United States General Accounting Office

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Report to the Chairman, Committee on Small Business, House of Representatives

September 1993

SMALL BUSINESS

Problems Continue With SBA's Minority Business Development Program

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United States
General Accounting Office
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Resources, Community, and
Economic Development Division

B-252837

September 17, 1993

The Honorable John J. LaFalce
Chairman, Committee on Small Business
House of Representatives

Dear Mr. Chairman:

The Small Business Administration's (SBA) 8(a) business development program is designed to assist small businesses owned and controlled by socially and economically disadvantaged individuals to develop into viable competitors in the commercial marketplace. Under the 8(a) program, SBA, acting as prime contractor, enters into contracts with other federal agencies and subcontracts work to firms in the program. To aid their development, firms in the 8(a) program are also eligible for financial, technical, and management assistance from SBA.

Our January 1992 report and our March 1992 testimony before your Committee discussed SBA's difficulty in implementing changes to the 8(a) program that were mandated by the Business Opportunity Development Reform Act of 1988 and subsequent technical amendments (act).[1] Our January 1992 report also contained a series of recommendations to SBA designed to ensure that the 8(a) program achieves its objective of developing small businesses and to improve SBA's administration of the program. During our testimony, you expressed concern over SBA's continued inability to administer the 8(a) program and asked that we continue to monitor and report on SBA's progress in implementing the act's provisions relating to the (1) collection and management of 8(a) program data, (2) certification of 8(a) program participants, (3) development and maintenance of 8(a) firms' business plans, and (4) competitive awarding of 8(a) program contracts. You also asked us to report on the distribution of 8(a) program contracts among 8(a) firms, SBA's efforts to determine the amount and type of management and technical assistance provided to 8(a) firms, the effectiveness of such assistance, and the amount and type of financial assistance provided by SBA to 8(a) firms.

Results in Brief

While SBA has made progress in implementing some changes to the 8(a) program, it continues to have difficulty in implementing others. SBA did not

[1]See Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992); and for a transcript of our testimony, see Small Business: The Small Business Administration's Progress in Restructuring Its 8(a) Business Development Program (GAO/T-RCED-92-35, Mar. 4, 1992).

plan the redesign of the 8(a) program's management information system in accordance with federal regulations and guidelines; SBA's latest estimate for completing the redesign work is late 1995, 5 years later than it originally estimated; and SBA has yet to develop an estimate of the total cost for the system's redesign. Without such a system, the Congress and 8(a) program managers cannot determine what assistance is being provided to 8(a) firms, assess its effectiveness, or most importantly assess the 8(a) program's overall effectiveness in developing 8(a) firms. In addition, SBA's certification of 8(a) program participants continues to exceed the 90-day period mandated in the act, averaging 170 days in fiscal year 1992. Most 8(a) firms have new or revised business plans approved by SBA, but SBA is not annually reviewing each approved business plan as required by the act. And while the value of 8(a) contracts awarded competitively during fiscal year 1992 exceeded the combined values of the prior 2 fiscal years, the distribution of 8(a) contracts continues to be concentrated in a very small percentage of 8(a) firms.

In addition, while SBA has improved its tracking and acquisition of management and technical assistance provided to 8(a) firms, it still needs to develop criteria for measuring the effectiveness of such assistance. Finally, while SBA tracks the principal SBA programs that provide financial assistance to 8(a) firms, it still does not know the extent of financial assistance provided to 8(a) firms by all SBA programs.

Background

The 8(a) program is the federal government's principal vehicle for developing small businesses that are owned by minorities and other socially and economically disadvantaged individuals. Since the late 1960s—when SBA first used the 8(a) program's authority to provide jobs in distressed urban areas—the 8(a) program has evolved from one of creating jobs to one of developing firms owned by socially and economically disadvantaged individuals into viable businesses. Toward this end, the Congress has made three major legislative attempts—in 1978, 1980, and 1988—to improve SBA's administration of the 8(a) program and to emphasize its business development aspects.

The 8(a) program is administered by SBA's Office of Minority Small Business and Capital Ownership Development (MSB&COD). As of May 1993, there were 4,483 active 8(a) firms in the program. In fiscal year 1992, the 8(a) program provided 4,693 new 8(a) contracts and 16,578 modifications to new and existing 8(a) contracts, together totaling $3.67 billion, to 8(a) firms.

The Congress enacted the 1988 act and subsequent amendments because the 8(a) program was not developing firms owned by socially and economically disadvantaged individuals into viable businesses. The Congress noted that gaining access to the 8(a) program was a lengthy and burdensome process, the 8(a) program's administration was inefficient, and few firms were able to compete successfully in the open market upon leaving the 8(a) program. To remedy these problems, the act made a number of changes to improve the 8(a) program's organization and participation standards, business development activities, and overall management. These changes included requiring that SBA

- develop and implement a process for systematically collecting 8(a) program data;
- annually report to the Congress on the 8(a) program's status and accomplishments;
- process 8(a) program applications within 90 days;
- obtain revised business plans from 8(a) firms so that SBA can better monitor their development;
- annually review each business plan and, with the firm,modify the plan accordingly to help the firm achieve its business development goals; and
- competitively award 8(a) contracts that exceed a certain dollar threshold.

Over the years, reports by us, SBA's Inspector General, and others have shown that SBA has continually had problems in administering the 8(a) program. These reports have made numerous recommendations to improve SBA's administration of the 8(a) program. However, most recently, a report issued by the U.S. Commission on Minority Business Development concluded that no more could be done to correct SBA's lax responsibility toward the 8(a) program and recommended that most of SBA's 8(a) program authorities be transferred to a new agency, which would need to be created by statute, in the Department of Commerce.[2] The report stated that SBA's lack of progress with regard to the 8(a) program is due more to an institutional aversion to the minority business programs than to some chronic resource limitation.

Appendix I summarizes the findings of selected reports issued on the 8(a) program since 1975.

[2]United States Commission on Minority Business Development—Final Report (Washington, D.C., 1992).

Redesign of Management Information System Not Properly Planned

The act requires that SBA develop a systematic data collection process and report annually to the Congress on the 8(a) program's status and accomplishments. In 1992, we reported that SBA's management information system for the 8(a) program did not provide SBA with the data needed to effectively manage the 8(a) program or to meet the act's reporting requirements.[3] We also reported that SBA recognized the inadequacies of the system and had begun a four-step approach to redesign the 8(a) program's management information system.

However, our followup work shows that much of SBA's initial efforts to redesign the system were not planned in accordance with federal regulations and guidelines. Specifically, (1) a needs determination assessment that defines the requirements of the system in relation to the agency's mission was not completed; (2) an analysis of the various alternative designs for the system, including the costs and benefits of each, was not performed according to federal requirements; and (3) SBA's overall plan for implementing the system did not outline software, hardware, and telecommunications requirements; describe how the related systems would be interfaced and integrated; or provide a schedule and cost estimate for the redesign effort. As a result, SBA does not know how much the redesign will cost and has little assurance that the alternative it selected is the most cost-effective.

In addition, the lack of proper planning has helped to delay SBA's implementation of the 8(a) program's management information system and to increase the system's costs. SBA originally estimated in 1989 that the redesign of the 8(a) management information system would be completed in 1990. In June 1993, SBA officials estimated that it would take until late 1995 before the system's redesign is complete. Contract costs for developing the second phase of the system's redesign increased by more than 240 percent—from about $120,000 to over $418,000—during fiscal year 1992. The contractor responsible for developing this phase repeatedly cited SBA's failure to define users' requirements for the system as an impediment to its development. As of June 1993, SBA had no estimate of the total cost of redesigning this system.

The act also requires SBA to report to the Congress by April 30 of each year on the status of 8(a) firms and the 8(a) program's accomplishments during the previous fiscal year. The first report, due in April 1991 for fiscal year 1990, was not submitted to the Congress until October 1991. SBA's fiscal

[3] Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992).

year 1991 report was not submitted until November 1992. SBA did not submit the report for fiscal year 1992 until the end of July 1993. According to SBA, the delays occurred because the 8(a) management information system did not include data needed to meet the reporting requirements and SBA had to query its field offices for the data.

Appendix II discusses the 8(a) program's management information system and reporting problems.

Certification of 8(a) Program Participants Continues to Take Longer Than the Act Allows

In an effort to improve access to the 8(a) program, the act requires SBA to process each application and decide on an applicant's eligibility for the program within 90 days of receiving a completed application. In 1992, we reported that (1) only 24 percent of the applications processed during the first 11 months of 1990 met the mandated time frame, (2) SBA was averaging 117 days to process an application, and (3) SBA was unable to determine where delays were occurring because of missing data in its manual application-tracking system.

SBA continues to have difficulty meeting the act's 90-day processing requirement. During fiscal year 1992, SBA completed the processing of and decided on 846 applications. Our analysis showed that SBA took an average of 170 days to decide whether to approve or decline each of these applications. Of the 846 applications, only 68, or about 8 percent, were processed in 90 days or less. At the same time, 531 applications, or about 63 percent, took at least 151 days to process. Table 1 shows the processing times for the 846 applications.

Table 1: Elapsed Times for 8(a) Applications Processed During Fiscal Year 1992

Number of days	Number of applications	Percent of applications
90 days and less	68	8.0
91 to 120	100	11.8
121 to 150	147	17.4
151 to 180	191	22.6
181 to 210	174	20.6
More than 210	166	19.6
Total	**846**	**100.0**

According to SBA, of the 554 8(a) program applications in processing as of late May 1993, 231, or 42 percent, had already exceeded the 90-day requirement.

In 1992, we reported that SBA was developing an automated system to track 8(a) program applications. We recommended that SBA fully implement the system and use it to identify where and why application-processing delays are occurring, and work to meet the mandated 90-day processing requirement.

Although SBA stated in July 1992 that the new system could identify where and why processing delays were occurring, the system still is not capable of producing standard reports that provide SBA with such information. Since January 1992, SBA's emphasis has been on entering application information into the system in order to build a data base. SBA plans to incorporate into the system a reporting capability that will routinely track and provide standard reports on application processing, but because of other ongoing system redesign work, SBA estimates that work will not begin on this effort until sometime in fiscal year 1994. Until SBA builds such a reporting capability into its application-tracking system, it will not be able to routinely identify and deal with application-processing delays on a day-to-day basis.

Despite the automated tracking system's lack of a reporting capability, SBA officials maintain that they are aware of where the processing delays are occurring and are considering organizational changes that are designed, in part, to decrease application-processing times. SBA has already restructured the review process in SBA's central office and reduced the overall number of application reviews. SBA is also considering eliminating the field offices from the application-review process and consolidating all 8(a) program application-review functions at the central-office level.

Not All Business Plans Reviewed Annually

The act gave increased importance to the business plan as a tool to aid an 8(a) firm's development by requiring that each plan, among other things, analyze the firm's strengths and weaknesses, set forth its business development goals and objectives, and estimate its future 8(a) and non-8(a) contract activity. The act further directed that (1) for any firm entering the 8(a) program after June 1, 1989, SBA approve the firm's business plan before the firm becomes eligible for contracts and (2) SBA annually review each business plan with the firm and modify the plan, as needed, to make sure that the firm's business development goals are realistic and to help the firm achieve them.

The number of firms in the 8(a) program with approved business plans has increased. In 1992, we reported that SBA had reviewed and approved business plans for 2,250 firms, or 57 percent, of the 3,922 firms in the 8(a) program as of October 1, 1991. The latest data available from SBA showed that, as of November 30, 1992, 3,564 firms, or about 88 percent, of the 4,071 firms in the 8(a) program at that time had new or revised business plans approved by SBA. According to SBA officials, the remaining 12 percent were either relatively new to the 8(a) program, not receiving 8(a) contracts, or in the process of being terminated from the 8(a) program.

Our review of files for 71 randomly selected 8(a) firms under four district offices in SBA's Regions III and VI found that 66 of the firms had new or revised business plans approved by SBA. Specifically, all 26 8(a) firms under the New Orleans and San Antonio District Offices, 27 of the 30 8(a) firms under the Washington, D.C., District Office, and 13 of the 15 8(a) firms under the Philadelphia District Office had approved business plans. None of the five firms without approved business plans had received 8(a) contracts during fiscal years 1991 and 1992. The files also showed that SBA had informed firms that remedial measures would be taken if the firms did not submit business plans. For example, the Philadelphia District Office threatened to terminate two of the firms in our sample from the 8(a) program for not submitting business plans. During our review, one of the 8(a) firms submitted its plan and SBA approved it, but the other had not submitted a plan.

However, our file review also showed that SBA is not annually reviewing approved business plans, as required by the act. In addition, the emphasis given to the annual reviews varied between SBA offices. SBA had not conducted annual reviews of the business plans for 8 of the 15 8(a) firms under the Philadelphia District Office and 10 of the 30 8(a) firms under the Washington, D.C., District Office. SBA officials in these offices stated that staff had placed a low priority on such reviews. Conversely, SBA had conducted annual business plan reviews for 11 of the 13 8(a) firms whose files we reviewed in the San Antonio District Office and all 13 of the 8(a) firms whose files we reviewed in the New Orleans District Office. Unless it annually reviews the business plan of each 8(a) firm, SBA has little or no assurance that the business development goals outlined in the plan remain realistic.

More 8(a) Contracts Awarded Competitively, but 8(a) Contracts Still Concentrated in Small Percentage of Firms

To help develop 8(a) firms and better prepare them to compete in the commercial marketplace after the firms leave the 8(a) program, the act mandated that 8(a) program contracts must be awarded competitively when the total contract price, including the estimated value of contract options, exceeds $5 million for manufacturing contracts and $3 million for all other contracts. In 1992, we reported that, of the approximately 8,300 new 8(a) contracts awarded in fiscal years 1990 and 1991, totaling $3 billion, 67 contracts, totaling $136 million, were awarded competitively. We also reported that we could not determine the number of new 8(a) contracts that should have been awarded competitively because the 8(a) program's management information system did not record the total estimated values of 8(a) contract options that might be exercised in the future.

The dollar values of 8(a) contracts that were awarded competitively during fiscal year 1992 exceeded the combined dollar values of 8(a) contracts that were awarded competitively during fiscal years 1990 and 1991. SBA data showed that, of the 4,693 new 8(a) contracts awarded in fiscal year 1992, totaling about $1.7 billion, 139 8(a) contracts, totaling about $343.4 million, were awarded competitively. This represents about 3 percent of the new 8(a) contracts awarded in fiscal year 1992 and about 20 percent of the new 8(a) contract dollars. We were unable to determine how many of the new 8(a) contracts awarded in fiscal year 1992 should have been awarded competitively because the 8(a) program's management information system still does not record the total estimated cost of 8(a) contracts, including the value of any 8(a) contract options.

As part of our work involving the competitive award of 8(a) program contracts, we determined the extent to which indefinite delivery, indefinite quantity (IDIQ) contracts under the 8(a) program were being awarded competitively. This type of contract is used when a procuring agency does not know the precise quantity of supplies or services to be provided under the contract and, consequently, is able to estimate only the minimum value of the contract. As the agency identifies a specific need for goods or services, the IDIQ contract is modified to reflect the actual costs associated with the goods or services. When an agency classifies an 8(a) contract as an IDIQ contract, SBA regulations require that the agency consider only the guaranteed minimum value of the contract in deciding whether the contract meets the 8(a) program's competition thresholds and should be competitively awarded. The total estimated or actual lifetime value of an IDIQ contract is not considered in determining whether the contract is subject to competition as with other contractual methods.

SBA's 8(a) program management information system does not identify which 8(a) contracts are IDIQ contracts. However, using data obtained from the Federal Procurement Data System,[4] we determined that, in fiscal years 1991 and 1992, 8(a) IDIQ contracts whose values eventually exceeded the competition thresholds were few in number, but they accounted for one-half of the total dollar amount of all IDIQ contracts awarded. In these 2 fiscal years, federal agencies awarded 2,872 IDIQ contracts to 8(a) firms. As of May 1993, these contracts had a total value, including modifications, of about $2.8 billion. Of these contracts, 173, totaling about $1.4 billion, ultimately exceeded the competitive thresholds. The 173 contracts accounted for only about 6 percent of all IDIQ contracts, but they accounted for 50 percent of the total value of all 8(a) IDIQ contracts awarded during the 2 fiscal years. Of the 173 contracts, 21, totaling about $434 million, were competitively awarded and 152 contracts, totaling about $966 million, were not competitively awarded.

According to SBA, the IDIQ provision in its 8(a) program regulations—that only the guaranteed minimum value of an IDIQ contract be considered when determining whether the contract should be competitively awarded—is intended to protect the 8(a) contractor from overcommitting financial, personnel, and other resources to meet IDIQ contract requirements that may never materialize. However, SBA officials conceded that a procuring agency could inappropriately classify a contract as an IDIQ contract—the result being that the contract would not be awarded competitively.

The distribution of 8(a) contracts among a relatively few firms is a long-standing condition that continued during fiscal year 1992. As early as 1981, we reported that, on average, 50 8(a) firms annually received about 31 percent of all 8(a) contract awards over a 12-year period.[5] In May 1988, we reported that 50 firms received about $1.1 billion, or about 35 percent of the value of the 8(a) contracts awarded during fiscal year 1987.[6] Our January 1992 report noted that, of the 3,645 firms in the 8(a) program at the end of fiscal year 1990, 50, or fewer than 2 percent, received about $1.5 billion, or 40 percent of the nearly $4 billion in 8(a) contracts awarded during the fiscal year. SBA data showed that of the 4,291 firms in the 8(a)

[4]The Federal Procurement Data System, operated by the Federal Procurement Data Center, collects, develops, and disseminates federal procurement data to the Congress, the executive branch, and the private sector.

[5]The SBA 8(a) Procurement Program—A Promise Unfilled (CED-81-55, Apr. 18, 1981).

[6]Small Business Administration: Status, Operations, and Views on the 8(a) Procurement Program (GAO/RCED-88-148BR, May 24, 1988).

program at the end of fiscal year 1992, 50, or fewer than 2 percent, received about $1.15 billion, or about 31 percent of the $3.67 billion in 8(a) contracts and 8(a) contract modifications awarded during the fiscal year.

Conversely, many 8(a) firms continue to receive no contracts. According to SBA, of the 3,645 firms in the 8(a) program at the end of fiscal year 1990, 1,914, or about 53 percent, did not receive any 8(a) program contracts during the fiscal year. In fiscal year 1991, 2,155 firms, or 55 percent of the 3,922 firms in the 8(a) program at the end of fiscal year 1991, did not receive any contracts through the 8(a) program during the fiscal year. SBA data showed that, during fiscal year 1992, 2,327 firms, or 54 percent of the 4,291 firms in the 8(a) program at the end of the fiscal year, did not receive any 8(a) contracts.

Improvements Made in Tracking and Acquisition of Management and Technical Assistance

The act directed us to report on the amount and type of management and technical assistance that SBA provided to 8(a) firms and SBA's criteria to measure the effectiveness of such assistance. While 8(a) firms, as small businesses, are eligible to receive management and technical assistance from various sources to aid their development, SBA's primary source of such assistance for 8(a) firms is its 7(j) program. Under the 7(j) program, SBA hires contractors to conduct seminars and provide one-on-one assistance to 8(a) firms and other small businesses. In fiscal year 1992, SBA provided about $7.8 million in 7(j) assistance to 2,754 firms.

In 1992, we reported that SBA did not track the amount and type of assistance provided to 8(a) firms under each of the 16 specialized categories of 7(j) assistance. Consequently, when SBA contracted for 7(j) assistance to be provided under each category during the next fiscal year, it had no assurance that the assistance being procured would be in line with or meet the needs of the 8(a) firms. We also reported that SBA had not developed objective criteria for measuring the effectiveness of 7(j) assistance but instead relied on indicators, such as reports from providers describing the nature of the 7(j) assistance provided, to measure its effectiveness.

SBA has taken several steps to improve its tracking and acquisition of 7(j) assistance. During fiscal year 1992, SBA requested that each field office determine 7(j) management and technical assistance requirements for fiscal year 1993 on the basis of its 8(a) firms' needs. SBA used these data to make adjustments to its fiscal year 1993 7(j) assistance request and in its subsequent allotments to SBA field offices. In addition, in September 1992, SBA entered into a year-long contract, valued at approximately $100,000, for the development of an automated system to record, track, and report on the delivery of 7(j) assistance to 8(a) and other small firms. In November 1992, SBA directed its 10 regional offices to provide monthly information to SBA headquarters on the amount of assistance provided under each category of management and technical assistance. While the automated system is being developed, SBA is continuing to manually compile the data that the field offices submit on 7(j) assistance.

In early July 1993, SBA entered into a contract, valued at $197,000, for the development of criteria and a program for assessing the effectiveness of 7(j) assistance. The contract provides for the contractor to make its initial presentation of the criteria and program to SBA around mid-October 1993.

Extent of Financial Assistance Provided to 8(a) Firms Not Fully Known

The act also directed us to report on the amount and type of financial assistance provided to 8(a) firms by SBA. SBA's principal forms of financial assistance for 8(a) firms are 7(a) program guaranteed general business loans, 8(a) direct loans, and 8(a) advance payments or cash advances from SBA to assist 8(a) firms in performing work on a specific contract. Firms in the 8(a) program can receive other forms of financial assistance, including equity capital and loans from SBA-sponsored investment companies and microloans from SBA-sponsored development companies.

In 1992, we reported that we were unable to determine the full extent of financial assistance provided to 8(a) firms because SBA did not have a system for identifying all forms of financial assistance provided to them. Therefore, we recommended that SBA determine the amount of loans and other forms of financial assistance provided to 8(a) firms.

In response to our report, SBA modified its loan-accounting system in June 1992 to track 7(a) guaranteed general business loans made to 8(a) firms. SBA data showed that between June 1992 and May 1993, 52 guaranteed general business loans—valued at about $14.5 million—were made to 8(a) firms.

In fiscal year 1992, SBA made 30 8(a) direct loans valued at about $4.7 million. As of May 1993, SBA had made 19 8(a) direct loans valued at $3.3 million for fiscal year 1993. Also, in fiscal year 1992, SBA disbursed $10.1 million in advance payments to 8(a) firms. According to SBA, it discontinued making advance payments in fiscal year 1993 because of congressional concerns regarding its authority to provide such assistance.

Small Business Investment Companies (SBIC), which are privately owned investment firms licensed and regulated by SBA, use their own and borrowed funds to provide equity capital, long-term loans, and other assistance to qualifying small businesses, including 8(a) firms. Much like SBICs, Specialized Small Business Investment Companies (SSBIC) invest in small businesses owned by socially or economically disadvantaged entrepreneurs. In fiscal year 1992, SBICs invested about $1 billion in small businesses, while SSBICs invested about $443 million. As of May 1993, SBICs had invested about $974 million and SSBICs had invested about $456 million in small businesses for fiscal year 1993. SBA does not have a mechanism for identifying SBIC or SSBIC assistance provided to 8(a) firms.

SBA's microloan program, authorized as a pilot project in October 1991, provides financial assistance to very small businesses, especially those owned by minorities, women, and low-income individuals who are unable to get credit in amounts that most commercial lenders consider too small—$25,000 or less. In fiscal year 1992, SBA disbursed $12.7 million to community-based nonprofit organizations to make microloans to eligible small businesses. As of May 1993, SBA had disbursed about $20.5 million to these organizations for fiscal year 1993. However, SBA does not have a system for identifying the number or dollar amount of microloans made to 8(a) firms. Without information on the assistance provided to 8(a) firms through the microloan, SBIC, and SSBIC programs, SBA cannot provide the Congress or the public with information on the full extent of financial assistance provided to 8(a) firms.

Conclusions

Although SBA has made some progress, it continues to have difficulty in managing the 8(a) program so that the program meets the requirements of the 1988 act. The 8(a) program still needs a management information system, developed in accordance with federal regulations and guidelines, that provides complete and accurate information on all of the 8(a) program's aspects, including data on the type and amount of financial, management, and technical assistance provided to 8(a) firms. Without such a system, the Congress and 8(a) program managers cannot determine the assistance being provided to 8(a) firms, assess the effectiveness of such assistance, or, most importantly, assess the program's overall effectiveness in developing 8(a) firms.

Access to the 8(a) program still needs to be improved. Firms applying to the 8(a) program must receive timely feedback on their eligibility to participate. However, SBA still needs an application-tracking system that can provide it with timely information on where and why processing problems are occurring. Finally, SBA must periodically review the business plan of each 8(a) firm. Without such reviews, SBA's ability to ensure that each plan is up-to-date, that the firm's business development goals are realistic, and most importantly that the firm is progressing toward achieving these goals is hampered.

In view of SBA's progress since our January 1992 report, we believe that the recommendations we made in our report—that SBA (1) fully implement its automated 8(a) application-tracking system and work to meet the 90-day processing time frame and (2) determine the amounts of financial assistance provided to 8(a) firms by all SBA programs—continue to be valid and should be implemented by SBA.

Recommendations

To improve the 8(a) program's administration and to achieve its objective of developing small businesses owned by socially and economically disadvantaged individuals, the Administrator, SBA, should direct that the Associate Administrator, MSB&COD, in addition to implementing the recommendations in our January 1992 report relating to implementing the 8(a) application-tracking system and determining the full extent of financial assistance provided to 8(a) firms,

- complete and analyze users' requirements for the 8(a) program's management information system, document the system's design, and complete the system's implementation plan, all in accordance with federal regulations and guidelines, and
- direct SBA field offices to annually review each approved business plan, as required by the act.

Agency Comments

SBA's Associate Administrator for MSB&COD and the Deputy Associate Administrator for Programs, MSB&COD, agreed that, in the past, the 8(a) program may not have received the SBA priority and staffing accorded other agency programs and activities. However, they believe that, over the last several years, despite declining resources, the MSB&COD staff has made sustained progress in implementing the legislative changes to the 8(a) program and in alleviating the 8(a) program's past problems while, at the same time, carrying out the day-to-day administration of the 8(a) program. These officials also provided updated information on MSB&COD's activities relating to the 8(a) program's management information system, 8(a) program's automated application-tracking system, and the 7(j) management and technical assistance program, which we incorporated into this report.

We conducted our review from April 1992 to May 1993 in accordance with generally accepted government auditing standards. We obtained information presented in this report from (1) interviews with SBA and other federal agency officials; (2) analysis of data from SBA's Financial Information System, other agency records and reports, and the Federal Procurement Data Center; (3) a review of a sample of 8(a) firms' files in four SBA district offices; and (4) a review of legislation, regulations, and procedures pertaining to the 8(a) program. As requested, we did not obtain written agency comments on a draft of this report. (For a detailed discussion of our scope and methodology, see app. III. A discussion of our sampling methodology appears in app. IV.)

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will provide copies of the report to the Administrator, SBA; the Associate Administrator, MSB&COD; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

This report was prepared under the direction of Judy A. England-Joseph, Director, Housing and Community Development Issues, who can be reached on (202) 512-7631 if you or your staff have any questions. Major contributors to this report are listed in appendix V.

Sincerely yours,

J. Dexter Peach
Assistant Comptroller General

Contents

Abbreviations

CODRRS	Central Office Data Repository and Reporting System
FIS	Financial Information System
IDIQ	indefinite delivery, indefinite quantity
MSB&COD	Office of Minority Small Business and Capital Ownership Development
NAPA	National Academy of Public Administration
OIRM	Office of Information Resources Management
SACS	Servicing and Contract System
SBA	Small Business Administration
SBIC	Small Business Investment Company
SSBIC	Specialized Small Business Investment Company

Prior Reports on Ineffectiveness of SBA's Management of the 8(a) Program

This appendix provides a synopsis of selected reports issued by us and other organizations on problems associated with the Small Business Administration's (SBA) administration and management of the 8(a) business development program, and/or the 8(a) program's effectiveness in developing firms into viable businesses.

1. United States Commission on Minority Business Development—Final Report (Washington, D.C., 1992).

This report, required by the Business Opportunity Development Reform Act of 1988, assessed whether federal programs that are intended to promote the development of minority businesses, such as the 8(a) program, are achieving their purposes and objectives. With regard to the 8(a) program, the Commission reported that congressional efforts have continued to focus on (1) directing the 8(a) program's purpose toward legitimate policy goals, (2) improving the 8(a) program's administration, and (3) better serving the 8(a) program's constituency. At the same time, the Commission noted that numerous reports by the House and Senate Small Business Committees and us, and the Commission's Interim Report have all identified problem areas in the 8(a) program and have called for specific remedial actions. In light of this, the Commission concluded that no more can be done to correct SBA's lax responsibility for the 8(a) program. The report stated that it is clear to the Commission, and the majority of the business population to which the Commission had spoken, that SBA's lack of progress with regard to the 8(a) program is due more to an institutional aversion to the minority business programs than to some chronic resource limitation. As a result, the Commission recommended that most authorities vested in SBA for the 8(a) program, management and technical assistance activities provided under section 7(j) of the Small Business Act, and direct loan assistance to 8(a) firms under section 7(a)(20) of the Small Business Act be taken away from SBA and vested in a new agency, created by statute, in the Department of Commerce.

2. Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992).

This report, required by the 1988 act, assessed SBA's implementation of changes to the 8(a) program mandated by the act. We concluded that SBA had difficulty in implementing many of the changes mandated by the act and lacked valid data on many activities needed to effectively manage the 8(a) program. Specifically, we found that: certification of the 8(a) program participants was taking longer than the 90 days allowed by the act and

SBA's manual application-tracking system could not pinpoint where and why processing delays were occurring; many 8(a) firms did not have new or revised business plans approved by SBA; difficulties existed in equitably distributing noncompetitive 8(a) program contracts among 8(a) firms; few 8(a) contracts were awarded competitively; missing and inaccurate data rendered SBA's Financial Information System inadequate for managing the 8(a) program; SBA did not know the nature and amount of management and technical assistance provided to 8(a) firms and lacked objectives for assessing the effectiveness of such assistance; and SBA did not know the extent of financial assistance provided to 8(a) firms.

3. National Academy of Public Administration: Organization and Operation of the Minority Small Business and Capital Ownership Development Program—An Assessment of Progress Under Revised Statutes P.L. 100-656 and P.L. 101-574 (Washington, D.C.: NAPA, Mar. 1991).

In September 1990, SBA contracted with the National Academy of Public Administration (NAPA) to independently assess the management and operation of the Minority Small Business and Capital Ownership Development (MSB&COD) program since the enactment of the Business Opportunity Development Reform Act of 1988. To this end, NAPA officials interviewed more than 200 SBA officials in SBA's central office and major field offices. They also interviewed federal procurement officials at several federal agencies and surveyed participating 8(a) firms, including firms that had graduated from the 8(a) program in the last 3 years. While much of the report presents the views and perceptions of those interviewed, the NAPA also reported that (1) SBA was averaging 140 to 150 days to process an application for entry into the program and (2) the delinquency rate of new advance payment accounts of 8(a) firms was unacceptably high.

4. Small Business Administration: Status, Operations, and Views on the 8(a) Procurement Program (GAO/RCED-88-148BR, May 24, 1988).

This report was prepared in response to a request by the Chairman, House Committee on Government Operations, to perform a follow-on review of several aspects of the 8(a) program that were addressed in our 1981 report, The SBA 8(a) Procurement Program—A Promise Unfulfilled (CED-81-55, Apr. 8, 1981). Using data collected in reviews of files for 142 8(a) firms, interviews with SBA and various federal procurement policy officials, and computerized 8(a) program files, we concluded that the 8(a) program continued to experience many of the problems that were identified in our 1981 report. In summary, we found that (1) a large percentage of the 8(a) contracts continued to be awarded to a very few firms, (2) firms may not be prepared for the competitive market at or near graduation, and (3) SBA's management efforts fell short of requirements.

5. National Academy of Public Administration: Management Review—Organization and Operation of the Minority Small Business and Capital Ownership Development Program—A Report for the Small Business Administration (Washington, D.C.: NAPA, Nov. 1987).

In July 1987, SBA contracted with NAPA to assess the internal management and operation of the MSB&COD program. To accomplish this, NAPA officials interviewed over 100 officials in SBA's central office and major field offices, agency procurement specialists in the 8(a) program, and officials of selected associations whose members either utilized 8(a) firms or participated in the 8(a) program. Although much of the report presents the views of those interviewed, NAPA also reported that (1) the 8(a) program's existing data base was not sufficiently current and complete for field use; (2) SBA personnel neglected to collect delinquent advance payments, and thus, advance payments became interest-free loans; (3) business development expenses for specific contracts became grants, since no repayment was required if the contract was completed; and (4) some Business Opportunity Specialists did not have the college training or direct experience in the business community needed to counsel 8(a) firms.

6. The Congress, Senate Committee on Small Business: Survey of the Graduates of the Small Business Administration Section 8(a) Minority Business Development Program (May 12, 1987).

In 1986, the Senate Committee on Small Business conducted a national survey to determine the status of 8(a) firms that had graduated since the enactment of Public Law 96-481. In addition, the survey was to assess the effectiveness of the business development aspects of the 8(a) program in preparing firms for the competitive marketplace. The survey was mailed to 461 firms that had graduated from the 8(a) program between October 1982 and February 1986. The survey solicited profile information, such as the percentage of minority ownership and the primary line of business, and the participants' views on the strengths and weaknesses of the 8(a) program as a comprehensive business development program. Of the 461 firms surveyed, only 177 responded, for a response rate of 38 percent. Using these responses, the Committee concluded that the 8(a) program is an important vehicle for ensuring the inclusion of minority firms in our nation's federal procurement system. However, the Committee was "gravely" concerned that the lack of progress in making the 8(a) program a true business development experience for participants, as intended by law, as well as other major deficiencies in the overall operation of the 8(a) program, seemed to overshadow its basic intent and effectiveness.

7. Data Processing: SBA Needs to Strengthen Management of Its Computer Systems (GAO/IMTEC-86-28, Aug. 29, 1986).

This report was prepared at the request of the Chairman, Subcommittee on General Oversight and the Economy, House Committee on Small Business. We reviewed whether (1) SBA's automated systems, including the 8(a) program's system, assisted regional and district offices in carrying out the agency's mission and (2) information resource management activities were adequate, appropriate, and effective. In summary, we concluded that (1) SBA did not systematically involve field offices in the design and development of six systems supporting major programs, (2) SBA did not have an ongoing review process for field users to identify and report problems with the systems after they became operational, (3) certain systems produced inaccurate and untimely reports and lacked information that the field offices required to better manage SBA programs, and (4) SBA did not formalize its data-processing planning or adequately include field office users and top management in the process.

8. The SBA 8(a) Procurement Program—A Promise Unfulfilled (CED-81-55, Apr. 8, 1981).

This report assessed the implementation of the 8(a) program, 12 years after SBA began to refocus the 8(a) program toward business development. We concluded that the 8(a) program fell short of its intended goal. We found that the 8(a) program's problems were known by SBA management for years. We also stated that criticism, mostly justified, came from many sources, yet meaningful corrective action was not taken by SBA. Specifically, we found that: less than 4 percent of the participating firms graduated from the 8(a) program as competitive businesses; the bulk of the 8(a) contracts were awarded to a select group of firms; many firms relied on 8(a) contracts and viewed the 8(a) program as an end in itself; and insufficient staff, vague graduation criteria, and poor records hampered the 8(a) program's effectiveness. We recommended, among other things, that the SBA Administrator take several actions to immediately strengthen the management of the 8(a) program.

9. The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective (CED-81-22, Jan. 23, 1981).

In this report, which was prepared pursuant to Public Law 95-507, we assessed SBA's implementation of the 8(a) pilot contracting program. In January 1979, the Department of the Army was selected as the pilot agency to seek procurement opportunities that were not already offered by the Army under the regular 8(a) program. Under the pilot program, SBA was given the exclusive authority to designate procurement requirements. We concluded that the pilot program had not met its objective. Specifically, we reported that the three initial contracts awarded under the pilot program could have been handled under the regular 8(a) program and that better controls were needed in order for SBA to properly assess and match firms' capabilities with procurement opportunities.

10. Questionable Effectiveness of the 8(a) Procurement Program (GGD-75-57, Apr. 16, 1975).

This was the first in a series of audit reports required by Public Law 93-386 on SBA's operations. We assessed the effectiveness of the 8(a) procurement program and concluded that SBA's success in helping disadvantaged firms to become self-sufficient and competitive was minimal. Of the 110 firms that we evaluated, 73 had not reached self-sufficiency, 18 became self-sufficient, and 19 were not classified because of insufficient information. Of the 73 firms that had not reached self-sufficiency, 20 deteriorated financially, 27 went out of business, and the remaining 26 had either a slight financial improvement (but not enough to make them self-sufficient) or no change.

Problems Caused by Inadequate Planning in the Redesign of SBA's Management Information System

Since 1981, reports by us and others have repeatedly highlighted the deficiencies of the 8(a) program's management information system. Although SBA has attempted to correct the deficiencies, its failure to properly plan the redesign of the system has delayed the implementation of a system capable of providing management with basic 8(a) program information and increased its costs. This appendix discusses (1) past problems that SBA has encountered with the 8(a) program's management information system, (2) current problems that SBA is experiencing in its phased approach for redesigning the existing system, and (3) delays in SBA's reporting to the Congress as a result of its inadequate management information system.

SBA's Information Deficiencies Have Existed for Years

Several reports have been issued on SBA's information problems and the lack of effective management processes to plan and control SBA's information resources. In 1981, we reported that poor record keeping was hampering the effectiveness of the 8(a) program. In 1986, we reported that certain SBA systems, including the one used for the 8(a) program, produced inaccurate and untimely reports and lacked information that the field offices needed to better manage their programs. In 1987, NAPA reported that the 8(a) program's existing data base was not sufficiently current nor complete for field use. In January 1992, we reported that missing and inaccurate data rendered SBA's Financial Information System (FIS) inadequate for managing the 8(a) program. In this current report, we identify deficiencies in SBA's plans for redesigning the 8(a) program's current management information system that are causing SBA delays in meeting congressional reporting requirements and in providing SBA program managers with basic 8(a) program informational needs.

In addition, FIS weaknesses have also been reported in SBA's fiscal year 1989, 1990, 1991, and 1992 reports to the President, submitted in accordance with the Federal Managers' Financial Integrity Act of 1982. These reports disclosed a material weakness in internal controls because the system failed to furnish managers with adequate information about 8(a) services provided by the field offices.

SBA Uses Phased Approach to Upgrade Management Information System

The 1988 act directed SBA to develop a systematic process for collecting 8(a) program data and to report to the Congress by April 30 of each year on the status of 8(a) firms and the program's accomplishments during the prior fiscal year. In response to the legislation, SBA initiated a four-phase approach to redesign the management information system that supports the 8(a) program.

The first phase is the Certification Tracking System. According to SBA, this system is intended to provide SBA with (1) an accurate and efficient method of determining the status and location of each 8(a) program application and (2) information on other program-eligibility issues, including graduations, terminations, and withdrawals from the 8(a) program. In January 1992, SBA installed the system in the field offices responsible for processing 8(a) program applications, and since that time, SBA has focused on building the system's data base. SBA plans to incorporate a reporting capability into the system that will routinely track and provide standard reports on application processing, but because of other ongoing redesign work, SBA estimates that work will not begin until sometime in fiscal year 1994.

The second phase is the Servicing and Contracts System (SACS), which is being developed to assist field office personnel in the servicing of 8(a) firms and contracts. SBA is implementing this system in two stages. In the first stage, the system will maintain basic firm and owner information, track business plans and 8(a) and non-8(a) contract support levels, provide an interface with an automated financial analysis package that will be used by SBA in evaluating a firm's financial statements, generate standard SBA forms and letters, and track contracts and modifications. The second stage will prepare management and ad hoc reports, and will interface with the third phase. Although full implementation of the second phase was scheduled for September 1992, problems in the initial testing of the system have delayed its deployment. According to an SBA Office of Information Resources Management (OIRM) official, initial testing of the SACS identified a number of changes that were necessary prior to its implementation, including those for user requirements that had not been identified prior to the initial testing. Although SBA now plans to implement the first stage of the SACS in September 1993, it has not determined when the system will be fully implemented.

The third phase is the Central Office Data Repository and Reporting System (CODRRS). The 1988 act defined new reporting requirements for SBA, and this system will replace the current 8(a) FIS. According to SBA, CODRRS will be the primary source of information on 8(a) firms and associated contract awards and modifications. Although this system was to be implemented in December 1992, it has been delayed indefinitely because of delays in designing and implementing the SACS.

The final phase of SBA's management information system redesign is the MSB&COD System Integration. According to SBA, this effort will integrate the above automated systems with several other supporting systems to provide a comprehensive system that will satisfy all of MSB&COD's information requirements. The implementation of this phase was initially scheduled for fiscal year 1993, but again, implementation has been delayed until the first three phases are implemented.

Ineffective Planning Has Resulted in System Development Problems

Much of SBA's initial planning efforts to upgrade the 8(a) program's management information system were not conducted in accordance with federal regulations and guidelines. According to the Federal Information Resources Management Regulations and other federal guidelines, agencies intending to acquire contractor support must plan their strategy for designing and developing their management information system. The overall plan, or strategy, must include (1) a needs determination to determine the specific functional needs of the system; (2) an analysis of alternatives that, among other things, must address the availability, feasibility, and costs and benefits of alternative systems; and (3) an implementation plan, which describes the tasks, resources, and schedules necessary for successfully implementing the system. The extent to which SBA complied with each of these requirements is discussed below.

Needs Determination Never Made Final

SBA did not adequately perform a needs determination for the redesign of the 8(a) program's management information system. According to federal guidelines,[1] an agency must perform a needs determination when a project is initiated. The needs determination should clearly and accurately define needs in relation to the agency's mission and strategic objectives. It should also address the agency's system architecture and functions, new or changed program requirements, deficiencies in existing capabilities, and opportunities for increased economy and efficiency. The end user should play an active role in the process, as well as validate the requirements as they are defined.

According to officials in OIRM, SBA central office personnel visited various SBA locations throughout the country to obtain users' input for the new system's requirements, but the information was never thoroughly analyzed or formally documented and presented as a part of the redesign. As a result, over a 6-month period, weekly progress reports obtained from the

[1]Federal Information Processing Standards Publication 64: Guidelines for Documentation of Computer Programs and Automated Data Systems for the Initiation Phase (National Institute of Science and Technology, Aug. 1, 1979).

contractor responsible for developing the SACS repeatedly cited the lack of user requirements as an impediment to the proper development of the system.

Analysis of Alternatives Not Consistent With Federal Requirements

In 1988, SBA's OIRM reviewed the existing MSB&COD automated systems with the goal of designing a new system that would meet current and future program management needs. While this study, referred to as the MSB&COD Feasibility Study, addressed many aspects of the system's development process, it was not performed according to federal requirements and guidelines. For example, although the study discussed alternatives, they were not addressed in accordance with Federal Information Resources Management Regulations. Specifically, these regulations state that in analyzing alternatives, agencies should take the following actions, among others: (1) conduct market research to determine the availability of technology to meet an agency's requirements and to assist in identifying feasible alternatives; (2) calculate the total estimated cost for each alternative, including the system's life-cycle cost for each alternative; and (3) study the benefits, costs, and risks of using existing systems, both from within the agency and from other agencies to satisfy requirements. Although the Feasibility Study addressed cost issues for one alternative, the data were 4 years old. In addition, the study did not provide specific cost data for the two other alternatives. Without such data, SBA managers had little assurance that they selected the most cost-beneficial alternative.

Project Implementation Plan Inadequate

SBA's Project Implementation Plan did not comply with federal regulations. According to federal regulations, a project implementation plan should, among other things, describe the tasks necessary to design and implement the system, establish schedules for carrying out these tasks, and identify the hardware, software, and other resources associated with the system's design and implementation. SBA's seven-page, undated implementation plan only briefly described each of the four phases of the system's development. It did not describe the specific tasks necessary to design and implement the system. Also, it did not address the resources necessary to implement the project, such as software and hardware requirements, and how the systems will be interfaced and integrated. In addition, the plan did not address the system's costs or provide a schedule for the system's development and implementation.

SBA Reports to the Congress Delayed

The lack of an adequate management information system is hindering SBA's ability to provide legislatively mandated annual 8(a) program information to the Congress on a timely basis.

The act requires that no later than April 30 of each year, SBA report to the Congress on the status and accomplishments of the 8(a) program during the previous fiscal year. The report is to include such information as: the average personal net worth of individuals owning 8(a) firms, the status of firms that have left the 8(a) program in the past 3 years, the total dollar value of all 8(a) contracts awarded during the preceding fiscal year, and a description and estimate of the cost and benefits that have accrued to the government and the economy because of the operation of firms in the 8(a) program.

The first report, which was due in April 1991 for fiscal year 1990, was not submitted to the Congress until October 1991. The report for fiscal year 1991 was not submitted until November 1992. SBA did not submit the report for fiscal year 1992 until the end of July 1993. SBA officials told us that the reports were delayed because much of the information needed for them was not available in the 8(a) program's management information system and had to be obtained from SBA's field offices.

Objectives, Scope, and Methodology

In March 1992, we testified before the House Committee on Small Business regarding SBA's progress in implementing the Business Opportunity Development Reform Act of 1988. Specifically, we reported that SBA was having difficulty in implementing many of the changes mandated by the act and that its lack of valid data on many 8(a) program activities had hindered its ability to effectively manage the 8(a) program. During our testimony, the Chairman expressed concern over SBA's continued inability to administer the 8(a) program and asked that we continue to monitor and report on SBA's progress in implementing the act's provisions relating to: collection and management of 8(a) program data; certification of 8(a) program participants; development and maintenance of 8(a) firms' business plans; and the competitive awarding of 8(a) program contracts. The Chairman also asked us to report on the distribution of 8(a) program contracts among 8(a) firms and SBA's efforts to determine the amount and type of management and technical assistance provided to 8(a) firms and the effectiveness of such assistance, and the amount and type of financial assistance provided by SBA to 8(a) firms.

To address SBA's initiatives to improve its management information system, we reviewed the 1988 legislation regarding SBA's data-collection process to determine whether SBA had complied with legislative reporting requirements. We also reviewed federal regulations and guidance on system development methodologies and compared these with SBA's system development activities. Furthermore, we compared SBA's implementation schedule with actual completion times to determine whether delays had occurred. We also interviewed MSB&COD and OIRM officials to determine the reasons for missed reporting requirements and delays in the system's implementation.

To report on SBA's certification of 8(a) program participants, we interviewed MSB&COD officials to determine SBA's plans and progress toward (1) reducing the application processing time and (2) identifying where and why processing delays are occurring. Also, for the 846 8(a) program applications that SBA decided to approve or decline during fiscal year 1992, we determined how long it took SBA to process each application by computing the number of days between the date that SBA determined that the application was complete and the date that SBA approved or declined the application.

To determine whether SBA was approving business plans and conducting annual reviews of these plans, and withholding contracts from firms without approved business plans, we reviewed (1) SBA's policies regarding firms' submission of business plans and (2) the files of a random sample of 71 8(a) firms at four SBA district offices. We also obtained and reviewed MSB&COD reports to determine (1) the number of new and incumbent firms that had submitted business plans and (2) the number of new and incumbent firms with approved business plans. See appendix IV for details on our sampling methodology, statistical estimates, and associated sampling errors.

To report on the number and value of competitive and noncompetitive contract awards, we obtained statistics from MSB&COD on fiscal years 1991 and 1992 8(a) contracts that exceeded the competitive thresholds and were competitively awarded. Using data obtained from the Federal Procurement Data System, we determined the number and value of 8(a) program contracts that were awarded as indefinite delivery, indefinite quantity contracts during fiscal years 1991 and 1992, and the number and value of such contracts that were awarded competitively. To report on the distribution of 8(a) contracts, we obtained data from SBA on the total dollar value of 8(a) contracts awarded to each 8(a) firm during fiscal year 1992.

To determine SBA's efforts to report on (1) the type and amount of management and technical assistance provided to 8(a) program participants and (2) SBA's criteria for examining the program's effectiveness, we concentrated on SBA's 7(j) program—the agency's primary management and technical assistance program. We reviewed SBA's periodic reports on the amount of 7(j) assistance used by 8(a) program participants. We also discussed with MSB&COD officials their plans to track 8(a) program participants' usage of 7(j) assistance by each of the 16 specialized categories of assistance. We interviewed (1) officials in SBA's Office of Inspector General to identify the status of the 7(j) assistance effectiveness study and (2) MSB&COD officials to determine their plans to develop criteria for measuring the effectiveness of 7(j) assistance.

To address SBA's efforts to identify the amount and type of financial assistance provided to 8(a) firms, we interviewed SBA Office of Financial Assistance officials and reviewed SBA's procedures for identifying 8(a) firms receiving SBA financial assistance. We also reviewed management information system summary information and field office files regarding the amount and type of financial assistance provided to 8(a) firms. We interviewed MSB&COD officials for information on efforts to track 8(a) firms receiving financial assistance.

We performed our work between April 1992 and May 1993, primarily at SBA's headquarters in Washington, D.C. We also visited SBA offices in Washington, D.C.; Philadelphia, Pennsylvania; New Orleans, Louisiana; and San Antonio and Dallas, Texas.

Statistical Estimates and Associated Sampling Errors

This appendix provides details on our sampling methodology and sampling errors associated with our probability sample of 71 case files randomly selected in four SBA district offices to determine: how many 8(a) firms have new and revised business plans approved by SBA, how many 8(a) firms were awarded a contract without having an approved business plan, and whether SBA is performing required annual reviews of 8(a) firms' business plans.

Sampling Methodology

Because of the large number of case files on 8(a) firms, we could not review each one. Instead, we randomly sampled case files to review. Before selecting our random sample, we made a judgmental sample and reviewed 12 case files at SBA's Dallas District Office to determine how the information in each case file was organized and the amount of time required to review each case file. The results of the Dallas District Office are not included in this report because the sample was not randomly selected.

We focused our review on four district offices—New Orleans; San Antonio; Washington, D.C.; and Philadelphia. These offices were selected on a judgmental basis from SBA's Philadelphia Region (Region III) and Dallas Region (Region VI)—the two largest regions in terms of the number of 8(a) firms. The four district offices accounted for 832 of the 4,223 firms in the 8(a) program as of May 1992, when we selected our sample. We reviewed the files for 13 of the 66 total 8(a) firms at New Orleans; 13 of the 81 firms at San Antonio; 30 of the 594 firms at Washington, D.C.; and 15 of the 91 firms at Philadelphia. For each firm, we determined whether it (1) had a new or revised business plan approved by SBA, (2) was awarded a contract without having an approved business plan, (3) had an SBA annual review of the business plan, and (4) had a delinquent SBA annual review of the business plan.

Sampling Errors

Because we used a random sample of 8(a) firms' case files to develop our estimates, each estimate has a measurable precision, or sampling error, which may be expressed as a plus/minus figure. A sampling error indicates how closely we can reproduce from a sample the results that we would obtain if we were to take a complete count of the universe using the same measurement methods. By adding the sampling error to and subtracting it from the estimate, we can develop upper and lower bounds for each estimate. This range is called a confidence interval. Sampling errors and confidence intervals are stated at a certain confidence level—in this case, 95 percent. For example, a confidence interval at the 95-percent confidence level means that in 95 out of 100 instances, the sampling procedure we used would produce a confidence interval containing the universe value we are estimating.

We calculated the sampling errors at the 95-percent confidence level for those statistical estimates that are relevant to the main issues of this report. These values are shown in tables IV.1, IV.2, IV.3, and IV.4.

Table IV.1: 8(a) Firms Without Approved Business Plans

		95-percent confidence interval	
District office	Number of firms	Lower bound (percent)	Upper bound (percent)
New Orleans	0	0.0	19.70
San Antonio	0	0.0	19.75
Washington, D.C.	3	2.2	26.30
Philadelphia	2	2.2	38.50

Table IV.2: 8(a) Firms With Contracts Without Approved Business Plans

		95-percent confidence interval	
District office	Number of firms	Lower bound (percent)	Upper bound (percent)
New Orleans	0	0.0	19.70
San Antonio	0	0.0	19.75
Washington, D.C.	0	0.0	9.40
Philadelphia	0	0.0	17.60

Table IV.3: 8(a) Firms With No Annual Reviews

		95-percent confidence interval	
District office	Number of firms	Lower bound (percent)	Upper bound (percent)
New Orleans	0	0.0	19.7
San Antonio	2	2.5	44.4
Washington, D.C.	10	17.5	52.5
Philadelphia	8	27.5	78.0

Table IV.4: 8(a) Firms With Delinquent Annual Reviews

		95-percent confidence interval	
District office	Number of firms	Lower bound (percent)	Upper bound (percent)
New Orleans	1	1.5	34.8
San Antonio	5	14.8	66.7
Washington, D.C.	2	0.8	21.7
Philadelphia	0	0.0	17.6

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