

January 2001

# SMALL BUSINESS

## Trends in Federal Procurement in the 1990s



G A O

Accountability \* Integrity \* Reliability



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## Abbreviations

BPA	blanket purchase agreement
DOD	Department of Defense
FAR	Federal Acquisition Regulation
FASA	Federal Acquisition Streamlining Act
FPDC	Federal Procurement Data Center
FPDS	Federal Procurement Data System
GAO	General Accounting Office
GSA	General Services Administration
GWAC	governmentwide agency contract
IDIQ	indefinite-delivery, indefinite-quantity contract
MAC	multiple award contract
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
SBA	Small Business Administration

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

January 18, 2001

The Honorable Stephen Horn  
The Honorable Tom Davis  
House of Representatives

The federal government spends about \$200 billion annually on the acquisition of goods and services and has established a legislative goal to provide at least a 23 percent share of these expenditures to small businesses. Some organizations that represent small businesses and others have expressed concerns that acquisition reforms in the mid-1990s may have reduced the opportunities for small businesses to compete for federal government contracts. These reforms focused on streamlining acquisition processes to improve the government's capacity to acquire goods and services in a more efficient manner. The reforms included provisions to facilitate the increased use of certain types of contracts.

Concerned about the potential effect of these reforms on small businesses, you asked us in your capacities as Chairman of the Subcommittee on Government Management, Information, and Technology and as a Member of the Subcommittee, to determine if there were any changes in the ability of small businesses to obtain government contracts following the implementation of the reforms and other changes in the acquisition environment during the 1990s. Specifically, we agreed to address (1) provisions in acquisition reform legislation enacted in the 1990s and other changes in procurement that took place during this time that could affect small business contractors and (2) trends that might indicate possible shifts in the ability of small businesses to obtain federal contracts in the 1990s. To identify the provisions of acquisition reform legislation and possible shifts in procurement from small businesses, we analyzed key legislative reforms and other changes and obtained the views of representatives of several associations representing small businesses. To determine the trends in federal procurement from small businesses, we analyzed data from the General Services Administration's Federal Procurement Data Center (FPDC), which collects procurement information from federal agencies.

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## Results in Brief

Legislation and other acquisition reforms in the 1990s resulted in several changes to governmentwide procurement practices that could be viewed as having the potential to both positively and negatively affect small businesses' ability to receive federal contracts. For those changes that

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could adversely affect them, some organizations that represent small businesses point to certain contract types, or vehicles, that were authorized or developed through acquisition reform. Specifically, the Federal Acquisition Streamlining Act of 1994 (FASA)<sup>1</sup> codified the authority of agencies to enter into task- or delivery-order contracts<sup>2</sup> with multiple firms for the same or similar products, known as multiple award contracts (MAC).

The information technology acquisition reforms of the Clinger-Cohen Act of 1996 provided for the use of multiagency contracts and what have become known as governmentwide agency contracts (GWAC) for federal agencies to access each other's information technology contracts.<sup>3</sup> Some organizations that represent small businesses have expressed concern that these contract vehicles can diminish their ability to compete for federal contracts because they could potentially consolidate multiple agencies' requirements or call for performance over a wide geographic area.

Some organizations that represent small businesses are also concerned that FASA exempted purchases of \$2,500 or less from the range of contracts previously reserved for small businesses. Federal agencies are encouraged to use purchase cards, which are similar to corporate credit cards, for purchases in this range. Some firms believe that this exemption and the use of purchase cards to buy goods at companies other than small businesses have eroded their market share of these purchases. Although contract bundling is an acquisition practice that received additional attention during this time, it did not result from acquisition reform legislation. Some organizations that represent small businesses are concerned that bundled contracts impede the ability of small businesses to compete for federal contracts.

While some organizations that represent small businesses believe that certain reforms may have the potential to negatively affect them, other legislative changes potentially benefit small businesses. For example, FASA

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<sup>1</sup> P.L. 103-355, October 13, 1994.

<sup>2</sup> Task- or delivery-order contracts provide for the purchase of an indefinite quantity, within stated limits, of supplies or services during a fixed period. Deliveries or performance of tasks are scheduled by placing orders with the contractor.

<sup>3</sup> The Clinger-Cohen Act was enacted as Divisions D and E of the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104-106, Feb. 10, 1996).

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increased the threshold of federal contracts exclusively reserved for small businesses from contracts worth \$25,000 or less to contracts over \$2,500 up to \$100,000, although contracts can still be exempt from this exclusive reservation if certain criteria are met. In addition, the Small Business Reauthorization Act of 1997<sup>4</sup> increased the previous legislative goal that at least 20 percent of federal contract expenditures be awarded to small businesses to 23 percent, effective fiscal year 1998.

Other changes during the 1990s also have the potential to affect small businesses. These changes include the reduction in overall federal procurement expenditures and, less directly, the downsizing of the acquisition workforce, which may have contributed to the use of streamlined procurement practices.

Small Business Administration data indicate that although federal agencies met the legislative goal for procurement from small businesses from fiscal years 1993 to 1999, there was a slight decrease in the percentage of total contract expenditures, which include new contracts and contract modifications, going to small businesses from fiscal years 1997 to 1999. Between fiscal years 1993 and 1997, when the legislative goal was 20 percent, small businesses received between 24 and 25 percent of total federal contract expenditures. In fiscal years 1998 and 1999, when the goal increased to 23 percent, small businesses received 23 percent of total federal contract expenditures.

Focusing on new contracts, where some organizations that represent small businesses have expressed concern about the ability of small businesses to compete, small businesses received between 25 and 28 percent of the value of expenditures on new contract awards worth more than \$25,000 from fiscal years 1993 to 1999.<sup>5</sup> In calculating the share of total expenditures on new contracts going to small businesses, we used FPDC data on expenditures for new contracts worth \$25,000 or more and did not exclude certain types of expenditures that SBA excludes to calculate the achievement of the small business procurement goal.<sup>6</sup>

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<sup>4</sup> P.L. 105-135, December 2, 1997.

<sup>5</sup> Federal agencies report procurement data to Federal Procurement Data System in two categories (1) contract awards of \$25,000 or less and (2) contract awards over \$25,000. Each agency reports summary data on contracts worth \$25,000 or less to FPDS. Agencies report greater detail on each individual contract over \$25,000. Federal agencies do not report detailed data on purchase-card expenditures to FPDS.

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In addition, despite the overall decline in total federal procurement in the 1990s, small businesses received a higher share in fiscal year 1999 of expenditures on new contracts over \$25,000 for most categories of goods and services than they did in fiscal year 1993, including automatic data processing services as well as research and development. Several contract vehicles, such as MACs, aggregately accounted for about one quarter of all governmentwide expenditures for contracts over \$25,000 in fiscal year 1999, up from approximately 16 percent in fiscal year 1994. For several types of these contract vehicles, small businesses received between 26 and 55 percent of expenditures for new contracts worth over \$25,000 in fiscal year 1999. The limited data on the extent of contract bundling as well as for contracts over \$2,500 up to \$100,000, which are generally reserved exclusively for small businesses, preclude assessment of any related shifts in trends of procurement from small businesses. In addition, while available information indicates that the use of purchase cards increased to about 5 percent of federal procurement from fiscal years 1993 to 1999, data were not available to determine the share of these purchases going to small businesses or the impact of their increased use on small businesses.

We provided the Small Business Administration (SBA), General Services Administration (GSA) and the Office of Management and Budget (OMB) with a draft of this report for review and comment. In her written comments, SBA's Chief Operating Officer agreed with the report's findings and suggested minor technical changes that we have incorporated where appropriate. Also, she pointed out that preliminary data from fiscal year 2000 show that federal agencies are finding it more difficult to meet the legislative goal that 23 percent of the value of federal prime contracts be awarded to small businesses. Officials from GSA's Office of Enterprise Development and Office of Governmentwide Policy provided technical comments that have been incorporated into the report, as appropriate. OMB had no comments on our draft report. The written comments we received from SBA are in appendix III.

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## Background

The federal government buys a myriad of goods and services from contractors. Federal agency acquisitions must be conducted in accordance with a set of statutes and regulations designed to accomplish several objectives, including full and open competition and various social and

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<sup>6</sup> We asked FPDC for data on new contracts over \$25,000 because FPDC does not collect information on new contracts worth \$25,000 or less going to small businesses.



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economic goals, such as encouraging small business participation. In the late 1980s and early 1990s, some became convinced that the federal procurement system had become complex, unwieldy, and overwrought with tension between the basic goals of efficiency and fairness because of a proliferation of requirements governing almost every aspect of the acquisition process. In this environment, there were concerns about the government's ability to take full advantage of the opportunities offered by the commercial marketplace. In response to these concerns, Congress enacted two major pieces of reform legislation, FASA and Clinger-Cohen, aimed at creating a more efficient and responsive federal acquisition system. Concerns remain about whether the changes brought about by acquisition reform during the 1990s have come at the expense of placing small business at a disadvantage.

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## Legislative and Other Changes That Could Affect the Ability of Small Businesses to Obtain Federal Contracts

The federal procurement process underwent many legislative and administrative changes during the 1990s, some of which have the potential to affect the ability of small businesses to obtain federal contracts. Other changes occurred during this time, such as reductions in the amount the government spent on goods and services and the size of its acquisition workforce, which agency officials believe have also encouraged procurement streamlining. These changes included the use of certain contract vehicles, such as MACs. In addition, reforms have modified the dollar range of contracts that are reserved for small businesses and encouraged the use of purchase cards, which are similar to corporate credit cards, for the use of certain purchases. Some organizations that represent small businesses are concerned that these changes could potentially erode the ability of small businesses to receive federal contracts.

### Legislation Modifies Federal Procurement Process

Three major laws enacted in the 1990s contain provisions that may affect small business contractors: (1) FASA (2) Clinger-Cohen and (3) the Small Business Reauthorization Act of 1997.

Among its many reform provisions, FASA codified the authority of agencies to enter into multiple award, task- and delivery-order contracts for goods and services. According to agency officials, these MACs are designed to provide agencies with a great deal of flexibility in buying goods or services while minimizing the burden on government contracting personnel to administer contracts. Clinger-Cohen contained additional reform provisions, particularly for purchases of information technology. The

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legislation repealed the central authority of GSA for information technology acquisitions, authorized the use of multiagency contracts for such acquisitions, and authorized OMB to designate agency executive agents for GWACs. Clinger-Cohen authorized federal agencies to make their information technology contracts available for use by other agencies. Some organizations that represent small businesses have expressed concern that these types of contract vehicles can diminish the ability of small businesses to compete for federal contracts since they potentially can consolidate requirements, which small businesses may not have the capacity to meet and may require a larger geographic coverage than they can accommodate.

FASA also amended the Small Business Act to create an exclusive reservation for small businesses consisting of contracts valued at more than \$2,500 but not more than \$100,000. However, agency contracting officers are not bound to this exclusive reservation if they are unable to obtain offers from two or more small businesses that are competitive with market prices, quality and delivery of the goods or services being purchased. Prior to FASA, procurements valued at \$25,000 or less were generally reserved for small businesses. FASA also took contracts of \$2,500 or less outside the range of the exclusive reservation for small businesses with the creation of a micropurchase level of \$2,500. Government buyers do not have to obtain competition and are not required to purchase goods or services from small businesses for micropurchases of \$2,500 or less. Nevertheless, FASA requires that these micropurchases be distributed equitably among qualified contractors. In addition, Clinger-Cohen provided greater flexibility to agencies in determining who may make purchases of \$2,500 or less without competition. Some organizations that represent small businesses are concerned that buyers making micropurchases may be less likely to seek small businesses for these purchases.

In addition, Congress acted to increase the goal of the share of federal contracts for small businesses. The Business Opportunity Development Reform Act of 1988 established an annual governmentwide goal that not less than 20 percent of the total value of prime contract awards for each fiscal year go to small businesses.<sup>7</sup> The Small Business Reauthorization Act of 1997 increased this goal to not less than 23 percent.<sup>8</sup> This increase was designed to encourage federal agencies to purchase more goods and

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<sup>7</sup> A prime contract is any direct contract between the government and a contractor.

services from small businesses. Figure 1 highlights statutory changes relevant to small businesses.

**Figure 1: Key Changes in Federal Procurement Legislation, 1994-1997**

1994	1996	1997
<p>▶ <b>Federal Acquisition Streamlining Act of 1994</b></p> <ul style="list-style-type: none"> <li>• Authorized federal agencies to enter into multiple award contracts (MACs)</li> <li>• Small business exclusive reservation from more than \$2,500 up to \$100,000</li> <li>• Introduction of micropurchase level up to \$2,500</li> </ul>	<p>▶ <b>Clinger-Cohen Act of 1996</b></p> <ul style="list-style-type: none"> <li>• Authorized the Office of Management and Budget to designate executive agents for governmentwide acquisitions of information technology (GWACs)</li> <li>• Authorized the use of multi-agency contracts for acquisitions of information technology</li> <li>• Allowed agencies to authorize more employees to make purchases up to \$2,500</li> </ul>	<p>▶ <b>Small Business Reauthorization Act of 1997</b></p> <ul style="list-style-type: none"> <li>• Increased the small business contracting goal from not less than 20% to 23%</li> </ul>

Source: GAO analysis of acquisition reform legislation.

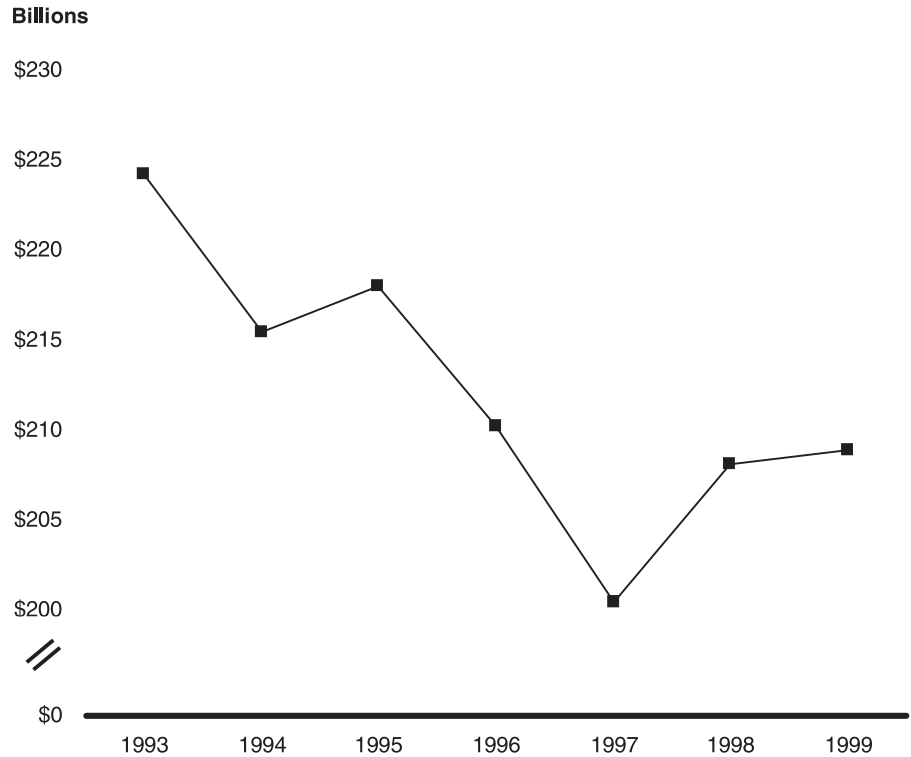
### Other Factors Have Affected Federal Procurement Practices

At the same time that acquisition reform legislation was enacted, other factors changed how much the federal government bought as well as the way it buys goods and services. During the 1990s, the federal government decreased the amount spent on goods and services and downsized the acquisition workforce.

The total amount of goods and services that the government purchased, including those bought with purchase cards, declined by about 7 percent from an inflation-adjusted \$224 billion in fiscal year 1993 to \$209 billion in fiscal year 1999. Consequently, all businesses had to compete for a reduced total of federal contract expenditures. Figure 2 shows the trend in total federal procurement expenditures during this period.

<sup>8</sup> Since the 23 percent goal is governmentwide, some agencies' goals for awarding prime contracts to small businesses may be below 23 percent while others may be above 23 percent. SBA is responsible for coordinating goals with all executive agencies to ensure that the federal government as a whole meets the 23 percent goal.

**Figure 2: Total Federal Procurement Expenditures, Fiscal Years 1993-1999**



Note: Amounts are shown in constant fiscal year 1999 dollars.

Source: GAO analysis of FPDS data.

Federal agencies also reduced their acquisition workforce personnel from 165,739 in fiscal year 1990 to 128,649 in fiscal year 1998, or approximately 22 percent, during this time, with many of these reductions taking place at the Department of Defense (DOD).<sup>9</sup> According to agency officials, contracting officials have sought ways to streamline procurement practices within the applicable statutes and regulations partly as a result of these workforce reductions; this includes the use of previously authorized contracting vehicles such as blanket purchase agreements (BPA),

<sup>9</sup> The National Defense Authorization Acts for fiscal years 1996, 1997, 1998, and 1999 (P.L. 104-106, P.L. 104-201, P.L. 105-85, and P.L. 105-261) directed the Secretary of Defense to reduce DOD's acquisition personnel.

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indefinite-delivery indefinite-quantity (IDIQ) contracts, and GSA federal supply schedule contracts. Appendix I provides a description of these contract vehicles.

Contract bundling is an acquisition practice that received a lot of attention in the 1990s and is often associated with but, in fact, is not actually contained in acquisition reform legislation enacted during this period. Federal agencies combine existing contracts into fewer contracts as a means of streamlining as well as reducing procurement and contract administration costs, a practice generally referred to as “contract consolidation.” A subset of consolidated contracts is “bundled contracts” that the Small Business Reauthorization Act of 1997 defines as the consolidation of two or more procurement requirements for goods or services previously provided or performed under separate, smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to a small business concern due to

- the diversity, size, or specialized nature of the elements of the performance specified;
- the aggregate dollar value of the anticipated award;
- the geographic dispersion of contract performance sites; or
- any combination of these three criteria.

This act requires each federal agency, to the maximum extent practicable, to (1) promote participation of small businesses by structuring its contracting requirements to facilitate competition by and among small businesses and (2) avoid the unnecessary and unjustified bundling of contracts that are likely to be unsuitable for small business participation as prime contractors.<sup>10</sup>

Federal policy has also encouraged the use of governmentwide commercial purchase cards for micropurchases. The purchase card, issued to a broad range of authorized agency personnel to acquire and pay for goods and services, is similar in nature to a corporate credit card and is the preferred method for purchases of \$2,500 or less. Some organizations that represent small businesses believe that the purchase card makes it easier for

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<sup>10</sup> To implement the act, SBA issued an interim rule in October 1999 and a final rule in July 2000. In October 2000, the administration issued Executive Order 13170 to increase opportunities for small disadvantaged businesses in federal contracting. This order directs federal agencies to submit, to the extent permitted by law, any contracts proposed to be bundled to SBA for review.

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government personnel to make purchases from sources other than small businesses because that may be more convenient for the purchaser.

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## Small Businesses Continued to Achieve the Federal Procurement Goal in The 1990s, Although Their Share Has Decreased Slightly

Small businesses, as a group, have received the legislatively mandated goal for federal contract expenditures each fiscal year from 1993 to 1999. Between fiscal years 1993 and 1997, when the legislative goal was at least 20 percent, small businesses received between 24 and 25 percent of total federal contract expenditures. In both fiscal years 1998 and 1999, when the goal increased to 23 percent, small businesses received 23 percent of total federal contract expenditures. Focusing on expenditures for new contracts worth over \$25,000, our analysis shows that small businesses have received between 25 and 28 percent of these expenditures during this period. In addition, focusing on the various categories of goods and services that the federal government purchases, small businesses received a higher share in fiscal year 1999 of expenditures in new contracts for most categories of goods and services than they did in fiscal year 1993. Several contract vehicles accounted for about one quarter of all governmentwide expenditures for contracts over \$25,000 in fiscal year 1999, and small businesses received between 26 and 55 percent of expenditures for these contract vehicles in that year. We could not determine the amount or impact of contract bundling or the impact of the increased use of government purchase cards on small businesses. Although FASA requires that contracts over \$2,500 up to \$100,000 generally be reserved exclusively for small businesses, we could not determine the amount of expenditures for these contracts because, in some cases, information is reported to FPDC on contracts together with modifications.

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## Federal Government Is Meeting Small Business Procurement Goal

SBA and FPDC data indicate that federal agencies, as a whole, have met their annual governmentwide small business procurement goal from fiscal years 1993 to 1999. This legislative goal increased from at least 20 percent of total federal contract expenditures to 23 percent effective fiscal year 1998. Between fiscal years 1993 and 1997, when the legislative goal was at least 20 percent, small businesses received between 24 and 25 percent of

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total federal contract expenditures.<sup>11</sup> In fiscal years 1998 and 1999, when the legislative goal increased to 23 percent, small businesses received 23 percent of total federal contract expenditures.<sup>12</sup> Figure 3 shows the share of total federal contract expenditures going to small businesses for this period.

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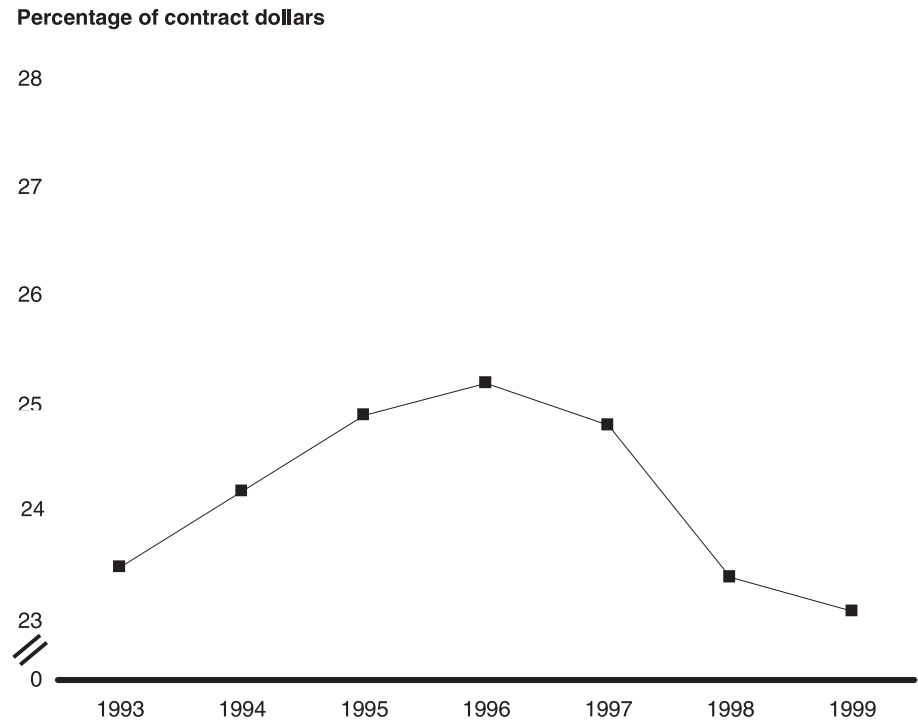
<sup>11</sup> The Small Business Act, as amended, establishes a policy that federal agencies provide small businesses the maximum practicable opportunity to participate in federal contracts. Federal agencies consult annually with SBA to set goals for the percentage of dollars to be awarded to small businesses. Although the legislative goal for fiscal years 1993 through 1997 was 20 percent, the governmentwide goals established by federal agencies and SBA were 21.2 percent in fiscal year 1993, 22.9 percent in 1994, 22.6 percent in 1995, 23.5 in 1996, and 23 percent in 1997.

<sup>12</sup> SBA used two different methodologies to calculate the achievement of the legislative goal during this time period. Prior to fiscal year 1998, federal agencies submitted information on small business procurement to SBA, which then calculated the percentage of federal contracts governmentwide going to small businesses. In fiscal years 1998 and 1999, this information was calculated based on FPDS data. A more detailed description of SBA's methodology is contained in *Small Businesses: Limited Information Available on Contract Bundling's Extent and Effects* (GAO/GGD-00-82).

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**Figure 3: Percentage of Federal Contract Expenditures Going to Small Businesses, Fiscal Years 1993-1999**



Source: SBA.

Under the Small Business Act, SBA has authority to prescribe a method to measure the participation of small businesses in federal procurement. In calculating the actual achievement of small business procurement goals for individual federal agencies, SBA excludes certain categories of procurements from the base, or denominator. SBA has identified several categories of procurements that are excluded from the base because SBA officials believe that small businesses do not have a reasonable opportunity to compete for them, including (1) foreign military sales; (2) procurement awarded and performed outside the United States; (3) purchases from mandatory sources of supplies as listed in the Federal Acquisition Regulation; and (4) purchases for specific programs from the Departments of State, Transportation, and the Treasury.

SBA's Office of Advocacy disagrees with SBA's approach of excluding categories of procurements in establishing the base. Adding back the



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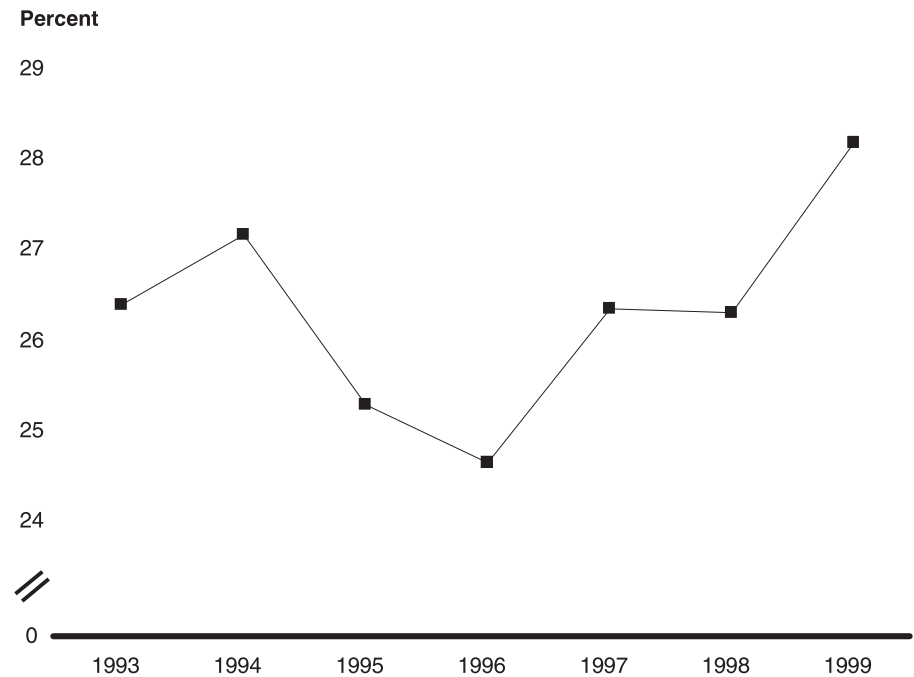
categories of procurement that SBA excluded, the Office of Advocacy reported that small businesses received about 21 percent of total federal procurement in fiscal year 1998 (rather than the 23 percent that SBA reported) and that, therefore, the governmentwide goal for small business procurement was not met in fiscal year 1998.<sup>13</sup>

Some organizations that represent small businesses have expressed concerns that small businesses are at a disadvantage when competing for new federal contracts. Therefore, we analyzed the share of expenditures for new contracts going to small businesses. These data do not include modifications to existing contracts, which account for approximately half of all governmentwide procurement expenditures during this time. Our analysis of FPDS data of new contract expenditures shows that small businesses have received between 25 and 28 percent of such expenditures for contracts worth more than \$25,000 between fiscal years 1993 and 1999. Figure 4 shows the results of our analysis. In calculating the share of total expenditures on new contracts going to small businesses from fiscal years 1993 to 1999, we used FPDC data on expenditures for new contracts worth more than \$25,000 and did not exclude the types of expenditures that SBA excludes to calculate the small business procurement goal.

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<sup>13</sup> *Federal Procurement from Small Firms: National and State-by-State Rankings of Federal Procurement Centers on Their Procurement From Small Firms in FY 1998*, March 1999, SBA, Office of Advocacy.

**Figure 4: Federal Expenditures for New Contracts Over \$25,000 Going to Small Businesses, Fiscal Years 1993-1999**



Note: Expenditures are for new contracts over \$25,000 only.

Source: GAO analysis of FPDS data.

**Despite Decreased Overall Expenditures, Small Businesses Receive an Increased Share of Purchases on New Contracts for Most Goods and Services**

As noted in figure 2, the federal government has been spending less money on goods and services since fiscal year 1993. The only categories of goods and services that experienced increases in governmentwide purchases on new contracts worth more than \$25,000 between fiscal years 1993 and 1999 were real property and other services. Despite this overall decline in contract purchases, small businesses received a higher share in fiscal year 1999 than in fiscal year 1993 of expenditures on new contracts worth \$25,000 or more than for 5 of the 8 categories of goods and services of

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government procurement.<sup>14</sup> equipment, research and development, architect and engineering, automatic data processing services, and other services. Figure 5 shows governmentwide trends for purchases under new contracts of goods and services worth more than \$25,000 and the share of these purchases going to small businesses.

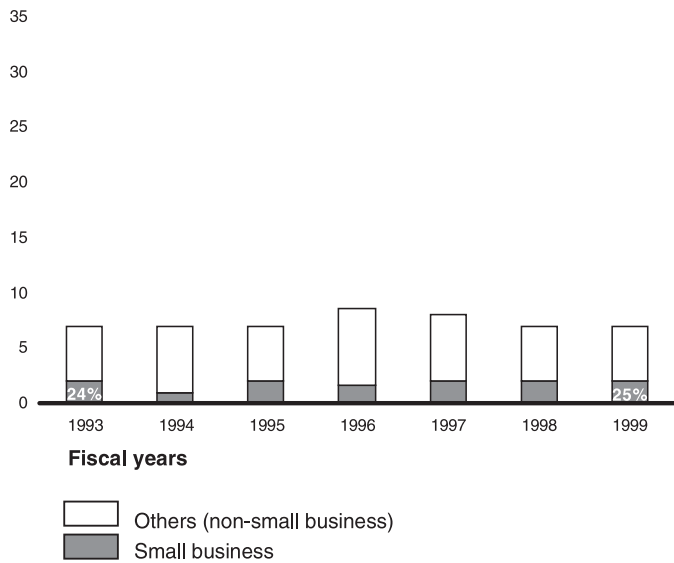
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<sup>14</sup> FPDC categorizes all federal contract expenditures over \$25,000 into eight categories of goods and services. The categories and their share of total federal procurement for new contracts and modifications in fiscal year 1999 are other services, 35 percent; supplies and equipment, 32 percent; research and development, 13 percent; construction, 9 percent; ADP services, 6 percent; ADP equipment, 4 percent; architect and engineering, 1 percent; and real property, less than 1 percent. The percentages do not add up exactly to 100 due to rounding.

**Figure 5: Federal Expenditures for New Contracts over \$25,000 by Product and Service Category, Fiscal Years 1993-1999**

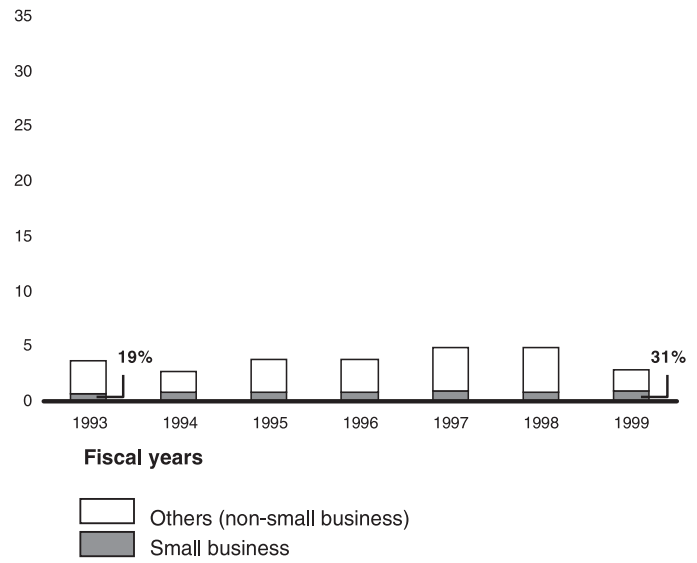
**Other services**

Contract dollars (in billions)



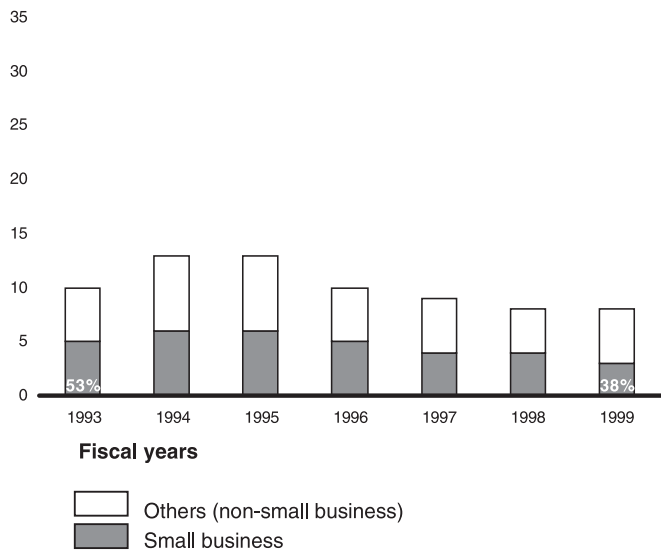
**Research and development**

Contract dollars (in billions)



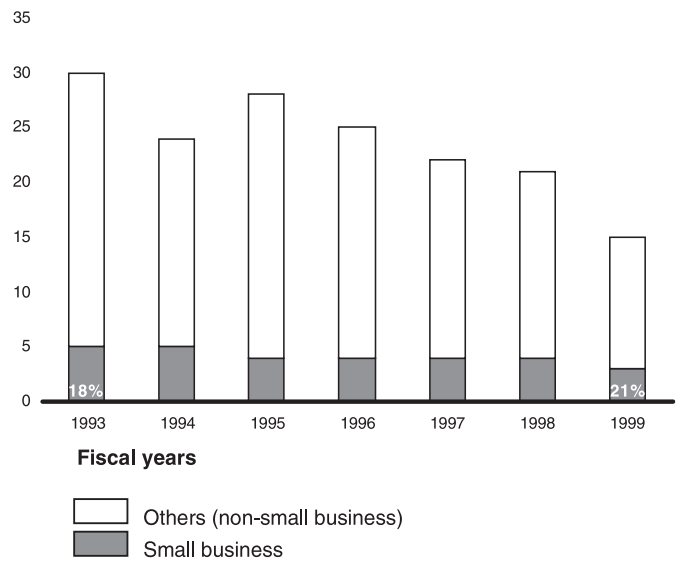
**Construction**

Contract dollars (in billions)



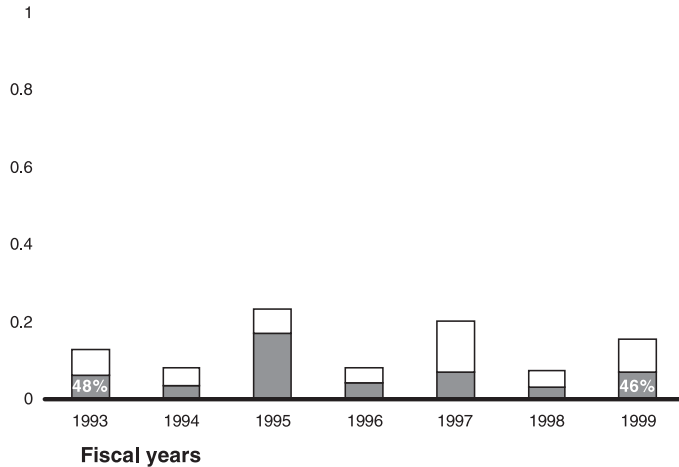
**Equipment**

Contract dollars (in billions)



**Real Property**

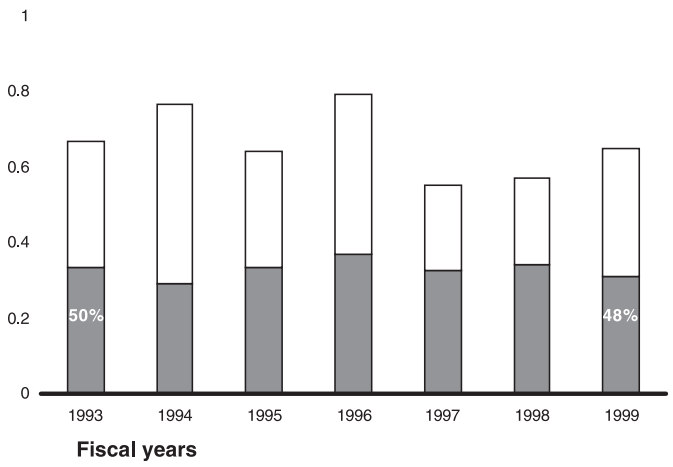
Contract dollars (in billions)



Others (non-small business)  
Small business

**ADP Equipment**

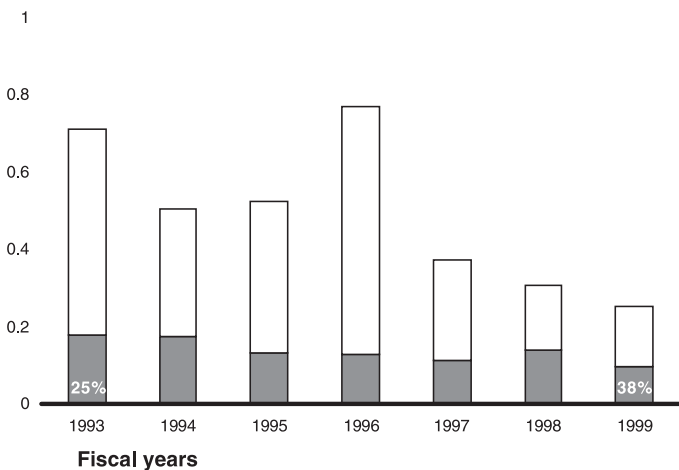
Contract dollars (in billions)



Others (non-small business)  
Small business

**Architect and engineering**

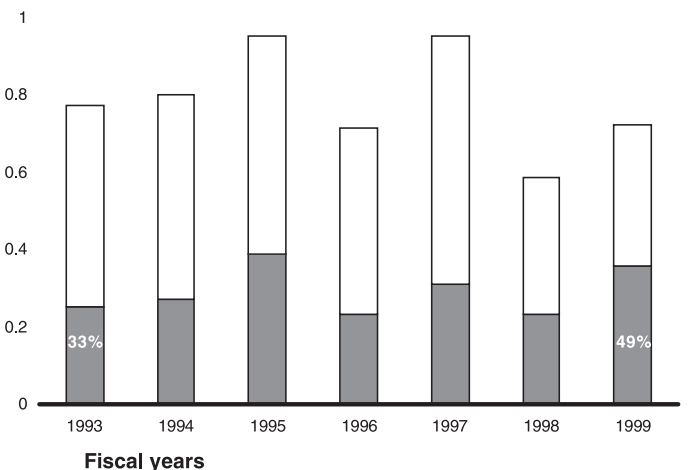
Contract dollars (in billions)



Others (non-small business)  
Small business

**ADP services**

Contract dollars (in billions)



Others (non-small business)  
Small business

Note: Amounts are in constant fiscal year 1999 dollars and are for new contracts over \$25,000 only.

Source: GAO analysis of FPDS data.

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The Share of Expenditures Going to Small Businesses Under Selected Contract Vehicles Has Increased

We analyzed FPDS data on the governmentwide use of certain contract vehicles for contracts over \$25,000, including those that became popular during the 1990s. We found that these vehicles represent a small but growing share of federal procurement expenditures. Because FPDS only captures data for some of these contract vehicles, we had to limit our analysis to MACs, IDIQs, BPAs, and GSA schedules.<sup>15</sup>

Expenditures for the four types of contract vehicles we analyzed represented 25 percent of federal procurement expenditures on contracts over \$25,000 in fiscal year 1999, compared with 16 percent in fiscal year 1994.<sup>16</sup> Small businesses received 32 percent of expenditures for these contract vehicles in fiscal year 1999 compared with 24 percent in fiscal year 1994.

For each of the four types of contract vehicles in our analysis, the share of expenditures going to small businesses was between 26 and 55 percent in fiscal year 1999, depending on the type of contract vehicle. For example, expenditures going to small businesses for MACs increased from \$524 million in fiscal year 1994, or 8 percent of all expenditures for MACs, to \$2 billion in fiscal year 1999, or 26 percent of all expenditures for MACs. Expenditures going to small businesses for IDIQs from fiscal years 1994 to 1999 remained relatively stable, near \$7 billion. The percentage of total expenditures for IDIQs going to small businesses increased from 24 percent of total expenditures for IDIQs in fiscal year 1994 to 28 percent in 1999. The small business share of GSA schedules increased from 27 percent in fiscal year 1994 to 36 percent in fiscal year 1999, from \$523 million to \$3 billion. Finally, the small business share of BPAs fell from 97 percent in fiscal year 1994 to about 55 percent in fiscal year 1999, although the expenditures increased for small businesses from about \$141 million in fiscal year 1994 to about \$2 billion in fiscal year 1999.

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<sup>15</sup> FPDS did not collect information on bundled contracts for fiscal years 1993 through 1999. Although FPDS does not have a data category for GWACs, information on GWACs may be included under MACs and IDIQs.

<sup>16</sup> Because FPDS officials told us that they began collecting information on MACs in fiscal year 1994, we limited our analysis of MACs, IDIQs, BPAs, and GSA schedules to fiscal years 1994 through 1999.

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## Data on Contract Bundling and Its Effect on Small Businesses Are Very Limited

In conducting a review of contract bundling in 2000,<sup>17</sup> we found that there are only limited governmentwide data on the extent of contract bundling and its actual effect on small businesses. Federal agencies do not currently report information on contract bundling to FPDC; therefore, FPDC does not have data on this topic.<sup>18</sup> Our review of consolidated contracts worth \$12.4 billion at 3 procurement centers showed that the number of contractors and the contract dollars were generally reduced due to consolidation as agencies sought to streamline procurement and reduce its associated administrative costs. SBA determined that the consolidation of the contracts we reviewed did not necessarily constitute bundling. In fact, 2 of the largest consolidated contracts involved only large businesses and the remaining 11 consolidated contracts were awarded to small businesses.

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## Purchase Card Expenditures Are Increasing

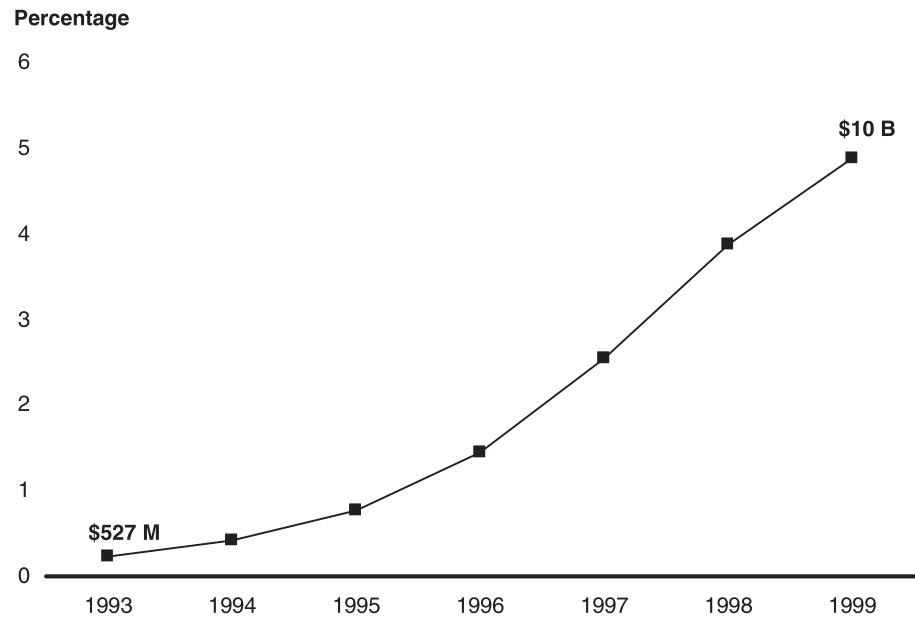
We analyzed the total amount of governmentwide purchase-card expenditures for fiscal years 1993 to 1999 and found that in fiscal year 1999 such expenditures totaled \$10 billion, or about 5 percent, of all federal procurement purchases. As figure 6 shows, these purchases have steadily increased since 1993, when the total amount bought with purchase cards was \$527 million. These data include expenditures for all purchase-card transactions, both under and over \$2,500.

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<sup>17</sup> *Small Businesses: Limited Information Available on Contract Bundling's Extent and Effects* (GAO/GGD-00-82, Mar. 31, 2000).

<sup>18</sup> The Small Business Reauthorization Act of 1997 requires that FPDS be modified to collect data on bundled contracts anticipated to exceed \$5 million. However, FPDC did not begin collecting information on bundling until fiscal year 2001 because these data could not be collected until final regulations were issued.

**Figure 6: Federal Purchase Card Expenditures as a Percentage of Total Federal Procurement, Fiscal Years 1993-1999**



Note: Dollar amounts are shown in constant fiscal year 1999 dollars.

Source: GAO analysis of FPDS data.

FASA permits purchases for goods or services up to \$2,500 from any qualified suppliers. Since FPDS does not collect detailed data on purchase-card expenditures, we could not determine what share of such governmentwide expenditures are going to small businesses.

## Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Administrator of SBA, the Director of OMB, and the Administrator of GSA. SBA's Chief Operating Officer provided written comments in concurrence with our report. She pointed out that preliminary data for fiscal year 2000 show that federal agencies are finding it more difficult to meet the legislative goal of ensuring that 23 percent of the value of federal prime contracts go to small businesses. We did not include data for fiscal year 2000 in our review because these data are preliminary. Another area of concern was that since detailed data on purchase-card expenditures are not included in the FPDS database, trend analyses of these expenditures were not included in our



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report. As we note in our report, purchase-card expenditures have increased, but data are not available to determine the share of these purchases going to small businesses. In addition, SBA's Chief Operating Officer made several technical comments that we have reflected in this report, as appropriate.

Officials from GSA's Offices of Enterprise Development and Governmentwide Policy provided technical comments that we have addressed in this report, as appropriate. OMB had no comments on our draft report. The comments we received from SBA are in appendix III.

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## Objectives, Scope, and Methodology

To identify procurement changes that could affect small business contractors, we reviewed FASA, the Clinger-Cohen Act, the Small Business Reauthorization Act of 1997, and the Federal Acquisition Regulation. We also identified other changes that occurred during the 1990s that might have an effect on small businesses by interviewing agency officials and representatives of industry associations, and by reviewing agency documents. We met with officials from GSA, SBA, OMB's Office of Federal Procurement Policy (OFPP), and the Procurement Executives Council. We also met with representatives of the U.S. Chamber of Commerce, Small Business Legislative Council, and Independent Office Products and Furniture Dealers Association.

To determine the trends in federal procurement from small businesses, we analyzed data from the Federal Procurement Data Center's (FPDC) *Federal Procurement Report* for fiscal years 1993 through 1999 and other data we requested from FPDC and SBA for those same years. FPDC administers the Federal Procurement Data System (FPDS) within GSA.<sup>19</sup> Since FPDC relies on federal agencies to report their procurement information, these data are only as reliable, accurate, and complete as the agencies report. In 1998, FPDC conducted an accuracy audit and reported that the average rate of accurate reporting in the FPDS database was 96 percent. Our analyses focused on total contract expenditures for federal procurement and the percentage of expenditures going to small businesses for new contracts and for certain contract vehicles. Unless otherwise noted, all expenditures were adjusted for inflation and represent constant fiscal year 1999 dollars.

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<sup>19</sup> FPDC collects procurement data from approximately 70 executive branch agencies. The U.S. Postal Service and the legislative and judicial branches are not required to report their procurement activities to FPDS.

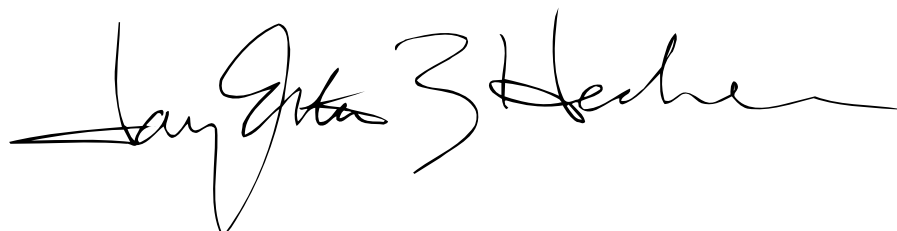
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We conducted our review between March and October 2000 in accordance with generally accepted government auditing standards. A detailed discussion of our objectives, scope, and methodology is presented in appendix II.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days. At that point, copies of this report will be sent to appropriate congressional committees and other interested Members of Congress; the Administrator of the Small Business Administration; the Administrator of the General Services Administration; the Director of the Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

Staff acknowledgements are listed in appendix IV. If you or your staff have any questions about this report, please contact me at (202) 512-8984 or Hilary Sullivan at (214) 777-5652.

A handwritten signature in black ink, reading "JayEtta Z. Hecker". The signature is fluid and cursive, with a long horizontal stroke at the end.

JayEtta Z. Hecker  
Director  
Physical Infrastructure Team

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# Descriptions Of Contract Vehicles

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Indefinite-Delivery, Indefinite-Quantity Contract: This type of contract provides for an indefinite quantity, within stated limits, of goods or services during a fixed period of time. Agencies place separate task or delivery orders for individual requirements that specify the quantity and delivery terms associated with each order. The Federal Acquisition Regulation (FAR) expresses a preference for multiple awards of these contracts, which allows orders to be placed using a streamlined, commercial style selection process where consideration is limited to the contract awardees. The competition between the multiple awardees is designed to encourage better prices and responses than if the agency were negotiating with a single contractor. Contractors are to be afforded a fair opportunity to be considered for award of task and delivery orders but cannot generally protest the award of such orders. Indefinite-delivery, indefinite-quantity contracts include GWACs and GSA federal supply schedule contracts.

Federal Supply Schedules: Under the schedule program, GSA enters into indefinite-delivery, indefinite-quantity contracts with commercial firms to provide commercial goods and services governmentwide at stated prices for given periods of time. Authorized buyers at agencies place separate orders for individual requirements that specify the quantity and delivery terms associated with each order, and the contractor delivers products or services directly to the agency. The program is designed to provide federal agencies with a simplified process for obtaining millions of commonly used commercial supplies and services at prices associated with volume buying. The program consists of single award schedules with one supplier and multiple award schedules, in which GSA awards contracts to multiple companies supplying comparable services and products, often at varying prices. When agency requirements are to be satisfied through the use of multiple award schedules, the small business provisions (such as the exclusive reservation for small businesses for contracts over \$2,500 up to \$100,000) of the FAR do not apply.

Blanket Purchase Agreement: A simplified method of filling anticipated repetitive needs for supplies or services by establishing “charge accounts” with qualified sources of supply, and may include federal supply schedule contractors. Under such an agreement, the contractor and the agency agree to contract clauses applying to future orders between the parties during its term. Future orders would incorporate, by reference or attachment, clauses covering purchase limitations, authorized individuals, itemized lists of supplies or services furnished, date of delivery or shipments, billing procedures, and discounts. Under the FAR, the existence of a blanket

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**Appendix I**  
**Descriptions Of Contract Vehicles**

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purchase agreement does not justify purchasing from only one source or avoiding small business preferences.

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# Objectives, Scope, and Methodology

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Our objectives were to identify (1) provisions in acquisition reform legislation enacted in the 1990s and other changes in procurement taking place during this time that could affect small business contractors and (2) trends that might indicate possible shifts in the ability of small businesses to obtain federal contracts in the 1990s.

To achieve our first objective, we analyzed several pieces of legislation enacted in the 1990s, federal acquisition regulations, governmentwide procurement data, and interviewed federal officials at several agencies. We examined the Federal Acquisition Streamlining Act of 1994 (FASA), the Clinger-Cohen Act of 1996, the Small Business Reauthorization Act of 1997, and the Federal Acquisition Regulation. We analyzed governmentwide procurement data reported by GSA's Federal Procurement Data Center (FPDC) and data on the governmentwide acquisition workforce reported by GSA's Federal Acquisition Institute in its *Report on the Federal Acquisition Workforce* for fiscal years 1991 and 1998. We interviewed officials at GSA, OFPP, SBA, and the Procurement Executives Council. We also interviewed representatives of the U.S. Chamber of Commerce, Small Business Legislative Council, and Independent Office Products and Furniture Dealers Association.

To achieve our second objective, we gathered governmentwide data on federal procurement from FPDC and SBA for fiscal years 1993 through 1999. We could not determine the direct impact of legislative changes and other trends on small businesses because of the numerous concurrent factors and the insufficiency of governmentwide data to directly measure the effect of these changes on small business contractors. Federal agencies report procurement data to FPDC in two categories, (1) contract awards of \$25,000 or less each and (2) contract awards greater than \$25,000. Each agency reports summary data on contracts worth \$25,000 or less to FPDC and includes information such as type of contractor and procurement methods. Agencies report greater detail on each individual contract over \$25,000 or more, including type of contract action, type of contractor, and product or service purchased. We analyzed aggregate data reported in FPDC's *Federal Procurement Report* for each of the years. We requested additional data from FPDC for contracts over \$25,000 to include information on expenditures going to small businesses for new contracts; total expenditures going to small businesses, including for new contracts and contract modifications, for specific contract vehicles; and expenditures going to small businesses for new contracts for all products and services. The data on new contracts that FPDC provided includes

expenditures on original contract actions, as opposed to expenditures on modifications to existing contracts.

FPDC categorizes all federal contract expenditures into eight broad categories of products and services. According to FPDC officials, FPDS is updated constantly as federal agencies report updated procurement information. The data we received from FPDC are as of July 2000. In addition, we analyzed the summary information on government purchase-card transactions from the *Federal Procurement Report* for each year. We also collected data from SBA and FPDC on the achievement of the governmentwide federal procurement goal for small businesses. The SBA data on the achievement of this goal for fiscal years 1993 through 1997 are from *The State of Small Business*. Because the most recent version *The State of Small Business* was published in fiscal year 1997, we used FPDC data published in its annual *Federal Procurement Report* on the achievement of the legislative goal for fiscal years 1998 and 1999. As indicated earlier, SBA began using FPDS data to calculate the achievement of the small business legislative goal as of fiscal year 1998. Although FASA requires that contracts over \$2,500 up to \$100,000 be exclusively reserved for small businesses, we could not determine the amount of expenditures or share going to small businesses for these contracts because, in some cases, information is reported to FPDC on contracts commingled with modifications. Unless otherwise noted, we adjusted all dollar amounts using a gross domestic product price index from the Bureau of Economic Analysis using fiscal year 1999 as the base year.

We did not independently verify FPDC or SBA data. FPDC relies on agencies to report their procurement information. Therefore, data are only as reliable, accurate, and complete as the agencies report. In 1998, however, FPDC conducted an accuracy audit of some of its data elements and reported that the average rate of accurate reporting in the FPDS database was 96 percent.

We performed our work at SBA headquarters, OFPP, and GSA headquarters. We conducted our review between March and October 2000 in accordance with generally accepted government auditing standards.

# Comments From SBA



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

December 20, 2000

Mr. John H. Anderson, Jr.  
Managing Director  
Physical Infrastructure Team  
United States General Accounting Office  
Washington, DC 20548

Dear Mr. Anderson:

Thank you for your letter of November 30, 2000, and for the opportunity to respond to the draft report, Small Business: Trends in Federal Procurement in the 1990s (GAO-01-119, code 240384).

In general, the Small Business Administration (SBA) believes that the report is a useful addition to the literature about the effects of acquisition reform on small business. Specifically the report introduces and discusses small business trends in "new" contracts and trends in sector categories. While your report shows some positive trends in these areas, SBA remains concerned about overall recent and likely future trends. While the report does not include FY 2000 data, preliminary data suggests that agencies are finding it more difficult to meet the government-wide 23 percent prime contract goal.

One area of particular concern is purchase card expenditures. Your report notes the explosive growth of these expenditures to a level in excess of \$10 billion, but this procurement data is not integrated with Federal Procurement Data Systems (FPDS) (page 17, draft report). Since this significant level of expenditure is excluded from your trend analysis, it is very important to explain and emphasize that your findings are subject to this limitation.

The following technical comments are offered to strengthen the report.

On page 3, paragraph 3 please cite the source for the 24 percent and 25 percent prime contracts share to small business between FY 1993 and FY 1997 and how this was computed.

On page 3, paragraph 4, please define in a footnote or reference in the appendix your definition of a new contract. Ideally this should be done with specific reference to data elements and data sets so that your findings can be replicated. For example, are new contracts only limited to SF279 data?




Mr. John H. Anderson, Jr.

Page 2

If you have any follow-up questions with respect to this report, please contact Mr. Kerry Kirkland, Associate Deputy Administrator of Government Contracting and Business Development, on (202) 205-6459.

Sincerely,

  
Kristine Marcy  
Chief Operating Officer

# GAO Contacts and Staff Acknowledgements

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## GAO Contacts

JayEtta Hecker, (202) 512-8984, or Hilary Sullivan, (214) 777-5652

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## Acknowledgements

Jason Bair, William Chatlos, James Higgins, Maria Santos, Adam Vodraska, and Wendy Wilson made key contributions to this report.

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