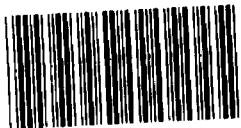


110922
~~12104~~

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



110922

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Thursday, November 8, 1979

STATEMENT OF
J. DEXTER PEACH, DIRECTOR
ENERGY AND MINERALS DIVISION
BEFORE THE
SUBCOMMITTEE ON ENERGY, ENVIRONMENT, SAFETY AND RESEARCH
HOUSE COMMITTEE ON SMALL BUSINESS
ON
DEPARTMENT OF ENERGY SMALL BUSINESS
PROCUREMENT PRACTICES

0:316
~~45203583~~

AGC00912

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here this morning to discuss our June 1979 report 1/ on the effectiveness of the Department of Energy's (DOE's) efforts to encourage small business contracting.

As you are aware, Mr. Chairman, we did this work at your request and looked specifically at DOE's efforts in the solar research and development area. Interest in this area was initially expressed by the former Subcommittee Chairman, Mr. Baldus. I would like to provide a copy of our June report for the record. My statement will highlight and summarize the report findings.

Although our work focused initially on DOE's small business contracting practices in the solar research and development area, we found problems applicable to DOE's overall

1/EMD-79-83, June 26, 1979

007875

DLG03414
DLG03415
DLG03416

efforts to encourage small business contracting. We concluded that while DOE had taken several actions to foster small business procurement, more could be done. We pointed out several areas we believe additional action was needed. Specifically, we noted that

--DOE goals for awarding contracts to small business appeared to be based on incomplete information, and for fiscal year 1979 may have been too low.

--Guidance for maximizing small business contract awards was insufficient.

--Information necessary to monitor and evaluate efforts to maximize small business contract awards was lacking.

--DOE's office responsible for maximizing participation of small business in DOE programs lacked the needed independence that the Congress mandated.

GOALS WERE BASED ON INCOMPLETE
INFORMATION AND ALSO MAY HAVE
BEEN TOO LOW

For fiscal year 1979, DOE's overall goal for contract awards to small business was established at 15 percent of total contract award dollars. Goals were also established and assigned to each program office, buying office, and DOE-owned, contractor-operated facility. Our work indicated that overall, DOE goals appeared to be based on incomplete information, and the fiscal year 1979 goal may have been too low.

Every 6 months DOE issues a report to the Congress detailing the opportunities it has given small business to participate in its programs. In its first report in August 1978, small business contract awards for the first half of fiscal year 1978 were reported to be 9.3 percent of total awards. In the second report, the figure was 14 percent for the entire fiscal year. To reach this full year figure DOE would have had to achieve 20.8-percent participation during the second half of the year. If DOE's reported figures were accurate, its fiscal year 1979 overall goal of 15 percent for small business contract awards appears low.

We were advised by DOE officials that the fiscal year 1979 goal setting was imprecise because information was obtained from only 30 percent of the offices and facilities for which goals were set. According to DOE officials, a basic premise used in setting goals is that the goals be higher than those set for the preceding year. Another indication that goals were set too low was reflected by actions taken by DOE's Albuquerque Operation's Office.

DOE's Albuquerque Operations Office, which has a vigorous small business program, adjusted all of headquarters' established goals for its contract offices, revising some upward and others downward to bring them in line with what they believed to be more realistic. According to an Albuquerque Operations Office official, the overall revised goal in the Albuquerque Operations Office exceeded the fiscal year 1979

DLG 03414

headquarters-assigned goal by about \$30 million, or 12 percent. For the 6-month period from October 1, 1978, to March 30, 1979, the Office had achieved about 60 percent of its revised goal for the year. Earlier this week we contacted DOE to obtain statistics on what the Office had achieved through fiscal year 1979, however, the information had not yet been compiled.

NEED FOR GUIDANCE TO
MAXIMIZE SMALL BUSINESS
CONTRACT AWARDS

DOE's Small Business Administration representative needed more guidance from DOE to carry out his responsibility for determining whether small businesses were technically capable of carrying out many contracts and were being considered for contract awards when they should have been. While the amended Small Business Act requires DOE to assign a technical advisor to the Small Business Administration representative, this was not done. The representative informed us that lacking such technical guidance, the program office's decision as to whether or not small business should be considered for the contract may be overriding.

The prime consideration of program managers in awarding contracts is technical competence of the contractor. Program managers advised us that since they have responsibility for their programs, they wanted to award contracts to the firms or persons that they believed could do the job.

At headquarters and the Chicago Operations Office small business considerations appeared to be secondary. This

DL603415

appeared to stem from a lack of knowledge of which small business concerns were technically capable, and of ways to increase small business contract awards. Some program managers at headquarters did not know the definition of a small business.

For example, some said that they were not interested in contracting with small business when in fact many firms with which they were contracting met the definition of a small business.

Moreover, most program managers were not using information available to them that might help locate potential small business contractors. An information system was developed by the Small Business Administration with DOE's assistance, which lists and profiles small business contractors by area of expertise. At the time of our review, about 10,000 small businesses were listed. The Small Business Administration expects to have about 150,000 entries listed by 1983. Some DOE officials advised us that they were not using the system because it listed too few small businesses to be of much value.

NEED FOR INFORMATION TO
MONITOR AND EVALUATE SMALL
BUSINESS CONTRACTING EFFORTS

During fiscal year 1978, DOE reported obligations of nearly \$8.5 billion for about 5,000 contracts. However, DOE's Integrated Procurement Management Information System--a system designed to provide information on all DOE contracting activities--could not provide us information on the total contracting

dollars going to small business either through prime contracts or subcontracts. Without such information it is virtually impossible to determine whether contracting dollars are going to small businesses to the extent feasible.

This system became operational in October 1978; however, at the time of our review all DOE contracts prior to fiscal year 1979 were not entered in the system. As a test of the information furnished by the system, we obtained a listing of fiscal year 1979 solar research and development contracts from the Office of Energy Technology and requested from the system data on funding by several categories of contractors, including small business. While we did receive data as requested, we were told by an Office of Energy Technology official that the figures provided by the system, when compared with their records for 1979 solar research and development funding, represented only about 10 percent of the total funding of contracts awarded.

NEED TO REORGANIZE DOE'S OFFICE
OF SMALL AND DISADVANTAGED
BUSINESS UTILIZATION

The Small Business Act, as amended established, among other things, an office of small and disadvantaged business utilization in each Federal agency with procurement authority. This requirement was intended to insure maximum small business participation by establishing an independent office that would work full time with small and disadvantaged businesses. The

head of this office, as specified in the law, is to report directly to the head of the agency or to his deputy.

Under the act, the head of the office of small and disadvantaged business utilization is to have supervisory authority over small business specialists in field buying and headquarters program offices to review independently contract requests to insure that small business participation has been adequately considered.

At the time our report was issued, DOE had not fully complied with legal requirements since the Office of Small and Disadvantaged Business Utilization reported both to the Director of Procurement and Contracts Management and to the Deputy Secretary. Organizationally, however, the Office was part of Procurement and Contracts Management.

The small business specialists in the field offices we visited reported directly to procurement staff rather than to the Director of the Office of Small and Disadvantaged Business Utilization. As a result, the review to insure that small business had been properly considered was not independent.

- - - -

To foster a stronger commitment to small business participation in the procurement process, we recommended that the Secretary of Energy take actions to improve goal setting and guidance for increasing contract awards to small business. At a minimum we recommended that the Secretary should:

- Improve procedures for setting goals for small business contract awards. These procedures should require program offices, field buying offices, and DOE-owned, contractor-operated facility managers to furnish information on historical and projected future small business contract and subcontract awards.
- Provide guidance through formalized procedures to those initiating procurement requests on identifying technically competent potential small business contractors and methods for increasing small business contract awards.
- Assign a small business technical advisor to the Small Business Administration representative as required by law.

To insure adequate monitoring of small business participation in the procurement process and to identify the need for corrective actions, we recommended that the Secretary direct program office, field buying office, and DOE-owned, contractor-operated facility managers to report statistics on small business contracts and subcontracts until the Integrated Procurement Management Information System is fully operational.

To provide the independence needed to insure that small business participation is adequately considered, the Secretary should take immediate steps to fully comply with the legal requirements by reorganizing the Office of Small and

Disadvantaged Business Utilization so that the Director reports directly to the Secretary or his deputy and the small business specialists report to the Director. In the reorganization, the Secretary should insure that the Office has the authority and responsibility for all small business procurement participation programs.

DOE has stated that corrective action has been taken to improve goal setting and provide technical advisors for the Small Business Administration representative. DOE believes, however, that no additional action is needed on our remaining recommendations.

With respect to our recommendation that formal guidance is necessary to insure technically competent small business firms were included in the contracting process, DOE stated that a formal procedure already exists to insure procurement requests consider small business involvement. However, DOE is planning on preparing a training course explaining the small business information system. We agree the training course should be useful in identifying capable small businesses, but the existing procedures were in use at the time of our review and were not providing the necessary guidance to insure maximum small business participation.

DOE believes it is not necessary to require contracting centers to report small business contracting statistics, as we recommended, because the centers are already providing these statistics to the automated procurement information

system which is now operational. This week however, we contacted DOE and learned the automated system is still not providing information on small business contracting.

In responding to our recommendation regarding the lack of independence of the Office of Small and Disadvantaged Business Utilization, DOE stated that since the creation of that Office in February 1979, it has been in full compliance with applicable legal requirements. DOE pointed out that the Director has always reported, and been accountable to, the Deputy Secretary on matters pertaining to small business. In our June 1979 report, we stated that the Office of Small and Disadvantaged Business Utilization reported both to the Deputy Secretary and to the Director of Procurement and Contracts Management. Organizationally, however, the Office was, and still is, part of Procurement and Contracts Management.

The law is explicit regarding the independence of the Office of Small and Disadvantaged Business Utilization. It states that the Director of that office will be responsible only to, and report directly to, the Secretary or his deputy. DOE did not comment on our recommendation that small business field representatives should by law be under the supervision of the Director of the Office of Small and Disadvantaged Business Utilization.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.