

September 2012

GOVERNMENT  
CONTRACTING

Federal Efforts to  
Assist Small Minority  
Owned Businesses



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## Why GAO Did This Study

Each year, the government obligates billions in contracts to businesses—nearly \$537 billion in fiscal year 2011. About \$104 billion (19.4 percent) was obligated to small businesses, and over \$36 billion of this amount was obligated to small businesses that identified themselves as minority-owned (see figure). In this report, GAO describes (1) what federal agency officials and advocacy groups identified as challenges small, minority-owned businesses may face in seeking federal government contracts—including any linguistic or cultural barriers—and agencies' efforts to address them, and (2) what information is available on federal efforts to assist small, minority-owned businesses in contracting with the federal government. For selected agencies, GAO analyzed data on obligations to minority-owned businesses, reviewed information on programs and resources that can assist minority-owned businesses, reviewed relevant information from the Department of Justice on agencies' Limited English Proficiency plans, and interviewed officials from selected federal agencies and advocacy groups that provide assistance to minority-owned businesses. In written comments, Commerce said that GAO had not covered all federal efforts to support small, minority-owned business contracting. As GAO noted in the report, this study focused on selected agencies and contracting activities that accounted for about 70 percent of total federal obligations to small, minority-owned businesses in fiscal year 2010.

View [GAO-12-873](#). For more information, contact William Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## GOVERNMENT CONTRACTING

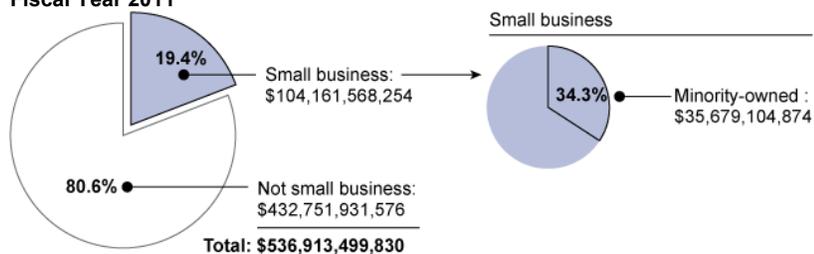
### Federal Efforts to Assist Small Minority-Owned Businesses

## What GAO Found

While their views varied to some degree, federal agency officials and advocacy groups GAO contacted identified a number of challenges that small, minority-owned businesses may face in pursuing federal government contracts. For example, officials and advocacy groups pointed to a lack of performance history and knowledge of the federal contracting process as significant barriers. Officials from advocacy groups cited additional challenges, such as difficulty gaining access to contracting officials and decreased contracting opportunities resulting from contract bundling—the consolidation of two or more contracts previously performed under smaller contracts, into a single contract. Officials from agencies that accounted for 70 percent of federal contracting with small, minority-owned businesses—the Departments of Defense, Health and Human Services, and Homeland Security, and the General Services Administration) told GAO that they conducted outreach to help small, minority-owned businesses with these challenges. Their outreach efforts include one-on-one interviews between contracting office staff and businesses seeking federal contracts. Linguistic and cultural barriers were identified as a challenge on a limited basis.

Federal agencies GAO contacted collected and reported some information on the contracting assistance provided to small disadvantaged businesses—including those that are minority-owned. Two agencies GAO reviewed collected and reported data by minority group. The Minority Business Development Agency in the Department of Commerce—created to foster the growth of minority-owned businesses of all sizes—reported that its business centers helped these businesses obtain 1,108 financings and contracts worth over \$3.9 billion in fiscal year 2011. For the same fiscal year, the Small Business Administration (SBA) reported that more than 90 percent of its primary business development program participants were minority-owned businesses. Federal agencies that GAO contacted said that the goals SBA negotiated with federal agencies for contracting with various socioeconomic categories, including small disadvantaged businesses, provided some information on efforts to assist minority-owned businesses. In fiscal year 2011, agencies GAO contacted met their prime contracting goal and three out of four agencies met their subcontracting goals. GAO generally found limited data on participants in agency outreach efforts because the agencies are not required to, and therefore generally do not, collect data on the minority group or socioeconomic category of businesses that participate in outreach events for federal contracting opportunities.

**Percentage of Obligated Funds for Contracts to Small, Minority-Owned Businesses, Fiscal Year 2011**



Source: GAO analysis of data from the Federal Procurement Data System – Next Generation.

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## Abbreviations

CCR	Central Contractor Registration
CMR	Commercial Market Representative
DHS	Department of Homeland Security
DOD	Department of Defense
DOJ	Department of Justice
FAR	Federal Acquisition Regulation
FPC	Federal Procurement Center
FPDS-NG	Federal Procurement Data System-Next Generation
GSA	General Services Administration
HHS	Department of Health and Human Services
HUBZone	Historically Underutilized Business Zone
LEP	Limited English Proficiency
MBDA	Minority Business Development Agency
OSDBU	Office of Small and Disadvantaged Business Utilization
PCR	Procurement Center Representative
PTAC	Procurement Technical Assistance Center
PTAP	Procurement Technical Assistance Program
SAM	System for Award Management
SBA	Small Business Administration

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United States Government Accountability Office  
Washington, DC 20548

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September 28, 2012

The Honorable Elijah Cummings  
Ranking Member  
Committee on Oversight and Government Reform  
House of Representatives

The Honorable Judy Chu  
House of Representatives

The Honorable Mike Honda  
House of Representatives

The Honorable Gary Peters  
House of Representatives

The federal government has a long-standing policy of maximizing procurement opportunities for small businesses owned and controlled by socially and economically disadvantaged individuals (small disadvantaged businesses).<sup>1</sup> In 1978, Congress amended the Small Business Act to require federal agencies to, among other things, negotiate annually in good faith with the Small Business Administration (SBA) to establish prime and subcontracting goals for these businesses,

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<sup>1</sup>Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities. Economically disadvantaged individuals are those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities compared with others in the same business area who are not socially disadvantaged. 15 U.S.C.A. § 637(a)(5),(6). Federal agencies generally do not use the term minority-owned business or refer to the racial classification of the business owner. In *Adarand Constructors, Inc. v. Peña*, the Supreme Court held that all federal programs—including those concerning federal contracting—that use racial classifications are subject to strict judicial scrutiny. To meet this standard, a program must be shown to meet a compelling governmental interest and must be narrowly tailored to meet that interest. 515 U.S. 200, 227 (1995).

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which include businesses owned and controlled by various minority groups.<sup>2</sup>

U.S. Census data show that minority-owned businesses are among the fastest growing businesses in the U.S.<sup>3</sup> According to the 2007 Survey of Business Owners—the most recent survey data available—minority-owned businesses numbered 5.8 million, an increase of 45.5 percent over the 5 years prior to the survey and more than double the 17.9 percent rate for all U.S. businesses over the same time period.

Federal contracting can be an important revenue source for businesses of any size. In fiscal year 2011, federal agencies obligated a total of around \$537 billion in government contracts to businesses.<sup>4</sup> About \$104 billion was obligated to small businesses (19 percent) and of this amount, just over one-third (\$36 billion) was obligated to small businesses that

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<sup>2</sup>15 U.S.C. § 644(g). The Small Business Act defines various socioeconomic categories of businesses. Small businesses are those that are independently owned and operated and are not dominant in their field of operations. 15 U.S.C. § 632(a). Women-owned small businesses must have at least 51 percent female ownership and the management and daily operations of the concern must be controlled by women. 15 U.S.C. § 632(n). Veteran-owned small businesses must be owned—also at least 51 percent—by one or more veterans and veterans must control the management and daily business operations. Service-disabled veteran-owned small businesses are veteran-owned small businesses owned and controlled by service-disabled veterans. 15 U.S.C. § 632(q). Small disadvantaged businesses must be owned and controlled by socially and economically disadvantaged individuals—such as African Americans, Hispanic Americans, Asian Pacific Americans, Subcontinent Asian Americans, or Native Americans—or by an economically disadvantaged Indian tribe or Native Hawaiian organization. These owners must have at least a 51 percent stake in the business. 15 U.S.C. § 637(a)(4)(A); 13 C.F.R. § 124.103. Qualified Historically Underutilized Business Zone (HUBZone) small businesses must have their principal offices physically located in these historically underutilized business zones, which include economically distressed metropolitan or nonmetropolitan areas—that is, areas with low-income levels or high unemployment rates—and must employ some staff who live in these zones. 15 U.S.C. § 632(p). The small business regulations implementing the Small Business Act further define the size of these businesses. 13 C.F.R. §§ 121.401–121.413.

<sup>3</sup>U.S. Census Bureau, 2007 Survey of Business Owners.

<sup>4</sup>In its annual report on small business procurement goals, SBA excludes certain contract dollars when calculating percentages of dollars obligated to small businesses. The primary justification for these exclusions is that these contracts are not subject to the Federal Acquisition Regulation. According to SBA, the total amount of contract dollars less these exclusions was \$423 billion in fiscal year 2011. To view reports on these goals and exclusions see <https://www.fpds.gov/fpdsng cms/index.php/reports/63-small-business-goaling-report>.

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identified themselves as minority-owned according to data from the Federal Procurement Data System-Next Generation (FPDS-NG).<sup>5</sup> To foster participation by small disadvantaged and minority-owned small businesses in federal contracting, federal agencies administer a number of programs and conduct outreach activities for them. For example, SBA administers programs that are designed to develop small businesses—including minority-owned businesses—and help them navigate the federal contracting process. Federal agencies also participate in outreach activities such as matchmaking events—one-on-one meetings—that bring together agency contracting officials and businesses seeking contracts. Further, all federal agencies with procurement authority are required by law to have an Office of Small and Disadvantaged Business Utilization (OSDBU) that works specifically on contracting issues for these businesses.<sup>6</sup> Finally, a number of online resources are available to all businesses seeking federal contracting opportunities.

Given the growth in minority-owned business, you asked us to assess procurement programs that assist minority-owned businesses. For this report, we reviewed (1) what federal agency officials and advocacy groups identified as challenges that small, minority-owned businesses seeking federal government contracts may face—including linguistic or

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<sup>5</sup>FPDS-NG is the only government-wide system for obtaining information on how federal contract funds are being spent. Contracting obligation data are collected in FPDS-NG, a comprehensive, web-based tool and database that functions as a clearinghouse of information for all federal contract actions, including noncompetitive and competitive actions exceeding \$3,000. FPDS-NG captures data on minority-owned businesses for the following groups: Asian-Pacific American, Subcontinent Asian (Asian-Indian) American, Black American, Hispanic American, Native American, and has a category for other groups. Businesses that self-identify as minority-owned do so when registering with the Central Contractor Registration (CCR)—the primary registrant database for contracting with the federal government. As part of the registration process, businesses have the option of designating themselves as minority-owned to indicate that the firm is 51-percent owned and the management and daily operations are controlled by one or more members of the selected socioeconomic groups mentioned above. When contract funds are obligated, the business information is transferred to FPDS-NG. CCR migrated to the System for Award Management (SAM) on July 29, 2012. The General Services Administration (GSA) is consolidating the government-wide acquisition and award system into SAM, a free website which is being developed in phases. Phase 1, released in July 2012, includes the capabilities found in CCR, Online Representations and Certifications Application, and the Extended Parties List System. Over the coming years, additional system migrations will be completed.

<sup>6</sup>15 U.S.C. § 644(k). At DOD and many of its components, this office is referred to as the Office of Small Business Programs. For simplicity, we use the term OSDBU throughout the report.

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cultural barriers—and agencies’ efforts to address them, and (2) what information is available on the extent of federal efforts to assist small, minority-owned businesses in contracting with the federal government.

To determine what federal agency officials and advocacy groups identified as challenges that minority-owned businesses may face in contracting with the federal government, we interviewed agency officials from a purposive, non-representative sample of eight contracting offices at four agencies that accounted for about 70 percent of total federal obligations to small, minority-owned businesses in fiscal year 2010.<sup>7</sup> The officials included those from contracting offices (those responsible for making acquisition decisions) and OSDBUs. The four agencies were the Departments of Defense (DOD), Health and Human Services (HHS), and Homeland Security (DHS), and the General Services Administration (GSA). We also interviewed officials from SBA and the Minority Business Development Agency (MBDA), a part of the Department of Commerce that was set up specifically to assist minority-owned businesses of all sizes. In addition, we interviewed officials from advocacy groups that provide assistance to businesses owned by Asian-, Black-, Hispanic-, and Native-Americans.

To describe the information available on the extent of federal agencies’ efforts to assist small, minority-owned businesses in contracting with the federal government, we reviewed federal government prime contracting and subcontracting goals, SBA procurement scorecards, and documentation describing programs that can provide contracting assistance to minority-owned businesses. We conducted interviews with officials from the selected agencies and their contracting offices to identify and obtain information available on their outreach efforts to contract with minority-owned businesses. In addition, we conducted interviews with 12 advocacy groups that provided contracting assistance to the minority groups in our scope. Appendix I provides additional details about our objectives, scope, and methodology.

We conducted this performance audit from November 2011 through September 2012 in accordance with generally accepted government

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<sup>7</sup>The purpose of our sampling approach was to identify agency officials who may have experience with the challenges that small, minority-owned businesses may face rather than to develop a random sample that would be suitable for making estimates of how often such challenges are encountered.

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auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Federal Goals for Contracting with Small Businesses

Under the Small Business Act, SBA plays an important role in ensuring that small businesses gain access to federal contracting opportunities. SBA negotiates specific agency-wide goals to ensure that the federal government collectively meets the 23 percent statutory goal for contract dollars awarded to small businesses.<sup>8</sup> In addition, SBA negotiates goals for the socioeconomic categories of businesses. The current goals are:

- 5 percent of prime contracts and subcontract dollars are to be awarded to women-owned small businesses,
- 5 percent of prime contracts and subcontract dollars are to be awarded to small disadvantaged businesses,
- 3 percent of prime contracts and subcontract dollars are to be awarded to service-disabled veteran-owned small businesses, and
- 3 percent of prime and subcontract dollars are to be awarded to HUBZone small businesses.

Appendix II provides more information on the extent that federal agencies obligated federal contract dollars to minority-owned businesses by various socioeconomic categories.

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### Federal Agency Contracting Assistance for Small Businesses

The federal government has established a number of programs that can assist small and small disadvantaged businesses—including those that may be minority-owned—that seek to contract with federal agencies. MBDA promotes the growth and competitiveness of minority-owned

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<sup>8</sup>15 U.S.C. § 644(g). Goals are not set for specific racial and ethnic groups. The 23 percent goal and various subgoals for socioeconomic categories are statutory minimums.

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businesses of any size.<sup>9</sup> MBDA's network of business centers helps clients identify federal procurement opportunities, analyze solicitations, and prepare bids and proposals. It also facilitates relationships between minority-owned businesses and federal agencies, and researches contracting trends at federal agencies. MBDA's Federal Procurement Center (FPC) provides research on federal agency contracting trends, identifies large federal contracts, and helps minority-owned businesses identify possible contracting opportunities.

SBA administers programs that are targeted to small businesses and that provide assistance with federal contracting opportunities. SBA's 8(a) Business Development Program is one of the federal government's primary means of developing small businesses owned by socially and economically disadvantaged individuals.<sup>10</sup> Participating businesses, which are generally referred to as 8(a) firms, are eligible to participate in the program for 9 years. Businesses receive technical assistance, mentoring, counseling, and financial assistance so that they can become competitive in the federal marketplace. Additionally, participating businesses may bid on competitive federal contracts that are open only to 8(a) firms as well as on noncompetitive federal contracts.<sup>11</sup>

SBA's Procurement Center Representatives (PCR) and Commercial Market Representatives (CMR) play an important role in helping ensure

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<sup>9</sup>MBDA serves enterprises that are owned or controlled by one or more socially or economically disadvantaged persons from the following groups: African Americans; Puerto Ricans; Spanish-speaking Americans; Asian Pacific Americans; Native Americans; Eskimos; Aleuts; Asian Indians; and Hasidic Jewish Americans. See 15 C.F.R. §§ 1400.1. Additional groups may apply to MBDA for a socially or economically disadvantaged designation. 15 C.F.R. §§ 1400.3 to 1400.6. MBDA is considering a petition to designate Arab-Americans as a socially or economically disadvantaged group. 77 Fed. Reg. 31,765 (May 30, 2012); 77 Fed. Reg. 46,346 (Aug. 3, 2012); 77 Fed. Reg. 53,780 (Sept. 4, 2012).

<sup>10</sup>The regulations governing participation in the SBA 8(a) Business Development Program include a rebuttable presumption that Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and Subcontinent Asian Americans are socially disadvantaged. Other groups may petition SBA for designation as socially disadvantaged under the 8(a) Program, and individuals who are not a member of a group presumed to be socially disadvantaged may establish that they are socially disadvantaged by a "preponderance of evidence." 13 C.F.R. § 124.103.

<sup>11</sup>Under certain conditions, the Department of Defense, United States Coast Guard, and National Aeronautics and Space Administration are authorized to contract without providing for full and open competition. 10 U.S.C. § 2304(c). Other executive agencies are provided similar authority under 41 U.S.C. § 3304.

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that small businesses gain access to contracting and subcontracting opportunities.<sup>12</sup> PCRs and CMRs are the primary SBA staff who implement SBA's prime contracts and subcontracting assistance programs, which are intended to increase contracting opportunities for small businesses and help ensure that small businesses receive a fair and equitable opportunity to participate in federal prime contracts and subcontracts. PCRs also can make recommendations to agency contracting officers that proposed contracts be set aside for eligible small businesses.<sup>13</sup> In particular, a PCR's key responsibilities include reviewing potentially bundled or consolidated solicitations—those in which two or more procurement requirements previously provided or performed under separate smaller contracts are grouped into a solicitation for a single contract<sup>14</sup>—and making set-aside recommendations to agency contracting officers.

The OSDBU within federal agencies advocate on behalf of small businesses. Section 15(k) of the Small Business Act describes the functions of OSDBU directors—which include implementing and executing the agency's functions and duties related to the award of contracts and subcontracts to small and small disadvantaged businesses.<sup>15</sup> Other responsibilities of the OSDBU include identifying bundled contracts, potentially revising them to encourage small business participation, and facilitating small business participation in the contracts. OSDBU directors also help small businesses obtain payments from

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<sup>12</sup>See 13 C.F.R. § 125.2(b)-(c); 13 C.F.R. § 125.3(e).

<sup>13</sup>The purpose of small business set-asides is to award certain acquisitions exclusively to small business concerns. A "set-aside for small business" is the reserving of an acquisition exclusively for participation by small business concerns. A small business set-aside may be open to all small businesses. A small business set-aside of a single acquisition or a class of acquisitions may be total or partial. 48 C.F.R. § 19.501(a).

<sup>14</sup>U.S.C. § 632(o). 15 U.S.C. § 631(j). To foster the participation of small businesses in the contract opportunities of the federal government, federal agencies, to the maximum extent practical, are to avoid unnecessary and unjustified bundling of contract requirements that preclude small business participation in procurements as prime contractors.

<sup>15</sup>15 U.S.C. § 644(k).

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agencies and subcontractors, recommend set-asides, coordinate with SBA, and oversee OSDBU personnel.<sup>16</sup>

Agencies also conduct outreach activities for small and small disadvantaged businesses, including minority-owned firms that are seeking federal contracts. Some agencies host monthly vendor outreach sessions, a series of appointments with either agency officials (such as small business or procurement officials) or prime contractors that have subcontracting needs. These sessions give the businesses an opportunity to discuss their capabilities and learn about potential contracting opportunities. One of MBDA's primary outreach efforts is the Minority Enterprise Development Week Conference. During this conference, participants from minority-owned businesses that have been vetted and designated by MBDA are offered appointments with federal and corporate partners to discuss contracting opportunities that will be made available within the next 6 to 18 months.

Finally, a number of online resources are also available to businesses seeking to contract with the federal government. For example, federal agencies list their contract solicitations of \$25,000 or more on the Federal Business Opportunities website ([www.FedBizOpps.gov](http://www.FedBizOpps.gov))—managed by GSA. The website provides online business tools, training videos, and event announcements for small business owners. USA Spending, established by the Office of Management and Budget, also contains information on federal spending trends across the government, including grants and contracts. In addition, federal agencies such as SBA provide online contracting courses designed to help small businesses understand the basics of contracting with government agencies.<sup>17</sup> Appendix III provides a summary of selected programs, resources, and outreach activities available to minority-owned businesses.

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<sup>16</sup>Under section 15(k)(10), the OSDBU director is to make recommendations regarding whether a particular contract should be awarded to a small business under certain programs designed to promote contracting opportunities for small businesses.

<sup>17</sup>See <http://www.sba.gov/gcclassroom>.

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## Agencies and Advocacy Groups Identified Various Contracting Challenges That Minority-Owned Businesses May Face

Agency and advocacy group officials we interviewed identified a number of challenges that small businesses—including minority-owned businesses—may face when seeking to contract with the federal government. In particular, these officials generally agreed that the lack of performance history and knowledge of the federal contracting process were significant challenges minority-owned businesses may face in contracting with the federal government. However, the officials offered varying opinions on the extent to which minority-owned businesses faced other challenges, such as a lack of access to contracting officials and a lack of monitoring subcontracting plans, and difficulties accessing needed resources such as capital. Some agency officials we contacted indicated that outreach activities they conduct and practices they undertake in their contract solicitation activities address some of these challenges.

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## Agency and Advocacy Group Officials Differed in Their Opinions on Contracting Challenges That Minority-Owned Businesses May Face

Federal agency and advocacy group officials that we interviewed differed in their opinions on challenges that small businesses—including those that are minority-owned—may face when seeking to contract with the federal government. The challenges identified included a lack of performance history and knowledge of the federal contracting process, contract bundling, a lack of access to contracting officials, lack of monitoring of subcontracting plans, and difficulties assessing capital.

### Performance History

Officials from federal agencies and advocacy groups we contacted cited the lack of a performance history and a full understanding of the federal contracting process as significant challenges that minority-owned businesses may face. According to the statement of Guiding Principles of the Federal Acquisition System, when selecting contractors to provide products or perform services, the government will use contractors that have a track record of successful past performance or that have demonstrated a current superior ability to perform.<sup>18</sup> SBA officials told us that historically and currently, small, minority-owned businesses that lacked a performance history have had difficulty entering the federal contracting market. MBDA officials also said that lack of a past performance record with government contracts or private contracts of

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<sup>18</sup>48 C.F.R. § 1.102(b). Past performance means an offeror's or contractor's performance on active and physically completed contracts.

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similar size, made obtaining federal contracts more difficult for minority-owned businesses because of the weight given to performance history.<sup>19</sup>

However, some agency officials, including those from two DHS contracting offices, noted that because prior commercial experience—not just government contracting experience—was considered, the lack of prior government experience would not necessarily make a minority-owned business noncompetitive. Officials from a GSA contracting office said that most small businesses seeking to contract with its office had a performance history with the private sector, not the federal government. The officials said that they considered past performance with the private sector when making contract award decisions, and thus would not consider lack of past performance history with the federal government as a challenge. Finally, officials from an HHS contracting office noted that the Federal Acquisition Regulation (FAR) requires that businesses receive a neutral rating if they do not have a performance history and that some small businesses may not be aware of this requirement.<sup>20</sup> However, some advocacy group officials indicated that certain prerequisites and past performance requirements were difficult for minority-owned businesses to meet. For example, officials from one group said that these businesses might partner with other more established businesses to help meet the performance requirements.

## Knowledge of the Federal Contracting Process

Some federal agency and advocacy group officials we contacted indicated that lack of knowledge of the federal contracting process can be a challenge for businesses seeking these contracts. For example, one advocacy group official noted that small businesses have to understand the work of the agencies, such as if there are any prerequisites, certifications, or specialized skill sets that are required to obtain contracts. In addition, an OSDBU official from DHS said that minority-owned businesses could experience challenges in obtaining information about various contracting opportunities, learning and understanding how the

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<sup>19</sup>Different rules apply based on the type of contracting involved. For example, when engaged in a source selection for a contract by negotiation, past performance must be evaluated when the contract is expected to exceed the simplified acquisition threshold (unless a documented reason is provided). 48 C.F.R. § 15.304(c)(3).

<sup>20</sup>See 48 C.F.R. § 15.305(a)(2)(iv). The FAR states that offerors without a record of relevant past performance may not be evaluated favorably or unfavorably on past performance—in other words, they must be given a neutral rating for the past performance evaluation factor.

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bidding process works, and learning how to secure a government contract. Further, MBDA officials noted that the federal contracting process was very different from contracting with private sector companies. They added that although federal agencies spend time and money holding sessions on doing business with the federal government, these sessions offered general information that could not be transferred to bidding on specific projects. Similarly, agency officials also cited the lack of understanding of agencies' contracting needs. For example, an OSDBU official from HHS emphasized that businesses that did not understand the mission of the agency with which they were seeking a contract or did not know what the agency bought and acquired might not know how to market their product or service appropriately to win the contract.

## Contract Bundling

Advocacy group officials cited contract bundling as a significant challenge, although a majority of agency officials disagreed. Advocacy group officials whom we interviewed said that contract bundling could reduce the number of contracting opportunities available for small and minority-owned businesses. MBDA officials said that they believe that many contracts are bundled unnecessarily and agreed that this practice limited minority-owned businesses' ability to compete for these contracts.

However, other federal agency officials we interviewed said that they did not believe that contract bundling was a significant challenge for minority-owned businesses at their agencies. In addition, some agency officials told us that they had specific policies regarding contract bundling. For example, HHS and DOD contracting officials noted that their offices had policies that prohibited contract bundling and added that small businesses could protest a contract that they believed was unjustifiably bundled.<sup>21</sup> Further, officials from one HHS contracting office indicated that they worked with small business specialists to determine if contracts should be separated.

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<sup>21</sup>A bid protest is a challenge to the award or proposed award of a contract for the procurement of goods and services or a challenge to the terms of a solicitation for such a contract. Bid protests may be filed at GAO against procurement actions by federal government agencies and can also be filed with the agency responsible for the procurement, and with the U.S. Court of Federal Claims. In addition, size and status protests based on business determinations can be filed with SBA.

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Lack of Access to Contracting Officials

Advocacy group officials cited a lack of access to contracting officials as a significant challenge. Officials from six advocacy groups that we interviewed stated that the agency officials present at outreach events, such as matchmaking events, often did not have the authority to make decisions about awarding a contract. However, with the exception of MBDA, none of the federal agency officials we contacted said that access to contracting officers was a challenge at their agencies. The officials emphasized efforts that their agencies were making to assist businesses. For example, officials participate in industry days, where businesses can meet prime contractors as well as interact with agency procurement staff, and also conduct one-on-one appointments with businesses that seek to contract with their agencies. Some federal contracting officials did note that limited resources might pose a challenge in accessing the contracting officers. For example, contracting officials from DHS and GSA indicated that any perceived access issues would be due to limited resources in contracting offices. GSA contracting officials said that when the office had a large number of contracts to complete, they could not meet with each business owner seeking contract opportunities.

Lack of Monitoring of Subcontracting Plans

Advocacy group officials also cited a lack of monitoring of subcontracting plans by federal agencies as a significant challenge for minority-owned businesses, although SBA officials noted that this issue was a challenge for all small businesses, not just those owned by minorities. Officials from five advocacy groups described instances in which prime contractors did not use the small, minority-owned business subcontractors that they initially said they would use. Further, one advocacy group official said that because federal contracting officials generally had relationships with prime contractors and not subcontractors, small, minority-owned subcontractors often had no recourse when a problem arose. An official from another advocacy group stated that contracting officers have no accountability to federal agencies to justify any subcontractor changes. SBA officials noted that prime contractors' "dropping" of subcontractors from their plans after the contracts were obligated was not an issue

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exclusive to minority-owned businesses but was a challenge for small subcontractors in general.<sup>22</sup>

In addition, we previously reported that CMRs cited a lack of authority to influence subcontracting opportunities.<sup>23</sup> PCRs and CMRs also said that it was difficult to enforce prime contractors' performance under subcontracting plans because determining that a contractor was not acting in good faith was difficult. Officials from one DOD contracting office said that they did not communicate with subcontractors directly and that prime contractors did have the right to pick a subcontractor of their choice throughout the duration of a contract. An OSDBU official from DOD added that the contracting officer would review and approve a replacement subcontractor under certain circumstances. If a prime contractor's subcontracting plan included a certain percentage of work that was designated for a small disadvantaged business, the contracting officer might not approve the proposed replacement subcontractor if the change did not adhere to the original percentage.

#### Lack of Access to Capital and Other Resources

Some federal agency and advocacy group officials we interviewed said that a lack of access to capital, financing, and bonding were challenges. Officials from three federal agencies, including contracting officials and one OSDBU official, cited lack of access to capital as a key barrier for minority-owned businesses. SBA officials also said that historically and currently small, minority-owned businesses have had difficulty entering the federal contracting market due to lack of access to capital. In addition, according to a 2010 MBDA report, capital access is the most important factor limiting the establishment, expansion, and growth of minority-owned businesses. Moreover, MBDA reported that minority-owned businesses paid higher interest rates on loans than other businesses, received smaller loans, were more likely to be denied credit, and were

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<sup>22</sup>The Small Business Jobs Act of 2010 requires prime contractors on covered contracts to notify the contracting officer in writing if the prime contractor fails to use a small business concern as described in the prime contractor's bid or proposal or when a payment to a subcontractor is reduced or 90 days or more past due. Pub. L. No. 111-240, §§ 1322, 1334, 124 Stat. 2504, 2540–2544 (2010). SBA has issued a proposed rule regarding these requirements. 76 Fed. Reg. 61,626 (Oct. 5, 2011).

<sup>23</sup>GAO, *Improvements Needed to Help Ensure Reliability of SBA's Performance Data on Procurement Center Representatives*, [GAO-11-549R](#) (Washington, D.C.: June 15, 2011).

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less likely to apply for loans because they feared their applications would be denied.<sup>24</sup>

Further, officials from two advocacy groups noted that bonding requirements could prevent small, minority-owned businesses from competing for large contracts. Bonding is required to compete for certain contracts to ensure that businesses have the financial capacity to perform the work and pay for labor and supplies.<sup>25</sup> For example, an official at one advocacy group indicated that to be considered for large contracts, businesses may be required to obtain \$25 million to \$50 million in bonding capacity. Since few small businesses can obtain this bonding capacity, this official said that these businesses rely on “teaming” arrangements—two or more businesses that collectively pursue larger procurement contracts—to expand their opportunities.

#### Linguistic and Cultural Barriers

In general, advocacy groups identified linguistic and cultural barriers as a challenge for minority-owned businesses on a limited basis. One advocacy group official said that linguistic barriers may be a challenge because business owners with strong accents could have difficulty communicating. Officials from a few Asian-American advocacy groups noted that business owners with limited English proficiency (LEP)<sup>26</sup> may experience challenges. For example, one official said that business owners in the construction industry may have difficulty obtaining a required design certification if English was not the business owner’s first language. Another advocacy group official cited challenges such as discrimination against subcontractors by prime contractors because of accents or LEP. Officials from advocacy groups also cited examples of cultural barriers. For example, one noted that some first generation Americans might have an aversion to working with the federal government and therefore would not be willing to seek government contracts. Some officials from Hispanic advocacy groups said Hispanic contracting officials were underrepresented in the federal government.

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<sup>24</sup>U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs* (Washington, D.C.: 2010).

<sup>25</sup>A surety bond is form of insurance that guarantees contract completion.

<sup>26</sup>See appendix IV for a discussion of the potential applicability of Executive Order 13,166, *Improving Access to Services for Persons with Limited English Proficiency*, to federal contracting and outreach activities.

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Officials from another group also said that some minority groups, including those in nonmetropolitan areas, could lack the infrastructure needed (e.g., Internet service and transportation) to conduct business in these areas.

Officials from all but one federal agency—SBA—that we contacted said that they did not know of any linguistic or cultural issues that posed a barrier for minority-owned businesses seeking to contract with the government. SBA officials told us that cultural barriers may be a challenge for minority-owned businesses seeking federal government contracts and emphasized that minority-owned businesses would be hesitant to reveal any linguistic barriers. The officials noted that some cultural barriers existed for Asian-Americans, Alaskan Natives, Native-Americans, and Native Hawaiians, because their traditional ways of conducting business involved intangibles that did not translate well into a “faceless” electronic contracting community. These officials also said that some minority-owned businesses may have informal business practices—for example, they may obtain financing from a friend or family member instead of through a bank—and therefore a business owner might not have the documentation required by some federal programs.

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### Agency Outreach Efforts Help Address Some Challenges Facing Small and Minority-Owned Businesses

As we have previously noted, federal agencies conduct outreach to help minority-owned businesses seeking federal government contracts. For example, federal contracting officials with whom we spoke cited “industry days,” conferences, and meetings with businesses as efforts to help businesses address challenges they could face in seeking federal contracts. During industry days small businesses are invited to meet prime contractors in their industries and potentially obtain subcontracts. Businesses can also interact directly with contracting office staff. For example, contracting officers said that they participated in panel discussions to provide business owners with information on the acquisition process and forecasts of contract opportunities. Contracting officers also accept requests from business owners that schedule meetings to discuss their business capabilities. Many agency officials, including an OSDBU official and contracting officials, told us they also work with and refer businesses to Procurement Technical Assistance Centers (PTAC) so that the businesses may receive one-on-one assistance.

Agency outreach to businesses is generally directed by agency OSDBUs, the agencies’ advocates for small businesses. OSDBU directors use a variety of methods—including internal and external collaboration,

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outreach to small businesses, and oversight of agency small business contracting—to help small businesses overcome challenges they may face such as understanding the federal contracting process. OSDBU officials from three federal agencies we contacted indicated that they collaborate with several agency offices, such as acquisition and small business specialists, and with organizations such as MBDA. We previously reported that nearly all of the OSDBU directors saw outreach activities as a function of their office.<sup>27</sup> For example, 23 of the 25 OSDBU directors we surveyed between November and December 2010 viewed hosting conferences for small businesses as one of their responsibilities, and 23 had hosted such conferences. More specifically, these 23 agencies had hosted an average of 20 conferences within the previous 2 years. In addition, 20 of the 25 OSDBU directors surveyed saw sponsoring training programs for small businesses as one of their responsibilities, and 18 had hosted such events in the last 2 years.

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## Federal Agencies Collect Some Information on Contracting Assistance Provided to Minority-Owned Businesses

Federal agencies we contacted generally collect and report information on contracting assistance they provide to small and small disadvantaged businesses. Federal agencies are required to report annually to SBA on participation in the agency's contracting activities by small disadvantaged businesses, veteran-owned small businesses (including service-disabled veterans), qualified HUBZone small businesses, and women-owned small businesses. SBA compiles and analyzes the information and reports the results to the President and Congress.<sup>28</sup> Agencies are also required to report to SBA plans to achieve their contracting goals, which can include outreach activities. In addition, Executive Order 11,625 requires the Secretary of Commerce—the umbrella agency of MBDA—and other agencies to report annually on activities related to minority business development and to provide other information as requested. Finally, federal agencies are also required to develop and implement systematic

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<sup>27</sup>GAO, *Small Business Contracting: Action Needed by Those Agencies Whose Advocates Do Not Report to Agency Heads as Required*, [GAO-11-418](#) (Washington, D.C.: June 3, 2011).

<sup>28</sup>15 U.S.C. § 644(h).

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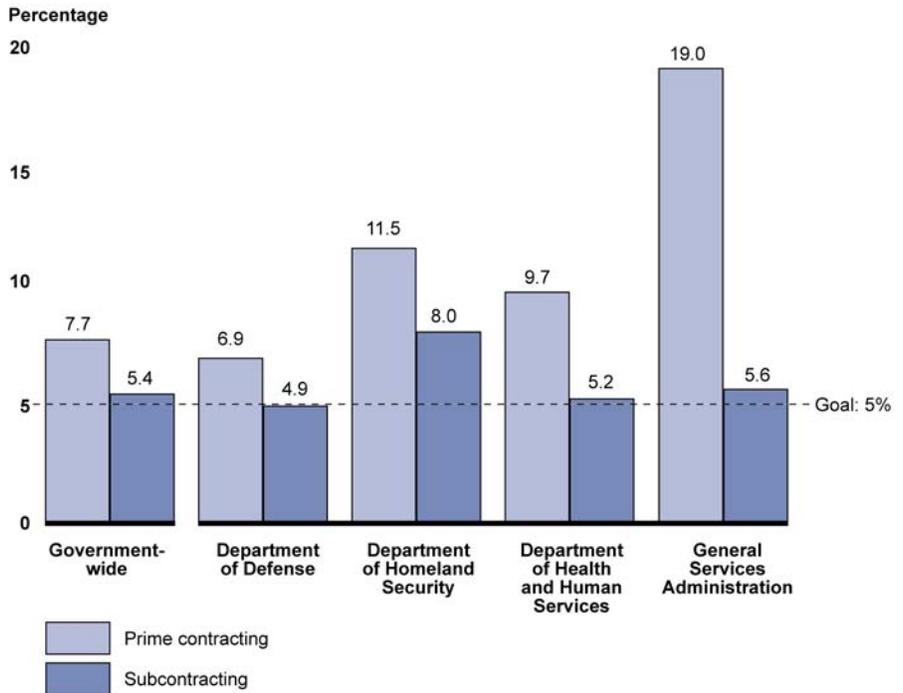
data collection processes and provide MBDA with current data that will help in evaluating and promoting minority business development efforts.<sup>29</sup>

A majority of the federal agencies we contacted told us that the extent to which they met SBA prime and subcontracting goals for the various socioeconomic categories of businesses (including the small disadvantaged business goal) provided a measure of their efforts to assist minority-owned businesses in contracting with the federal government. As figure 1 shows, in fiscal year 2011 the federal government met its 5 percent goal for prime contracting and subcontracting with small disadvantaged businesses. In addition, all four agencies we reviewed met their prime contracting goals of 5 percent, and three met their 5 percent subcontracting goals for this category. Contracting officials at these agencies generally attributed their success in contracting with small businesses—including small disadvantaged businesses—to a variety of factors, including support from the agency OSDDBU and upper management, staff commitment, and the use of set-asides. They also noted several other factors that contributed to their contracting performance, including market research, a strategy for small businesses, and outreach efforts. Federal agency officials also said that some outreach activities might be targeted to certain socioeconomic categories to assist in meeting agency SBA goals. For example, DHS contracting office officials said that as a result of monitoring their progress in meeting SBA goals, they conducted outreach to women-owned and HUBZone businesses with contract set-asides.

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<sup>29</sup>Exec. Order No. 11,625, *Prescribing Additional Arrangements for Developing and Coordinating a National Program for Minority Business Enterprise*, 36 Fed. Reg. 19,967 (Oct. 13, 1971).

**Figure 1: Government-wide and Selected Agency Prime and Subcontracting Goal Achievement, Small Disadvantaged Businesses, Fiscal Year 2011**



Source: SBA data.

SBA also issues an annual scorecard as an assessment tool to measure how well federal agencies reach their small business and socioeconomic prime contracting and subcontracting goals, to provide accurate and transparent contracting data, and to report agency-specific progress. An overall grade assesses an agency's entire small business procurement performance, and three quantitative measures show achievements in prime contracting, subcontracting, and plan progress, or an agency's

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efforts and practices to meet its contracting goals.<sup>30</sup> An overall grade is given for government-wide performance, and individual agencies receive their own grades. For fiscal year 2011, SBA gave a grade of “B” for overall government-wide performance. For the federal agencies that we included in our analysis, GSA scored an overall grade of A+, DHS and HHS scored an overall grade of A, and DOD scored an overall grade of B.

Two agencies we reviewed collected and reported data by minority group. For example, MBDA reports data categorized by minority group, on contracting assistance that its business centers provide as required by executive order. For fiscal year 2011, MBDA reported that its business centers helped minority-owned businesses obtain 1,108 transactions (the sum of contracts and financings) totaling over \$3.9 billion (see table 1).<sup>31</sup>

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<sup>30</sup>The three quantitative measures are weighted and assigned different percentages. Prime contracting achievement equals 80 percent, subcontracting achievement 10 percent, and the agency’s progress plan for meeting its goals 10 percent, for a total of 100 percent. SBA changed the scorecard methodology in fiscal year 2009, moving from a color-based methodology that used three potential grade ranges (green, yellow, red) to letter grades, with six potential grade ranges (A+, A, B, C, D, F). According to SBA, expanding the number of grade ranges allows for a clearer distinction among different agencies’ performance. In addition, SBA incorporated two measurements—subcontracting and plan performance—that help explain the totality of an agency’s small business efforts. There are nine plan progress elements, including demonstrating top-level agency commitment to small business contracting and implementing a strategy to increase the number of competitively awarded contracts to small businesses. Previous scorecards only addressed prime contracting achievement and did not offer an overall grade to assess agencies’ comprehensive procurement practices.

<sup>31</sup>MBDA defines the dollar value of transactions as the total principal value of approved loans, equity financings, bonds, leases (property and equipment), assets under management, or other binding financial agreements secured by clients of the project. Further, eligible financial transactions are those that have a specific dollar value that expands a client’s capital base and operations or produces some other direct commercial benefit.

**Table 1: MBDA Client Assistance by Minority Group, Fiscal Year 2011**

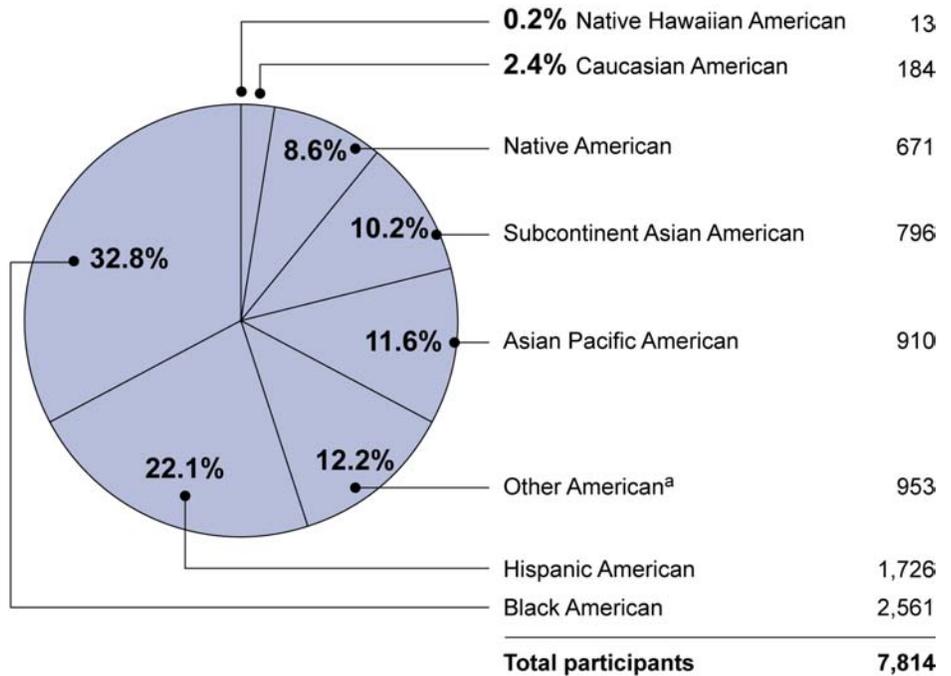
<b>Minority groups</b>	<b>Number of contracts</b>	<b>Number of financings</b>	<b>Total transactions</b>	<b>Dollar value of contracts</b>	<b>Dollar value of financings</b>	<b>Total dollar value of awards</b>
African American	217	102	319	\$1,264,362,499	\$826,639,729	\$2,091,002,228
Asian American	23	28	51	114,456,719	24,444,285	138,901,004
Asian Indian	16	18	34	58,707,052	19,956,625	78,663,677
Asian Pacific American	27	10	37	12,817,685	16,606,632	29,424,317
Hasidic Jew	63	3	66	17,025,583	74,210,000	91,235,583
Hispanic American	155	76	231	539,874,743	438,981,088	978,855,831
Native American	217	51	268	126,392,998	409,191,757	535,584,755
Other minority	59	43	102	980,134	12,569,948	13,550,082
<b>Total</b>	<b>777</b>	<b>331</b>	<b>1,108</b>	<b>\$2,134,617,413</b>	<b>\$1,822,600,064</b>	<b>\$3,957,217,477</b>

Source: MBDA.

SBA also collects some information for its various programs, including information by minority group for the 8(a) Business Development Program, as required by statute.<sup>32</sup> For example, SBA reported that of the 7,814 8(a) program participants in fiscal year 2011—the most recent data available—more than 90 percent of the participants were minority-owned businesses (see fig. 2). SBA also reported that 8(a) program participants reported total year-end revenues exceeding \$21.7 billion in fiscal year 2010, with 43.4 percent of these revenues coming from 8(a) contracts. During that same year, SBA provided technical assistance to 2,000 8(a) businesses. SBA officials we interviewed said that SBA generally did not collect information by minority group for any of its other programs.

<sup>32</sup>The Business Opportunity Development Reform Act of 1988 requires that SBA report the race or ethnicity, and gender, of business owners that participate in the 8(a) program. 15 U.S.C. 636(j)(16)(B)(iv).

**Figure 2: 8(a) Program Participants, by Minority Group, Fiscal Year 2011**



Source: SBA.

<sup>a</sup>According to SBA, the category of "other American" includes individuals who select this category, who select "no ethnicity", who select categories that are not considered an ethnicity or race, and who make no selection at all. In SBA's fiscal year 2011 survey of 8(a) participants, "other American" included 221 Alaskan Native corporations, 80 tribally owned organizations, 17 Native Hawaiian organizations, and 2 community development organizations.

Most federal agencies that we contacted indicated that they collected some general information on outreach events and activities and some demographic data, although collecting such data was not required. For example, for outreach events such as the Minority Enterprise Development week conference, MBDA officials told us that they collect general demographic information from participants on their businesses and experience, but not by minority group. The officials told us that they also collect aggregated data on its outreach activities for minority-owned businesses, such as number of meetings and participants. For example, MBDA officials told us that they conducted 119 of the 129 one-on-one meetings scheduled between minority-owned and small businesses and corporations and prime contractors during this event.

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Officials from DOD, DHS, GSA, and HHS said that they asked participants in their outreach events questions (sometimes by survey or evaluation) about the value or helpfulness of the events. Officials from three agencies noted that they used the survey results to determine the effectiveness of, or how to improve, the event. In addition, agencies may ask questions to obtain general information about a business and potentially its socioeconomic status. Officials also said that they collected some information by socioeconomic group, but none by minority group.

Finally, the OSDBU Council—which comprises OSDBU officials from various federal agencies—hosts an annual procurement conference that provides assistance to businesses seeking federal government contracts, and some information is collected for this event.<sup>33</sup> According to the council's website, more than 3,500 people registered for the 2012 conference, and more than 130 matchmaking sessions were conducted. According to the council's president, 2012 is the first year that such information was collected.

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## Agency Comments and Our Evaluation

We provided a draft of this report to Commerce, DHS, DOD, GSA, HHS, and SBA for review and comment and received comments only from Commerce. Commerce provided written comments which are reprinted in appendix V.

Commerce made two observations on our draft report. First, the department stated that the report was a good start at capturing the federal government's effort to support small, minority-owned businesses, but did not include all federal programs that supported federal contracting with minority-owned businesses. The department added that GAO had missed an opportunity to provide a more comprehensive picture of the federal government's efforts in this area, noting, for example, that the Departments of Agriculture, Housing and Urban Development, and Transportation had programs (other than OSDBUs) geared toward increasing federal contracts with minority-owned firms. In addition, the department stated that an Office of Minority and Women Inclusion was recently established at each of the financial regulatory agencies. While

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<sup>33</sup>The OSDBU Council is an informal organization led by the OSDBU directors, who work with SBA and other stakeholders on federal small business contracting programs. The OSDBU Council also discusses and exchanges information on outreach events with small businesses to assist agencies in their small business contracting efforts.

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providing support to minority-owned businesses, these agencies and offices were outside of the scope of our review, which as we stated in our report, focused on the four agencies—DHS, DOD, GSA, and HHS—that accounted for about 70 percent of total federal obligations to small, minority-owned businesses in fiscal year 2010. We also included SBA and Commerce’s MBDA in our review because of their roles in assisting minority-owned businesses. We are reviewing the efforts of the Office of Minority and Women Inclusion in an ongoing study that will be issued in 2013.

Second, Commerce noted that although the dollar amount of federal contracts obligated to small, minority-owned businesses was encouraging, the report did not analyze the number of minority-owned firms that actually secured federal contracts. The department said that it was possible that a handful of minority-owned firms had secured sizable federal contracts but that the majority of minority-owned firms continued to fail in obtaining them. However, data are not available on the total universe of small, minority-owned businesses that entered bids in response to federal contract solicitations. Just as with our reporting of funds obligated for contracts, data on the number of minority-owned businesses that secured federal contracts would not provide information on the number of such businesses that did not obtain them. Likewise, while we do report MBDA’s statistics on contracting assistance provided to minority-owned businesses, again such data do not provide information on how many businesses sought but did not obtain federal contracts. We conducted interviews with officials from MBDA, SBA, contracting offices at the federal agencies in our scope, and advocacy groups to obtain their perspectives on the challenges minority-owned businesses may face in seeking to contract with the federal government.

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We are sending copies of this report to appropriate congressional committees; the Attorney General; the Secretaries of Defense, Homeland Security, and Health and Human Services; the Acting Secretary of Commerce; and the Administrators of the General Services Administration and Small Business Administration. In addition, this report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions on the matters discussed in this report, please contact me at (202) 512-8678 or by email at [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

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GAO staff who made major contributions to this report are listed in appendix VI.

*William B. Shear*

William B. Shear  
Director, Financial Markets and  
Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to describe: (1) what federal agency officials and advocacy groups identified as challenges that small, minority-owned businesses may face in seeking to contract with the federal government—including any linguistic or cultural barriers—and agencies' efforts to address them, and (2) what information is available on federal efforts to assist small, minority-owned businesses in contracting with the federal government.

To determine which programs and resources to include in our scope, we conducted a web-based search for initial information on programs and resources available from federal government agencies using terms such as contracting assistance for minorities. We analyzed information on programs that provide federal contracting assistance and resources on contracting opportunities, and are available to minority-owned businesses. We describe programs and resources provided by the Minority Business Development Agency (MBDA) as they are tasked with the growth and promotion of minority-owned businesses. We also describe programs and resources available from the Small Business Administration (SBA), as this agency is responsible for providing assistance to small businesses—which can be minority owned—and programs and resources available from other selected federal agencies based on the criteria described below.<sup>1</sup> Finally, we interviewed officials from these selected agencies and advocacy groups that provide assistance to businesses owned by Asian-, Black-, Hispanic-, and Native-Americans. We selected these minority groups because they received the largest share of federal obligations to small, minority-owned businesses based on business owners self-identifying as a member of these groups.

To select agencies to include in our scope, we reviewed data from Federal Procurement Data System-Next Generation (FPDS-NG) on contract awards to small businesses owned by the minority groups in our scope by federal agency. Although we could not independently verify the reliability of these data, we reviewed system documentation and conducted electronic data testing for obvious errors in accuracy and completeness. On the basis of these efforts, we determined that the FPDS-NG data on federal contract dollars to socioeconomic groups by self-reported minority group were sufficiently reliable for purposes of our

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<sup>1</sup>We did not include all programs and resources that provide government contracting assistance and information to minority-owned businesses.

review. We selected the top four agencies that accounted for about 70 percent of total federal obligations to small, minority-owned businesses in fiscal year 2010—the most recent data available at the time of our selections. These agencies were the Departments of Defense (DOD), Health and Human Services (HHS), and Homeland Security (DHS), and, the General Services Administration (GSA).

To select a purposive, non-representative sample of contracting offices for purposes of conducting interviews, we first selected the top two divisions within DOD, DHS, and HHS in terms of the percentage of their agency's obligations to small, minority-owned businesses.<sup>2</sup> Those divisions included the Departments of the Army and Navy for DOD; the Bureau of Customs and Border Protection and the United States Coast Guard for DHS, and the National Institute of Health and the Centers for Medicaid and Medicare for HHS. We selected only one division for GSA—the Public Buildings Service—as this division represented over 76 percent of GSA's funds obligated for contracts to small, minority-owned businesses. Using this approach, we selected a total of seven divisions within the four agencies in our scope. Within each division, we selected one of the top contracting offices based on the office's percentage of their division's obligations to businesses owned by the minority groups in our scope. We selected two contracting offices from the Department of the Army because the percentage of obligations to small, minority-owned businesses by any of its top contracting offices was small. Our final sample consisted of eight contracting offices.

To describe the challenges that small, minority-owned businesses may face in contracting with the federal government, we interviewed agency officials—including those from contracting offices and the Office of Small Disadvantaged Business Utilization—from the purposive, non-representative sample of eight contracting offices. We also interviewed officials from MBDA and SBA. Further, we conducted interviews with officials from 12 advocacy groups. We selected groups that provided assistance to businesses owned by the minority groups in our scope based on a web-based search on national organizations that represent and provide assistance to minority-owned businesses in obtaining federal

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<sup>2</sup>The purpose of our sampling approach was to identify agency officials who may have experience with the challenges faced by small, minority owned businesses. Because we did not use a random sample, findings cannot be generalized and may not represent the entire population of small, minority owned businesses.

contracts. To describe information on improving access to services for persons with limited English proficiency, we reviewed Executive Order 13,166—*Improving Access to Services for Persons with Limited English Proficiency* (LEP)—to understand its applicability to outreach activities associated with federal contracting. We reviewed guidance from the Department of Justice (DOJ), as well as existing LEP plans for each agency in our scope. We could not review the LEP plans for DOD and for SBA, as the plan for each agency had not yet been completed. We also obtained and reviewed written responses from DOJ.

To describe the information available on the extent of federal efforts to assist small, minority-owned businesses in contracting with the federal government, we reviewed federal government prime contracting and subcontracting goals and SBA procurement scorecards for fiscal year 2011 for DOD, HHS, DHS and GSA. We also reviewed documentation for programs that assist small businesses owned and controlled by socially and economically disadvantaged individuals—which can include businesses that are minority-owned—to determine the types of contracting assistance available. We conducted interviews with officials from the selected agencies and contracting offices to identify and obtain available information on their outreach efforts to assist minority-owned businesses. In addition, we conducted interviews with officials from 12 advocacy groups that provide contracting assistance to the minority groups in our scope.

For information on the percentage of funds obligated for contracts in fiscal year 2011 to each socioeconomic category of small businesses by minority group—including small disadvantaged, women-owned, service-disabled veteran-owned, and Historically Underutilized Business Zone (HUBZone)—we analyzed data from FPDS-NG, which receives data from the Central Contractor Registration System (CCR)—the system in which all businesses seeking federal government contracts must register. In CCR, registrants (i.e., business owners) can self identify as minority-owned and can specify a minority group(s). Registrants can select from the following six categories: Asian Pacific, Subcontinent Asian, Black-American, Hispanic-American, Native-American, and Other. We conducted electronic testing for obvious errors in accuracy and completeness. As a part of this assessment, we analyzed the FPDS-NG data to determine cases in which contracting firms were identified as belonging to a particular minority group, such as Subcontinent Asian, but did not designate the firm as being minority-owned. This occurred in less than 3 percent of the cases. We conducted the same assessment within different socioeconomic categories, such as small disadvantaged

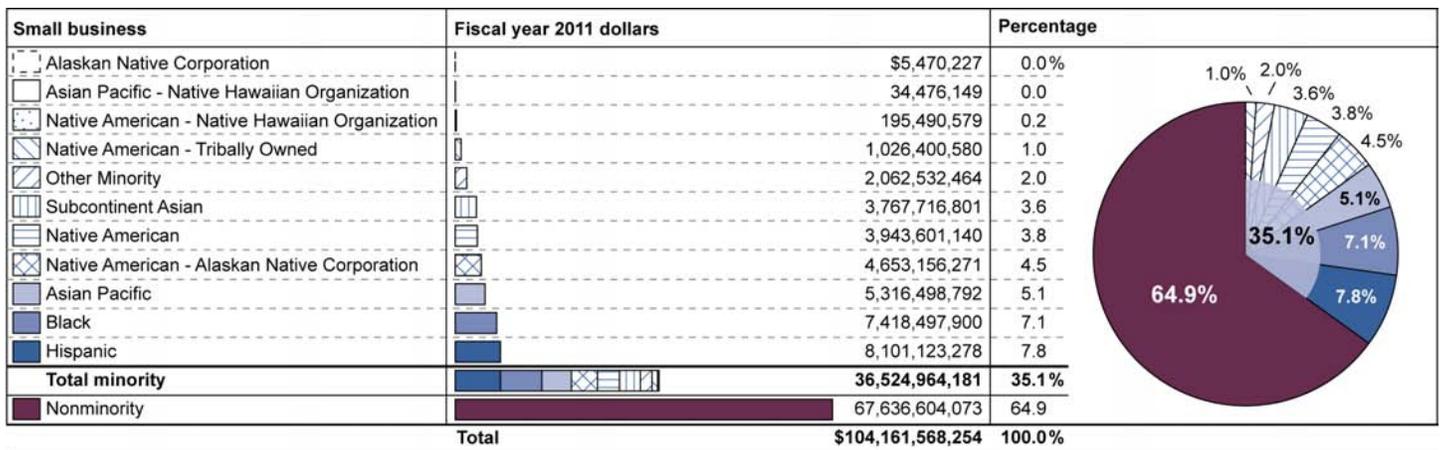
business, and found a potential undercount of the minority-owned designation in less than 4 percent of the cases. In addition, businesses that selected “other minority” and those that self-identified as more than one minority group were categorized as other minority. We determined the minority-owned designations data were sufficiently reliable for the purposes of our report. However, because we cannot verify the minority group that contractors self-report, we characterize these data as self-reported.

We conducted this performance audit from November 2011 through September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Percentage of Obligated Funds for Contracts to Socioeconomic Categories by Minority Group, Fiscal Year 2011

We analyzed data from the Federal Procurement Data System – Next Generation to determine the amount of obligated funds for contracts that federal agencies made to small businesses by minority group for fiscal year 2011. As figure 3 shows, the federal government obligated over \$36 billion (35.1 percent) to small, minority-owned businesses in fiscal year 2011.

**Figure 3: Percentage of Obligated Funds for Contracts to Small Businesses by Minority Group, Fiscal Year 2011**



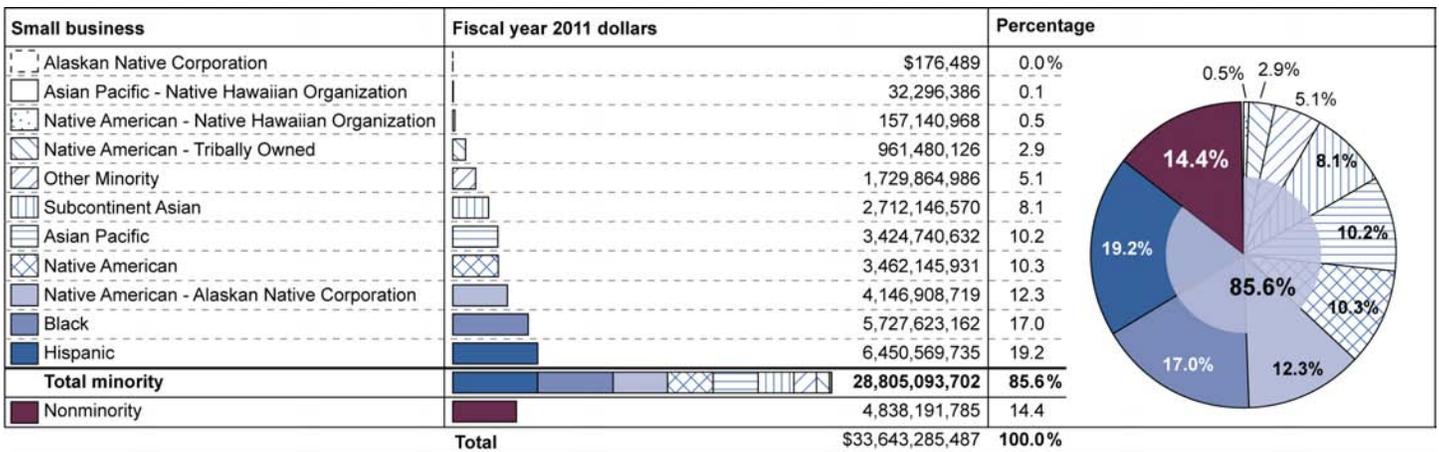
Source: GAO analysis of Federal Procurement Data System – Next Generation.

Note: Data are as of February 2012. The dollars reported are in obligations and minority designations are self-reported. Businesses that self identified as "other minority" and those that selected more than one minority category were designated as other minority. Nonminority includes those that did not select any minority category.

**Appendix II: Percentage of Obligated Funds for Contracts to Socioeconomic Categories by Minority Group, Fiscal Year 2011**

Figure 4 shows the amount of federal obligated funds for contracts to small disadvantaged businesses. For example, about \$28.8 billion (85.6 percent) was obligated to small disadvantaged businesses that were minority-owned.

**Figure 4: Percentage of Obligated Funds for Contracts to Small Disadvantaged Businesses by Minority Group, Fiscal Year 2011**



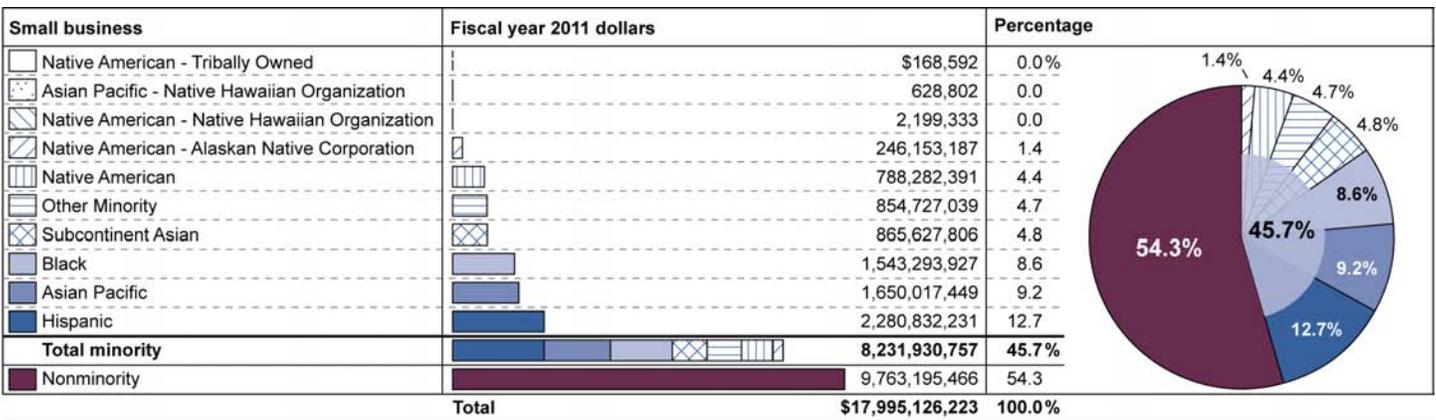
Source: GAO analysis of Federal Procurement Data System – Next Generation.

Note: Data are as of February 2012. The dollars reported are in obligations and minority designations are self-reported. Businesses that self identified as “other minority” and those that selected more than one minority category were designated as other minority. Nonminority includes those that did not select any minority category.

**Appendix II: Percentage of Obligated Funds for Contracts to Socioeconomic Categories by Minority Group, Fiscal Year 2011**

Figure 5 shows the amount of federal obligated funds for contracts to small women-owned businesses. For example, \$8.2 billion (45.7) percent were obligated to small women-owned businesses that were minority-owned.

**Figure 5: Percentage of Obligated Funds for Contracts to Small Women-Owned Businesses by Minority Group, Fiscal Year 2011**



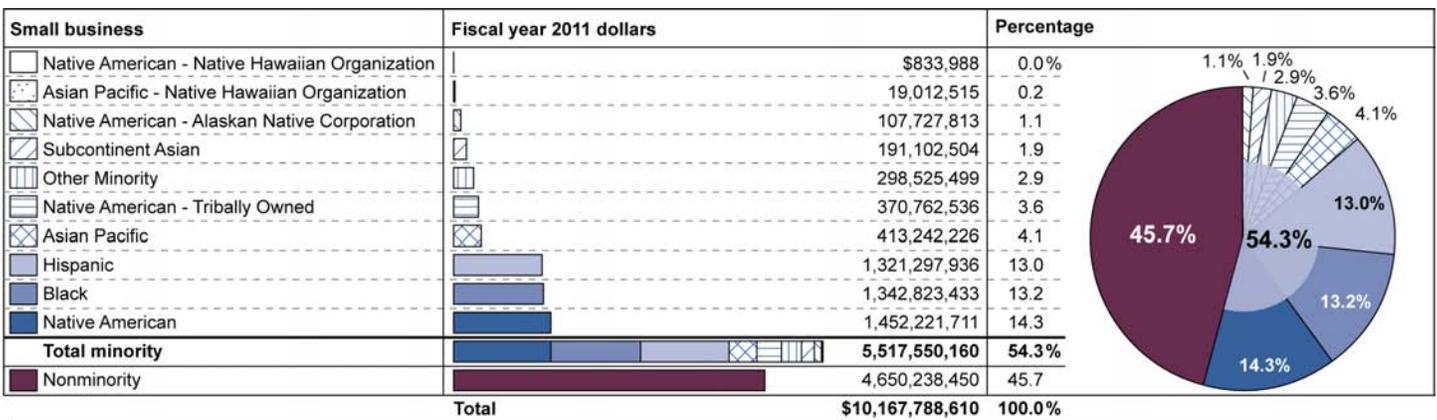
Source: GAO analysis of Federal Procurement Data System – Next Generation.

Note: Data are as of February 2012. The dollars reported are in obligations and minority designations are self-reported. Businesses that self identified as “other minority” and those that selected more than one minority category were designated as other minority. Nonminority includes those that did not select any minority category.

**Appendix II: Percentage of Obligated Funds for Contracts to Socioeconomic Categories by Minority Group, Fiscal Year 2011**

Figure 6 shows the amount of federal obligated funds for contracts to small HUBZone businesses. For example, nearly \$5.5 billion (54.3 percent) were obligated to small HUBZone businesses that were minority-owned.

**Figure 6: Percentage of Obligated Funds for Contracts to Small HUBZone Businesses by Minority Group, Fiscal Year 2011**



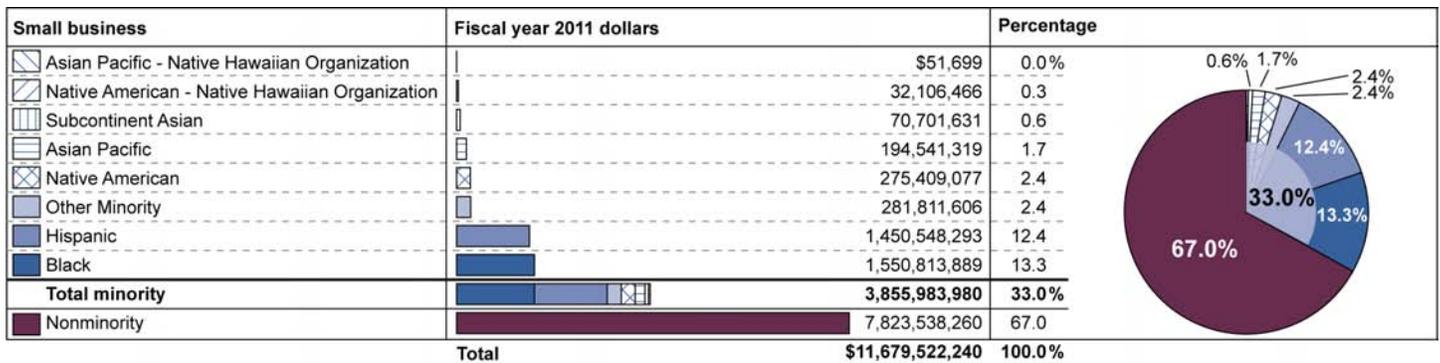
Source: GAO analysis of Federal Procurement Data System – Next Generation.

Note: Data are as of February 2012. The dollars reported are in obligations and minority designations are self-reported. Businesses that self identified as "other minority" and those that selected more than one minority category were designated as other minority. Nonminority includes those that did not select any minority category.

Appendix II: Percentage of Obligated Funds for Contracts to Socioeconomic Categories by Minority Group, Fiscal Year 2011

Figure 7 shows the amount of federal obligated funds for contracts to small service-disabled veteran-owned businesses. For example, nearly \$3.9 billion (33 percent) were obligated to small service-disabled veteran-owned businesses that were minority-owned.

Figure 7: Percentage of Obligated Funds for Contracts to Small Service-Disabled Veteran-Owned Businesses by Minority Group, Fiscal Year 2011



Source: GAO analysis of Federal Procurement Data System – Next Generation.

Note: Data are as of February 2012. The dollars reported are in obligations and minority designations are self-reported. Businesses that self identified as “other minority” and those that selected more than one minority category were designated as other minority. Nonminority includes those that did not select any minority category.

# Appendix III: Selected Federal Government Contracting Programs, Resources, and Outreach Activities

This table shows programs, resources, outreach activities, and examples of contracting assistance that agencies provide to assist minority-owned businesses in contracting with the federal government.

**Table 2: Selected Federal Programs, Resources and Outreach Activities**

Program or resource (agency)	Description	Examples of contracting assistance provided
<b>Programs</b>		
Business Centers (MBDA)	MBDA funds a nationwide network of business centers which operate as public/private partnerships that provide direct client assistance and educate businesses on how to do business with the federal government and private sector.	<ul style="list-style-type: none"> <li>• Identification of procurement opportunities based on client needs and sourcing deals</li> <li>• Solicitation analysis</li> <li>• Bid and proposal preparation</li> <li>• Research contract award histories</li> <li>• Post-award contract administration</li> <li>• Central contractor registration</li> <li>• Certification assistance</li> </ul>
Federal Procurement Center (FPC) (MBDA)	Supported by MBDA's new Governmental Procurement Unit, the FPC is the first business center in the U.S. that assists minority-owned businesses in competing for and winning federal government contracts.	<ul style="list-style-type: none"> <li>• Identification of federal procurement opportunities</li> <li>• Facilitation of relationships between minority-owned businesses and federal program managers</li> <li>• Research on federal agency contracting trends</li> <li>• Information on federal regulations and contracting requirements</li> <li>• Linking minority-owned businesses with other companies to develop strategic partnerships</li> </ul>
8(a) Business Development Program (SBA)	The 8(a) program is a 9-year developmental program that provides technical and management assistance to businesses so that they can become competitive in the federal marketplace.	<ul style="list-style-type: none"> <li>• 8(a) businesses may be eligible for set-asides, awards exclusively for program participants</li> </ul>
Procurement Assistance to Small Businesses Program	This program assists small businesses in obtaining a fair share of contracts and subcontracts for federal government supplies and services and a fair share of property sold by the government.	<ul style="list-style-type: none"> <li>• Application of small business set-asides to increase procurement to small businesses</li> <li>• Consultation with procuring activities on structuring of procurement and sales planning to optimize small business participation</li> <li>• Review and analysis of small businesses' capacity</li> <li>• Review of subcontracting plans and programs of large prime contractors to determine the extent that they are providing subcontracting opportunities to the SBA socioeconomic categories.</li> </ul>

**Appendix III: Selected Federal Government Contracting Programs, Resources, and Outreach Activities**

<b>Program or resource (agency)</b>	<b>Description</b>	<b>Examples of contracting assistance provided</b>
Procurement Technical Assistance Cooperative Agreement Program (PTAP) (DOD)	PTAP was created to generate employment and to improve the general economy of a locality by assisting business firms in obtaining and performing under federal, state, and local government contracts.	PTAP established Procurement Technical Assistance Centers (PTAC) that assist small businesses seeking to contract with DOD and with other agencies by providing the following: <ul style="list-style-type: none"> <li>• counseling,</li> <li>• matchmaking, and</li> <li>• assistance with online database registration</li> </ul>
Mentor-Protégé Program (Various)	The mentor-protégé program includes an arrangement in which mentors—typically businesses that are experienced prime contractors—provide technical, managerial, and other business development assistance to eligible small businesses.	Mentor-protégé agreements authorize a broad array of developmental assistance such as <ul style="list-style-type: none"> <li>• assistance in obtaining certifications needed to work on large federal government contracts</li> <li>• contract administration</li> <li>• loans and award of subcontracts on a noncompetitive basis<sup>a</sup></li> </ul>
<b>Other Resources</b>		
Office of Small and Disadvantaged Business Utilization (Various)	OSDBUs are advocates for contracting opportunities for small and disadvantaged businesses.	OSDBUs functions include <ul style="list-style-type: none"> <li>• identifying proposed solicitations that involve significant bundling of contract requirements</li> <li>• working with agency procurement officials to revise such proposed solicitations to increase the probability of participation by a small business</li> <li>• advising agency leadership on small business matters</li> <li>• providing direction for developing and implementing policies and initiatives to help ensure that small businesses have the opportunity to compete for and receive a fair share of agency procurements</li> </ul>
Procurement Center Representatives (SBA)	PCRs help ensure that small businesses gain access to contracting opportunities.	PCR's key responsibilities include <ul style="list-style-type: none"> <li>• reviewing proposed agency solicitations—such as potentially bundled and consolidated solicitations</li> <li>• making set-aside recommendations to agency contracting officers</li> <li>• reviewing agency small business programs</li> <li>• counseling small businesses<sup>b</sup></li> </ul>
Commercial Market Representatives (CMR) (SBA)	CMRs help ensure that small businesses gain access to subcontracting opportunities.	CMRs' key responsibilities include <ul style="list-style-type: none"> <li>• counseling small businesses on marketing themselves to prime contractors</li> <li>• counseling large prime contractors on maximizing subcontracting opportunities for small businesses</li> <li>• facilitating the matching of prime contractors with small businesses</li> </ul>

**Appendix III: Selected Federal Government Contracting Programs, Resources, and Outreach Activities**

<b>Program or resource (agency)</b>	<b>Description</b>	<b>Examples of contracting assistance provided</b>
Minority Enterprise Development (MED) Week Conference (MBDA)	MED Week Conference, one of MBDA's primary outreach efforts, offers thousands of minority-owned businesses across a variety of industries the opportunity to connect with buyers, and access information, tools, and resources to grow their businesses.	During MED Week, businesses are provided the following assistance <ul style="list-style-type: none"> <li>• 15-minute appointments with federal and corporate partners to discuss upcoming contracting opportunities</li> <li>• educational sessions on topics such as capital access</li> <li>• discussions about federal contracting opportunities with representatives from agencies' Offices of Small and Disadvantaged Business Utilization (OSDBU)</li> </ul>
Federal Business Opportunities (www.FedBizOpps.gov)	FedBizOpps is the single point of entry for federal buyers to publish and for businesses to find federal business opportunities over \$25,000 across departments and agencies.	Businesses can conduct ad hoc searches or set up automatic queries to notify them when opportunities meeting their criteria are posted
BusinessUSA (www.businessusa.gov)	BusinessUSA is a centralized, one-stop platform for businesses to access services to help them grow and hire.	The site allows small businesses and exporters to use technology to quickly connect to the services and information relevant to them, regardless of where the information is located or which agency's website, call center, or office they go to for help
USA Spending (www.usaspending.gov)	USAspending.gov is a free, publicly accessible website containing data on federal awards (e.g., contracts, loans, grants) across the government.	For each award, the site includes <ul style="list-style-type: none"> <li>• the name of the entity receiving the award</li> <li>• the amount of the award</li> <li>• information on the award such as transaction type and funding agency</li> <li>• the location of the entity receiving the award</li> <li>• a unique identifier of the entity receiving the award</li> </ul>
Federal Procurement Data System- Next Generation (FPDS-NG)	FPDS-NG is a comprehensive web-based tool and database that functions as a clearinghouse for all federal contract actions exceeding \$3,000.	FPDS-NG allows businesses to obtain information on how federal contract funds are being spent government-wide
<b>Outreach activities</b>		
Matchmaking Events (Various)	Matchmaking events are held around the country to give business owners the opportunity to meet prime contractors and agency contracting officers.	During matchmaking events businesses are provided the following assistance <ul style="list-style-type: none"> <li>• insights into doing business with agencies</li> <li>• cultivating effective relationships with prime contractors</li> </ul>
Vendor Outreach Sessions	Monthly sessions consisting of 10-to 15-minute appointments with either agency officials (such as small business or procurement officials) or prime contractors that have subcontracting needs. The sessions may be geared to SBA socioeconomic categories.	Vendor outreach sessions include <ul style="list-style-type: none"> <li>• discussions on business' capabilities</li> <li>• information on potential contracting opportunities</li> <li>• meetings with individuals who have decision-making responsibilities</li> </ul>

Source: GAO analysis of agency programs, resources and outreach activities.

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**Appendix III: Selected Federal Government  
Contracting Programs, Resources, and  
Outreach Activities**

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<sup>a</sup>We identified 13 federal agencies that have mentor-protégé programs: the Department of Homeland Security, Department of Defense, Department of Energy, Department of State, Environmental Protection Agency, Federal Aviation Administration, General Services Administration, Department of Health and Human Services, National Aeronautics and Space Administration, Small Business Administration, Department of the Treasury, United States Agency for International Development, and Department of Veterans Affairs. See GAO, *Mentor-Protégé Programs Have Policies That Aim to Benefit Participants but Do Not Require Postagreement Tracking*, [GAO-11-548R](#) (Washington, D.C.: June 15, 2011).

<sup>b</sup>Bundling of contract requirements means 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 for various reasons. 15 U.S.C. § 632(o).

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# Appendix IV: Potential Applicability of the Limited English Proficiency Executive Order to Federal Contracting

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Executive Order 13,166, *Improving Access to Services for Persons with Limited English Proficiency*, issued on August 11, 2000, requires federal agencies to prepare a plan to improve access to federally conducted programs and activities for those with limited English proficiency (LEP).<sup>1</sup> Under the order, federal agencies must take reasonable steps to provide meaningful access to persons with LEP for federally conducted programs and activities. In addition, the Department of Justice (DOJ) serves as a central repository for agency plans to address LEP and provides guidance to agencies for developing such plans.

According to DOJ guidance issued on August 16, 2000 and available at LEP.GOV, the four factors to be considered in determining what constitutes “reasonable steps to ensure meaningful access” include (1) the number or proportion of such individuals in the eligible population, (2) the frequency with which they come into contact with the program, (3) the importance of the service provided by the program, and (4) the resources available to the recipients. In May 2011, DOJ also issued a Language Access Assessment and Planning Tool for Federally Conducted and Federally Assisted Programs to provide guidance to recipients of federal financial assistance and federal agencies. The first step in the assessment tool is a self-assessment that determines what type of contact an agency has with the LEP population and describes the elements that are part of effective language access policy directives and implementation plans.

DOJ officials told us that Executive Order 13,166 regarding LEP generally applied to outreach activities associated with federal contracting. The officials added that DOJ had not issued specific guidance related to the order on outreach to minority-owned businesses seeking to contract with the federal government. In addition, the planning tool does not provide guidance on outreach activities associated with federal contracting. According to DOJ officials,

“Generally, current practice with regard to announcing federal government contracts and grants would not be altered under the Executive Order. In determining what is required, the focus of the analysis in this situation is on the first factor—the number or proportion of eligible LEP persons. Except, perhaps, in territories, it is reasonable to expect that the number or proportion of eligible contract or grant recipients who are LEP and are

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<sup>1</sup>65 Fed. Reg. 50,121 (Aug. 11, 2000).

themselves attempting to find and respond to announcements of grants and contracts is negligible.”

Federal agency officials and advocacy groups we spoke with cited linguistic barriers as a challenge on a limited basis. In addition, few agencies had taken action to address possible linguistic barriers, and most told us that they had not taken such action because they had not encountered this challenge. For example, based on its efforts as of July 2012, GSA found that only one region reported significant contact with persons with LEP.

# Appendix V: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE  
The Secretary of Commerce  
Washington, D.C. 20230

September 19, 2012

Mr. William B. Shear  
Director, Financial Markets and  
Community Investment  
U.S. Government Accountability Office  
441 G Street, NW, Room 2440B  
Washington, DC 20548.

Dear Mr. Shear:

Thank you for providing the U.S. Department of Commerce with a copy of the Government Accountability Office (GAO) report entitled "Government Contracting: Federal Efforts to Assist Small Minority-Owned Businesses" for review and comment.

The Department of Commerce is pleased that your agency relied in part on the expertise of the Minority Business Development Agency (MBDA) to assist in your efforts to gain a better understanding of federal contracting for small minority-owned businesses. As the Federal Government's lead agency charged with creating conditions conducive to the growth and global competitiveness of minority-owned firms, MBDA is both a reliable source of information and effective in their work.

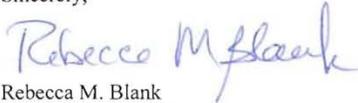
After reviewing the report, there are two observations that the Department of Commerce offers. First, while the draft report represents a good start at capturing the Federal Government's effort to support small minority-owned businesses, the review is narrow and does not include all federal programs that support federal contracting with minority-owned businesses. For example, the U.S. Departments of Agriculture, Transportation, and Housing and Urban Development have programs geared toward increasing federal contracts with minority-owned firms, independent of the Office of Small and Disadvantaged Business Utilization. Likewise, the Offices of Minority and Women Inclusion, recently established at all the financial regulatory agencies, were not discussed in the draft report. As such, GAO missed an opportunity to provide a more comprehensive picture of the Federal Government's efforts in support of federal contracting for small minority-owned firms.

Secondly, we note that although the dollar amount of federal contracts secured by small minority-owned firms (\$35 billion in fiscal year 2011) is encouraging, an analysis of the number of minority-owned firms that secured federal contracts in that year is absent from the report. It is quite possible that a handful of minority-owned firms secured sizable federal contracts, while the vast majority of minority-owned firms continued to fail in obtaining federal contracts. Conducting the analysis using the total number of contracts secured would provide data that illustrates the percentage of contracts based on minority business participation, as a whole.

Mr. William B. Shear  
Page 2

Once again, we appreciate the opportunity to comment on the final report and remain available to you and your staff. If you have any questions regarding this letter, please contact David Hinson, National Director of the Minority Business Development Agency at (202) 482-2332 or dhinson@mbda.gov.

Sincerely,



Rebecca M. Blank  
Acting Secretary of Commerce

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

William B. Shear, (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Marshall Hamlett (Assistant Director), Emily Chalmers, Pamela Davidson, Meredith Graves, Julia Kennon, Shamiah T. Kerney, Katherine Leigey, and Andrew J. Stephens made key contributions to this report.

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