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

General Government Division

B-285075

April 17, 2000

The Honorable John D. Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

The Honorable Carolyn Cheeks Kilpatrick
House of Representatives

The Honorable Robert Menendez
House of Representatives

Subject: Federal Advertising Contracts: Distribution to Small Disadvantaged Businesses

This letter responds to your request for a review of the distribution of federal contract dollars for advertising services to minority-owned businesses. Since data on all minority-owned firms are not readily available, we are limited to providing data on small disadvantaged businesses (SDB) and women-owned businesses.¹ Specifically, as agreed with your offices, we are providing information on (1) the goals established for federal contracting with small minority-owned and women-owned businesses; (2) trend data on the distribution of prime advertising obligations for fiscal years 1994 through 1998; (3) information on the distribution of and competition for advertising contracts with fiscal year 1998 obligations; and (4) information on the distribution of subcontract awards to SDBs for selected advertising contracts.

Our review was based on analysis of pertinent legislation and interviews with officials at the Small Business Administration (SBA), the General Services Administration's (GSA) Federal Procurement Data Center (FPDC), the American Association of Advertising Agencies, and the American Advertisers Federation. In addition, we obtained and analyzed data from the Federal Procurement Data System (FPDS) on contract obligations categorized as advertising services. We did not verify FPDS data nor did we evaluate how contracts were solicited, which is a subject of a future review.

¹Generally, an SDB is a small business that is at least 51 percent unconditionally owned by one or more individuals who are both socially and economically disadvantaged. Named groups that are considered socially and economically disadvantaged are black Americans, Hispanic Americans, Native Americans, and Asian-Pacific Americans. 15 U.S.C. §637.

We conducted our review from July 1999 to January 2000 in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Administrator of SBA. SBA's comments are discussed at the end of this letter.

Results in Brief

The Small Business Act, as amended, establishes a governmentwide goal that a minimum of 23 percent of all federal prime contract dollars should be awarded to small businesses.² The Small Business Act also establishes governmentwide goals for SDBs and women-owned small businesses that each group receive not less than 5 percent of the total value of prime and subcontract awards for each fiscal year. Although SBA has established industry-specific size standards for what constitutes a small business, including advertising, there are no industry-specific contracting goals. In addition, large businesses with contracts generally exceeding \$500,000 that offer subcontracting possibilities are required to prepare subcontracting plans on how they intend to use small businesses, SDBs, and women-owned small businesses as subcontractors. They must also prepare semiannual reports on the actual distribution of subcontract dollars.

Total advertising contract obligations increased from \$139 million in fiscal year 1994 to \$368 million in fiscal year 1998. During that same time period, the share of prime contract obligations to SDBs peaked at \$3 million, or 3.1 percent of the total contract obligations in fiscal year 1995, and experienced a general decline to \$1.2 million, or 0.3 percent in fiscal year 1998.³

Analysis of fiscal year 1998 obligations made under prime contracts for federal advertising showed that \$337 million, or 91.4 percent, of the total advertising contract obligations were to large businesses. Twelve federal agencies or departments funded these obligations under 36 contracts awarded to 26 different contractors. The five largest advertising contracts, which included the antidrug contract with the Department of Health and Human Service (HHS), and four recruiting contracts with the Departments of the Army and the Navy, accounted for 78 percent of the obligations. FPDC reports show that 20 of the 36 contracts were awarded using full-and-open competition. Another 10 contracts were purchase orders or blanket purchase agreements.⁴ Two contracts were awarded on a sole source basis, and one contract was awarded under a multiple award schedule.⁵ FPDS data were not available on the type of solicitation for the three remaining contracts.

FPDC data show that during fiscal year 1998, funds were obligated to 10 SDBs under 10 prime advertising contracts awarded by 5 federal agencies or departments. FPDS data available on

²15 U.S.C. §644(g)(1). The Small Business Reauthorization Act of 1997 increased the goal from 20 to 23 percent. Public Law 105-135, December 2, 1997.

³Some SDBs are also women-owned businesses that have experienced a similar decline between fiscal years 1994 and 1998.

⁴FPDS data do not reveal the nature of competition for the underlying contract from which the purchase order or blanket purchase agreement was drawn.

⁵Generally, a contractor is placed on a multiple award schedule under a competitive process.

the type of solicitation for 7 of the 10 contracts showed that 4 were awarded through other than full-and-open competition; 2 were awarded as small business set-asides;⁶ and 1 was awarded under a multiple award schedule.

There are no governmentwide goals for awarding a particular percentage of advertising subcontract dollars to SDBs. However, if a prime contract exceeds \$500,000 and offers opportunities for subcontracting with SDBs, the prime contractor must establish plans for distribution of those subcontracts and report on the amount of subcontract funds awarded to SDBs from contract inception through completion. Subcontracting reports were required on 12 of the 36 advertising contracts with large business firms that received fiscal year 1998 obligations. These reports show that SDBs received over 8 percent of the total subcontracting funds awarded under these 12 prime contracts, although the SDB share varied widely from 0 to 50 percent.

Goals Established for Federal Contracting With Small Minority-Owned Businesses

The Small Business Act, as amended, establishes a governmentwide goal that a minimum of 23 percent of all federal prime contract dollars be awarded to small businesses. The Small Business Act also establishes governmentwide goals for SDBs and women-owned small businesses that each group receive not less than 5 percent of the total value of prime and subcontract awards each fiscal year. One mechanism that helps agencies meet their SDB contracting goals is section 8(a) of the Small Business Act.⁷ Under this provision of the act, certain contracts can be reserved for SDBs in the 8(a) program thus ensuring their participation. Although the goals are governmentwide, agencies may negotiate specific goals with SBA that may be higher or lower than the governmentwide goals.⁸ According to SBA officials, there are no industry-specific goals, either governmentwide or by agency. FPDC collects data and reports governmentwide and agency prime and subcontract goal statistics.

In addition, large businesses with advertising contracts exceeding \$500,000 that have subcontracting possibilities are required to submit subcontracting plans to establish percentage and dollar goals for subcontracting with small businesses, SDBs, and women-owned small businesses. The contractors are to report semiannually to the contracting officer on how they actually performed compared to their plan.

⁶A small business set-aside is the reservation of an acquisition exclusively for participation by small business concerns.

⁷15 U.S.C. § 637(a) (1994).

⁸A separate statutory provision, applicable only to the Department of Defense, the Coast Guard, and the National Aeronautics and Space Administration sets a 5-percent goal for contracts and subcontracts to be entered into with SDBs. 10 U.S.C. § 2323(a)(1)(A).

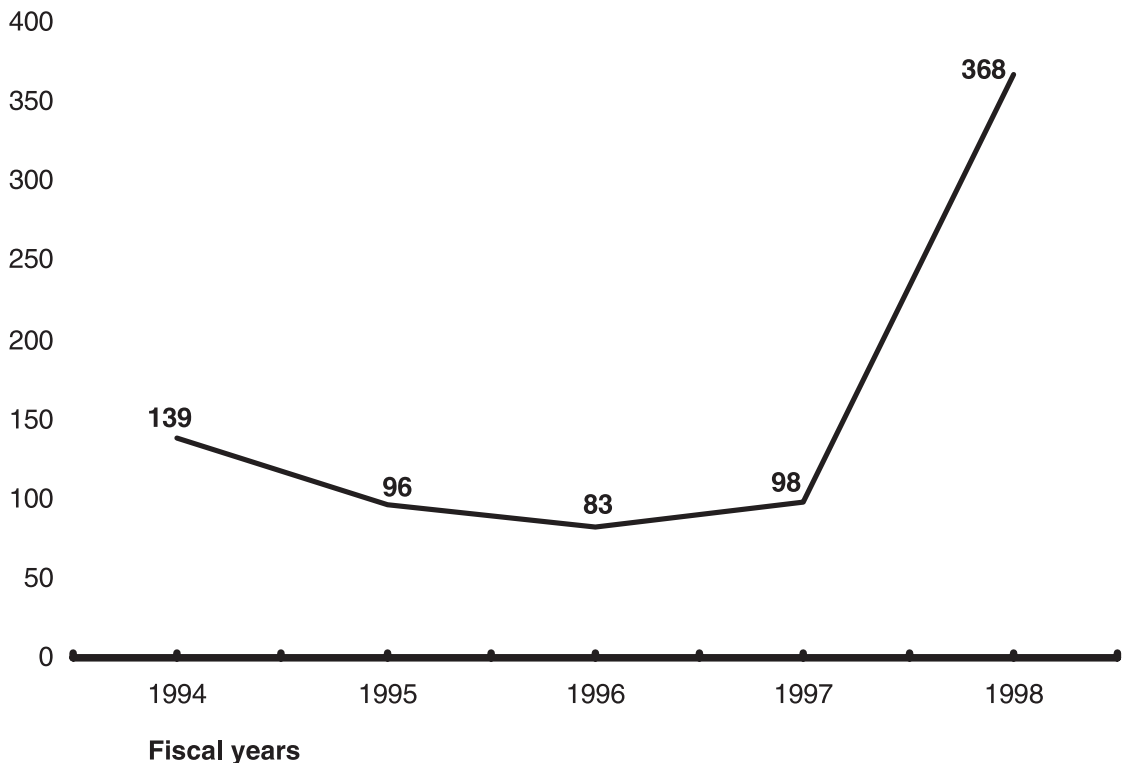
Trend Data on Advertising Contract Obligations for Fiscal Years 1994 Through 1998

Total advertising contract obligations increased from \$139 million in fiscal year 1994 to \$368 million in fiscal year 1998. The yearly changes in obligations during this 5-year period are shown in figure 1. During the same period, the share of advertising obligations going to SDBs and women-owned businesses generally declined. Details on this trend are presented in figure 2.

As shown in figure 1, obligations for advertising contracts totaled \$139 million in fiscal year 1994 and then trended downward for 2 years before increasing to \$368 million in fiscal year 1998.

Figure 1: Total Advertising Obligations to Prime Contractors, Fiscal Years 1994-98

Dollars in millions



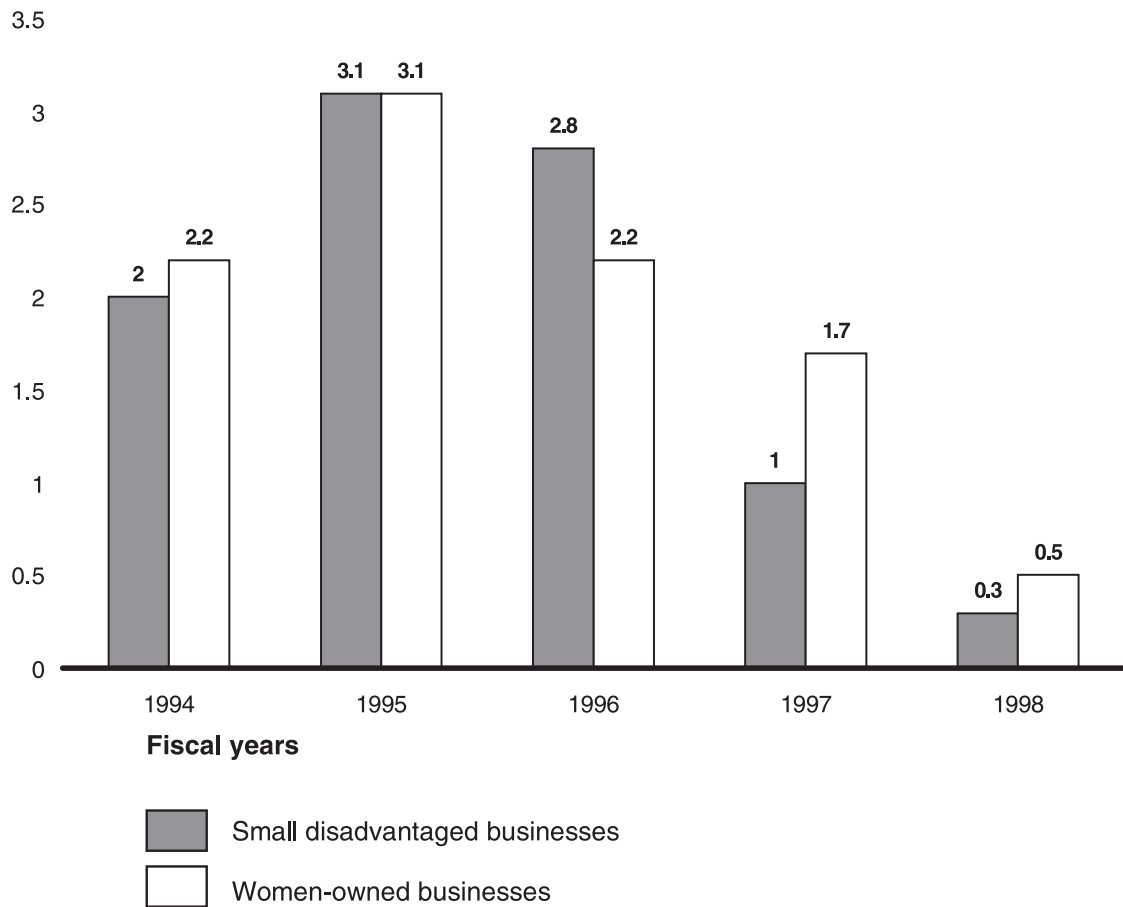
Source: GAO analysis of FPDS data.

According to SBA officials, SDBs are generally minority-owned firms. For an advertising agency to qualify as a small business, the criterion established by SBA is \$5 million or less in

annual receipts.⁹ FPDC data for fiscal years 1994 through 1998 showed a generally declining trend in obligations of prime contract advertising dollars to SDBs and women-owned businesses. The share of total contract obligations awarded to both SDBs and women-owned businesses peaked at 3.1 percent in fiscal year 1995 and declined to 0.3 and 0.5 percent, respectively, in fiscal year 1998. Figure 2 shows the percentage of prime contract dollars obligated to SDBs and women-owned businesses from fiscal years 1994 to 1998.

Figure 2: Proportion of Women-owned and SDB Prime Advertising Contract Dollars as a Percentage of Total Federal Advertising Obligations

Percentage of women-owned and SDB contract dollars



Note: Women-owned SDBs are reported in both categories shown above in figure 2. For the 5-year period, the women-owned portion of SDB obligations ranged from 26 to 88 percent, and the SDB portion of women-owned business obligations ranged from 33 to 80 percent.

Source: GAO analysis of FPDS data.

⁹SBA is authorized to establish size standards for small businesses. Consideration is given to economic factors comprising the structure of an industry, including degree of competition, average firm size, start-up cost, entry barriers, and distribution of firms by size. Standards vary by industry, for example, including annual receipts thresholds of \$5 million for advertising agencies and \$10.5 million for television broadcasting stations.

Advertising Contract Obligations for Fiscal Year 1998

Analysis of prime advertising contracts with obligations in fiscal year 1998 showed that most of the funds that were obligated involved contracts awarded to a few large firms. Most of these contracts were awarded through full-and-open competition. Although funds were obligated to 10 SDBs under prime contracts in fiscal year 1998, these obligations accounted for a very small share of the federal advertising dollars obligated that year, and most were awarded by other than full-and-open competition or through set-asides. SBA officials told us the low percentage of advertising contracts going to SDBs and women-owned businesses may be explained in part by the large size of many government contracts. They noted that in fiscal year 1998, about 86 percent of all advertising contract obligations were for \$10 million or more and, thus, largely beyond the reach of small businesses.

In fiscal year 1998, the federal government obligated about \$368 million on 85 different prime advertising contracts. Obligations on contracts with large businesses accounted for about \$337 million, or about 91.4 percent, of the total contract obligations. SDBs accounted for about \$1.2 million, or about 0.3 percent, with nearly 66 percent of these obligations made to women-owned businesses. Other women-owned small businesses accounted for another \$1.2 million, or about 0.3 percent. Other small businesses accounted for about \$29.8 million, or almost 8.1 percent. Other types of businesses, such as nonprofit and foreign-owned companies, accounted for about \$0.5 million, or about 0.1 percent. Table 1 shows a summary of the distribution of prime advertising contract obligations in fiscal year 1998.

Type of business	Number of contractors	Number of contracts	Contract obligations (\$000)	Percentage of total
Large	26	36	\$336,897	91.4%
Small disadvantaged				
Women-owned	5	5	740	0.2
Not women-owned	5	5	450	0.1
Subtotal	10	10	1,190	0.3
Other small (not SDB)				
Women-owned	4	4	1,246	0.3
Not women-owned	25	27	28,591	7.8
Subtotal	29	31	29,837	8.1
Other (e.g., nonprofit)	8	8	489	0.1
Total	73	85	\$368,413	100%

Note: Percentages do not add to 100 due to rounding.

Source: GAO analysis of FPDS data.

Most of fiscal year 1998 funds that were obligated to advertising contracts went to a few large firms. The five largest obligations accounted for 78 percent of total contract obligations and were awarded to three large firms. Funding for the five largest obligations in fiscal year 1998 came from HHS for an antidrug campaign and the Army and the Navy for recruiting campaigns. Total advertising obligations in fiscal year 1998 to large businesses went to 26 firms that had a total of 36 advertising contracts. We could not readily determine whether these firms were minority-owned, in part because the FPDC does not collect those data, but also because 18 of the 26 firms were publicly held. However, FPDS does collect data on

whether firms are women-owned, and that data for fiscal year 1998 revealed that none of the 26 large contractors were women-owned firms. Table 2 lists all 36 prime contracts to large firms in fiscal year 1998, including the awarding federal agency or department, contractor, type of solicitation, and contract obligations.

Table 2: Prime Advertising Contract Obligations to Large Businesses in Fiscal Year 1998

Agency/Department	Contractor	Type of solicitation	Contract obligations (\$000)
Health and Human Services	Bates Advertising USA, Inc. ^a	Sole source	\$119,848
Army	Young & Rubicam, Inc. ^a	Full-and-open	90,255
Navy	BBDO Worldwide, Inc. ^a	Full-and-open	32,981
Defense Supply Service (Army)	Bates Advertising USA, Inc. ^a	Full-and-open	23,750
Navy	BBDO Worldwide, Inc. ^a	Full-and-open	19,273
Air Force	Bozell Kamstra, Dallas ^a	Full-and-open	12,159
Food and Drug Administration	Arnold Communications ^a	Full-and-open	10,494
Census	Young & Rubicam, Inc. ^a	Full-and-open	10,014
Treasury	Young & Rubicam, Inc. ^a	Full-and-open	7,578
Federal Emergency Management Agency	Bozell Worldwide, Inc. ^a	Full-and-open	3,236
Air Force	TMP/Worldwide, Inc. ^a	Full-and-open	2,021
Justice	Miller Advertising Agency, Inc.	Full-and-open	2,000
Treasury	USA Today	Full-and-open	450
Justice	Bernard Hodes Advertising	Full-and-open	428
Treasury	Grey Advertising, Inc.	N/A	399
Defense Reutilization & Marketing Service	Bates Advertising USA, Inc. ^a	Full-and-open	258
Nuclear Regulatory Commission	Bernard Hodes Advertising	Full-and-open	256
Treasury	Reese Communications Co.	N/A	219
Housing and Urban Development	BBDO Atlanta, Inc.	Full-and-open	200
Peace Corps	Persiscope, Inc.	Full-and-open	122
Air Force	Unisys Corp.	Multiaward schedule ^b	114
Treasury	W.B Doner & Company, Inc.	N/A	105
Housing and Urban Development	Nashville Tennessean	Full-and-open	100
Treasury	Cox Enterprises	PO or BPA ^c	90
Treasury	Cox Enterprises	PO or BPA ^c	80
Transportation	The Ogilvy Group, Inc.	Full-and-open	78
Treasury	Kansas City Star Company	PO or BPA ^c	75
Treasury	Kansas City Star Company	PO or BPA ^c	60
Army	American Multi-Cinema, Inc.	PO or BPA ^c	56
Veterans Affairs	San Antonio Express News	Sole source	52
Army	KHWY, Inc.	PO or BPA ^c	36
Army	Bozell, Jacobs, Kenyon, & Eckhardt	Full-and-open	35
Treasury	Memphis Publishing Co.	PO or BPA ^c	30
Justice	USA Today	PO or BPA ^c	26
Justice	JWT Specialized Communications	PO or BPA ^c	14
General Services Administration	The Times Mirror Co., Inc.	PO or BPA ^c	5
Total			\$336,897

Legend:

BPA blanket purchase agreement

N/A not available (FPDS does not require the type of solicitation for these contracts.)

PO purchase order

^aSubcontracting plan required.

^bPurchased from a multiple award schedule. Companies compete and agree to provide services at set rates to be on the schedule.

^cContracts were awarded through either purchase orders or blanket purchase agreements. Data are not provided on the nature of competition for the underlying contract.

Source: GAO analysis of FPDS data.

FPDC records show that 20 of the 36 contracts were awarded through full-and-open competition. Another 10 were awarded under purchase orders or blanket purchase agreements,¹⁰ 1 was awarded under a multiple award schedule, and 2 were sole-source awards.¹¹ FPDS data on the type of solicitation were not required for the three remaining contracts.

The 10 prime contracts with obligations to SDBs accounted for about 0.3 percent of the total advertising obligations in fiscal year 1998. Five of these contracts with about 66 percent of the obligations were awarded to women-owned SDBs. Table 3 shows the awarding federal agency or department, contractor, and fiscal year 1998 obligations for prime advertising contracts with SDBs. FPDC data available for 7 of the 10 contracts shows that 4 of the contracts were awarded through other than full-and-open competitions, 2 contracts were awarded through set-asides, and 1 contract was awarded under a multiple award schedule.

Table 3: Fiscal Year 1998 Advertising Prime Contract Obligations to SDBs

Agency/Department	Contractor	Contract obligations (\$000)
Air Force	Four Winds Services, Inc. ^a	\$351
Small Business Administration	Colabours Communications, Inc.	199
Housing and Urban Development	Sykes Communications, Inc. ^a	192
Justice	Executive Personnel Services, Inc.	173
Treasury	Barrell Marketing, Inc. ^a	113
Air Force	Navales Enterprises, Inc. ^a	54
Navy	Conway Marketing, Inc.	38
Navy	The Desktop Designer	38
Treasury	Lisboa Associates, Inc. ^a	30
Treasury	ZGS Communications, Inc.	2
Total		\$1,190

^aWomen-owned business.

Source: GAO analysis of FPDC data.

¹⁰FPDC data do not reveal the nature of competition for the underlying contract from which the purchase order or blanket purchase agreement was drawn.

¹¹HHS' \$119 million contract with Bates Advertising USA, Inc., was the single largest obligation in fiscal year 1998 and was awarded on a sole-source basis. HHS officials approved the sole source award as needed to expand an ongoing contract to establish a nationwide antidrug campaign. The justification indicated that by quickly awarding media contracts, the government would save \$20 to \$30 million in higher media advertising charges than if the buys were postponed until a third phase full-and-open contract was awarded. The record on the other sole source contract, by the Veterans Affairs with the San Antonio Express News, indicated that the paper was the only source available.

Subcontract Awards to Small Businesses and SDBs

There are no governmentwide goals for awarding a particular percentage of advertising subcontract dollars to SDBs. However, contractors who receive prime advertising contracts that exceed \$500,000 and offer subcontracting possibilities with SDBs are required to prepare a plan for distribution of those subcontracts. The contractors must also prepare semiannual reports showing total subcontract awards made to the SDBs from contract inception through completion.

We found that semiannual reports of advertising subcontracts awards to SDBs were required on 12 prime advertising contracts that received obligations in fiscal year 1998. Our analysis of these semiannual reports revealed that SDBs received about 8 percent of the total subcontracting funds awarded under these 12 prime contracts. Although the SDB share on specific contracts ranged from 0 to 50 percent, 7 of the 12 contracts awarded more than 5 percent of their subcontract dollars to SDBs. Also, four of the seven contracts awarded more than 10 percent of their subcontract dollars to SDBs. This included a 50-percent share of subcontract dollars to SDBs on a Department of the Treasury public education advertising contract, a 35-percent share on a Census project contract, a 24-percent share on a contract for advertising of the Department of Defense surplus property sales, and a 10-percent share of a Navy recruiting contract. Table 4 provides a summary of the distribution of subcontracting dollars for each of the 12 contracts. The table includes the agency or department, contractor, subcontract totals, and the totals and percentages of subcontract dollars awarded to large businesses, small businesses, and SDBs.¹²

¹²Table 4 data show no correlation to the reported value of 1998 obligations reported in table 3. Unlike table 3, table 4 data included total subcontract awards under each of the 12 contracts from contract inception through the dates that the reports were completed, most of which were late 1999.

Table 4: Distribution of Subcontract Dollars by Select Contractors (\$000)

Agency/ Department	Prime contractor	Total sub- contract	Subcontract distribution by contractor					
			Large businesses		Small businesses		Small disadvantaged ^a	
			Amount	Percent	Amount	Percent	Amount	Percent
Health and Human Services	Bates Advertising USA, Inc.	\$126,092	\$110,415	87.6%	\$15,677	12.4%	\$8,688	6.9%
Army	Young & Rubicam	92,382	73,401	79.5	18,981	20.6	7,565	8.2
Defense Supply Service (Army)	Bates Advertising USA, Inc.	39,822	34,637	87.0	5,185	13.0	1,952	4.9
Navy	BBDO Worldwide, Inc.	34,195	29,017	84.9	5,178	15.1	2,627	7.7
Air Force	Bozell Kamstra, Dallas	23,280	18,335	78.9	4,945	21.2	707	3.0
Census	Young & Rubicam	17,933	5,265	29.4	12,668	70.6	6,283	35.0
Navy	BBDO Worldwide, Inc.	14,595	12,989	89.0	1,606	11.0	1,522	10.5
Food and Drug Administration	Arnold Communications	6,005	5,775	96.2	230	3.8	30	0.5
Defense Reutilization & Marketing Service	Bates Advertising USA, Inc.	832	234	28.1	598	71.9	200	24.0
Air Force	TMP Worldwide, Inc.	551	428	77.8	123	22.4	0	0.0
Federal Emergency Management Agency	Bozell Worldwide, Inc.	168	147	87.0	21	12.4	0	0.0
Treasury	Young & Rubicam	32	16	50.0	16	50.0	16	50.0
Total		\$355,887	\$290,659	81.7%	\$65,228	18.3%	\$29,590	8.3%

Note: Percentages for subcontracts to large and small businesses may not add to 100 due to rounding.

^aSmall disadvantaged is a subset of small businesses.

Source: Data provided by the FPDC and subcontracting reports filed by contractors with cited agency or department.

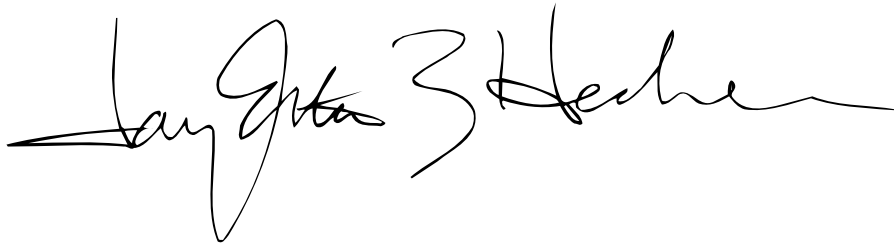
Agency Comments

We requested comments on a draft of this letter from the SBA Administrator. We received written comments from the Associate Deputy Administrator, Government Contracting and Minority Enterprise Development, on March 16, 2000. He generally concurred with the facts in our letter and provided some observations that we have incorporated into this letter where appropriate. He said our letter shows that the value of subcontracts awarded to SDBs provided them more significant opportunities than prime contracts, and that the prime contracts and subcontracts should be examined together in assessing SDB participation in federal contracting. He also said that the distribution of federal advertising contracts to SDBs

and women-owned businesses would have been more useful if we compared it to percentages of total advertising revenues obtained by these businesses. We agree that this information would be valuable. However, we did not collect it because it was not readily available.

We are sending copies of this letter to Representative Tom Bliley, Chairman, House Committee on Commerce; Senator Christopher Bond, Chairman, and Senator John Kerry, Ranking Minority Member, Senate Committee on Small Business; and Representative Jim Talent, Chairman, and Representative Nydia Velazquez, Ranking Minority Member, House Committee on Small Business. We are also sending copies of this letter to the Honorable Adia Alvarez, Administrator, Small Business Administration, and other interested parties. Copies will also be made available to others on request.

If you have any questions, please call me at (202) 512-8387. Major contributors to this letter include Rudy Chatlos, Bruce Goddard, Reid Jones, Billy Scott, Hilary Sullivan, and Paulina Treviso.

A handwritten signature in black ink, reading "JayEtta Z. Hecker". The signature is fluid and cursive, with a large initial "J" and "H".

JayEtta Z. Hecker
Associate Director, Government
Business Operations Issues

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