



General Government Division

B-281295

May 13, 1999

The Honorable Spencer Bachus
Chairman, Subcommittee on Domestic and International
Monetary Policy

The Honorable Peter King
Chairman, Subcommittee on General Oversight
and Investigations
House Committee on Banking and Financial Services
House of Representatives

Subject: Small Business: Information on Selected Treasury 8(a) Contracts

This letter responds to your request for information on 8(a) contracting activities in certain offices within the Department of the Treasury. The Small Business Administration's (SBA) 8(a) program promotes the development of disadvantaged small businesses through the awarding of federal contracts and technical and management support. Because of your concerns about 8(a) activities as identified during a congressional review of Treasury's Community Development Financial Institutions Fund, you requested data on 8(a) contract activities within Treasury's Departmental Offices. Treasury's Departmental Offices is 1 of 13 major units of the Treasury Department and is composed of divisions headed by Assistant Secretaries who are responsible for policy formulation and overall management of the Department of the Treasury and who report to the Secretary and Undersecretaries.

As agreed with your offices, we obtained the following information for fiscal years 1996 through 1998:

- a comparison of the Departmental Offices' 8(a) contract goals with Treasury's departmentwide 8(a) contract goals,
- the total number of Departmental Offices' contracts and 8(a) contracts as well as the percentage of total Departmental Offices' contract expenditures used for 8(a) contracts,
- the distribution of Departmental Offices' 8(a) contracts by dollar value and type of goods/services procured, and
- whether five Departmental Offices' 8(a) contracts adhered to regulations that limit the amount of work that can be subcontracted.

Results

During fiscal years 1996 through 1998, Treasury Departmental Offices' 8(a) contract goals averaged about 38 percent of the Offices' funds obligated for procurement each year. In comparison, Treasury's departmentwide 8(a) contract goals averaged about 11 percent of the funds obligated for procurement each year during this period. (See enc. I.) According to a Treasury official, the reason Departmental Offices' 8(a) contract goals were higher than Treasury's departmentwide 8(a) goals is that Departmental Offices had fewer contracts than other Treasury offices. The official said that a few of Departmental Offices' large dollar-valued 8(a) contracts that have been in place for a number of years have increased the goal percentages.

From fiscal year 1996 through fiscal year 1998, the annual number of Departmental Offices' contracts ranged from 132 to 155, and the annual number of 8(a) contracts ranged from 15 to 19.¹ (See enc. II.)

During the 3 fiscal years, Departmental Offices' annual contract expenditures ranged from about \$20.4 million to about \$26.5 million, and 48 to 55 percent of total annual contract expenditures were for 8(a) contracts. (See enc. III.)

The distribution of yearly expenditures for Departmental Offices' 8(a) contracts for fiscal years 1996 through 1998 showed that about one-half or more of the contracts had yearly expenditures of about \$250,000 or less each, and a few had yearly expenditures greater than \$1 million each. (See enc. IV.)

The products and services provided to the Departmental Offices by 8(a) contractors varied. On the basis of funds spent, the top three categories for the 3-year period were (1) automatic data processing and telecommunications services; (2) professional, administrative, and management support services; and (3) architect and engineering services. (See enc. V.)

During the 1 fiscal year we analyzed, four of the five service contracts we reviewed were in compliance with SBA regulations that limit the amount of work 8(a) contractors can subcontract.² Under the regulations for a service contract (except one for construction), the business must spend at least 50 percent of the cost of the contract performance incurred for personnel for its own employees. Three of the contractors spent at least 50 percent of the cost incurred for personnel on their employees during the year analyzed. One of the two contractors that spent less than 50 percent of the cost incurred for personnel on its own employees was in compliance with SBA regulations governing subcontracting limitations, because Treasury directed the contractor to use specific sources for subcontracts. (See enc. VI.)

¹ These figures only include contracts that had recorded expenditures in the data provided by Treasury finance offices for fiscal years 1996 through 1998.

² We judgmentally selected the five service contracts using criteria to include different services, monetary sizes, and years.

Treasury officials said they were not aware that the cost of work performed by the fifth contractor's employees represented less than 50 percent of the personnel costs of that contract. They said that, at the time of the contract award, SBA approved the amount of work the contractor proposed to subcontract, and that at the end of the contract period, if Treasury's contract close-out procedures revealed questions about compliance with subcontracting limitations, Treasury would bring those questions to SBA's attention. The officials said that there were no requirements for Treasury to review or monitor an 8(a) contractor's adherence to the 50-percent rule during the performance of the contract, and that they did not do so.

SBA officials said that SBA did not monitor adherence to the 50-percent rule and that, once the contract was awarded, it was Treasury's responsibility to monitor subcontracting compliance because SBA delegates contract administration duties to the procuring agency. In this regard, SBA pointed out that pursuant to a provision in the Federal Acquisition Regulation (FAR), SBA included a clause in its contract with the Treasury Department that formally delegated responsibility for administering the contract on behalf of the government to the Department of the Treasury.³ We concur with SBA that, under this provision, it was the Department of the Treasury that had primary responsibility for monitoring compliance with subcontracting limitations. However, as SBA recognized, it also has some responsibility to assist agencies in monitoring subcontracting compliance and said that it is working with its Office of Inspector General to determine how best to meet this responsibility.

In addition, in July 1998, SBA modified its regulations, which could help resolve the issue. Prior to July 30, 1998, agencies awarded 8(a) contracts to SBA as prime contractor, and SBA then subcontracted with 8(a) businesses to perform the work. Under the new regulations, agencies may contract directly with 8(a) contractors if they have an agreement with SBA for this arrangement, and for the type of contracts we reviewed, the 8(a) contractor must demonstrate every 6 months to the contracting agency or SBA that it has performed the required percentage of work. SBA regulations in effect for the five contracts we reviewed required that, at any point in time, 8(a) contractors must have performed the required percentage of work, but did not specifically require the contractors to periodically demonstrate this.

Background

The Small Business Act, as amended, authorizes the 8(a) business development program. The program, named for a section of the Small Business Act, is a business development initiative designed to help disadvantaged small businesses gain access to the economic mainstream. Annually, federal agencies, in coordination with SBA, are to set goals for 8(a) contract awards. According to a Treasury official, Departmental Offices uses the following factors to establish 8(a) goals: total procurement needs, including types of service and products; the pool of qualified 8(a) contractors available; 8(a) contractors' past performance; existing numbers and types of 8(a) contracts; and available opportunities for small businesses. Small

³ SBA cited 48 CFR 19.811-3 and 19.812.

businesses that are 51 percent unconditionally owned and controlled by individuals who are determined by SBA to be socially and economically disadvantaged are eligible for 8(a) contracts.⁴ Legislation also authorizes SBA to fund services by organizations providing technical and management assistance to the 8(a) contractors.

Pursuant to section 8(a) of the Small Business Act, a concern may not receive an 8(a) contract unless it agrees to perform certain specified percentages of the work for which the contract was awarded.⁵ This provision limits the amount of work the business may subcontract. For a service contract (except one for construction), at least 50 percent of the cost of the contract performance incurred for personnel must be expended on the 8(a) business' own employees.⁶ This provision has been commonly referred to as the "50-percent rule." SBA regulations exclude from the subcontracting limitations instances where the federal procuring agency directs the 8(a) business to use specific sources for subcontracts. SBA regulations state that, where the prime contractor has been directed by the government to use any specific source for parts, supplies, components, subassemblies, or services, the costs associated with those purchases will be considered as part of the cost of materials, not subcontracting costs.⁷

SBA officials said that the reason they do not count government-directed sources for purposes of assessing compliance with the 50-percent rule is to encourage the use of small business prime contractors whenever possible. They said that, when a small business is directed by the government to use a specific source, which may be done in cases where there is only one subcontractor that can satisfy the government's requirement, the business has no choice in determining the resources to perform the contract. The officials said that they did not believe Congress intended to exclude 8(a) businesses as contracting vehicles in this context.

Scope and Methodology

We obtained information for fiscal years 1996 through 1998 on the number of Departmental Offices' contracts and types of services provided under 8(a) contracts from reports prepared by Treasury's Procurement Services Division on these procurements. We obtained contract expenditures for fiscal years 1996 through 1998 from Treasury's finance offices in Washington, D.C., and the Bureau of Public Debt in Parkersburg, West Virginia. To determine Treasury's 8(a) contract goals, we reviewed small business accomplishments reports for

⁴ The Small Business Act, as amended, defines socially disadvantaged individuals as those who have been subjected to racial or ethnic prejudice or cultural bias because of their identities as members of groups, without regard to their individual qualities. The act defines economically disadvantaged individuals as socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged (15 U.S.C. 637(a)(5) and (6)(A)).

⁵ 15 U.S.C. 637 (a)(14).

⁶ All contracts covered in our review were service contracts.

⁷ 13 CFR 125.6(b)(7).

fiscal years 1996 through 1998 issued by Treasury's Office of Small and Disadvantaged Business Utilization. We did not verify the information we obtained from Treasury.

To determine the five 8(a) contractors' compliance with SBA subcontracting regulations, we reviewed Treasury's contract expenditures data, including invoices for five Departmental Offices' contracts. As agreed with your offices, we judgmentally selected five contracts to obtain contracts of different monetary size and contracts under which different services were provided. We reviewed one contract's invoices for fiscal year 1996, one for fiscal year 1997, and three for fiscal year 1998. Since we reviewed compliance with subcontracting limitations for only 1 fiscal year for each of the five contracts, we do not know the status of compliance throughout the life of the five contracts. In addition, we do not know whether these five contracts are typical of all Departmental Offices' 8(a) contracts.

We also reviewed small business legislation and regulations relating to 8(a) contracting. In addition, we interviewed Treasury and SBA officials to obtain additional information on subcontracting regulations.

We did our work at the Department of the Treasury headquarters in Washington, D.C., between October 1998 and January 1999 in accordance with generally accepted government auditing standards.

Agency Comments

We requested comments on a draft of this report from the Secretary of the Treasury and the Administrator of the Small Business Administration (SBA). On May 6, 1999, Treasury's Director of Procurement Services Division stated that Treasury had no comments.

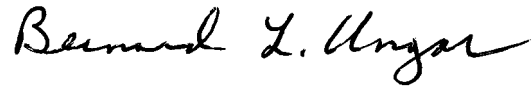
On April 30, 1999, we received written comments from SBA's Senior Policy Advisor, Government Contracting and Minority Enterprise Development. SBA stated that its comments were interim because of temporary operating data system difficulties, but provided information on its position regarding the responsibility for monitoring 8(a) contractors' compliance with subcontracting limitations. SBA pointed out that, pursuant to FAR provisions included in the 8(a) contracts delegating contract administration to the procuring agency, Treasury was primarily responsible for monitoring 8(a) contractors' compliance with regulations limiting subcontracting, but recognized that SBA also had some responsibility in this area. SBA stated that it was working with SBA's Inspector General Office to develop a methodology to meet this responsibility. We incorporated SBA's comments in this report where appropriate.

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We are sending copies of this report to Representative Maxine Waters, Ranking Minority Member, Subcommittee on Domestic and International Monetary Policy, and Representative Bernard Sanders, Ranking Minority Member, Subcommittee on General Oversight and Investigations, House Committee on Banking and Financial Services. We are also sending copies to the Honorable Robert E. Rubin, Secretary of the Treasury; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. Copies will

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also be made available to others upon request. If you have any questions about the report, please call me on (202) 512-8387.

A handwritten signature in black ink that reads "Bernard L. Ungar". The signature is written in a cursive style with a long, sweeping tail on the letter 'g'.

Bernard L. Ungar
Director, Government Business
Operations Issues

Comparison of Treasury's Departmentwide 8(a) Contract Goals With Departmental Offices' 8(a) Contract Goals

Treasury	Fiscal year 1996		Fiscal year 1997		Fiscal year 1998		Average for 3-year period	
	Goals	Actual	Goals	Actual	Goals	Actual	Goals	Actual
Departmentwide	11.0%	11.7%	11.0%	9.6%	9.5%	7.9%	10.5%	9.7%
Departmental Offices	35.0	69.0	40.0	59.9	40.0	36.4	38.3	55.1

Note: Goals and actual percentages are based on planned and actual procurement dollars obligated for each fiscal year.

According to a Treasury official in the Procurement Services Division, the reason 8(a) contract goals for the Departmental Offices are higher than Treasury's departmentwide 8(a) goals is that Departmental Offices have fewer contracts than other Treasury offices. The official said that a few Departmental Offices' large dollar-valued contract awards increase the dollar amount obligated for 8(a) contracts over the period of the life of the contracts and thus increase the goal percentages from year to year.

Source: Treasury Small Business Program Accomplishments Reports for fiscal years 1996 through 1998.

Percentage of Treasury Departmental Offices' Contracts That Were 8(a) Contracts, Fiscal Years 1996-1998

Fiscal year	Total contracts	8(a) contracts	Percent that were 8(a) contracts
1996	155	15	9.7
1997	132	19	14.4
1998	135	15	11.1

Note: These figures only include contracts that had recorded expenditures in the data provided by Treasury finance offices for fiscal years 1996 through 1998.

Source: Contract information provided by Treasury's Procurement Services Division and finance offices for fiscal years 1996 through 1998.

Percentage of Treasury Departmental Offices' Contract Expenditures Expended on 8(a) Contracts, Fiscal Years 1996-1998

Fiscal year	Expenditures for		
	All contracts	8(a) contracts	Percent spent on 8(a) contracts
1996	\$26,461,059	\$14,418,685	54.5
1997	20,424,141	10,839,267	53.1
1998	26,083,179	12,594,337	48.3
Total	\$72,968,379	\$37,852,289	51.9

Source: Contract information provided by Treasury's Procurement Services Division and finance offices for fiscal years 1996 through 1998.

Distribution of Treasury Departmental Offices' Expenditures on 8(a) Contracts, Fiscal Years 1996-1998

Table IV.1: Dollar Distribution of Treasury Departmental Offices' Expenditures on 8(a) Contracts, Fiscal Year 1996

Range of expenditures	Number of 8(a) contracts	Percent of total 8(a) contracts	Average expenditures
Less than \$1 million			
\$0 to \$250,000	9	60.0	\$116,474
\$251,000 to \$500,000	2	13.3	379,386
\$501,000 to \$750,000	0	0.0	0
\$751,000 to \$1 million	1	6.7	801,012
Over \$1 million	3	20.0	3,936,878
Total contracts	15	100.0	

Source: Contract information provided by Treasury's Procurement Services Division and finance offices for fiscal years 1996 through 1998.

Table IV.2: Dollar Distribution of Treasury Departmental Offices' Expenditures on 8(a) Contracts, Fiscal Year 1997

Range of expenditures	Number of 8(a) contracts	Percent of total 8(a) contracts	Average expenditures
Less than \$1 million			
\$0 to \$250,000	11	57.9	\$58,938
\$251,000 to \$500,000	1	5.3	320,720
\$501,000 to \$750,000	3	15.8	655,067
\$751,000 to \$1 million	2	10.5	882,008
Over \$1 million	2	10.5	3,070,507
Total contracts	19	100.0	

Source: Contract information provided by Treasury's Procurement Services Division and finance offices for fiscal years 1996 through 1998.

Table IV.3: Dollar Distribution of Treasury Departmental Offices' Expenditures on 8(a) Contracts, Fiscal Year 1998

Range of expenditures	Number of 8(a) contracts	Percent of total 8(a) contracts	Average expenditures
Less than \$1 million			
\$0 to \$250,000	7	46.7	\$102,738
\$251,000 to \$500,000	1	6.7	392,743
\$501,000 to \$750,000	2	13.3	610,915
\$751,000 to \$1 million	1	6.7	989,071
Over \$1 million	4	26.7	2,317,883
Total contracts	15	100.0	

Note: Percentages may not add to 100 because of rounding.

Source: Contract information provided by Treasury's Procurement Services Division and finance offices for fiscal years 1996 through 1998.

Treasury Departmental Offices' 8(a) Contracts by Products/Services Provided, Fiscal Years 1996-1998

Table V.1: Treasury Departmental Offices' 8(a) Contracts by Products/Services Provided, Fiscal Year 1996

Description of Product/service code ^a	Contractor	Contract number	Expenditures for fiscal year 1996
D - Automatic data processing and telecommunications services	Uniband, Inc.	TQS9403	\$4,814,424
	The Centech Group, Inc.	TOS9220	1,773,275
	Pragmatics	TOS95117	147,349
	Digicon, Inc	TOS9389	54,062
			6,789,110
R - Professional, administrative, and management support services	Metrica, Inc.	TOS9131	5,222,934
	Kevric Company	TOS9631	31,535
	Metrica, Inc	TOS9344	234,513
			5,488,982
S - Utilities and housekeeping services	Community Maintenance	TOS9502	801,012
	Panamovers Transfer and Storage	TOS9226	151,817
	BIP Electric Company	TOS9596	34,870
	BIP Electric Company	TOS9598	35,794
	Community Maintenance	TOS9109	26,567
			1,050,060
C - Architect and engineering services	McKissack & McKissack	TOS9623	356,594
	GMR Limited, Inc.	TOS9427	128,936
	BIP Electric Company	TOS9598	366,384
			851,914
V - Transportation, travel, and relocation services	American Manufacturers Export Group	TOS9390	235,771
70 - General purpose automatic data processing equipment	Metrica, Inc.	TOS9344	2,848
Total			\$14,418,685

^aProduct and service codes, issued by the General Services Administration (GSA), are classifications of services or products procured by federal agencies. The codes are to be used when preparing, coding, editing, or machine processing data for input into the Federal Procurement Data System (FPDS).

Source: Treasury's Procurement Services Division and finance offices' contract data for fiscal year 1996 and GSA's FPDS Product and Service Codes Manual.

Enclosure V

Treasury Departmental Offices' 8(a) Contracts by Products/Services Provided, Fiscal Years 1996-1998

Table V.2: Treasury Departmental Offices' 8(a) Contracts by Products/Services Provided, Fiscal Year 1997

Description of product/service code ^a	Contractor	Contract number	Expenditures for fiscal
			year 1997
C - Architect and engineering services	McKissack & McKissack	TOS9623	\$4,144,633
	GMR Limited, Inc.	TOS9427	581,555
	BIP Electric Company	TOS9598	147,041
	McKissack & McKissack	TOS9623	13,140
			4,886,369
D - Automatic data processing and telecommunications services	The Centech Group, Inc.	TOS9220	1,996,381
	Uniband, Inc	TOS9403	704,599
	Digicon, inc.	TOS9389	23,579
	Kajax Engineering, Inc	TOS9219	756
			2,725,315
R - Professional, administrative, and management support services	Native American Management Services, Inc	TOS9716	\$679,046
	Kevric Company	TOS9631	320,720
	Armstrong Data Services, Inc.	TOS96156	107,598
	Metrica, Inc	TOS9344	77,496
	Metrica, Inc	TOS9131	46,057
	Cox and Associates	TOS9554	1,000
			1,231,917
58 - Communication, detection, and coherent radiation equipment	Family Computer Centers, Inc.	TOS95125	957,956
S - Utilities and housekeeping services	Community Maintenance	TOS9502	806,061
	C&G Moving & Storage, Inc.	TOS9653	87,810
	BIP Electric Company	TOS9598	3,925
			897,796
Z - Maintenance, repair, or alteration of real property	C&G Moving & Storage, Inc.	TOS9653	73,073
70 - General purpose automatic data processing equipment	Metrica, Inc.	TOS9344	46,836
V - Transportation, travel, and relocation services	American Manufacturers Export Group	TOS9390	18,005
Y - Construction of structures and facilities	Tito, Inc	TOS9370	2,000
Total			\$10,839,267

^aProduct and service codes, issued by the General Services Administration (GSA), are classifications of services or products procured by federal agencies. The codes are to be used when preparing, coding, editing, or machine processing data for input into the Federal Procurement Data System (FPDS).

Source: Treasury's Procurement Services Division and finance offices' contract data for fiscal year 1997 and GSA's FPDS Product and Service Codes Manual.

Enclosure V
Treasury Departmental Offices' 8(a) Contracts by Products/Services Provided, Fiscal Years
1996-1998

Table V.3: Treasury Departmental Offices' Contracts by Products/Services Provided, Fiscal Year 1998

Description of product service code ^a	Contractor	Contract number	Expenditures for fiscal year 1998
D - Automatic data processing and telecommunications services	Uniband ,Inc.	TOS9403	\$4,716,423
	Kathpal Technologies, Inc.	TOS9801	1,306,982
	The Centech Group, Inc.	TOS9220	989,071
	Pragmatics	TOS95117	143,550
			7,156,026
58 - Communication, detection, and coherent radiation equipment	Family Computer Centers, Inc.	TOS95125	1,841,898
S- Utilities and housekeeping services	Community Maintenance	TOS9502	1,406,229
	C&G Moving & Storage, Inc.	TOS9653	157,779
	BIP Electric Company	TOS9598	88,763
			1,652,771
R - Professional, administrative, and management support services	Native American Management Services, Inc.	TOS9715	707,327
	Armstrong Data Services, Inc.	TOS96156	155,391
			862,718
Z - Maintenance, repair, or alteration of real property	Professional Restoration, Inc.	TOS9755	514,502
	C&G Moving & Storage, Inc.	TOS9653	20,926
			535,428
C - Architect and engineering services	GMR Limited, Inc.	TOS9427	392,743
	McKissack & McKissack	TOS9719	43,351
			436,094
70 - General purpose automatic data processing equipment	Metrica, Inc	TOS9344	84,402
V - Transportation, travel, and relocation services	Interior Systems, Inc.	TOS9748	25,000
Total			\$12,594,337

^aProduct and service codes, issued by the General Services Administration (GSA), are classifications of services or products procured by federal agencies. The codes are to be used when preparing, coding, editing, or machine processing data for input into the Federal Procurement Data System (FPDS).

Source: Treasury's Procurement Services Division and finance offices' contract data for fiscal year 1998 and GSA's FPDS Product and Service Codes Manual.

Percent of Contract Personnel Cost Incurred for Subcontracted Personnel for Five Selected Departmental Offices' 8(a) Contracts

Fiscal year cost of contract incurred for personnel

Contract number	Fiscal year reviewed	Contractor	Service provided	Total personnel cost	Percent spent on in-house personnel	Percent spent on subcontracted personnel
TOS 91-31	1996	A	Professional, administrative, and management support services/technical assistance	\$3,821,473	22.7	77.3 ^a
TOS 92-20	1997	B	Automatic data processing and telecommunication services/ADP systems analysis services	1,984,521	58.7	41.3
TOS 94-03	1998	C	Automatic data processing and telecommunication services/other ADP and telecommunications services; and automated news, data or other information services	4,396,156	79.2	20.8
TOS 95-125	1998	D	Communication, detection, and coherent radiation equipment/telephone and telegraph equipment	1,033,734	87.3	12.7
TOS 97-15	1998	E	Professional, administrative, and management support services/program management/support services	653,341	14.1	85.9 ^b

Note: Using SBA's guidance and invoice data, we calculated the percentage of the cost of contract incurred for personnel in the following manner: Total personnel costs were calculated by adding direct labor, fringe benefits/allowable overhead, and general and administrative costs associated with both the contractor and subcontractor(s). To obtain the percentage of personnel costs subcontracted, we divided the overall total of personnel costs into the amount of the personnel cost that was subcontracted.

^aThe calculation for Contract TOS 91-31 does not include two missing vouchers totaling \$127,121.

^bFiscal year 1998 invoices showed that the actual percentage of subcontracted personnel costs for contract TOS 97-15 was 85.9 percent, and thus exceeded the 50-percent limitation on subcontracted personnel costs. However, Treasury directed the contractor to use specific sources. Thus, as specified under SBA regulations (13 CFR 125.6(b)(7)), when the procuring agency directs the contractor to use specific sources, costs associated with the sources are counted as cost of materials and not subcontracting costs. According to a Treasury official, the percentage of costs incurred for personnel for this contract by the contractor's employees, as measured in accordance with SBA regulations, represented 63 percent of total personnel costs, and the percentage of personnel costs subcontracted was 37 percent.

Source: Treasury's Procurement Services Division and finance offices and the General Services Administration's Federal Procurement Data System Product and Service Codes Manual.

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