

**HELPING SMALL BUSINESSES COMPETE:  
CHALLENGES WITHIN PROGRAMS DESIGNED  
TO ASSIST SMALL CONTRACTORS**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON CONTRACTING AND  
WORKFORCE  
OF THE  
COMMITTEE ON SMALL BUSINESS  
UNITED STATES  
HOUSE OF REPRESENTATIVES  
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SIGNATED TO ASSIST SMALL CONTRACTORS**

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**THURSDAY, SEPTEMBER 15, 2011**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
SUBCOMMITTEE ON CONTRACTING AND WORKFORCE,  
*Washington, DC.*

The Subcommittee met, pursuant to call, at 10 a.m., in room 2360, Rayburn House Office Building. Hon. Mick Mulvaney (chairman of the subcommittee) presiding.

Present: Representatives Mulvaney, West, Chu, and Critz.

Chairman MULVANEY. We call this meeting of the Small Business Committee to order. We are here today to talk about three important programs that were created to help small business compete for federal contracts. We will look at the Offices of Small and Disadvantaged Business Utilization. There is an acronym for that and I cannot pronounce it so I will be calling it OSDBU. We will also look at the Procurement Center and Commercial Market Center Representatives Programs and we will look into the Mentor-Protégé Program.

The primary focus of the OSDBU is advocating for small business contracts and fighting unjustified bundling. To underscore the importance of this effort, when Congress created these provisions in 1978 they required that each OSDBU, with the exception of the Department of Defense, would answer only to and directly to the agency head or deputy agency head. So it was answering very high up the chain.

The Procurement Center Representatives program and the Commercial Market Representatives program are made up of Small Business Administration employees and their focus is to ensure that small businesses have the opportunity to compete for prime contracts and that there are small business opportunities at the subcontract level. In fact, PCR is one of the most important defenses small businesses have against contract bundling because they have the ability to protest procurements up to the head of the contracting agency when a contract fails to provide for small business participation.

The third program, which is really a conglomeration of 13 individual programs, is the Mentor-Protégé Program. This could also be an important tool to help small business become more competitive. Generally speaking, the program allows small, less experienced firms to be mentored by larger, more experienced firms with a goal

of increasing the participation of small businesses in government contracting.

Small business contractors are good for the government and good for the economy. They increase competition, innovation, create jobs, and they save taxpayers money, which is why there is a statutory goal of awarding 23 percent of prime contractors—excuse me, prime contract dollars—to small businesses. However, recent reports reveal that these programs could and should do a little better. For example, last year when the federal government spent over half a trillion dollars through government contracts, the administration fell short of that 23 percent goal and only about 20 percent of those prime contract dollars actually made it to small businesses. Given the achievement gap, we are going to continue to look at ways to help small businesses compete.

But, we also must address the several agencies that are refusing to comply with the Small Business Act, and thus making the problem worse. For example, when we were looking at the OSDBU practices, the GAO found seven agencies that were not complying with the law regarding the reporting requirements. To find out why, my office actually sent letters to the heads of each of those agencies on August 5th. That was almost six weeks ago. Thus far, only three agencies have bothered to respond. Their responses range from the Social Security Administration saying that it would change its practices to bring it into compliance with the law, to the Treasury saying that it was going to keep its policy even though it violated the law. I can assure you that we will have future hearings on those agencies, as well as the agencies that had decided not to respond to the Congressional inquiry.

In addition to addressing those challenges on OSDBUs, we are going to examine the PCR and CMR programs today. I hope our witnesses will also be able to address ways in which we can strengthen both of these programs, whether it is looking at measures of effectiveness, addressing the challenges that the programs have identified, prioritizing workloads, or looking at ways in which technology can help us do the job.

Finally, and then I will close, within the 13 different Mentor-Protégé Programs, the eligibility requirements vary widely as do the types of assistance provided to the protégés and the incentives provided and encouraged to the mentors. Now, GAO studied the controls for each of those programs and looked at how each tracked success. I look forward to hearing more about the GAO findings. Issues like affiliation play out in these programs and whether having so many independent programs puts an unnecessary burden on the participants. As the Small Business Jobs Acts allows the SBA to create additional, specialized mentor programs, I look forward to learning more about their plans for the future.

As this Committee considers the PCRs, CMRs, OSDBUs, and whatever other acronyms we can throw into that mix, we want to learn how to help strengthen and improve all of these programs. If we succeed, we will be able to help small business, which is the goal of everybody who is on this Committee.

So with that I yield to Ms. Chu for opening comments and then we will talk to the witnesses.

Ms. CHU. Thank you, Mr. Chair.

Since the financial crisis of 2008, small businesses have faced a challenging economic environment, and for this reason the federal marketplace has become an increasingly attractive option. In fact, the reality is that doing business with government is vital for many firms' success.

Historically, however, it has been difficult for small businesses to gain a toehold in the federal procurement system. The passage of procurement reforms in the 1990s has led to bigger and more consolidated contracts. At the same time, the federal acquisition workforce has declined, failing to keep up with the explosive growth and procurement activity. When combined with the sheer complexity of the system, this has left many entrepreneurs on the outside looking in.

To help small businesses overcome these barriers, several initiatives were established. While the most well-known resources were set aside and restricted competition programs of the SBA, there are several other tools that have great promise. These include the Mentor-Protégé Programs, the Office of Small and Disadvantaged Business Utilization, which I shall call OSDBU, and Procurement Center representatives, the PCRs. Through different mechanisms these initiatives enable small firms to gain great access to federal contracts that they would not otherwise be able to serve.

This is accomplished in two ways. First, the OSDBUs and PCRs provide oversight of contracts, looking for opportunities in which small businesses can serve not only as a prime contractor but also as a subcontractor on much broader projects.

Second, through the Mentor-Protégé Program, smaller firms are given the opportunities to work directly with large vendors. This can provide them with vital experience and lead to future opportunities. Together these creative efforts are an important means to getting more federal contracts in the hands of small businesses.

While they do show great promise, recent GAO reports suggest there is a long way to go until their full potential is realized. GAO found that while Mentor-Protégé Programs have policies in place to make sure that participants benefit, agencies generally do not know what impacts such participation has on a business' ability to win contracts without the mentor. Similarly, the GAO reported that SBA's government contracting area report data may not be accurate. In both cases, accurate data is so critical because without it the agencies cannot determine how well their staff has performed or if the program's goals are being achieved.

Perhaps more troubling was GAO's finding with regard to the OSDBUs. Although it is statutorily required that they have direct access to the highest levels of the agency, that is far from the case. Seven of the 16 federal agencies were not in compliance with this requirement and this only shortchanges small businesses that end up suffering the consequences of OSDBU's diminished agency standing. Together, GAO's reports paint a troubling picture of the agency's implementation and oversight of these important small business assistance initiatives.

With a sluggish economy, it is absolutely critical that programs like these succeed and are successful in bringing more entrepreneurs into the federal procurement marketplace with small businesses making up more than 99 percent of all American compa-

nies, but receiving fewer than one-quarter federal contracts, these efforts could broaden the economic benefits of federal contracts and create jobs in communities across the nation. For each one percent increase in share of contracts going to small businesses, 100,000 new jobs are created. And with unemployment above nine percent, we should be finding ways to make this happen and make sure that small businesses have the tools they need to succeed.

Thank you and I yield back.

Chairman MULVANEY. Thank you, Ms. Chu. At this time I would ask you, please, to begin the introduction of our witnesses.

Ms. CHU. Well, thank you. And I am so pleased to introduce William Shear, who is the director of financial markets and community investment at the U.S. Government Accountability Office. Bill has directed substantial bodies of work addressing the Small Business Administration, Housing Finance, including the role of the housing GSEs, the Rural Housing Service, and community and economic development programs. Mr. Shear will also be directing a report that the Congressional Asian-Pacific American Caucus requested last year on outreach development programs and resources designed to connect minority-owned businesses to contracting opportunities.

I look forward to that report and I look forward to hearing your testimony today and working with you on future reports.

Chairman MULVANEY. Thank you. And welcome, Mr. Shear.

The next witness is Jiyoung Park, the associate administrator of the U.S. General Services Administration's Office of Small Business Utilization. Ms. Park manages and oversees GSA's Small Business Policy and Programs, which strives to expand opportunities in federal government procurement for small, disadvantaged, woman-owned and historically underutilized business zones, and service disabled veteran-owned small businesses. During her tenure, Ms. Park also started the GSA's Mentor-Protégé Program, I believe. So thank you and welcome.

Sitting next to her is Joseph Jordan. Mr. Jordan has served as the associate administrator of Government Contracting and Business Development at the U.S. SBA since March of 2009. The Office of Government Contracting and Business Development works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses and federal government contract awards and large prime subcontract awards. It also plays a major role in the formulation of federal procurement policies that affect small businesses. I just read some of that yesterday. That was scintillating reading. There is no question about it. So, about 24 pages single spaced.

So, anyway, Mr. Jordan, thank you. And thank you all.

**STATEMENTS OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; JIYOUNG PARK, ASSOCIATE ADMINISTRATOR, OFFICE OF SMALL BUSINESS UTILIZATION, U.S. GENERAL SERVICES ADMINISTRATION; JOSEPH G. JORDAN, ASSOCIATE ADMINISTRATOR OF GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION**

Chairman MULVANEY. We will begin, I believe, with Mr. Shear.

**STATEMENT OF WILLIAM B. SHEAR**

Mr. SHEAR. Chairman Mulvaney, Ranking Member Chu, and members of the Subcommittee. I am pleased to be here to discuss our recent work on the federal government's efforts to increase contracting opportunities for small businesses. My testimony today discusses three reports we issued in June 2011. Specifically, I will discuss our work on first, the reporting structure at and the functions performed by Offices of Small and Disadvantaged Business Utilization, often called OSDBUs, in agencies with major contracting activity. Second, the Mentor-Protégé Programs at 13 federal agencies. And third, SBA's Procurement Center representatives and commercial market representatives.

In summary, we found the following and made recommendations for improvements. First, we found that nine of the 16 agencies we reviewed were in compliance with the Small Business Act's requirements that OSDBU directors be responsible only to and report directly to the agency or deputy agency head. However, seven were not. We recommended that the seven agencies act to comply with the requirement. The Social Security Administration agreed with the recommendation and the Department of the Interior agreed to reevaluate its reporting structure. The Departments of Commerce, Justice, State, and the Treasury disagreed, stating they were in compliance. We maintained our position on these agencies' compliance status. Since issuance of our report, Interior has indicated that it will work closely with Congress in seeking a statutory exemption.

Second, while controls existed at all 13 federal agencies with Mentor-Protégé Programs to help ensure that participants met eligibility criteria and benefitted from the program, the agencies generally did not track protégé achievements after program completion. We recommended that 10 agencies consider doing so. Six of the 10 agencies—Homeland Security, Energy, GSA, HHS, Treasury, and VA—generally agreed with our recommendation. State partially agreed with our recommendation citing concerns about the impact that post-completion reporting could have on the Department, mentor firms, and protégé firms. Since issuance of our report, VA indicated that it will collect data from the protégé for one year after enactment, and EPA indicated it would evaluate whether its programs should continue, and if so, what improvements should be made.

Third, although SBA had some measures to assess the effectiveness of PCRs and CMRs, select data these staff reported were not reliable and report controls and reviews had weaknesses. We recommended that SBA take measures to improve data reliability and

internal controls. SBA agreed with our recommendations and has been updating guidance for the PCR and CMR programs to provide clear instructions for reporting. SBA also said it would implement a method to verify and review PCR and CMR documentation. For the purpose of this statement, I will just state here that we do address resource challenges with the PCR and CMR community. It is in my written statement.

Chairman Mulvaney, Ranking Member Chu, this concludes my statement. I would be happy to answer any questions you or other members of the Subcommittee may have.

[The statement of Mr. Shear follows on page 36.]

Chairman MULVANEY. Thank you, Mr. Shear.

And just a word to the witnesses. We are not under some of the same time constraints that we have been in previous meetings so you will see the lights go off in front of you. Green means you are well within your five minutes, yellow means you have moved within a minute, and red means you are over your five minutes. But I will assure you that given the fact that we are not under the gun here today, if you need to go a minute or two over we would much rather get more information rather than less. So do not feel constrained completely by the five minutes.

And with that, Ms. Park.

#### **STATEMENT OF JIYOUNG PARK**

Ms. PARK. Good morning, Chairman Mulvaney, Ranking Member Chu, and members of the Subcommittee.

I appreciate being invited here this morning to discuss the U.S. General Services Administration's Mentor-Protégé Program. And I would like to submit my written testimony for the record.

The purpose of GSA's Mentor-Protégé Program is to leverage private sector expertise to assist small businesses and enhance their ability to compete for federal government contracts. Navigating federal contracting can be complex and daunting, and GSA's Mentor-Protégé Program is an easy to navigate program that helps reduce barriers to bringing small business private sector partners to the government.

GSA established its Mentor-Protégé Program in September 2009, and over the past two years we have developed a robust program that is already yielding tangible results in the form of contracts awarded and jobs created.

Now, our program's success is a testament to the commitment and hard work of the GSA team, and in particular, of our program manager, Tony Eiland, who is also here today. And I should point out and clarify that I unfortunately cannot accept credit for standing up the program as it was in motion before I arrived at GSA, so I just wanted to make that clear. But we have been working on it together as a team and very proud of the accomplishments.

And more importantly, our success is due to the program participants themselves. Protégés have reported 41 new contracts, one as a result of assistance received from their mentors, with a total value at up to \$260 million, including in some cases indefinite delivery, indefinite quantity contracts with high dollar ceilings spanning multiple years. We have also seen significant subcontract awards from mentors to their protégés. The protégés have reported

54 new subcontracts from their mentors. Last, but not least, participants have reported creating 132 new jobs as a result of participating in the program. Some jobs were the result of new contract awards and others were the result of mentors' assistance to expand existing contracts. Given today's economic climate, these new jobs certainly are a particularly important statistic.

There are many specific examples of success I could share but I will share just two examples we have seen. One service-disabled veteran mentor helped its protégé, another service-disabled veteran-owned small business, to bid on an opportunity by sharing tips on how to form a winning proposal team and by providing technical writing assistance on the proposal. As a result, the protégé won an IDIQ valued at \$50 million over the life of the contract. The mentor was not part of the contract team, which demonstrates the mentor's investment in the protégé's business growth as a long-term strategic partner.

Another protégé firm struggled with proposal and bid decisions. The company was bidding on many opportunities without a clear focus. The mentor taught that the protégé had to develop a clear bid-no bid review process and a targeted bidding strategy. After implementing this new process, the protégé bid on 44 opportunities in a six-month period, winning 11. The mentor's help made all the difference between the protégé wasting valuable bid and proposal dollars and growing their bottom-line.

In total we have 81 protégés directly benefitting from guidance and assistance from their mentors. Our protégés are all small businesses representing all socioeconomic categories, including 8(a) or small disadvantaged business, woman-owned small business, veteran and service-disabled, veteran-owned small business, and those businesses located in historically underutilized business or HUBZones. Forty-five, or more than half of the protégés, are small businesses owned by veterans.

In closing, GSA has high expectations for the continued success of our Mentor-Protégé Program. In this tightened fiscal climate, our goal is for GSA's mentor-protégé relationships to spur innovation in areas of information technology, open government, and high-performing and efficient green buildings consistent with GSA's mission. The program can help drive government transformation, reduce government waste, and create high-paying American jobs.

The 41 new contracts, 54 new subcontracts, and 132 new jobs the program has created are just the beginning.

We look forward to continuing to improve GSA's Mentor-Protégé Program through collaboration with the program participants, SBA, other agencies, and following GAO's recommendations as well. For example, pursuant to GAO's recommendation, we have made steps to implement a post-completion assessment that will allow us to track protégé firms' success after they exit the program. Now, our first graduation is anticipated to happen early 2012.

I welcome the Subcommittee's questions. Thank you.

[The statement of Ms. Park follows on page 31.]

Chairman MULVANEY. Thank you, Ms. Park. And again, we are going to save our questions till the end. So we will move down to Mr. Jordan.

**STATEMENT OF JOSEPH G. JORDAN**

Mr. JORDAN. Thank you. Chairman Mulvaney, Ranking Member Chu, and members of the Subcommittee, thank you for inviting the U.S. Small Business Administration to testify today.

Our top priority at SBA is to maximize opportunities for small businesses and 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. 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 and quantifiable improvements.

The federal government spends about \$500 billion every year through federal contracts, and it is with SBA's support and assistance small businesses receive nearly \$100 billion of that spend. In fiscal year 2010, small businesses won 22.7 percent of federal contracting dollars. This marks the second consecutive year of increase and the largest two-year increase in over a decade. SBA is committed to meeting and exceeding the 23 percent statutory goal and getting more contracts into the hands of small businesses. At the same time, we are working to implement the provisions of the Small Business Jobs Act and eliminating fraud, waste, and abuse from all of our programs.

With these priorities in mind, please allow me to discuss the three Government Accountability Office reports that are the subject of today's hearing. The first report concerned SBA's Procurement Center Representatives (PCRs) and Commercial Marketing Representatives (CMRs). These members of my team play a critical role in ensuring small businesses receive their fair share of government contracts. They are located at the largest federal agency buying activities across the country and work closely with acquisition teams at these agencies to ensure small business utilization is maximized.

We recently conducted an analysis of our PCR and CMR functions and their role and responsibilities. This analysis helped us determine how we can more effectively utilize these resources to increase opportunities for small business contracting. Our analysis also looked into whether we have appropriately allocated our PCRs and CMRs in the most effective and efficient way. Furthermore, in the fiscal year 2012 budget request, the president asked for additional full-time employees, including PCRs, to provide oversight for small business contracting programs and work towards eliminating fraud, waste and abuse.

The second GAO report is in regards to the Offices of Small and Disadvantaged Business Utilization that work in each federal agency. SBA works very closely with the directors and staff of these offices. We chair monthly meetings with the OSDBU directors to share program updates, discuss policy and regulatory changes, and discuss best practices. We also work with the OSDBU directors to set small business goals for their agency and help them develop plans to meet those goals.

The report discusses Section 15(k)3 of the Small Business Act, which says the OSDBU directors should report to agency heads or deputy agency heads. SBA strongly supports the underlying policy

set forth in this statute and is asking all agencies to ensure they are in compliance with the requirements. In fact, SBA administrator Karen Mills recently sent a memorandum to all agency heads and deputy heads reinforcing the importance of this requirement and asking each agency to ensure they are in compliance. SBA strongly believes in the importance of the OSDBU role and works closely with the White House and Office of Federal Procurement Policy to engage senior officials at each agency on the importance of small business contracting and also keep those agencies accountable to their goals.

The third and final report concerned Mentor-Protégé Programs. Mentor-Protégé Programs are arrangements in which mentors, typically experienced prime contractors, provide business development assistance to small business protégés. In return, the program provides incentives for mentor participation, such as credit towards subcontracting goals and additional evaluation points towards the awarding of contracts. Mentors may also enter into joint venture agreements with protégés to compete for government contracts.

SBA currently runs an Overseas One Mentor-Protégé Program, which is for participants in the 8(a) Business Development Program. However, the Small Business Jobs Act gave the agency authority to implement additional programs for HUBZone, woman-owned, and service-disabled veteran-owned small businesses. We are in the process of implementing these new programs. Other federal agencies also have their own Mentor-Protégé Programs. SBA does not oversee the other agencies' Mentor-Protégé Programs but we are supportive of efforts made to increase opportunities for small businesses to compete for and win federal contracts.

In addition to sharing our views on the three GAO reports, I would also like to take this opportunity to share with you two important initiatives our Office of Government Contracting and Business Development is currently focused on. The first is our effort to combat fraud, waste, and abuse in all small business contracting programs. We have no tolerance for fraud, waste, or abuse, and have implemented a comprehensive three-prong strategy to identify, prevent, and pursue non-compliance or fraud across all of 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; and (3) robust and timely enforcement.

The other issue I would like to discuss is in regards to our HUBZone or historically underutilized business zone program. With the public release of the 2010 census data, a number of existing areas will no longer be designated HUBZones due to the statutory mandate to remove these past redesignated areas. This mandate will have an impact on thousands of existing HUBZone firms who will no longer qualify for the program. Extending these firms eligibility can only be done by Congress. SBA is happy and willing to work with Congress on any proposals related to this issue to promote economic development and employment growth in distressed areas.

As demonstrated by the initiatives and efforts described in this testimony, SBA has taken great strides to strengthen our Small Business Contracting Programs and strategies for combating fraud,

waste, and abuse. These efforts are critical in ensuring small businesses gain access to federal contracting opportunities so that they can grow their businesses and create jobs.

Thank you for allowing me to share SBA's views and initiatives with you today, and I will be happy to answer any questions.

[The statement of Mr. Jordan follows on page 25.]

Chairman MULVANEY. Thank you, Mr. Jordan. And here is what has happened in the meantime. We have an unexpected vote as you can see up on the board, so what we are going to try and do is, I think Mr. Critz has just a few minutes of questions. I am going to let him ask his questions and then welcome you back if you want to come back. But Ms. Chu and I will be back at probably a quarter to 11. So what we will do is go to your questions now, Mr. Critz, and then Ms. Chu and I will come back after we adjourn for a few minutes.

Mr. CRITZ. Thank you, Mr. Chairman. And I just have actually two or three quick questions.

Mr. Shear, you had mentioned at one point that Commerce, Justice, Treasury, and there was a fourth that were not complaint. And I think Interior and someone else—

Mr. SHEAR. It was State.

Mr. CRITZ. And State were not compliant. So you say they are not complaint; they disagree. Is the final outcome that you just agree to disagree or what comes next?

Mr. SHEAR. It is a complex question even though it started out as a simple question.

With Justice and State, we just looked at the reality of what the interaction is between the OSDBU directors and senior officials—or the interaction with the heads of the agency or the absence thereof. It was strictly based on the facts that we collected from our audit. And we think the facts on that are quite clear. So we are at a disagreement there and we state it, and continue to maintain what we found.

With Treasury and State, the disagreement is over—what they have done is that they named somebody an OSDBU director who reports to the head or deputy head of the agency but then they delegate the authority. And then they cite a legal argument dealing with delegated authority and whether it can be withheld or not. We think the delegated authority is withheld by implication in the Small Business Act in the relevant section. So with Treasury and State it is a legal disagreement.

What we do about all of this, the chairman raised a very good point. He has sent letters to these agencies. There is going to be oversight of these agencies. When we were writing our report, our report reviewer said—what happens to an agency that is not in compliance? We said there really are not any sanctions so maybe there will be congressional oversight. That is one reason we put in our recommendation that if they are not going to comply they should state in reporting to Congress why they do not comply to create some burden of proof on these agencies. So we are trying to move the ball forward but there is a disagreement here.

Mr. CRITZ. You also mentioned that at some point that you mentioned resource challenges that I guess some offices are—and I am assuming what you are saying is that they do not have the funding

to put in place some of the things that they need to do. This is not the same issue though.

Mr. SHEAR. No. It is a different issue. And it is an important one. So I thank you for asking that.

With the PCRs and CMRs, starting a few years ago we recommended to SBA that they do a resource assessment of the adequacy of the PCRs to basically fulfill their responsibilities. In response to that they have had an evaluation done and Mr. Jordan referred to that evaluation. That evaluation was not completed so therefore, it was not shared with us during our work that I am testifying on today. But we think there are some real resource issues here in terms of the ability of PCRs and CMRs to carry out their functions. And we think SBA should be close enough to the situation and be able to do an evaluation of its own needs and share with the Congress and with us and other parties how they plan to address what seem to be shortcomings in the ability of PCRs to carry out their functions.

Mr. CRITZ. Good. Good. Thank you.

Ms. Park, the Mentor-Protégé Program from the reading that I had, the reporting that comes post, is it not dictated that the reporting is from the mentor and the protégé? I guess sometimes it is just the mentor that people go to and sometimes it is just—it is a joint. And I am curious. This is not clearly defined?

Ms. PARK. So in GSA's Mentor-Protégé Program we currently conduct an assessment on a semi-annual basis of the protégés and the mentors jointly. They submit from both perspectives how the agreement is progressing while the expectations set forth are being met, what contracts have been won by the protégé, what jobs have been created by the protégé, and you know, to what extent the mentors have fulfilled their commitment and vice versa in terms of commitments and expectations being met.

Now, what the GAO report guides GSA to do is to implement a post-completion evaluation so that if a mentor and protégé have set up a one-year agreement, after that one year has been completed, to then continue to track the progress to see to what extent protégés can compete successfully for contracts without the assistance of their mentor. So that is something we have already taken steps to implement.

Mr. CRITZ. Thank you. Thank you, Mr. Chairman.

Chairman MULVANEY. Thank you. And I would hope to have Mr. West get some time. Mr. West, do you want to try and proceed or do you want to come back?

Mr. WEST. Thank you, Mr. Chairman and ranking member.

First question, the PCRs and CMRs, full-time or part-time positions?

Mr. JORDAN. These are full-time positions.

Mr. WEST. Okay. Very well.

We talked about meeting the 23 percent contracting stipulation and we are at 22.7. What are we as far as vet-owned, woman-owned, minority-owned right now?

Mr. JORDAN. I can get you that. In 2010, so the small businesses overall were 22.7 percent as you said. Woman-owned small businesses were just over four percent. Small disadvantaged businesses were just under eight percent. Service-disabled veteran-owned

small businesses were two and a half percent. And HUBZone businesses were 2.8 percent.

Mr. WEST. Now, how does that relate to the statutory requirements?

Mr. JORDAN. To the goals? I'm sorry. So the woman-owned businesses are four percent towards a five percent. So about a little less than a percent short. SBDs were at eight percent towards a five percent goal, so significantly exceeding. Service-disabled vets, two and a half percent of a three percent goal, so half a percent short. And HUBZones, 2.8 percent of a three percent.

Mr. WEST. Very well.

Last question. What do we see as the average amount of time that we have this mentor-protégé relationship going on? Is it a long umbilical cord? Short umbilical cord?

Ms. PARK. I would be happy to answer that about GSA's program. We ask of the mentors at least a one-year commitment as a requirement and up to three years.

Mr. WEST. Do we see any instances of, you know, some bundling from the mentors to the protégés as far as, you know, getting them to come on as subcontractors or are they truly operating independently to help people on contracts that are, I guess, separate from what their field of expertise is?

Ms. PARK. We have seen good contracts awarded both on the prime and the subcontract level to protégé firms. Certainly, subcontracts are a great way for small businesses to enter the federal marketplace either as a starting point or as continued ways to win federal contract work.

Mr. WEST. Okay.

Mr. JORDAN. And Congressman, I will just expand. For the 8(a) Business Development's Mentor-Protégé Program we did see some issues with the way that the joint ventures between those mentors and protégés were happening. And in March we released the first comprehensive revision of the 8(a) regulations in more than a decade which addressed a lot of the issues around that.

Mr. WEST. Very well. That was a concern that I had.

Mr. JORDAN. Absolutely.

Mr. WEST. Thank you very much. Mr. Chairman, I yield back. Let's go vote.

Chairman MULVANEY. Exactly. So we will adjourn. We will adjourn now until 11 o'clock, although I will tell you Ms. Chu and I will come back as quickly as we can to try and move through. So if you can stay in the area that will be great. We will adjourn until 11 o'clock.

[Recess.]

Chairman MULVANEY. Thanks again to everybody for sticking around. I apologize for the inconvenience. Unfortunately, it is something that neither Ms. Chu nor I have any control over. But it was nice to welcome the two new members of Congress.

We will pick up on questions. And as is my practice I will defer to my ranking member and let her ask to her heart's delight and then I will go last. So, Ms. Chu.

Ms. CHU. Okay, thank you. Thank you, Mr. Chair.

Ms. Park, you described some great progress that was made with the Protégé-Mentor Program and these 41 new contracts, \$260 mil-

lion worth of contracts. What I was wondering was are there certain departments where this relationship works well more so than others? And the reason I ask is because we see with the OSDBU compliance that there is variation, a great deal of variation with the departments. And I am wondering if there are certain departments, like say for instance with the Department of Defense where there is more compliance than with others because it lends itself more to that because there is a lot of subcontracting that goes on there? And if there is variation, how do we better enhance the other departments in this area?

Ms. PARK. Well, GSA's Mentor-Protégé Program focuses on, you know, developing suppliers, subcontractors, and primes in industries where we do business. That is really in support of our mission. So right now we have, you know, primarily in professional services, construction services-related participants in the program. Facilities maintenance as well. I do not know if there are, you know, particular compliance hurdles that may be, you know limiting in other agencies' programs. I can speak about GSA's program. It is really open to any and all industries that GSA does business with. We have, you know, seen interest primarily from those industries I mentioned that we do, you know, a preponderance of our business with, but certainly it is open to any and all businesses, including those on the schedules in the schedules program.

Ms. CHU. So do you see certain industries where it is easier to set up that kind of Mentor-Protégé Program?

Ms. PARK. Well, for, you know, for us I do not think it is really industry specific. Certainly, with our Public Building Service we, you know, primarily that is construction-related services, facilities maintenance. So we do have a good number of participants from those industries. We also have participants from professional services, IT, you know, management consulting and strategy services that are in the Schedules Program for GSA. So, you know, I really do not know that there are specific industry or industry-specific challenges to participating but certainly we see interest from particular firms in certain industries in support of where, you know, GSA spends money and where our contract dollars are.

Ms. CHU. Mr. Shear, did you find any differences there?

Mr. SHEAR. I am going to make a general statement about what we were mandated to do to set up the answer if I could. We thought it was great to receive a mandate from Congress to look at Mentor-Protégé Programs, partly that it seems like there has been very little evaluation of these programs even though the number has grown to 13. And even when we started it seemed like everybody was shocked to hear that there were 13 programs. And it was in a way very good that we had a short time fuse. You know, it was a mandate with a specific date. So it was good because we scoured the universe and we were able to describe the programs, at least the controls that are on paper, to operate these programs. And we could at least describe in our report how they vary.

But the question you raise is an extremely important one. And as auditors, here we looked at controls on paper but we said we did not test the controls of these various programs. And one of the first things that would go off in my mind if we did have the time or in

the future did look at the controls around these programs is how about the agencies where it seems the OSDBUs do not play as prominent a role, do not have the right reporting structure, might have budget problems. We see it on the surface from just going into each agency. But you raise a great question that we hope that sometime in the future we will be able to go in and get a better handle on particularly on the agencies that seem to have OSDBUs that have limited staff resources and those that are not reporting to the senior-most levels to see how well those programs are being carried out.

Ms. CHU. Thank you for that.

Mr. Shear, I also wanted to ask about the Procurement Center Representatives, the PCRs, and your report recommends several options for increasing PCR effectiveness. Certain ones seem to be ones that could be implemented by the administration without any legislative action. For instance, increasing the face-to-face interactions, increasing service capacity, and improving the training. And has SBR responded to or implemented any of these actions?

Mr. SHEAR. In our report we discuss these various options and we discuss them with the PCR community. So we explored these options. It is in the context that in the past we have recommended that SBA has to assess its PCR workload and its resources for this activity. So what we found from that was consistent with the idea that most of these options do involve greater use of resources so it is one of the reasons we have always been very anxious to hear about the evaluation that SBA had of their PCR resources and what results from that. And Mr. Jordan, you know, alluded to that in terms of the president's 2012 budget request. So a lot of these have to do with greater resource availability, whether it is through IT or just basically having more people or increasing interaction by increasing the travel budget. All these are options that could improve PCR effectiveness.

Ms. CHU. And, of course, I must ask Mr. Jordan.

Mr. JORDAN. Sure. Yes, as Mr. Shear says, we agreed with most, if not all of the recommendations in the GAO report. We had already begun a proactive analysis of our Procurement Center Representative and Commercial Marketing Representative workload with an eye towards maximizing both the effectiveness of these folks in getting contracts awarded, both the prime and sublevel to small businesses, but also the efficiency. And that is where, you know, we have got to figure out what which level is cross functional performance important. So these folks also handle size protests, service-disabled veteran-owned small business status protests. They do surveillance reviews and some of these other functions that the GAO commented on, at which point is it very helpful to have them cross-train and cross-functional versus that become a workload balancing challenge and you really want specialization.

And we did conduct this robust analysis both where they are located and what they are doing and have started implementing some of those changes already and have implemented some of those changes already. But in addition, as the GAO noted, some of those workload and resource challenges really need to be addressed by increasing the workforce of the PCRs and to keep from robbing Peter to Paul and taking them from somewhere else and then caus-

ing another problem, the president did ask for an increase in this workforce.

Ms. CHU. One of your recommendations, Mr. Shear, was to allow PCRs to dispute procurement if their recommendations were not implemented. And I was not sure whether that one required legislation. Does it?

Mr. SHEAR. I would have to defer to Mr. Jordan. I think it might require legislation to provide that but I am really not sure on that particular option. And I don't know, Joe, if you—

Mr. JORDAN. Which one is it again?

Ms. CHU. That is the one allowing the PCRs to dispute the procurement if their recommendation is not implemented. And also I would like to know why would their recommendations not be taken if they have gone to all this trouble to put such one together.

Mr. JORDAN. Sure. So we have an important tool right now in the PCR toolkit to address that issue, which is called the Form 70. And this is one of the things that make PCRs as a cadre so effective and important is that if they file a Form 70, that procurement that they are in disagreement with has to stop until there is a resolution. And as we all know, we have an overall contracting officer workload. They want to get things through quickly and done well. And so they do not want the procurement to stop. And it can be very helpful as a specter, you know, not having to use it but knowing that you could. And then we do use it sometimes and there is a series of escalations if we continue to disagree between the buying activity that is issuing the contract and the PCR. So that actually is something that we do quite a bit.

Now, the best situations are where Procurement Center Representatives and the contracting officer workforce and the buying activities they cover are working together at the acquisition planning stage, at the program level, etcetera, so that you do not get to the end. But if a PCR disagrees that, you know, a contracting officer is trying to issue a contract to full and open competition and the PCR believes, no, there are two more small businesses that could do this, you must set it aside, the PCR can stop that procurement until that is resolved. And there is a series of protests that rise up all the way to the secretary level.

Ms. CHU. And do you know whether they are successful or not?

Mr. JORDAN. We find, one, again, the overwhelming majority of the time it does not need to get to the actual issuance of a Form 70, just saying we disagree to this level we are going to precipitates a conversation in which the disputes are resolved. And I do not know of really any cases in my two and a half years here whereas it has gone up a chain of protests. We have not agreed by the end.

Mr. SHEAR. And I will apologize for bouncing back but one of the options we looked at had to do with the role of PCRs if they disagree with the subcontracting plan. And that for them to take an action specific to a subcontracting plan would require statutory change for them to do that. So the Form 70 process I really thank Joe Jordan for pointing out how the Form 70 process works but there is not the authority—the PCR does not have the authority to go through that type of Form 70 action when the objection is to the subcontracting plan.

Ms. CHU. Okay. Mr. Shear, your report mentions that many of the OSDBU directors felt they had a lack of influence on the procurement process and that hinders their responsibility, their ability to carry out the responsibility. And that the OSDBU directors seemed to have a conflict with the authority of the contracting officers in the process. So is the tension between these offices intended or does this need to be corrected?

Mr. SHEAR. There are two types of tensions here and it is a great question. So first I will start with the tension that I think is intended to be there and that is OSDBU directors are in a position to be advocates for small businesses. And so they are there to create some tension so that when contracting officials are making awards, they are doing the right market analysis, and they are taking the appropriate actions for set asides. So it is to create a tension for—to carry out the Small Business Act provisions. So that we would refer to as a pretty healthy tension.

There is some tension, and this especially seems to be present in those agencies that do not comply with the reporting structure. And those tend to be those where we hear from OSDBU directors that while that function is taken care of by the contracting officials, well, in a sense that there can be in a reporting relationship, if it does create a situation where a healthy conflict is not there, if there is a different conflict which plays out where the OSDBU does not have enough influence, then it can lead to a result where they are not able to really fulfill their purpose.

Ms. CHU. And do you think there should be an increase in the authority of the OSDBU? And is there a way to do that without adding to the complexity or length of the contracting process?

Mr. SHEAR. There seems to be two issues that are most associated with what I will call the prominence of the OSDBU in carrying out their mission. One tends to be reporting structure and the other one tends to be budget and resources. And those are the two that stand out to us. It is very hard for us to evaluate certain cases where the OSDBU might say the contracting officials take care of that function because in some agencies it might be that the OSDBU has created a sense of culture where the contracting officials are very close to serving the needs of small businesses, that is including small businesses. So it is hard for us to make that distinction. So we find ourselves coming back to why did Congress set things up in this way? And it makes sense to us.

Ms. CHU. Okay. And finally let me ask this. I know that SBA, Mr. Jordan, asked for 24 full-time employees. Are you devoting these—any of these employees to the PCRs and the CMRs?

Mr. JORDAN. Yes, absolutely. So the exact split is something that we would be working through based on the implementation of the analysis we discussed but it would be to handle those oversight and fraud, waste, and abuse prevention functions. So yes, you would have more PCRs. Yes, you would have more CMRs out of that, in addition to looking at how can we best handle the size protests, status protests, and surveillance reviews which are also ongoing continuous improvement projects that we do in discussion with the OSDBU community, GAO, and Congress.

Ms. CHU. Okay, thank you. I yield back.

Chairman MULVANEY. Thank you, Ms. Chu.

My questions are going to be all over the board. And while I think I have a feel for who they should be directed to, please, I encourage you, if you feel like you can contribute something, please feel free to chime in.

In no particular order, I think my first question is to Mr. Shear and Ms. Park regarding the mentor programs. In fact, I think maybe it is to everybody. How much uniformity is there across the differing mentor programs of the different agencies? And is there any system that is set up to help deal with somebody who might want to participate in the program at the DoD and then go over and participate in the GSA? And if so, is that system working?

Mr. Shear, we will begin with you and then Ms. Park.

Mr. SHEAR. Your direct question we did not address—the ability of small businesses to participate as protégés, let's say in multiple programs. We did not look at that. We know that when you have 13 programs and there has not been a lot of evaluation looking across the programs, and I would say ours is again kind of like a first effort of just trying to describe them—

Chairman MULVANEY. Can you cross—is there any value to crossing? If I run a small business that does three or four different things and I want to do a job for the DoD and I want to participate in that mentor program, is there any demand for—do I learn what I need to learn about all government contracting if I am a protégé in the DoD program? Does it carryover to GSA or do I have to—is there a benefit then for me to go to GSA separately?

Mr. SHEAR. I will answer that by saying that there is a benefit of going to each agency separately and where that—so it is not strictly a one-sided answer but the issue becomes what is the small business that I am providing and what agencies have supply chains that I could fit into best? So I won't say that there should not be just one Mentor-Protégé Program across the government. I know there is some interest in that. So I cannot opine on that one way or the other. But the challenge with that would be to ensure that businesses that can be successfully applied to one supply chain but not others are really incorporated by the Mentor-Protégé Program. So the role of the individual OSDBU in running the Mentor-Protégé Program becomes important.

At the same token, one of the things that we certainly discussed a lot looking at our three reports together and it kind of points to the Interagency Taskforce that the president created and the role of SBA with the various OSDBUs—is that is there a way to identify best practices or a certain structure where you can figure out what is the appropriate role for the OSDBU and what is the appropriate role for PCRs and the various entities because they bring a different tool mix to the table. How do you reconcile all of these? And these really come to a head when you start talking about the roles of these various entities in running Mentor-Protégé Programs. So it is a two-sided answer but it is one that there are benefits to some businesses. If you have a business that can be part of the supply chain of multiple agencies, there could be a benefit of having one program. There certainly would be a benefit if the programs were a little more transparent and there was some standardization to those programs. But having one program could leave

out certain protégés that might fit in best with basically the supply chain and one agency.

Chairman MULVANEY. Ms. Park, go ahead with that.

Ms. PARK. We do collaborate with other federal agency program managers of the other Mentor-Protégé Programs. You know, our program manager, Tony Eiland, does meet and talk with the other agencies' programs. To what extent there is uniformity across programs, you know, I do not believe there is 100 percent uniformity either in the application process or who can participate depending on what kind of small business category you are in. So, you know, there is probably opportunity for that to be streamlined. I can imagine that, you know, the business community, you know, fewer forms or fewer applications, fewer agreements would, you know, would be a good thing.

But we do see that there are participants in our program that are also participants in other agencies' programs. You know, each agency has our specific mission and, you know, our specific supply chains and looking to develop a supplier base that supports our mission. So there surely is a specific mission that each Mentor-Protégé Program is supporting. Certainly with GSA's wide contracting vehicles, you know, we do serve a broad range of industries that also support other agencies' missions.

Chairman MULVANEY. If we were to—and I recognize the fact that one of the complaints—complaint is too strong a word, but one of the concerns that you raised, Mr. Shear, is the sort of lack of evaluation, the lack of input, the lack of transparency. But if we had a chance to talk to the firms who had been protégés, what would they say is the best part about the program? What does the Mentor-Protégé Program help them with the most? What is the hardest part about being a government contractor and how does that problem get solved through the Mentor-Protégé Program? Start with you, Mr. Jordan.

Mr. JORDAN. So when Congress passed the Small Business Jobs Act, which asked SBA to expand our 8(a) Mentor-Protégé Program to include HUBZone-eligible firms, women-owned small businesses and service-disabled vets, we wanted to figure out that very question, how best to do that. And so as part of a 13 city listening tour we asked small businesses, both who had participated in our program or perhaps had participated in another Mentor-Protégé Program or had not yet participated, what was the benefit they were looking for or had experienced. What we overwhelmingly heard is that it is a great opportunity to learn from somebody who has done this how to do it. You know, there are various kind of shades of that answer but it was essentially we do not yet have the capability or capacity to do this. It is really hard to just learn by reading the FAR.

Chairman MULVANEY. So is that paperwork? Is that development technology standards? What is it?

Mr. JORDAN. So that, with our 8(a) Program, we specifically say that that mentor and protégé who want to come together, the mentor needs to prove it has a defined skill that meets the protégé's defined need. So sometimes that is marketing. How do you get in front of federal agencies? How do I sell the government? For other people it is the back office systems. I do not know how to set up,

you know, defense or, you know, DSEC-compliant system accounting systems and all these types of things. It depends on what that protégé needs but it works best when it is not just a mentor and a protégé saying, hey, we both are in a similar industry; let's figure out how we can best go get contracts. But rather, the protégé has a defined need. The mentor has a skill there that they can help build the capability and capacity of the protégé. They come together and then the key question is how do you provide a mentor-true incentive to want to do that? You know, they are businesses. It is not always altruistic. So there has got to be some incentive, either DoD funds theirs, we waive affiliations so they can form joint ventures. There is a series of those, but make it a good enough incentive that they do come in but good enough controls that there is not the fraud, waste, and abuse that you could see.

Chairman MULVANEY. Gotcha. I guess we will leave for another day the problem of how it got so complicated in the first place that we have to have this program.

Let us talk about goals and accomplishments. Ms. Park, you had mentioned some numbers and in all candor I probably lost my notes on them. But regarding the number of jobs that you folks have helped create and the success of the program, could you give me those again? Do you have those readily?

Ms. PARK. Sure. We have 123 new jobs, 54 new subcontracts. And then on prime contracts, let me flip to that page as well.

Chairman MULVANEY. And there was a huge amount of money, several hundred million dollars.

Ms. PARK. Two hundred sixty million dollars.

Chairman MULVANEY. That is what it was. So here is my question because it sounds great and I congratulate you. This is not a small on the program at all but I guess my question is what did it cost us to get that?

Ms. PARK. We have one program manager, full-time employee, who actually splits his time between this program as well as really being our service-disabled veteran-owned small business champion in the agency. And they really are overlapping and, you know, very complementary duties if you think about it. We have, you know, certainly a commitment to increase opportunities for veteran-owned businesses in federal contracting and more than half of the protégés that are in the firm are veteran-owned companies. And so it really is a streamlined and efficient program. I think we have our program manager, Tony Eiland, who is really committed to meeting face-to-face with the businesses to help walk them through the process. I think the paperwork we have in place is streamlined. It is just a couple pages. We assume that folks coming to the table can, you know, have their business plan in place and their financials are in place.

Chairman MULVANEY. Is it generally less than one full-time employee? Is that what you are telling me?

Ms. PARK. Yes. Yes, sir.

Chairman MULVANEY. Okay. That is helpful.

By the way, Mr. Jordan, to the extent we were to put something on our websites for our constituents who want to do this, is there an overall website on how to do this? Is it part of the SBA? Or,

if I wanted to get in the Mentor-Protégé Program, where would be the one best place to go?

Mr. JORDAN. SBA.gov, for sure. And we will get everybody exactly where they need to go.

Chairman MULVANEY. Mr. Shear, let us talk a little bit about accountability. It sounds like you are getting a lot of the same treatment that the Committee got in terms of folks who are not responding or responding essentially saying that we do not think we are breaking the law. Is that a common occurrence when you try and look into these programs? Or is it a new development? What do you think is causing it? Is it just bureaucratic red tape?

Mr. SHEAR. Well, I will just give a broad reaction because you are saying compared with other experience. Most of the time when, whether it is agencies or individuals who have a statutory responsibility to do something, there is normally some type of implications of not complying—there is some sense of punishment involved. And you are just seeing—it seems here that, we did this evaluation almost a decade ago. It is getting pretty close. And you had agencies not in compliance and you still have those agencies not in compliance today that were not complying at that time. And it does not seem like there has been any harm from that. So—

Chairman MULVANEY. What would be an appropriate sanction for that, seriously?

Mr. SHEAR. All I can say is that you would think, at some point—we can point out but there are certain value judgments on what the severity of what you could say the deficiency is and what the reaction is. What we took the prerogative of doing, which in a way was creating work for you, was saying these agencies that are not in compliance, maybe we can push them a little bit if we say at least you have to come up with a, in that our recommendations do not carry legal sanctions either but the idea is if you have a reporting responsibility to Congress where you have to justify this it creates some burden of proof. From your standpoint you send letters. That is a great—that is more than I think what has happened in the past. If you have oversight hearings I think that can help. There are a lot of things that can help but as far as what is an appropriate legal sanction, that is where I just say that I do not have a basis to say what the right legal sanction should be. But it is quite clear there are a number of agencies that have not taken these requirements seriously.

Chairman MULVANEY. Well, and we will be—we will be asking those folks to come in. To the extent sitting here is a sanction, I guess we will get them to do that.

Jumping around a little bit to close up, Mr. Jordan, you mentioned Form 70. Did one of your PCRs issue that to the Coast Guard this year on insourcing?

Mr. JORDAN. Yes, sir.

Chairman MULVANEY. What was the outcome of that? And the only reason I ask is we have had separate hearings on insourcing. I just read your rules yesterday that you promulgated I guess on Monday—I assume that was you folks—on insourcing. So what was the outcome of that one?

Mr. JORDAN. So it is not yet resolved. And I am happy to follow up as that progresses. There is still a lack of clarity as to whether

or not the Form 70 authority applies to insourcing since it is not—it is almost the reverse of a contract. We are not stopping a contract from going out; there is no contract anymore. So that is what we are trying to work out. Again, if there is one thing I have learned over the last couple years is that when we always rely on adversarial-type tools, we do not get the same progress as if we work collaboratively. So we are working closely with our counterparts at Homeland Security and at Coast Guard to try to figure out what is going on with that situation. Is there something thematic that we can do more? And like you said, Dan Gordon, the Office of Federal Procurement Policy, just re-released very clear guidelines on what is inherently governmental and closely associated, and we are working with him.

Chairman MULVANEY. And again, I do not want to get off topic too much but since it is something we spent some time on, do you think that the rules that were issued on Monday will help bring some clarity to that specific situation?

Mr. JORDAN. We have not gotten yet the information as to their precise rationale and impetus for insourcing the particular contract or function that you are talking about. So I am not sure if it was due to a cost savings which is one of the previous issues that drove insourcing, or whether it was because there was inherently governmental or closely associated function being insourced. So I do not yet know.

Chairman MULVANEY. And staff tells me they have some information that they might be able to share with you, so thank you. We will continue to follow insourcing, by the way, throughout the course of this year.

Let me see. Ms. Park, staff has a couple of questions and this is a good one. Under the Act, the SBA, you are supposed to have supervisory authority over personnel carrying out the functions of the SBA of the Act itself. Are you able to do that? Is that the case? Is that working well?

Ms. PARK. I do have supervisory authority over the staff that I have in Central Office that do report directly to me. There are about 11 staff members. And we have a network of regional representatives across the country, another two dozen, and so together we carry out the functions of the Small Business Act. And in the different regions they report to the head of Contracting Activity for the Federal Acquisition Service currently with a dotted line reporting in to Central Office. And so we do work closely together to carry out the responsibilities of the Small Business Act.

I would mention going back to your previous question about the half full-time employee that manages the Mentor-Protégé Program, the whole network of employees on the OSDBU staff do support the program as well as part of overall duties, so I would be a little bit misleading in saying just one full-time—half a full-time employee to clarify that.

Chairman MULVANEY. Just a second. Clearly, we would consider that a success. Are there goals for your Mentor-Protégé Program? Are there specific goals in terms of the number of jobs, the number of contracts awarded? Are there any specific goals? We start the new year, I guess, next week or two weeks from now. October 1st

will be the beginning of our fiscal year. Do each of these programs have specific goals they are setting out to accomplish for FY2012?

Mr. JORDAN. For SBA's Mentor-Protégé Program, which is part of the 8(a), it does not have a programmatic specific goal, i.e., contracts awarded, dollars, those types of things. What it has is for each individual Mentor-Protégé agreement, those are good for a year and each year there is an annual review where SBA business development specialists talks with the protégé and the small business in our program and says you laid out a plan for what your specific needs were, how this mentor was going to help you. Did that happen? Can you show it to us? Because each one, like I said, has a slightly different metric for success but we want to make sure we are looking at that every year.

Chairman MULVANEY. But at the—you are GAO, you are GSA, I lose track of all the letters. At the GSA, do you all have a goal for next year?

Ms. PARK. Well, similar to SBA's approach, we do not necessarily have specific targets for contracts awarded or dollars won. We do have, you know, an internal goal to have 100 agreements in place by I think the end of the calendar year is what we are looking at. But we really are taking the data and what we have seen the past two years to see if they make sense given kind of that baseline to see if it makes sense to establish specific goals. What we do not want to do is box in the program to be just about the contract dollars and the jobs won. We want to make sure that there is room to define success by the different business capabilities that are developed. Certainly, what are the specific needs of each business coming to the table?

I will give you one example that is not necessarily about contract dollars or new jobs. Where the large business scale and training resources can be helpful if there is an ISO or CMMI IT-related certification that is fairly expensive that costs thousands of dollars to obtain, the smaller business could and has been in a couple of examples, been invited to participate in the training that the large business is already paying for their own employees. And so that is a clear benefit that is not necessarily defined in terms of contract dollars and jobs.

Chairman MULVANEY. It is. But going back to Mr. Shear's original point when he started and what you have just mentioned are very admirable qualitative goals. That makes it very hard to measure though, does it not, Mr. Shear, if that is what we are chasing if we have to look at everyone on a case-by-case basis, every single Mentor-Protégé Program to say was that individual program a success? Or should we have quantitative goals of some fashion to make your job a little bit easier? And they will still be friends either way.

Mr. SHEAR. Both. Because when we look across the programs there is a lot of attention paid to the actual agreement and the needs of the protégé. And I think both witnesses characterize that well. But there are certain things that are looked at, such as how well the protégés are doing while they are in the program. And we at least wanted the agencies to consider to look at how well they have done, even after they leave the program a year or two, such as the way DoD does. So there are advantages of trying to create

both. The concern sometimes if you try to create too many quantitative metrics is what becomes your baseline. And we recognize that many times you say, well, there has been job growth among the protégés this year, how about if we saw a decline, which at DoD you did see, when the recession hit. Well, you have to put it into a context and you have to have some sense of putting it into perspective. But quantitative goals, in looking at how well protégés do, can be very useful.

Mr. JORDAN. And if I can just add, Mr. Chairman, the difference between quantifiably tracking these things which we are really trying to push on and setting goals in advance as Mr. Shear said is where some of the challenges—so we have 7,000 8(a) firms, approximately 500 mentor-protégé agreements. That is more of a process programmatic data point. Then you look at output. So how many contracts do they get? How many contract dollars? And we do track those metrics. But really what we are driving towards are outcomes in quantifying what those desired—or defining what those desired outcomes are and then quantifying them is where we are really spending a lot of time trying to push our thinking so that we can track whether these programs are actually successful in the goal of the program, which is to develop these businesses for long-term growth and sustainability.

Chairman MULVANEY. Last question, I promise. You have mentioned a number, one of the quantifiable goals here is the overall SBA goal of the 23 percent participation. I mentioned in my opening statement 20 percent from last year. You mentioned 22.7 percent, which it does not sound like a lot, but when you are talking about half a trillion dollars worth of contracts it actually is a lot. What is the difference between those two numbers, Mr. Jordan?

Mr. JORDAN. Without seeing the exact quantitative inputs you are using, what I would surmise is that we are using the same numerator of \$98 billion in prime contracts to small businesses.

Chairman MULVANEY. I have got 109,171.

Mr. JORDAN. Let us use your number. I like that better.

So we are pretty close in that the question is what constitutes the denominator, which for purposes of goaling we use small business-eligible dollars, which is a subset of all federal procurement dollars. So in 2010, the all federal procurement dollars spent was roughly \$530 billion. The small business-eligible dollars that we use as the denominator was \$435 billion. And so that is how we get to the 22.7. What drives that delta is a set of spend categories that have long been excluded, things that do not have to play by the rules of the Federal Acquisition Regulation. So either specific agencies, like FAA, or specific types of work, work done OCONUS (outside the continental United States), foreign military sales, those types of things are removed from the base.

Now, I know it is a constant source of discussion and one that we have had and will continue to have with your staff, but the important thing from my perspective is when I joined we had just had three successive years of declining performance year after year. So instead of worrying about adding to or moving from that list of exclusions we said we want an apples to apples comparison as we fix this process and these programs to see if we can move performance in the right direction. And as I said, we, over the last two years,

have had the largest increase in over a decade having not added anything to nor removed anything from that list. So that is where we were and now, you know, we are happy to continue the dialogue of what comprised the delta.

Chairman MULVANEY. We may do that. We may follow up with you in writing because that is one of the things that I know everybody on this Committee tracks, because that 23 percent number is burnt into our brain from the very first day that we are here that that is the goal. And you know where I am coming from which is that we just do not want you folks to say, well, 22.7 percent, that is close enough. We want to continue to have folks push and I know that you are doing that.

Listen, thanks to everybody who stuck around. Thank you for waiting during the break. As always, it is an honor to see someone sworn in on the floor of the House. So thank you for accommodating us in that. We look forward to having you back sometime soon. Please do send to the extent you have friends at the Interior or at the Treasury or any of the other folks who have not responded to us, that this was a really good experience I hope today, notwithstanding the fact it took two hours. It is not going to be as much fun for them. So if you could let them know that we are serious about getting the information that we have requested.

So thanks very much. With that we are adjourned.

[Whereupon, at 11:58 a.m., the Subcommittee hearing was adjourned.]



**U.S SMALL BUSINESS ADMINISTRATION**  
WASHINGTON, D.C. 20416

**TESTIMONY OF JOSEPH G. JORDAN**  
**ASSOCIATE ADMINISTRATOR, GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT**  
**U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE**

**SUBCOMMITTEE ON CONTRACTING AND WORKFORCE**  
**U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS**

***“Helping Small Businesses Compete: Challenges within Programs Designed to Assist Small Contractors”***

**SEPTEMBER 15, 2011**

Chairman Mulvaney, Ranking Member Chu, and members of this Subcommittee, thank you for inviting the U.S. Small Business Administration (SBA) to testify today. My name is Joseph Jordan and I am the SBA’s Associate Administrator of Government Contracting and Business Development.

Our top priority at the SBA is to maximize opportunities for small businesses and 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. Federal contracting with small businesses is a win-win. Small businesses—who are drivers of the American economy—get the revenue they need to grow and create jobs. Meanwhile, the federal government has to chance to work with the most innovative and responsive companies around.

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.

The federal government is the largest purchaser of goods and services in the world. The government spends about \$500 billion every year through federal contracts. With the SBA’s support and assistance, small businesses receive nearly \$100 billion of that spend each year.

In fiscal year 2010, small businesses won 22.7% of federal contracting dollars. This marks the second consecutive year of increase after three consecutive years of decline and was the largest two-year increase in over a decade. SBA is committed to exceeding the 23% statutory goal and getting more contracts into the hands of small businesses. At the same time, we are working to implement the provisions of the Small Business Jobs Act of 2010, and eliminating fraud, waste, and abuse from all of our programs.

With these priorities in mind, please allow me to discuss the three Government Accountability Office (GAO) reports that are the subject of today's hearing.

The first report concerned SBA's Procurement Center Representatives (PCRs) and Commercial Marketing Representatives (CMRs). These members of the Office of Government Contracting and Business Development team play a critical role in ensuring small businesses receive their fair share of government contracts. They are located at the largest buying activities across the country and work closely with acquisition teams at various agencies to ensure small business utilization is maximized. PCRs help increase small businesses' share of Federal procurement awards by initiating small business set-asides, reserving procurements for competition among small business firms, providing small business sources to Federal buying activities, and counseling small firms. PCRs also provide oversight at the buying activities they cover by reviewing contracts to ensure small business utilization is maximized. CMRs are stationed in area offices to conduct compliance reviews of prime contractors, counsel small businesses on how to obtain subcontracts, conduct matchmaking activities to facilitate subcontracting to small business, and provide orientation and training on the Subcontracting Assistance Program for both large and small businesses.

The GAO suggested various areas for improvement related to the PCR and CMR function, and recommended that SBA assess the resources allocated to PCRs and CMRs and develop a plan to better ensure that these staff can carry out their responsibilities. While there is always room for improvement, I believe we are moving in the right direction to ensure we optimize the role of PCRs and CMRs.

We recently conducted an analysis of the PCR and CMR function and their roles and responsibilities. This analysis helped us determine how we can more effectively utilize PCRs and CMRs to increase opportunities for small business contracting. Additionally, our analysis looked into whether we have appropriately allocated our PCRs and CMRs in the most effective, efficient way. In fact, in the fiscal year 2012 budget, the President asked for additional full-time employees, including PCRs, to provide oversight for small business contracting programs and eliminate fraud, waste and abuse. Our analysis also looked at how we can utilize our Government Contracting Area Report (GCAR) to track and measure key metrics and outcomes. We are currently reviewing the results of this analysis and working to develop and implement an improved system, along with revised standard operating procedures and tools.

The second GAO report is in regards to the Offices of Small and Disadvantaged Business Utilization (OSDBU) that work in each federal agency. SBA works very closely with the Directors and staff of these offices. We chair monthly meetings with the Small Business Procurement Advisory Council, which is comprised of the OSDBU Directors, to share program updates, discuss policy and regulatory changes, and share best practices. We also work with the OSDBU Directors to set small business goals for their agency, help them develop plans to meet their goals, monitor their progress, and report on their agencies' actual performance on our annual Goaling Report and Scorecard. Additionally, we work with OSDBU Directors and staff to provide their agencies' procurement teams training on small business programs and we also assist OSDBU staff with issues and concerns related to specific contracts.

The GAO's report addressed three key issues. The first issue is in regards to Section 15(k)(3) of the Small Business Act, which says that OSDBU Directors should report to agency or deputy agency heads. SBA strongly supports the underlying policy set forth in Section 15(k)(3) of the Small Business Act and is asking all agencies to ensure they are in compliance with the requirements. Open and direct communication between the OSDBU Director and the Secretary, Deputy Secretary or their equivalent is paramount to ensure that small businesses receive the maximum practicable opportunity to compete for and win federal contracts. In fact, SBA Administrator Karen Mills recently sent a Memorandum to all agency heads and deputy heads reinforcing the importance of this requirement and asking each agency to ensure they are in compliance with the statute.

Second, the GAO noted that eight OSDBU functions are listed in 15(k) of the Small Business Act, but it does not necessarily require that OSDBU Directors personally carry them out themselves. OSDBU Directors vary on how extensively they carry out these functions. The SBA is committed to ensuring OSDBU Directors and staff have the appropriate tools and resources to increase small business utilization in federal procurements and achieve their small business goals. As mentioned, we chair monthly Small Business Procurement Advisory Council Meetings, which provide a great forum to discuss challenges and opportunities for how to execute the OSDBU function, and for sharing best practices. We also provide OSDBU Directors with training, as well as guidance on how to increase small business contracting opportunities.

And lastly, in the GAO report, OSDBU Directors reported three challenges in performing their functions: (1) inadequate staffing levels, (2) limited budgetary resources, and (3) lack of influence in the procurement process. SBA strongly believes in the importance of the OSDBU role and has worked hard over the last two years to elevate the OSDBU within each agency. For example, SBA works closely with the White House and the Office of Federal Procurement Policy (OFPP) to engage senior officials at both the White House and at each agency on the importance of small business contracting and to also keep agencies accountable for achieving their goals. Additionally, SBA and OFPP have held events to bring together the OSDBU community and Chief Acquisition Officer community to create a strong link between the small business advocates and the acquisition teams.

The third and final report concerned mentor-protégé programs. Mentor-protégé programs are arrangements in which mentors—typically experienced prime contractors—provide business development assistance to small business protégés. In return, the program provides incentives for mentor participation, such as credit toward subcontracting goals and additional evaluation points toward the awarding of contracts. Mentors may also enter into joint-venture arrangements with protégés to compete for government contracts.

SBA currently only runs and oversees one Mentor-Protégé program, which is for participants in the 8(a) Business Development program. However, the Small Business Jobs Act of 2010 gave the agency authority to implement additional programs for HUBZone, Women-owned, and Service-Disabled Veteran-Owned Small Businesses. We are in process of implementing these new programs. We conducted robust public outreach via a 13-city Small Business Jobs Act Tour and have held several meetings with various agency and public stakeholders to collect input and feedback on the implementation of these programs. We are now in the process of drafting proposed regulations for public comment and subsequent implementation.

Other Federal agencies also have their own Mentor-Protégé programs. The GAO looked at the effectiveness of various Mentor-Protégé programs across the government. SBA does not oversee other agencies' Mentor-Protégé programs, but we are supportive of efforts made to increase opportunities for small businesses to compete for and win federal contracts.

In addition to sharing our views on the three GAO reports, I would also like to take this opportunity to share with you three important initiatives our Office of Government Contracting and Business Development is currently focused on.

The first is our efforts to combat fraud, waste and abuse in the small business contracting programs. We have no tolerance for fraud, waste and abuse in our programs and have 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.

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.

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. In fiscal year 2011, we have also suspended, proposed for debarment or debarred over 30 firms and individuals involved in procurement misconduct.

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.

The second initiative is the implementation of the Small Business Jobs Act (SBJA) of 2010. I would first like to thank Congress for passing the Act, which included 19 provisions related to small business contracting. As mentioned, 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 some key highlights:

- Parity - The SBJA reaffirms "parity" among federal small business contracting programs. This means that contracting officers are 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 helps 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 SBA reinstates set-asides in about 10 industries where small businesses typically excel, such as landscaping, construction and pest control.
- Size Standards review - The law requires SBA to conduct a detailed review of the small business size standards. SBA is currently in the process of conducting this review and is on schedule to meet the timeline outlined in the Act.
- 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.
- 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.

The third and last issue I would like to discuss with you is in regards to our Historically Underutilized Business Zone (HUBZone) program. With the public release of the 2010 Census data, a number of existing areas will no longer be designated HUBZones due to the statutory mandate to remove the past redesignated areas as of the later of: (1) The date on which the Census Bureau publicly releases the first results from the 2010 decennial census; or (2) Three years after the date on which the census tract or non-metropolitan county ceased to be so qualified. This mandate will have an impact on existing HUBZone firms in the program whose area has been redesignated and no longer qualify for the program. We are currently working on implementing this congressionally-mandated change to ensure only qualified firms remain in the program. One issue we are currently working on is related to certain areas where there is a 15 month gap between the expiration of redesignated areas and the possibility of that census tract being qualified again for the program. SBA is supportive of allowing firms impacted by this 15 month gap to remain in the program until it is determined whether their area is qualified for the program, however, only Congress has the power to make this change. We are also happy and willing to work with Congress on any other proposals related to this issue to promote economic development and employment growth in distressed areas.

As demonstrated by the initiatives and efforts described in this testimony, SBA has taken great strides to strengthen our small business contracting programs and strategy for combating fraud, waste and abuse. These efforts are critical in ensuring small businesses gain access to federal contracting opportunities. While we have made significant progress, we continue to look for ways to identify further opportunities for improvement and to maximize small businesses' access to this important source of revenue so that they can grow their businesses and create jobs.

Thank you for allowing me to share SBA's views and initiatives with you today, and I will be happy to answer any questions you may have.

**STATEMENT OF**

**JYOUNG C. PARK  
ASSOCIATE ADMINISTRATOR  
OFFICE OF SMALL BUSINESS UTILIZATION  
U.S. GENERAL SERVICES ADMINISTRATION**

**BEFORE THE**

**SUBCOMMITTEE ON CONTRACTING AND WORKFORCE  
SMALL BUSINESS COMMITTEE  
UNITED STATES HOUSE OF REPRESENTATIVES**

**HEARING ON**

**"HELPING SMALL BUSINESSES COMPETE: CHALLENGES WITHIN  
PROGRAMS DESIGNED TO ASSIST SMALL CONTRACTORS"**

**September 15, 2011**



Good morning Chairman Mulvaney, Ranking Member Chu, and Members of the Subcommittee. I appreciate being invited here today to discuss the U.S. General Services Administration's Mentor-Protégé Program and how we have used our program as a successful development tool to promote small businesses.

*Mentor-Protégé Program Background*

GSA established its Mentor-Protégé Program on September 14, 2009. Over the past 23 months, we have been successful in developing a robust and diverse program that is already yielding tangible results in the form of contracts won and jobs created.

We currently have 81 active Mentor-Protégé Agreements in place and in good standing. A further breakdown of those Agreements will show that there are a total of 69 Mentors in the program, of which 42 are large businesses and 27 are small businesses. Some of our Mentors have multiple Protégées currently in the program. We have a diverse collection of Protégées: 5 Small Businesses, 31 Small Disadvantaged Businesses/8a, 21 Woman-Owned, 2 Veteran Owned, 43 Service-Disabled Veteran Owned, and 9 HUBZone small businesses. Protégées can qualify for recognition in more than just one social-economic category simultaneously while participating in the program.

*Mentor-Protégé Program Focus*

The GSA Mentor-Protégé program's focus is to promote the overall business development of small businesses and enhance their capability to compete more successfully for federal government contracts and gain access to economic opportunity. The program encourages private-sector relationships and expands GSA's efforts to identify and respond to the developmental needs of the small business community. The working arrangement between both parties fosters the establishment of long-term business relationships, increases small businesses' technical and managerial capabilities, accelerates success in federal contracting and commercial business growth, increases opportunities to small business Schedule holders, and promotes economic and technological growth.

*Program Composition*

Approved Mentor firms enter into Mentor-Protégé Agreements with eligible small businesses as Protégé firms to provide appropriate developmental assistance that will in turn enhance the business and technical capabilities of those small businesses to perform as suppliers, subcontractors and prime contractors to meet federal requirements.

Mentors can be small or large businesses. A Mentor must have the capability and capacity to assist the Protégé, make a commitment for at least one year, and have an active GSA contract (whether a Schedule, Government-wide Acquisition Contract, or definite contract). The focus is always on the capability of the Mentor to perform as a teacher, leader, and advisor.

The GSA Mentor-Protégé Program encourages participation from small businesses in all eligible categories. To participate as a Protégé in the Program, the Protégé must be a small business certified or verified as either: a small business concern, an 8(a) business, other Small Disadvantaged Business, a Women-Owned Small Business, Veteran or Service-Disabled Veteran-Owned Small Business, or a Historically Underutilized Business Zone (HUB Zone) Small Business.

The GSA Office of Small Business Utilization (OSBU) determines eligibility for participation as either a Mentor or as a Protégé. The Program Manager approves the Mentor-Protégé Application package and evaluates the performance and effectiveness of the relationship on a semi-annual basis.

#### *Results*

Over the past 23 months, our program success has been determined by contracts awarded to Protégé firms and job creation. Protégés have reported 41 new contracts won as a result of assistance received from their Mentors, with a total value at up to \$260 million (including in some cases Indefinite Delivery Indefinite Quantity contracts with high dollar ceilings spanning multiple years).

We have also seen an increase in subcontracting awards to Protégés by the Mentors in relation to program participation. Protégés have reported 54 new subcontract opportunities from their Mentors. These awards have had impacts across all socio-economic categories. In some instances, Protégé firms have attained prime roles and their Mentors have subcontracted to them, where in other instances, the Mentors were not contract recipients at all, nor were they involved as team members on the Protegees' teams.

In addition, participants have reported creation of 132 new jobs as a direct result of participation in the program. This is a particularly important statistic in today's economic climate. Some jobs were the result of new contract awards, and others were the result of Mentors' assistance in developing new innovative processes that helped Protégés expand their business capabilities and capacities and expand existing contracts.

*Internal Processes and Controls*

GSA has established processes and controls in place to ensure the best quality results are obtainable. Semi-annual reviews are performed by the Program Manager, in conjunction with our Regional Offices, for each Agreement to determine the success of the Mentor-Protégé relationship. In addition, our Program Manager conducts spot checks, status meetings, and occasional informal review sessions to discuss best practices and lessons learned.

Ongoing monitoring, reporting, and accountability are the keys to maintaining a successful program. While our program is still relatively new compared to other agencies' programs, we have established reliable metrics. We review all technical and/or management assistance provided by the Mentor to the Protégé and the overall value that assistance provided in developing and improving the Protégé.

Pursuant to GAO recommendations, we are currently completing the establishment of a post-completion assessment that will allow us to track Protégé firms after they successfully complete the program. To date, no participants have yet graduated from the program, and we estimate the first graduation will occur in early 2012. In preparation, we plan to implement a post-completion tracking mechanism by the end of 2011. Our goal is to determine how Protégés progress without the direct assistance of their Mentors and will learn from other agencies' experiences in implementing such a mechanism, tracking for at least two years after graduation completion.

Our Program Manager is in contact with other agency Program Managers. They share ideas, lessons learned and most importantly, experiences within the small business community. These conversations allow our federal managers to learn from each other and make these programs what they were meant to be all along, about small business success. GSA concurs with GAO's recommendation to engage in working group discussions to regularly exchange ideas and practices to continuously improve our programs.

*Examples of Success*

GSA's Mentor-Protégé program has yielded many positive outcomes in its first two years, and below are a few examples of some of the most significant successes we have seen.

One Mentor (a WOSB/SDVOSB) from the professional services industry encouraged its Protégé (an 8a/SDVOSB) to bid on an opportunity by assisting them in developing their marketing strategy, instructing them on best practices in forming a winning team, providing technical assistance in the preparation of the proposal, and celebrating with them when they won an

IDIQ valued at approximately \$50 million (over the life of the contract). The Mentor was not part of the contract team, which demonstrates the Mentor's investment in the success of the program and their focus on having the Protégé as a long-term strategic partner rather than focusing on just short-term quick wins.

One of our Protégés (8a / WOSB / SDVOSB / HUBZone) in the professional services industry was struggling with proposal and bid execution decisions. The company was bidding on a multitude of opportunities without a clear focus. The Mentor instructed the Protégé on how to prepare a bid-no-bid review process and develop a strategically targeted bidding strategy to bid more effectively. After implementing this new process, the Protégé bid on 44 opportunities and won 11 of them in a six-month period. This change in bidding strategy and methodology made the difference between wasting valuable bid and proposal dollars and growing their bottom line.

*Future Expectations for GSA's Mentor-Protégé Program*

Mr. Chairman, GSA has high expectations for the success of our Mentor-Protégé program. We are committed to helping participants reach a higher level of performance, increased efficiency in pursuing government business, expanded contract opportunities, and long-term business relationships. In the coming year, we aim to focus on three main areas:

As discussed above, we will collaborate with SBA, DOD, and other agencies to conduct post-program assessments to monitor ongoing program effectiveness. We will also collaborate with other agencies to continuously improve our program so it is of maximum benefit to small businesses.

Secondly, we will increase the usage of evaluation credit in the acquisition process for participants in the program as an additional incentive and benefit of participation.

Last but not least, in a tightened fiscal climate and global competitive economic environment, our aim is for GSA's Mentor-Protégé relationships to help bring innovations to the government – in collaborative technologies, open government, and clean and sustainable technologies – to help drive government transformation, reduce government waste, and help create high-paying American jobs for the future. Navigating federal government contracting is complex and daunting, and the Mentor-Protégé program can help reduce barriers to bringing innovative private sector partners to the government.

United States Government Accountability Office

**GAO**

Testimony  
Before the Subcommittee on Contracting  
and Workforce, Committee on Small  
Business, House of Representatives

For Release on Delivery  
Expected at 10:00 a.m. EDT  
Thursday, September 15, 2011

**SMALL BUSINESS  
CONTRACTING**

**Opportunities to Improve  
the Effectiveness of Agency  
and SBA Advocates and  
Mentor-Protégé Programs**

Statement of William B. Shear, Director  
Financial Markets and Community Investment



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Chairman Mulvaney, Ranking Member Chu, and Members of the Subcommittee:

I am pleased to be here to discuss our recent work on the federal government's efforts to increase contracting opportunities for small businesses. This work covered (1) the Offices of Small and Disadvantaged Business Utilization (OSDBU) at federal agencies, (2) federal mentor-protégé programs, and (3) the Small Business Administration's (SBA) Procurement Center Representatives (PCR) and Commercial Market Representatives (CMR).

More specifically, to increase small businesses' visibility within federal agencies, in 1978 Congress amended the Small Business Act to require that all federal agencies with procurement powers establish an OSDBU, which would advocate for small businesses in a variety of ways.<sup>1</sup> The act further requires that OSDBU directors be responsible only to and report directly to agency heads or their deputies.<sup>2</sup> The purpose of this provision is to help ensure that OSDBU directors have direct access to their agencies' top decision makers in order to advocate effectively. The functions an OSDBU may perform include administering a mentor-protégé program. Under such programs, mentors—businesses, typically experienced prime contractors—provide technical, managerial, and other business development assistance to eligible small businesses, or protégés. In return, the programs provide incentives for mentor participation, such as credit toward subcontracting goals. Overall, mentor-protégé programs seek to enhance the ability of small businesses to compete more successfully for federal contracts. Thirteen agencies currently have mentor-protégé programs: the Department of Homeland Security (DHS), Department of Defense (DOD), Department of Energy (Energy), Environmental Protection Agency (EPA), Federal Aviation Administration (FAA), General Services Administration (GSA), Department of Health and Human Services (HHS), National Aeronautics and Space Administration (NASA), SBA, Department of State (State), Department of the Treasury (Treasury), United States Agency for International Development (USAID), and Department of Veterans Affairs

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<sup>1</sup>Pub. L. No. 95-507, § 221, 92 Stat. 1757, 1770 (1978).

<sup>2</sup>Codified at 15 U.S.C. § 644(k)(3). In 1988, Congress amended section 15(k)(3) and allowed the Secretary of Defense the discretion to designate the officials to whom the Defense OSDBU director should report.

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(VA). In addition to OSDBUs, SBA's PCRs and CMRs play an important role in helping ensure that small businesses gain access to contracting and subcontracting opportunities. A PCR's key responsibilities include reviewing proposed agency contract actions—such as potential bundling or consolidation—and making set-aside recommendations to agency contracting officers, reviewing agency small business programs, and counseling small businesses.<sup>3</sup> A CMR's key responsibilities include counseling small businesses on obtaining subcontracts and helping match large prime contractors with small businesses.

My testimony today discusses three reports we issued in June 2011.<sup>4</sup> Specifically, I will discuss our work on (1) the reporting structure at and functions performed by OSDBUs in agencies with major contracting activity, (2) the mentor-protégé programs at 13 federal agencies, and (3) SBA's PCRs and CMRs.

In summary, we found the following and made recommendations for improvement:

- Nine of the 16 agencies we reviewed were in compliance with the Small Business Act's requirement that OSDBU directors be responsible only to and report directly to the agency or deputy agency head; however, seven were not. We recommended that the seven agencies act to comply with the requirement. The Social Security Administration (SSA) agreed with the recommendation, and the Department of the Interior agreed to reevaluate its reporting structure. The Departments of Commerce, Justice, State, and the Treasury disagreed, stating they were in compliance. We maintained our

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<sup>3</sup>Section 412 of the Small Business Administration Reauthorization Act of 1997 defines the bundling of contract requirements 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 for various reasons.

<sup>4</sup>See GAO, *Small Business Contracting: Action Needed by Those Agencies Whose Advocates Do Not Report to Agency Heads as Required*, GAO-11-418 (Washington, D.C.: June 3, 2011); GAO, *Mentor-Protégé Programs Have Policies That Aim to Benefit Participants but Do Not Require Postagreement Tracking*, GAO-11-548R (Washington, D.C.: June 15, 2011); and GAO, *Improvements Needed to Help Ensure Reliability of SBA's Performance Data on Procurement Center Representatives*, GAO-11-549R (Washington, D.C.: June 15, 2011).

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position on these agencies' compliance status. The Department of Agriculture did not comment.

- While controls existed at all 13 federal agencies with mentor-protégé programs to help ensure that participants met eligibility criteria and benefited from the program, the agencies generally did not track protégé achievements after program completion. We recommended that 10 agencies consider doing so. Six of the 10 agencies—DHS, Energy, GSA, HHS, Treasury, and VA—generally agreed with our recommendation. We clarified the wording of the recommendation in response to SBA's comment that the wording in our draft report would lead to the conclusion that all mentor-protégé programs have the same objective. State partially agreed with our recommendation, citing concerns about the impact that postcompletion reporting could have on the department, mentor firms, and protégé firms. EPA and FAA did not comment.
- Although SBA had some measures to assess the effectiveness of PCRs and CMRs, select data these staff reported were not reliable and report controls and reviews had weaknesses. We recommended that SBA take measures to improve data reliability and internal controls. SBA agreed with our recommendations and has been updating guidance for the PCR and CMR programs to provide clear instructions for reporting. SBA also said it would implement a method to verify and review the PCR and CMR documentation.

For our report on OSDBUs, we focused on the seven agencies that procured more than \$15 billion in goods and services in fiscal year 2009: the Defense Logistics Agency (DLA); the Departments of the Air Force, Army, and Navy; Energy; HHS; and NASA.<sup>5</sup> When assessing to whom OSDBU directors reported, we also included nine additional agencies that we reported in September 2003 were not compliant with reporting requirements.<sup>6</sup> We determined that agencies were compliant if the OSDBU directors exercised OSDBU small business advocacy responsibilities and reported directly to and were responsible only to the agency head or the agency head's deputy. To determine which functions

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<sup>5</sup>The goods and services these seven agencies procured in fiscal year 2009 accounted for about 76 percent of all federal contracting.

<sup>6</sup>GAO, *Small and Disadvantaged Businesses: Some Agencies' Advocates Do Not Report to the Required Management Level*, GAO-03-863 (Washington, D.C.: Sept. 4, 2003).

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OSDBUs conducted, we surveyed OSDBU directors at 25 agencies.<sup>7</sup> For our report on mentor-protégé programs, we reviewed regulations, policies and procedures, prior GAO and SBA Inspector General reports, and agency guidance and documentation on administering and monitoring the programs. We also reviewed agency information on the extent to which protégés could compete for federal contracts without mentor assistance. In addition, we interviewed agency officials and select industry-group representatives. For our report on PCRs and CMRs, we reviewed SBA data on PCR and CMR performance as reported in the agency's monthly Government Contracting Area Report (GCAR). We also (1) reviewed and analyzed relevant laws and regulations and SBA guidance, position descriptions, and staffing directories and (2) interviewed agency officials and staff about data quality controls and reviewed relevant documentation. Finally, we interviewed SBA officials who manage PCRs and CMRs, a random sample of staff with PCR or CMR responsibilities, contracting staff at three agencies with assigned PCRs, and small business and contractor stakeholders.

The work on which this statement is based was performed from June 2010 to June 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>7</sup>We included all 20 civilian agencies that procured more than \$800 million in goods and services in fiscal year 2009, which represented more than 98 percent of civilian agency obligations in that year. The five military entities were DOD—Office of the Secretary, the Departments of the Air Force, Army, and Navy; and DLA. DOD does not have a single OSDBU director; rather, the services and other DOD command units have separate OSDBUs, each headed by a director. These organizational units carry out procurement for most of DOD. The DOD agencies, as well as some other agencies in our study, refer to their offices as the Office of Small Business Programs. For simplicity, we use OSDBU for all agencies in this testimony.

Although OSDBU Director Reporting Relationships Varied, Survey Results Indicated That OSDBUs Performed Similar Functions

More Than Half of OSDBU Directors Reviewed Reported Directly to Their Agency or Deputy Agency Head

In June, we reported that 9 of the 16 agencies we reviewed were in compliance with the Small Business Act's requirement that OSDBU directors be responsible only to and report directly to the agency or deputy agency head (see table 1). We determined that the remaining seven agencies were not in compliance. These same agencies also were not in compliance in 2003, when we last assessed the reporting structure.<sup>8</sup>

**Table 1: Summary of Agency Compliance with Section 15(k)(3) of the Small Business Act, as of April 2011**

Agencies in compliance (9)	Agencies not in compliance (7)
Defense Logistics Agency <sup>a</sup>	Department of Agriculture
Department of Education	Department of Commerce
Department of Energy <sup>a</sup>	Department of Justice
Department of Health and Human Services <sup>a</sup>	Department of State
Department of the Air Force <sup>a</sup>	Department of the Interior
Department of the Army <sup>a</sup>	Department of the Treasury
Department of the Navy <sup>a</sup>	Social Security Administration
Environmental Protection Agency	
National Aeronautics and Space Administration <sup>a</sup>	

Source: GAO analysis of agency information.

<sup>a</sup>Agencies that procured more than \$15 billion in goods and services in fiscal year 2009.

<sup>8</sup>The Department of Education and EPA were noncompliant in 2003 but had become compliant by our recent review.

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Documentation from nine agencies indicated that the OSDBU directors reported directly to and were responsible only to the agency head or the deputy head when carrying out OSDBU duties and functions. The organization charts for these nine agencies showed a direct link between the OSDBU directors and agency or deputy heads. The agency or deputy heads also rated the OSDBU directors' performance and received OSDBU reports and memorandums. At the seven agencies not in compliance with section 15(k)(3), the OSDBU directors either reported to lower-level officials or delegated their responsibilities to officials who did not report to the agency or deputy head.

At the Departments of Commerce, the Interior, and Justice and SSA, the OSDBU directors reported to officials at lower levels than the agency head or deputy head. For example, at Commerce, the OSDBU director reported to the Deputy Assistant Secretary for Administration and the Assistant Secretary for Administration. At Interior, the OSDBU director reported to the Deputy Assistant Secretary for Budget, Finance, Performance, and Acquisition and to the Assistant Secretary, Policy, Management and Budget. At Justice, OSDBU officials told us that the current reporting structure was the same as in 2003. The OSDBU was located within the Justice Management Division, with the director under the supervision of the Deputy Assistant Attorney General for Policy, Management and Planning. SSA also had the same reporting structure as in 2003, with the OSDBU director reporting to the Deputy Commissioner, Office of Budget, Finance and Management, one of nine deputy commissioners managing programs and operations.

The designated OSDBU directors at the Departments of Agriculture, State, and the Treasury delegated their responsibilities to officials who did not report directly to the Secretaries or Deputy Secretaries. These arrangements were the same as those we determined in 2003 to be noncompliant with the Small Business Act. At these agencies, Assistant Secretaries who managed the agencies' administrative functions were designated as the statutory OSDBU directors. The Assistant Secretaries then delegated nearly all their OSDBU responsibilities to lower-ranking officials who reported directly to the Assistant Secretaries. The lower-ranking officials thus became the de facto OSDBU directors. At Agriculture, for example, the designated OSDBU director was the Assistant Secretary for Administration, who reported to the Secretary and Deputy Secretary. However, the Assistant Secretary had delegated nearly all of his OSDBU responsibilities to a lower-level official who did not have direct access to the agency head or deputy head. At State, the Assistant Secretary for Administration was the designated OSDBU director. The

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Assistant Secretary, who reported to one of the department's two Deputy Secretaries on small business matters, had delegated his OSDBU responsibilities to the Operations Director for the OSDBU, who reported directly to him. At Treasury, the Assistant Secretary of the Treasury for Management/Chief Financial Officer/Chief Performance Officer was the designated OSDBU director. However, the Director of the Office of Small Business Programs, an official who did not directly report to either the Secretary or the Deputy Secretary, was responsible for the day-to-day management of Treasury's small business programs.

The OSDBU directors at the compliant agencies cited benefits to the reporting relationship. For example, five stated that reporting to the agency head or deputy showed top-level support for small business efforts that sent a message to the rest of the agency. OSDBU directors at noncompliant agencies differed in their views of the importance of reporting to the agency or deputy head. For instance, one director noted that being too far down the reporting structure meant that she could not independently voice her opinion, especially when it differed from her supervisor's. Other directors stated that small business matters were not suffering as a result of the structure. Nonetheless, the Small Business Act requires that the OSDBU director have direct access to the agency head or deputy to help ensure that the OSDBU's responsibilities are effectively implemented. As a result, we recommended that the seven agencies act to comply or report to Congress on why they have not complied, including making any requests for statutory reporting flexibility they determine are appropriate. SSA agreed with the recommendation, and Interior agreed to reevaluate its reporting structure. Commerce, Justice, State, and the Treasury disagreed, stating they were in compliance. None of the agencies' comments caused us to revise our conclusions or recommendations. Although Commerce and Justice stated that the reporting structures we described were for administrative purposes and that the OSDBU directors reported to the deputy head on policy matters and matters of substance, our interviews with the OSDBU directors and the documentation we reviewed indicated that the OSDBU directors reported to lower-level officials on small business matters. Similarly, as discussed in our report, we continue to believe that State and Treasury were not compliant because the delegation of OSDBU responsibilities to

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officials who do not report to the agency or deputy head is not consistent with the intent of the Small Business Act.<sup>9</sup> Agriculture did not comment.

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**Most OSDBU Directors Reported Performing Five of the Eight Functions Identified in the Small Business Act**

Our survey asked 25 OSDBU directors which of the responsibilities listed in the Small Business Act they saw as responsibilities of their offices. As shown in figure 1, at least 19 of the 25 directors reported they viewed five of the eight functions identified in section 15(k) of the act as current duties of their office. These five functions included (1) having supervisory authority over OSDBU staff, (2) three functions involving contract bundling,<sup>10</sup> and (3) assisting small businesses to obtain payments from agencies. Fewer OSDBU directors (10 to 18) viewed the remaining three functions—reviewing individual acquisitions for small business set-asides, assisting small businesses to obtain payments from prime contractors, and assigning a small business technical advisor to offices with PCRs—as their responsibilities. The data show little change from responses to our 2003 survey.<sup>11</sup>

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<sup>9</sup>GAO-11-418. We stated in both our 2003 (GAO-03-863) and 2011 reports that the delegation of authority may be withheld by implication, and that we believe section 15(k)(3) does implicitly withhold such delegation of authority. To ensure that the OSDBU responsibilities are effectively implemented, the statute mandates that the OSDBU director (i.e., the person carrying out the responsibilities) have immediate access and be responsible only to the agency head or deputy. The legislative history reveals that the reason for this requirement is that Congress believed that agency officials responsible for promoting procurements for small and disadvantaged businesses were often too far down the chain of command to be effective. The reporting requirement of section 15(k)(3) was intended to remedy this situation.

<sup>10</sup>The three functions involving contract bundling are (1) attempting to identify solicitations that involve bundling of contract requirements, (2) working with agency acquisition officials to revise procurement strategies for bundled contract requirements to increase small business participation, and (3) facilitating small business participation as subcontractors to bundled contracts.

<sup>11</sup>We published the results of our 2003 survey in March 2004. See GAO, *Small and Disadvantaged Businesses: Most Agency Advocates View Their Roles Similarly*, GAO-04-451 (Washington, D.C.: Mar. 22, 2004).

**Figure 1: Survey Results from OSDBU Directors on Section 15(k) Functions**

Section 15(k) functions	Yes, this function is a duty of the OSDBU director	No, this function is not a duty of the OSDBU director	No answer
Supervisory authority over personnel with the duties and functions of the OSDBU	24 22	1 <sup>a</sup> 2	
Attempting to identify solicitations that involve bundling of contract requirements	24 21	1 <sup>b</sup> 3	
Working with agency acquisition officials to revise procurement strategies for bundled contract requirements to increase small business participation	24 22	1 <sup>c</sup> 2	
Facilitating small business participation as subcontractors to bundled contracts	20 19	5 <sup>d</sup> 4	0 1
Assisting small businesses to obtain payments from your agency	19 20	6 <sup>e</sup> 4	
Determining/reviewing individual acquisitions for small business set-asides	18 17	7 <sup>f</sup> 7	
Assisting small businesses to obtain payments from prime contractors	14 17	11 <sup>g</sup> 7	
Assigning a small business technical advisor	10 13	10 <sup>h</sup> 7	5 <sup>i</sup> 4

2010 (Total respondents: 25)  
2003 (Total respondents: 24)

Source: GAO analysis of survey data from 2010 and 2003.

- <sup>a</sup>SSA reported that supervisory authority over personnel with the duties and functions of the OSDBU was not a function of the OSDBU.
- <sup>b</sup>The Office of Personnel Management (OPM) reported that attempting to identify solicitations involving bundling of contract requirements was not a function of the OSDBU.
- <sup>c</sup>SSA reported that working with agency acquisition officials to revise procurement strategies for bundled contract requirements to increase small business participation was not a function of the OSDBU.
- <sup>d</sup>The Departments of Agriculture and Commerce, the Office of the Secretary of Defense, OPM, and SSA reported that facilitating small business participation as subcontractors to bundled contracts was not a function of their offices.
- <sup>e</sup>The Departments of the Air Force, Education, and the Interior; EPA; the Office of the Secretary of Defense; and SSA reported that assisting small businesses to obtain payments from their agencies was not a function of their offices.
- <sup>f</sup>The Departments of the Army, Education, Energy, Housing and Urban Development (HUD), and Transportation; the Office of the Secretary of Defense; and OPM reported that determining/reviewing individual acquisitions for small business set-asides was not a function of their offices.
- <sup>g</sup>The Departments of Agriculture, the Air Force, Education, the Interior, and Transportation; EPA; HUD; the Office of the Secretary of Defense; OPM; SSA; and USAID reported that assisting small businesses to obtain payments from prime contractors was not a function of their offices.

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<sup>11</sup>The Departments of the Air Force, the Army, Commerce, Energy, the Interior, Justice, the Navy, and Transportation; DLA; and VA reported that assigning a small business technical advisor was not a function of their offices.

<sup>12</sup>Section 15(k) of the Small Business Act requires the OSDBU director to designate a small business technical advisor when SBA has assigned a PCR to the agency. According to the OSDBU directors at HUD, the Office of the Secretary of Defense, OPM, SSA, and USAID, SBA had not assigned a PCR to their agencies at the time of our survey. As a result, these OSDBU directors did not have to designate a technical advisor.

The number of OSDBU directors who did not view a section 15(k) function as their current responsibility varied, depending on the function. The number ranged from 1 who did not view maintaining supervisory authority over OSDBU personnel as a function to 11 who did not view assisting small businesses to obtain payments from prime contractors as a responsibility. In their written comments and follow-up interviews, the directors who did not view a section 15(k) function as their responsibility generally stated that contracting, acquisition, or program staff performed it. Section 15(k) lists the functions of OSDBU directors but does not necessarily require them to personally carry out these activities themselves.

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### **Mentor-Protégé Program Policies Aim to Benefit Participants but Do Not Require Postagreement Tracking**

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#### **Controls Help Ensure Participants Are Eligible and Benefit from Program Participation**

Our June report examined the controls that existed at all 13 federal agencies with mentor-protégé programs to help ensure that participants meet eligibility criteria and benefit from the program.<sup>12</sup> Generally, a mentor may be a large or small business, must be eligible for award of a

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<sup>12</sup>We focused on policies and procedures the agencies have put in place to administer and monitor the mentor-protégé programs and controls to help ensure the programs are beneficial to participants. However, we did not conduct testing on how well the program controls were operating.

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government contract, and must be able to provide developmental assistance to enhance the capabilities of protégés. Agencies verify that these criteria are met by checking whether the mentor is on the "suspended" or "debarred" list and by requiring that mentors demonstrate their ability to provide developmental assistance. Additionally, some agencies require their mentors to be current prime contractors or subcontractors with the agency. All agencies require that the protégé be a small business (based on its primary North American Industrial Classification System code) and eligible to receive federal contracts. While some agencies, such as SBA and VA, are specific about the types of small businesses eligible for their programs, most agencies accept various types of small businesses as protégés.<sup>13</sup>

The mentor-protégé programs have various reporting requirements for mentors and protégés that provide information on the protégé's growth, costs and expenditures, and completion of developmental activities. Generally, the agencies require that reports be submitted annually or semiannually, either jointly by the mentor and protégé or by the mentor or protégé only. Some agencies also require that the mentor and protégé provide a formal briefing on any accomplishments or a "lessons-learned" evaluation.

To help ensure that protégés benefit from the program, most agencies conduct periodic annual reviews and compare progress reported by the mentor and protégé with the milestones in the mentor-protégé agreement. Agencies also may conduct site visits or receive informal protégé reporting on any dissatisfaction with the developmental assistance. If the protégé reports any such dissatisfaction, an agency generally can discontinue the mentor-protégé agreement if it finds that the mentor has not provided the agreed-upon assistance or if the assistance has not resulted in material benefits to the protégé. However, according to agency officials, this rarely occurs.

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<sup>13</sup>For instance, SBA has the largest mentor-protégé program, which it offers under the 8(a) Business Development Program, one of the federal government's primary vehicles for developing small businesses owned and controlled by socially and economically disadvantaged individuals. SBA's mentor-protégé program serves as an additional developmental tool for 8(a) participants, which receive SBA technical assistance and management training and may be eligible for contracts that federal agencies set aside for 8(a) firms. Protégés in SBA's mentor-protégé program must participate in its 8(a) program.

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Moreover, as part of SBA's individual efforts to help ensure that its 8(a) program benefits participants and is not just a way for participants to receive contracts for which they otherwise would not qualify, SBA recently revised its 8(a) program regulations, including those for its mentor-protégé program and joint ventures. SBA published a final rule on February 11, 2011, that includes provisions that (1) add consequences (including stop-work orders and potential debarment) for a mentor that does not provide agreed-upon assistance to its protégé and (2) require SBA's 8(a) participants in a joint venture to perform at least 40 percent of the work done by the joint venture, including work awarded under a mentor-protégé agreement.

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**Most Programs Do Not Collect Postagreement Information on Protégé Success**

Most federal mentor-protégé programs do not collect information on protégés after the conclusion of their mentor-protégé agreements; therefore, little information is available on the success of protégés after participating in the program.<sup>14</sup> Of the 13 federal agencies we identified with mentor-protégé programs, only 3 agencies—DOD, NASA, and USAID—have policies in place to collect information on protégés after their mentor-protégé agreements have terminated.<sup>15</sup> They each require protégés to submit a postcompletion report on their employment and revenue statistics annually for 2 years. However, because NASA's and USAID's mentor-protégé programs are relatively new, information on the protégés' progress following completion of the programs is not yet available. And, only DOD is required by statute to collect such information on protégés after they exit the program.

More specifically, under DOD's program, protégés must report their progress annually for two years, including any successes that could be attributed to participation in the program, such as in employment, annual

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<sup>14</sup>As a result, our objective was to determine if information was available on whether protégés have become able to compete for federal contracts without the assistance of a mentor.

<sup>15</sup>According to SBA officials, as a result of protégé firms participating in the 8(a) program, the agency collects information on the firm for 3 years after completion of the 9-year 8(a) program term or early graduation from the program. However, the information is collected for purposes of the 8(a) program and is not suitably detailed to determine whether protégés have become able to compete for federal contracts.

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revenue, and annual participation in DOD contracts.<sup>16</sup> DOD must conduct annual performance reviews of the postcompletion information the protégés report. Additionally, Congress requires DOD to report annually on trends in the progress made in employment, revenues, and participation in DOD contracts of both protégés and former protégés.<sup>17</sup> For example, in its report to Congress for fiscal year 2009, DOD noted that while the 61 former protégés providing postcompletion reports experienced a cumulative decrease in annual revenue and number of employees (which may have been the result of broader economic conditions), they experienced an average increase in number and dollar amount of DOD prime contract and subcontract awards. They also experienced an average increase in the dollar amount of total federal subcontract awards following completion of the program.<sup>18</sup> Similarly, in its fiscal year 2008 annual report, DOD noted that 33 former protégés experienced a cumulative increase in annual revenue and number of employees and an average dollar increase in DOD prime contracts and subcontracts since program completion.<sup>19</sup>

The remaining 10 federal agencies—DHS, Energy, EPA, FAA, GSA, HHS, SBA, State, Treasury, and VA—do not have policies and procedures in place to collect postcompletion information from protégés. Most agency officials told us that while the information they currently collect on protégés during the course of a mentor-protégé agreement helps to determine the overall success of their program, postcompletion

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<sup>16</sup>DOD's requirement for collecting and maintaining information on the protégé after conclusion of the mentor-protégé program derives from amendments to the program in the National Defense Authorization Act for Fiscal Year 2000, Pub. L. No. 106-65, § 811, 113 Stat. 706 (1999).

<sup>17</sup>DOD also must verify that mentors and protégés accurately reported progress and determine that all costs reimbursed to mentors during the agreement were reasonably incurred.

<sup>18</sup>DOD Office of Small Business Programs, *DOD Mentor-Protégé Program Annual Report to Congress*, Fiscal Year 2009, (Washington, D.C., August 2010).

<sup>19</sup>DOD Office of Small Business Programs, *DOD Mentor-Protégé Program Annual Report to Congress*, Fiscal Year 2007 and Fiscal Year 2008, (Washington, D.C., September 2009).

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information also could be useful.<sup>20</sup> An official at one agency expressed concern that this information could be misleading because there is no assurance that a protégé's ability to compete and, ultimately, win federal contracts could be attributed to its participation in the mentor-protégé program. While changes in contracts awarded could reflect existing economic or industry conditions upon program completion, this is also true for data collected during the mentor-protégé agreement.

As noted previously, most agencies have policies and reporting requirements to help ensure that protégés benefit from participation in their mentor-protégé programs. To determine overall success, the agencies collect information during the term of the agreement. We concluded that without postcompletion information, the agencies might miss opportunities to obtain additional information that could help them further assess program success and help ensure that small businesses were benefiting from the programs as intended. Therefore, we recommended that the 10 agencies consider collecting and maintaining protégé postcompletion information. Six of the 10 agencies—DHS, Energy, GSA, HHS, Treasury, and VA—generally agreed with our recommendation. SBA agreed with a recommendation to collect and maintain information related to firms' activity following the completion of the mentor-protégé relationship but disagreed with the recommendation as worded in our draft report because it thought the recommendation would lead to the conclusion that all mentor-protégé programs have the same objective. We did not intend to imply that all mentor-protégé programs have the same objective and clarified the wording of our recommendation in response to SBA's comments. State partially agreed with our recommendation, citing concerns about the impact that postcompletion reporting could have on the department, mentor firms, and protégé firms. We understand State's concerns, as discussed further in the letter, but continue to believe that the agency should consider collecting postprogram data. EPA and FAA did not comment.

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<sup>20</sup>Most agency officials told us they only collected information on protégés during their program tenure, including data on the increase in number and dollar value of contracts and subcontracts the protégés were awarded. Some agencies also collect information on increases in protégé subcontracting opportunities in areas where the protégé traditionally had not performed—opportunities that would indicate an expansion of its field of expertise. Some agencies used the information gathered during program tenure as a measure of overall success for their mentor-protégé programs.

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**Improvements Needed  
to Help Ensure  
Reliability of SBA's  
Performance Data on  
Procurement Center  
Representatives**

Our June report identified measures SBA uses to determine the effectiveness of PCRs and CMRs in carrying out their responsibilities. PCRs and CMRs play important roles in advocating for and advancing prime and subcontracting opportunities for small businesses. Thus, they are in key positions to help SBA achieve the goal of helping ensure such opportunities. We found that SBA has performance goals and measures related to key PCR and CMR activities. For example, for fiscal year 2010, PCRs and CMRs were expected to (1) influence \$6.7 billion of procurements for small business programs (by making formal and informal recommendations on specific contracts), (2) conduct 42 surveillance and follow-up reviews, (3) conduct 1,220 subcontracting reviews, and (4) conduct 40 training sessions for federal agencies (contracting staff). According to SBA, PCRs and CMRs generally exceeded these goals in fiscal year 2010. However, data reliability issues may limit the usefulness of these measures for monitoring PCR and CMR performance and accomplishments. Our comparison of selected GCAR data reported in July and August 2010 against documentation maintained by PCRs and CMRs showed that GCAR data often did not match the documentation or could not be verified based on the documentation.

For example, we reviewed \$32.1 million reported on the GCAR in July 2010 for four formal recommendations PCRs made. For one recommendation, the GCAR listed \$4.5 million, but the documentation appeared to support \$800,000. The GCAR listed \$10 million for another recommendation; the documentation appeared to support \$7 million. For the remaining two recommendations, we could not verify the GCAR amount because the supporting documentation lacked sufficient detail. We also reviewed \$68.5 million reported on the GCAR in July 2010 for 36 informal recommendations PCRs made. Seven informal recommendations lacked supporting documentation with sufficient detail to determine the base-year value or one-time or 1-year award value of the contracts. SBA guidance requires PCRs to report the base year value for multiyear contracts or the total value for a one-time or 1-year award. In other examples, we could not verify the total number of reviews reported in particular months because supporting documentation lacked sufficient detail or was missing. We also found incorrectly reported data. For the 133 federal agency training events reported on the GCAR for July 2010, SBA officials told us that one area office reported the number of attendees (123) rather than the number of events (8), overstating the number of events by 115.

We also found weaknesses in SBA controls for reviewing and reporting performance information. An agency must have relevant, reliable

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information relating to internal events and record and communicate it to management and others in the agency who need it to carry out their responsibilities.<sup>21</sup> SBA's standard operating procedures require PCRs and CMRs to submit a productivity report and other information to their area director each month and maintain backup documentation. Area directors must review the records that PCRs submit, conduct an on-site review of the PCRs' records every other year (if feasible) and report on their review to SBA headquarters. However, SBA has not communicated standards or consistently applied internal control procedures. More specifically, it has not provided clear and complete guidance for PCRs and CMRs for accurately recording and maintaining backup documentation. According to our interviews, managers either did not review the documentation supporting reported accomplishments or conduct on-site reviews of records or did so selectively. SBA's ability to monitor the performance of PCRs and CMRs and determine whether established goals have been achieved is compromised when GCAR data are inaccurate. SBA officials told us they planned to update the standard operating procedures for PCRs and CMRs by December 2011, including the requirements related to the documentation of data reported in the GCAR.

In addition to our examination of performance measures and reporting, we interviewed PCRs and CMRs about the key challenges they faced in carrying out their responsibilities. The following examples summarize some of the challenges they cited:

- PCRs and CMRs said that other tasks took priority over and reduced time for PCR and CMR duties.<sup>22</sup> SBA officials told us staff reductions

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<sup>21</sup>GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: Nov. 1999); *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: Aug. 2001).

<sup>22</sup>Consistent with these challenges, in November 2008, we reported that years of SBA downsizing and budget reductions reduced staff resources and resulted in most PCRs covering multiple agencies and "buying activities" within agencies. See GAO, *Small Business Administration: Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program*, GAO-09-16 (Washington, D.C.: Nov. 21, 2008). We also reported that CMRs with whom we spoke had large portfolios (ranging from approximately 90 to 200 prime contractors), which diminished their ability to monitor prime contractors through compliance reviews. We recommended that SBA assess the resources allocated to PCRs and CMRs and develop a plan to better ensure that these staff could carry out their responsibilities.

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required them to cross-train most PCRs and CMRs on size determinations and certificates of competency.<sup>23</sup>

- CMRs told us that the CMR function increasingly has become part-time. According to SBA, more than half the staff with CMR functions spent 25 percent or less of their time on CMR duties as of November 1, 2010.
- PCRs and CMRs said the lack of in-person interaction with buying activities (agency divisions that purchase goods and services) and prime contractors limited their ability to influence procurements and subcontracting opportunities. PCRs working at buying activities said their access to procurement planning discussions helped influence procurements.
- Many PCRs told us that some agencies would not send procurements to them for review, although the Federal Acquisition Regulation requires agencies to provide certain procurements to SBA for review prior to award.<sup>24</sup> SBA officials told us they were meeting with officials from three agencies to resolve this issue.
- PCRs and CMRs cited a lack of authority to influence subcontracting opportunities. PCRs told us that they had no means to dispute agency procurements if contracting officers did not use their recommendations on subcontracting plans.

To help ensure that SBA reliably could use GCAR data and determine whether established goals had been achieved, we recommended that SBA provide guidance to PCRs and CMRs on GCAR reporting. We also recommended that SBA verify the report data and periodically review documentation for PCR and CMR records. SBA agreed with our recommendations. It has been updating guidance for the PCR and CMR

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<sup>23</sup>SBA conducts size determinations of businesses against which a protest has been filed (because they are believed to be other than small). SBA must complete these determinations within 15 business days of receiving a protest, if possible. Contracting officers may withhold award of a contract to a small business if they determine the firm is "nonresponsible." They must refer such determinations to SBA. If the small business requests, SBA must complete a certificate of competency review within 15 business days to determine whether the small business is responsible. If SBA issues a certificate of competency, the agency generally must award the contract to the firm.

<sup>24</sup>FAR 19.202-1(e)(1).

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programs to provide clear instructions for GCAR reporting. SBA also said it would implement a method to verify and review the PCR and CMR documentation.

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Chairman Mulvaney, Ranking Member Chu, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Subcommittee may have at this time.

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**Contacts and Staff  
Acknowledgements**

For further information on this testimony, please contact me at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Marshall Hamlett and Paige Smith, Assistant Directors; Michelle Bowsky; Tania Calhoun; Janet Fong; Colleen Moffatt; Barbara Roesmann, Rebecca Shea; and Kathryn Supinski.

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U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

*Rich B.*

August 11, 2011

The Honorable Darrell Issa  
Chairman  
Committee on Oversight and Government Reform  
U S House of Representatives  
Washington, DC 20515

Dear Mr Chairman:

Administrator Mills has asked the U.S. Small Business Administration (SBA) Office of Government Contracting to report on the implementation of the recommendations made by the Government Accountability Office (GAO) in report No. 11-549R, entitled "Improvements Needed to Ensure Reliability of SBA's Performance Data on Procurement Center Representatives" and issued on June 15, 2011

The report responded to a statutory mandate for GAO to study the effectiveness of SBA's Procurement Center Representatives (PCRs) and Commercial Marketing Representatives (CMRs). We were pleased that GAO reported that officials at major buying activities found SBA PCRs to be helpful resources for developing small business procurement strategies and for training. Furthermore, GAO found that large prime contractors recognized SBA CMRs as resources for interpreting contracting regulations and as knowledgeable on legislative changes.

Pursuant to 31 U.S.C. § 720, this letter describes the actions SBA has taken on the two recommendations GAO included in the report:

1. Provide clear and complete guidance to PCRs and CMRs on accurately recording and maintaining the appropriate backup documentation for accomplishments reported in the monthly Government Contracting Area Report (GCAR), and
2. Require that monthly GCAR data are verified and that documentation for PCR and CMR records are periodically reviewed for quality and completeness

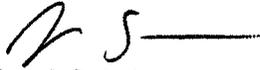
Both recommendations concern the procedures for compiling the GCAR, an internal report used by management officials within SBA's Office of Government Contracting to measure the contribution of each of SBA's six government contracting Area Offices toward SBA's overall government contracting-related goals. Since GAO issued its report, SBA has rewritten its Standard Operating Procedures (SOP) for the Prime Contracts Program to provide clear instruction on what PCRs should report in the

The Honorable Darrell Issa  
Page 2

report, SBA has rewritten its Standard Operating Procedures (SOP) for the Prime Contracts Program to provide clear instruction on what PCRs should report in the GCAR. The revised SOP is currently going through the review and clearance process within the agency. SBA is including guidance for CMRs' GCAR reports in the revised SOP for Subcontracting Assistance Program, which should be in the clearance process by the end of FY 2011. SBA also is in the process of developing and implementing a verification method that Area Directors and SBA headquarters staff will use to insure that data in the GCAR is accurate and reliable. This verification process will be finalized for use with the FY 2012 reports.

SBA appreciates the time spent by GAO's staff to review the PCR and CMR functions, and to issue recommendations. If you and your staff have any questions regarding the Agency's actions to implement the recommendations, please contact the SBA Office of Congressional Liaison at (202) 205-6700. A similar letter is being sent to Chairman Lieberman, Senator Collins, and Representative Cummings

Sincerely,



Joseph G. Jordan  
Associate Administrator  
for Government Contracting  
and Business Development

cc: William B. Shear, GAO Director, Financial Markets and Community Investment