



U.S. SMALL BUSINESS ADMINISTRATION
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Chairwoman McCaskill, Ranking Member Portman, and Members of the Subcommittee, thank you for inviting the U.S. Small Business Administration (SBA) to testify this morning. My name is Joseph Jordan, and I am the Associate Administrator for the Small Business Administration (SBA)'s Office of Government Contracting and Business Development.

Our top priority at the SBA is to ensure that the benefits of our programs flow to the intended recipients. My office works each day to provide increased opportunities for eligible small businesses to compete for and win federal contracts. As a principal advocate for small business procurement, our primary objective is to ensure that eligible small businesses receive their fair share of federal contracts. We are always looking for ways to increase small business contracting opportunities, and I am proud to say that in the two and a half years I have been in my position, we have made significant improvements.

I would like to share with you three key initiatives my office has been working on to ensure small business contracts get into the hands of small businesses:

- (I) The Small Business Procurement Goaling process and Scorecard
- (II) Our comprehensive, three-pronged approach to combating fraud, waste and abuse
- (III) The implementation of the Small Business Jobs Act of 2010

I. The Small Business Procurement Goaling and Scorecard

SBA oversees the Federal government's efforts to meet the statutorily mandated small-business goals, which include for prime contracting dollars, awarding:

- 23% to Small Businesses
- 5% to Small Disadvantaged Businesses
- 5% to Women-Owned Small Businesses
- 3% to Service-Disabled Veteran-Owned Small Businesses
- 3% to Historically Underutilized Business Zone (HUBZone) firms

We oversee and manage the Small Business Goaling process, which includes three primary phases:

- (a) Setting small business contracting goals with the 24 Chief Financial Officer Act agencies and ensuring plans are developed to meet the goals
- (b) Tracking agencies' progress and providing ongoing training and support to their acquisition staff and small business teams throughout the year

- (c) Conducting a thorough review of contracting data that culminates in the publication of the annual Goaling Report and Scorecards

Small Business goals are set every two years, with the opportunity to renegotiate the year in between. During the goal setting process, my team and I are deeply immersed in engaging with senior leadership at the agencies to determine the appropriate goal for each agency based on maximum practicable opportunity. We also need to ensure we appropriately apportion responsibility to agencies to meet the Federal government's goal of awarding 23% of contracting dollars to small businesses, as well as the socio-economic and subcontracting goals. It is a collaborative, fact-based process to set these goals. As we work with individual agencies, we analyze a variety of factors including their past performance, their planned acquisitions, and any unique challenges they may face.

During the fiscal year, we track and monitor agencies' small business contracting performance closely. We review the data from the Federal Procurement Data System – Next Generation (FPDS) on a weekly basis. We stay in constant contact with each agency's Office of Small and Disadvantaged Business Utilization to find out how we can best support the agencies and address any issues they have with their small business contracting work. We also chair the monthly Small Business Procurement Advisory Council meetings. At the same time, our Procurement Center Representatives (PCRs) – SBA staff that work directly with contracting officers at the largest buying activities – offer support and monitor set-asides and conduct outreach to small businesses. Our PCRs also make sure that the agencies they work with are compliant with our regulations, and where SBA objects to a specific procurement action, our area office may issue a Form 70 Recommendation, stating our opposition.

One of the things that I am most proud of, and that we work on every day, is providing ongoing and effective training to procurement staff. We have found that small business training is essential not only to help procurement staff meet their goals, but also to make sure that their record-keeping – particularly the data in FPDS that we use for the Scorecard – is accurate, up to date, and complete. In fact, one of the recommendations of the President's Interagency Task Force on Federal Contracting Opportunities for Small Businesses was to make comprehensive small business training mandatory for procurement personnel.

The last and most public phase of the Goaling process is the publication of our annual Scorecard. Last month, we published the Small Business Procurement Scorecards for Fiscal Year 2010. These scorecards reflect the percentage of federal prime contracting and subcontracting dollars that are awarded to small businesses and provide a quantitatively-driven assessment of the Government's performance for all of our stakeholders. In Fiscal Year 2010, the government awarded 22.7% of contracting dollars to small businesses, which marks the largest two-year increase in over a decade.

While we believe that there is always room for improvement in the results, we take great pride in the integrity of the Scorecard process and methodology. SBA has been using Scorecards for nearly a decade, but when I arrived in my position over two years ago, we redesigned the format and methodology to provide a clearer, more transparent report of small business contracting performance and to ensure the elements of the Scorecard would incentivize desired behaviors and outcomes from agencies. We have utilized this new Scorecard format for two fiscal years now and we release Scorecards for each of the 24 Chief Financial Officer Act Agencies, as well as one for the Federal Government as a whole. Each scorecard shows achievement in three primary categories: (1) Prime Contracting, (2) Subcontracting and (3) Plan Progress. In addition, each Scorecard contains a letter grade, A+ through F, based the weighted score from each of the categories. Each agency's Scorecard is calculated based on goals set and agreed-upon during the goal setting process. Table 1 in the Appendix

outlines the weight of each category toward the final Scorecard letter grade and Table 2 shows the breakdown of scores for each letter grade.

We not only want the Scorecards to be a tool to hold agencies accountable to their small business goals, but to small businesses and the general public, as well. Our scorecard process can only provide real accountability and transparency if it is based on accurate information. Therefore, we work hard to verify the quality of the small business contracting data.

Although the data in FPDS is publically available, only the contracting agency can enter or modify its own data. SBA does not have the ability to edit another agency's contracting information. Each federal agency is therefore responsible for ensuring the quality of its own contracting data and is required to certify their data to the General Services Administration and the Office of Management and Budget, Office of Federal Procurement Policy each year. As I said earlier, we make data quality a focus of our ongoing training efforts so that we have quality data from the outset. However, Federal contracting officers award approximately 3 to 5 million contracts and contract actions each year.

Given the volume of contracts and number of contracting officers, we conduct our own rigorous analysis of the data and create anomaly reports to validate the small business contracting data and help agencies identify and correct possible errors. After the fiscal year is complete, we pull contracting data from FPDS and run a number of analyses and filters to identify contracts that potentially may have been incorrectly labeled as being awarded to a small business. An example of an analysis we do to identify anomalies is to compare the size standard for a contract's North American Industry Classification System (NAICS) code against the size of the firm at the time of award. We also filter out any companies that have been suspended or debarred or are household names that we know not to be a small business.

After we complete our analysis, we develop a customized anomaly report for each agency, and ask them to review each data anomaly to confirm that the contracting information is correct. If an agency finds an error, we ask them to correct it, because again, we do not have the ability to edit data in FPDS. After this review process, we lock the contracting data and develop the final Goaling report and Scorecards.

To provide clarification, a data "anomaly" does not necessarily mean a data "error." Our anomaly reports are intentionally over-inclusive; we look for any data that is out of the ordinary. We want to find anything that *could be* an error and share that with our partner agencies. In our Fiscal Year 2010 anomaly report process, over \$3 billion in contracts were identified to be incorrectly reported as going to small businesses and were corrected as a result of this rigorous exercise. Therefore, although there is always room for improvement, we are confident that the data in the FY 2010 scorecard is the most accurate that SBA has ever had.

It is also important to note that there are many legitimate reasons for a small business contract to look like it was awarded to a business that is other than small. Here are two of the most common reasons:

First, small businesses sometimes outgrow their size standards during the life of a contract. Size determinations are fixed at the time of the offer, so it is possible for agencies to get small-business credit for the later years of a contract when the contractor is no longer small. Current SBA and FAR regulations require a firm to recertify as a small business prior to the sixth year of any long-term contract. In addition, a firm must now recertify within 30 days in the event of a merger, acquisition, or

contract novation. If, upon recertification, the business is no longer small, the agency should not get small business credit for the remainder of the contract.

Second, a firm may operate in multiple industries, or NAICS codes, and size standards vary considerably by industry. In general, a business is classified as “small” based on either its annual revenue or number of employees. SBA bases size standards on the NAICS system, which has over 1,000 different industry classifications. Many government contractors operate across multiple NAICS classifications, and may be within the small business size standard for some of those industries but not for all.

For Example: A small business that operates cafeterias can have annual revenue of up to \$25.5 million, while a small business that operates snack bars can have maximum annual revenue of only \$7 million. Therefore, if a food service company has annual revenue of \$15 million and has contracts with the federal government for both a cafeteria and a snack bar, its cafeteria contract will count toward the small business goals, while its snack bar contract will not.

Anomaly reports are an important part of a broader effort to ensure data quality, and our efforts in this area are ongoing. We work continuously with agency procurement staff and leadership to conduct training to improve accuracy, provide tools to facilitate review of data, and implement improvements to procurement systems. In addition, we actively support government-wide efforts to improve data quality through participation in the Office of Management and Budget, Office of Federal Procurement Policy’s Data Quality Task Force.

II. Combating Fraud, Waste and Abuse

As mentioned previously, our top priority is to ensure that the benefits of our programs flow to the intended recipients. We have no tolerance for fraud, waste and abuse in these programs and have therefore implemented a comprehensive three-pronged strategy to identify, prevent and pursue non-compliance or fraud across all our government contracting programs. The three prongs of our fraud, waste and abuse strategy are as follows:

1. Effective certification processes
2. Continued surveillance and monitoring
3. Robust and timely enforcement.

The first prong is designed to ensure there are effective certification processes that provide clear and comprehensive eligibility screening on the front-end to make sure only qualified, eligible firms participate in our programs. The small business community should clearly understand how each SBA program works, who is intended to benefit from it, and how to apply for it. Program eligibility rules should be straightforward and effectively applied. Therefore, the first prong is focused on having clarity and consistency at the front-end of each of our programs.

For example, if a firm would like to participate in the 8(a) Business Development program, it must be certified by SBA through an application process that determines whether it meets all the requirements of the program. We saw opportunities for fundamental improvements in how this certification was conducted. Therefore, for the first time in over a decade, SBA recently published a comprehensive revision to the 8(a) program regulations. The new regulations now clearly define the economic thresholds that 8(a) applicants must meet to become certified. They also tighten the requirements for joint ventures to make sure that non-disadvantaged firms do not unduly benefit from the program.

The second prong of our strategy is conducting continued surveillance and monitoring on firms once they are in our programs. Only those firms entitled to benefit from SBA's programs should remain in them. We therefore conduct ongoing reviews and monitoring of firms in our programs, including those which have been certified by SBA, as well as those which have self-certified (in those programs which permit self-certification). Review and monitoring confirms that only eligible firms have been certified, and identifies firms whose eligibility may have lapsed since certification. We use several tools in this stage, including site visits, eligibility reviews, and eligibility protests. Additionally, each program has developed unique processes to address eligibility issues.

For example, in the HUBZone program, we have significantly increased the number of site visits. A site visit involves SBA staff physically visiting a HUBZone firm's principal office to verify that the certified concern is operating out of that location. In fiscal year 2008, less than 10 site visits were conducted. In fiscal year 2009, we increased the number of visits to 910 and in fiscal year 2010, over 1,200 site visits were conducted.

Additionally, in fiscal year 2010, SBA began mailing eligibility verification letters to HUBZone firms asking them to certify, under penalty of perjury, that they met the eligibility requirements for the HUBZone program and were compliant with all applicable regulations. We mailed nearly 5,000 letters and in response, nearly 400 firms voluntarily decertified and over 1,250 firms were ultimately decertified due to their failure to certify eligibility status.

The last prong of the strategy is taking robust and timely enforcement on any non-compliant or fraudulent firms. SBA's programs must be reserved for those who are – and who remain – eligible. We have a range of enforcement tools to use when we have identified a firm which is ineligible (or no longer eligible) to participate in our programs. Certain firms may not be aware that they are out of compliance, and simply withdraw when made aware of their ineligibility. Others are bad actors, and are taking intentional and often fraudulent advantage of our programs. SBA has no tolerance for a firm found to be acting fraudulently, and where appropriate we will act decisively to oust them from our programs and from doing business with the government generally. We also refer fraudulent activity to the SBA's Suspension and Debarment officials, the SBA's Inspector General, and/or the Department of Justice.

Over the past two years, we removed over 4,000 firms from the HUBZone program, over 1,000 firms from the 8(a) program, and over 50 firms from the SDVOSB program. During that time, we have also suspended or proposed for debarment over 20 firms and individuals involved in procurement misconduct. Some examples illustrate what we do by way of enforcement:

- In 2009, SBA debarred a firm that, while seeking assistance through SBA's Certificate of Competency program to win a multi-million USDA contract, forged a bank official's letter. The firm submitted a bank letter that SBA determined was altered to make it appear more favorable to the firm.
- In 2010, we suspended two small businesses engaged in an agency's information systems procurements where the evidence indicated that they had knowingly acted as fronts for a large business.
- In 2010, we proposed debarment for an 8(a) and HUBZone contractor, a related firm, and three individuals. The firm was using an address in a HUBZone as a front, while the actual employees of the firm worked out of the offices of another related contractor. In addition, the evidence indicated that it was ineligible for the 8(a) program due to involvement by non-disadvantaged individuals in its management and control.

- In 2011, SBA suspended two firms and an individual based on their involvement with SBA's Service-Disabled Veteran Small Business Concern program. SBA received evidence that a firm which self-certified as a SDVO received a SDVO set-aside contract from the Department of Veteran Affairs for janitorial services. Instead of performing the required work, the firm subcontracted out the bulk of the work to a large, non-SDVO firm.

In addition to our own compliance, monitoring and enforcement efforts, we also conduct a thorough investigation and review of every firm cited in IG audits and GAO reports. We have and will continue to take any and all appropriate action, including suspension and debarment and referral to the Department of Justice, against any firm attempting to "game the system" with SBA's programs.

We have also recently assembled a Suspension and Debarment Task Force at the SBA, which is chaired by our General Counsel. The Task Force has developed a strategic framework for suspension and debarment of firms that use fraud or other wrongful practices to gain improper access to programs intended to benefit small business. The Task Force is working closely with every SBA program office and with the Agency's Inspector General to identify bad actors, vigorously pursue them, and expel them from further government business. SBA intends to continue to send the message that we take enforcement seriously and will come down hard on those who seek to take unfair advantage of our programs and services to the detriment of the many honest small businesses that depend upon those programs and services.

III. The Implementation of the Small Business Jobs Act

The Small Business Jobs Act (SBJA) of 2010 included 19 provisions related to small business contracting. We are in the process of implementing these provisions and are excited about the impact they will have not only on small businesses, but in also improving contracting oversight processes. Below are key details:

- Parity - The SBJA reaffirms "parity" among federal small business contracting programs. This means that contracting officers will be free to choose among businesses owned by women and service-disabled veterans, as well as businesses participating in HUBZone programs and 8(a) programs. This clarification will help federal agencies meet each of the government's small business contracting goals.
- Repeal of Competitiveness Demonstration Program - The law repeals the Competitiveness Demonstration Program, which actually harmed many small firms. By repealing this program, the SBJA reinstated set-asides in about 10 industries where small businesses typically excel, such as landscaping, construction and pest control,
- Annual certification of business size - The SBJA requires annual certification of a firm's size and status through the Government's Online Representations and Certifications Database.
- Presumption of Loss - The SBJA strengthens the government's ability to take legal action against willful misrepresentations of small businesses' size or status to gain a federal contract or grant.
- Policy on Prosecution of the size and status fraud - SBA will issue a government-wide policy on the prosecutions of fraud or misrepresentation of size standards, which will be published on agencies' websites.
- Mandatory small business training - SBA is currently implementing a provision of the SBJA, which was also a recommendation from the President's Interagency Task Force on Small Business Contracting to strengthen the skills of the acquisition workforce by revising existing core certification and requiring training on small business contracting.

As evidenced in this testimony, over the last two and a half years, SBA has taken significant steps to strengthen our Small Business Procurement Goaling process, data quality efforts and approach to combat fraud, waste and abuse. These efforts are critical in ensuring small businesses gain access to federal contracting opportunities. While we believe we have made significant progress, we know that there is more work that can be done. With that in mind, we are committed to measuring the outcomes of our efforts and continuing to look for ways to build on our current initiatives and identify further opportunities for improvement.

We thank you for this opportunity to share our approach and work to support small business contractors. We appreciate your continued commitment to supporting small businesses through government contracting and look forward to continuing to partner with you on this critical effort. I am happy to answer any questions you may have.

APPENDIX

TABLE 1 – Scorecard Letter Grade Calculation Methodology

Small Business Contracting Goal (actual percentage divided by goal percentage)	Weight of Score toward Letter Grade
Prime Contracting Total	80%
• Overall Prime Contracting	48%
• Small Disadvantaged Business Prime Contracting	8%
• Women-Owned Small Business Prime Contracting	8%
• Service-Disabled Veteran-Owned Small Business Prime Contracting	8%
• HUBZone Prime Contracting	8%
Subcontracting Total	10%
• Overall Subcontracting	6%
• Small Disadvantaged Business Subcontracting	1%
• Women-Owned Small Business Subcontracting	1%
• Service-Disabled Veteran-Owned Small Business Subcontracting	1%
• HUBZone Subcontracting	1%
Plan Progress	10%
TOTAL	100%

TABLE 2 – Score Ranges for each Letter Grade

Grade	Score Range (based on actual achievement divided by goal)
A+	$\leq 150\%$ but $\geq 120\%$
A	$< 120\%$ but $\geq 100\%$
B	$< 100\%$ but $\geq 90\%$
C	$< 90\%$ but $\geq 80\%$
D	$< 80\%$ but $\geq 70\%$
F	$< 70\%$