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Report to Sen. Gaylord Nelson, Chairman, Senate Select Committee on Small Business; by Elmer B. Staats, Comptroller General.

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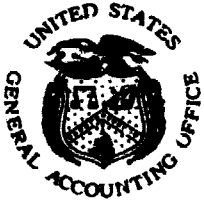
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The overall objective of the 8(a) program under the Small Business Act of 1953 is to provide Government procurement assistance to disadvantaged business owners to assist them in developing their capability to compete effectively on the open market. Small Business Administration (SBA) officials involved in the 8(a) program were contracted to obtain their opinion on how to: increase the number of Federal agency contracts provided to the 8(a) program, provide 8(a) firms with more of the types of contracts needed, and provide the contracts on a more timely basis. Findings/Conclusions: The officials expressed a need for more effective program development and implementation. SBA could improve the flow of contracts into the 8(a) program by: basing program goals on the firms' contractual needs, obtaining the staffing level needed to permit effective development of the SBA's portfolio of 8(a) firms, improving the management information system to provide program managers with the necessary information for effective administration, improving management and technical assistance to 8(a) firms, and establishing more definitive criteria for using business development expense funds and a national system to monitor the use of these funds. Some factors accounting for contracts not getting to firms in sufficient quantity and at the desired time were: problems encountered by some firms in obtaining necessary bonding, legislation which prevents architectural and engineering firms from obtaining 8(a) contract awards, and the limited potential for benefits from participation in the program to certain types of firms. The inability of SBA to control the supply of contracts, noted in a 1975 GAO report, is still a major problem in the 8(a) program. (HTW)

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REPORT OF THE COMPTROLLER GENERAL OF THE UNITED STATES

Ways To Increase The Number, Type, And Timeliness Of 8(a) Procurement Contracts

The Senate Select Committee on Small Business expressed interest in (1) ways to increase the number of Federal contracts awarded to small businesses participating in the Small Business Administration's 8(a) procurement program and (2) improving the coordination between the nature and timing of these contracts and the needs and abilities of the contractors.

This report presents the views of Small Business Administration officials, Federal procurement officials, and participants in the program as to why contracts are not getting to firms in sufficient quantity and at the desired times and how improvements in many of these areas might be accomplished.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114835

The Honorable Gaylord Nelson
Chairman, Select Committee on
Small Business
United States Senate

Dear Mr. Chairman:

In accordance with your request of July 14, 1977, this report presents information on ways to improve the number, type, and timeliness of Federal contracts in the Small Business Administration's 8(a) procurement program. The information represents views and opinions of the Small Business Administration's 8(a) program managers and administrators, Federal agency procurement officials, and officials of 8(a) firms. Information developed in our previous reviews of the 8(a) program and others that deal with minority enterprise development is also included.

The views and opinions of the officials interviewed expressed a need for more effective program development and implementation. On the basis of our limited analysis of these views and opinions, it appears that if the Small Business Administration took the following actions, the flow of contracts into the 8(a) program would improve.

- Base program goals on the 8(a) firms' contractual needs expressed in their approved business plans.
- Realign program staff and obtain additional staff, if needed, to permit effective development of the Small Business Administration's portfolio of 8(a) firms.
- Improve the management information system to provide 8(a) program managers with complete and accurate information to permit effective program administration and monitoring.
- Improve management and technical assistance to 8(a) firms so that it is effective in developing 8(a) firms into viable enterprises.
- Establish more definitive criteria for using business development expense funds and a national system to monitor the use of these funds.

The following factors were also cited as reasons why contracts are not getting out to needy 8(a) firms in sufficient quantity and at the desired time.

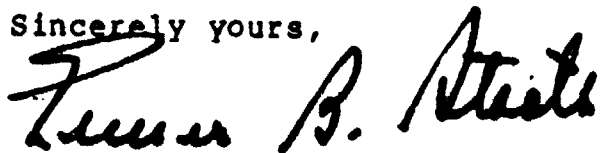
- Some 8(a) firms are having problems obtaining the bonding necessary to perform contracts.
- Public Law 92-582 is an obstacle that prevents architectural and engineering firms from obtaining 8(a) contract awards.
- Potential for benefits to certain types of firms and businesses from participation in the 8(a) program is limited.

Details of the views and opinions obtained and on the actions needed are discussed in appendix I.

The Small Business Administration's inability to control the supply of contracts to the program was first noted in our report to the Congress of April 16, 1975, "Questionable Effectiveness of the 8(a) Procurement Program." In that report, we said that a major reason for this lack of success was the Small Business Administration's inability to control the supply of contracts from Federal agencies. We continue to believe that the Small Business Administration's inability to control the supply of contracts is still a major problem in the 8(a) program.

As requested by your office, we did not ask for formal comments on this report from officials of the Small Business Administration, other Federal agencies, and the 8(a) firms. Your office indicated that such comments could be obtained in formal hearings the Committee plans to hold on the contents of the report. As arranged with your office, this report will be released 30 days after the issuance date unless you publicly release its contents prior to this time or a hearing date is established.

Sincerely yours,



Comptroller General
of the United States

C o n t e n t s

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ABBREVIATIONS

BDE	business development expense
BDS	business development specialist
GAO	General Accounting Office
GSA	General Services Administration
NASA	National Aeronautics and Space Administration
OBDD	Office of Business Development
OMBE	Office of Minority Business Enterprise
PCR	procurement center representative
SBA	Small Business Administration
VA	Veterans Administration

INFORMATION ON WAYS TO
INCREASE THE NUMBER, TYPE, AND TIMELINESS
OF 8(a) PROCUREMENT CONTRACTS

On July 14, 1977, the Chairman of the Senate Select Committee on Small Business requested that we contact Small Business Administration (SBA) officials involved in the 8(a) program, Federal procurement officials, and participants in the 8(a) program to obtain their views and opinions on how to (1) increase the number of Federal agency contracts provided to the 8(a) program, (2) provide 8(a) firms with more of the types of contracts needed, and (3) provide 8(a) contracts on a more timely basis.

HISTORY OF THE 8(a) PROGRAM

Section 8(a) of the Small Business Act of 1953, as amended, authorized SBA to enter into procurement contracts with other Federal agencies and departments and to subcontract the work to small businesses. This concept of channeling contracts to small businesses through an intermediate Federal agency was an emergency measure to insure that small businesses were not by-passed in wartime. Following the civil disturbances of 1967, SBA began using the section 8(a) authority to provide these noncompetitive contracts to small business firms which are owned or controlled by a socially or economically disadvantaged individual or individuals. Individuals eligible for section 8(a) contracts include black Americans, American Indians, Spanish Americans, Oriental Americans, Eskimos, Aleuts, and any others disadvantaged because of social, cultural, or chronic economic status.

The overall objective of the 8(a) program is to provide Government procurement assistance to disadvantaged business owners to assist them in developing their capability to compete effectively on the open market. This procurement assistance is provided until SBA determines that (1) a firm can compete effectively on the open market without further 8(a) assistance and the firm is "graduated" from the program or (2) continued procurement assistance is no longer feasible and the firm is dropped from the program. From 1967 to September 30, 1977, SBA awarded 14,233 contracts totaling about \$1.6 billion. There were 1,497 active firms in the program as of September 30, 1977, and 139 firms had been graduated from the program as of that date.

Firms participate in the 8(a) program under one of the following business classes: manufacturing, construction, professional services, nonprofessional services, or concessions. The following table shows the business class breakdown for the 8(a) firms in the program as of September 30, 1977.

<u>Business class</u>	<u>Number of active 8(a) firms</u>	<u>Percent</u>
Manufacturing	162	11
Construction	523	35
Professional services	25	17
Nonprofessional services	516	34
Concessions	<u>43</u>	<u>3</u>
Total	<u>1,497</u>	<u>100</u>

Appendix II shows the number of 8(a) firms that participated in the program as of September 30, 1977, and the disposition of these firms. The latest available information (March 31, 1977) for those firms that have graduated from the 8(a) program is presented in the following table.

<u>Business class</u>	<u>Number of graduated 8(a) firms</u>	<u>Percent</u>
Manufacturing	9	10
Construction	15	16
Professional services	4	4
Nonprofessional services	64	70
Concessions	<u>2</u>	<u>0</u>
Total	<u>92</u>	<u>100</u>

As shown by the above table, about 70 percent of all firms graduating were in nonprofessional services.

EFFORTS TO IMPROVE THE 8(a) PROGRAM

The 8(a) program has been studied by several organizations in past years. It has also been the subject of congressional hearings on several occasions. Most of the

problems identified during our interviews were previously identified and recommendations were suggested to effect program improvements. For example, we issued the first of a series of eight reports on SPA under Public Law 93-386 on April 16, 1975. The report, "Questionable Effectiveness of the 8(a) Procurement Program," GGD-75-57, pointed out many problems that impede the program's success.

In September 1975, a special task force of the Inter-agency Council on Minority Business Enterprise made a series of 16 recommendations to the Council for improving the 8(a) program operations.

Hearings on the 8(a) program, for example, were conducted by the Senate Select Committee on Small Business on January 21, 1976, and more recently by the Subcommittee on Federal Spending and Open Government, Senate Committee on Governmental Affairs, July 6-8, 1977. Most of the problems addressed in the studies previously cited and in this report were explored in detail in the testimony rendered in these proceedings. Again, numerous suggestions were made for improving the program.

In August 1977, the SBA Administrator established an 8(a) Review Board to review all aspects of this program. The Board, chaired by the SBA Deputy Administrator, is composed of representatives from SBA; the Departments of Defense, Commerce, Transportation, and Energy; Office of Management and Budget; National Aeronautics and Space Administration (NASA); and General Services Administration (GSA). The Review Board's report to the SBA Administrator was due on December 31, 1977, after our field work was completed.

PROGRAM ADMINISTRATION

SBA administers the 8(a) program through a national office, 10 regional offices, and its district offices. The Regional Director is responsible for program activities within the region. The program is supervised by the Assistant Regional Director for Procurement Assistance. Where the authority has been delegated to the district office level, the District Director is responsible for the program and provides the necessary administrative direction.

The SBA business development specialist (BDS) has primary responsibility for the development of firms in SBA's 8(a) portfolio. His duties include maintaining personal

contacts with SBA procurement center representatives, agency contracting officers, and others to identify Federal agency procurements suitable for performance by the 8(a) firms. He is also responsible for seeing that the 8(a) firms receive the necessary technical, financial, and management assistance from SBA.

The BDSs may be assisted in identifying Federal agency procurements which are suitable for 8(a) firms by the SBA procurement center representatives (PCRs). PCRs are located at various Federal installations throughout the country and their responsibilities include reviewing the installation's procurement plans and programs, evaluating their effect on small business participation, and developing plans of operation to increase the share of contracts awarded to small businesses. The PCRs' duties also include setting aside installation procurements solely for small businesses when there appears to be sufficient small business competition.

The negotiation of the prime contract between SBA and the procuring agency and the award of the 8(a) subcontract are handled by an SBA contract negotiator. One of the negotiator's responsibilities is to insure that all 8(a) contracts are fair and reasonable to both the 8(a) firms and the procuring agencies.

Other organizations that are ostensibly a part of the administration of the 8(a) program include the Interagency Council on Minority Business Enterprise and the Office of Minority Business Enterprise (OMBE). The role of the Council is to determine the entire Federal Government's 8(a) program contract supply goal. OMBE's role is to render management services and technical assistance to 8(a) program participants along with other businesses eligible for its services.

SCOPE OF REVIEW

As requested by the Senate Select Committee on Small Business, we interviewed program officials, Federal procurement officials, and program participants to solicit their views and opinions on the steps they believe should be taken to improve the program's effectiveness. Since the program's success depends entirely on contracts provided by the agencies, we contacted and interviewed officials of the Federal organization that provides overall coordination in this regard--the Interagency Council on Minority Business Enterprise. Although some of the comments made by the above parties were validated through independent analysis, most

were not. However, some comments were corroborated by our own observations on the implementation of the program.

Interviews were conducted at:

- SBA headquarters, Washington, D.C.; SBA Region IX Office, San Francisco; and SBA's San Francisco and Los Angeles District Offices.
- Interagency Council on Minority Business Enterprise, Washington, D.C.
- OMBE headquarters, Washington, D.C.
- OMBE's Region VI Office in San Francisco.
- The following Federal procurement agencies:
 - (1) Department of Energy.
 - (2) Veterans Administration.
 - (3) National Aeronautics and Space Administration.
 - (4) General Services Administration, Federal Supply Service.
 - (5) Department of the Army and Corp of Engineers.
 - (6) Department of the Air Force.
 - (7) Defense Logistics Agency.
 - (8) Department of the Navy.
- Nineteen 8(a) program participants in the following locations and business classes:

<u>Location</u>	<u>Business class</u>	<u>8(a) participants</u>
San Francisco	Manufacturing	1
San Francisco	Construction	3
San Francisco	Professional services	2
Los Angeles	Manufacturing	8
Los Angeles	Construction	1
Los Angeles	Professional services	2
Los Angeles	Nonprofessional services	2

OVERVIEW OF THE VIEWS AND OPINIONS
EXPRESSED

The compendium of views and opinions of SBA, procurement agency, and 8(a) firm officials on the 8(a) program demonstrated the need for more effective program development and implementation. These officials indicated that the 8(a) program's effectiveness relative to (1) increasing the number and types of contracts, (2) providing contracts on a more timely basis, and (3) improving other key aspects of the program is mitigated by:

- Lack of meaningful contractual goals.
- Inadequate staff administering the 8(a) program.
- Lack of necessary management information.
- Inadequate management services and technical assistance.
- Business development funds being used conservatively.
- Bonding needs not being met.
- Architectural and engineering firms being hampered in obtaining 8(a) contract awards.
- Limited potential for program benefits to certain 8(a) business firms.

LACK OF MEANINGFUL CONTRACT GOALS
FOR ACHIEVING PROGRAM OBJECTIVES

SBA headquarters officials responsible for the 8(a) program and Federal agency officials told us that the annual 8(a) program goals are not based on and do not reflect the contractual needs of the 8(a) firms as expressed in their business plans approved by SBA. The business plan describes an 8(a) firm's business development objectives and the 8(a) and commercial resources needed to accomplish these objectives. It is our opinion that the 8(a) program goals should be based on the firm's business plans so that SBA can better match the procurement requirements of the Federal agencies with the needs and capabilities of the 8(a) firms. The fact that SBA is turning back contracts offered to the program may be an indication that the 8(a) firms' needs and capabilities are not being matched with the procurement requirements of the agencies or that the program may be able to support additional 8(a) firms.

Each fiscal year Federal agencies who are members of the Interagency Council prepare and submit to the Council the dollar amount of contracts they anticipate providing to the 8(a) program. These figures are reviewed and may be adjusted by the Council before the combined Government figure is submitted to SBA. An SBA 8(a) program official told us that normally there is little or no SBA input to the Council during this process. This official also told us that factors such as staffing limitations may result in SBA reducing the Council's figure to arrive at the SBA 8(a) program goal. SBA allocates the 8(a) goal to its regional offices generally on the basis of the number of active 8(a) firms in the region and the SBA regional staff.

Officials of seven of the eight agencies told us that each agency's 8(a) goal is based primarily on its past 8(a) performance and the agency expectation of future contract awards. Furthermore, individual 8(a) agency goals for the seven agencies are established at headquarters and allocated to the field offices.

Of the seven agencies, NASA is the only one which requests field office input into the establishment of its 8(a) goal. A NASA procurement official told us that each NASA regional center submits a minority business plan which sets forth the regional center's proposed 8(a) goal. Each plan is reviewed by NASA headquarters and the regional center's proposed goal is accepted or one is established for the regional center by headquarters. The official told us that the headquarters criteria for establishing the goal is based on what the centers did in the past and what they think they will procure in the future. According to this official, the NASA regional centers generally have a good idea which contracts will go 8(a) at the time they prepare their plans.

Officials for three Department of Defense agencies--Army, Air Force, and Defense Logistics Agency--told us that their 8(a) goal is established for them by the Office of the Secretary of Defense. Each agency, in turn, prorates its goal among its commands and centers primarily on the basis of their past 8(a) performance.

Officials of GSA's Federal Supply Service told us that although a single agencywide goal is submitted to the Council, its headquarters office establishes one internal 8(a) goal for service contracts and another goal for manufacturing contracts. The service goal is allocated among the GSA regional offices, but the manufacturing goal is not. The GSA officials told us that each year's 8(a) goal is based on the Service's past 8(a) performances plus an estimate of

contracts expected to be let to 8(a) firms during the upcoming year. The officials told us that the service goal is allocated to the regional centers primarily on the basis of the centers' past 8(a) performance.

A Veterans Administration (VA) official told us that VA procurements fall into two categories--construction and commodities--and that separate internal 8(a) goals are established for the two categories. However, VA, like GSA, submits a single agencywide 8(a) goal to the Council. This official told us that each year's 8(a) goal is based on VA's past 8(a) performance plus an estimate of contracts expected to be let to 8(a) firms during the upcoming year. In fiscal year 1978, VA began allocating its internal construction goal to the individual VA hospitals.

In fiscal years 1976 (including the 3-month transitional quarter) and 1977, SBA established 8(a) program goals of \$381 million and \$405 million, respectively. SBA's 8(a) goal for fiscal year 1976 was the same amount as recommended by the Council. A Council official told us that the Council did not establish a goal for fiscal year 1977 because the individual responsible for developing it was transferred to another Federal organization. Fiscal years 1976 and 1977 8(a) contract awards amounted to about \$483 million and \$468 million, respectively. SBA's 8(a) goal for fiscal year 1978 is \$440 million.

Despite the fact that SBA exceeded its fiscal years 1976 and 1977 8(a) program goals, information provided by officials of the Federal agencies on the number of contracts made available to SBA suggests that there is a greater potential for 8(a) contracts than is being realized. Officials of all the agencies contacted stated that SBA has returned contracts offered to the program. Only three of the seven agencies, however, maintained statistics on contract rejections and, on the basis of this data, the dollar value of rejected contracts in comparison to accepted contracts may be significant.

For example, in fiscal year 1976 GSA's Federal Supply Service offered \$21.3 million in 8(a) manufacturing contracts to SBA, but SBA rejected \$11.0 million. Also, a VA official estimated that it offers \$20 million in contracts to SBA to get \$10 million accepted. The major reasons cited by several of the agencies for contract rejections included the following:

--Expiration of contract period.

- Could not locate an 8(a) firm to do the required work or do it at a reasonable price.
- Requirement deleted from the Federal supply system.
- Potential impact on other small businesses.

We would expect that the number and type of contracts that the agencies could make available would not coincide precisely with 8(a) firm capabilities. Knowledge of the difference between available contracts and 8(a) firm capabilities would be a valuable management tool. For example, if the agencies had research and development contracts available and there were no capable firm in the 8(a) portfolio, SBA could then seek research and development type firms to perform these contracts. On the other hand, this goal-setting process might reveal that agencies do not let contracts needed to support a particular type of 8(a) firm. If this is so, SBA should probably drop the firm from the program.

We discussed with SBA headquarters officials responsible for the 8(a) program the need to base yearly 8(a) program goals on the contractual needs of the 8(a) firms expressed in their approved business plans. They agreed that the 8(a) goals should be based on the contractual needs of the 8(a) firms and, according to one of the officials, a recommendation has been made to the SBA Administrator to this effect. The other official told us, however, that business plan data included in SBA's management information system is incomplete.

Appendix III summarizes the 8(a) contract goals for fiscal year 1977 in Region IX.

Actions for improvement

On the basis of our limited analysis of the goal-setting process, SBA should consider developing 8(a) goals based on the contractual needs of 8(a) firms as expressed in their approved business plans. Since the business plans of 8(a) firms are computerized, accumulation of 8(a) firm needs by type of business would be a feasible and logical goal.

INADEQUATE STAFFING

There was general agreement among all officials interviewed that there is a shortage of 8(a) program managers and administrators to implement the program and that SBA staff are not technically qualified to do their jobs. Also, according to procurement agencies and 8(a) firms, SBA staff

is generally not committed to achieving the 8(a) program goals.

Shortage of 8(a) program
managers and administrators

The problem of inadequate staffing has been well known for some time, yet it continues to adversely affect SBA's ability to effectively assist all 8(a) firms enrolled in the program. In our report on questionable effectiveness of the 8(a) program (GGD-75-57, Apr. 16, 1975), we reported on our assessment of SBA's staff needs concerning this program. Although SBA had received a major new program requirement, its total staff had not been increased appreciably to carry out these new program responsibilities. In fiscal year 1975, the year our report was issued, SBA had requested 202 authorized positions for the Office of Business Development. For that fiscal year, the Congress authorized 182 positions. In fiscal year 1976 the Office's total staff authorization was reduced to 166 positions. In fiscal year 1977, however, the level was raised to 176 positions.

In SBA's Region IX the Office of Business Development had a total staff of 24 authorized positions. These positions were distributed between the region and district offices, as shown in the chart below.

<u>Office</u>	<u>Clerical staff</u>	<u>Business development specialists</u>	<u>Contract negotiators</u>	<u>Others</u>
Region IX	1	1	1	2
San Francisco	1	1	5	4
Los Angeles	1	1	4	2
Phoenix	-	a/ 1	-	-
Honolulu	-	a/ 1	-	-
San Diego	-	b/ 1	-	-

a/Shown under Office of Procurement and Technical Assistance on September 1977 staffing roster. These individuals spent the majority of the time in 8(a) administration.

b/Although this person works with the 8(a) program, he is classified as a PCR.

According to Los Angeles district office officials, some indication of just how short their staff needs are was pointed out in a study they conducted in fiscal year 1977 to assess fiscal year 1978 staffing needs. They concluded that 11 professionals and 4 clerical staff members were needed

to satisfactorily administer their program. Although SBA Region IX officials agreed with the assessment, they took no action to notify headquarters since it was already a well-known problem.

The impact of inadequate staffing at the program administration level has manifested itself negatively in numerous ways in the program. Our discussions with SBA Region IX and district officials as well as procurement and 8(a) firm officials concerning this problem revealed the following:

- As of September 30, 1977, the BDSs in the San Francisco and Los Angeles district offices had 8(a) caseloads of 72 and 77 firms, respectively. An SBA headquarters official told us that the maximum preferred caseload per BDS is 10 firms.
- BDSs do not have the time to contact procuring agencies to obtain 8(a) contracts or to acquaint contracting officers with the capabilities of 8(a) firms enrolled in the program. They also did not have time to visit 8(a) firms to assess their capabilities and needs for management assistance or to follow up on recommendations that might have been made by providers of management assistance.
- According to an SBA Region IX official, BDSs perform mainly clerical chores; they have no opportunity to develop businesses to competitive levels.
- It takes SBA an inordinate amount of time to process procurement requirements.

Program staff qualifications and commitment were questioned

According to procurement agency and 8(a) firm officials, many of the problems with the 8(a) program are attributable to poor training and inadequate qualifications of SBA staff. GSA officials commented that SBA staff should acquire the capability to negotiate and monitor construction contracts. They said SBA's staff did not have the technical knowledge to negotiate these types of contracts. They also stated that SBA's staff did not know how to evaluate cost proposals developed by them or 8(a) firms. An Army official commented that SBA staff was inadequately trained to objectively evaluate 8(a) firms or to professionally represent them at the negotiation table.

SBA Region IX officials were also critical of the staff qualifications. They told us that their business development specialists were "minimally qualified" to do their jobs. One official stated that although his staff have procurement backgrounds, they are weak in areas such as financial and practical business skills and they do not possess the qualifications to analyze financial statements. This official told us that his contract negotiators are generally well qualified. He admitted, however, that he does not expect them to be technically knowledgeable in all contractual situations. Procurement and 8(a) firm officials, however, questioned the competency of SBA's contract negotiators.

Officials of 8(a) firms stated that SBA does little to assure that its basic goals are accomplished. They criticized SBA for having a patronizing and condescending attitude about 8(a) firms by not (1) providing proper staff resources to support the program, (2) promoting the program among the various procurement agencies, (3) providing orientation or education to 8(a) firms and procurement agencies about the type and quality of goods and services provided by 8(a) firms or procurement installations and the type of assistance provided by SBA, and (4) providing needed management and financial assistance. A Navy procurement official shared these beliefs.

An SBA Region IX official admitted that SBA, in general, does a poor job of developing 8(a) firms. He said that most of the criticisms made about the program are true. SBA officials, however, offered few comments on the actions they are currently taking to improve the program.

Actions for improvement

Many of the officials we contacted believed that SBA does not have a large enough staff to properly serve the number of firms currently enrolled in the 8(a) program.

In our February 23, 1976, report to the Congress, "The Small Business Administration Needs to Improve Its 7(a) Loan Program," (GGD-76-24) we described how heavy caseloads had prevented effective loan servicing. We recommended that SBA determine the staffing level which would permit effective service to all firms and attempt to meet it through personnel realignments within the agency or a proposal to the Congress for additional staff. If these approaches failed, we recommended that consideration should be given to reducing the number of clients served.

These recommendations are applicable to improving the effectiveness of SBA's efforts to develop its portfolio of 8(a) firms.

NECESSARY MANAGEMENT
INFORMATION IS LACKING

An SBA Region IX official told us that SBA program managers in the region and headquarters currently have little information to adequately manage the 8(a) program. Management reports provided by SBA headquarters to its regional and district offices are generally incomplete, inaccurate, and are of little value for managing the program. Program managers have responded to this general lack of information by developing local reports to fulfill their informational needs.

SBA uses two forms from which all 8(a) program data is derived--SBA forms 893A and 893B. In Region IX, these forms are filled out at the district offices when firms enter the program or receive an 8(a) contract. Form 893A contains participant information taken from the 8(a) firm's business plan, and form 893B is used to record contract award information. Once these forms are filled out in the Region IX district offices, they are sent through the regional office to SBA headquarters. Data compiled from these two forms are returned monthly to the regions in the form of statistical abstract reports. Eleven such reports are prepared.

Interviews with program managers in Region IX and its San Francisco and Los Angeles district offices revealed that certain critical program information was unavailable. Officials did not know the combined contractual needs of the 8(a) firms' business plans nor did they have any reports that showed whether or not the 8(a) firms' contractual needs were being met. The basis for generating this information is contained in forms 893A and 893B. However, according to regional officials, the SBA headquarters does not prepare any reports in this regard. SBA program managers were also unable to provide the following information:

- The number and type of firms admitted to the program.
- The number and type of firms denied admission and the reasons.
- Requests for business development expense funds and the reasons for denials.
- Number of firms delinquent.

- Active firms without current contracts by business class.
- Statistics on the number, amount, and type of contracts offered to the 8(a) program and those which were rejected/returned by SBA or withdrawn by the agencies.

Inaccurate management information

SBA Region IX officials said that they do not routinely use management reports developed by SBA headquarters to manage the 8(a) program. They said that they do not trust the reliability of information in the reports because they contain errors. One official stated that because of the errors he uses only 3 of the 11 reports compiled by SBA headquarters. We were informed that when reliable information is needed, it is obtained from 8(a) source documents in the district offices.

SBA Region IX officials believed that errors in management reports can be attributed to the district offices inaccurately recording the data. They also believed that in order to alleviate the errors in the reports, the district office staffs must be more conscientious.

Actions for improvement

We were told that SBA's management information system does not provide SBA 8(a) management officials with all the information necessary to administer and monitor the program. Furthermore, the information provided is not accurate. SBA should evaluate its management information system and determine what 8(a) information is necessary to the program, and program managers must insure that source data supplied to headquarters is complete and accurate.

INADEQUATE MANAGEMENT AND TECHNICAL ASSISTANCE

An SBA Regional IX official told us that firms in SBA's 8(a) program are not receiving the management and technical assistance needed to insure viability. Procuring agencies using such firms believed that SBA has been ineffective in meeting firms' needs. Also, 8(a) program managers have not accounted for aid provided to 8(a) firms and they do not know whether the help they provide is of any value.

The Office of Business Development (OBD) is responsible for all areas of 8(a) firm development. This development

process includes evaluating management assistance provided to 8(a) firms. Management and technical assistance is provided to firms through SBA's management assistance group. The Assistant Regional Director for Procurement Assistance told us that such assistance is of primary concern to the 8(a) program because most of the firms involved in the program suffer from weak management.

Firms in the 8(a) program are given top priority in receiving management assistance. The management assistance officer obtains lists from the business development specialists and is expected to give assistance to all 8(a) firms annually. Firms are provided management assistance until they refuse aid or, in SBA's opinion, no longer need assistance. Management assistance includes counseling, training, and management assistance publications and training materials.

Inadequate recordation of management assistance

We determined that records of management assistance provided were either inaccurate or unavailable. The Assistant Regional Director for Management Assistance stated that his division's records of management assistance activities are kept by firm and not by program. SBA's monthly management assistance report shows the number of management assistance contacts made in the 8(a) program. A summary of these reports showed that only five reviews of 8(a) firms were performed in Region IX during fiscal year 1977, whereas the management assistance personnel in the district offices reported that 105 such reviews were performed. OBD officials in the districts reported 87 reviews. A regional official stated the differences were due to district office management assistance personnel being negligent in completing the necessary forms.

Region IX's Assistant Regional Director for Procurement Assistance told us that he had no knowledge of the amount or quality of management assistance received by 8(a) firms. He said OBD could not correct any problems even if such information was available because the business development specialists, who are responsible for monitoring such activities, do not have the time to review or evaluate the assistance provided.

The Assistant Regional Director for Procurement Assistance also told us that because management assistance is provided through another SBA division, OBD has no real control over the quantity or quality of such assistance. He believes

that if OBD was adequately staffed with qualified personnel, the BDSs could keep track of and evaluate assistance provided by management assistance personnel. This official said he would like to see OBD staffed with both a regional financial analyst and a management assistance officer. These personnel could help review and evaluate the assistance provided 8(a) firms by the management assistance group.

SBA Region IX management assistance officials stated that their incorrect 8(a) data had no real effect because OBD never receives the report. They told us, however, that if OBD would request specific 8(a) information, the management assistance group would comply and insure its accuracy.

Value of management assistance is questionable

Both procuring agency and 8(a) firm officials concurred that SBA assistance was neither effective nor helpful in the development of 8(a) firms. Officials at procuring agencies felt that more management and technical assistance was necessary in the 8(a) program in order to promote viable firms. Specific areas cited in which firms needed assistance include proper management practices, financial and accounting techniques and procedures, and management/labor relations.

A NASA official believed strongly that more emphasis should be placed on providing 8(a) firms with more management assistance and less emphasis on increasing the number of 8(a) contracts. He said the 8(a) firms need to develop their financial, managerial, and marketing skills to insure solid minority business development.

The Corps of Engineers officials provided us with information on a privately operated firm which offers management assistance via computers to small construction firms. The Corps officials felt that SBA should be providing this type of assistance or contracting with this privately owned firm to provide such assistance.

Firms in the 8(a) program disclosed a need for better and more comprehensive management and technical assistance. Out of the 19 firms interviewed in Region IX, 16 had received some form of management assistance from SBA. Seventy-five percent of the firms receiving assistance (12 of 16) felt the specific aid given did not fulfill their particular needs. The other four firms believed that SBA assistance was helpful. Firms receiving accounting assistance

generally stated that the help received in setting up their accounting systems was quite useful.

(source of assistance

During the course of our review we examined the Office of Minority Business Enterprise (OMBE) as a potential source of assistance to 8(a) firms. OMBE was established within the Department of Commerce to be the focal point of Federal efforts to help establish and expand minority businesses. OMBE established a nationwide delivery system of management assistance organizations (via contractors) to provide information to their clients on capital, market opportunities, education, training, counseling, specialized technical aid, and loan packaging. These contractors are primarily business development organizations and construction-contractor assistance centers which should have the necessary technical and professional resources to provide a complete management assistance program.

Our report to the Congress, "The Office of Minority Business Enterprise Could Do More to Start and Maintain Minority Businesses," (CED 77-136, Nov. 10, 1977) criticized OMBE's management assistance for providing only marginal benefits to its clients. It stated further that OMBE did not evaluate the effect of its management assistance program and that it did not adequately monitor contractors providing management assistance.

Region IX 8(a) program officials also believe OMBE has been of little use to their program. A regional BDS stated that it has been his experience that OMBE contractors are generally poorly staffed.

Actions for improvement

Officials of procuring agencies and 8(a) firms expressed the opinion that SBA's management and technical assistance to 8(a) firms has not been effective in developing the firms into viable enterprises and that more comprehensive assistance is needed.

In our February 1976 report to the Congress on SBA's 7(a) loan program, we described how SBA failed to provide timely and indepth management assistance to 7(a) program participants. We made several recommendations to SBA to improve the usefulness of its management assistance efforts to small businesses which included (1) improving coordination between the district office unit responsible for the program and the management assistance division, (2) evaluating the

impact of management assistance to identify areas needing improvement, and (3) intensifying efforts to determine a borrower's need for management assistance at the time of loan approval.

These recommendations are applicable to improving the effectiveness of SBA's management and technical assistance efforts to 8(a) firms.

BUSINESS DEVELOPMENT EXPENSE FUNDS USED CONSERVATIVELY

SBA is not using all of the funds allocated for business development expense (BDE). SBA headquarters officials believe this lack of use is due to SBA's conservative "banker" image. Procuring agency and SBA officials said that the failure to use BDE more liberally has caused many problems, including greater negotiation time, lower margins of profit for 8(a) firms, and fewer contracts.

SBA guidelines define business development expense as a payment made by SBA to make up the difference between the fair market price and the price required by the 8(a) contractor. Such funds are to be used when additional financial capacity is needed to overcome deficiencies to produce a product at a competitive unit cost.

Dilemma on the use of BDE

SBA Region IX officials said that SBA is caught in a dilemma on the use and publicity of BDE funds. On the one hand it uses BDE to stimulate business development, and on the other hand it must try to insure that companies learn to price and bid contracts. Region IX officials, therefore, do not publicize the use of BDE to either 8(a) firms or procuring agencies, and BDE is not discussed until the contract is negotiated down to the lowest acceptable price to both the agency and the 8(a) firm and a difference still exists. Region IX will recommend BDE if it believes that such aid will appreciably help the firm's growth. One regional official said that 8(a) contractors and agencies will not conscientiously negotiate contracts if they know BDE is available. He also said that firms may not properly make their pricing proposals because they would feel SBA would add BDE to supplement their bid and that procuring agencies would hold a firm line on their initial contract price and be less flexible.

Nonuse of BDE funds by SBA

Between fiscal years 1972 and 1977, SBA received BDE allocations amounting to \$56 million but only \$44.3 million was expended during this period. The following table shows a fiscal year breakdown of the amount of BDE funds allocated and expended.

National Use of BDE AllocationFiscal Years 1972 through 1977

<u>Fiscal year</u>	<u>Allocation</u>	<u>Expended</u>
1972	\$ 8,000,000	\$ 4,173,100
1973	8,000,000	6,393,300
1974	8,000,000	5,894,676
1975	8,000,000	7,915,168
1976	9,000,000	8,932,500
1976 (transitional quarter)	3,000,000	1,302,600
1977	<u>12,000,000</u>	<u>9,698,663</u>
Total	<u>\$56,000,000</u>	<u>\$44,310,007</u>

The Director, Office of Business Development, told us that SBA has never used all of the funds allocated for BDE in a given year and attributed this to the conservative behavior of some regional office personnel. Another SBA headquarters official told us that historically SBA has been reluctant to use BDE because it was thought of as a "give-away" program clashing with other SBA "banker-type" functions and that although no formal SBA guidelines limit BDE, the SBA headquarters staff perceive management as desiring such action.

Region IX officials felt that BDE should be used only if it helps a firm become competitive and that the firm should not need such aid indefinitely. Much of the approved BDE funds disbursed in Region IX have historically been for price support of manufactured products. Officials stated that the region has generally spent all of its allocated BDE funds in the last couple of years and that in fiscal year 1976 the region requested and received additional funds.

Procuring agencies indicated that SBA is reluctant to use BDE funds. For example, officials of one VA hospital told us that agencies view BDE in the same light as welfare. Officials of the Federal Supply Service, GSA, and Department

of Energy (DOE) stated that SBA has not adequately used BDE. NASA and Air Force officials said that SBA is reluctant to use BDE and has seldom used it on their contracts. These agencies generally believe that SBA should adopt a more liberal policy on the use of BDE funds.

BDE funds distributed among
few 8(a) firms

Region IX has used its BDE allocations among a very small number of 8(a) firms. During fiscal year 1977, BDE was given to only 13 of the total 219 firms in Region IX's portfolio. Contracts performed by five of these firms accounted for 86 percent of the total BDE funds used in Region IX during fiscal year 1977. Nine of the 13 firms received more than one contract in the last 3 fiscal years on which BDE was used.

Some firms not knowledgeable
of available BDE

We found that 8(a) firms had generally heard of BDE; however, they were not fully informed on how SBA administers the aid and were occasionally misinformed about its use. An official of an 8(a) manufacturing and technical services firm was of the opinion that BDE funds had to be paid back to SBA. An official of a consulting firm falsely believed that BDE funds were not available to his firm. However, an official of another consulting firm told us that BDE funds enabled her firm to purchase a minicomputer which significantly affected the business.

BDE not used in all business
categories by SBA

Although SBA guidelines do not restrict BDE to any particular type of business, we noted inconsistencies in its perceived use. According to a GSA official, the Federal Supply Service felt that SBA is reluctant to use BDE on manufacturing contracts. NASA and Defense Logistics Agency officials, on the other hand, felt that BDE funds were only to be used for manufacturing. A Department of the Army official claimed that SBA's Atlanta Regional Office specifically told the Corps of Engineers staff that BDE would not be used in construction.

Increased use of BDE would lower negotiation time

Both SBA headquarters and procuring agency officials felt greater use of BDE would lower the time necessary to negotiate 8(a) contracts. The Director, Office of Business Development, stated that BDE would reduce the time spent negotiating a reasonable and acceptable price between the procuring agency and 8(a) firm. VA and Army officials told us that increased use of BDE would also lower negotiation time when price was an issue. Furthermore, the VA official said increased use of BDE would also guarantee a fair price to the 8(a) contractor.

Region IX officials did not believe that greater use of BDE would reduce the negotiation time of 8(a) contracts. They told us that the region does not go into any contract expecting to use BDE and that BDE funds are only mentioned after the negotiation process has already occurred and a price cannot be agreed on. These officials felt the same amount of time would be spent on negotiations regardless of whether or not BDE is used.

Nonuse of BDE causing firms to lower profit margins and lose contracts

According to procuring agencies, 8(a) firms receive lower profit margins and occasionally lose contracts when BDE is not used. A GSA Federal Supply Service official believes that SBA, by not using BDE funds, has caused 8(a) firms to negotiate down to agency prices. Such negotiations were said to result in 8(a) firms either losing money or making only small profits.

A Navy official told us of cases he knew where Federal agencies have forced 8(a) firms into accepting contracts at low prices not reflective of true contract costs. He felt that 8(a) contract awards should be based on an analysis of cost rather than price to help insure a fair price to both the Government and 8(a) firms. VA and GSA officials told us that SBA has negotiated contracts down rather than make up the difference with BDE.

The procuring agencies felt that greater use of BDE funds would result in more contracts to 8(a) firms. Corps of Engineers and Army officials stated that more 8(a) contracts could be let if SBA used BDE more liberally. A Defense Logistics Agency official stated that contracts were not awarded to 8(a) contractors because SBA would not use BDE.

Actions for improvement

Our discussions with officials of 8(a) firms and Federal procuring agencies showed that (1) BDE is a source of financial assistance not currently known to most 8(a) firms and (2) regional and district offices do not have adequate guidance to uniformly administer and monitor these funds. We found in Region IX that BDE appeared to be continually used by the same few firms knowledgeable of this financial assistance.

SBA should review its other field offices and determine the extent of its BDE usage problems. It should also develop a more definitive criteria for BDE usage and establish a national system to monitor these funds. Furthermore, SBA should educate 8(a) firms as to BDE availability and use.

BONDING NEEDS ARE NOT BEING MET

Bonding of 8(a) firms is considered a major problem by the firms providing the goods or services and the procuring agencies contracting for them. Bonding limitations and its unavailability have affected 8(a) firms by limiting contract size, hindering continuity of work, and causing the loss of contracts.

There are three types of bonding requirements--bid, payment, and performance. Most work 8(a) firms perform requires them to obtain performance bonding. Performance bonds are purchased from surety companies to insure the completion of work projects.

SBA has a surety bond guarantee program under which it will guarantee surety companies against loss caused by non-performance of small business firms. SBA limits its guarantee to 90 percent of the contract amount under \$250,000 and 80 percent of the contract amount between \$250,000 and \$1,000,000. In order to participate in the program, firms must be small business concerns with annual receipts for the last year or average annual receipts for the last 3 years not exceeding \$2,000,000.

Officials from procuring agencies, 8(a) firms, and SBA stated that bonding restrictions have limited the number and size of contracts awarded. Construction and nonprofessional contracts are not obtainable above a firm's bonding capacity. Firms also encounter problems in obtaining contracts up to their bonding capacities. For instance, an Army official said SBA's Atlanta Regional Office will not award contracts over \$500,000 to 8(a) firms regardless of their bonding capacity. And in Region IX, two 8(a) firms stated that bonding restrictions limit the jobs 8(a) firms can bid on.

These restrictions were also said to hinder contract continuity. Negotiation on contracts cannot occur if an 8(a) firm's bonding capacity is exhausted at the time negotiations are occurring, even though bonding will be available at the time new contracts are due to start. One of the 8(a) firms in Region IX was unable to achieve a smooth transition from one large contract to another because of this restriction. The owner said this restriction was the major reason for the company being out of work for 6 months, having to lay off regular workers, and losing revenues. The other 8(a) firm lost two substantial contracts because it was unable to obtain a bond as low bidder. There was general agreement among officials of SBA, the procuring activities, and the 8(a) firms that bonding problems hamper the potential growth of companies.

In at least one case in Region IX, however, SBA used a "phasing" technique to accommodate a contractor's bonding capacity by breaking up a \$5 million construction contract into four smaller phases. SBA officials said that the technique allows 8(a) construction firms to obtain contracts and to increase their bonding capacity.

Maintaining a steady flow of contracts is important for 8(a) firms to demonstrate a good track record and to increase their bonding capacities. Perhaps more important is the fact that a steady contractual work flow at levels a firm can handle fosters successful business development and increases the firm's chances of graduating from the program.

Corps of Engineers officials stated that the lack of bonding on a timely basis can cause 8(a) firms to lose contracts because bonding may not materialize after contract negotiations are completed. These instances cause project completion delays because procurement agencies are forced to negotiate with other firms to have the work performed. We were also told that these instances cause procurement agencies to become discouraged about using 8(a) firms and less supportive of the program.

An SBA official said that bonding is a problem that small businesses in general experience because surety companies have no confidence in small business, even with SBA's guarantee. This official also stated that surety companies take a second lien to the Government in event of default. He suggested that one possible answer to the bonding problem would be to have the Government bond 8(a) firms and thereby replace the surety companies.

According to a NASA official, SBA's surety bonding program is not working well because there are no incentives for bonding companies to participate. When companies participate in the program, the NASA official said they run into a lot of red tape before collecting their guarantee from the Government when 8(a) firms default.

ARCHITECTURAL AND ENGINEERING FIRMS'
PROGRESS MAY BE IMPEDED BY PUBLIC LAW 92-582

Public Law 92-582, enacted in October 1972, amended the Federal Property and Administrative Services Act of 1949 to require Federal agencies to publicly announce requirements for architectural and engineering services and to negotiate these contracts with the most qualified firms at a price which is fair and reasonable to the Government.

Information developed during our review shows that confusion exists among Federal agencies as to whether or not Public Law 92-582 prohibits the award of architect-engineer contracts through the 8(a) program. Corps of Engineers district officials told us that the provisions of the law prevented the Corps from making these contracts to 8(a) firms. One official said that the Corps awards more construction design contracts than any other Federal agency. In the opinion of GSA's Office of General Counsel, Public Law 92-582 does not prevent the award of construction design contracts through the 8(a) program.

In a November 1976 letter, SBA stated that the provisions of Public Law 92-582 are not applicable to the 8(a) architectural-engineering contract activities. In SBA's view, its 8(a) contracting authority is derived from the Small Business Act and not from the Federal Property and Administrative Services Act and, as a result, the provisions of the latter act are not applicable to the 8(a) program. The Director of SBA's Office of Business Development told us that the Federal procuring agencies have not been advised of the SBA position.

LIMITED POTENTIAL FOR BENEFITS TO
CERTAIN TYPES OF FIRMS AND BUSINESSES
FROM PARTICIPATION IN THE 8(a) PROGRAM

Officials of the Federal agencies and the 8(a) firms told us that SBA has enrolled firms in the program that operate in contracting areas in which they cannot effectively compete outside the program and that SBA cannot offer any contractual assistance for some consulting firms.

Little potential for continued viability
of some firms after graduation

Officials contacted indicated that there is little potential for continued viability for some firms after graduation due to unfavorable market conditions. This problem is associated more so with firms in the nonprofessional service classification than other business classifications. For instance, it was believed that janitorial, food service, and security firms' ability to survive after program graduation is limited because:

- These types of contracts are advertised or negotiated infrequently in the private sector in addition to the fact that it is difficult for minorities to break into markets in this sector.
- Recently Government agencies have been reserving these types of contracts for minority businesses in the 8(a) program. Thus, when these businesses graduate or terminate from the program, they are no longer eligible to compete for contracts at the agencies that subscribe to this policy.
- Loss of these types of contracts usually means loss of employees due to the desires of employees to remain at permanent geographical locations.

We also became aware of an 8(a) practice bomb manufacturer that SBA recognized as never being able to compete in the commercial market. We noted that in the 7 years the firm has been in the program, SBA assisted in meeting its production needs about 50 percent of the time. The firm has remained in this product line, despite the fact that SBA recognizes that the firm will never become viable in this particular industry.

Inequity in the distribution of
national buy contracts

A "national buy" item is a supply or service purchased to meet the needs of a logistic system in which supply control, inventory management, and procurement responsibility have been assigned to a central activity to support the needs of two or more users of the item.

According to an official in one of the four consulting firms we contacted, 80 percent of all national buy consulting contracts are awarded to east coast firms. This official felt that there should be a more equitable distribution of these types of contracts. On the basis of our observations, the heart of the problem is that SBA can offer only minimal contractual assistance assurances to firms that are accepted into the program in the consulting area. According to an official of another 8(a) consulting firm, agencies purchasing these types of services prefer to negotiate directly with prospective consultants. None of the consulting firms we contacted had received any contractual assistance from SBA. A few west coast consultants said they are at a distinct disadvantage in competing for these contracts due to their geographical location. They said specifically that the cost to compete was too great.

STATUS OF FIRMS WHICH HAVE PARTICIPATED IN THE PROGRAMAS OF SEPTEMBER 30, 1977

<u>Region</u>	<u>Graduated by SBA</u>	<u>Failed</u>	<u>Terminated by SBA</u>	<u>Volun- tarily withdrew</u>	<u>Active firms</u>	<u>Total</u>
1	11	26	114	1	62	214
2	6	49	71	57	139	322
3	23	42	127	120	340	652
4	19	20	71	144	123	377
5	8	60	154	94	179	495
6	44	41	156	31	201	473
7	4	40	108	15	66	233
8	12	13	77	23	77	202
9	10	44	178	101	219	552
10	<u>2</u>	<u>28</u>	<u>55</u>	<u>8</u>	<u>91</u>	<u>184</u>
Total	<u>139</u>	<u>363</u>	<u>1,111</u>	<u>594</u>	<u>1,497</u>	<u>3,704</u>

FISCAL YEAR 1977 8(a) CONTRACT ACTIVITY GOALSFOR REGION IX (note a)

<u>District</u>	<u>Number of contracts</u>	<u>Amount of contracts (note b)</u>	<u>Dollar goal</u>
San Francisco	122	\$26,325,347	\$20,900,000
Los Angeles	122	30,772,698	28,000,000
Las Vegas	14	2,777,971	1,700,000
San Diego	7	7,353,684	3,700,000
Phoenix	13	1,549,227	2,000,000
Honolulu	<u>54</u>	<u>1,615,790</u>	<u>900,000</u>
Region IX total	<u>332</u>	<u>\$70,394,717</u>	<u>\$57,200,000</u>

a/SBA does not maintain information on the contractual needs for each business class category.

b/Includes contract modifications.