

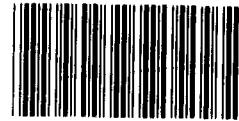
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GAO

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

Resources, Community, and
Economic Development Division

B-249703



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October 6, 1992

The Honorable James H. Bilbray
House of Representatives

Dear Mr. Bilbray:

In July 1991, you wrote us about congressional hearings held last year in Las Vegas, Nevada, that raised concerns about how well the Small Business Administration (SBA) was performing its responsibilities in the southern Nevada area. During those hearings, witnesses questioned the staffing and effectiveness of SBA's Las Vegas District Office and alleged that SBA was not adequately performing its procurement assistance activities in southern Nevada.

You asked us to review SBA's activities in southern Nevada. In meetings with your office, we agreed to provide specific information on (1) the sufficiency of staff resources at SBA's Las Vegas District Office, (2) the effectiveness of the Las Vegas District Office in performing its primary function--loan approval and servicing, (3) the extent to which southern Nevada federal installations are meeting their goals to provide procurement contracts to small businesses, and (4) the level of SBA outreach and counseling to small businesses in southern Nevada.

SBA's mission is to help people get into business and stay in business. SBA fulfills its mission by providing financial assistance, management counseling, and training to new and established people in the small business community. In addition, SBA monitors the extent to which federal agencies award procurement contracts to small businesses and provides procurement assistance outreach to small firms. SBA has delegated decision-making authority in most of its program areas to its field offices.

In summary, we found that while SBA's Las Vegas District Office has not been staffed at an optimal level, 8 of 10 regions, including region 9, where the Las Vegas District Office is located, are understaffed. Despite these staffing difficulties, SBA performance information indicates

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that the Las Vegas District Office is performing its loan functions in a fully acceptable manner. Furthermore, federal installations in southern Nevada are generally meeting their goals to provide procurement contracts to small businesses. However, during 1990 and most of 1991, normal SBA procurement assistance, such as outreach and counseling, was not being provided to the small businesses in southern Nevada. In October 1991, SBA took steps to correct this situation by assigning a different Procurement Center Representative and placing a higher priority on providing procurement assistance to the area.

LAS VEGAS DISTRICT OFFICE
EXEMPLIFIES SBA'S STAFF SHORTAGE

While concerns have been expressed about the staffing level at SBA's Las Vegas District Office, SBA headquarters officials said that less than optimal staffing is not unique to Las Vegas. SBA officials believe that a staff shortage exists in Las Vegas but that it is only one example of the nationwide staffing difficulties SBA has faced in recent years.

In the June 1991 congressional hearings, the Director of SBA's Las Vegas District Office said that the office's staff shortage was evidenced by an increase in work load without a commensurate increase in staff. Consequently, according to the District Director, his staff were performing more collateral duties than would normally be expected.

A comparison of SBA's nationwide program activities and total employment shows that, in recent years, SBA has been administering substantially more program activities with only a slight increase in staff. For example, from fiscal years 1987 to 1991, SBA's program activity level increased from \$6.4 billion to about \$9.4 billion, an increase of 46 percent. During the same period, total staff increased from 2,881 to 3,175, an increase of 10 percent. The largest program activity increases have been in the business loan programs--SBA's largest financial assistance activity and field offices' major program function. From fiscal years 1987 to 1991, business loan program levels increased from \$2.7 billion to \$3.9 billion and, as of July 31, 1992, had risen to \$5.0 billion.

SBA officials said that the agency does what it can to manage its limited staff resources. SBA's previous Administrator directed that a Resource Allocation Task Force Report be prepared to examine the distribution of staff resources among SBA's 10 regional offices. The June 1991

report showed that SBA was under its recommended staffing level for program activities in 8 out of 10 regions. Region 9, where the Las Vegas District Office is located, was one of the eight understaffed regions. Like other district offices in region 9, the Las Vegas District Office was shown to be below its recommended staffing level in several program activities.

Within the staffing constraints it faces, SBA establishes staff ceilings to allocate the available staff resources among its field offices. These ceilings are based on factors such as work load measures and prior-year staffing levels. At the time of the District Director's testimony, SBA had set a staff ceiling for the Las Vegas office of 13 full-time permanent positions, and the district office was at its ceiling.

As of September 1992, the Las Vegas District Office still had 13 staff positions, assigned as shown below:

- District Director (1),
- finance and investment (6),
- legal counsel (2),
- minority small business (1),
- business development (1), and
- administrative staff (2).

Between June 1992 and most of August 1992, a key position on the district office's finance and investment staff was vacant because the loan specialist had transferred to another SBA district office. During that time, loan applications were sent to the loan specialist at the district's Reno, Nevada, location for processing and then sent back to the Las Vegas District Director for final approval. However, with the replacement of the loan specialist in Las Vegas, the district office has resumed its normal loan processing procedures.

For fiscal year 1993, SBA headquarters has raised the staff ceiling in Las Vegas to 14. But filling the additional position is subject to budget constraints.

The Las Vegas District Director still believes that his present staff are required to perform an unusually large amount of collateral duties. According to the District Director, in addition to carrying out their normal duties, his staff have to type, file, and perform receptionist functions. However, SBA headquarters officials said that, because of the nationwide staff shortage, staff in all field offices are required to perform collateral duties. These

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officials do not believe that the Las Vegas staff are performing collateral duties to any greater degree than staff in many other SBA field offices.

LAS VEGAS DISTRICT OFFICE LOAN
PERFORMANCE IS RATED FULLY ACCEPTABLE

Despite the staff shortage in the Las Vegas District Office, SBA performance information indicates that the office is performing its primary function--loan approval and servicing--in a fully acceptable manner.

SBA has a numerical performance system to evaluate field office effectiveness by assessing the performance of loans made through the field offices. Loans included in the system are those between 2 and 4 years old--the time during which a loan is most likely to have payment problems, according to SBA. The performance system takes several factors into account, such as SBA losses incurred on the loans, payment problems, and the extent to which SBA has had to purchase guaranteed loans from lending institutions.

On the basis of these factors, a numerical score is assigned to each field office, with a lower score indicating better performance. The score determines which of four performance categories the field office attains. The performance categories and the range of scores of these categories are as follows:

<u>Category</u>	<u>Range of scores</u>
Best performance	100 to 150
Fully acceptable performance	151 to 280
Minimally acceptable performance	281 to 400
Less than minimally acceptable performance	Over 400

At the end of fiscal year 1991, the Las Vegas District Office achieved a score of 223.9. Of SBA's 80 field offices that provide loan approval and servicing, Las Vegas ranked 29th in performance score.

SOUTHERN NEVADA FEDERAL INSTALLATIONS HAVE
GENERALLY MET SMALL BUSINESS CONTRACT GOALS

During fiscal years 1990 and 1991, according to respective contract officials, the three southern Nevada federal installations that award procurement contracts generally met their goals for awarding contracts to small businesses. These three installations are the Department of the Interior's Bureau of Reclamation in Boulder City, the Department of Energy (DOE) in Las Vegas, and Nellis Air Force Base in Las Vegas.

The Office of Management and Budget (OMB) provides governmentwide guidance on small business participation in federal procurement contracts. Currently, OMB guidance provides that 20 percent of the total value of all procurement contracts awarded by the federal government be awarded to small businesses. Using the OMB guidance, SBA consults with federal agencies to develop specific small business goals for the agency's procurement process. In turn, the federal agencies negotiate small business goals with their individual installations. These small business goals are expressed as a percentage of the dollar value of procurement contracts that the installation estimates it will award during the fiscal year.

Until 1991 only prime contracts--contracts awarded directly by the federal government to individual businesses--counted toward achieving small business goals. In March 1991, OMB, in resolving a goaling disagreement between SBA and DOE, advised SBA that, in addition to the value of prime contracts, the value of certain subcontracts could also count toward small business goals. These are subcontracts awarded to small businesses by large firms that have a prime contract with DOE to provide management and operations services. Since DOE installations are responsible for working with the management and operations prime contractors to help direct subcontracts to small businesses, OMB believed this suggested change would more accurately indicate the federal government's true achievements for small businesses. SBA accepted the policy change in April 1991.

In January 1990, SBA conducted a routine periodic review of small business awards at the DOE installation in Las Vegas. As SBA reported, DOE had been operating on the basis that small business goals could be accomplished through its management and operations subcontracts along with its prime contracts. However, because the review was conducted before the policy change on subcontracts from management and

operations firms, SBA considered only prime contracts in assessing the installation's small business goals. As a result, SBA's summary of the review stated that, for fiscal years 1988 and 1989, the DOE facility had not met its goals to award prime contracts to small businesses.

However, if the installation's prime contracts and the subcontracts awarded by the installation's management and operations firms were combined, as under the revised SBA policy, the installation would have met its overall small business goals for both fiscal years 1988 and 1989. The SBA review mentioned that, if subcontracts awarded to small businesses by the management and operations firms were considered, the DOE Las Vegas facility's accomplishments for small business would be considered "excellent."

The small business goals and achievements for the three federal installations in southern Nevada, as negotiated with their headquarters offices, appear in the enclosure. As shown in the enclosure, the installations have generally met their small business goals for the past 2 fiscal years. The Department of the Interior's Bureau of Reclamation installation missed its small business goal for fiscal year 1990 by 11 percent, but it exceeded its fiscal year 1991 goal by 17 percent. The Nellis Air Force Base installation slightly exceeded its small business goals for both fiscal years 1990 and 1991.

SBA HAS CORRECTED PROCUREMENT OUTREACH AND COUNSELING PROBLEMS IN SOUTHERN NEVADA

SBA did not provide normal procurement assistance, such as outreach and counseling to small businesses in southern Nevada during 1990 and most of 1991, but in October 1991, SBA took steps to correct this situation.

SBA conducts its procurement assistance outreach and counseling through its Procurement Center Representatives (PCR). PCRs, among their other duties, counsel small businesses about obtaining federal government contracts.

SBA regional offices are responsible for assigning PCRs to geographic areas. SBA's region 9 assigned a PCR from its Glendale, California, field office to represent SBA at the southern Nevada installations and, among other things, take responsibility for providing procurement assistance to small businesses in southern Nevada, among other areas. According to the normal SBA schedule for procurement assistance, the PCR should have visited southern Nevada at least once each quarter. However, between January 1990 and October 1991,

the PCR made no visits to southern Nevada. According to an SBA regional official, the PCR could not visit the area because he was performing other assigned work.

The lack of procurement assistance outreach and counseling to southern Nevada resulted in uncertainty by some small businesses about how to obtain federal government contracts. This uncertainty was expressed by witnesses at the June 1991 congressional hearings.

In your September 1991 letter to SBA, you expressed concern about the availability of SBA procurement assistance to small firms in southern Nevada. In October 1991, SBA assigned a different PCR to southern Nevada and placed a higher priority on providing procurement assistance to the area. According to a region 9 PCR supervisor, since October 1991, the new PCR has visited southern Nevada as scheduled and has provided the local businesses with outreach and counseling services. The current PCR said that, if the outreach and counseling demand necessitates, he could increase his visits to southern Nevada.

OBSERVATIONS

A lack of personnel at SBA's Las Vegas District Office is representative of the agency's nationwide staff shortage. SBA performance information indicates that, despite the difficult staffing situation, the Las Vegas District Office is performing its loan functions in a fully acceptable manner. In addition, according to respective contract officials, federal installations in southern Nevada are generally meeting their goals to provide procurement contracts to small businesses. However, during 1990 and most of 1991, the outreach and counseling normally provided by SBA procurement assistance staff were not provided to small businesses in southern Nevada. SBA has taken steps to correct this situation.

SCOPE AND METHODOLOGY

To report on staff resources in the Las Vegas District Office, we gathered data on staff resource allocation, the actual number of staff, and the primary and collateral duties of the staff. We obtained the District Director's staffing needs list. We also reviewed the 1991 SBA Resource Allocation Task Force Report, which compared SBA-recommended staff levels with actual staff levels in the 10 SBA regions.

To report on the effectiveness of the Las Vegas District Office, we gathered and reviewed information on SBA's loan

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performance measurement system. We determined how the system was established and the factors used to assign a numerical score. We determined how well the Las Vegas District Office performs compared with the other field offices.

To report on the extent to which federal government facilities in southern Nevada are meeting their goals to provide procurement contracts to small businesses, we gathered data and interviewed SBA, OMB, DOE, Department of the Interior, and Department of Defense officials on governmentwide small business goals and achievements.

To report on the level of SBA procurement assistance outreach and counseling for small businesses in southern Nevada, we interviewed SBA procurement officials at headquarters and in the regions.

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We will also provide copies of this correspondence to SBA officials and the House and Senate Small Business Committees. We will make copies available to others upon request.

If you have additional questions regarding these issues, please contact me at (202) 275-5525. Major contributors to this product were Jim Yeager, Patty Manthe, and Fred Brown.

Sincerely yours,



Judy A. England-Joseph
Director, Housing and Community
Development Issues

Enclosure

AWARDS BY FEDERAL INSTALLATIONS IN SOUTHERN NEVADA

Dollars in millions

<u>Installation</u>	<u>Performance dimension</u>	<u>Fiscal year</u>	
		<u>1990</u>	<u>1991</u>
Department of the Interior Boulder City	Total awards	\$73.5	\$61.0
	Awards to small business	\$17.5	\$25.5
	Percent of awards to small business	23.8	42.0
	Installation's small business goal percent	35.0	25.0
Department of Energy ^a Las Vegas	Total awards	\$240.5	\$235.4
	Awards to small business	\$127.7	\$104.4
	Percent of awards to small business	53.1	44.3
	Installation's small business goal percent	53.0	44.2
Department of Defense Nellis Air Force Base Las Vegas	Total awards	\$88.6	\$92.7
	Awards to small business	\$45.5	\$47.9
	Percent of awards to small business	51.4	51.7
	Installation's small business goal percent	51.0	51.0

^aAll figures for DOE Las Vegas include both awards made directly by the installation and awards made by its management and operations contractors.

Source: Officials from the respective southern Nevada installations.

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