



Highlights of [GAO-04-738T](#), testimony before the Committee on Energy and Natural Resources, United States Senate

## Why GAO Did This Study

Under the Small Business Reauthorization Act of 1997, the federal government has a goal of awarding at least 23 percent of prime, or direct, contracting dollars to small businesses each fiscal year. The Department of Energy (DOE), like other federal agencies, shares in the responsibility for meeting this goal. In fiscal year 2003, DOE spent \$21.6 billion on prime contracts. More than 80 percent of this amount was spent on facility management contracts to manage and operate DOE's sites.

Before 1999, DOE included subcontracts awarded by its facility management contractors when calculating its small business prime contracting achievements. In 1999, however, the Office of Federal Procurement Policy determined that DOE could no longer do so.

This testimony discusses (1) the effect of the 1999 policy change on the amount of prime contract dollars that DOE will be required to direct to small businesses, (2) the steps that DOE has taken or plans to take to achieve its small business contracting goals, and (3) the likely implications for DOE's programs resulting from these changes.

[www.gao.gov/cgi-bin/getrpt?GAO-04-738T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-738T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robin M. Nazzaro, (202) 512-3841 or [nazzaror@gao.gov](mailto:nazzaror@gao.gov).

## DEPARTMENT OF ENERGY

# Achieving Small Business Prime Contracting Goals Involves Both Potential Benefits and Risks

## What GAO Found

To meet its share of federal goals, DOE would need to direct significantly more prime contracting dollars to small businesses. If it is to reach its near-term goals of 5.06 percent in fiscal year 2004, and 5.50 percent in fiscal year 2005, DOE must direct to small businesses an additional \$226 million and \$319 million, respectively, over the \$847 million it directed to small businesses in fiscal year 2003. Achieving a long-term goal of directing 23 percent of prime contracting dollars to small businesses would require DOE to contract with small businesses at about 6 times its current rate. Such an increase is about equal to the combined annual budgets for Los Alamos and Sandia—the two largest national laboratories.

To address its near-term small business prime contracting goals, DOE has improved its outreach efforts and has redirected to small businesses some contract dollars not associated with facility management contracts. DOE has also begun to review facility management contracts up for renewal to identify work that could be redirected to small business prime contracts. Achieving a long-term goal of 23 percent is much more problematic. Notably, DOE's three largest offices—the National Nuclear Security Administration (NNSA), Environmental Management (EM), and Science—have differing views as to what extent facility management contract work can be redirected to small businesses without having a negative impact on accomplishing their missions. EM is in favor of doing so if redirecting the work is consistent with its accelerated cleanup strategy. NNSA and Science officials express concern that redirecting work now done by facility management contractors could jeopardize critical research missions at the laboratories.

DOE's efforts to increase small business prime contracting involve both potential benefits and risks, which depend on the eventual goal DOE attempts to achieve. The potential benefits to DOE of increased small business prime contracting include increasing the pool of potential contractors, which could result in better competition and better prices for the government; finding new and innovative approaches to the work developed by small businesses; and providing experiences to small businesses to allow them to better compete for other federal contracts. The potential risks include integrating and coordinating the work of a greater number of contractors at a site in a safe, secure, and effective manner, and having adequate federal resources for effective contract management and oversight—areas that already pose significant challenges for DOE. In addition, DOE's efforts to increase small business prime contracting may cause its facility management contractors to reduce the amount of subcontracting that they direct to local and regional small businesses.

DOE largely agreed with the information in this testimony. However, it disagreed with GAO's characterization of DOE's long-term small business prime contracting goal and its strategy to achieve it. GAO believes that both the long-term goal and DOE's strategy have been accurately described.