multiple DUNS numbers that could not be confirmed in the CCR and Pronet databases, parts of approximately 60 companies that had been assigned EE Status 1 received a preliminary Status 2 assignment. These inconsistencies were resolved with additional research.

EE Size Status 3, Likely Large Business: This code was only assigned to companies after Eagle Eye made direct contact with staff at these companies. The code was initially assigned to any company whose total parent company revenues exceeded $750 million, about 25% more revenue than the largest confirmed small business. Eagle Eye identified other likely large business indicators and flagged these firms for further research. Other Likely Large Business indicators included large revenue totals, a large percentage of total revenue showing as being awarded to a large firm and a lack of links between the firm and an active small business listing in either the CCR or ProNet small business databases.

EE Size Status 4, Other: This code was initially assigned to every firm showing more than 50% of its total parent company revenues being awarded under Business Types D-U. Final assignment was made following direct confirmation that the recipient vendor was neither a small nor a large business. The most common types of Other businesses include foreign entities, non-profit organizations and government agencies.

Key Findings and Analysis

General

A total of 40 parent companies flagged by Eagle Eye as Large (EE Status Code 3) or Other (EE Status Code 4) received a total of $1.886 billion worth of prime contracts coded as awarded to small firms in FY 2002. Of these 40 firms, Eagle Eye classifies 32 as Large and eight as Other. The 40 companies are listed in Table 3, below.

Table 3: Parent Company Breakdown of FY 2002 EE Status 3 & 4 Dollars

Parent Company	Small Bus Revenue	Overall Parent Total	Small Bus Rank	EE Status
TITAN CORP.	539,896,776	1,140,118,865	1	3
RAYTHEON CO.	126,117,000	7,483,218,194	14	3
BAE SYSTEMS	119,750,000	1,480,675,530	16	3
NORTHROP GRUMMAN CORP.	98,846,114	12,345,047,905	27	3
CACI INTERNATIONAL INC	88,467,291	509,924,291	31	3
BUHRMANN NV	87,626,678	93,038,678	32	4
CLASSIFIED DOMESTIC CONTRACTOR	66,071,000	263,556,000	58	4
L-3 COMMUNICATIONS CORP	55,391,000	1,492,935,386	71	3
ANTEON CORPORATION (VA)	52,819,999	688,280,433	78	3
VERIDIAN CORP.	44,899,000	266,738,000	108	3
Y W C A	43,435,000	173,140,000	113	4
CARLYLE GROUP	34,362,000	2,173,384,612	163	3
OMI CORP.	32,745,000	103,024,000	176	3
COMPUTER SCIENCES CORP.	32,665,000	3,959,902,006	178	3
SCIENCE APPLICATIONS INTL CORP	31,221,000	3,481,501,571	194	3

MANTECH INTERNATIONAL CORP	29,821,828	346,296,098	208	3
GENERAL DYNAMICS CORP.	29,377,290	6,951,502,578	212	3
SRA INTERNATIONAL, INC.	23,324,897	300,792,897	307	3
A C S	23,227,000	540,503,113	310	3
PACIFIC ARCHITECTS & ENGINEERS	22,433,000	68,594,000	322	3
SMITHS GROUP PLC	20,538,000	113,106,050	359	4
WYLE LABORATORIES, INC.	20,460,000	69,801,986	363	3
KRUEGER INTERNATIONAL	19,700,000	64,448,053	381	3
ELECTRONIC DATA SYSTEMS CORP.	18,978,000	1,067,826,016	395	3
U S DEPARTMENT OF THE TREASURY	18,925,000	26,294,000	396	4
ARCHER-DANIELS-MIDLAND CO.	17,740,325	212,126,325	433	3
BATTELLE MEMORIAL INSTITUTE	16,587,000	883,427,090	482	3
HUNT BUILDING CORP.	16,400,000	97,706,384	493	3
TEXAS, STATE OF	15,979,000	19,580,000	513	4
BORO DEVELOPERS INC	15,486,000	35,662,000	536	3
BOOZ ALLEN HAMILTON INC.	15,328,000	1,025,064,914	542	3
PEARSON PLC	13,969,000	150,232,000	601	3
VERITAS CAPITAL INC	12,645,000	487,689,073	686	3
CARDINAL HEALTH INC	12,325,000	657,680,000	706	3
ITT INDUSTRIES	12,145,000	1,099,032,000	718	3
UNIVERSITY OF GUAM	12,050,000	238,429,000	724	4
PERKIN-ELMER CORP.	11,401,879	60,424,110	774	3
ORACLE CORP.	11,395,000	205,201,000	776	3
MACTEC, INC.	10,796,000	50,464,000	840	3
CORTEZ III SERVICE CORP	10,192,000	32,843,000	895	4

Further analysis of the Status 3 and 4 dollars reveals that the primary agency sources of the miscoded $1.8 billion are the Department of Defense (DoD) and the GSA, which together account for 80 percent of the miscoded funds. Table 4 below breaks the Status 3 and 4 dollars out by agency.

Table 4: Agency Breakdown of FY 2002 EE Status 3-4 Dollars From Small Business Top 1,000

Agency	Status 3-4 Total	Share
DOD	$931,995,167	49.429%
GSA	$576,437,325	30.572%
HHS	$57,004,000	3.023%
NASA	$53,576,000	2.841%
DOT	$50,797,000	2.694%
DOJ	$35,132,000	1.863%
STATE	$33,160,000	1.759%
USDA	$27,648,585	1.466%
DOI	$24,561,000	1.303%
DVA	$18,413,000	0.977%
TREAS	$17,539,000	0.930%
DOC	$14,312,000	0.759%
AID	$13,730,000	0.728%
EPA	$8,230,000	0.436%
DOL	$7,192,000	0.381%
DOE	$6,213,000	0.330%
HUD	$3,259,000	0.173%
DED	$2,089,000	0.111%
SSA	$1,309,000	0.069%

SBA	$1,169,000	0.062%
USIA	$532,000	0.028%
NARA	$481,000	0.026%
EEOC	$203,000	0.011%
SMITH	$131,000	0.007%
EOP	$100,000	0.005%
NLRB	$86,000	0.005%
FEMA	$72,000	0.004%
OPM	$70,000	0.004%
NFAH	$56,000	0.003%
NSF	$40,000	0.002%
Total	**$1,885,537,077**	

Statistics in Table 5 below show that over 80 percent of the miscoded Eagle Eye Status 3 and 4 dollars were issued on some form of a multiple award contract. Together, GSA Schedules and Multiple Award Contracts accounted for 45 percent of the miscoded dollars, while Indefinite Delivery/Indefinite Quantity (ID/IQ) contracts and their Modifications added another 36 percent.

Table 5 links the problem of nondisclosure of small GSA Schedule awards to miscoded small business dollars. Tasks and delivery orders issued by the GSA and the DoD on multiple award-type contracts constitute the bulk of the questionably coded small business records. The government's lack of transparency in making simplified and small acquisitions is leading to more improperly assigned small business procurements. This, in turn, is fueling the misperception that small business contract spending is higher than it really is.

**Table 5: FY 2002 EE Status 3 & 4 Dollars Broken Down By
Kind of Contract**

Kind	Description	Total	Share
G	ORDER/MODIFICATION UNDER FEDERAL SCHEDULE	$684,579,599	36.31%
H	MODIFICATION	$429,448,581	22.78%
E	ORDER UNDER INDEFINITE DELIVERY CONTRACT (IDC)	$258,624,000	13.72%
C	NEW DEFINITIVE CONTRACT	$169,448,000	8.99%
L	ORDER UNDER MULTIPLE AWARD CONTRACT	$160,221,000	8.50%
F	ORDER UNDER BASIC ORDERING AGREEMENT (BOA)	$99,293,000	5.27%
D	SMALL PURCHASE PROCEDURE	$84,555,897	4.48%
B	DEFINITIVE CONTRACT SUPERSEDING LETTER CONTRACT	$989,000	0.05%
A	INITIAL LETTER CONTRACT	$479,000	0.03%
K	TERMINATION FOR CONVENIENCE	$-2,101,000	-0.11%
	Total	**1,885,537,077**	