

GAO Highlights

Highlights of [GAO-18-76](#), a report to the Committee on Small Business, House of Representatives

Why GAO Did This Study

Federal regulations require that contracting officers assign the NAICS code that best describes the principal purpose of the acquisition. SBA's OHA is responsible for reviewing appeals of NAICS code assignments. Questions have been raised about whether agencies assign the appropriate NAICS codes to ID/IQ contracts with multiple task orders.

GAO was asked to review several issues related to NAICS codes. In this report, GAO examines (1) what contracting officers consider when assigning NAICS codes to federal contracts and the status of efforts to clarify code assignment and (2) industry views on NAICS code assignment and the number and outcomes of appeals.

GAO reviewed policies and procedures of the four agencies with the highest ID/IQ obligations from fiscal years 2011–2015: Army, Navy, Department of Homeland Security (DHS), and Department of Health and Human Services (HHS); reviewed one contract and 10 related task orders at each of the selected agencies and interviewed the related contracting officers; analyzed 2016 federal contracting data to identify commonly used NAICS codes and size standards; interviewed three industry groups and five firms that filed appeals for industry views on NAICS code assignment; and analyzed SBA decisions on NAICS code appeals in 2014–2016.

The Department of Defense, DHS, and SBA had no comments on the report. The General Services Administration and HHS had technical comments, which we incorporated as appropriate.

View [GAO-18-76](#). For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

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SMALL BUSINESS CONTRACTING

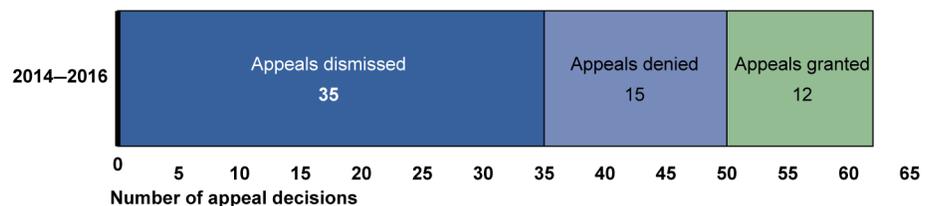
SBA Efforts May Clarify the Assignment of Industry Codes, and Most Code Appeals Were Dismissed

What GAO Found

Agencies' contracting officers consider various factors in assigning North American Industry Classification System (NAICS) codes to federal contracts, and the Small Business Administration (SBA) issued a rule in 2013 intended to clarify NAICS code assignment. NAICS codes are the basis for SBA's size standards; therefore, the code that the contracting officer assigns determines whether a firm is eligible for federal contracting preferences, such as small business set-asides. The contracting officers GAO interviewed cited several factors that affect their assignment of NAICS codes, including information on the work to be performed and input from agency small business specialists. However, they stated that assigning a NAICS code can be challenging when one or more codes could apply to a contract. In the 2013 rule, SBA clarified that under certain circumstances, contracting officers may assign more than one code to multiple-award contracts. Such contracts are awarded to two or more contractors under a single solicitation and include indefinite delivery/indefinite quantity (ID/IQ) contracts used when quantities and timing are not known at the time of the award. However, updates to the Federal Acquisition Regulation (FAR)—the rules governing the federal government's purchasing process—are required to fully implement SBA's final rule. The agencies GAO interviewed plan to implement this rule after it is adopted into the FAR and they can make necessary updates to their information technology for contracting. This FAR rule-making process is ongoing.

Some industry groups and firms GAO interviewed expressed concerns about how contracting officers assign NAICS codes, but SBA's Office of Hearings and Appeals (OHA) dismissed most appeals and denied more than half of the remaining appeals. Some industry groups and firms GAO interviewed expressed concerns that contracting officers may assign NAICS codes based on the size standard (thereby affecting the number of firms that can compete as a small business) and not the work to be performed. However, some also stated it was difficult to determine how often this practice occurs, and OHA officials noted it is the office's role to review the appropriateness of appealed NAICS codes, not the contracting officer's intention when assigning the code. Of the 62 NAICS code appeals that were filed in calendar years 2014–2016, OHA dismissed 35, denied 15, and granted 12 (see fig.). Appeals were dismissed because, among other things, they were untimely or the contracting officer cancelled the acquisition.

Figure: Number of NAICS Code Appeal Decisions, 2014–2016



Source: GAO analysis of North American Industry Classification System code appeals. | GAO-18-76