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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-197880

May 27, 1981

*1981 may available to public reading*

The Honorable Mark O. Hatfield  
Chairman, Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

We would like to point out that SBA initially commented on the draft report on December 2, 1980, and said the report unduly criticized the pilot program but did not offer any additional data to cause GAO to revise or modify the report. SBA also said it was seeking methods, which it did not identify, to improve the program. SBA's comments, which we thought did not adequately respond to our recommendations, as well as our evaluation of their comments are discussed on pages 9, 18, and 23 of the report.

Besides disagreeing with many of our conclusions and recommendations, SBA's recently submitted comments now take issue with the methodology GAO used during the review. SBA also questions factual data in the report and describes the report as being subjective and biased. We take exception to these charges for the following reasons.

In SBA's opening comments, it claims that the report is too one-sided since we criticized SBA's implementation of and not Army's participation in the program. Even though the first objective of our review clearly states that we were to determine how effectively SBA and the Army used the program to meet the requirements of Public Law 95-507, SBA believes the report focused primarily on SBA's performance and totally disregarded the actions of the Army. SBA's claims are not correct. We describe in the scope and methodology section of chapter 1 that our work was performed at SBA's central office and the Office of the Secretary of the Army; SBA field offices in San Francisco and Los Angeles, California, and Washington, D.C.; and Army installations at Fort Belvoir, Virginia, and Omaha, Nebraska, which were responsible for negotiating the three initial contracts we reviewed.

*[SBA Comments on GAO Report]*

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Since the pilot program is administered centrally at SBA, a part of our work was performed at SBA and Army headquarters offices by reviewing files and records and interviewing program personnel. We also reviewed how SBA and the Army established the pilot program within their organizations as well as all policy and procedures issued by both agencies. Therefore, our work was all inclusive and fully covered each agencies' participation in the program.

SBA also claims the methodology used in our review seriously omitted critical information which might have placed SBA in a more favorable light. It further claims that it is most unfair and irresponsible to devise a solution to a problem based on imprecise data and an invalid premise. Even though SBA makes these claims, it again failed to produce the critical information it believes was omitted. Our work consisted of a detailed review of the circumstances behind the selection and negotiation of the initial three contracts awarded under the program. We gathered and analyzed all file data from SBA and Army on these contracts. Since contract records were maintained at field locations, we reviewed the contract files at the Army procurement centers and at SBA field locations involved in the negotiations. The firms' 8(a) program files were also reviewed at SBA. To accomplish our objectives, we also interviewed those SBA field officials who were involved with the negotiations and/or the firms' prior participation in the 8(a) program, as well as those Army officials at the installations responsible for the contracts. It was also necessary for us to conduct interviews with the consultants hired by SBA to provide services to the pilot program.

We also visited the 8(a) firms receiving the initial three contracts. While at these firms, we interviewed officials about their involvement in the pilot program. We did not review the records of these firms, since our objectives only covered SBA's administration of and Army's participation in the program.

Following are our observations on specific SBA comments on our report.

SBA stated that it was confused about GAO's conclusion that SBA's implementation of the pilot program has not improved its ability to obtain procurements which were not currently offered by the Army under the regular program. This conclusion was based on our observations that:

- the initial three pilot contracts could have been handled through the regular 8(a) program, and

--many other procurements identified for the pilot program at the time of our review were regular 8(a) program-type procurements.

SBA claims that it awarded the three initial pilot contracts consistent with the program's goals and objectives. It disagrees with our conclusion that it made a poor choice of those firms that were awarded these contracts. SBA cites the fact that all three firms are performing satisfactorily.

Our report is concerned with the manner in which SBA selected and awarded the three initial pilot contracts, and with whether these contracts will contribute to the development of the 8(a) firms that received them. Our review was completed before a full assessment of contract performance could be made. Frankly, since one firm received \$1.2 million and another firm received \$273,000 in business development funds, and the third firm's large non-8(a) joint venture partner is performing most of the actual work on its contract, we are not surprised that the three firms are "performing satisfactorily." We continue to believe that there are problems and issues about these firms and their past performance in the 8(a) program that SBA did not consider before awarding the three initial contracts. A detailed description of these problems and issues are discussed in appendix I of the report.

SBA took exception to our conclusion that SBA is trying to make the pilot program look more successful than it really is. This conclusion was based upon our observation that in April 1980, SBA embarked upon an effort to place as many procurements as possible in the pilot program. SBA had assembled a list of 38 possible pilot procurements. Our review of this list (which had expanded to 47 procurements by June 20, 1980) showed that a number of the procurements could have been reserved under the regular 8(a) program. When we brought this to the attention of the SBA pilot program manager, he agreed and said that he was recommending to the Army that eight of the pilot projects identified by the SBA procurement representative at Fort Monmouth, New Jersey, be transferred to the regular 8(a) program.

The authorizing legislation and SBA guidelines distinguish a pilot procurement from a regular 8(a) procurement on the basis of whether a procurement is volunteered to or demanded by SBA. SBA guidelines state that when the Army offers a procurement to SBA, it should not be placed in the pilot. According to the guidelines, a procurement should be placed in the pilot only when SBA is compelled to demand it from the Army.

In the November 1980 list of 28 pilot program contracts and project reservations we noted that 9 were Army Corps of Engineers projects. We were told by the Director of Army's Office of Small and Disadvantaged Business Utilization that, because the Corps of Engineers has a policy of offering their projects to SBA, most of these projects could have been in the regular 8(a) program. This policy was also mentioned by the Chief, Procurement and Supply, Corps of Engineers, Omaha, Nebraska.

One example of a procurement identified for the pilot program that should be in the regular 8(a) program, is the "standard military gasoline engine" procurement discussed on pages 16 and 44 of our report. SBA identified it as a pilot project on April 30, 1980, even though the Army identified it for the regular 8(a) program in October 1978.

In SBA's comments on our recommendation that SBA program officials should use the pilot program only when a qualified firm is available, SBA asked "Why didn't GAO mention in their report that in March 1979, SBA requested the Army to conduct an evaluation of the three proposed 8(a) contractors on the Reverse Osmosis Water Purification Units?" This evaluation was discussed on page 25 of the report. We noted that the evaluation of the firms (called preaward surveys) were intended only to determine whether the firms possessed needed management and technical expertise. The surveys did not assess the adequacy of the firm's facilities, since it was the Army's understanding that SBA would provide funds to help both 8(a) firms acquire needed facilities and equipment. SBA ended up awarding about \$1.5 million in business development funds to these firms to this end.

SBA commented that it will use all the appropriate resources available to determine contractor capability, to the extent practicable, and if a firm is found to be incapable of performing and SBA cannot overcome the deficiencies, the pilot program authority will not be invoked. We think that this new SBA policy is commendable.

SBA asserted that the Army was not cooperating as the participating pilot agency. For example, SBA said that the Army's Office of Small and Disadvantaged Business Utilization refused to allow SBA to reserve potential pilot procurements for a 30-day assessment period prior to actual formal pilot program reservation. The Director of the Office of Small and Disadvantaged Business Utilization told us that this refusal came only after SBA was abusing the 30 day reservation-process by holding up a number of extremely

complex and sophisticated procurements that could only be performed by major defense contractors.

SBA also stated that the Office of Small and Disadvantaged Business Utilization was taking action to stop the Corps of Engineers from furnishing lists of potential pilot construction procurements. The Director of the Office of Small and Disadvantaged Business Utilization told us that these lists were in fact normally provided to SBA's regional offices to allow SBA to select projects for the regular 8(a) program before the projects were put out for competitive bid. The Office of Small and Disadvantaged Business Utilization would not allow SBA to select projects for the pilot program from these lists because it was not the intent of Public Law 95-507 that regular 8(a) procurements be placed in the pilot program.

The Director of the Office of Small and Disadvantaged Business Utilization also told us that the Army has always been willing to conduct technical evaluations on proposed pilot contractors after SBA had identified a specific procurement. The Director stated that at one time SBA wanted the Army to evaluate a group of proposed pilot contractors before any specific procurements had been identified for them to perform. This was not practical according to the Director.

SBA stated that it does not concur with GAO's conclusion that "SBA lacks sufficient information on 8(a) firms' capabilities as well as procurement requirements to properly match firms to procurement requirements." SBA stated further that it did not award multi-million dollar contracts without any assessments. Our conclusion was based on the fact that:

- An 8(a) firm was awarded a \$5 million contract by SBA's central office at the same time it was being recommended for termination by the district office for poor management and unsatisfactory progress in the 8(a) program. Despite the fact that this firm had continuously experienced financial difficulties due to questionable financial practices, SBA agreed to provide \$1.2 million in business development funds to support the firm's performance.
- A second firm was awarded a \$1.9 million contract, including \$273,000 in capital equipment funds, to support a capability that was outside its current line of business.

--The third firm was awarded a \$4 million contract (in a joint venture with a non-8(a) firm) even though the district office described the firm as a "one-man firm" that had not started work on its initial 8(a) procurement, awarded a year earlier. The non-8(a) firm and a non-8(a) subcontractor will do most of the work on this contract.

It should be noted that the Director of the Office of Small and Disadvantaged Business Utilization agreed with our conclusion.

Regarding our recommendation on the role of procurement center representatives SBA now agrees that they should have information on 8(a) firms' capabilities in order to know what procurements to seek for the pilot program. Even though the capabilities of firms will be provided to the procurement center representatives, SBA believes the actual matching of requirements to an 8(a) firm should not be the representatives' responsibility. This action, if implemented, will be responsive to our recommendation.

SBA quoted the part of Public Law 95-507, section 8(a)(1)(B) that establishes the pilot program and stated that it is SBA's

"\* \* \*responsibility to meet the legislative mandates to develop disadvantaged firms and increase their participation on Government procurements."

We agree with SBA's stated responsibility but we must point out that our review of the pilot program showed that:

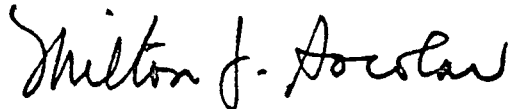
- SBA's implementation of the pilot program has not improved its ability to obtain procurements which were not currently offered by the Army under the regular 8(a) program,
- it is doubtful that the initial three pilot program contracts will contribute to the development of the 8(a) firms that received them, and
- SBA has not demonstrated that it has the ability to effectively implement the pilot program.

In summarizing its comments SBA characterized the Army as being "recalcitrant and uncooperative." The Director of the Office of Small and Disadvantaged Business Utilization told us that she feels that the pilot program severely hurt the Army's regular 8(a) program. Because 75 percent of all professional staff time

in her office during the past year was devoted to the pilot program, not nearly enough time was spent finding procurements for the regular 8(a) program. As a result several major Army procurement activities fell short of their 8(a) procurement goals. Although the Army did meet its fiscal year 1980 8(a) procurement goal, the Director said it could have done a lot better if the Army had not been encumbered by the pilot program.

SBA has expressed its objections to our report twice--in its initial comments on the draft report on December 2, 1980, and the April 6, 1981, comments. However, SBA has not offered any information that would cause us to retract our statements in the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Auster".

Acting Comptroller General  
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-197880

May 27, 1981

The Honorable Jack Brooks  
Chairman, Committee on Government  
Operations  
House of Representatives

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

We would like to point out that SBA initially commented on the draft report on December 2, 1980, and said the report unduly criticized the pilot program but did not offer any additional data to cause GAO to revise or modify the report. SBA also said it was seeking methods, which it did not identify, to improve the program. SBA's comments, which we thought did not adequately respond to our recommendations, as well as our evaluation of their comments are discussed on pages 9, 18, and 23 of the report.

Besides disagreeing with many of our conclusions and recommendations, SBA's recently submitted comments now take issue with the methodology GAO used during the review. SBA also questions factual data in the report and describes the report as being subjective and biased. We take exception to these charges for the following reasons.

In SBA's opening comments, it claims that the report is too one-sided since we criticized SBA's implementation of and not Army's participation in the program. Even though the first objective of our review clearly states that we were to determine how effectively SBA and the Army used the program to meet the requirements of Public Law 95-507, SBA believes the report focused primarily on SBA's performance and totally disregarded the actions of the Army. SBA's claims are not correct. We describe in the scope and methodology section of chapter 1 that our work was performed at SBA's central office and the Office of the Secretary of the Army; SBA field offices in San Francisco and Los Angeles, California, and Washington, D.C.; and Army installations at Fort Belvoir, Virginia, and Omaha, Nebraska, which were responsible for negotiating the three initial contracts we reviewed.





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WASHINGTON D.C. 20548

B-197880

May 27, 1981

The Honorable William V. Roth, Jr.  
Chairman, Committee on Governmental  
Affairs  
United States Senate

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

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B-197880

May 27, 1981

The Honorable Parren J. Mitchell  
Chairman, Committee on Small Business  
House of Representatives

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON D.C. 20548

B-197880

May 27, 1981

The Honorable Lowell P. Weicker, Jr.  
Chairman, Select Committee on  
Small Business  
United States Senate

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-197880

May 27, 1981

The Honorable Jamie L. Whitten  
Chairman, Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

We have reviewed the Small Business Administration's (SBA) April 6, 1981, comments on our report entitled "The 8(a) Pilot Program for Disadvantaged Small Businesses Has Not Been Effective." (CED-81-22, January 23, 1981). These comments, which were submitted pursuant to section 236 of the Legislative Reorganization Act of 1970, strongly disagree with the overall report and several of its conclusions and recommendations.

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