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DEPARTMENT OF ENERGY

Achieving Small Business Prime Contracting Goals Involves Both Potential Benefits and Risks

Statement of Robin M. Nazzaro, Director
Natural Resources and Environment

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Highlights

Highlights of GAO-04-738T, testimony before the Committee on Energy and Natural Resources, United States Senate

DEPARTMENT OF ENERGY

Achieving Small Business Prime Contracting Goals Involves Both Potential Benefits and Risks

Why GAO Did This Study

Under the Small Business Reauthorization Act of 1997, the federal government has a goal of awarding at least 23 percent of prime, or direct, contracting dollars to small businesses each fiscal year. The Department of Energy (DOE), like other federal agencies, shares in the responsibility for meeting this goal. In fiscal year 2003, DOE spent $21.6 billion on prime contracts. More than 80 percent of this amount was spent on facility management contracts to manage and operate DOE's sites.

Before 1999, DOE included subcontracts awarded by its facility management contractors when calculating its small business prime contracting achievements. In 1999, however, the Office of Federal Procurement Policy determined that DOE could no longer do so.

This testimony discusses (1) the effect of the 1999 policy change on the amount of prime contract dollars that DOE will be required to direct to small businesses, (2) the steps that DOE has taken or plans to take to achieve its small business contracting goals, and (3) the likely implications for DOE's programs resulting from these changes.

www.gao.gov/cgi-bin/getrpt?GAO-04-738T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robin M. Nazzaro, (202) 512-3841 or nazzaror@gao.gov.

What GAO Found

To meet its share of federal goals, DOE would need to direct significantly more prime contracting dollars to small businesses. If it is to reach its near-term goals of 5.06 percent in fiscal year 2004, and 5.50 percent in fiscal year 2005, DOE must direct to small businesses an additional $226 million and $319 million, respectively, over the $847 million it directed to small businesses in fiscal year 2003. Achieving a long-term goal of directing 23 percent of prime contracting dollars to small businesses would require DOE to contract with small businesses at about 6 times its current rate. Such an increase is about equal to the combined annual budgets for Los Alamos and Sandia—the two largest national laboratories.

To address its near-term small business prime contracting goals, DOE has improved its outreach efforts and has redirected to small businesses some contract dollars not associated with facility management contracts. DOE has also begun to review facility management contracts up for renewal to identify work that could be redirected to small business prime contracts. Achieving a long-term goal of 23 percent is much more problematic. Notably, DOE's three largest offices—the National Nuclear Security Administration (NNSA), Environmental Management (EM), and Science—have differing views as to what extent facility management contract work can be redirected to small businesses without having a negative impact on accomplishing their missions. EM is in favor of doing so if redirecting the work is consistent with its accelerated cleanup strategy. NNSA and Science officials express concern that redirecting work now done by facility management contractors could jeopardize critical research missions at the laboratories.

DOE's efforts to increase small business prime contracting involve both potential benefits and risks, which depend on the eventual goal DOE attempts to achieve. The potential benefits to DOE of increased small business prime contracting include increasing the pool of potential contractors, which could result in better competition and better prices for the government; finding new and innovative approaches to the work developed by small businesses; and providing experiences to small businesses to allow them to better compete for other federal contracts. The potential risks include integrating and coordinating the work of a greater number of contractors at a site in a safe, secure, and effective manner, and having adequate federal resources for effective contract management and oversight—areas that already pose significant challenges for DOE. In addition, DOE's efforts to increase small business prime contracting may cause its facility management contractors to reduce the amount of subcontracting that they direct to local and regional small businesses.

DOE largely agreed with the information in this testimony. However, it disagreed with GAO's characterization of DOE's long-term small business prime contracting goal and its strategy to achieve it. GAO believes that both the long-term goal and DOE's strategy have been accurately described.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of Energy's (DOE) efforts to increase its direct contracting with small businesses. The Small Business Act, as amended by the Small Business Reauthorization Act of 1997, established a government-wide goal of directing at least 23 percent of prime contracting dollars to small businesses each fiscal year.[1] DOE, like other federal agencies, shares in the responsibility for meeting this goal. Contracting is particularly significant at DOE, which spends more on contracting than any other civilian agency in the federal government. More than 90 percent of DOE's total fiscal year 2003 budget, or $21.6 billion, was spent on prime contracts. The majority of this amount—$18.2 billion, or more than 80 percent of the contracting dollars—was spent on 37 large contracts for the management of DOE's laboratories, production facilities, and environmental restoration sites. As a group, these contracts are referred to as facility management contracts. Under these facility management contracts, a contractor is responsible for performing, managing, and integrating the work at a DOE site, often subcontracting specific portions of the work to other businesses.

DOE's approach to reporting its small business prime contracting dollars has been affected by a change in federal policy concerning whether subcontracts with small businesses can in certain situations be counted toward achieving small business prime contracting goals. For most of the 1990s, DOE included in its calculations of small business prime contracting achievements the subcontracts awarded to small businesses by its facility management contractors. The Office of Federal Procurement Policy[2] had allowed DOE to include these subcontracts because of DOE's unique reliance on facility management contractors to operate its facilities and carry out its missions. In 1999, however, the Office of Federal Procurement Policy determined that to ensure consistent reporting of achievements across the federal government, DOE could no longer include

[1]Prime contracts are direct contracts between the government and a contractor.

[2]The Office of Federal Procurement Policy within the Office of Management and Budget, in addition to issuing policy letters, has the responsibility for resolving any disagreements between the Small Business Administration and another federal agency on small business prime contracting goals.
15 U.S.C. § 644(g)(2).

the subcontracts under facility management contracts when calculating the percentage of prime contracting dollars awarded to small businesses.[3]

You asked us to examine what has happened as a result of this policy change. My testimony will discuss (1) the effect of the 1999 policy change on the amount of prime contracting dollars that DOE will be required to direct to small businesses, (2) the steps that DOE has taken or plans to take to achieve its small business contracting goals, and (3) the likely implications for DOE's programs, if any, resulting from these changes.

My testimony is based on a review of DOE small business contracting goals and achievements from fiscal year 1990 through fiscal year 2003. Our work included a review of DOE's plans to achieve its near-term goals and the projected incremental increases needed to achieve long-term goals. These goals were developed by DOE's Office of Small and Disadvantaged Business Utilization (referred to in this testimony as DOE's Small Business Office) within its Office of Economic Impact and Diversity. We also reviewed documentation provided by DOE and the Small Business Administration (SBA), and completed and current procurements for new small business prime contracts.[4] We interviewed DOE and contractor officials at DOE headquarters and selected sites, as well as national and regional small business associations and advocacy groups. Our scope included DOE's three largest offices–the National Nuclear Security Administration (NNSA)[5], and the Offices of Environmental Management (EM) and Science–that account for about 70 percent of DOE's annual budget. We conducted our review from February 2004 through May 2004 in accordance with generally accepted government auditing standards. Our review included a data reliability assessment on DOE's small business prime contracting and subcontracting results for fiscal years 1990 through 2003. These data are being used primarily for context. Our assessment of

[3]The Office of Federal Procurement Policy stated that for fiscal year 2000 and beyond, contracts awarded by DOE's facility management contractors should instead be counted toward DOE's small business subcontracting goals.

[4]DOE awards new small business contracts through a procurement process that generally includes issuing a request for proposals, evaluating those proposals, and selecting a contractor.

[5]NNSA is a separately organized agency within DOE, with its own procurement organization and program offices such as Defense Programs and Defense Nuclear Nonproliferation. Program offices referred to in this testimony generally include NNSA and its program offices as well as DOE's program offices of Environmental Management and Science.

DOE's prime contracting data determined that the data are sufficiently reliable for the purposes of this testimony. Although we are not as confident of the reliability of the subcontracting data as reported to DOE by its facility management contractors, we determined that these are the only data available and they are sufficiently reliable for the observations presented in this testimony.

In summary, we found the following:

- To comply with the 1999 federal policy change and to achieve federal small business prime contracting goals, DOE would need to direct significantly more prime contracting dollars to small businesses. To achieve DOE's near-term small business prime contracting goals of 5.06 percent in fiscal year 2004, and 5.50 percent in fiscal year 2005, DOE will have to direct an additional $226 million in fiscal year 2004, and $319 million in fiscal year 2005, above the roughly four percent of prime contracting dollars directed to small businesses in fiscal year 2003. The long-term goal of 23 percent in small business prime contracting represents a level significantly beyond what DOE has ever achieved—about 6 times the $847 million directed to small businesses in fiscal year 2003. Placed in the context of DOE's current contracting base, such an increase would represent an amount approximately equal to the annual budgets of the two largest laboratories—Los Alamos and Sandia National Laboratories.

- DOE has taken steps to increase its near-term small business prime contracting, but has no consistent strategy for reaching the eventual goal of directing 23 percent of its prime contracting dollars to small businesses. To achieve the near-term goals, DOE has focused primarily on improving outreach to the small business community and directing additional contract dollars to small businesses from procurements not associated with facility management contracts. In addition, as certain facility management contracts are due for renewal, DOE, and especially EM, has begun identifying potential work that could be redirected in the form of small business prime contracts. In the longer term, it is less clear how, or if, DOE intends to achieve an eventual goal of 23 percent small business prime contracting. In 2002, DOE's Small Business Office prepared a 20-year plan outlining when and how the department would achieve the 23 percent small business prime contracting goal. Since DOE's facility management contracts represent about 80 percent of its total contract dollars, the department cannot mathematically achieve the 23 percent goal without redirecting some of those dollars to small business prime contracts. Although the 20-year plan proposed that eventually DOE would redirect about a fifth of its

facility management contract dollars to small business prime contracts, it provides no details as to which offices would provide those dollars. DOE's three largest offices have differing views as to how much of the work that is done by facility management contractors can be redirected to small businesses without jeopardizing the department's missions. While the EM program has begun to move work from its facility management contracts and redirect these dollars to small business prime contracts, EM officials said that doing so must be consistent with the overall strategy of accelerating cleanup at DOE sites and must be at a level that can be effectively managed by EM contract and project management staff. In contrast, officials in the two offices that oversee DOE's research laboratories—NNSA and Science—said that their programs are less able to redirect significant segments of their work from facility management contracts to small businesses without jeopardizing critical research missions. DOE has not reconciled these differing views into a consistent strategy for achieving its long-term small business contracting goals.

- The implications of increasing small business prime contracts depend on the eventual goals that DOE attempts to achieve. Given the contrasting views of DOE's three largest offices, it is not clear if DOE as a whole will commit to the incremental increases that would eventually lead to a 23 percent rate of prime contracting to small businesses. Regardless of how far DOE moves in the direction of providing more prime contracting dollars for small businesses, efforts to increase small business prime contracting involve both potential benefits and risks. In addition to helping the federal government meet the overall goal of 23 percent prime contracting, potential benefits include increasing the pool of possible contractors, which could result in better competition and perhaps better prices for the government; finding new and innovative approaches developed by small businesses; and providing experiences to small businesses that could enhance their capacity to compete for other federal contracts. The potential risks associated with increasing the number of small business prime contracts include difficulties integrating and coordinating the activities of a greater number of prime contractors at a site to ensure safe, secure, and effective operations and having adequate federal resources for effective contract management and oversight—two areas that continue to be a challenge for DOE. Furthermore, DOE's efforts to increase small business prime contracting may cause facility management contractors to reduce the amount of subcontracting dollars that they direct to local and regional small businesses.

We discussed a draft of this testimony with DOE officials representing DOE's Small Business Office, procurement organizations, NNSA, EM, and Science. DOE officials generally agreed with the information and observations presented in the testimony, with two exceptions. First, DOE said that it disagreed with our statement that DOE has no consistent strategy for reaching an eventual goal of directing 23 percent of its prime contracting dollars to small businesses. DOE argued that its 20-year plan, its annual goal-setting process with SBA, and the individual goal setting that occurs within NNSA and the program offices collectively represented a consistent strategy. We disagree. Although DOE has a 20-year plan that projects incremental increases in small business prime contracting up to 23 percent by 2022, no strategy is in place that defines how DOE will achieve this goal, identifies what the contributions of the various DOE organizational components will be, or reconciles the differing views within DOE as to what would be an appropriate level of small business prime contracting. Second, DOE said that we have mischaracterized its 23 percent small business prime contracting goal as an eventual long-term goal, while DOE views it as a goal that it may or may not agree to, based on its annual negotiations with SBA. We believe we have appropriately described DOE's goal and we stated that it is not clear if DOE will commit to the incremental increases that would lead to achieving the goal. Finally, DOE suggested technical corrections, which we incorporated as appropriate.

Background

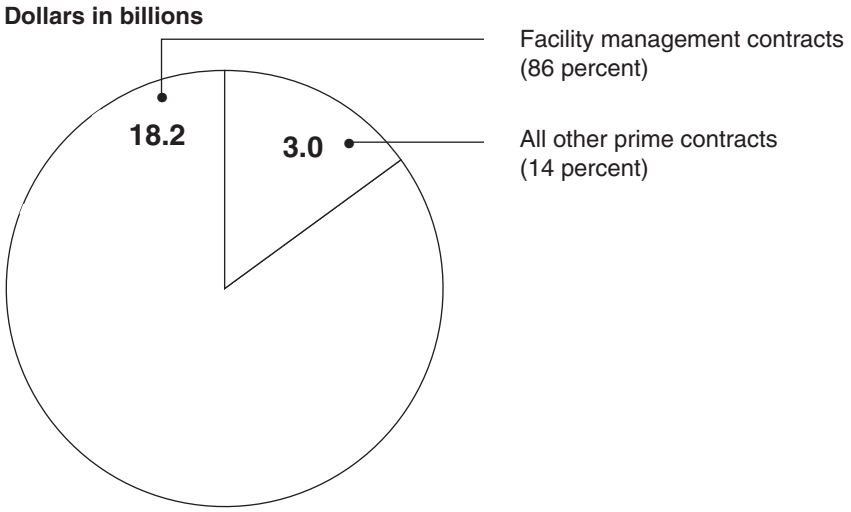
DOE has about 50 major sites around the country where the department carries out its missions, including developing, maintaining, and securing the nation's nuclear weapons capability; cleaning up the nuclear and hazardous wastes resulting from more than 50 years of weapons production; and conducting basic energy and scientific research, such as mapping the human genome. This mission work is carried out under the direction of NNSA and DOE's program offices.

With a workforce of 16,000 federal employees and more than 100,000 contractor employees, DOE relies primarily on contractors to manage and operate its facilities and to accomplish its missions. In addition to accomplishing DOE's core mission work, managing and operating the sites involves a broad range of support activities, such as information technology, safety, security, and purchase of products and services.

The Small Business Act, as amended by the Small Business Reauthorization Act of 1997, directed the President to establish the goal that not less than 23 percent of the federal government's prime contracting

dollars would be directed to small businesses each fiscal year. SBA is charged with working with federal agencies to establish agency small business contracting goals that, in the aggregate, meet or exceed the 23 percent government-wide goal. SBA negotiates an annual goal with each agency based on the overall amount of contracting in the agency (contracting base) and the agency's past achievements.[6] SBA guidelines for setting individual agency goals specify that certain types of federal spending should not be included in the contracting base. These exclusions include items such as grants, purchases from mandatory sources, or contracts for work done internationally for which U.S. small businesses would not be competing. For fiscal year 2003, excluding such items resulted in a DOE contracting base of about $21 billion subject to the small business prime contracting goal. As figure 1 shows, facility management contracts account for more than 80 percent of this amount.

Figure 1: Components of DOE's Fiscal Year 2003 Contracting Base



Source: DOE.

DOE's Small Business Office negotiates annual small business contracting goals with SBA, coordinates outreach efforts with the small business community, and works with NNSA and DOE's program offices to establish

[6]Small Business Administration officials said that it is important that the three largest federal contracting agencies—the Department of Defense, the National Aeronautics and Space Administration, and DOE—meet the 23 percent goal in order for the government-wide goal to be achieved.

and monitor annual goals for small business contracting. DOE's Office of Procurement and Assistance Management and NNSA's Office of Acquisition and Supply Management establish policies and guidance for conducting procurements according to federal and departmental regulations, and maintain the information systems on the department's prime contracts, including annual dollars provided to each contract. NNSA and DOE's program offices, such as EM and Science, are responsible for identifying opportunities for small business contracting and providing program oversight and direction to the contractors.

Unprecedented Levels of Small Business Prime Contracting Necessary for DOE to Meet Future Goals

Since the 1999 federal policy change, DOE can no longer include subcontracts of its facility management contractors when calculating the department's small business prime contracting goals. As a result, to achieve even its near-term small business prime contracting goals, DOE will have to direct more prime contracting dollars to small businesses than it ever has in the past. Further, meeting a long-term goal of 23 percent small business prime contracting would represent an achievement far beyond what DOE has ever reached—about 6 times the $847 million that it directed to small businesses in fiscal year 2003.

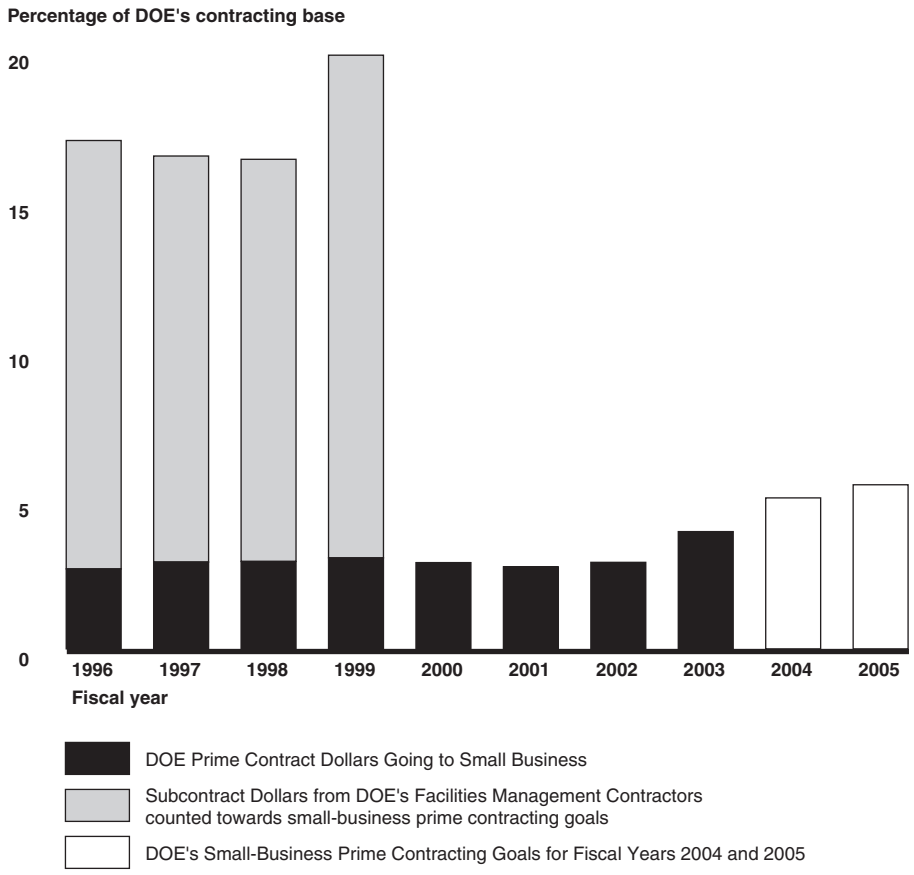
Meeting Near-term Goals Requires More Small Business Prime Contracting Dollars Than Previously Achieved

Now that DOE's facility management subcontracts can no longer be counted toward achieving its small business prime contracting goals, achieving its near-term goals for fiscal years 2004 and 2005, will require DOE to expand the amount of prime contracting dollars it provides directly to small businesses. The department has a goal of directing to small business prime contracts 5.06 percent of its contracting base in fiscal year 2004, and 5.50 percent of its contracting base in fiscal year 2005. These goals surpass any of DOE's small business prime contracting achievements prior to fiscal year 2004. As figure 2 shows, the percentage of prime contracting dollars DOE directed to small businesses in any year since 1996 ranges from 2.68 percent to 3.99 percent. During 1991 through 1999, when DOE could include in its achievements those dollars going to small business subcontractors of facility management contractors, as well as dollars going directly to small business prime contractors, DOE's reported percentages of prime contracting dollars awarded to small businesses ranged from 15.7 percent to 19.9 percent.[7] However, most of

[7]See appendix I for information on DOE's prime and subcontract dollars directed to small businesses between 1990 and 2003.

the reported achievements during those years came from facility management subcontracting dollars going to small businesses. The remainder of the reported achievements came from prime contracts to small businesses for work not associated with facility management contracts.

Figure 2: DOE's Reported Small Business Prime Contracting Achievements for Fiscal Years 1996 through 2003 and Goals for Fiscal Years 2004 and 2005



Source: GAO analysis of DOE data.

Note: For fiscal years 2000 through 2003, DOE did not include facility management subcontracting dollars in calculating small business prime contracting achievements. Therefore, facility management subcontracting is not shown in figure 2 for those years.

Meeting the small-business prime contracting goals in fiscal years 2004 and 2005 will require DOE to achieve a substantial increase over the $847 million in prime contracting dollars that DOE provided directly to small

businesses in fiscal year 2003. To meet its fiscal year 2004 goal, DOE will need to direct an additional $226 million, or 26.7 percent, over the 2003 amount. Meeting the department's 2005 goal will require directing $319 million more than in 2003, an increase of 37.7 percent over 2003 levels.[8]

Meeting the Long-term Goal of 23 Percent Requires Huge Increases in Small Business Prime Contracting

Although achieving DOE's near-term small business prime contracting goals for fiscal years 2004 and 2005 will not be easy, the long-term goal of 23 percent would require an achievement far beyond what DOE has accomplished in the past. SBA expects DOE to achieve a small business prime contracting goal at least on par with the federal goal of 23 percent. DOE's response has been to formulate a plan for gradual compliance. In 2002, DOE's Small Business Office submitted a plan to SBA to achieve the 23 percent goal in 20 years, by the year 2022.

According to this 20-year plan, DOE would increase its level of small business prime contracting by about 1 percentage point per year to achieve the 23 percent goal by 2022. To achieve this goal, the department would need to increase its small business prime contracting to about $5 billion, or 6 times its 2003 achievement. Put in terms of DOE's current contracting base, the additional amount of contracting dollars necessary to achieve the 23 percent goal approximately equals the combined annual budgets of the facility management contracts for the two largest laboratories—Los Alamos and Sandia National Laboratories.

Meeting the 23 percent goal under DOE's current contracting approach means that a substantial portion of dollars now included in facility management contracts would have to be redirected to small business prime contracts, resulting in more prime contracts for DOE to manage. Redirecting these dollars would be necessary because prime contracts not associated with facility management generally account for less than 20 percent of DOE's total prime contract dollars. Therefore, even if all the dollars not associated with facility management contracts were directed to small businesses, the total amount would be insufficient to meet the 23 percent small business prime contracting goal.

[8]These estimates assume that the contracting base—or the amount of contracting dollars used to calculate achievements—remains the same for fiscal years 2004 and 2005 as it was in fiscal year 2003.

DOE Has Near-term Plans But No Consistent Strategy for Achieving Long-term Small Business Contracting Goals

Although DOE has an agreed upon organizational strategy to achieve its near-term small business prime contracting goals, a consistent view does not prevail within the department on whether or how to reach the eventual goal of directing 23 percent of prime contracting dollars to small businesses. To achieve the near-term goals of 5.06 of prime contracting dollars to small businesses in fiscal year 2004, and 5.50 percent in fiscal year 2005, DOE has focused primarily on improving outreach to the small business community, directing more of the dollars not associated with facility management contracts toward small businesses, and beginning to redirect selected facility management contract activities to small business prime contracts. It is less clear, however, how DOE intends to achieve the eventual long-term goal of 23 percent small business prime contracting. DOE's Small Business Office's 20-year plan calls for redirecting about 20 percent of facility management contract dollars to small business prime contracts but provides no details as to how NNSA and the program offices, such as EM and Science, would implement the plan. Officials in these offices have differing views as to how much of the work done by their facility management contractors can be redirected to small businesses without jeopardizing critical agency missions.

Near-Term Plans Focus Primarily on Increasing Awards of Non-Facility Management Contracts to Small Businesses

DOE's plan for achieving its near-term small business prime contracting goals focuses primarily on directing more of the dollars not associated with facility management contracts to small businesses. To increase the percentage of such dollars going to small businesses, DOE has expanded its outreach to the small business community, notifying small businesses of contracting opportunities and preparing them to compete for these contracts. DOE's Small Business Office has developed a variety of outreach and capacity-building activities designed to assist small businesses in competing for DOE prime contracts. For example, DOE's Small Business Office fosters mentor-protégé relationships between small businesses and DOE's large prime contractors to help the small businesses expand their expertise. In addition to these department-wide efforts, offices such as NNSA and EM have also developed outreach activities, generally related to specific prime contract opportunities (see table 1 for examples.)

Table 1: Examples of Outreach Efforts by DOE's Small Business Office and Program Offices

Approach	Description
Small Business Office efforts	
Marketing and outreach	Educate and inform small businesses about the contracting opportunities at DOE. Provide a listing of potential prime and subcontracting opportunities for the next 3 years. These potential opportunities for small businesses are organized by program office or state and are posted on the Small Business Office's Web site. Sponsor annual conferences, workshops, procurement fairs, and seminars for the small business community.
Mentor-protégé relationship	Foster long-term business relationships between small business entities and DOE prime contractors in order to increase the overall number of these small business entities that can successfully compete for DOE contract and subcontract awards.
Small business advisory team	Established an advisory group consisting of small business trade associations, chambers of commerce, and other federal agencies to provide advice and guidance to the Small Business Office on small business programs and activities. Purposes of the group include identifying best practices and exploring business models that promote outreach and interaction with the small business community.
Program Office efforts	
Teaming workshops	Sponsor meetings of small and large businesses to discuss upcoming requests for proposals to encourage formation of teams that combine the advantages of small and large businesses, or combine the different strengths of several small businesses, for proposed new prime contracts (NNSA and EM).
Market research	Conduct market research before issuing a request for proposals for a new contract not associated with facility management to identify whether small businesses exist with capabilities in specific performance areas (NNSA, EM, and Science).
Database of small businesses	Build a database of interested small businesses to identify highly skilled small businesses that meet program requirements (NNSA).

Source: GAO analysis of DOE information.

In addition to its outreach efforts, DOE has taken steps in two other major areas. First, it has established internal requirements that it believes will help make progress toward achieving its small business prime contracting goals. These internal requirements were part of a 14-item plan of action included in the 20-year plan. The plan of action includes reviews of upcoming contracts to identify work activities that could potentially be awarded to small businesses, and regular monitoring of DOE program level and agency-wide achievements toward DOE's annual goals. For example, each year DOE's Small Business Office requires each program office to develop a small business plan that reflects the program's goals for increasing prime contracts with small businesses. These program plans are used to develop DOE's overall small business contracting goals, and DOE's Small Business Office tracks progress toward these goals quarterly. Second, DOE has modified some of its procurement processes to eliminate certain barriers for small businesses, such as bonding requirements, and to

help small businesses minimize the cost of developing proposals. For example, DOE has limited the amount of documentation that small businesses are required to submit in response to a request for proposals to 50 pages instead of volumes of supporting documentation.

To achieve the near-term small business prime contracting goals in fiscal years 2004 and 2005, DOE is concentrating primarily on contracts not associated with facility management, because doing so does not involve significant changes in the way the department does business. For contracts not associated with facility management, as new work is identified or existing contracts come up for renewal, DOE sets them aside for small businesses and awards them as small business prime contracts whenever possible. For example, the information technology support contract for DOE headquarters came up for renewal in January 2002. DOE determined that this contract, which was held by a large business, could be carried out by a small business. The new contract, for a 5-year term with a total value of $409 million, was awarded in January 2003, to a team that included a consortium of 10 small businesses.

NNSA and the program offices have also focused primarily on procurements not associated with their facility management contracts. NNSA, EM, and Science officials issued policy letters stressing the importance of directing contracts for activities not associated with facility management to small businesses to the maximum extent possible. For example, for any upcoming contract not associated with facility management, program office personnel must first conduct market research to determine if any small businesses are capable of performing all or parts of the work and have the necessary qualifications to do so. If the program office finds two small businesses capable of doing the work, the policy requires the contract or parts of the contract to be "set aside" from unrestricted competition and instead generally be made available for a more restricted competition among small businesses. Any exceptions to this policy must be approved by the head of the program office.

Although in the near term DOE is concentrating primarily on contracts not associated with facility management, it has also begun to look at certain facility management contracts as they come up for renewal to identify potential work that could be made available to small businesses. DOE's Offices of EM and Fossil Energy have identified several specific activities that had been within a facility management contractor's scope of work and have set those activities aside for small business prime contracts. (See table 2 for examples.)

Table 2: Status of Selected Procurements Redirecting Facility Management Contract Dollars to Small Business Prime Contracts

Program office/site	Nature of work	Current facility management contractor	Contract amount	Status of procurement
Fossil Energy				
Strategic Petroleum Reserve, Louisiana	Construction management services	DynMcDermott	$26.5 million for 2 years, plus three 1-year options	Contract awarded November 2003
Environmental Management				
Fast Flux Test Facility, Hanford, WA	Decontamination, decommissioning, demolition, disposal of reactor waste	Fluor Hanford	$46.1 million per year, contract length not to exceed 8 years	Request for proposals closed March 2004
222-S Laboratory, Hanford, WA	Laboratory analysis of tank waste samples	CH2M Hill	$10 million per year for 5 years, plus five additional 1-year options	Request for proposals closed March 2004
Portsmouth, OH	1 contract for environmental remediation 1 contract for infrastructure	Bechtel Jacobs	$273 million over 5 years for remediation $129 million over 5 years for infrastructure	Request for proposals closed March 2004
Paducah, KY	1 contract for environmental remediation 1 contract for infrastructure	Bechtel Jacobs	$377 million over 5 years for remediation $100 million over 5 years for infrastructure	Request for proposals closed March 2004

Source: GAO analysis of DOE information.

Of the examples shown in table 2, the procurement at the Strategic Petroleum Reserve in Louisiana is the only one that DOE has completed so far. According to DOE officials with the Office of Fossil Energy, when the facility management contract was nearing the end of its term, DOE's Small Business Office asked the program office to look for opportunities for small business prime contracts. DOE officials at the Strategic Petroleum Reserve said they identified a number of construction projects that could be performed by small businesses, and awarded several prime contracts to small businesses for this work. DOE officials then decided to remove all the construction management work from the facility management contract for the site so that a new small business prime contractor for construction management could then award and manage subcontracts for individual construction projects. According to DOE's contracting officer at the Strategic Petroleum Reserve, having the new prime contractor responsible for awarding and managing the contracts will reduce the amount of additional work required by DOE procurement and program personnel. The prime contract was awarded in November 2003.

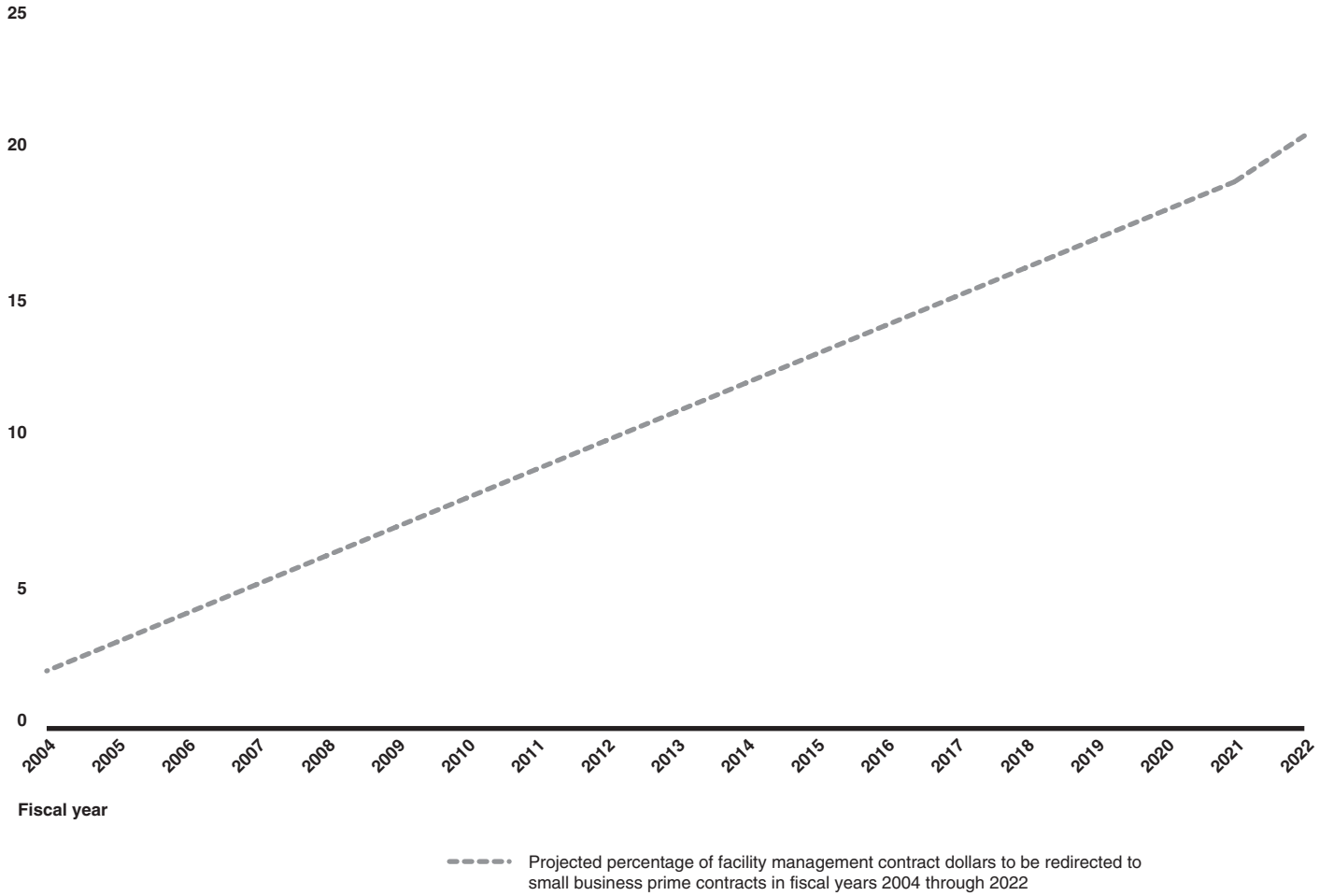
DOE's Small Business Office and Program Offices Have Different Views on the Extent to Which Facility Management Contract Dollars Can Be Redirected to Small Business

While DOE's Small Business Office and the three largest offices have a consistent approach to their near-term goals—primarily focusing on increasing small business prime contracting by using dollars not associated with facility management contracts—a consistent view does not prevail in the department on whether or how to achieve the eventual goal of directing 23 percent of prime contracting dollars to small businesses. DOE's Small Business Office's plan to achieve the long-term small business prime contracting goals has two main components. The first is to continue increasing the small business share of contract dollars not associated with facility management contracts. For any new contracts not associated with facility management, DOE has a stated preference to set aside those contracts for small businesses where possible. The three largest offices have been consistent in their efforts to do so. However, even this portion of DOE's contracting base (about 20 percent of total contract dollars) is not immediately available for small business prime contracts. For example, many of the contracts not associated with facility management cover multiple years, so only a portion of these contracts are up for award or renewal in a given year.[9] In addition, some contracts for work not associated with facility management may not be available for award to small businesses, for example, if market research determines that there are not at least two small businesses capable of performing all or parts of the work in an upcoming procurement.

Because of the limited amount of contracting dollars for work not associated with facility management, the second component of DOE's Small Business Office's long-term plan is to redirect dollars now going to facility management contracts to small business prime contracts. DOE's 20-year plan calls for increasing dollars redirected from facility management contracts to small business prime contracts from less than 1 percent in 2003 to about 20 percent by 2022 (see figure 3).

[9]Of the $3.4 billion in contracting dollars not associated with facility management contracts in fiscal year 2003, only about $672 million, or 20 percent, was available to award as new contracts. The remaining $2.7 billion was annual funding for existing contracts.

Figure 3: Projected Percentage of Facility Management Contract Dollars to Be Redirected to Small Business Prime Contracts



Source: GAO analysis of DOE data.

Note: The actual percentage of facility management contract dollars redirected to small business prime contracts between fiscal years 1990 and 2003 was less than one percent.

Nevertheless, DOE does not have a consistent strategy in place to accomplish its plan for redirecting dollars from its facility management contracts to small business prime contracts. Officials in NNSA, EM, and Science have considerably different views about the feasibility of redirecting significant amounts of funding from their facility management contracts to small businesses. For example:

- Both NNSA and Science officials are very concerned about the implications of setting aside for small businesses significant portions of

the dollars now going to facility management contractors that operate the weapons and research laboratories. NNSA and Science officials' concerns stem from the large scale of laboratory operations, the integrated nature of the mission and mission support work, and the complexity and critical importance of the laboratory missions. These officials said that fragmenting mission activities among several contractors at the research laboratories, whether the contractors were large or small businesses, was inadvisable. Therefore, according to NNSA's Director of Acquisition and Supply Management and Science's Director of Grants and Contracts, NNSA and Science may never achieve a 23 percent small business prime contracting level because doing so would be inconsistent with accomplishing their missions safely, securely, and effectively.

Despite the reluctance to fragment core mission activities, NNSA and Science officials said they would explore opportunities to contract separately with small businesses for mission support functions at the laboratories if those mission support functions were not closely integrated with the laboratories' core missions.[10] For example, NNSA is analyzing its own purchases of goods and services, such as computer hardware, software, and staffing services, as well as similar purchases by its facility management contractors. NNSA is assessing the feasibility of purchasing these items in bulk under a prime contract, rather than multiple separate contracts. An NNSA official said that NNSA is not trying to increase its small business prime contracting numbers by becoming a purchasing agent for its facility management contractors, but rather combining similar requirements as a way to possibly increase NNSA's level of prime contracting to small business. On the basis of this analysis, NNSA is pursuing three potential opportunities, valued at about $80 million, involving technical services and services to provide temporary staff, and is exploring other opportunities.

[10]Although the facility management contracts for the laboratories distinguish between core mission work and mission support functions, individual laboratories may differ from one another in the extent to which a specific activity is regarded as an integral part of accomplishing the mission. At some of DOE's laboratories, for example, information technology provides a support function that could potentially be separated from the facility management contract and awarded to small business without jeopardizing the mission; such a separation is being proposed at the Office of Science's Oak Ridge National Laboratory in Tennessee. In contrast, NNSA officials have said that information technology at NNSA's weapons laboratories represents an integral part of simulated testing and certification of the nation's nuclear weapons stockpile and cannot be separated from the mission work without jeopardizing the results.

- By contrast, EM officials were more optimistic about the potential role of small businesses in accomplishing its core missions. The Assistant Secretary for EM said that part of its initiative to accelerate the cleanup of DOE sites involves greater use of alternatives to traditional facility management contracts, including removing work from facility management contracts and setting that work aside for small businesses. The Assistant Secretary said that these small business procurements are part of EM's overall strategy to clean up sites more quickly and at a lower cost to the government, not just to increase the amount of small business prime contracting.

  EM is also developing a complex-wide contracting arrangement, called indefinite delivery/indefinite quantity, which will result in prime contracts with both large and small businesses for smaller-scale cleanup activities. According to EM's Director of Acquisition Management, the multiple contracts awarded under this initiative will allow EM sites nationwide to quickly purchase cleanup services from small and large businesses without having to conduct a separate procurement, which can take months to complete. Instead, either EM or the facility management contractor will be able to simply write a task order against these existing contracts.

  Finally, it is unclear to what extent EM can expand its use of small business prime contracts to accomplish its core missions. According to the Assistant Secretary, the main constraint is the ability of EM staff to effectively oversee those contracts, not the availability of qualified small businesses to perform the work. The Assistant Secretary said that EM is proceeding carefully to ensure that effective management and oversight will occur; that cost, schedule, and technical standards are met; and that safety and security issues are adequately addressed.

Potential Benefits and Risks of Increased Small Business Prime Contracting Depend on the Goal that DOE Tries to Achieve

Since DOE is in the early stages of implementing a long-term strategy to redirect facility management contracting dollars to small businesses, the implications of increased small business prime contracting are still relatively uncertain. However, the implications depend heavily on the extent to which DOE agrees, in its negotiations with SBA, to meet the 23 percent small business prime contracting goal. Given the differences we heard in the approaches of the three largest offices, it is not clear if DOE will commit to the incremental increases that would eventually lead to a 23 percent rate of prime contracting to small businesses, as detailed in the 20-year schedule prepared by DOE's Small Business Office. Absent more specific direction from Congress or the executive branch, DOE's eventual

commitment to a particular small business prime contracting goal appears to rest heavily on whether the department will be willing to change its approach to contracting for activities at the science and weapons laboratories, its environmental cleanup work, or both. Regardless of the extent to which DOE directs more prime contracting dollars to small businesses, efforts to increase small business prime contracting involve potential benefits as well as potential risks.

Potential Benefits of Increasing Small Business Prime Contracting

An overarching benefit of increasing small business prime contracting is that DOE would be helping to carry out the President's small business agenda and would be contributing to the federal government's overall goal of directing 23 percent of prime contracting dollars to small businesses. Beyond contributing to this overall effort, DOE's Small Business Office and procurement officials explained that the benefits included increased competition, greater innovation, and enhanced small business capacity.

One example of increased competition can be seen in EM's program. DOE's efforts to increase small business contracting have resulted in new procurements with narrower scope. In the past, EM has been concerned about the limited pool of potential contractors for large cleanup projects, sometimes receiving only two proposals on multibillion dollar procurements. By structuring the cleanup work into smaller contracts and opening them to individual small businesses or small business teams, EM expects to attract more potential bidders. One of EM's current procurements is for cleanup work at the Fast Flux Test Facility at the Hanford site in Washington state. Currently included in a facility management contract, EM is in the process of redirecting this work as a small business set-aside. EM officials said that in the response to the request for proposals for this project, with an estimated contract amount of $46 million per year for up to 8 years, DOE received proposals from several small business teams. According to EM officials, increased competition from a larger pool of potential contractors could result in better prices for the government. However, since the contracts for the current small business procurements have not yet been awarded, it is too soon to tell whether better prices will be realized.

In addition to increased competition, DOE procurement and program office officials believe that small businesses may bring new ideas and innovative approaches to the work. For example, as part of its accelerated cleanup strategy, EM has been looking for better and faster ways to accomplish cleanup at its sites and facilities. According to EM officials,

expanding the pool of potential contractors for cleanup projects may increase the potential for new technology and ideas.[11]

Increasing small business prime contracting can also provide small businesses with the experience necessary to compete for other federal prime contracts. According to small business associations and advocacy groups that we contacted, a direct contracting relationship with DOE provides small businesses with more challenging work and better opportunities to grow and expand their businesses. The use of mentor-protégé arrangements or teaming with other small or large businesses also provides opportunities for growth and economic development. For example, an owner of a small construction company in New Mexico told us that his business had successfully teamed with a large construction company for several projects and that his small company was now the senior member of that team and was competing for DOE prime contracts.

Potential Risks of Increasing Small Business Prime Contracting

DOE's long-term strategy for achieving a 23-percent small business prime contracting goal includes redirecting a substantial amount of facility management contract dollars to small business prime contracts. DOE procurement and program officials acknowledge that doing so would significantly increase the number of prime contracts DOE would have to manage. Increasing DOE's number of prime contracts, whether these are with small or large businesses, could create problems with integrating and coordinating the efforts of more contractors at a site, as well as create problems with contract management and oversight. In addition, DOE's efforts to increase small business prime contracting could inadvertently reduce the amount of small business subcontracting directed to local and regional small businesses.

Increasing the number of prime contracts at a site raises concerns about integration, coordination, and accountability. If a facility management contractor has primary responsibility for accomplishing work at the site, that contractor is also accountable for integrating the efforts of multiple subcontractors to ensure that the mission work is accomplished. In

[11]To assist in the development of new technologies, EM as well as other program offices with research and development programs provide funding for two small business grant programs managed by the Office of Science. The Small Business Innovation Research Program and the Small Business Technology Transfer Program, with combined funding of more than $100 million in fiscal year 2003, encourage the development of new technologies, including those dealing with environmental cleanup.

addition, the facility management contractor has the responsibility for ensuring that all contractor and subcontractor employees at the site comply with DOE safety and security standards. If the work done by the facility management contractor becomes fragmented and spread among multiple prime contracts, DOE may need to carry out these integration functions, which places more oversight responsibilities on federal program and project management personnel. If the number of prime contractors at a site increases significantly, the challenges associated with integrating and coordinating the activities also increase. Both DOE and facility management contractor officials have expressed concerns about successfully integrating and coordinating the efforts of an increased number of prime contractors at a site. Ensuring that all work is performed in accordance with DOE safety and security standards is a significant concern, especially given the continuing challenges that the department faces in these two areas.[12]

To begin to address the constraint of having a limited number of federal employees to perform coordination and integration functions, DOE is considering awarding small business prime contracts but then having the facility management contractors at the sites manage and oversee the work. As some facility management contracts are extended or awarded, DOE includes a provision that specifically allows the department to identify and redirect work within the facility management contract to a small business prime contract. The provision also allows DOE to request the facility management contractor to manage and oversee the work. Since the work that DOE would redirect is generally already being done by a facility management subcontractor, the only actual change is the contractual relationship. In fiscal year 2003, NNSA started using this arrangement for facilities and infrastructure restoration projects at the Sandia National Laboratory in New Mexico. NNSA awarded prime contracts—$100,000 in fiscal year 2003 and an estimated $3 million in fiscal year 2004—to small businesses for some of these projects. Although it is too soon to fully assess the implications of this arrangement, facility management

[12]For information on safety and security challenges, see U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of Energy*, GAO-03-100 (Washington, D.C.: Jan. 2003); Department of Energy, *Management Challenges at the Department of Energy*, DOE/IG-0626 (Washington, D.C.: Nov. 12, 2003); U.S. General Accounting Office, *Department of Energy: Mission Support Challenges Remain at Los Alamos and Lawrence Livermore National Laboratories*, GAO-04-370 (Washington, D.C.: Feb. 27, 2004); and U.S. General Accounting Office, *Nuclear Security: DOE Must Address Significant Issues to Meet the Requirements of the New Design Basis Threat*, GAO-04-701T (Washington, D.C.: Apr. 27, 2004).

contractor officials at the Sandia laboratory have expressed concern that it could confuse the lines of authority and accountability at the site, because the contractual relationship is not consistent with the daily management and oversight of the activities being performed. In prior work, we have also expressed concerns about confusing the lines of authority, which can make it difficult to hold contractors accountable for performance.[13]

Regarding contract management and oversight, increasing the number of prime contracts with DOE could place further strain on DOE's procurement and program oversight personnel. DOE's reliance on contractors to operate its facilities and carry out its missions, coupled with the department's history of inadequate contractor management and oversight, led us in 1990 to designate DOE contract management as a high-risk area vulnerable to fraud, waste, abuse, and mismanagement. This high-risk designation is still in effect. GAO and others have stated that one of the contributing factors to DOE's inadequate oversight of its contractors has been a shortage of personnel with the right skills to perform these functions.

Although DOE has over the past several years made progress in training and certifying its procurement and project management personnel, DOE procurement and program officials said that the overall number of available personnel has not grown, and has significantly decreased in NNSA. More prime contracts would create additional work for federal employees in two phases: managing the procurement process by requesting and evaluating proposals to award a contract, and overseeing the work of the contractor to ensure that performance is acceptable. DOE officials at headquarters and at the sites we visited expressed concerns that significantly increasing the number of prime contracts could reduce the ability to adequately oversee and evaluate contractor performance.

While headquarters and site office officials in the EM program acknowledge the potential risks that additional prime contracts can create in both integrating work activities at a site and contract management and oversight, they are pursuing ways to mitigate those risks. To address concerns about sitewide integration of safety and security, DOE officials

[13]U.S. General Accounting Office, *Department of Energy: Fundamental Reassessment Needed to Address Major Mission, Structure, and Accountability Problems*, GAO-02-51 (Washington, D.C.: Dec. 21, 2001).

at Hanford plan to use contract language and incentives to encourage the site's new small business prime contractors and the facility management contractors to work together. To earn potential incentive fees under this proposed arrangement, for example, all prime contractors will have to cooperate in such areas as safety and security. But, since these are new approaches and the small business prime contracts have yet to be awarded, the extent to which these steps will mitigate the potential risks is unknown. To lessen the impact of additional prime contracts on procurement and program personnel, EM officials said they intend to use a contract for small business procurements that has a well-defined statement of work and that ties incentive fees to accomplishing the contract's stated final goal rather than to interim steps. According to EM's Director of Acquisition Management, administering such contracts generally may require less federal involvement, although EM will also have to train its staff on the most effective way to manage these contracts.

In addition to the potential risks discussed above, DOE and contractor officials, as well as representatives of small business advocacy groups, raised concerns about DOE's efforts to increase small business prime contracting. One concern expressed was that such efforts could inadvertently result in less total contracting dollars directed to the small business community. Procurement regulations require that all facility management contractors have a small business subcontracting plan and facility management contractors must generally negotiate annual small business subcontracting goals with the department. However, if work is removed from a facility management contract, the facility management contractor may negotiate lower subcontracting goals with the department and then subcontract less of the remaining work to small businesses. Since the efforts to redirect facility management contract dollars to small businesses is in its early stages, no data are yet available to validate this concern.

A related concern is that if DOE removes work from a facility management contract and sets that work aside for a small business procurement, there may be fewer contracting dollars available to local and regional small businesses. This could occur because DOE's facility management contractors generally are not required to follow federal regulations in their procurements, but instead comply with "best business practices." In doing so, a facility management contractor can restrict a competition for its subcontracts to the local small business community. In contrast, DOE must generally open up its procurements to nationwide competition, which may result in fewer contracts going to local and regional small businesses. Again, no data are yet available to validate this concern.

Finally, representatives of some small business advocacy groups told us that some small businesses would rather have a subcontract with a facility management contractor than a prime contract with DOE. This is because facility management contractors generally have fewer administrative requirements and a less burdensome and faster procurement process.

It is not clear to what extent these potential risks will affect DOE's ability to carry out its missions in a safe, secure, and effective manner. The impact on DOE's missions of increasing small business prime contracts will depend both on the total number of new prime contracts awarded and on how well the department manages the contractors and the work. The stakes are high as DOE attempts to contribute to the federal government's goal of increasing the prime contracting dollars directed to the small business community, while striving to accomplish its missions efficiently and effectively.

This concludes my testimony. I would be pleased to respond to any questions that you may have.

Contacts and Acknowledgments

For further information on this testimony, please contact Ms. Robin Nazzaro at (202) 512-3841. Individuals making key contributions to this testimony included Carole Blackwell, Ellen W. Chu, Matt Coco, Doreen Feldman, Jeff Rueckhaus, Stan Stenersen, and Bill Swick.

Appendix I: Department of Energy (DOE) Contract Dollars Directed to Small Businesses, Fiscal Years 1990–2003

Millions of dollars

Row no.	Contract type	1990	1991	1992	1993	1994	1995	1996
1	Contracting base[a]	$17,095.8	$18,628.6	$18,852.2	$18,392.5	$18,826.3	$17,177.4	$16,213.2
2	Facility management contracts	13,790.2	15,592.5	15,798.2	14,970.0	15,788.0	14,240.1	13,127.7
3	All other prime contracts	3,305.5	3,036.1	3,054.0	3,422.5	3,038.3	2,937.3	3,085.5
4	Contracts to small businesses	3,047.2	3,211.8	3,162.3	3,578.8	3,616.2	3,441.8	3,001.1
5	Small business prime contracts	500.9	529.8	578.8	512.7	508.1	484.5	434.9
6	Small business subcontracts awarded by prime contractors	2,546.3	2,682.0	2,583.5	3,066.1	3,108.2	2,957.3	2,566.2
7	Small business subcontracts awarded by facility management contractors	2,402.4	2,464.0	2,374.8	2,772.3	2,795.6	2,699.3	2,328.1
8	Small business subcontracts awarded by all other prime contractors	144.0	217.9	208.7	293.9	312.5	258.0	238.1
9	Small and large business subcontracts awarded by prime contractors	5,617.8	6,300.1	5,653.5	6,458.5	6,347.3	5,870.3	5,055.1
	Small business prime contracts (as a percent of contracting base)[c]	2.93	2.84	3.07	2.79	2.70	2.82	2.68
	Small business prime contracts and facility management subcontracts (as a percent of contracting base)[d]	N/A	16.07	15.67	17.86	17.55	18.53	17.04
	Small business prime and subcontracts (as a percent of contracting base)[e]	17.82	17.24	16.77	19.46	19.21	20.04	18.51
	Small business subcontracts (as a percent of all subcontracts)[f]	45.33	42.57	45.70	47.47	48.97	50.38	50.76

Source: GAO analysis of DOE data.

Row no.	Contract type	1997	1998	1999	2000	2001	2002	2003
1	Contracting base[a]	$15,844.0	$15,117.5	$15,483.8	$17,067.9	$18,551.2	$19,170.9	$21,210.0
2	Facility management contracts	13,844.4	13,226.6	13,487.8	14,079.1	14,756.4	15,671.7	18,189.1
3	All other prime contracts	1,999.6	1,890.9	1,995.9	2,988.8	3,794.7	3,499.2	3,020.9
4	Contracts to small businesses	3,173.4	3,033.5	3,225.3	2,805.1	3,539.9	4,241.9	4,382.2
5	Small business prime contracts	460.9	442.6	472.9	486.8	509.5	555.7	847.2
6	Small business subcontracts awarded by prime contractors	2,712.5	2,591.0	2,752.4	2,318.3	3,030.4	3,686.2	3,535.0
7	Small business subcontracts awarded by facility management contractors	2,156.7	2,037.3	2,608.7	N/A[b]	N/A[b]	N/A[b]	N/A[b]
8	Small business subcontracts awarded by all other prime contractors	555.8	553.6	143.7	N/A[b]	N/A[b]	N/A[b]	N/A[b]
9	Small and large business subcontracts awarded by prime contractors	5,223.4	5,684.5	5,547.1	4,826.4	6,409.3	7,548.6	7,349.0
	Small business prime contracts (as a percent of contracting base)[c]	2.91	2.93	3.05	2.85	2.75	2.90	3.99
	Small business prime contracts and facility management subcontracts (as a percent of contracting base)[d]	16.52	16.40	19.90	N/A	N/A	N/A	N/A
	Small business prime and subcontracts (as a percent of contracting base)[e]	20.03	20.07	20.83	16.44	19.08	22.13	20.66
	Small business subcontracts (as a percent of all subcontracts)[f]	51.93	45.58	49.62	48.03	47.28	48.83	48.10

Note: Dollars in the table are expressed in current-year (unadjusted) dollars and include DOE prime contracts valued at $25,000 or more that are tracked in DOE data systems. Prime contracts awarded by another federal agency but funded by DOE are excluded from the table. Subcontract dollars are included only for contractors who are required to report on their small business subcontracting activities.

[a]DOE's contracting base includes dollars that can potentially be directed to U.S. small businesses, excluding, under Small Business Administration (SBA) guidelines, dollars that cannot go to small business prime contracts, such as grants and purchases from mandatory or foreign sources.

[b]For fiscal years 2000 through 2003, DOE did not account separately for subcontract dollars going to small businesses from facility management prime contractors versus those from all of its other prime contractors.

[c]We calculated the percentage of DOE's contract dollars going to small business prime contracts by dividing small business prime contract dollars (row 5) by the contracting base (row 1).

[d]For fiscal years 1991 through 1999, DOE's annual small business prime contracting achievements, as reported to SBA, included DOE subcontracts awarded to small businesses by its facility management contractors, as well as prime contracts awarded directly to small businesses. To calculate small business prime contracting achievements for these 9 years, we therefore added rows 5 and 7 and divided the sum by row 1. We did not do this calculation for fiscal years 1990 and 2000 through 2003 because small business subcontracts from facility management contractors did not "count" in those years toward small business achievement percentages.

[e]We calculated the overall percentage of DOE's contract dollars going to small businesses—via both prime contracts and subcontracts—by dividing DOE's contract dollars to small businesses (row 4) by the contracting base (row 1).

[f]We calculated the percentage of total subcontracting dollars going to small business by dividing small business subcontract dollars from prime contractors (row 6) by total subcontract dollars going to small and large businesses (row 9).

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