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Highlights

Highlights of GAO-06-399, a report to congressional requesters

April 2006

CONTRACT MANAGEMENT

Increased Use of Alaska Native Corporations' Special 8(a) Provisions Calls for Tailored Oversight

Why GAO Did This Study

Alaska Native corporations (ANC) were created to settle land claims with Alaska Natives and foster economic development. In 1986, legislation passed that allowed ANCs to participate in the Small Business Administration's (SBA) 8(a) program. Since then, Congress has extended special procurement advantages to 8(a) ANC firms, such as the ability to win sole-source contracts for any dollar amount. This report identifies (1) trends in the government's 8(a) contracting with ANC firms, (2) the reasons agencies have awarded 8(a) sole-source contracts to ANC firms and the facts and circumstances behind some of these contracts, and (3) how ANCs are using the 8(a) program. GAO also evaluated SBA's oversight of 8(a) ANC firms.

What GAO Recommends

GAO recommends that SBA take actions to improve oversight of ANC 8(a) activity and recommends that the seven procuring agencies in this review provide guidance to contracting officers. GAO received comments on the draft report from all 8 agencies in the review and the Native American Contractors Association. The procuring agencies agreed with the recommendation, except for the Department of Energy which did not address it. SBA expressed concern with aspects of the report and, in a subsequent e-mail, disagreed with several of our recommendations. GAO disagrees with SBA's comments and believes its recommendations need to be implemented.

www.gao.gov/cgi-bin/getrpt?GAO-06-399.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine Schinasi at (202) 512-4841 or schinasik@gao.gov.

What GAO Found

While representing a small amount of total federal procurement spending, 8(a) obligations to firms owned by ANCs increased from $265 million in fiscal year 2000 to $1.1 billion in 2004. In fiscal year 2004, obligations to ANC firms represented 13 percent of total 8(a) dollars. Sole-source awards represented about 77 percent of 8(a) ANC obligations for the six procuring agencies that accounted for the vast majority of total ANC obligations over the 5-year period. These sole-source contracts can represent a broad range of services, as illustrated in GAO's contract file sample, which included contracts for construction in Brazil, training of security guards in Iraq, and information technology services in Washington, D.C.

In general, acquisition officials at the agencies reviewed told GAO that the option of using ANC firms under the 8(a) program allows them to quickly, easily, and legally award contracts for any value. They also noted that these contracts help them meet small business goals. In reviewing selected large, sole-source 8(a) contracts awarded to ANC firms, GAO found that contracting officials had not always complied with certain requirements, such as notifying SBA of contract modifications and monitoring the percent of work that is subcontracted.

ANCs use the 8(a) program to generate revenue with the goal of providing benefits to their shareholders. These benefits take many forms, including dividend payments, scholarships, internships, and support for elder shareholders. A detailed discussion of the benefits provided by the ANCs is included as appendix X of the report. Some ANCs are heavily reliant on the 8(a) program for revenues, while others approach the program as one of many revenue-generating opportunities. GAO found that some ANCs have increasingly made use of the congressionally authorized advantages afforded to them. One of the key practices is the creation of multiple 8(a) subsidiaries, sometimes in highly diversified lines of business. From fiscal year 1988 to 2005, ANC 8(a) subsidiaries increased from one subsidiary owned by one ANC to 154 subsidiaries owned by 49 ANCs.

SBA, which is responsible for implementing the 8(a) program, has not tailored its policies and practices to account for ANCs' unique status and growth in the 8(a) program, even though SBA officials recognize that ANCs enter into more complex business relationships than other 8(a) participants. Areas where SBA's oversight has fallen short include: determining whether more than one subsidiary of the same ANC is generating a majority of its revenue in the same primary industry, consistently determining whether awards to 8(a) ANC firms have resulted in other small businesses losing contract opportunities, and ensuring that the partnerships between 8(a) ANC firms and large firms are functioning in the way they were intended. During our review, SBA officials agreed that improvements are needed and said they are planning to revise their regulations and policies.