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Briefing Report to the Chairman, Committee on Government Operations, House of Representatives

May 1988

SMALL BUSINESS ADMINISTRATION

Status, Operations, and Views on the 8(a) Procurement Program

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Resources, Community, and
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May 24, 1988

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

Dear Mr. Chairman:

In response to your letter of April 28, 1987, we reviewed the Small Business Administration's (SBA) 8(a) procurement program. The 8(a) program is available only to firms whose owners have been approved by SBA as socially and economically disadvantaged and, as such, the firms are eligible to receive federal contracts without competition. Specifically, we performed a follow-up review of several aspects of the 8(a) program that were addressed in our 1981 report, The SBA 8(a) Procurement Program--A Promise Unfulfilled (CED-81-55, Apr. 8, 1981). These include (1) a statistical overview of the program's participants, (2) concentration of contracting activity, (3) preparation of firms for the competitive market, and (4) adequacy of SBA's administration and monitoring of the program. We also determined how well 8(a) firms have met contract terms and conditions and looked into the impact of the program on non-8(a) small businesses.

As agreed with your office, we testified on the preliminary results of this review before the Senate Small Business Committee on February 18, 1988. We briefed your staff on February 16, 1988, and agreed to prepare this briefing report.

Our review showed that the program continues to experience many of the problems we identified in our April 8, 1981, report. In that report, we stated that the program had done "too much" for "too few" for "too long" and that only a few companies had graduated from the program as self-sufficient businesses. The program has not essentially changed, except that many of the older firms have graduated, that is, reached the end of their fixed program participation term.

In summary, we found that

-- a large percentage of the 8(a) contracts continue to be awarded to a very few firms,

-- firms may not be prepared for the competitive market at or near graduation,

-- SBA's management efforts fall short of requirements,

-- most 8(a) firms meet contract terms and conditions, according to contracting officers, and

-- most 8(a) business is taken from the small business sector, but the impact on individual non-8(a) firms is unclear.

On the basis of SBA data, we found that since inception of the program in 1968 through fiscal year 1987, 1,287 firms have graduated from the program. Of these, 976, or about 76 percent, graduated during the last 3 fiscal years. We believe this is largely a result of Public Law 96-481, enacted October 21, 1980, which requires SBA to establish a graduation date for each firm. Also, SBA's data revealed that, as of September 30, 1987, 72 percent of the 2,938 active firms had been in the program 5 years or less.

Notwithstanding the increased turnover of firms, 8(a) contract dollars continue to be highly concentrated. In 1981, we reported that from program inception in 1968 to September 1980, about $1.7 billion, or 31 percent of the $5.5 billion of 8(a) contracts, had gone to 50 active firms. In 1987, the top 50 firms received about $1.1 billion, or about 35 percent of the total value of 8(a) contracts awarded that year. In contrast, 1,225 of the 2,938 active 8(a) firms as of September 30, 1987, did not receive any 8(a) contracts in fiscal year 1987, and another 555 firms did $100,000 or less in 8(a) business.

We also found little progress in the program's effectiveness in assisting firms in becoming self-sufficient businesses. A 1986 mail survey of 8(a) graduates administered by the Senate Committee on Small Business showed that many firms had already gone out of business and many others said they were not prepared to compete effectively in the open market. In addition, our analysis showed that most firms in our test group that had been in the program 7 or more years remained heavily dependent on

8(a) sales. Most of these firms either had graduated or would soon graduate from the program.

Our analysis also showed that SBA's procedures for encouraging firms to develop their non-8(a) business and progress toward competitive viability were not being complied with. For example, the procedure which requires an annual evaluation of each firm for such features as (1) progress in achieving business development objectives, (2) ability to compete in the marketplace, and (3) current financial condition was not complied with nor was the procedure which calls for setting an annual 8(a) support level to ensure that a firm will generate non-8(a) business to meet its business development objectives. SBA district and regional officials acknowledged that they had not fully complied with their procedures, but commented that the program had never been staffed adequately. We concur. In 1981 we reported that SBA did not have the staff to effectively manage the program, and since that time the number of active 8(a) firms in SBA's portfolio per business opportunity specialist has increased from a 17:1 ratio to a 26:1 ratio.

On the positive side, government contracting officers, in response to our mail survey, reported that 8(a) contractors met all or most of the delivery dates on over 75 percent of the contracts and delivered products or services that met or exceeded quality specifications for about 90 percent of the contracts. The contracting officers on over half of the contracts in our survey had experience with both 8(a) and non-8(a) companies. These contracting officers rated 8(a) firms as good as or better than non-8(a) small businesses in terms of meeting delivery dates and delivering quality goods and services in over 75 percent of the contracts.

Contracting officers, however, did not judge 8(a) firms' performance to be as good as non-8(a) firms' in terms of cost. In comparing 8(a) and non-8(a) contracts, the contracting officers rated 37 percent of the 8(a) contracts to be more costly to the government, whereas they rated 9 percent of the 8(a) contracts to be less costly.

Our work showed also that while about $3 billion is spent annually on 8(a) procurements, this represents less than 2 percent of the federal government's total procurement. According to federal procurement policy officials, federal contracting officers, and representatives of private interest groups, if the 8(a) program did not exist, most of the 8(a) contracts would have gone to small businesses.

program entitled The SBA 8(a) Procurement Program--A Promise Unfulfilled (CED-81-55, Apr. 8, 1981). Pursuant to that request, our objectives were to (1) present a statistical overview of the program's participants, (2) assess the extent of concentration of 8(a) activity, (3) determine whether graduating firms were prepared for the competitive market, (4) evaluate the adequacy of SBA's administration and monitoring of the program, (5) ascertain how well 8(a) firms have met contract terms and conditions, and (6) look into the impact of the program on other small businesses.

To accomplish the first four objectives, we made a detailed review of business development and contract files on 142 8(a) firms at 6 of the larger district offices in SBA's Chicago, Philadelphia, and San Francisco regional offices.[1] The results of our file review may not be representative of the overall status of the program in these districts. Rather, they are case examples of the management and development strengths and weaknesses encountered in the 8(a) program. We also reviewed SBA regulations and procedures for managing the program; interviewed SBA district, regional, and headquarters officials; and interviewed federal procurement policy officials and representatives of selected private interest groups representing both 8(a) and non-8(a) firms. Finally, we obtained SBA's computerized file since program inception in fiscal year 1968 through 1987 showing, among other things, the status of all 8(a) firms that have participated in the program, the minority and business classes of 8(a) firms, the location of the firms, and the value of 8(a) contracts awarded to each firm.

To accomplish the fifth objective, we conducted two mail surveys of federal contracting officers responsible for 8(a) contracts. We used SBA's computerized file of 8(a) contracts to draw two random samples, one for active contracts and one for closed contracts. The active contract sample was drawn from a list of 4,346 contracts that were recorded in SBA's data base as having an active status on or after January 1, 1986. We excluded contracts that were awarded in 1987 since they would have been in effect for a short period of time. The closed contract sample was drawn from a list of 3,606 contracts that were closed in either 1986 or 1987. We initially selected 500 active and 500 closed contracts for use in our survey, but only mailed questionnaires to contracting officers responsible for 478 of the active contracts and 366 of the closed contracts. SBA could not identify the names and/or addresses of the contracting officers for the remaining 22 active and 134 closed contracts because either there were erroneous data in its Financial Information System or because the contract files were either in storage or could not be located.

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[1]As of September 30, 1987, there were 2,938 active 8(a) firms.

Of the 478 questionnaires mailed to contracting officers responsible for active contracts, we received responses for 423 (an 88-percent response rate). Of the 366 questionnaires mailed for closed contracts, we received responses for 295 (an 81-percent response rate). Where there are no differences between the two samples in the responses to a question, we report one response that represents both samples. Any differences in the results are reported separately.

Sampling errors for each sample were computed at the 95-percent confidence level. The sampling error is the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the true universe characteristic (value) that we are estimating. At the 95-percent confidence level, this means that the chances are 19 out of 20 that if we surveyed contracting officers for all of the active and closed contracts in the SBA file, the results would differ from the estimates we obtained from our sample by less than the sampling errors of these estimates. The sampling errors for all of the estimates for each sample are reported in appendix I.

To accomplish the last objective, we did several things. First, we put a notice in the Commerce Business Daily to solicit input from disadvantaged and nondisadvantaged small businesses requesting responses on both the positive and negative impacts of the program.[2] In addition, we included a question in our mail survey regarding the procurement history of the product or service procured under the contracts in our sample and interviewed selected federal procurement policy and private interest group officials about the impact of the program on non-8(a) small business.

We used SBA's Financial Information System for our statistical overview. These data, while the best available, were not completely accurate. We did not, however, measure the extent of the inaccuracies. Our review was conducted between May 1987 and January 1988, in accordance with generally accepted government auditing standards.

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[2]The Department of Commerce publishes the Commerce Business Daily, a daily listing of U.S. government procurement invitations, contract awards, subcontracting leads, and foreign business opportunities.

SECTION 2

PROFILE OF 8(a) PROGRAM

SBA's program statistics for the most recent 5-year period show that the 8(a) program has changed in terms of the graduation rates of firms, the minority group of the owners, and the type of business the firms are engaged in. These statistics show also that the firms are located in each of the 10 SBA regions, but they are not evenly dispersed among the regions.

Federal Procurement Data Center statistics show that 8(a) procurements have ranged between 1.1 and 1.8 percent of total federal procurements during the 6-year period ending September 30, 1987.

GRADUATION RATES OF 8(a) FIRMS

A look at the turnover of firms shows that since the inception of the program in 1968 through fiscal year 1987, 1,287 firms have graduated from the program. Of these, 976, or about 76 percent, graduated during the last 3 fiscal years. This is a result of Public Law 96-481, enacted October 21, 1980, which requires SBA to establish a graduation date for each firm. Also, SBA's data reveal that, as of September 30, 1987, 72 percent of the 2,938 active firms have been in the program 5 years or less.

OWNERSHIP OF 8(a) FIRMS BY MINORITY GROUP

An examination of the minority mix of program participants shows that the number of firms in each minority category except "other" has increased from 1982 to 1987, but the mix within active participants has changed. (See table 2.1.) The most noticeable changes are an 11-percent relative decrease in Black participation and a relative increase in all other minority groups, particularly Asians, for which there has been approximately a 6-percent increase.

Table 2.1: Ownership of 8(a) Firms by Minority Group

Minority group	1982 Number	1982 Percent	1987 Number	1987 Percent
Black	1,426	61.6	1,498	51.0
Spanish American	480	20.7	671	22.8
Asian	179	7.7	396	13.5
American Indian	127	5.5	214	7.3
Puerto Rican	44	1.9	103	3.5
Other	60	2.6	56	1.9
Total	2,316	100.0	2,938	100.0

Source: SBA Financial Information System.

TYPE OF BUSINESS OF 8(a) FIRMS

Similar to the change in the minority mix, the business classification of firms in the 8(a) program has also seen an increase in the number of firms in each classification except for nonprofessional services and concessions. The most noticeable changes from 1982 to 1987 are an 8-percent relative increase in professional service firms and about a 7-percent relative decrease in nonprofessional service firms. More information is presented in table 2.2.

Table 2.2: Comparison of Active 8(a) Firms by Type of Business

	1982 Number	1982 Percent	1987 Number	1987 Percent
Professional service	612	26.4	1,004	34.2
Construction	833	36.0	965	32.8
Nonprofessional service	548	23.7	501	17.1
Manufacturing	273	11.8	449	15.3
Concessions	50	2.1	19	0.6
Total	2,316	100.0	2,938	100.0

Source: SBA Financial Information System.

ACTIVE 8(a) FIRMS AND VOLUME OF CONTRACT ACTIVITY BY SBA REGIONAL OFFICE

Geographically, the 2,938 active 8(a) firms, as of September 30, 1987, were dispersed throughout all 10 SBA regional offices--ranging from a low of 108 firms in the Boston region to a high of 681 firms in the Philadelphia region. Regions III and IX--the two largest regions in both number of firms and 8(a) contract activity--collectively had about 37 percent of the firms and about 47 percent of the dollar volume of 8(a) contracts awarded in fiscal year 1987. Further analysis showed that the greatest concentration of firms was in the Washington, D.C., San Francisco, and Los Angeles metropolitan areas, which combined had about 22 percent of the active firms and about 29 percent of the 8(a) contract dollars. Table 2.3 shows the regional breakdown of active firms as of September 30, 1987, and their contract activity during fiscal year 1987.

Table 2.3: Active 8(a) Firms and Volume of Contract Activity by SBA Regional Office

Region	Active firms 9/30/87		Contract activity Fiscal Year 1987	
	Number	Percent	Amount (million)	Percent
Region I	108	3.6	$ 106.8	3.6
Region II	278	9.5	181.7	6.0
Region III	681	23.2	910.8	30.2
Region IV	376	12.8	337.6	11.2
Region V	286	9.7	286.7	9.5
Region VI	381	13.0	312.4	10.4
Region VII	127	4.3	80.6	2.7
Region VIII	146	5.0	187.4	6.2
Region IX	394	13.4	515.8	17.1
Region X	161	5.5	94.4	3.1
Total	2,938	100.0	$3,014.2	100.0

Source: SBA Financial Information System.

8(a) AND OTHER MINORITY AND DISADVANTAGED PROCUREMENTS COMPARED WITH TOTAL FEDERAL PROCUREMENT, 1982-1987

According to information published by the Federal Procurement Data Center, the federal government procured about 1.8 percent of its goods and services through the 8(a) program--$3.1 billion of $178.5 billion--in fiscal year 1987. (See table 2.4.) While 8(a) procurements are less than 2 percent of the federal government's total procurement, in comparison with 1982 procurements, the amount procured in 1987 represented an increase of over 80 percent in actual dollars and of over 50 percent in the ratio of 8(a) procurements to total procurements.

Table 2.4: 8(a) and Other Minority and Disadvantaged Procurements Compared With Total Federal Procurement,[a] 1982-1987

Fiscal year	Federal procurements	8(a) procurements Amount	8(a) procurements Percent	Total minority and disadvantaged procurements[b] Amount	Total minority and disadvantaged procurements[b] Percent
	--------(dollars in billions)------				
1982	$146.9	$1.7	1.13	$2.7	1.86
1983	152.3	1.8	1.16	3.0	2.03
1984	166.8	2.6	1.55	4.1	2.48
1985	182.6	2.5	1.39	3.7	2.04
1986	182.6	3.0	1.65	4.4	2.42
1987	178.5	3.1	1.75	4.8	2.68

[a]Does not include the total amount for smaller contract actions, which beginning in 1986 was $25,000 or less for each individual contract action.

[b]Includes 8(a) procurements.

Source: Federal Procurement Data System.

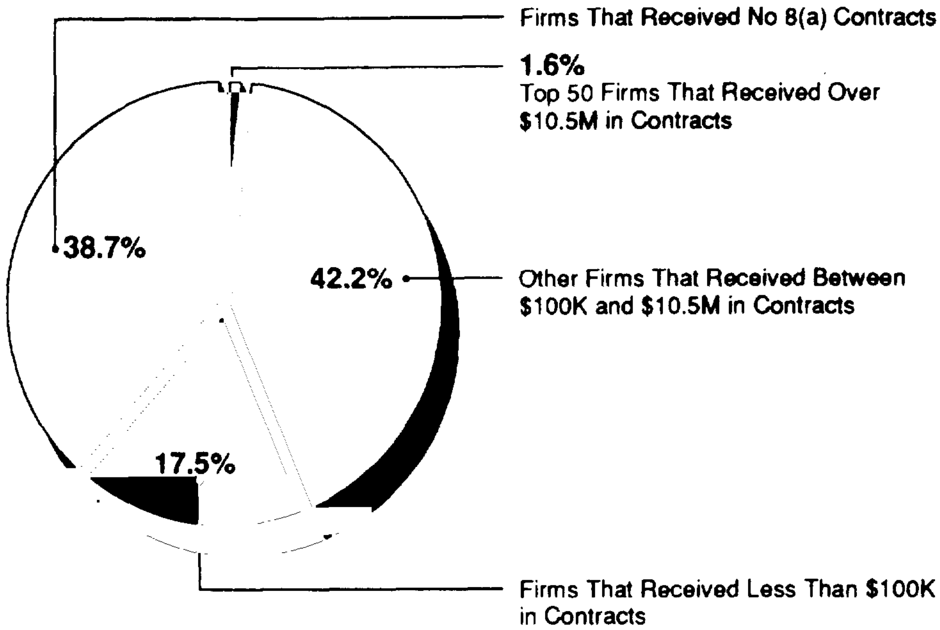
SECTION 3

CONCENTRATION OF 8(a) ACTIVITY

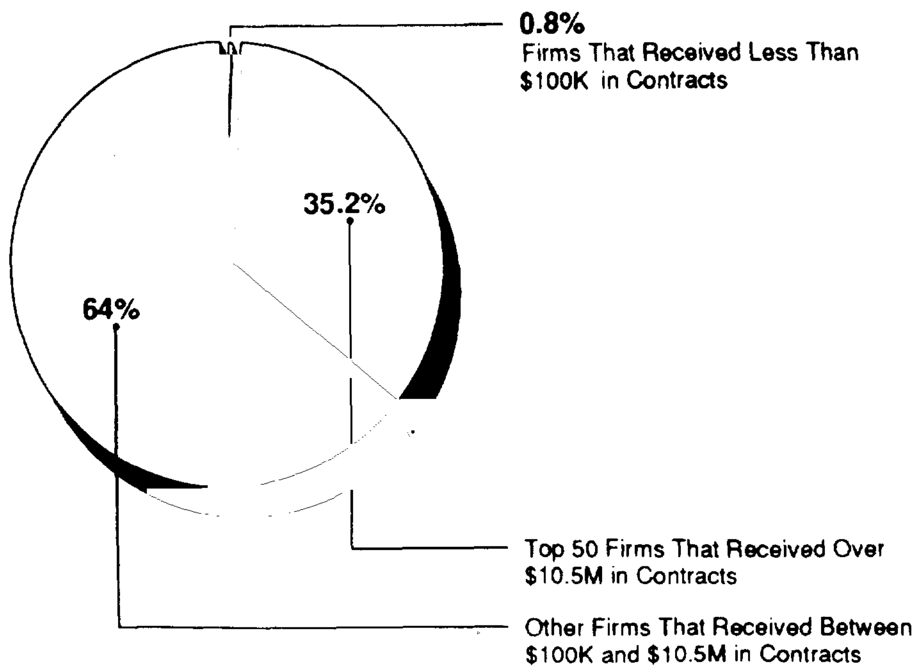
We found that 8(a) contract dollars continue to be highly concentrated. In our 1981 report on the 8(a) program, we stated that from program inception in 1968 to September 1980, about $1.7 billion, or 31 percent of the $5.5 billion of 8(a) contracts, had gone to 50 active firms. These 50 firms represented about 1 percent of the 4,598 firms that had participated in the program. In 1987, the top 50 firms received about $1.1 billion, or about 35 percent of the total value of 8(a) contracts awarded that year. In contrast, 1,225 of the 2,938 active 8(a) firms as of September 30, 1987, or about 39 percent, did not receive any 8(a) contracts in fiscal year 1987 and another 555 firms, or about 17 percent, did $100,000 or less in 8(a) business. In other words, over 55 percent of the active 8(a) firms received less than 1 percent of the 8(a) business, and less than 2 percent of the firms received over 35 percent of the 8(a) business. Figure 3.1 depicts 8(a) contract activity by selected firm grouping and by dollar volume for fiscal year 1987.

Figure 3.1: Distribution of 8(a) Activity in Fiscal Year 1987

By Firm Grouping, Fiscal Year 1987



By Dollar Volume, Fiscal Year 1987



DISTRIBUTION OF TOP 50 FIRMS BY BUSINESS CLASS AND MINORITY CLASS

Our analysis of the top 50 firms also revealed that most were professional service firms and most were owned by either Blacks or Spanish Americans. Specifically, of the 50 firms, 29, or 58 percent, were classified as professional service firms. These firms received about 23 percent of the total 8(a) business in fiscal year 1987. Nine manufacturing, 9 construction, and 3 nonprofessional services made up the remaining 21 firms. These 21 firms received about 12 percent of the total fiscal year 1987 8(a) business. The analysis also showed that 19 of the 50 firms were Black-owned and 19 were Spanish-American-owned. Each group received about 14 percent of the total 8(a) business. Tables 3.1 and 3.2 show a detailed distribution of the top 50 firms by business class and by minority class.

Table 3.1: Distribution of Top 50 Firms by Business Class, Fiscal Year 1987

Business class	Number of firms	Contract amount	Percent of 8 (a) contract amount
Professional service	29	$ 686,610,946	22.8
Manufacturing	9	197,383,227	6.5
Construction	9	124,556,590	4.1
Nonprofessional service	3	53,687,841	1.8
Total	50	$1,062,238,604	35.2

Source: SBA Financial Information System.

Table 3.2: Distribution of Top 50 Firms by Minority Class, Fiscal Year 1987

Minority class	Number of firms	Contract amount	Percent of 8(a) contract amount
Black	19	$ 429,548,084	14.3
Spanish American	19	416,919,461	13.8
Asian	8	126,576,931	4.2
American Indian	4	89,194,128	2.9
Total	50	$1,062,238,604	35.2

Source: SBA Financial Information System.

SECTION 4

DATA INDICATE THAT FIRMS ARE NOT PREPARED FOR COMPETITIVE MARKET

A survey of 8(a) graduates by the Committee on Small Business, United States Senate, and an analysis of older 8(a) firms in our review indicate that the program has not met its objective of preparing firms for the competitive market.

In August 1986, the Committee on Small Business sent a mail survey to 461 firms that had completed their fixed program participation term during the period October 1982 through February 1986. The survey's purpose was to assess the effectiveness of the business development aspects of the 8(a) program in preparing firms for the competitive marketplace. The Committee received responses from 177 firms--a 38 percent response rate.[1] The Committee reported the following:

-- Between 21 and 30 percent of the firms were no longer in business.

-- While 22 percent of the owners reported that their firms were doing very well, 42 percent said that their firms were doing just well enough to get by, and 22 percent said that their firms were not doing well.

-- About 44 percent of the respondents believed that their businesses would be in better condition in about 1 year, about 19 percent believed that their condition would be the same, 13 percent believed that their condition would be worse, and 24 percent were not sure.

-- About 75 percent of the respondents rated government contracts as very helpful to the development of their businesses, but only about 24 percent rated management assistance as very helpful to the development of their businesses. Another 34 percent rated management assistance as somewhat helpful, and 42 percent rated management assistance as not helpful.

-- In response to a question concerning the impact of graduation, 58 percent of the respondents said that graduation had a devastating effect on their businesses. However, in response to another question, 61 percent of the respondents said that they were becoming competitive in the private sector. The Committee concluded that these results

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[1]A higher response rate may have resulted in different results.

were only indicators and did not provide a clear basis for determining the actual impact of graduation on firms.

Our review also indicated that 8(a) firms are not being prepared for the competitive market. To identify dependency on the 8(a) program, we reviewed the files of the 142 firms included in our review. Sales information was available in SBA's files for only 35 firms that had been in the program for 7 or more years. Although most of these firms either have graduated or will graduate from the program before the end of fiscal year 1988, many have not developed their non-8(a) business. As shown in table 4.1, the 8(a) sales for 11 of the 35 firms represented 90 percent or more of the total sales after 7 or more years in the program, and the 8(a) sales for an additional 14 firms ranged between 52 percent and 87 percent of total sales. Only 10 of the 35 firms were less dependent on 8(a) sales than on other sales. As a group, however, these firms tended to be small when compared with the firms that were more dependent on 8(a) sales: sales of the 10 firms averaged \$1.8 million and ranged from \$107,000 to \$13.5 million, and sales of the other 25 firms averaged \$8.1 million and ranged from \$23,000 to \$52.1 million.

Table 4.1: 8(a) Sales Experience of Firms That Have Been in Program At Least 7 Years

Firm	FPPT[a] date	Latest sales breakout Non-8(a)	8(a)	Total	Latest 8(a) sales dependency	Number of years in program
		------(dollars)------			(percent)	
A	3/24/87	$ 0	$ 5,707,205	$ 5,707,205	100.0	10
B	4/21/88	17,136	3,555,475	3,572,611	99.5	9
C	3/22/88	58,709	9,392,456	9,451,165	99.4	11
D	3/24/87	81,042	6,715,576	6,796,618	98.8	10
E	3/24/89	170,023	7,647,749	7,817,772	97.8	9
F	4/21/88	1,267,062	50,854,047	52,121,109	97.6	8
G	10/14/88	219,292	5,105,022	5,324,314	95.9	9
H	10/21/87	605,922	11,512,514	12,118,436	95.0	17
I	10/21/87	142,793	2,600,187	2,742,980	94.8	11
J	4/15/89	749,298	8,543,229	9,292,527	91.9	12
K	10/24/88	456,329	4,556,751	5,013,080	90.9	9
L	4/14/88	385,600	2,623,050	3,008,650	87.2	12
M	10/05/87	1,316,120	7,616,312	8,932,432	85.3	10
N	10/21/88	1,233,658	6,477,688	7,711,346	84.0	8
O	4/21/88	38,959	196,975	235,934	83.5	12
P	4/16/87	80,408	339,906	420,314	80.9	16
Q	4/07/88	55,423	188,087	243,510	77.2	14
R	4/02/88	474,408	1,588,723	2,063,131	77.0	10
S	4/16/89	7,559	15,465	23,024	67.2	7
T	4/02/89	1,403,183	2,579,379	3,982,562	64.8	13
U	10/21/86	309,026	543,156	852,182	63.7	13
V	4/21/89	14,485,130	24,447,110	38,932,240	62.8	8
W	4/08/88	2,382,339	3,175,188	5,557,527	57.1	12
X	4/21/88	21,858,122	25,438,108	47,296,230	53.8	9
Y	4/19/89	8,319,863	9,171,962	17,491,825	52.4	8
Average - 25		2,244,696	8,023,653	10,268,349	82.3	10.7
Z	4/21/89	347,623	256,023	603,646	42.4	10
AA	4/21/88	625,530	390,506	1,016,036	38.4	8
AB	4/15/88	233,507	65,196	298,703	21.8	13
AC	9/30/86	84,341	22,185	106,526	20.8	12
AD	9/24/86	161,102	32,433	193,535	16.8	14
AE	9/30/86	756,628	130,507	887,135	14.7	13
AF	4/14/89	11,928,628	1,608,449	13,537,077	11.9	8
AG	4/15/88	193,883	25,527	219,410	11.6	15
AH	4/14/88	280,528	17,016	297,544	5.7	11
AI	4/15/89	479,146	0	479,146	0.0	9
Average - 10		1,509,092	254,784	1,763,876	18.4	11.3
Overall Average		$2,034,523	$5,803,976	$7,838,499	64.1	10.9

[a]Fixed program participation term.

Another indication that firms are not developing into self-sufficient businesses comes from the sales growth of 10 of the 50 firms that had received the most 8(a) business in fiscal year 1987 and for which we had a 5-year history of 8(a) and non-8(a) sales information. Our analysis showed that the average total sales of these firms increased from $3.8 million to $20.8 million during the 5-year period. Over 75 percent of the growth, however, came through 8(a) sales. Collectively, the 10 firms' dependency on 8(a) sales decreased from an average of 82.6 percent to 81.3 percent during the 5-year period. Individually, however, 6 of the 10 firms were more 8(a) dependent in their last year. Table 4.2 shows the 5-year 8(a) and non-8(a) growth for the 10 firms and their level of dependency on 8(a) sales at the beginning and the end of the 5-year period.

Table 4.2: Ten of The Top 50 Firms in Terms of 1987 Contract Awards

	Sales beginning of 5 years[a]			Sales beginning of 5 years[a]					
Firm	8(a) (thousand	Total dollars)	Dependency (percent)	Non-8(a) (thousand	Total dollars)	Dependency (percent)	Business class	FPPT[b] date	Years in program
A	$ 4,773	$ 5,104	93.5	$ 50,854	$ 52,121	97.6	P[c]	4-21-88	8
B	10,617	13,399	79.2	25,438	47,296	53.8	P	4-21-88	9
C	2,078	4,122	50.4	15,451	19,845	77.9	P	4-16-89	7
D	302	305	99.0	17,059	19,635	86.9	P	4-21-89	7
E	3,015	3,161	95.4	9,172	17,492	52.4	P	4-21-89	8
F	2,675	3,690	72.5	13,279	16,376	81.1	P	4-02-88	7
G	705	705	100.0	9,534	13,677	69.7	P	3-31-88	7
H	2,300	3,292	69.9	9,392	9,451	99.4	NP[d]	3-22-88	11
I	3,406	3,493	97.5	6,716	6,797	98.8	P	3-24-87	10
J	689	1,006	68.5	5,105	5,324	95.9	P	10-14-88	9
Total	$30,560	$38,277	79.8	$162,000	$208,014	77.9			
Average	$ 3,056	$ 3,828	82.6	$ 16,200	$ 20,801	81.3			

[a]Dollars rounded to nearest thousand.

[b]Fixed program participation term.

[c]Professional service.

[d]Nonprofessional service.

SECTION 5

SBA MANAGEMENT EFFORTS FALL

SHORT OF REQUIREMENTS

Our review of the files of 142 8(a) firms showed that SBA's procedures for encouraging firms to develop their non-8(a) business and progress toward competitive viability were not being complied with. SBA district and regional officials acknowledged these deficiencies, but commented that the program had never been staffed adequately.

SBA's procedures require each 8(a) firm to prepare a business plan that includes the objectives, goals, and projections of the firm. The plan helps identify the resources a firm needs to become a self-sustaining, profit-oriented small business.

Additionally, SBA procedures require district or regional management to visit annually each firm and conduct a thorough review and analysis to evaluate factors such as these: (1) its progress in achieving business development objectives, (2) its ability to compete in the marketplace, (3) its current financial condition, (4) its past performance on 8(a) contracts, and (5) its potential for success. The procedures call for establishing a dollar limit on how much 8(a) support a firm is to get annually. The amount is to be at a level to ensure that a firm will generate non-8(a) business to meet its business development objectives. Moreover, the procedures prohibit a firm from receiving an aggregate dollar amount of 8(a) contracts that exceeds 125 percent of the firm's approved 8(a) support level. To further assist SBA in its oversight responsibilities, 8(a) firms are required to submit quarterly and annual financial statements.

We tested for compliance with these procedures at each of the six district offices visited. For the most recent 5 fiscal years, we found the following:

-- The files did not contain evidence that 1 or more of the required annual reviews were made for 108 of the 142 firms. Of the 108 firms, 20 had been in the program at least 3 years without receiving an annual review.

-- The files did not contain evidence that 1 or more of the required site visits were made for 122 of the 142 firms. Of these, 54 had been in the program at least 3 years and had not received a site visit.

-- The files did not contain evidence that 1 or more of the required annual financial statements were received for 57 of the 142 firms. Four of the 57 firms had been in the program 3 or more years and had not submitted any financial statements. Even so, 23 of the 57 firms received from 1 to 24 8(a) contracts during the period in which their financial statements were delinquent--a practice which SBA's procedures prohibit. Additionally, only 2 of the 57 firms were identified for program termination, even though failure to submit financial statements is grounds for termination.

We also found that the district offices were not following 8(a) support procedures for encouraging firms to develop their non-8(a) business. Two of the district offices were not consistently setting 8(a) support levels for each firm in their portfolio and the other four offices were setting support levels but were not enforcing the 125-percent requirement. In other words, firms have been free to market 8(a) business without any consequence for failure to develop their non-8(a) business. Moreover, SBA's failure to implement its 125-percent requirement could have contributed to the high concentration of 8(a) business discussed in section 3 of this report.

We discussed our findings with SBA district and regional officials. Following are examples of comments we received.

-- District offices do not have the staff needed to conduct all required annual reviews and site visits.

-- The files do not adequately represent the extent of SBA contact with 8(a) firms because a great deal of contact is made with firms in connection with awarding 8(a) contracts, but such contacts do not get documented.

-- Until the 125-percent requirement was established as a regulation in October 1986, the district offices have not had the power to say "no" to a firm after the firm had spent time and money marketing a contract.

-- The interests of 8(a) firms take precedence over a strict adherence to 8(a) support levels.

-- The 125-percent requirement has never been used to turn down an 8(a) contract because to do so would jeopardize SBA's relationships with federal procuring agencies and, therefore, would be bad for the program.

Regarding the staffing issue, we stated in our 1981 report that SBA did not have a sufficient number of business opportunity specialists to effectively manage the program. Since 1981, the number of 8(a) firms per specialist has increased from a 17:1 ratio to a 26:1 ratio. At the district offices we visited, the ratio of 8(a) firms to specialists ranged from 20:1 to 38:1. SBA's Deputy Associate Administrator for the Office of Minority Small Business and Capital Ownership Development told us that SBA would like to achieve a staffing ratio of 10 to 15 firms per business opportunity specialist.

The staffing problem was also discussed in the National Academy of Public Administration's November 1987 report on a management review of the 8(a) program. The Academy concluded that SBA needed better trained staff, as well as more staff, to operate the 8(a) program.

SECTION 6

PERFORMANCE OF 8(a) FIRMS AS

REPORTED BY FEDERAL CONTRACTING OFFICERS

To determine how well firms were performing on the 8(a) contracts, we conducted two mail surveys of federal contracting officers--one for active contracts and one for closed contracts. Specifically, we sent these surveys to officers administering 478 open contracts and to officers who had administered 366 closed contracts. We received responses on 715 of the contracts, for a response rate of 85 percent.

In general, most 8(a) firms performed satisfactorily. Contracting officers reported that all or most of the delivery dates were met on over 78 percent of the contracts, and for over 88 percent of the contracts, the products or services delivered met or exceeded quality specifications. Our study also looked at the performance of 8(a) firms on contracts in comparison with the performance of non-8(a) firms on contracts in the same or similar industries. The contracting officers on over half of the contracts in our surveys had experience with both types of companies and in comparing them reported that the 8(a) firms' performance in meeting delivery dates for about 75 percent of the contracts was equal to or better than non-8(a) firms'. For about 85 percent of the contracts, the 8(a) firms performed the same or better than the non-8(a) firms in terms of the quality of goods or services they delivered. In comparing 8(a) and non-8(a) contracts, the contracting officers rated 37 percent of the 8(a) contracts to be more costly to the government, whereas they rated 9 percent of non-8(a) contracts to be more costly.

Concerning a question as to how advantageous or disadvantageous the 8(a) program has been to the federal government, the responses were mixed. For example, the contracting officers for 59 percent of the active contracts responded that the program was somewhat or very advantageous to the government, and about 31 percent responded that it was somewhat or very disadvantageous to the government. Similarly, contracting officers for about 47 percent of the closed contracts responded that the program was advantageous, and about 43 percent responded that it was disadvantageous to the government.

The advantages to the government cited most frequently by contracting officers were that 8(a) procurements are made noncompetitively and are made more quickly and easily. Higher cost of the procurements was the disadvantage most frequently cited.

Additionally, about 82 percent of the responses cited the program as somewhat or very advantageous to the 8(a) firms, and only 18 percent cited it as being disadvantageous or having no effect at all. The advantages most frequently cited were (1) firms are given an opportunity to gain experience and develop a track record, (2) firms receive contracts without competition, and (3) firms receive work they would not have gotten otherwise.

Federal contracting officers were also asked about the amount of performance monitoring required by their agencies for 8(a) firms compared with non-8(a) firms over the last 2 years. Responses on about half of the questionnaires indicated that 8(a) firms required somewhat more or much more monitoring, and about half indicated that 8(a) firms required about the same or less monitoring.

SECTION 7

8(a) BUSINESS TAKEN FROM THE SMALL BUSINESS SECTOR, BUT THE IMPACT ON INDIVIDUAL FIRMS IS UNCLEAR

Procurements under the 8(a) program, which amounted to about $3 billion in fiscal year 1987 and represented less than 2 percent of total federal procurements, is mostly taken from the small business sector. However, it is unclear from our review the number of small businesses that would have received the 8(a) business if the contracts had been awarded competitively or the effect of the loss of that business on individual firms.

The consensus view of federal procurement policy officials and representatives of private interest groups we interviewed is that if the 8(a) program did not exist, most of the 8(a) contracts would have gone to small businesses. This view is consistent with federal contracting officers' responses to a question in our mail survey concerning the procurement history of the product or service procured through the 8(a) contracts in question. Of the contracts that had a procurement history and that history was known--233 of the active contracts and 162 of the closed contracts--the contracting officers reported that about 51 percent had been awarded to an 8(a) small business prior to the current contract, about 43 percent had been awarded to a non-8(a) small business, and about 6 percent had been awarded to a large business.

To assess further the impact of the 8(a) program, we placed a notice in the Commerce Business Daily requesting comments from 8(a) and non-8(a) firms on how the program has helped or hurt their businesses. We received responses from only a small number--35 8(a) and non-8(a) firms and contractors' associations. Of these, six non-8(a) small businesses reported that they lost contracts as a result of the 8(a) program. The remaining firms and associations (1) made positive comments about program features, such as the assistance provided by SBA to help them to identify contracting opportunities, sales increases since their entry into the program, and the opportunity to obtain experience that they would not have otherwise had or (2) requested information on how to qualify for the program. Because the number of firms responding to our notice was small, we do not know with any certainty what impact 8(a) business has had on individual non-8(a) businesses.

SECTION 8

ECONOMIC DISADVANTAGE CRITERIA

Public Law 95-507 limits the 8(a) program to firms owned and controlled by individuals who are both socially and economically disadvantaged. Although SBA's regulations provide criteria for defining economically disadvantaged individuals, SBA historically considered anyone who was socially disadvantaged to be economically disadvantaged also. However, in its standard operating procedures, dated April 27, 1987, SBA set a personal net-worth threshold for determining "economically disadvantaged." These procedures state that "Generally, individuals having a net worth of less than $750,000 will be considered to be economically disadvantaged, absent a clear showing to the contrary."

Our review showed that a few of the owners of the 142 firms we reviewed reported a personal net worth that exceeded the $750,000 threshold, but were allowed to continue to participate in the program. One of the district offices we visited, however, had recently considered an 8(a) firm in our sample for termination because the owner was believed to be no longer economically disadvantaged. In this case, the district director recommended that the firm be terminated because the owner earned $357,000 in one year and concluded that the owner's stated net worth of about $475,000 was "grossly understated." The district director later changed his position and recommended continuation of this firm until the expiration of its fixed program participation term because he could find no objective criteria nor precedent for determining "economic disadvantage," and he believed that a finding of economic disadvantage would not withstand challenge on appeal by the 8(a) firm. The Deputy Associate Administrator for the Office of Minority Small Business and Capital Ownership Development said that no firm had been terminated because its owner was determined to be no longer economically disadvantaged since the establishment of fixed program participation terms in 1982.

In September 1987, in commenting on H.R. 1807--a bill to amend the 8(a) program--SBA stated that the $750,000 figure should be lowered to $250,000 to $300,000, with a provision to deal with situations where assets warrant exception. However, the $750,000 figure remains in effect, and SBA has not decided on any other criteria for defining economically disadvantaged.

SECTION 9

PRACTICE OF AWARDING CONTRACTS WITH OPTIONS TO GRADUATING FIRMS

SBA may award contracts with renewable options to an 8(a) firm up to and including its last day in the program. This practice can result in the removal of future contracts for goods or services from the 8(a) program for several years if the government chooses to exercise the contracting options. It could also impact upon the program's capacity for meeting the developmental needs of other firms in the program with the same or similar businesses. Of the 142 firms in our review, 23 graduated between August 1986 and December 1987. Of these, six firms received one or more contracts during the firms' last month in the program. One firm, for example, was awarded 13 contracts during its last month in the program, of which 7 were dated on the firm's last day in the program. At least 12 of the contracts included options ranging from 1 to 4 years. The other contract may have had options, but this information was not available because SBA could not locate the contract file. Including the value of the options, the aggregate dollar amount of the 13 contracts is at least $4.3 million, which was about equal to the value of all contracts and modifications received by the firm during the period October 1981 to August 1987.

We recognize that it may not now be in SBA's best interest to change this practice because many of the graduating firms have been allowed to remain heavily dependent on 8(a) sales and, if they were denied 8(a) business, they could have a more difficult time competing outside the protection of the 8(a) program. However, if firms are encouraged to develop their non-8(a) business and become competitive in accordance with the program's objective, then a policy change to not award contracts with options to graduating firms should have less impact on them.

SAMPLE ESTIMATES AND SAMPLING ERRORS OF SURVEY RESULTS

(FIGURES IN PERCENT)

	Active contract sample		Closed contract sample	
	Estimate	Sampling error (95% level)	Estimate	Sampling error (95% level)
All or most delivery dates met	79.9	3.9	76.4	4.9
All or most products/services delivered met or exceeded quality specifications	86.8	3.3	90.9	3.3
Firms' performance on timeliness is equal to or better than non-8(a) firms'	79.7	5.7	78.1	5.9
Firms' performance on quality of goods/ services delivered is equal to or better than non-8(a) firms'	89.6	4.3	87.5	4.7
Firms' performance on costs of goods/ services delivered is worse than non-8(a) firms'	32.5	6.6	41.9	7.1
Firms' performance on costs of goods/ services delievered is better than non-8(a) firms'	10.3	4.3	7.0	3.7
8(a) program somewhat or very advantageous to federal government	58.7	4.7	47.2	5.8
8(a) program somewhat or very disadvantageous to federal government	31.3	4.5	42.7	5.7
8(a) program somewhat or very advantageous for 8(a) small business	82.8	3.7	80.8	4.6
8(a) program somewhat or very disadvantageous to, or no effect on, 8(a) small business	17.1	3.7	19.2	4.6
8(a) firms compared with non-8(a) firms required somewhat or much more monitoring over last 2 years	42.7	4.8	53.1	5.8
8(a) firms compared with non-8(a) firms required same amount or less monitoring over last 2 years	51.7	4.8	43.1	5.7
Contracts administered by contracting officers who had experience on both 8(a) and non-8(a) contracts in same or similar industry	48.9	4.8	67.9	5.4
8(a) contracts previously awarded to 8(a) small businesses	52.4	6.4	48.8	7.7

APPENDIX I

8(a) contracts previously award to non-8(a) small businesses	39.1	6.3	49.4	7.7
8(a) contracts previously awarded to large businesses	8.6	3.6	1.9	a

[a]The upper and lower bounds of the 95 percent confidence interval for this estimate using a Poisson approximation are .44 and 5.0.

MAJOR CONTRIBUTORS TO THIS BRIEFING REPORT

RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, WASHINGTON, D.C.

John Luke, Associate Director, (202) 275-6111
Richard Hart, Group Director
Paul Elmore, Evaluator-in-Charge
James Kennedy, Site Senior
Janice Rothlauf, Evaluator
Thomas Noone, Computer Programmer/Analyst
Michelle Gambone, Social Science Analyst
Laura Trainham, Typist

CHICAGO REGIONAL OFFICE

Robert Wlodarek, Site Senior
Katherine Siggerud, Evaluator
Ellen Soltow, Evaluator
Christopher Turner, Evaluator

PHILADELPHIA REGIONAL OFFICE

Claire Gambaccini, Site Senior
Audrey Petit, Evaluator
William Vera, Evaluator
Keith Steck, Evaluator
Nancy Wagner, Evaluator

SAN FRANCISCO REGIONAL OFFICE

Belinda Jones, Site Senior
Julie Devault, Evaluator
John Louie, Evaluator

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