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Report to the Chairman, Committee on Small Business, U.S. Senate

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SMALL BUSINESSES

Limited Information Available on Contract Bundling's Extent and Effects

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The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

This report responds to your request for a review of contract bundling and its effect on small businesses. As you know, agencies have been combining existing contracts into fewer contracts as a means of streamlining the procurement process and reducing costs. This practice is referred to as contract consolidation. Congress and small business advocates have been concerned that contract consolidation may negatively affect small businesses' ability to compete for contracts. Contracts that are consolidated to such an extent that they present a barrier to small businesses' ability to compete for such contracts are considered to be "bundled contracts."

Specifically, the Small Business Reauthorization Act of 1997[1] defines bundling of contract requirements as the consolidation of two or more procurement requirements for goods or services previously provided or performed under separate, smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to a small business concern due to (1) the diversity, size, or specialized nature of the elements of the performance specified; (2) the aggregate dollar value of the anticipated award; (3) the geographic dispersion of contract performance sites; or (4) any combination of these three criteria.

The Office of Advocacy, an independent agency whose mission is to represent and advance small business before Congress, has sponsored studies that have concluded (1) that the federal government has fallen short of its 1998 goal of 23 percent of its prime contract dollars being awarded to small businesses and (2) that contract bundling is growing and negatively affecting small businesses. Based, in part, on these reports, you were concerned that small businesses are losing opportunities to contract with the federal government because contracting agencies are bundling contract requirements. Specifically, as agreed with your office, we have determined (1) whether the government has met the governmentwide goal

[1]Public Law 105-135, December 2, 1997.

of awarding 23 percent of its federal prime contracts to small businesses, (2) what the federal government knows about the extent of contract bundling and its effect on small businesses, and (3) the Small Business Administration's (SBA) efforts to oversee contract bundling by federal agencies.

Results in Brief

Our analysis of contracting data in the Federal Procurement Data System (FPDS) indicated that in fiscal year 1998, the most recent year for which data were available, federal agencies met the governmentwide goal of 23 percent for prime contract awards to small businesses. The Small Business Reauthorization Act of 1997 amended the Small Business Act of 1953 to set the goal as being not less than 23 percent of the total value of all the prime contract awards for each fiscal year. SBA administers and issues regulations under the Small Business Act and is responsible for determining how the extent of small business participation in governmentwide procurement is to be calculated. To measure achievement of the 23-percent governmentwide goal, SBA relies on FPDS, which showed that federal agencies, as a whole, awarded 23.4 percent of the total dollar value of federal prime contracts to small businesses during that year.

However, using a different universe of prime contracts, but the same FPDS data, SBA's Office of Small Business Advocacy (Office of Advocacy) reported that federal agencies awarded 20.6 percent of their prime contract dollars to small and disadvantaged businesses, which was short of the governmentwide goal.

Our analysis showed that the main difference between SBA's and the Office of Advocacy's universe was that SBA's universe included all contracts except those contracts for which SBA believed that small businesses did not have a reasonable opportunity to compete. For example, it excluded foreign military sales, overseas procurements, and procurements from mandatory sources of supplies, such as purchases from Federal Prison Industries, Inc. According to SBA officials, they excluded these procurements because (1) foreign government purchases are not subject to SBA requirements, (2) U. S. small businesses are not likely to bid for overseas contracts, and (3) acquisitions from mandatory sources are to be awarded noncompetitively in accordance with legal requirements. SBA also excluded contracts from some specific programs from the Departments of State, the Treasury, and Transportation. The Office of Advocacy did not exclude any contracts in its calculations. We believe the method SBA—the agency charged with the responsibility to administer the statute—used to calculate the extent of small business

participation in governmentwide procurement is within its discretion under the statute.

There is very little data on the extent of contract bundling governmentwide and its effect on small businesses. The Federal Procurement Data Center (FPDC) will not collect data on bundled contracts until SBA finalizes an interim rule on the matter. SBA had some data on bundled contracts that it had identified, but neither SBA nor the three agency procurement centers we contacted had performed definitive studies measuring the extent of contract bundling or its effect on small businesses. DOD plans to contract for a 6-month study in 2000 of its contract bundling practices and their effects on small businesses. We identified the Office of Advocacy's study as the only governmentwide study that has been completed to date. It concluded that contract bundling has increased and had a negative effect on small business' share of federal contracts.[2] However, the study's analysis was based on a definition that was broader than the statutory definition of contract bundling and provided no convincing evidence that bundling caused adverse effects on small businesses.

In the absence of governmentwide data, we selected three procurement centers—the National Aeronautics and Space Administration's (NASA) Johnson Space Center in Houston, Texas; the Department of Energy's (DOE) Operations Office in Albuquerque, New Mexico; and DOD's Wright-Patterson Air Force Base in Dayton, Ohio—to serve as case studies to examine the effects of contract bundling on small businesses at a cross section of defense and civilian agencies. Our analysis of contracting data at these three procurement centers showed that the small business share of federal contracts overall increased at Johnson Space Center and DOE's Albuquerque Operations Office and declined at Wright-Patterson Air Force Base since 1997. Procurement center officials identified and had available data on 74 contracts worth $13.6 billion that were consolidated to 13 contracts worth $12.4 billion. The small business share in terms of percentage of contracts and contract dollars awarded declined ranging from a 28-percent reduction in contract dollars at Wright-Patterson Air Force Base to a 52-percent reduction at NASA's Johnson Space Center. SBA identified 1 of the 13 contract consolidations as a bundled contract.

Agency officials have stated that small businesses often receive subcontracts from the winning prime contractor. We determined this was the case for all but one consolidated contract at two centers we visited. Johnson Space Center and DOE's Albuquerque Operations Office had

[2] Final Report: Bundled Contract Study FY 91-FY 95 (Eagle Eye Publishers for SBA, June 20, 1997).

some available subcontractor data, which showed that all but one of the consolidated contracts had subcontractors that were small businesses. The dollar values of the subcontracts were not readily available. Officials at the three sites reviewed believed that contract bundling had, at most, a limited effect on the share of contracts and contract dollars awarded to small businesses.

SBA is responsible for reviewing potential contract bundling at procurement centers and recommending to agencies ways of increasing small business participation for those contracts, such as breaking up the contracts or identifying subcontracting opportunities. However, according to SBA officials, the effectiveness of these activities has been limited, and it is not clear to what extent agency contracting officers are identifying proposed bundled contracts and notifying SBA's Procurement Center Representatives (PCR) who are to review the contracts. Specifically, according to SBA officials, partly due to budget constraints, SBA does not have the staff assigned to review proposed contracts at all of the government's 2,250 procurement centers to detect and deal with bundling. In addition, we noted that not all contracts were reviewed. The SBA PCR for NASA's Johnson Space Center had not reviewed any of the proposed contracts awarded there for the past 3 years, reportedly due to lack of travel funds.

SBA officials acknowledged that they have not assessed the best use of personnel to monitor contract bundling, and they plan to reevaluate the placement of PCRs and determine if existing staff have skills to become PCRs in those geographic areas where PCR coverage is needed. SBA officials also noted that they were highly dependent on contracting officers' notifying SBA of bundled contracts; and therefore, they had no assurance that all bundled contracts were being identified. We are recommending that SBA's Administrator design a strategy to achieve the results desired from oversight of contract bundling.

Background

The Small Business Act of 1953 created SBA, whose function is to aid, counsel, assist, and protect the interests of small business concerns. The act also stipulated that SBA would ensure small businesses a "fair proportion" of government contracts. The Office of Government Contracting within SBA is responsible for coordinating agency goals for awarding contracts to small businesses to ensure that the federal government meets the governmentwide 23-percent goal of prime contracts to small businesses. This office is also responsible for overseeing the achievement of that goal.

A 1976 amendment to the Small Business Act and Small Business Investment Act of 1958 established the Office of Advocacy, which is an independent agency that is housed in SBA. The Office of Advocacy's mission is to represent and advance small business before Congress and federal agencies and to enhance small business competitiveness in the American economy.

Under guidance of the Office of Management and Budget's Office of Federal Procurement Policy (OFPP), FPDC was established in 1978 to develop and manage the computer-based FPDS. Data collection began on October 1, 1978. Originally, FPDC was under DOD, but it is now under the General Services Administration (GSA). FPDC collects quarterly data from over 60 executive branch agencies and annually publishes the Federal Procurement Report, which contains snapshot statistics on the agencies' procurement activities. The U.S. Postal Service and the legislative and judicial branches, among other agencies, are not required to report their procurement activities to FPDC. FPDS also does not contain data on certain kinds of procurements, such as those from credit-card purchases. FPDS contains about 50 data elements, including agency name, items purchased, obligations, place of performance, name of contractor, and the type of contractor (e.g., large business, small business, or women-owned business). FPDS does not yet include data on bundled contracts, but is expected to do so soon.

Small Business Procurement Goal

The Business Opportunity Development Reform Act of 1988 amended the Small Business Act to establish an annual governmentwide goal of not less than 20 percent of prime contract dollars to be awarded to small businesses. The Small Business Reauthorization Act of 1997 increased the annual governmentwide goal to not less than 23 percent. A prime contract is any direct contract between the government and the contractor. The 23-percent goal is a governmentwide goal. Therefore, some agencies' goals for awarding prime contracts to small businesses may be below 23 percent while others may be above 23 percent.

SBA is responsible for coordinating goals with all executive agencies to ensure that the federal government meets the governmentwide 23-percent goal. Prior to the beginning of each fiscal year, SBA (1) establishes with each agency separate goals for prime contract and subcontract awards to small businesses, (2) requires use of FPDS data to measure goal achievement, and (3) requires agencies to submit a detailed written presentation of the method used to establish the goals.

The Small Business Act requires each agency to consult with SBA to establish goals for the participation of small business concerns in contracts issued by the agency. If SBA and an agency fail to agree on established goals, the disagreement is submitted to OFPP for final determination.

FPDC generates and publishes interim and final achievement reports for each executive agency and department. Federal agencies and departments can periodically review and revise FPDS data to resolve any discrepancies. On June 1 of each calendar year, FPDC is to provide SBA with a list showing preliminary prime contract statistics for each agency and department containing the first two-quarters of data. The final report for each fiscal year is to be issued in mid-March of the subsequent year.

Executive agencies and departments are required to report to SBA on the extent of small businesses' participation, including the justification of any failure to meet the goals established for the agency. The Small Business Act does not authorize SBA to impose penalties for failing to meet goals. However, SBA officials told us that agencies and departments wish to avoid the embarrassment of failing to achieve their goals. Furthermore, SBA officials told us that they have entered into an agreement with OFPP to publicly report executive agency and department goal accomplishments.

Contract Bundling

Agencies have combined existing contracts into fewer contracts as a means of streamlining and reducing procurement and contract administration costs. This practice is generally referred to as "contract consolidation." As mentioned earlier, a subset of consolidated contracts are "bundled contracts" that the Small Business Reauthorization Act of 1997 defines as the consolidation of two or more procurement requirements for goods or services previously provided or performed under separate, smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to a small business concern due to

- the diversity, size, or specialized nature of the elements of the performance specified;
- the aggregate dollar value of the anticipated award;
- the geographic dispersion of contract performance sites; or
- any combination of these three criteria.

Congress and small business advocates have expressed concern about the extent to which contract requirements are bundled and the effect that such bundling has on small businesses and small, disadvantaged business' ability to participate in federal procurement.[3] In light of these concerns, Congress enacted legislation, including a 1997 amendment to the Small Business Act, requiring SBA to review all proposed consolidated acquisitions for goods or services that small businesses were currently providing, but that may be unlikely for award to a small business. According to the Act, if SBA believes that the proposed procurement will render small business contract participation unlikely, SBA shall recommend alternate procurement methods to the procurement activity to increase such participation. If SBA and the contracting agency cannot agree, the matter shall be submitted to the head of the appropriate department or agency for resolution.

The Small Business Reauthorization Act of 1997 also requires each federal agency, to the maximum extent practicable, to (1) promote participation of small businesses by structuring its contracting requirements to facilitate competition by and among small businesses and (2) avoid the unnecessary and unjustified bundling of contracts that are likely to be unsuitable for small business participation as prime contractors. The act also requires that the Office of Small and Disadvantaged Business Utilization of each federal contracting agency identify proposed solicitations that involve "significant" contract bundling and increase participation by small businesses in such solicitations as either prime contractors or, if a solicitation for a bundled contract is to be issued, subcontractors and suppliers.

To comply with the act, in October 1999, SBA issued an interim rule. Although the interim rule did not become effective until December 1999, the rule provided general guidance to agencies on bundled contracts. The interim rule used the same bundling definition as the Small Business Reauthorization Act of 1997.

Under the Small Business Act, as amended, and SBA's interim regulations, agencies that intend to bundle requirements must document that such action is necessary and justified. Expected benefits of consolidation must be quantified and substantial. Benefits may include cost savings; price reduction, quality improvements; reduction in acquisition cycle times;

[3]Acquisition refers to the process of obtaining goods, services, and space for use by the government. The acquisition process begins with the determination of a need for goods or services and includes a description of requirements, solicitation and selection of sources, award of contracts, contract administration, completion, and closeout.

better terms and conditions; and other benefits that individually, in combination, or in aggregate would result in

- benefits equivalent to 10 percent if the contract value (including options) is $75 million or less, or
- benefits equivalent to 5 percent if the contract value (including options) is over $75 million (unless the estimated benefits are solely administrative cost savings in which case they must normally be at least 10 percent).

Exceptions to these provisions require approval by the agency assistant secretary with responsibility for acquisition matters (service acquisition executives) when (1) the benefits from the proposed bundling, though not meeting the above thresholds, are critical to the agency's mission and (2) the procurement strategy provides for the maximum small business participation practicable.

Scope and Methodology

To accomplish our three objectives, we examined records and interviewed officials at SBA, NASA, DOE, and DOD headquarters and SBA's Offices of Government Contracting in Fort Worth, TX; Albuquerque, NM; and Dayton, OH. We obtained reports and interviewed officials from FPDC. We did not independently verify data contained in those reports. We also interviewed procurement center officials at NASA's Johnson Space Center in Houston, TX; DOE's Operations Office in Albuquerque, NM; and Wright-Patterson Air Force Base, in Dayton, OH.

We selected these procurement centers because they had large volumes of contracting expenditures relative to the approximately 2,250 federal procurement centers from which federal contracts are awarded and managed. In fiscal year 1998, NASA's procurement center at Johnson Space Center awarded about $3.9 billion in contracts, DOE's procurement center in Albuquerque, NM, awarded about $3.6 billion in contracts, and one of the three procurement centers at Wright-Patterson Air Force Base awarded about $9.1 billion in contracts.[4] For each procurement center, we reviewed all consolidated contracts that center officials identified for us. We had SBA identify which of the consolidated contracts were bundled.

We requested comments on a draft of this report from SBA, DOD, DOE, and NASA. The comments we received are discussed near the end of this

[4]Wright-Patterson has three procurement centers, Aeronautical Systems Command, Electronic Systems Center, and Material Systems Group. However, only one, the Aeronautical Systems Command, had readily available data to include in our review.

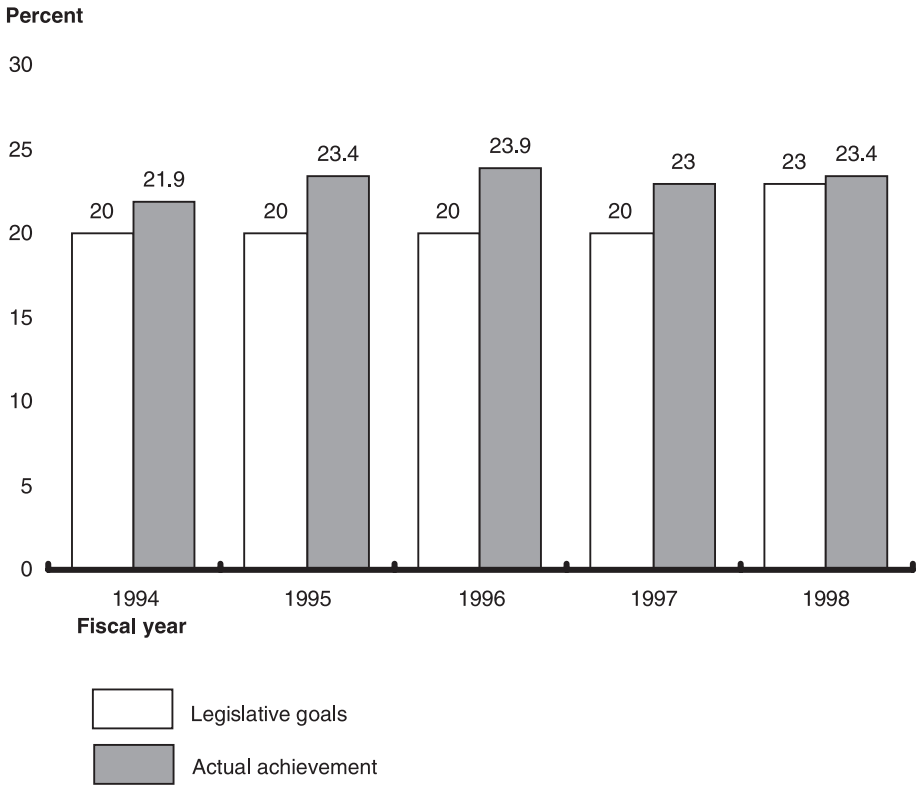
letter. We conducted our review between July 1999 and January 2000 in accordance with generally accepted government auditing standards. A detailed discussion of our scope and methodology is presented in appendix I.

Governmentwide Goal Appears to Have Been Met, but Views Differ on Measurement Method

FPDS data indicated that federal agencies, as a whole, met their annual governmentwide goal for providing prime contract awards to small businesses over the last several fiscal years, based on the formula SBA's instructions set forth for measuring the extent of small business participation and for determining whether the governmentwide goal has been achieved. Using a different approach for calculating goal achievement, SBA's Office of Advocacy reported that federal agencies did not meet the governmentwide goal for fiscal year 1998. Because the statutory provisions establishing the goal do not prescribe a method for determining goal achievement, SBA program officials have latitude in determining how goal achievement is to be calculated. While SBA's Office of Advocacy and others may have differing views on how goal achievement should be calculated, we believe the approach specified by SBA's Office of Government Contracting is within its discretion under the statute.

Using FPDS data and the approach SBA's instructions prescribe, the annual governmentwide percentage goal for providing prime contract awards to small businesses, which increased from 20 to 23 percent effective fiscal year 1998, was met each year for fiscal years 1994 through 1998. Figure 1 compares the legislative goals to the percentages of contract dollars awarded to small businesses for the period fiscal year 1994 through 1998.

Figure 1: Comparison of Statutory Goal to Actual Federal Achievement of Percentage of Contract Dollars Awarded to Small Businesses for Fiscal Years 1994 Through 1998



Source: GAO analysis of legislation and FPDS data.

SBA has issued instructions that specify how goal achievement is to be calculated. The instructions require use of FPDC data and specify that all types of contracts tracked by FPDC should be included, with three general exceptions. The exceptions are (1) contracts for foreign military sales, (2) contracts awarded and performed outside the United States, and (3) purchases from mandatory sources of supplies as listed in the Federal Acquisition Regulation. In fiscal year 1998, foreign military sales totaled $12.9 billion, procurements outside of the United States totaled $8 billion, and mandatory sources of supplies totaled $784 million.

According to SBA officials, they excluded these procurements because small businesses do not have a reasonable opportunity to compete for them. For foreign military sales, the buying entity is a foreign government, which is not subject to SBA's requirements; U.S. small businesses are not likely to bid for overseas contracts; and the acquisitions for mandatory sources (e.g., Federal Prison Industries, Inc., and the Committee for Purchase from People who are Blind or Severely Disabled) are to be

awarded noncompetitively in accordance with legal requirements. In addition, because they did not believe that small businesses could compete for these contracts, SBA officials excluded specific programs from the Departments of State, Transportation, and the Treasury.[5]

In March 1999, SBA's Office of Advocacy issued a report on federal procurement from small firms, concluding that 18.3 percent of contract dollars were awarded to small businesses in fiscal year 1998.[6] According to the Office of Advocacy officials, their methodology relied on the same FPDS database that SBA used but included all contracts except prime contract awards below $25,000. These contracts were initially excluded because the Office of Advocacy's report was based on analyses of contract awards at about 2,250 procurement centers nationwide, and FPDC's database did not track contract awards below $25,000 at the procurement center level. The Office of Advocacy subsequently included all prime contract awards under $25,000, as reported by the FPDC, in its calculation; and, according to Office Advocacy Officials, the governmentwide small business share was 20.6 percent when including all prime contract awards.[7]

Office of Advocacy officials said they believe that the three categories of contracts—foreign military sales, contracts awarded and performed outside the United States, and purchases from mandatory sources—that SBA program officials exclude in the goal-achievement calculation should be included because they believe that all contract awards should be included in the calculation. We believe that SBA officials decision to exclude the three types of contracts and the various programs from the calculation is within SBA's discretion under the statute that establishes the 23-percent goal.

The Extent and Effect of Contract Bundling is Unknown

Limited governmentwide data exist on the extent of contract bundling and the actual effect of contract bundling on small businesses. Similarly, Department of Defense (DOD), DOE, and NASA had little agencywide information on these topics; and none of the three procurement centers we

[5]Exclusions for the Department of State include all awards to the American Institute of Taiwan and awards made by American embassies located abroad. Exclusions for the Department of Transportation include all awards made by the Federal Highway Administration and the Federal Aviation Administration. Exclusions for the Department of the Treasury include awards made by the Bureau of Engraving and Printing, U.S. Mint, Comptroller of the Currency, and the Office of Thrift Supervision.

[6]Federal Procurement From Small Firms: National and State-by-State Rankings of Federal Procurement Centers on Their Procurement From Small Firms in FY 1998, March 1999, SBA, Office of Advocacy.

[7]Because contractor data are not available for classified projects, both SBA and the Office of Advocacy treat those contracts as being awarded to large contractors.

visited had compiled information on the effects of bundling on small businesses. There was one study that attempted to measure the extent and effect of contract bundling, but it used a much broader definition than the statutory definition of bundled contract; and, therefore, could not clearly show the extent of contract bundling. In addition it could not show the effect on small businesses' participation in federal contracting. Moreover, evidence of the effect on small businesses from contract bundling has been largely anecdotal. Although the three sites in our review identified contracts that were consolidated during fiscal years 1997 through 1999, SBA identified only one of the consolidations as a bundled contract. SBA and agency procurement officials at these sites believed that contract bundling had, at most, a limited effect on small businesses' participation.

Limited Data Available on Bundling

FPDC, SBA, and the three agencies covered in our review did not have complete data on the extent of contract bundling or its effects on small businesses. Federal agencies are not required to report information on contract bundling to FPDC until SBA has finalized a ruling on the matter; and FPDS, therefore, did not contain data on this topic.[8] Although SBA has a contract bundling alert system to identify and track to resolution agency proposals for consolidated contracts that SBA believes are potential bundled contracts, this system does not capture all potential bundled contracts; nor has SBA determined the effect of those that are identified as bundled contracts on small businesses. SBA's PCRs identify and place contracts they consider bundled on SBA's alert system. However, PCRs cover only 238 centers, leaving over 2,000 procurement centers uncovered. The Small Business Act also requires the representatives of Offices of Small Business Utilization for each agency to identify bundled contracts and to deal with bundling issues within their agencies. In addition, the agencies are required to notify SBA of bundled contracts that are determined to be unnecessary and unjustified. By regulation, contracting officers are also to notify SBA of bundled contracts that they determine are necessary and justified. While SBA had cases where agencies had notified it of bundled contracts, SBA officials said that they had no assurance that all contracting officers were doing so. Consequently, the bundling alert list may not include all bundled contracts.

SBA's alert system listed 96 contract proposals that possibly constituted bundling in fiscal years 1998 and 1999. SBA did not have the final resolution on all proposed contracts listed in its alert system. SBA did

[8]The Small Business Reauthorization Act of 1997 requires agencies to report data on bundled contracts anticipated to exceed $5 million to FPDC. SBA's instructions to agencies on reporting of these data will not become in effect until it has finalized its ruling.

advise us that some cases may take over 1 year to determine a viable procurement strategy. As shown in table 1, as of January 2000, SBA officials considered 54 of the 96 cases resolved in its alert system but had no information on the status of the remaining 42 cases.

According to SBA officials, resolution of a case can be achieved through various ways. For example, a case is considered resolved if the contract was broken up or subcontracting opportunities were identified to allow for small business contracting opportunities. Conversely, SBA could agree that no small business opportunities were available and that the contract was an "appropriate" bundled contract. In addition, the contract could be canceled, or SBA could determine that it wasn't a bundled contract after all. The requirements could also have been included in another existing contract or the Federal Supply Schedule, which allows goods and services to be bought from a catalogue at established prices.

Table 1: SBA's Reported Disposition of Potential Bundling Cases SBA Identified for Fiscal Years 1998 and 1999, as of January 2000

Disposition	Number of cases		
	1998	1999	Total
Cases unresolved	**6**	**36**	**42**
Cases resolved			
Small business opportunities identified	23	0	23
No small business opportunities available	1	0	1
Small business sources could not be identified	11	0	11
Cases canceled or transferred to another buying activity	3	0	3
Cases placed against an existing contract or Federal Supply Schedule	5	0	5
Cases determined not bundled	11	0	11
Subtotal	**54**	**0**	**54**
Total	**60**	**36**	**96**

Source: GAO analysis of data provided by SBA.

None of the three agencies—DOD, DOE, or NASA—covered in our review had agencywide data on the extent of contract bundling or its effects on small business. However, in November 1999, DOD testified before the House Committee on Small Business that DOD plans to contract for a 6-month study in 2000 of its contract bundling practices and their effects on small businesses.

Office of Advocacy Study on Contract Bundling

Eagle Eye Publishers, a private contractor, prepared a study for the SBA's Office of Advocacy in 1997, which the contractor later updated in November 1999, that estimated the extent of contract bundling governmentwide and its effects on small businesses. The study reported that there was a decline in small business prime contracts when contract bundling occurred.

Eagle Eye Publishers' approach was to make several assumptions to approximate the number of bundled contracts. Eagle Eye Publishers used the FPDS database to perform its analysis. Because this database does not contain information on consolidated or bundled contracts, Eagle Eye Publishers defined "bundled contracts" as those contracts that were coded in the database as (1) providing multiple goods or services, (2) being performed at different locations, and (3) using different contract types. In addition, because FPDS does not include detailed information needed for contracts below $25,000, Eagle Eye Publishers could only look at contracts valued at $25,000 or more. The president of Eagle Eye Publishers told us that its assumptions were necessary to make any kind of approximation of bundled contracts, given the data limitations. This definition differs from the statutory definition of contract bundling which is consolidating requirements from multiple, smaller contracts to one contract that is likely to be unsuitable for award to a small business.

In testimony before the U.S. House of Representatives Committee on Small Business on November 4, 1999, the president of Eagle Eye Publishers testified that the share of bundled contracts increased from 1992 to 1998. He reported that during that time period, bundled contracts increased from 12 percent to 13 percent of the total number of contracts, and the total bundled contract dollars remained around 41 percent of total contract value. Eagle Eye Publishers also noted that small businesses received 784,427 contracts, or 62 percent, of all prime contracts $25,000 and over awarded between fiscal years 1989 and 1998. In contrast, Eagle Eye Publishers stated that small businesses received 53 percent of the bundled contracts. It stated that in terms of dollars, the $310 billion small businesses received over the period constituted 17 percent of all prime contract dollars and 10.8 percent of all bundled contract dollars.

Given that the definition Eagle Eye Publishers used to determine the extent of contract bundling is broader than the statutory definition of contract bundling, we believe that Eagle Eye Publishers study probably overstates the number of bundled contracts. Moreover, Eagle Eye Publishers did not clearly demonstrate that an increase in the number of bundled contracts took place or convincingly show that contract bundling caused a decline in the small business participation in federal contracts.

Results of Visits to Selected Procurement Centers

Since 1997, percentages of contract dollars awarded to small businesses increased at two of the centers we visited—-NASA's Johnson Space Center and DOE's Albuquerque Operations Office. The percentage declined at Wright-Patterson Air Force Base. Officials at the three sites identified at least 103 contracts that were consolidated into 20 contracts during fiscal

years 1997 through 1999. However, we limited our analysis to the 13 consolidated contracts for which there were complete data.[9] According to an SBA official, only one of the contract consolidations identified at the centers was a bundled contract. This bundled contract was at Johnson Space Center. All but one of the consolidated contracts had small business subcontractors. Officials at the three sites said that contract bundling had a limited effect on small businesses' ability to participate in federal contracting.

Table 2 shows the share of prime contracts awarded to small businesses from fiscal year 1997 through fiscal year 1999 at the three procurement centers we visited. As the table shows, at NASA's Johnson Space Center, small businesses' dollar share of prime contracts increased from 4.9 percent in 1997 to 5.8 percent in 1999. DOE's Albuquerque Operations Office's share of prime contract dollars to small businesses also increased from 19.9 percent in 1997 to 21.5 percent in 1998, the latest year with available data at the time of our review.[10] Wright-Patterson Air Force Base's share declined from 3.1 percent to 2.7 percent.

Table 2: Prime Contract Awards to Small Business by Selected Procurement Centers in Fiscal Years 1997 Through 1999

Procurement center	Awards to prime contractors ($ millions)			Awarded to small business prime contractors ($ millions)			Small business share of prime contractors awards (percent)		
	1997	1998	1999	1997	1998	1999	1997	1998	1999
Johnson Space Center	$3,856	$3,854	$3,718	$192	$205	$216	4.9	5.3	5.8
Albuquerque Operations Office[a]	$3,463	$3,620	N/A	$688	$778	N/A	19.9	21.5	N/A
Wright-Patterson Air Force Base	$10,596	$9,121	$10,037	$326	$279	$266	3.1	3.1	2.7

Note: N/A – Data were not available.

[a]Includes subcontracts for management and operations contracts per Office of Federal Procurement Policy waiver.

Source: FPDC.

Contract consolidations, by definition, reduce the number of prime contractors. In addition, since an intent of consolidation is often to save money, contract dollars may also be reduced. We observed that, at each of the three sites we visited, in general, total contract dollars declined for

[9]NASA's Johnson Space Center had five consolidations and DOE's Albuquerque Operations Office had three. Wright-Patterson Air Force Base had complete data on only 5 of the reported 12 contract consolidations. These five contract consolidations are included in our analysis.

[10]OFPP granted a waiver that permitted DOE to include subcontracts to small businesses awarded under its management and operations contracts to be included in its calculation of prime contract awards to small businesses. OFPP discontinued this waiver as of fiscal year 2000.

those contracts that were consolidated. In terms of the effect on small businesses, reductions in the numbers of prime contracts and prime contract dollars varied among the three sites.

Specifically, at Johnson Space Center, small businesses had 12 prime contracts valued at $265.5 million before consolidation and 3 prime contracts valued at $126.8 million after consolidation, for a total reduction of 75 percent of the number of contracts and 52 percent of contract dollars awarded to small businesses. Contract consolidation at DOE's Albuquerque Operations Office reduced small business contracts from 7 to 3, or 57 percent, and total contract value from $72.3 million to $36.4 million, or 50 percent. Wright-Patterson Air Force Base showed declines to the number of contracts to small businesses from 15 to 5, or by 66 percent, and total contract value from $115.7 million to $83 million, or by 28 percent. Table 3 summarizes contracts awarded to small business both preconsolidation and postconsolidation at each of the three sites.

Table 3: Preconsolidation and Postconsolidation Prime Contract Awards at NASA's Johnson Space Center, DOE's Albuquerque Operations Office, and Wright-Patterson Air Force Base for Fiscal Years 1997 Through 1999 (dollars in millions)

Site	Total prime contracts	Small business prime contractors	Percent of small business of total contracts	Value of total contracts	Total value of small business contracts	Percent of small business of total contracts' value
NASA-Johnson Space Center						
Preconsolidation	52	12	23.1	$13,426.4	$265.5[a]	2.0
Postconsolidation	5	3[b]	60.0	$12,301.3	$126.8[b]	1.0
DOE-Albuquerque Operations Office						
Preconsolidation	7	7	100.0	$72.3	$72.3	100.0
Postconsolidation	3	3	100.0	$36.4	$36.4	100.0
Wright-Patterson Air Force Base[c]						
Preconsolidation	15	15	100.0	$115.7	$115.7	100.0
Postconsolidation	5	5	100.0	$83.0	$83.0	100.0

[a]Contract value not available on one small business contract; therefore, it could not be included.

[b]One of the small businesses teamed with a large business. Small business contract dollars include only the share that went to that small business.

[c]Wright-Patterson Air Force Base had complete data on only 5 of the reported 12 contract consolidations that occurred in 1998. It did not have readily available data for 1999.

Source: GAO analyses of data provided by NASA's Johnson Space Center, DOE's Albuquerque Operations Office, and Wright-Patterson Air Force Base.

SBA identified one contract, for base operations support at Johnson Space Center, as a bundled contract. Prior to bundling, there were 10 contracts valued at $250.9 million, of which 7 contracts valued at about $100 million were awarded to small businesses.[11] A Johnson Space Center official agreed that the consolidation was a bundled contract but noted that the prime contract was awarded to a women-owned, small business that had teamed with a large firm, Brown and Root Services. The bundled contract was valued at $174.9 million, of which the small business received $394,000.

SBA did not consider the other consolidations to be bundled due to various reasons. For example, two of the largest consolidations, also at Johnson Space Center, involved only large businesses before consolidation with 36 contracts valued at $12.0 billion. The three consolidated contracts at the DOE Albuquerque Operations Office were all awarded as small business set-asides, meaning that the small businesses competed amongst themselves for the contracts. According to service officials, the five consolidated contracts at Wright-Patterson Air Force Base had only small businesses as prime contractors before and after consolidation.

NASA center officials noted that contract consolidation has forced small businesses to change their marketing strategies to seek more subcontracting opportunities. Only Johnson Space Center and DOE's Albuquerque Operations Office had readily available subcontract information. According to agency contracting officers, of the 19 small businesses at these two centers that had prime contracts before consolidation, 2 received subcontracts after consolidation. We could not determine the dollar value of the subcontracts. In addition, these two centers had information on the number of subcontracts awarded to small businesses for each of the consolidated contracts. The centers did not have information on the values of the contracts that were awarded to those subcontractors, however. As shown in table 4, the number of subcontractors varied widely (1) from a Johnson Space Center contract, which was the largest consolidated contract, that had 249 small business subcontractors over time after consolidation (2) to one of DOE Albuquerque Operations Office's consolidated contracts, which was awarded as a small business set-aside, that had no small business subcontracts.

[11]The contract value was not available for one of the small business contracts; and, therefore, it was not included in the total amount.

Table 4: Number of Small Business Subcontractors for Each Consolidated Contract at Johnson Space Center and DOE's Albuquerque Operations Office (dollars in millions)

Contract	Prime contract value	Small business prime	Number of small business subcontractors
NASA-Johnson Space Center			
Base operations support	$174.9	1[a]	5
Space operations support	$8,600.0	0	249
Space operations	$3,400.0	0	8
Manufacturing and calibration	$68.5	1	1
Imagery, media, and public affairs	57.9	1	1
Total	**$12,301.3**	**3**	**264**
DOE-Operations Office			
Environmental management support	$9.5	1	1
Technical and administrative support	$12.2	1	2
Technical security support	$14.7	1	0
Total	**$36.4**	**3**	**3**

[a]The small businesses teamed with a large business. The small business received $394,000 of the $320.1 million contract.

Source: GAO analysis of NASA's Johnson Space Center and DOE's Albuquerque Operations Office data.

Officials at the three sites reviewed believed that contract bundling had, at most, a limited effect on the share of prime contracts and contract dollars awarded to small businesses.

Limitations in SBA's Monitoring of Contract Bundling

SBA monitors federal agency procurement activity to ensure that (1) appropriate steps are taken to provide contract awards to small businesses, (2) agencies meet their small business contracting goals, and (3) proposed contracts that could involve bundling are identified and resolved. SBA also provides training to its PCRs to aid them in carrying out their responsibilities. However, we identified several limitations in SBA's oversight that have impeded its effectiveness in identifying and dealing with proposed contracts that could involve bundling, including complying with its statutory mandate to review all proposed bundled contracts.

SBA Oversight of Procurement Centers

According to SBA officials, due to budget limitations, SBA does not have representatives assigned to oversee procurement activity at all federal procurement centers and, by statute, relies, in part, on agencies to identify bundled contracts. In addition, it has not reassessed how to determine optimal oversight of procurement center activities with its existing

resources. Consequently, SBA did not have assurance that it was identifying all bundled contracts.

In fiscal year 1999, SBA had 45 PCRs assigned throughout the country to oversee contracting activity at 238 of the government's approximate 2,250 procurement centers. The 238 procurement centers made up $120.5 billion, or 66 percent, of the government's $181.8 billion in procurement awards during fiscal year 1998. Thus, SBA did not have PCRs to review contracts that could involve bundling being proposed by over 2,000 federal procurement centers.

SBA officials said that they assigned PCRs to procurement centers based on dollar volume of contracts awarded at the centers and congressionally required coverage.[12] According to SBA officials, some PCR positions cannot be changed because these positions are assigned to the procurement centers for specific purposes. For example, SBA was required to locate a PCR in North Carolina where there was none because 22 federal purchasing offices were located there.

According to SBA's Associate Administrator for Government Contracting, SBA's downsizing effort has significantly reduced the number of PCRs through attrition. From fiscal years 1993 to 1999, the number of PCRs declined 34 percent, from 68 to 45. SBA officials told us that, in the past, SBA had not requested an increase in the number of PCRs because Congress had made it clear to them that there would be no increase in staffing. SBA officials told us that they plan to assess the number of PCRs and how they are assigned to procurement centers to determine the optimal number and relocation of procurement center representation. As of January 2000, SBA had not begun its assessment. In commenting on a draft of this report, SBA pointed out that it was determining whether it could expand its coverage of procurement centers by converting some of its field personnel to PCRs.

Review of Potentially Bundled Contracts

SBA lacked assurance that PCRs were reviewing all proposed contracts to identify possible bundling at procurement centers that have PCRs assigned. In addition, agencies are required to identify and report "unnecessary or unjustified" bundled contracts, but it is unclear whether

[12]According to SBA PCR guidance, Conference Reports to the SBA Continuing Appropriations for fiscal years 1988, 1989, 1991, 1992, and 1993, and P.L. 100-590, Small Business Reauthorization and Amendment Act of 1998 specify that PCR coverage is required in the following locations: Connecticut; Iowa; Kentucky; Louisiana; Maine; Minnesota; Montana; Omaha, Nebraska; Las Vegas, Nevada; New Hampshire; North Carolina; North Dakota; Oregon; Rhode Island; Tennessee; West Virginia; and Clarksburg, West Virginia.

the agencies are doing so. We verified that the SBA PCRs for DOE's Albuquerque Operations and the Wright-Patterson Air Force Base had reviewed all contracts that the agencies reported at those locations for fiscal years 1997 through 1999. However, the SBA PCR for NASA's Johnson Space Center had not reviewed procurement actions for 1997 through 1999. Although NASA's contract coordination form provides for the SBA PCR's signature to verify that the PCR reviewed the contract proposal, the ones we reviewed had not been signed. The SBA PCR, who is located in Fort Worth, TX, acknowledged that she had not reviewed the contracts at NASA's Johnson Space Center. She cited limited travel funds as the primary reason. She stated that she has travel funds to visit the Johnson Space Center, in Houston, TX, for half a day, once a year. SBA headquarters officials stated they did not know that the PCR was not reviewing contracts at NASA's Johnson Space Center, but they acknowledged that travel funds allowing PCRs to visit procurement centers were extremely limited.

SBA officials recognized that agencies were required to identify "unnecessary or unjustified" bundled contracts for SBA to review. However, SBA had no assurance that was being done particularly at the over 2,000 procurement centers for which SBA has no PCR assigned.

Unresolved Bundling Cases

For the possible bundling cases that SBA did identify, it could not provide the status of 42 unresolved cases. As mentioned earlier, as of January 2000, SBA had a total of 42 unresolved cases that had been entered into its bundling alert system entered by SBA's PCRs during fiscal years 1998 and 1999. Six of these cases were entered in fiscal year 1998 (two of which were at least 21 months old and were not resolved as of January 2000).

PCR Training

SBA has offered some training to its PCRs on contract bundling, but does not track which PCRs received the training, and has not determined how much or what type of training is needed. Demands for PCRs' possessing contracting skills have increased considering SBA's new requirements on contract bundling imposed in late 1999.

SBA officials stated that PCR's responsibilities concerning contract bundling require that they possess highly technical skills. The PCRs are to recommend alternative procurement methods to agencies to provide prime contract opportunities to small businesses. The strategies are to include, under what SBA considers appropriate circumstances, such as,

- breaking up the procurement into smaller ones,

- breaking out discrete components as small business set-asides,
- reserving one or more awards for small businesses in multiple award contracts, or
- ensuring small business participation is maximized through subcontracting opportunities.

According to SBA's Assistant Administrator in the Office of Prime Contracts, the only contract bundling training PCRs have received is a 20-minute course on contract bundling policy at the annual 3-day conference, which covers updates on SBA regulation changes and on SBA's organization, held in June 1999. SBA does not maintain training or attendance records for those who attended the conference. Consequently, SBA does not have assurance that all of its PCRs attended the course.

The Assistant Administrator stated that while PCRs were generally experienced contracting officers and SBA has limited training funds, additional training would be helpful because of the technical nature of the PCRs work and the limited training received so far.

Conclusions

SBA has discretion under statute to prescribe how achievement against the governmentwide annual goal of having 23 percent of prime contract dollars awarded to small businesses is to be measured. Based on SBA's prescribed approach to measuring goal achievement, which we believe is within its discretion, FPDS data indicated that federal agencies met the goal in recent years.

Limited governmentwide data are available on the extent of contract bundling and its effects on small businesses. Until fiscal year 2000, FPDC did not collect information on bundled contracts, and neither SBA nor the agencies in our review had definitively measured the extent of contract bundling or its effect on small businesses. Our limited review of consolidated contracts at three selected sites showed, as would be expected, that the number of contractors and the contract dollars were generally reduced due to consolidation, but that consolidation did not necessarily result in bundling. SBA identified one contract bundling case of all the contract consolidations we reviewed. In that case, a small business remained as a prime contractor after teaming with a large contractor, but total prime contract dollars to small businesses were significantly reduced.

SBA oversight of contract bundling is limited due, in part, to budget limitations, according to SBA officials. SBA has not developed a strategy

that sets forth how it can most effectively achieve the results it desires through its oversight of contract bundling. Such a strategy could take into consideration factors such as its statutory mandate to review all proposed bundled cases, the number of PCRs needed and their procurement center assignments, training of PCRs needed, timely resolution of potential bundled contract cases, and how to deal with budgeting and other constraints.

Recommendation to the Administrator, SBA

We recommend that the Administrator of SBA develop a strategy setting forth how the agency can best achieve the results desired from oversight of contract bundling. The strategy should take into consideration the number of PCRs needed and their assigned procurement centers, training needed, timely resolution of potential bundling cases, and constraints the agency faces in implementing the strategy.

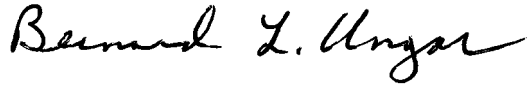
Agency Comments

We requested comments on a draft of this report from SBA's Administrator, the Administrator of NASA, the Secretary of Energy, and the Secretary of Defense. On March 6, 2000, SBA's Associate Deputy Administrator for Government Contracting and Minority Enterprise Development provided written comments in which he said that our recommendation to improve SBA's oversight of contract bundling was helpful. Also, he pointed out that SBA was not required to collect data on contract bundling's effects and made several technical comments, which we have reflected in this report, as appropriate. On March 9, 2000, DOE's Director, Office of Economic Impact and Diversity, wrote to us saying that the report provided insight for implementing recent legislation. In a letter dated March 16, 2000, NASA's Associate Administrator for Small and Disadvantaged Business Utilization said that NASA agreed with our recommendation to SBA and pointed out that one of the first actions taken by Administrator Golden when he arrived at NASA 8 years ago was to require NASA centers to obtain headquarters approval before any small business contract bundling was initiated. He also said that NASA has focused attention on small business contracting. DOD had no comments on our draft report.

As agreed with your office, unless you publicly announce the contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to Senator John Kerry, Ranking Minority Member, Senate Committee on Small Business; the Honorable Aida Alvarez, SBA's Administrator; the Honorable Daniel S. Goldin, Administrator of NASA; the Honorable Bill Richardson, Secretary of Energy; and the Honorable William S. Cohen, Secretary of Defense. We will make copies available to others upon request.

Key contributors to this assignment are acknowledged in Appendix II. If you have any questions regarding this report, please contact me on (202) 512-8387 or Hilary Sullivan on (214) 777-5652.

Sincerely yours,



Bernard L. Ungar
Director, Government Business
Operations Issues

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Abbreviations

DOD	Department of Defense
DOE	Department of Energy
FPDC	Federal Procurement Data Center
FPDS	Federal Procurement Data System
GSA	General Services Administration
NASA	National Aeronautics and Space Administration
OFPP	Office of Federal Procurement Policy
PCR	Procurement Center Representatives
SBA	Small Business Administration

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether the government has met the 23-percent goal for prime contract awards to small businesses; (2) what the federal government knows about the extent of contract bundling and its effect on small business; and (3) the Small Business Administration's (SBA) efforts to oversee agencies' contract bundling activities.

To meet our first objective, we interviewed staff from SBA and the Federal Procurement Data Center (FPDC) to determine the methodology they used to compute and report achievement of the governmentwide 23.4 percent small business prime contract attainment in 1998. This was reported in the FPDC's Federal Procurement Report for fiscal year 1998. We also interviewed staff from the Small Business Advocacy Office and Eagle Eye Publishers, Inc.,[1] to determine the methodology used to estimate the percentage of contracts awarded to small businesses.

To meet our second objective, we selected three sites: National Aeronautics and Space Administration's (NASA) procurement center at Johnson Space Center in Houston, TX; the Department of Energy's (DOE) procurement center at Kirtland Air Force Base in Albuquerque, NM; and one of three Air Force procurement centers located at Wright-Patterson Air Force Base in Dayton, OH.[2]

Of approximately 2,250 procurement centers, we first narrowed our scope to the 34 procurement centers that awarded over $1 billion in fiscal year 1998. Contract awards in 1998 totaled $181.8 billion governmentwide. Secondly, our objective was to obtain a cross section of civilian and military procurement centers. Within these top 34 centers, the DOE's Albuquerque procurement center awarded $3.6 billion in fiscal year 1998, or 2.0 percent of the governmentwide total. Johnson Space Center's procurement center awarded $3.9 billion in fiscal year 1998, or 2.1 percent of the governmentwide total. Wright-Patterson's procurement center awarded $9.1 billion, or 5.0 percent of the governmentwide total. Wright-Patterson's procurement total also represents 7.9 percent of DOD's $115.7 billion total contract awards in fiscal year 1998.

At each site, we reviewed data related to contracts that the agencies identified as consolidated contracts for fiscal years 1997, 1998, and 1999. We collected small business prime contract information before and after

[1]Eagle Eye Publishers, Inc., was under contract to the Small Business Advocacy Office to study the impacts of contract bundling on small businesses.

[2]Data were readily available for only one of the three Air Force procurement centers located at Wright-Patterson Air Force Base.

consolidation to determine how small business participation changed after bundling. We also obtained the number of small business subcontractors performing work after consolidation.

To meet our third objective, we interviewed SBA headquarters staff and SBA staff and procurement center staff at each of the three sites we visited to determine SBA's procedures for reviewing prime contract proposals. We reviewed file documentation to determine evidence of SBA's Procurement Center Representatives' reviews of prime contract proposals.

We performed work at SBA headquarters, the Small Business Office of Advocacy, NASA headquarters, DOE headquarters and the DOD Office of Small and Disadvantaged Business Utilization. We visited SBA's procurement center representative's office in Fort Worth, TX. We also performed work at NASA's procurement center at Johnson Space Center in Houston, TX; SBA's office and DOE's procurement center located at Kirtland Air Force Base in Albuquerque, NM; and SBA's office and Air Force procurement centers located at Wright-Patterson Air Force Base in Dayton, OH.

Our fieldwork was performed between July 1999 and January 2000 in accordance with generally accepted government auditing standards.

GAO Contacts and Staff Acknowledgments

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