

2054

United States General Accounting Office
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
TUESDAY, MARCH 11, 1986

STATEMENT OF
SARAH P. FRAZIER, ASSOCIATE DIRECTOR
RESOURCES, COMMUNITY, AND ECONOMIC
DEVELOPMENT DIVISION
BEFORE THE
SUBCOMMITTEE ON INNOVATION
AND TECHNOLOGY
OF THE
SENATE COMMITTEE ON SMALL BUSINESS
ON
IMPLEMENTATION OF THE SMALL BUSINESS
INNOVATION DEVELOPMENT ACT OF 1982

034772

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today at your request to discuss our October 25, 1985, report on the implementation of the Small Business Innovation Development Act of 1982. Our report (GAO/RCED-86-13) assesses the extent to which agencies established, funded, and provided accurate information on those activities required by the law. It also assesses program coordination, monitoring, and congressional reporting activities of the Small Business Administration (SBA) and the Office of Science and Technology Policy (OSTP).

We found that agencies have, for the most part, complied with the act's funding requirements, but that most have not fully adhered to the act's reporting requirements. In the area of program oversight and monitoring, we found that SBA has actively pursued and fulfilled its responsibilities, while OSTP has elected to limit its efforts.

I will briefly review some of the key provisions of the act, along with our findings.

SBIR PROGRAMS

The act requires each federal agency that spends more than \$100 million annually on extramural research to establish a small business innovation research program. These programs, commonly called SBIR programs, are open only to small businesses. Agencies must spend specified percentages of their extramural funds on SBIR programs and must report program and funding data annually to both SBA and OSTP.

By the end of fiscal year 1984, 11 of 12 agencies meeting the extramural funding criterion established SBIR programs.

Together the 11 agencies had issued 26 solicitations, received over 17,000 proposed projects, and made almost 2,100 SBIR awards totaling \$156 million.

The twelfth agency, the Department of Commerce, met the \$100-million criterion in March 1984, when its budget estimate changed and reached the required amount. Commerce, however, said that it did not have time to fully implement an SBIR program before the end of the fiscal year. Commerce implemented its program early in fiscal year 1985 and planned to make up in fiscal year 1985 the amount it should have awarded during fiscal year 1984.

Technically, compliance with the act's SBIR funding percentages must be determined using actual obligations. Most agencies, however, have reported extramural figures to SBA reflecting estimated obligations or appropriations. This was done, by and large, because estimations were more readily available than actual obligations when the agencies had to report to SBA in late December. Most agencies said that it would be difficult to report the proper figures because doing so would require extra work for budget personnel who are already busy at that time of year preparing final budget submissions to the Office of Management and Budget. Most agencies said, however, that they could report actual extramural obligations by early March, which is the normal date for reporting these and other research funding data to the National Science Foundation (NSF).

We therefore recommended that SBA revise its reporting deadline to March 1, and that agencies report actual

obligations. SBA and most of the affected agencies agreed with these recommendations. Using the actual obligation figures that agencies later reported to NSF, we determined that most agencies either met or came very close to meeting their required SBIR percentages.

There remains, however, an important outstanding dispute between SBA and the Department of Defense regarding the amount of DOD's extramural research budget. SBA considered the budget to be \$17.9 billion for fiscal year 1984, while DOD contends that the proper figure is about \$2 billion less. This translates into a difference of almost \$11 million in the required SBIR funding. The discrepancy occurs because DOD inconsistently classifies the Operational Systems Development category of its research appropriations (category 6.6) when reporting research and development budget data to SBA, NSF, and OMB. This category includes those projects which are still in full-scale engineering development, but which have been approved for production. DOD excludes the category when reporting its extramural R&D budget to SBA, but includes this same category when reporting its R & D expenditures to NSF and to OMB. SBA uses the figures reported to NSF to estimate agencies' extramural research funding.

DOD excludes the 6.6 category when reporting to SBA because it contends that activities in the category do not conform to the act's definition of R & D. SBA maintains that NSF's definition of R & D is the same as that in the act. We agree that the definitions are the same and have recommended that DOD report consistent figures.

NON-SBIR GOALS

Because Congress intended that the SBIR program be a net addition to the agencies' existing small business research awards, all agencies with total research budgets exceeding \$20 million are required to set goals for awarding research funds to small businesses. These goals must at least equal the percentage of an agency's total research budget that went to small businesses the preceding year; SBIR awards cannot be counted toward meeting an agency's non-SBIR goals.

Most of the 18 agencies required to have non-SBIR goals collected and reported fiscal year 1983 and 1984 goals data to SBA. However, in both fiscal years most agencies did not provide SBA with all the data needed to properly determine goal attainment. For example, in fiscal year 1983 some agencies reported no data at all, while others reported extramural rather than total research dollars as a base for their goals. While the quality of data improved in fiscal year 1984, the amount of total research dollars (the legislatively required basis for computing goals) that agencies reported to SBA differed from that reported in the President's budget. One reason for the inconsistency is that agencies do not normally make their budget figures final until after SBA's December reporting deadline.

We can't say at this time whether the agencies actually met their goals because the data reported to SBA were either inconsistent or inappropriate as a basis for judging goal attainment. We do, however, believe that certain actions should be taken in order to make goals meaningful targets for action.

In particular, we recommended that agencies set their goals at the beginning of the fiscal year and make those goals known to program officials responsible for awarding external R & D funds. The agencies should also collect the information needed to meet SBA's reporting requirements and to determine whether they have achieved their goals by the end of the year. Fewer than half the agencies followed all of these practices. While we realize that following our recommended practices will not guarantee goals achievement, we believe that they are preferable to leaving goals achievement essentially to chance by treating it as an after-the-fact reporting exercise, as many agencies have done so far. We also recommended that SBA change its deadline so that agencies could more easily report non-SBIR goals data.

One ambiguity in the goals requirement warrants the subcommittee's attention. It is not clear whether agencies whose research budgets had met the \$20 million criterion must continue to set goals if they drop below \$20 million in later years. This situation occurred at the Department of Housing and Urban Development, which met the criterion requiring goal setting in fiscal year 1983 but not in fiscal year 1984. As a result, HUD did not submit a 1984 annual report to SBA. We recommended that when the act is considered for reauthorization, the Congress make it clear that the \$20 million criterion should be applied annually to identify those agencies that must establish goals.

PROGRAM OVERSIGHT

The act assigns the Small Business Administration and the Office of Science and Technology Policy similar responsibilities for monitoring and reporting to Congress on the implementation of SBIR programs.

We found that SBA has made extensive efforts to fulfill its responsibilities under the act. Specifically, we found that, as required, SBA issued policy directives for the conduct of the SBIR programs that complied with the act. Additionally, SBA made extensive efforts to stimulate small business participation, to coordinate agency solicitations, and to oversee and report on program implementation.

The act requires the Office of Science and Technology Policy--in consultation with an interagency group, the Federal Coordinating Council for Science, Engineering and Research--to independently survey, monitor, and report to the Congress on the implementation and operation of the SBIR programs. Although OSTP has complied with the requirements for monitoring, surveying and reporting to Congress, it has purposely limited its activity during the first 2 years of the program and has not assessed the quality of the research as envisioned in the reports of the House and Senate Small Business Committees. Thus, the Director of OSTP has not utilized the Federal Coordinating Council for SBIR oversight and OSTP staff have conducted a very limited review of the program. OSTP's first annual report to the Congress was a 1-page letter that contained

little support for its conclusion that the SBIR agencies were all making "good faith" efforts to accomplish the purposes of the act.

OSTP limited its activity for two reasons--a belief that the required duties are inappropriate and impractical given OSTP's mission and its limited staff resources, and a desire to avoid duplication of what OSTP believes to be adequate monitoring by SBA. The reports of the authorizing committees, however, indicate that the Congress expected OSTP to concentrate on assessing research quality, while SBA would protect the interests of small businesses so that the monitoring roles of the two agencies would complement rather than duplicate each other. We recommended, therefore, that OSTP monitor research quality, utilizing the Federal Coordinating Council for Science, Engineering and Research to do so.

This concludes my statement, Mr. Chairman. I will be happy to respond to any questions.