

109786

~~10,577~~

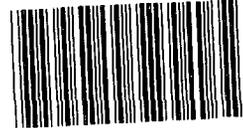


COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-178205

June 26, 1979

The Honorable Thomas A. Luken, Chairman
Subcommittee on Impact of Energy
Problems, Environment and Safety
Requirements and Government Research
on Small Business
Committee on Small Business
House of Representatives



109786

HSE05310
HSE0516

Dear Mr. Chairman:

AGC00912

At your request we reviewed the effectiveness of the Department of Energy's efforts to encourage small business contracting in solar energy research and development. Interest in this area was also expressed by Representative Alvin J. Baldus, the former Subcommittee Chairman; by the Chairman, Subcommittee on Energy and Power, House Committee on Interstate and Foreign Commerce; and by the Chairman, Subcommittee on Energy Conservation and Supply, Senate Committee on Energy and Natural Resources. Our review was conducted primarily at the Department's headquarters office in Washington, D.C., and information on small business contracting activities was obtained at the Chicago, Illinois, and Albuquerque, New Mexico, Operations Offices.

Although our work focused initially on the Department's small business contracting practices in the solar research and development area, we found problems applicable to the Department's overall efforts to encourage small business contracting. While the Department has taken several actions, it can do more to foster contracting with small business. Specifically, the areas which concern us relate to the following:

- Department goals for awarding contracts to small business appear to be based on incomplete information; however, if the reported percent of small business contract awards for fiscal year 1978 is accurate, the fiscal year 1979 goal appears to be low.
- Guidance for maximizing small business contract awards is insufficient.

Letter Report

505719

109786

EMD-79-83
(300531)

- Information necessary to monitor and evaluate efforts to maximize small business contract awards is lacking.
- The Department's office responsible for maximizing participation of small business in Department programs lacks the needed independence that the Congress mandated.

We are making recommendations to the Secretary of Energy for improvements in these areas.

BACKGROUND

The Department of Energy Act of 1978, Civilian Applications (42 U.S.C. 7256 note), and the Small Business Act, as amended (15 U.S.C. 644), establish requirements that the Department must meet to foster small business participation in its programs. ^{1/} The former act requires the Secretary of Energy to provide a realistic and adequate opportunity for small business concerns to participate in Department programs to the extent feasible, consistent with the size and nature of the projects and activities involved.

The latter act requires each Federal agency having procurement powers to establish an office of small and disadvantaged business utilization to facilitate maximum participation by small business in the procurement process. Section 221(k) of the act mandates that the office of small and disadvantaged business utilization be responsible only to the head of the agency or to his deputy, and that the head of the office have supervisory responsibility for small business specialists at field locations. These lines of authority were to establish the independence of the office of small and disadvantaged business utilization. This independence was considered necessary to insure that small business concerns have a realistic and adequate opportunity to participate in agency programs.

^{1/}The Department defines a small business concern as one, including its affiliates, which is independently owned and operated, is not dominant in the field of operation in which it is bidding on Government contracts, and can further qualify under that criteria set forth in regulations of the Small Business Administration.

This act also refers to the assignment of the Small Business Administration Representatives by the Small Business Administration to agencies having procurement powers. Any individual so assigned is to represent the Administrator of the Small Business Administration in all matters of policy or operations affecting small business concerns at the agency to which he is assigned. As such, his responsibilities include, among other things, reviewing and recommending for approval or rejection procurement actions as they relate to small business.

The Department of Energy has taken actions to foster small business procurement. These include

- establishing an Office of Small and Disadvantaged Business Utilization;
- assigning small business participation goals to field, headquarters staff, and program offices and developing an awards program to recognize accomplishments;
- compiling a small business procurement digest to simplify contracting for small companies; and
- assigning small business specialists in field and headquarters procurement offices.

In addition to the above, the Department has certain procedural requirements to assist in fostering small business participation. It requires documentation by those initiating contracts of the consideration given to small business. This documentation must include a justification when small business is not considered. The contract documents are forwarded to the small business specialist for review and subsequently for review by the Department's Small Business Administration Representative. Final actions on the contract documents are taken by the contracting officers.

STRONGER COMMITMENT TO SMALL
BUSINESS INVOLVEMENT NEEDED

Strong commitment is vital to a successful program of maximizing contract awards to small business. The Department could improve its efforts to encourage small business participation in its procurement process by setting realistic goals for participation and providing better guidance for maximizing contract awards to small business.

Setting realistic goals

For fiscal year 1979, the Department's overall goal for contract awards to small business is established at 15 percent of total contract award dollars. Goals have also been established and assigned to each program office, buying office, and Department-owned, contractor-operated facility. Our work has indicated that overall Department goals appear to be based on incomplete information, and the fiscal year 1979 goal may be too low.

Every 6 months the Department issues a report to the Congress detailing the opportunities it has given small business to participate in its programs. In its first report in August 1978, small business contract awards for the first half of fiscal year 1978 were reported to be 9.3 percent of total awards. In the second report, the figure was 14 percent for the entire fiscal year. To reach this full year figure the Department would have had to achieve 20.8-percent participation during the second half of the year. If the Department's reported figures were accurate, its fiscal year 1979 overall goal of 15 percent for small business contract awards appears low.

A Department official told us that goals are developed by a consensus of all office managers, including the Director of the Office of Small and Disadvantaged Business Utilization. We were advised by Department officials that the fiscal year 1979 goal setting was imprecise because information was obtained from only 30 percent of the offices and facilities for which goals are set. The Office of Small and Disadvantaged Business Utilization does not have the authority to require office managers to respond to requests for small business information. According to Department officials, a basic premise used in setting goals is that the goals be higher than those set for the preceding year.

The Department's Albuquerque Operations Office, which has a vigorous small business program, adjusted all of headquarters' established goals for its contract offices, revising some upward and others downward to bring them in line with what they believed to be more realistic. According to an Albuquerque Operations Office official, the overall revised goal in the Albuquerque Operations Office exceeds the headquarters-assigned goal by about \$30 million, or 12 percent. For the 6-month period from October 1, 1978, to March 30, 1979, the Office had achieved about 60 percent of its revised goal for the year.

Lack of sufficient guidance
for maximizing small business
contract awards

It appears that with sufficient motivation and guidance small business participation in the procurement process can be improved. The prime consideration of program managers in awarding contracts is technical competence of the contractor. Program managers advised us that since they have responsibility for their programs, they want to award contracts to the firms or persons that they believe can do the job.

At headquarters and the Chicago Operations Office small business considerations appear to be secondary. This appears to stem from a lack of knowledge of which small business concerns are technically capable, and of ways to increase small business contract awards.

Some program managers at headquarters did not know the definition of a small business. For example, some said that they were not interested in contracting with small business when in fact many firms with which they were contracting met the definition of a small business.

Moreover, most program managers are not using an available information system. It lists and profiles small business contractors by their areas of expertise, and might help locate potential small business contractors. It was developed by the Small Business Administration with the Department's assistance, and currently lists about 10,000 businesses. The Small Business Administration expects to have about 150,000 entries listed by 1983. Some Department officials advised us that they do not use the system because it lists too few small businesses to be of much value.

The Department's Small Business Administration Representative needs more guidance from the Department to determine whether small businesses are technically capable of carrying out many contracts and are being considered for contract awards when they should be. While the amended Small Business Act requires the Department to assign a technical advisor to the Small Business Administration Representative, this has not been done. The Representative said that lacking such technical guidance, the program office's decision as to whether or not small business should be considered for the contract may be overriding.

When program managers are knowledgeable and committed to increasing small business participation, the results have been better. This is illustrated by the Department's Albuquerque Operations Office and Sandia Laboratories. Sandia's staff is knowledgeable about potential small business contractors and is aware of their technical abilities. As a result, small business is looked upon as a valuable resource and is used extensively, as the following figures show:

<u>Fiscal year</u>	<u>Percent of contracting dollars awarded to small businesses</u>
1977	47.7
1978	49.9
1979 (estimated)	55.0

At the Albuquerque Operations Office and at Sandia Laboratories we were advised by officials and staff that small business considerations are satisfactorily integrated into the procurement process without sacrificing the technical quality of the product. The "team" approach is one method used whereby a large business contractor works with small business subcontractors to develop their expertise to a level suitable for the job. Under this approach, small business subcontractors are trained by the prime contractor. We were told by officials of Albuquerque Operations Office and Sandia Laboratories that they have been highly successful in awarding contracts to small businesses without sacrificing technical competence.

NEED FOR BETTER INFORMATION
ON SMALL BUSINESS CONTRACTORS

During fiscal year 1978, the Department reported obligations of nearly \$8.5 billion for about 5,000 contracts. However the Department's Integrated Procurement Management Information System could not provide us information on the total contracting dollars going to small business either through prime contracts or subcontracts. Without such information it is virtually impossible to determine whether contracting dollars are going to small businesses to the extent feasible. The Department's Integrated Procurement

Management Information System became operational in October 1978; however, it does not deliver adequate information on small business because all contracts have not been entered in the system. The Department is still in the process of locating contracts awarded prior to fiscal year 1979 to enter in the system.

A general lack of user confidence in the system exists because of the unreliability of the information generated and the inability of the system to provide the small business data needed. As a test of the information furnished by the system, we obtained a listing of fiscal year 1979 solar research and development contracts from the Office of Energy Technology and requested from the system data on funding by several categories of contractors, including small business. While we did receive data as requested, we were told by an Office of Energy Technology official that the system figures, when compared with their records for 1979 solar research and development funding, represented only about 10 percent of the total funding of contracts awarded.

According to Department officials, the problems associated with the Integrated Procurement Management Information System exist because it is not fully operational. Reports on small business participation from the system are not available. Yet the Department needs this information to adequately monitor its procurement process. 1/

NEED TO REORGANIZE THE DEPARTMENT'S
OFFICE OF SMALL AND DISADVANTAGED
BUSINESS UTILIZATION

The previously mentioned amendments to the Small Business Act established, among other things, an office of small and disadvantaged business utilization in each Federal agency

1/We pointed out in a recent report to the Congress that adequate data and methodology to facilitate small business subcontracting opportunities in the Department is lacking. "The Mandatory Small Business Subcontracting Test: Considerations for Public Law 95-507's New Subcontracting Program," PSAD -79-66, May 11, 1979.

with procurement authority. This requirement was intended to insure maximum small business participation by establishing an independent office that would work full time with small and disadvantaged businesses. The head of this office, as specified in the law, is to report directly to the head of the agency or to his deputy.

Under the act, the head of the office of small and disadvantaged business utilization is to have supervisory authority over small business specialists in field buying and headquarters program offices to review independently contract requests to insure that small business participation has been adequately considered.

The Department has not fully complied with legal requirements since the Office of Small and Disadvantaged Business Utilization reports both to the Director of Procurement and Contracts Management and to the Deputy Secretary. Organizationally, however, the Office is part of Procurement and Contracts Management.

The small business specialists in the field offices we visited report directly to procurement staff rather than to the Director of the Office of Small and Disadvantaged Business Utilization. As a result, the review to insure that small business has been properly considered is not independent.

CONCLUSIONS

A strong commitment to small business involvement is vital for the Department to foster greater small business participation in its procurement process. Based on the percent of small business contract awards for fiscal year 1978 as reported in the Department's second report to the Congress on the opportunities provided to small business, the small business procurement goal set for fiscal year 1979 appears to be low. Unfortunately, however, the Department's procurement information system does not provide adequate information on small business to determine the accuracy of reported small business participation in procurement. Also, the Department's goal setting and reported achievements of those goals apparently are not based on complete information.

The Department has not provided sufficient guidance for program managers to know which small business concerns are technically capable and how to increase the number of small business contract awards. The Small Business Administration Representative has not received the legally required guidance needed to determine whether small businesses have been adequately considered for contract awards.

Information necessary to monitor and evaluate efforts to maximize small business contract awards is lacking. Without it the Department cannot measure the degree of success of its small business procurement program and take whatever corrective actions are needed.

The Department's office responsible for maximizing participation of small business in the procurement process lacks the congressionally mandated independence it needs to operate more effectively. The Department must take steps to correct this situation. Such steps include fully complying with the congressional mandate, which prescribes the organizational structure and responsibilities of the Office of Small and Disadvantaged Business Utilization.

RECOMMENDATIONS

To foster a stronger commitment to small business participation in the procurement process, we recommend that the Secretary of Energy take actions to improve goal setting and guidance for increasing contract awards to small business. At a minimum the Secretary should:

- Improve procedures for setting goals for small business contract awards. These procedures should require program offices, field buying offices, and Department-owned, contractor-operated facility managers to furnish information on historical and projected future small business contract and subcontract awards.
- Provide guidance through formalized procedures to those initiating procurement requests on identifying technically competent potential small business contractors and methods for increasing small business contract awards.

--Assign a small business technical advisor to the Small Business Administration Representative as required by law.

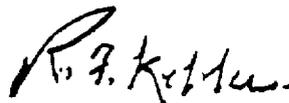
To insure adequate monitoring of small business participation in the procurement process and to identify the need for corrective actions, we recommend that the Secretary direct program office, field buying office, and Department-owned, contractor-operated facility managers to report statistics on small business contracts and subcontracts until the Integrated Procurement Management Information System is fully operational.

To provide the independence needed to insure that small business participation is adequately considered, the Secretary should take immediate steps to fully comply with the legal requirements by reorganizing the Office of Small and Disadvantaged Business Utilization so that the Director reports directly to the Secretary or his deputy and the small business specialists report to the Director. In the reorganization, the Secretary should insure that the Office has the authority and responsibility for all small business procurement participation programs.

- - - -

As you requested, we did not obtain formal Department of Energy comments on this report. We did, however, as arranged with your office, discuss the facts of this report with Department officials. They stressed that a conscientious effort is being made to increase small business participation in Department programs. As also arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 72 hours from the date of the report. At that time we will send copies to the Department of Energy, the Office of Management and Budget, to interested congressional committees, and others upon request.

Sincerely yours,



ACTING Comptroller General
of the United States