

NAVAL POSTGRADUATE SCHOOL Monterey, California



THESIS

**AN IDENTIFICATION AND POSSIBLE METHOD OF
COLLECTION/REPORTING OF UNDER-REPORTED
SMALL BUSINESS UTILIZATION DATA FOR THE
SPACE AND NAVAL WARFARE SYSTEMS COMMAND**

by

Mark R. Schweer

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Primary Thesis Advisor:

Ira Lewis

Associate Thesis Advisor:

Timothy K. Dowd

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**AN IDENTIFICATION AND POSSIBLE METHOD OF
COLLECTION/REPORTING OF UNDER-REPORTED SMALL BUSINESS
UTILIZATION DATA FOR THE SPACE AND NAVAL WARFARE SYSTEMS
COMMAND**

Mark R. Schweer
B.S., Aerospace Engineering, United States Naval Academy, 1976

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**NAVAL POSTGRADUATE SCHOOL
December 2001**

Author: Mark R. Schweer
Mark R. Schweer

Approved by: Ira Lewis
Ira Lewis, PhD, Primary Thesis Advisor

Timothy K. Dowd
Timothy K. Dowd, JD, Associate Thesis Advisor

Kenneth J. Euske
Kenneth J. Euske, Professor and Dean
Graduate School of Business and Public Policy

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ABSTRACT

Many acquisition organizations have difficulty meeting their mandated small business utilization goals. Much literature is rightly dedicated to methods of increasing this utilization. However, small businesses are actually making a greater contribution to an organization's mission than the current reporting system demonstrates. Mis-reported, under-reported and unreported small business utilization comprises a significant percentage of an acquisition organization's total procurement obligations for which the current reporting system grants no credit. The areas of first-tier subcontracting, second-tier subcontracting, Interagency acquisition, GSA FSS orders, indirect costs, Other Transactions, Micro-purchases and contracts under \$500K were analyzed to quantify the amount of reporting variance at the Space and Naval Warfare Systems Command. First and second-tier subcontracting were found to account for the majority of mis/unreported utilization, and are the only areas whose inclusion in SPAWAR's utilization statistics is clearly advantageous. Research demonstrates that an additional 9-16% of SPAWAR's procurement dollars end up in the hands of small businesses by granting SPAWAR credit for this small business utilization. To effect a change in the reporting system, improvements must be made in an automated system to collect and report subcontracting utilization data, the use of a new reporting metric and the issuance of clear policy guidance.

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I. INTRODUCTION

A. BACKGROUND

Considerable political interest exists to ensure small businesses receive maximum practicable opportunity to obtain federal procurement dollars. This interest is codified in the Small Business Act (15 U.S.C. 637) and is the subject of other legislation, executive orders and regulation. As a result, DoD and other federal agencies have set up small business utilization goals and systems to collect and report their accomplishments in this area. The Space and Naval Warfare Systems Command (SPAWAR) is a major acquisition activity in the Department of the Navy (DoN). Like other Navy activities, SPAWAR has small business utilization goals established for prime contracting. With shrinking budgets and the consolidation of the industrial base, it is becoming increasingly difficult to meet small business utilization goals. Neither SPAWAR, its chain of command nor the small business community want the goals to be reduced.

Commander, SPAWAR discussed the difficulty of meeting small business utilization goals with the Assistant Secretary of the Navy (ASN), Research, Development and Acquisition (RDA) in 1999. His premise was that small businesses might actually be making a greater contribution to SPAWAR's mission than the reported statistics demonstrate. The Commander cited the small business subcontracting effort and GSA orders as examples. Some reporting changes have been implemented with respect to GSA orders since this discussion. ASN(RDA) concurred with SPAWAR's premise and directed SPAWAR to conduct a two-year pilot project to study the issue.

In undertaking this study, a number of issues arise. One involves the mechanics of goal setting and reporting. It is not as important who sets the goals as what constitutes goal achievement. It must be determined what "counts," what doesn't, and who gets the credit. How to measure SPAWAR's utilization of small businesses is an issue, hence, the reporting system and credit policy must be analyzed to ensure that all aspects of small business utilization are included.

Another issue is availability, reliability and clarity of data. Two primary sources of data are the Navy Procurement Management Reporting System (PMRS), the repository

of DD 350 information, and Standard Forms 294/295, Subcontracting Report for Individual Contracts/Summary Subcontract Report, filled out by large prime contractors. If a given goal accomplishment report is to have any validity, it must be based on all the pertinent data, and these data must be accurate. It must be determined whether all the required reports are being submitted, and if so, what confidence level exists in their accuracy. Finally, assuming all the data are present and accurate, it must be determined whether goal accomplishment reports clearly represent overall small business utilization, or fail to illumine the true impact. These issues speak to the efficiency and effectiveness of the current data collection system. This system must be analyzed to determine whether a better method exists to obtain and report the data.

Like most systems in a large government bureaucracy, the small business utilization process has been shaped by legislation, policy and regulation. If changes are to be made and the process streamlined, it is likely that related legislation, policy and regulation must also be revised. Pertinent documents that are directive in nature must be reviewed. If changes in the process are warranted, then proposed revisions to these directive documents must also be suggested to those with the authority to change them.

B. PURPOSE

This research will focus on those aspects of small business utilization that are not currently counted toward accomplishing prime contracting utilization goals. Of primary interest are the dollars being subcontracted to small businesses at the first and second-tier by large businesses who are prime contractors to DoD. Additionally, procurements awarded via another agency, particularly GSA, are of interest. Some of these dollars are subject to subcontracting reporting, however, their true impact on overall small business utilization at SPAWAR is unclear because of crediting policy. Also unclear is whether the existing collection and reporting systems are providing accurate, meaningful data to managers representing a true reflection of utilization at an activity.

In order to clarify the above issues, data will be gathered to address the following research questions:

Primary Research Question:

To what extent are small and disadvantaged businesses contributing to the overall mission of Space and Naval Warfare Systems Command and what methods might be used to best capture and analyze the procurement data that reflect this contribution?

Secondary Research Questions:

1. What is the current system for goal setting, data collection and reporting of small business utilization?
2. Which areas of small business contribution to SPAWAR's mission are reported, and which may be under-reported, in the current system?
3. How might under-reported utilization data, if any, be best collected?
4. Can the SF 294/295 and DD350 data collection systems be enhanced to reliably collect and measure currently under-reported data or does a new reporting system need to be adopted/developed?
5. If SPAWAR were to include small business subcontracting utilization and any other potentially under-reported data, what would be the measurable impact on the command's prime contracting goal?
6. Would a change in the method of reporting goal accomplishment add value to the process, and if so, what changes would be best?
7. If the changes referred to in question 6 were adopted, what measures/metrics would best illustrate the small business contribution to SPAWAR's mission?
8. What amendments to laws, regulations or policies would be necessary to implement changes to the method of reporting goal accomplishment and to associated measures/metrics?

C. SCOPE AND METHODOLOGY

This research will analyze small business utilization data for fiscal years 2000 and 2001. This work will be limited to SPAWAR HQ contracts and not those of field offices within the SPAWAR Claimancy. The thrust of the study will be actual small business utilization data extracted from existing reporting systems. Interviews with contractor and

government personnel to ascertain the completeness and accuracy of reports will be conducted as necessary. Management analysis will be performed on these data to determine whether existing policies and procedures efficiently and effectively capture the full measure of small business utilization. Historical data will not be analyzed to see how improved reporting methodology may have affected past goal accomplishment.

The methodology used to conduct this thesis research will consist of the following steps (not necessarily in this order).

1. Review existing laws, policies, executive orders and regulations affecting small business utilization and goal accomplishment reporting.
2. Interview various agencies' Small and Disadvantaged Business Utilization Specialists to garner their views on reporting system effectiveness and potential areas of under-reporting.
3. Assemble a list of all active SPAWAR HQ contracts requiring a subcontracting plan.
4. Assemble all the SF 294/295 reports and their respective POC's from active contracts. These reports are prepared on a semi-annual basis.
5. Study the PMRS system to determine the formula for calculating small business utilization percentages listed in the accomplishment report.
6. Analyze possible areas of under-reporting for feasibility of including into modified reporting procedures.
7. Develop a modified reporting procedure, including a method of collecting the necessary data and recommended new metrics.
8. Prepare semi-annual reports showing goal accomplishment via current reporting methods, as contrasted with goal accomplishment under modified reporting procedures.
9. Using the reports, analyze whether modified reporting procedures are more advantageous in demonstrating small business utilization than current reporting methods.

10. Based on this analysis, make recommendations for changes in data collection systems, reporting formulas/definitions, and laws/policies/regulations.

D. ORGANIZATION OF STUDY

The results of this research will be presented in seven chapters. The instant chapter will discuss the background and framework for this research. Chapter II will explore the general statutory, regulatory and literature context for small business utilization in federal procurement. From that point, the research will narrow down to an overview of DoD's current small business utilization system. This will include an examination of goal setting, data accomplishment reporting, and finally, how these data are used. Chapter IV will identify the areas where under-reporting or misdirected reporting of actual small business utilization is occurring. Having revealed these problem areas, Chapter V will begin to illuminate the data collection and reporting systems being used, their strengths and weaknesses and potential fixes to address the problems of under-reporting. Various analytical and tabular presentations of data showing possible new reporting scenarios will comprise Chapter VI. Advantages and disadvantages of each scenario along with potential new metrics for small business utilization will also be covered in this chapter. Finally, recommended changes to the data collection system, the reporting procedures and changes to laws/regulations/policy are compiled in Chapter VII.

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II. STATUTORY, REGULATORY AND LITERATURE REVIEW

A. INTRODUCTION

The preceding chapter introduced the practice of using small businesses in federal procurement contracts as a situation ubiquitously addressed by legislation, U. S. Code, Executive Orders and Policy Letters, regulations at all levels, agency directives and instructions as well as the open literature. In this chapter, each of these categories of documents is briefly examined to show its influence on the broad areas of goal-setting, data collection and reporting. The documents discussed do not represent an exhaustive list, but rather highlight the overarching guidance on the subject. Even as this paper is being written, additional legislation is pending in the House of Representatives bearing on this topic.

B. PUBLIC LAWS AND U. S. CODE

Fundamentally, all federal procurement policy related to small business utilization originates with Congress. Congress has been prolific and consistent in its favorable treatment of small businesses over a long period of time. Two foundational pieces of legislation affecting DoD are the Armed Services Procurement Act of 1947 and the Small Business Act of 1953. The former is codified at 10 U.S.C. 2302. et seq. and the latter at 15 U.S.C. 631 et seq. The following paragraphs provide a brief synopsis of these laws and others that followed which either revised or expanded them.

1. Armed Services Procurement Act of 1947

The Armed Services Procurement Act of 1947 was the first piece of legislation specifically mandating that, "...a fair proportion of total federal purchases and contracts be placed with small business concerns [Ref.1]." Congress passed this bill in the aftermath of World War II upon realizing that small businesses needed some form of preference in order to compete with large businesses for federal projects.

2. Small Business Act of 1953

The Small Business Act of 1953 was landmark legislation establishing the Small Business Administration (SBA) as an independent agency within the Executive Branch.

Among other things, the Act mandated that federal agencies publish procurements over the small business threshold in the Commerce Business Daily as a means of informing small businesses of subcontracting possibilities. The Act also directed the use of new small business subcontracting clauses [Ref 2].

3. Revision to the Small Business Act (Public Law 95-507)

Public Law (PL) 95-507 broke new ground in defining and giving preference to small business concerns owned and controlled by socially and economically disadvantaged individuals, requiring inclusion of a clause giving maximum practicable opportunity for them to participate in federal contracts. The law directed the SBA to report to Congress those agencies not affording these firms maximum practicable subcontracting opportunities. It required all federal agency heads to establish goals for small business participation and to consult with and report to the SBA about such goals and their realization. Finally, it established an Office of Small and Disadvantaged Business Utilization in each agency having procurement powers. [Ref. 3]

4. National Defense Authorization Act (PL 99-661)

This legislation amended the Small Business Act to revise provisions regarding the small business set-aside program, especially as such program relates to procurement set-asides. It set specified DoD contract award goals for: (1) small business concerns; (2) historically black colleges and universities; and (3) minority institutions. [Ref. 4]

5. Business Opportunity Development Reform Act of 1988 (PL 100-656)

This Act requires the President annually to establish specified Government-wide goals for procurement contracts awarded to small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals. It prescribes minimum participation goals, and also requires the SBA to report to the President annually on the attainment of goals for participation by small business concerns. [Ref. 5]

6. Federal Acquisition Streamlining Act of 1994 (PL 103-355)

This law fundamentally affected federal procurement in many areas. Germane to this paper, it amended the Small Business Act to: (1) repeal provisions on set-aside priority of firms in labor surplus areas; and (2) include small businesses owned and controlled by women within the goals for awarding procurement contracts to small businesses. It also established a new simplified acquisition threshold (SAT) of \$100,000, replacing the existing threshold, for use also under the Small Business Act, for purposes of acquisitions by subject and executive agencies. It amended the Small Business Act to reserve for small businesses all contracts over \$2,500 but not over \$100,000. [Ref. 6]

7. Small Business Reauthorization Act of 1997 (PL 105-135)

This Act amended the Small Business Act to provide for Federal contracting assistance to Qualifying Small Businesses located in Historically Underutilized Business Zones (HUBZones). It directed the Administrator of the SBA to report to Congress on implementation of the HUBZone program. It also prescribed an increase in the overall small business goal and set a graduated goal for HUBZone utilization. [Ref. 7]

8. Veterans Entrepreneurship and Small Business Development Act of 1999 (PL 106-50)

This legislation also amends the Small Business Act, including a new category of preference, the veteran owned small business. It requires the head of each federal agency to establish goals for the participation by small businesses owned and controlled by service-disabled veterans in that agency's procurement contracts [Ref 8]. A related piece of legislation, PL 106-554, adds yet another category of small business; the small business concern owned and controlled by service-disabled veterans. For both of these categories, subcontracting goals are to be set by federal agencies.

As can be seen by the plethora of legislation above, Congress has been granting small businesses preferential treatment in federal procurement for the past 50 years. In the more recent laws, Congress has gotten very specific in the groups targeted and in the goals federal agencies were to achieve. Each of these goals carried with it a mandate for data collection and reporting back to the Congressional small business committees.

C. EXECUTIVE ORDERS AND POLICY LETTERS

The preceding section dealt with small business policy emanating from the Legislative Branch of government. This section will deal with policy directly from the Executive Branch. Two types of documents will be reviewed; Executive Orders issued by the President and Policy Letters issued by the Executive Office of the President, Office of Management and Budget, Office of Federal Procurement Policy (OFPP). These documents do not create new small business policy, but rather implement legislative policy within Executive agencies. As with the laws reviewed previously, the following is not an exhaustive list of Executive documents on this subject.

1. Executive Order (E.O.) 12928 of September 16, 1994

This E.O. was titled, “Promoting Procurement with Small Businesses Owned and Controlled by Socially and Economically Disadvantaged Individuals, Historically Black Colleges and Universities, and Minority Institutions,” and was signed by President Clinton. Its intent was to rigorously enforce both the letter and spirit of public laws that promoted increased participation in federal procurement by the above groups. The E.O. promoted award of contracts, establishment of participation goals and other mechanisms for these groups to ensure they had fair opportunity in the federal marketplace. It encouraged agencies to set goals exceeding statutory requirements, and directed the Administrators of the SBA and OFPP to make periodic progress reports to the President. [Ref. 9]

2. Executive Order 13170 of October 6, 2000

This E.O. was titled, “Increasing Opportunities and Access for Disadvantaged Businesses,” and was signed by President Clinton. Its intent was to provide for increased access for disadvantaged businesses to federal contracting opportunities. Similar to the above E.O., this order more specifically targets 8(a) firms, requiring each agency to establish a goal in this category. It reinforces the statutory goals for small businesses and small disadvantaged businesses, and requires each agency to annually report to the President, via OMB, its progress in increasing utilization of 8(a), SDBs and MBEs. The order also tasks the Administrator of SBA to review the Federal Procurement Data

System (FPDS) semi-annually to gauge the progress in achievement of government-wide goals.

3. OFPP Policy Letter 99-1 of October 8, 1999

This document's subject is, "Small Business Procurement Goals." Its intent is to provide uniform policy guidance to Executive agencies on government-wide goals for procurement contracts awarded to small businesses, HUBZone small businesses, small disadvantaged businesses and women-owned small businesses. It also discusses goal achievement reporting requirements [Ref. 10]. This Policy Letter implements sections of PL 100-656, the Business Opportunity Development Reform Act of 1988, the Federal Acquisition Streamlining Act of 1994 and the Small Business Reauthorization Act of 1997. The Policy Letter discusses each of the goals for small business utilization in the context of both prime contracts and subcontracting. It clarifies SBA's role in mutually establishing goals with each agency. The letter goes on to delineate agency and SBA responsibilities in both goal setting and reporting requirements.

4. OFPP Memorandum of August 26, 1999

The subject of this memorandum is, "Reporting Contract Actions Awarded under Federal Schedule Contracts, Government-Wide Acquisition Contracts, Multi-Agency Contracts and Inter-Service Support Agreements." Its intent was to clarify socioeconomic usage reporting guidance in the Federal Procurement Data System (FPDS). Generally speaking, the OFPP memo directed that buying activities receive credit for small business accomplishments when using the aforementioned contract vehicles. This is significant since previously, the organization that awarded these basic contract vehicles, usually the General Services Administration (GSA), received all socioeconomic credit regardless of which activity funded or awarded orders under them.

The above discussion shows how the Executive branch begins to implement Congressional intent. It's a mixture of cheerleading, directing and clarifying the rules. Though policies don't carry the weight of legislation, they feed the next step of issuing regulations.

D. REGULATORY GUIDANCE

Both public law and Executive-level policy eventually get translated into governing regulations. When discussing small business utilization goals and reporting in SPAWAR contracts, three levels of regulations are applicable; the Federal Acquisition Regulation (FAR), the Defense FAR Supplement (DFARS) and Navy Acquisition Procedures Supplement (NAPS). Applicable portions of each are discussed below.

1. FAR

FAR Part 19 is entitled, “Small Business Programs,” and is a broad treatment of each special category of small business, size standards and dealing with the SBA. This part implements applicable sections of the Small Business Act, the Armed Services Procurement Act, the Federal Acquisition Streamlining Act and Executive Orders [Ref. 11]. The FAR does not discuss specific numerical goals for each small business program, perhaps because of the frequency Congress revises them, or because of the diverse population of federal agencies covered by the document. However, it does speak to the issue of data collection and reporting, and requires agencies to have prospective contractors represent their size status and accurately measure the extent of participation for contractors in each small business program [Ref. 12]. Included in FAR Part 19 is the requirement for certain prime contractors to report their small business subcontracting utilization on Standard Form 294, “Subcontract Report for Individual Contracts” and/or Standard Form 295, “Summary Subcontract Report.”

2. DFARS

DFARS is the DoD-specific supplement to the FAR. Part 219 mirrors FAR Part 19 and provides unique DoD regulations. DFARS Part 219 discusses the Small Disadvantaged Business (SDB), Historically Black Colleges and Universities (HBCU) and Minority Institutions (MI) goal of five percent. DFARS Part 219 implements 10 U.S.C. 2323. Part 219 elaborates on data collection and reporting requirements using the DD 350 form, specifically requiring agencies to report to the Secretary of Defense justifying failure to meet small business utilization goals and the planned actions to remedy the situation. Two DoD-unique programs are also introduced; the Test Program

for Negotiation of Comprehensive Small Business Subcontracting Plans and the Pilot Mentor-Protégé Program. The former will become an important issue later in this paper.

3. NAPS

NAPS is the Navy's supplement to FAR and DFARS. Part 5219 is the equivalent 'Small Business Programs' section. Although it speaks to a number of programmatic issues, only two are germane to this discussion. NAPS states that utilization goals on subcontracting plans for all categories should be positive, i.e. greater than zero [Ref. 13]. On the topic of data collection, NAPS instructs Navy Contract Administrative Officers to submit SF 295s, Summary Subcontract Report, to Washington Headquarters Services, Directorate for Information, Operations and Reports (DIOR) [Ref. 14]. DIOR is a key node in the data collection and tabulation hierarchy and will be mentioned later in this paper.

This section has demonstrated how law and Executive policy are translated into regulations governing *what* should be done at the various levels of Executive agencies. The next section moves the discussion to *how* agencies are to implement small business policy and regulations.

E. DIRECTIVES AND INSTRUCTIONS

The next level of implementation is agency level directives and instructions. Each agency has its own instructions, and within DoD, each component has its own as well. We'll look at three agencies' instructions for applicable issues; DoD, DLA and the Navy.

1. Department of Defense (DoD)

DoD has two major documents applicable to this topic. DoD Directive 4205.1 of September 11, 1996, is entitled "DoD Small Business and Small Disadvantaged Business Utilization Programs." Directive 4205.1 provides procedural implementation guidance for the Armed Services Procurement Act and Small Business Act. The Directive identifies who is responsible for what. Specifically, a Director of the Office of Small And Disadvantages Business Utilization (OSADBU) is charged as, "... the principal proponent within DoD for executing national and DoD policy as mandated by the Congress and President." Among a long list of duties this person is responsible for, one

is particularly germane: monitoring goal accomplishment and advising activity heads on corrective action if improved performance is needed. This is actually carried out at the activity level by Assistant or Associate Directors appointed by the activity.

The second major document on this topic is DoD Instruction 4205.3 of July 6, 1987, entitled, “DoD Small and Disadvantaged Business Subcontracting Reporting System.” The purpose of this Instruction is to prescribe procedures for submitting the SF 295s mentioned in an earlier section.

2. Defense Logistics Agency (DLA)

DLA is an agency within DoD. Until March 2000, the Defense Contract Management Command (DCMC) was a major element of DLA responsible for contract administration of DoD contracts assigned to it. As of that date, DCMC became a separate agency in DoD and was renamed the Defense Contract Management Agency (DCMA) while retaining its original mission. Prior to the separation but still applicable, DLA issued Directive 9100.1 entitled, “DLA Small Business Programs,” whose stated intent is to implement DoD Directive 4205.1, FAR and DFARS. Among many other things, the Directive requires DLA Field Commanders to, “Maximize the utilization of small, small disadvantaged and women owned small businesses in the development and subsequent attainment of substantive prime and subcontracting goals.” Additionally, Commanders are to, “Prepare an end of FY report to the DLA Director, OSADBU with a justification for goals not attained within the (Command) and a comprehensive plan for actions to be taken to achieve assigned goals in the future.” DCMA is important to SPAWAR since all of its contracts are delegated to DCMA for administration. Hence, the administration of small business subcontracting plans on SPAWAR contracts is DCMA’s responsibility.

3. Department of the Navy

The Navy is an organizational equal to DLA. The Secretary of the Navy (SECNAV) has issued Instruction 4380.8A of May 1, 1992, entitled, “Implementation of the Department of the Navy Small and Disadvantaged Business Utilization (SADBU) Program.” It implements the Small Business Act and all three levels of acquisition regulations: FAR, DFARS and NAPS. The Instruction gives the Navy SADBU

responsibility to apportion DoD-assigned goals to contracting activities. Commanders of Navy contracting organizations have responsibility to achieve assigned goals and further assign goals to subordinate contracting offices.

SPAWAR is a major contracting activity within the Navy. SPAWAR has a full-time Director of Small and Disadvantaged Business Utilization assigned. There is no Instruction addressing SADBU functions issued by SPAWAR. The SECNAVINST mentioned above is the controlling document.

This section has taken small business policy implementation to the level of the agency actually contracting with small businesses. Activities or organizations within some agencies may have further documented practices that are not germane to this discussion. However, as can be clearly seen, small business utilization is amply addressed at all levels of government. How do those outside the government view implementation of small business policy? Next we'll turn to a sampling from the open literature.

F. OPEN LITERATURE

It is obvious that the stable of stakeholders involved in the small business contracting process extends well beyond Congress and Executive agencies. Contractors, Subcontractors, Small Business Advocates, Legal Analysts, Academics and Equal Rights Groups all share a concern about the successful implementation of national small business policy. Stakeholders have written articles in a host of publications for many years expressing a wide range of views. Surprisingly, given the many articles on this general theme, relatively few specifically address the issue of goal setting and achievement. We'll look at several articles, dating back over a decade that do address this issue.

One researcher believes the whole federal goal setting process is doomed to failure. He has identified nine factors that make the contracting process an ineffective tool for implementing socioeconomic policy. Examples of these factors include; ambiguous legislation, hard-to-measure output, competition requirements are incompatible with socioeconomic legislation, budget not provided to implement socioeconomic goals, and no incentive/enforcement mechanisms. He views the multiple

goal categories mandated by Congress to be exclusionary, i.e. one type of preferred small business competes with another for limited procurement funds in a zero sum game. He is of the opinion that agencies can meet or exceed their goals but yet be ineffective in small business utilization because of ‘lowballing’ the goals. His solution is to set goals on a total dollar value basis (vice a percentage of awarded dollars) and advocates instituting incentives for both industry and government to increase small business participation. [Ref. 15]

Another pair of authors has elaborated on steps an agency may take to improve its chances of meeting small disadvantages business goals. Several ideas offered include the persuasive involvement of the activity Commander, assignment of specific responsibilities, aggressive searching for new sources, and enlisting buy-in of the technical and program management personnel. This article was clearly written by a government stakeholder intent on making the program work. [Ref. 16]

It’s not just government personnel trying to make the program work. Prime contractors are committed to successful small business subcontracting programs. One author from this group advocates a list of program improvement ideas similar to the article above. The list includes CEO involvement, appointing a senior person to be responsible for the program, setting goals and flowing them down throughout the company, getting regular performance feedback and rewarding accomplishments, and finally, good communication with small businesses including helping them to be successful. [Ref. 17]

G. SUMMARY

The discussion in this chapter clearly shows the level of interest and oversight involved in both the establishment of national socioeconomic policy and its implementation at all levels of government. Favorable treatment of small businesses has a long and consistent history in this country. We’ve examined only a small part of this issue, the goal setting and reporting piece. Though not always passed into law, virtually every session of Congress introduces legislation to expand or clarify its commitment to the small business community. Depending on the priorities of the sitting administration, Executive-level policy not only reinforces legislation, but may also direct additional

efforts to benefit small businesses. Regulations, directives and instructions are the implementing mechanisms to ensure individual agencies comply with law and policy. Finally, various stakeholders have been actively involved in voicing their ideas, both pro and con, regarding the implementation of socioeconomic policy. Any policy changes contemplated, or actually effected, have a ripple effect through this whole document chain.

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III. OVERVIEW OF THE CURRENT SMALL BUSINESS UTILIZATION SYSTEM

A. CATEGORIES OF SMALL BUSINESS GOALS AND PROGRAMS

Chapter II addressed the broad policy framework and general regulations governing small business utilization in federal procurement contracts. This chapter will examine how those macro-level directives are implemented in affected government agencies, including SPAWAR. The first and most basic step in reviewing the implementation of national socioeconomic policy is developing an understanding of the small business categories or industry segments targeted for preferential treatment. Generally, each small business category has a statutory goal associated with it. The goal represents the percentage of an agency's total procurement obligations that is targeted for award to a specific category of small business.

1. Prime Contracting Goals

Table 3.1 List of Prime Contracting Goals

CATEGORY	PUBLIC LAW (P.L.)	GOAL
Small Business (SB)	P.L. 105-135	23%
Small Business Set-Aside (SBSA)	Not statutory	N/A
Historically Underutilized Business Zone (HUBZone)	P.L. 105-135	3%*
Small Disadvantaged Business (SDB)	P.L. 100-656	5%
Historically Black Colleges and Universities (HBCU) and Minority Institutions (MI)	Subset of SDBs	Subset of SDBs
Women-Owned Small Business (WOSB)	P.L. 100-355	5%
Service-Disabled Veteran Owned Small Business (SDVOSB)	P.L. 106-50 and 106-554	3%
Small Business Research and Development (SBRD)	P.L. 105-135	0.15%**

* This goal is being gradually phased in. It began at 1% for FY 1999, is at 2% in FY 2001 and will end up at 3% for FY 2003 and each fiscal year thereafter.

** This goal is a percentage of an agency's research and development budget, not its total procurement obligations.

Small business utilization at the prime contract level is by far the most closely watched portion of socioeconomic policy implementation. The table above demonstrates current small business categories, their statutory reference and goal.

The SB goal is an all-inclusive statistic, with all other categories of prime contracting utilization counting toward its accomplishment. The Small Business Reauthorization Act of 1997 raised this goal from 20 to 23 percent.

SBSAs are not mandated by statute, but are a policy- and regulatory-driven method of awarding certain acquisitions exclusively to small businesses. Currently, each acquisition having an anticipated dollar value exceeding \$2,500, but not over \$100,000, is automatically reserved exclusively for small business set-asides. Acquisitions over \$100,000 may also be set-aside if adequate competition and reasonable pricing are expected. [Ref. 18]

The HUBZone Program originated in 1997. Its intent is to provide federal contracting assistance for qualified small business concerns located in historically underutilized business zones, in an effort to increase employment opportunities, investment, and economic development in those areas [Ref. 19]. As noted above, this 3% goal is being phased in over several years. This goal encompasses both prime and subcontracting utilization.

The SDB Program was created by the Business Opportunity Development Reform Act of 1988. It mandates a 5% goal for all federal agencies. While not mentioned in that statute, the Armed Services Procurement Act (as amended) also lists the HBCU/MI programs as subsets of the SDB goal for DoD. Executive Order 12928 extends this requirement to all federal agencies. The 8(a) Program is another non-statutory subset of SDBs. Under this program, SBA enters into contracts with other agencies as the prime, then lets subcontracts to “8(a) contractors” to actually perform the work. DoD has not historically set a separate goal for the 8(a) program.

The Federal Acquisition Streamlining Act of 1994 introduced the 5% WOSB goal. Although DoD has not yet achieved this goal, steady gains have been made each year.

The SDVOSB Program is a recent addition to the list of small business preference categories. The 106th Congress passed two laws, the second being for clarification, setting a 3% goal in this area. At the time of this writing, complete regulatory coverage was not yet in place to implement this program.

The SBRD goal of 0.15% is unique in the list of preference programs. Whereas all other goals are expressed as a percentage of an agency’s total procurement obligations, this goal only applies to agencies with a Research and Development budget over \$1B per year, with the goal being a percent of that budget.

2. Subcontracting Goals

Table 3.2 List of Subcontracting Goals

CATEGORY	PUBLIC LAW (P.L.)	GOAL
Small Business (SB)	Not statutory	N/A
Historically Underutilized Business Zone (HUBZone)	P.L. 105-135	3%*
Small Disadvantaged Business (SDB)	P.L. 100-656	5%
Historically Black Colleges and Universities (HBCU) and Minority Institutions (MI)	Subset of SDBs	Subset of SDBs
Women-Owned Small Business (WOSB)	P.L. 100-355	5%
Service-Disabled Veteran Owned Small Business (SDVOSB)	P.L. 106-50 and 106-554	3%

* The 3% goal is a combination of both prime and subcontracting utilization.

When a prime contract is over \$500K, the contractor is required to submit to the awarding agency a subcontracting plan per FAR clause 52.219-9, Small Business Subcontracting Plan. This plan details the prime’s goals for award of first tier subcontracts to small businesses. Generally, the same laws requiring federal agencies to achieve certain socioeconomic utilization goals also require prime contractors to achieve similar goals when subcontracting. There are two exceptions; prime contractors are not required to implement or report SB set-aside or SBRD program utilization. The table above demonstrates subcontracting categories, their statutory reference and goal.

Similar to the way government agencies use total procurement obligations as the basis for calculating their goal achievement percentage, prime contractors use the total

amount subcontracted. Hence, for a \$1M prime contract where \$100K was subcontracted, \$50K of SB utilization represents 50% achievement, not 5%.

3. Small Business Competitive Demonstration Program

The preceding two sections dealt with categories of small businesses for which specific utilization goals were established. This section discusses the small business competitiveness demonstration program whose aim is not a utilization goal, but rather, special treatment of designated industry groups. This program is not applicable to SPAWAR but is discussed here to demonstrate the broad range of socioeconomic preferences instituted by Congress.

The Small Business Competitiveness Demonstration Program was initiated in 1988 under P.L. 100-656. One purpose of the program is to assess the ability of small businesses to compete successfully in certain industry categories without competition being restricted by the use of small business set-asides. Unrestricted competition is limited to four designated industry groups; 1) construction, 2) refuse systems and related services, 3) non-nuclear ship repair; and 4) architectural and engineering services. [Ref. 20]

Another purpose of this program is to measure the extent to which awards are made to a new category of small businesses known as emerging small businesses (ESB's), and to provide for certain acquisitions to be reserved for ESB participation only. This portion of the program is also limited to the four designated industry groups. An ESB is a small business concern whose size is no greater than 50 percent of the regularly defined small business in its category. [Ref. 21]

Except for the ESB portion, the competitive demonstration program may not sound like a preference program. However, an ultimate purpose of the program is to expand small business participation in 10 targeted industry categories through continued use of set-aside procedures, increased management attention, and specifically tailored acquisition procedures [Ref. 22]. Taken as a whole, this is a targeted preference program for selected industry groups.

4. Other Socioeconomic Preference Programs

The Javits-Wagner-O'Day (JWOD) Act requires government agencies to purchase certain supplies or services at set prices from JWOD participating nonprofit agencies if they are available within the period required [Ref. 23]. These nonprofit agencies are normally associated with the National Institute for the Blind (NIB) and/or National Institute for the Severely Handicapped (NISH). This program is generally viewed as a mandatory source issue rather than a preference program, however, no one can dispute that the federal contracting process is being used to benefit a special group of people. The distinction is that the group is not a 'for profit' small business, but rather a nonprofit organization.

The Federal Prison Industries (FPI), or UNICOR, program provides training and employment for prisoners confined in federal penal and correctional institutions through the sale of its supplies and services to Government agencies [Ref. 24]. Like JWOD, FPI is a mandatory source program for certain supplies and services. One could debate who is gaining the benefit of this program, the prisoners or the wholly owned government corporation known as FPI. Regardless, the federal contracting process is again being used to benefit a special group.

DoD's Small Business Innovation Research (SBIR) program funds early-stage R&D projects at small technology companies, projects which serve a DoD need and have the potential for commercialization in private sector and/or military markets. The Small Business Technology Transfer (STTR) program is similar in structure to SBIR but funds cooperative R&D projects involving a small business and a research institution (i.e., university, federally funded R&D center, or nonprofit research institutions). Small companies compete among themselves for these contract awards, but retain the intellectual property rights to technologies they develop [Ref. 25]. This is a preference program clearly aimed at small businesses engaged in technology. Together, SBIR and STTR comprise the backdrop for the prime contracting SBRD goal.

The categories of small business goals and programs described in this section follow an outline proffered in a draft DoD small business report [Ref. 26]. According to this report, the authors count 26 separate goals or programs that use the contracting

process to convey benefits to targeted groups. Clearly, the small business utilization system is very complex. How do we move from these goal categories to actually setting specific goals for SPAWAR to accomplish? That process will be discussed in the next section.

B. GOAL SETTING PROCESS

Through legislation and executive level policy, small business utilization goals are established on a government-wide basis. These macro-level goals must ‘flow down’ in order to be implemented throughout every federal agency. Since the statutory goals represent what the entire federal government must achieve, individual agency goals may vary. In this section we’ll look at the agencies involved in the process of setting socioeconomic goals for SPAWAR, what factors or issues each agency considers and finally, the actual SPAWAR goals themselves.

The Small Business Act is the initial, authoritative source for the goal setting process. This Act requires federal agencies to set annual goals. A significant mandate in the Act assigns SBA the responsibility to mutually establish goals with each agency and makes SBA the lead agency to ensure that statutorily set goals are met on a government-wide basis. OFPP Policy Letter 99-1 directs that agency goals will be established prior to the beginning of the fiscal year. Consequently, SBA requests agency goal proposals in advance of that date. SBA deals with DoD’s Office of Small and Disadvantaged Business Utilization (SADBU) regarding goals that eventually affect SPAWAR.

Having received input from each of the services and Defense agencies, DoD submits its goal proposal to SBA by the required deadline. Based on SBA’s “Guidance on Goal Setting under Procurement Preference Programs, Fiscal Year 2001” document, DoD’s proposal includes eleven goal categories. The categories are prime and subcontracting to small businesses, women-owned businesses, HUBZone small businesses, and service-disabled veteran owned small businesses, plus prime to 8(a)s and SDBs other than 8(a)s and subcontracting to SDBs. With the goals, DoD submits its narrative rationale for the numbers. SBA considers the following issues before deciding on DoD’s proposal: 1) historical achievement, 2) historically proposed goals, 3) whether the proposed goals may be ‘lowballed,’ and 4) whether the goals are supported by ample

justification in the rationale. Sometimes, SBA dictates goals without negotiation with agencies, as in the HUBZone, WOSB and SDVOSB goals in FY 2001. If DoD's proposal meets SBA's approval, DoD receives a letter officially accepting the goals. If SBA and DoD can't agree on goals, the matter is referred to OFPP for final determination. [Ref. 27]

DoD's goal setting responsibility does not end with receipt of the acceptance letter from SBA. DoD must establish goals in areas not required by SBA, specifically, small business set-asides, small business R&D, and HBCU/MI. Additionally, DoD must still finalize goals with each service and Defense agency. Obviously, DoN is the service eventually affecting SPAWAR's goals. Having previously received DoN's goal proposal, and now having SBA's accepted agency goals, DoD is in a position to finalize DoN's annual goals. Ideally there is room for dialog and negotiation with DoN, however, DoD must meet the goals that SBA accepted, thus limiting its ability for compromise. The offices of DoD's and DoN's SADBUs are intimately involved in this part of the process. Ultimately, DoD apportions small business goals to DoN. For FY 2000 and FY 2001 DoD assigned goals, rather than negotiating them with DoN, late in FY 2000. [Ref. 28]

DoN mirrors the DoD process described above with each Head Contract Activity (HCA). Unlike prior years, DoN now makes a concerted effort to engage each HCA in a dialog to establish final goals. HCA goal recommendations, DoN counter-proposals and rebuttals are part of this dialog. SPAWAR is an HCA involved in this process with DoN and its SADBUs actively participates in establishing the final goals. When finalized, the Under Secretary of the Navy issues a memo reappointing and distributing the goals to each HCA [Ref. 29]. The SPAWAR SADBUs complete this process by establishing goals for each of its field activities.

SPAWAR is a buying activity that delegates all contract administration functions to the Defense Contract Management Agency (DCMA). As such, DCMA administers and gets credit for all small business subcontracting utilization. Because of this delegation to DCMA, SPAWAR only has prime contracting goals and not subcontracting goals. For fiscal year 2001, SPAWAR's final goals are:

Table 3.3 SPAWAR FY 2001 Small Business Goals

<u>Small Business Program Category</u>	<u>FY 2001 Goal</u>
Small Business	34.5%
Small Business Set-Aside	7%
Small Disadvantaged Business	9%
Woman-Owned Business	5%
HUBZone Small Business	2%
Service-Disabled Veteran Owned Small Business	3%
Small Business R&D (\$)	\$70,000,000
Historically Black Colleges & Universities	3%

And Minority Institutions

C. DATA COLLECTION PROCESS

It could be argued that setting goals is the easy part of the small business utilization process. The hard part is actually getting small businesses on contract in an amount sufficient to achieve those goals. How that is done is beyond the scope of this paper. However, the award data for each contract action, whether to small businesses or not, must be correctly documented, transmitted to an electronic repository and available for tabulation by goal area.

The method used in DoD for documenting contract actions over \$25,000 is by completing a DD Form 350, Individual Contracting Action Report. Actions under \$25,000 are documented on DD Form 1057, Monthly Summary of Actions \$25,000 or Less. Within three working days of awarding a contract action, contracting officers are required to complete the four-page DD 350. The entire Section D of the DD 350 is devoted to 15 fill-ins identifying the type of business entity, reasons for not awarding to various small business categories, preferences utilized, subcontracting plan requirement and size of business, etc. Section E of the DD 1057 has 20 fill-ins for similar information to be submitted on a monthly basis. Clearly, contracting officers must exercise care in documenting each action to ensure accuracy of these data.

What happens to the DD 350 and DD 1057 reports after they are completed? For the Navy as a whole, and SPAWAR specifically, these reports are completed electronically in the Navy Procurement Management Reporting System (PMRS). PMRS periodically uploads to the Defense Contract Action Data System (DCADS). DCADS collects reportable data from each service and the defense agencies. The Directorate for Information, Operations, and Reports (DIOR) transmits required DoD information to the Federal Procurement Data System (FPDS) [Ref. 30]. FPDS collects reportable data from all federal agencies and is the central government-wide repository for information related to contract actions.

Each of the three automated data systems mentioned above has the functionality to produce reports from data fields of interest to the user. The Navy's PMRS system has 20 standard reports available just for various small business categories. Additionally, ad hoc reports can be generated based on specific user parameters. These reports can be run for a single contracting organization like SPAWAR HQ, an entire major Claimancy like SPAWAR and its field activities, or the entire Navy. These reports can give a year-to-date view of an agency's progress toward meeting specific small business goals. From the PMRS system, and specifically from the standard small business reports, comes the statistics by which SPAWAR is measured to determine if it has achieved its prime contracting small business goals.

The paragraphs above describe the data collection process for determining prime contracting goal achievement. What about subcontracting goal achievement? Similar to the process government contracting officers use, contractors must also document, tabulate and report to the government, small business subcontracting data by goal area. Since there are thousands of contractors, no single form or electronic system is in place to internally document their small business utilization. However, there are two forms commonly used to report their small business utilization to the government; the SF 294, Subcontracting Report for Individual Contracts, and the SF 295, Summary Subcontract Report. Chapter V gives a thorough treatment to five manual and automated systems used by various government agencies to collect and report small business subcontracting utilization data from prime contractors.

D. ACCOMPLISHMENT REPORTING PROCESS

Given the availability and capability of automated systems such as PMRS, DCADS and FPDS to produce small business utilization reports by goal areas, one may conclude that any interested person, manager or executive could simply press a button to find out whether a particular agency like SPAWAR has met its goals. But is this really how goal achievement is reported up the chain of command to ultimately determine if the government-wide statutory goals are met? Are there additional documents required to accompany statistical goal data? How is underachievement handled?

SPAWAR's accomplishment statistics are available to DoN executives via the PMRS system. However, the DoN SADBUs also requires a semi-annual narrative report to supplement the system-generated statistics. Its stated purpose is, "to assist this office in the negotiation process with DoD in the assignment of SADBUs program goals to the Navy, justify the SADBUs goals assigned to the HCA's and reduce data calls for program information [Ref. 31]." The report is to address the major areas of statistics, acquisition, outreach events, training, management briefings, reviews, recognition, special assignments and pending significant projects. In addition to the semi-annual report to the DoN SADBUs, the SPAWAR SADBUs provides quarterly reports to the Commander of SPAWAR on overall accomplishments in the small business program. This additional reporting requirement is in accordance with SECNAVINST 4380.8A.

DoN's accomplishment statistics, like those of the other Military Departments and Defense Agencies, are available to DoD executives via the DCADS system. Though not as directly related to accomplishment reporting as the DoN requirement, DoD also imposes a semi-annual reporting requirement. Military Departments and Defense Agencies are now required to draft small business improvement plans and performance targets. Each activity is rated based on its ability to achieve these improvements/targets. Failure to reach a satisfactory rating will result in a personal appointment between the head of the activity and the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD (AT&L)). [Ref. 32]

DoD's accomplishment statistics, like those of other federal agencies, are available via the FPDS system. "At the end of the fiscal year, each agency (DoD) must

submit a narrative report to SBA analyzing its achievements and any failures to achieve its small business goals for the year. If an agency fails to achieve its goals, the report also must include plans for improving performance in the next year [Ref. 33].” No doubt the DoD requirement for submission of improvement plans by its subordinates came from this OFPP mandate.

As the lead agency for implementing socioeconomic policy, SBA is responsible for collecting, evaluating and reporting on government-wide accomplishment statistics. SBA uses the FPDS system as the official source of these statistics. On an annual basis, the Federal Procurement Data Center, the organization responsible for FPDS, produces two reports detailing the official government-wide accomplishment statistics. In mid-March, prime contract data is contained in the *Federal Procurement Report*, and in mid-April, subcontract data is contained in the *Federal Procurement Report Supplement with Subcontract Data*. SBA has a stated responsibility in the OFPP Policy Letter to report these data to the President. The Small Business Committees in both chambers of Congress are also acutely interested in SBA’s report on government-wide accomplishment statistics.

E. USE OF REPORTS AND SUMMARY

It is useful to point out that government-wide small business goals are set by law and are not merely a locally initiated program. Failure to achieve national socioeconomic policy is a major issue. The small business lobby is exceptionally powerful and has the ear of Congress. Congress expects, indeed demands, Executive Branch compliance with legislation.

When the annual reporting process shows that government-wide accomplishment statistics have fallen below statutory requirements, there may be consequences at various levels of the government. At the Congressional level, new or more restrictive laws may be introduced in an attempt to increase the probability of future success. The Small Business Contract Equity Act of 2001, H.R. 1324, is an example. The sponsors of H.R. 1324 believe contract bundling is reducing small business access to federal procurement contracts, and propose to prohibit any agency failing to meet its goals from issuing a bundled solicitation.

In Executive agencies, failure to meet goals often results in a requirement to provide more frequent and detailed descriptions or justifications of program activities. Both the DoD and DoN policy memos requiring semi-annual reports are examples of this reaction. At the contracting activity level, the correct action is to focus efforts on improving small business access to contracting opportunities.

As this chapter has shown, the small business utilization system deals with dozens of goal categories, most of which are required by statute. The process of setting goals in an individual agency is a give and take exercise with only limited room for compromise. Several automated systems are in place to capture and report prime contracting utilization data. Supplementing these systems, agencies prepare narrative reports describing the pros and cons of their accomplishments. Finally, accomplishment reporting has repercussions aimed at improving future performance.

IV. IDENTIFICATION OF UNDER-REPORTED SMALL BUSINESS UTILIZATION

A. BACKGROUND

Chapter III discussed the current system used to set small business goals, collect utilization data and report those data to higher authority. The central issue being explored in this study is whether the current system captures all the small business utilization taking place or whether there are areas of under-reporting causing the current system to generate inaccurate statistics. This chapter addresses eight areas of potentially under-reported utilization. The eight areas include; first-tier subcontracting, second-tier subcontracting, Interagency acquisition, GSA FSS orders, indirect costs, Other Transactions, Micro-purchases and contracts under \$500K. Based on data collected, this chapter quantifies actual or estimated small business utilization outside the realm of the current system.

B. AREAS OF POTENTIAL UNDER-REPORTED UTILIZATION

1. First-tier Subcontracting

By way of context, all SPAWAR dollars that are contracted either go to large or small business prime contractors. The PMRS system, using DD 350/1057s as input, captures and reports all the various types of small business prime contracting dollars. SPAWAR gets credit for these small business prime award dollars.

The dollars that are awarded to large business prime contractors may generate some small business utilization credit under certain conditions. For prime awards over \$500K, the large business must submit a small business subcontracting plan. This plan details the prime's goals for award of first tier subcontracts to small businesses. On a semi-annual basis, the prime reports to the contract administration office, DCMA, their actual small business utilization. If reported on an individual contract basis, the data comes in on an SF 294, Subcontract Report for Individual Contracts. If reported on a division, plant or company wide basis, the data comes in on an SF 295, Summary Subcontract Report. From these SF 294/295 data come first-tier small business subcontracting utilization statistics. This utilization data is not actually under-reported;

rather, it is reported and credited to the contract administration office, DCMA, rather than the buying organization, SPAWAR. It is discussed here to show the magnitude of impact this utilization would have on the buying organization's statistics.

a. Fiscal Year (FY) 2000 Statistics

There were 74 active SPAWAR contracts reporting small business subcontracting utilization. Of these, 47 contracts are reported on SF 294s, so the utilization data can be precisely tabulated for each individual contract. 27 contracts were reported on SF 295s. Since these are not contract-specific, utilization data must be estimated. Estimates were calculated by multiplying the FY00 total obligations for each specific contract, times the average percentage of prime awarded dollars that are subcontracted (30%), times the utilization percentages reported by the prime on their SF 295. The 30% figure was determined by taking a representative sample of 16 contracts and dividing their total subcontracted amount by their total prime obligated amount.

The contractor reported data for FY 2000 show the following small business utilization:

Table 4.1 SPAWAR FY 2000 Small Business Subcontracting Utilization

FY00 1st TIER SUB.	SF 294 DATA (act.)	SF 295 DATA (est.)	TOTAL (est.)
Small Business	\$35,296,342	\$37,311,435	\$72,607,777
Large Business	\$100,546,455	\$40,101,959	\$140,648,414
Total	\$135,842,797	\$77,413,394	\$213,256,191
Small Disadvantaged	\$3,388,439	\$3,713,335	\$7,101,774
Woman-Owned	\$3,693,089	\$2,684,206	\$6,377,295
HBCU/MI	\$0	\$8,186	\$8,186
Hubzone	\$399,409	\$690,040	\$1,089,449

The official reporting for SPAWAR HQ FY 2000 small business utilization can be retrieved in the PMRS system. The table below displays both these official statistics and what the statistics would have been had the above first-tier subcontracting data been included.

Table 4.2 Impact of Subcontracting on SPAWAR FY 00 Small Business Utilization

Category	Official \$	Percent	With 1 st Tier Subs	Percent	Goal
Total Obligations	\$869,814,202	-	\$869,814,202	-	-
Small Business	\$136,960,181	15.75%	\$209,567,958	24.09%	33%
Small Disadvantaged	\$16,336,931	1.88%	\$23,438,705	2.69%	14%
Woman-Owned	\$752,312	0.09%	\$7,129,607	0.82%	5%
HBCU/MI	\$0	0.00%	\$8,186	0.00%	3%
Hubzone	\$0	0.00%	\$1,089,449	0.13%	1%

As can be seen, the contribution of first-tier small business subcontracts is huge. Adding \$72.6M to the existing \$136.9M increases total small business dollars by over 50% and positively impacts goal accomplishment by over 8%. Equivalent or greater proportional gains are made in each of the special small business categories except HBCU/MI.

This data collection exercise also revealed how well prime contractors are complying with the requirement to report their small business utilization. Out of the 74 active SPAWAR contracts reporting small business subcontracting utilization, only 4 reports were substantially late. This represents an almost 96% rate of successful, timely compliance with reporting requirements. However, the 4 that were late came in only after repeated requests. This would lead one to believe they may not have come in at all, but for Government insistence. Absent that insistence, \$2,049,029 of small business utilization would have gone unreported, resulting in a relatively inconsequential 0.24% reduction in the small business utilization percentage.

b. Fiscal Year (FY) 2001 Statistics

For the first half of FY 2001, there were 77 active SPAWAR contracts reporting small business subcontracting utilization. Of these, 49 contracts reported on SF 294s, so the utilization data could be precisely tabulated for each individual contract. 28 contracts were reported on SF 295s. Since these reports are not contract-specific, utilization data was estimated according to the methodology described in the previous paragraph.

Fiscal Year 2001 saw the inclusion of a new category of small business goals, the Service Disabled, Veteran Owned Small Business (SDVOSB). The

Procurement Management Reporting System (PMRS) is able to capture and tabulate data for this goal. Contractors have begun reporting on this goal and it is included in the tables that follow.

The contractor reported data for the first half of FY 2001 show the following small business utilization:

Table 4.3 SPAWAR FY 2001 Small Business Subcontracting Utilization

FY01 1st TIER SUB.	SF 294 DATA (act.)	SF 295 DATA (est.)	TOTAL (est.)
Small Business	\$34,797,362	\$4,239,056	\$39,036,418
Large Business	\$122,630,196	\$5,994,514	\$128,624,710
Total	\$157,427,599	\$10,229,530	\$167,657,129
Small Disadvantaged	\$5,782,836	\$691,361	\$6,474,197
Woman-Owned	\$10,327,160	\$368,731	\$10,695,891
HBCU/MI	\$0	\$180	\$180
Hubzone	\$20,742	\$133,837	\$154,579
SDVOSB	\$0	\$53,979	\$53,979

The official statistics for SPAWAR HQ small business utilization for the first half of FY 2001 can be retrieved from the PMRS system. The table below displays both these official statistics and what the statistics would have been had the above first-tier subcontracting data been included. As can be seen below, the contribution of first-tier small business subcontracting remains huge. Including this small business utilization changes goal accomplishment from being 7% under the goal to being 7% over the goal!

Table 4.4 Impact of Subcontracting on SPAWAR FY 01 Small Business Utilization

10/00 – 3/01 DATA	Official \$	Percent	With 1st Tier Subs	Percent	Goal
Total Obligations	\$265,725,510	-	\$265,725,510	-	-
Small Business	\$72,864,847	27.42%	\$111,901,265	42.11%	34.5%
Small Disadvantaged	\$13,455,801	5.06%	\$19,929,998	7.50%	9%
Woman-Owned	\$2,143,957	0.81%	\$12,839,848	4.83%	5%
HBCU/MI	\$0	0.00%	\$180	0.00%	3%
Hubzone	\$0	0.00%	\$154,579	0.06%	2%
SDVOSB	\$589,117	0.22%	\$643,096	0.24%	3%

Separate goals exist for prime contracting and subcontracting utilization. Since SPAWAR delegates administration for all its contracts to DCMA, SPAWAR's

subcontracting goals are 0%. However, DCMA subcontracting goals would include utilization generated under SPAWAR's contracts, and all others it administers.

c. Credit Policy for First-Tier Subcontracting

Because SPAWAR delegates contract administration responsibilities for all its contracts, DCMA receives credit for first-tier small business subcontracting utilization on SPAWAR's contracts. This policy of granting DCMA credit for first-tier subcontracting utilization may not represent under-reporting, however, it obscures the proportion funds from the buying activity that ultimately end up in small business hands. As can be seen from the tables above, the percentages are significantly affected by who gets credit for this utilization.

The practice of granting DCMA credit for first-tier subcontracting utilization does not appear to be explicitly grounded in any official policy document. According to DCMA's Western District SADBUs office, the source of authority for this practice is FAR clause 52.219-9(d)(10)(iii). The clause requires contractors to, "submit SF 294 and/or SF 295s in accordance with the instructions on the forms..." The instructions for block 6 of both forms require the contractor to, "identify the department or agency administering the majority of subcontracting plans." The unwritten inference is that whichever agency is administering the majority of a particular contractor's subcontracting plans is the agency entitled to utilization credit.

From a practical perspective this 'policy' makes sense. The administering agency is responsible to ensure the contractor's compliance with its subcontracting plan per FAR 42.302(a)(55), and to maintain documentation of the contractor's performance under the plan. What makes less sense is that this policy obscures the total amount of the buying agencies' funds ending up in the hands of small businesses. Clearly, a much higher percentage of SPAWAR's contractually obligated dollars end up with small businesses than the current system shows. There is also very little meaning to the subcontracting goals assigned to DCMA. Their goals are an aggregate of subcontracting plans from many DoD agencies whose approval is not under the control of DCMA. DCMA may administer the subcontracting plan and collect the data, but it is not DCMA obligated dollars they are managing.

2. Second-tier Subcontracting

a. Fiscal Year (FY) 2000 Statistics

Like the prime awarded dollars, subcontracted dollars either go to large or small businesses. The first-tier small business subcontracting dollars are captured and credited as described in the previous paragraph. What about the dollars subcontracted to large businesses?

When a prime contract is over \$500K, the contractor must submit a subcontracting plan by FAR clause 52.219-9, Small Business Subcontracting Plan. This clause mandates that the prime, "...require all subcontractors (except small business concerns) that receive subcontracts in excess of \$500K...to adopt a subcontracting plan that complies with the requirements of this clause." Hence, large businesses with first-tier subcontracts over \$500K must submit a subcontracting plan and report their small business utilization to the prime, the same way the prime does to DCMA.

Of the 47 SPAWAR prime contracts reporting utilization data on SF 294s, 28 reported large business first-tier subcontracts with a cumulative value over \$500K. This does not mean that all 28 awarded one or more subcontracts over \$500K. The cumulative value could represent multiple large business subcontracts under \$500K that happen to aggregate to over \$500K. The 10 largest, by cumulative large business subcontracted amount, were selected to quantify the proportion of dollars that end up with firms having subcontracts over \$500K.

Table 4.5 FY 00 Second-Tier Subcontracting Data

Contract #	Cum. LB Subcontracted Amount	# of U.S. LB Subs >\$500K	Aggregate \$ Amount of >\$500K Subs	>\$500K subs submit sub-contract plan	>\$500K subs submit SF 294s
95-C-0072	\$77,847,849	3	\$77,287,344*	Yes	Yes
96-D-0074	\$48,941,629	2	\$9,117,776	Yes	Yes
95-D-0018	\$22,263,471	3	\$3,603,889	Yes	Yes
99-C-2202	\$19,549,427	3	\$19,529,878*	Yes	Yes
97-D-0041	\$12,056,147	5	\$7,588,714	Yes	No
96-C-0029	\$10,614,713	4	\$9,592,253	Yes	No
98-D-0029	\$9,400,472	1	\$7,696,480	Yes	Yes
97-C-0061	\$9,199,160	1	\$9,048,294*	Yes	Yes
97-C-0084	\$7,305,145	0	\$0	Yes	No
98-C-3007	\$6,219,681	0	\$0	Yes	Yes
Totals	\$223,397,694	22	\$143,464,631	All 10	7 of 10

* These three contracts have the same prime contractor. This contractor reports 'billed' data on their SF 294 instead of negotiated or committed amounts like the other contractors. In order to determine how much of this billed amount was attributable to large businesses with subcontracts over \$500K, the prime contractor was asked to submit a listing of the amount 'committed' to these subcontractors and the total amount committed to all large business subcontractors. The resulting percentage was applied to the reported 'billed' amounts from their SF 294.

Because we're dealing with large business firms with subcontracts greater than \$500K, we face a unique situation. These firms may already be reporting their small business utilization to the Government under a separate subcontracting plan. In fact, two of the contracts listed above had first-tier large business subcontractors whose small business utilization was already reported to the Government under a comprehensive subcontracting plan. The estimated amount of those two subcontracts was \$64,967,852 or 29.1% of the cumulative amount subcontracted to large businesses. To prevent double counting, this amount was 'taken off the top' prior to estimating second-tier subcontracting utilization.

Table 4.5 shows contract lifetime values, not FY 00 values, of the top 10 contracts. During FY 00, \$140,648,414 went to large business first-tier subcontractors on all active SPAWAR contracts. Reducing that amount by 29.1% to prevent double-counting utilization leaves \$99,745,461. The table demonstrates that an average (\$143,464,631/\$223,397,694) of 64.2% of these dollars are in large business subcontracts of \$500K or more. Hence, \$99,745,461 times 64.2% equals \$64,036,586 is subject to small business utilization reporting to the prime. The balance goes to first-tier large business firms with subcontracts under \$500K with no reporting requirements.

Just like prime contractors, first-tier over \$500K subs only subcontract a portion of the work and retain the rest. We know that prime contractors subcontract approximately 30% of their award value. Intuitively, as first-tier firms with greater specialization in the fields of their subcontracts award smaller amounts to second-tier firms, one would expect that less than 30% of their award value would be subcontracted. Only two of the ten firms provided data on which to base a calculation of this percentage. Based on these data, 25.1% of the amount of a first-tier award amount is further subcontracted to a second-tier firm. This reliability of this percentage is suspect due to

the paucity of data. Nevertheless, \$64,036,586 times 25.1% is \$16,073,183, or the estimated amount subcontracted to second-tier firms.

How much of the \$16,073,183 actually ends up in small business hands? Seven of the ten firms queried above said they required submission of small business utilization data by their second-tier subs. One of the seven had no over \$500K subs. Two of the seven provided small business utilization data. The remaining four would not or could not supply data. We know from Table 4.1 that approximately 34.0% (\$72,607,777/\$213,256,191) of primes' total subcontracted dollars go to small businesses. Intuitively, one would expect that with smaller dollar values involved in second-tier subcontracted amounts, a greater proportion of subcontracted dollars would go to small businesses. Based on the data from the above two firms, 55.9% of subcontracted dollars went to small businesses. This percentage is also suspect due to the paucity of data. Nevertheless, \$16,073,183 times 55.9% is **\$8,984,909**, or the estimated amount subcontracted to second-tier small business firms. A rough yardstick can be generated from this figure for use in subsequent estimating. 6.4% of the amount of large business first-tier subcontracts ends up further subcontracted to second-tier small business firms.

b. Fiscal Year (FY) 2001 Statistics

Table 4.6 below shows all SPAWAR contracts with SF 294 reported large business subcontracting of \$500K or more. Column one is the contract number. The data in columns two and three of the table come directly from the prime contractors' regularly submitted SF 294s. Data in the rest of the table columns was solicited via letter directly from the prime contractors. For columns four and five, the primes were asked to identify their first tier subcontractors who are large businesses and have subcontracts of \$500K or greater, along with the total amount of these subcontracts. For columns six and seven, the primes were asked to provide a copy of the SF 294 submitted to them by each subcontractor listed above. Some of the first tier subcontractors already report their small business utilization to the Government under commercial or comprehensive subcontracting plans. To prevent double counting, these amounts were not included in the totals for column four.

As of the beginning of FY 01, there were 25 SPAWAR prime contracts with utilization reported on SF 294s of large business first-tier subcontracts with a cumulative value over \$500K. Of these, eleven (11) contracts had no subcontracts with an individual value of over \$500K, hence, no reporting requirement. Two (2) contracts had subcontracts over \$500K, but the subcontractors reported their utilization independently on a commercial subcontracting plan. Seven (7) contracts had subcontracts over \$500K, but the subcontractors failed to report their utilization. Two (2) contracts had multiple subcontracts over \$500K, but one or more of their subcontractors failed to report their utilization to the prime. Of all 25, only three (3) contracts had subcontracts over \$500K, where all their subcontractors reported utilization to the prime.

Table 4.6 FY 01 Second-Tier Subcontracting Data

Contract #	Cum. SF 294 Blk. 10b Amt.	FY01 SF 294 Blk. 10b Amt.	Cum. Amt. To >\$500K LB Subs	# of LB Subs >\$500K	LB Sub. Submitting SF 294s?	Cum. Amt. To 2nd Tier SB Subs
97-C-0058	\$5,260,852	\$1,177,523	\$3,167,089	1	No	
96-C-0038	\$9,583,755	\$3,868,957	\$0	0	N/A	
00-D-2100	\$661,757	\$5,013	\$0	0	N/A	
99-C-3225	\$6,931,416	\$3,213,837	\$6,400,000	2	No	
99-C-3103	\$3,991,562	\$1,627,513	\$2,700,000	1	No	
97-C-0068	\$2,097,338	\$325,774	\$0	0	N/A	
99-D-3201	\$2,344,745	\$1,205,404	Comm. Plan	1	N/A	
99-C-2204	\$988,445	\$7,926	\$0	1	No	
95-D-0018	\$22,960,918	\$697,447	\$1,087,694	1	Yes	\$2,126
98-C-0001	\$1,515,526	\$61,869	\$0	0	N/A	
97-D-0041	\$100,107,219	\$88,051,072	\$76,682,130	6	No	
98-C-3007	\$6,497,609	\$277,928	\$0	0	N/A	
96-C-0039	\$2,120,570	\$35,523	\$0	0	N/A	
94-C-0075	\$621,174	\$1,515	\$0	0	N/A	
95-C-0072	\$78,580,051	\$732,202	\$11,398,226	3	Partial	-
97-C-0061	\$9,305,825	\$106,665	Comm. Plan	1	N/A	
99-C-2202	\$33,297,969	\$13,748,542	\$21,018,454	3	Partial	-
97-C-0084	\$7,820,528	\$515,383	\$0	0	N/A	
98-D-0029	\$9,836,971	\$436,499	\$2,097,803	1	Yes	\$1,079,205
96-C-0029	\$11,307,614	\$692,901	\$11,307,614	2	No	
98-C-0076	\$2,167,565	\$255,487	\$1,869,591	1	No	
97-D-0097	\$572,418	\$2,260	\$0	0	N/A	
96-D-0074	\$50,672,678	\$1,731,049	\$39,173,623	2	Yes	\$1,701,850
99-D-3202	\$718,930	\$846	\$0	0	N/A	
89-C-0281	\$5,267,029	\$8,499	\$0	0	N/A	
Totals	\$375,230,464	\$118,787,634	\$176,902,224	26		\$2,783,181

The first important statistic from this table is the percentage of total large business subcontracting (column two) that goes to firms with subcontracts of \$500K or greater (column four). These data show an amount of 47.14 percent. Hence, of the total amount reported on block 10b of SF 294s, only 47.14% is on subcontracts requiring the collection/reporting of second-tier small business utilization data. The FY 2000 data showed an amount of 45.5%, a very close correlation.

The next important statistic is the percentage of first-tier large business subcontracts of \$500K or greater (column four) that goes to second-tier small businesses (column seven). As previously mentioned, only three contracts had subcontracts over \$500K where all their subcontractors reported utilization to the prime. Data from these three show an amount of 6.57 percent. Of the 25 contracts, twelve had this reporting requirement. Hence, only one-fourth of the contractors required to collect second-tier utilization data are doing so. The reasons include, ignorance of the requirement, determinations by the first-tier subcontractor that there are no further subcontracting possibilities and a lack of cooperation by the second-tier subcontractor. The FY 2000 data showed an amount of 14.0%, a less close correlation.

The last important statistic we'll discuss is the percent of cumulative large business first-tier subcontracts that is further subcontracted to second-tier small business firms. This amount cannot be calculated by dividing column seven by column two because of incomplete data in deriving the 6.57% statistic. However, the amount can be derived by multiplying the 47.14% and 6.57% statistics. The result is 3.10%. The reason this is an important statistic is because second-tier small business utilization can be estimated using this percentage and the regularly reported SF 294 block 10b data. No additional data need be solicited from the contractors. The FY 2000 data showed an amount of 6.4%.

We can use the 3.10% statistic to estimate the amount of second-tier small business utilization in the first half of FY 01. The above table shows 25 SPAWAR prime contracts with utilization reported on SF 294s of large business first-tier subcontracts with a cumulative value over \$500K *as of the beginning of FY 01*. The list has changed slightly in the first half of FY 01 because additional contractors have exceeded the \$500K

threshold. Instead of \$118,787,634, there was actually \$120,963,408 reported on SF 294s. Additionally, there was \$5,994,514 reported on SF 295s. Hence, $(\$120,963,408 + \$5,994,514) * 3.10\% = \$3,935,696$ of estimated second-tier small business utilization in the first half of FY 01.

c. Credit Policy for Second-Tier Subcontracting

Second-tier subcontracting utilization data is currently credited to neither the buying activity, SPAWAR, nor DCMA. In fact, the instructions on the SF 294/295 forms explicitly prohibit contractors from taking credit for (and by implication, reporting to the administering agency) these second-tier awards. Consequently, this utilization is truly under-reported.

Anecdotal evidence based on discussions with contractors and DCMA employees indicates that the contract administration offices are not uniform in reviewing prime contractors' compliance with small business utilization data collection from their second-tier subcontractors. Even conscientious contractors who do collect these data are not required to report it to DCMA. Some contractors do not believe they have the right to collect it, even though they claim to have the appropriate FAR clauses 'flowing down' into their subcontracts. Others simply fail to collect it because there is no enforcement. However, regardless of the reasons primes fail to collect the data, the current system does not capture this second-tier utilization.

3. Interagency Acquisitions

a. Fiscal Year (FY) 2000 Statistics

Interagency acquisition is the transfer of funds to other federal agencies, like GSA, via Interagency Purchase Requests (IPRs) for them to contract for goods and services on SPAWAR's behalf. Because these dollars don't flow through SPAWAR's Contracting organization to be obligated, they are transparent to the PMRS system. It is very difficult to determine the proportion of these funds that end up on another agency's contracts. In FY 00, over \$93M was transferred via IPR. Since the amount of these transfers is not insignificant, it is useful to estimate the amount of small business utilization generated under these ensuing contracts for which SPAWAR is not receiving small business utilization credit. Over \$94M was transferred to other military

departments via Military Interdepartmental Purchase Requests (MIPRs) in FY 00 but will not be discussed here since whatever small business utilization was generated stays within the purview of DoD.

The largest example of interagency acquisition at SPAWAR is the GSA FEDSIM contract vehicle for Systems Engineering and Integration (SEI). GSA awarded this contract and SPAWAR transfers money to GSA via IPR, under the authority of the Information Technology Management Reform Act, to obtain services. In FY 00, SPAWAR HQ transferred \$64,446,886 to GSA for placement on the SEI contract. Of this amount, the prime contractor reported that **\$11,512,250** was subcontracted to first-tier small businesses. Because of the magnitude of first-tier subcontracting, substantial second-tier small business utilization almost certainly occurs. From the previous analysis we can estimate that amount. The prime contractor reported that \$37,752,703 was subcontracted to first-tier large businesses. 6.4% of that amount is **\$2,411,098**, which is the estimated amount that went to second-tier small businesses.

b. Fiscal Year (FY) 2001 Statistics

Since the prime contractor of FEDSIM is a large business, no prime small business utilization is generated. In the first half of FY 01, the FEDSIM prime reported **\$2,815,280** of small businesses utilization at the first-tier subcontracting level. Because of the magnitude of first-tier subcontracting, substantial second-tier small business utilization is almost certainly occurring. From the previous analysis we can estimate that amount. The FEDSIM prime reported that \$13,055,095 was subcontracted to first-tier large businesses. 3.1% of that amount is **\$404,708**, which is the estimated amount that went to second-tier small businesses.

c. Credit Policy for Interagency Acquisitions

Answering the question of whether interagency acquisition small business utilization is under-reported is complicated. At the prime and first-tier subcontracting level the answer is probably no, it is not under-reported. Rather this utilization is obscured by the crediting policy and reporting mechanism discussed below. Second-tier utilization is neither reported nor credited to anyone.

The Office of Federal Procurement Policy (OFPP) issued a memorandum dated August 26, 1999, entitled, *Guidance on Reporting Contract Actions Awarded under Federal Supply Schedule Contracts, Government-Wide Acquisition Contracts (GWAC), Multi-Agency Contracts and Inter-Service Support Agreements*. This memo changed the policy on reporting procedures and on who receives credit for these types of contract actions. FEDSIM is a GWAC. OFPP directed that requesting activities (e.g. SPAWAR) receive socioeconomic credit even though a servicing agency (e.g. GSA) actually obligates, or makes the contract award.

To implement OFPP's policy, the PMRS system and its government-wide equivalent FPDS, have a new data field for the FIPS 95 code. This code identifies government agencies and enables requesting activities to receive prime small business utilization credit from servicing agencies. Servicing agencies are required to use the requesting activities' FIPS code on their reports of these types of contract actions in FPDS such that requesting activities receive socioeconomic credit.

The OFPP memo did not distinguish between prime and subcontracted small business utilization. The memo states that, "the requesting agency (SPAWAR) will receive credit for all socioeconomic data, including small business accomplishments." GSA has interpreted this to mean prime utilization only, not subcontracting utilization. Hence, GSA has established the policy that the servicing agency will get first-tier subcontracting credit on the types of vehicles covered by the OFPP memo. Most of GSA's contract vehicles are for commercial goods and services and therefore, any subcontracting plans submitted to them are likely to be commercial plans. Commercial subcontracting plans report small business utilization on an annual basis, but are not contract specific. Therefore, GSA is incapable of breaking out utilization by an individual requesting/buying agency like SPAWAR. Hence, this policy of crediting GSA for first-tier subcontracting utilization is probably appropriate.

GSA has been appropriately coding SPAWAR-funded prime contracting actions in FPDS. Both GSA and the Federal Procurement Data Center (FPDC) (guardians of FPDS) were able to generate a report of SPAWAR-funded actions awarded by GSA under the FEDSIM vehicle, and FPDC was able to provide a report of all other

SPAWAR-funded actions for FY 00 as well. FPDC provides DoD (agency) with periodic reports showing DoD activity (sub-agency) funded actions awarded by other agencies like GSA. Unfortunately, there is no mechanism for any socioeconomic usage shown on these reports to be credited to the appropriate DoD sub-agency. Hence, SPAWAR's \$278K of FY 00 prime small business usage (non-FEDSIM) identified in that report was not credited to SPAWAR because DoD does not currently have a mechanism to do it. Presumably this usage is being captured at the agency level (DoD) though not flowed down to the sub-agency level (SPAWAR).

4. General Services Administration (GSA) Orders

a. Fiscal Year (FY) 2000 Statistics

Another type of contracting action with GSA involves SPAWAR's Contracting Officers ordering off GSA's Federal Supply Schedules (FSS). As of FY 00, buying activities like SPAWAR began receiving prime contracting credit for small business utilization on GSA's FSSs, a situation that was not true before FY 00. \$3,585,547 worth of FY 00 prime small business orders under GSA schedules was recorded in the PMRS system and credited to SPAWAR. Included in this amount was \$228,232 to small disadvantaged businesses and \$184,996 to woman-owned small businesses. Since the focus of this study is identifying and quantifying areas of potential under-reporting in the small business utilization system, prime GSA FSS orders need no longer be discussed.

Small business subcontracting under GSA FSS orders bears discussion. PMRS reports that \$50,014,592 was awarded by SPAWAR to large businesses using GSA FSSs in FY 00. From previous analysis we know that approximately 30% of prime awarded dollars are subcontracted and approximately 34.0% of subcontracted dollars go to small businesses. This equates to an estimated **\$5,101,488** of first-tier small business subcontracting. This is a substantial sum that is currently not credited to either SPAWAR or DCMA. Second-tier small business subcontracting can also be estimated. From the above figures we know that an estimated \$9,902,889 was subcontracted to large businesses. 6.4% of that amount is **\$633,785**, which is the estimated amount that went to second-tier small businesses.

b. Fiscal Year (FY) 2001 Statistics

As mentioned, the credit policy changed in FY 00, allowing buying activities like SPAWAR to receive credit for prime small business orders under GSA schedules. During the first half of FY 01, SPAWAR got credit for \$2,257,585 of these prime small business orders. Included in this amount was \$1,873,957 to woman-owned small businesses.

We can estimate the amount of small business subcontracting utilization in the first half of FY 01 under GSA FSSs. According to PMRS, \$12,480,423 was awarded by SPAWAR to prime large businesses using GSA vehicles in this period. From previous analysis we know that approximately 30% of prime awarded dollars are subcontracted. From data in Table 4.3, we know that approximately 23.3% (\$39,036,418/\$167,657,129) of FY 01 subcontracted dollars go to small businesses. Hence, $\$12,480,423 * 30\% * 23.3\% = \mathbf{\$872,382}$ of first-tier small business subcontracting in the first half of FY 01. Second-tier small business subcontracting can also be estimated. From the above figures we know that an estimated \$2,871,745 [$(\$12,480,423 * 30\%) - \$872,382$] was subcontracted to large businesses. 3.1% of that amount is **\$89,024**, which is the estimated amount that went to second-tier small businesses.

c. Credit Policy for GSA Orders

Prime contracting small business utilization credit, as discussed, is captured by PMRS and goes to the buying activity. Small business subcontracting utilization at any level is currently not credited to either SPAWAR or DCMA. Rather, GSA collects, reports and gets credit for first-tier utilization. Second-tier utilization is neither reported nor credited. For the same reasons mentioned in the interagency acquisition credit policy paragraph, this is probably the most appropriate policy.

5. Indirect Cost Reporting

When prime contractors report their small business subcontracting utilization on SF 294s, but not on SF 295s, they must fill out a block on the form indicating whether or not their data includes indirect costs. Obviously, when the prime includes indirect costs,

DCMA is able to receive utilization credit for these small business dollars. What about those firms who choose not to report indirect costs?

Table 4.7 below shows selected FY 00 data on 47 contracts (those submitting SF 294s), comparing those that included indirect costs with those that did not.

Table 4.7 Impact of Indirect Costs on Small Business Utilization

	Included Indirect Costs	Excluded Indirect Costs
Number of Contracts	12	35
Average Small Business Goal	32.51%	30.64%
Average Small Business Achievement	45.69%	41.42%
Mean Difference	13.18%	10.78%
Median Difference	7.55%	3.90%
Percent achieving SB goal	75%	74%
Number of contracts above goal	9	22
Number of contracts below goal	3	9
Number of contracts at goal	0	4

As can be seen above, firms choosing to exclude indirect costs from their small business utilization reports outnumber those choosing to include them by almost 3 to 1. As could be anticipated, those firms excluding indirect costs set lower small business utilization goals. While most firms in both camps achieved their goals, those including indirect costs exceeded their higher goal by a greater margin than those excluding indirect costs. As measured by mean difference, median difference and by percent achieving their goals, firms including indirect costs produced greater small business utilization than those excluding indirect costs.

The implication to be drawn from the above is that firms excluding indirect costs from their data may be causing under-reporting of valid small business utilization. The amount of this under-reporting can be estimated to be 2.4% (13.18 – 10.78) of total subcontracted dollars. For the 35 contracts excluding indirect costs, FY 00 total subcontracted dollars equaled \$110,407,910. 2.4% of that figure is **\$2,649,790**. This number represents estimated under-reporting due to excluding indirect costs from SF 294 utilization data.

If utilization data is reported on SF 295s, it means the firm's subcontracting plan covers a plant, division or the whole corporation. Consequently, it is reasonable to assume all subcontracting costs, including indirect costs to small businesses, are included in their utilization data. Therefore, total subcontracted dollars from these contracts was not included in the above calculation. FY 01 data was not analyzed for indirect cost under-reporting.

6. Other Transactions

Other Transactions (OTs), as authorized by 10 U.S.C. 2371, are non-FAR covered business arrangements with firms who may otherwise choose not to do business with DoD. Because OTs are not FAR covered, the dollars obligated on these arrangements are not reported via the PMRS system. Also, since OTs are not FAR covered, the FAR clauses requiring subcontracting plans and SF 294 report submission are not in the arrangements. As a result, any direct awards to small businesses, or small business subcontracting are under-reported in the current system.

In FY 00, SPAWAR awarded \$4,474,900 in OTs. Of that total, **\$665,000** was awarded to prime small businesses. From the balance awarded to large businesses, we can estimate the amount going to first-tier small businesses using statistics derived in previous paragraphs. Approximately 30% of prime dollars are subcontracted. We know from Table 4.1 that approximately 34.0% ($\$72,607,777/\$213,256,191$) of primes' total subcontracted dollars go to small businesses. Hence, $(\$4,474,900 - \$665,000) * 30% * 34.0% = \mathbf{\$388,610}$ is the first-tier small business subcontracted amount. We could also estimate the amount of second-tier small business subcontracting. However, that amount would be relatively small and not make an appreciable impact on SPAWAR's small business utilization percentages, if included. Therefore, that estimate will not be made. If OTs made up a more significant portion of SPAWAR's procurement activity, second-tier subcontracting would become more significant. FY 01 data was not analyzed for OT under-reporting.

7. Prime Contracts Under \$500K

Prime contracts with an awarded amount under \$500K do not include FAR clause requirements for subcontracting plans, and hence, do not have small business utilization

reporting requirements. If reporting were required of these firms, what impact would that have on SPAWAR goal achievement?

When simplified acquisition procedures are used for procurements under \$100K, all requirements are set-aside for small businesses. Since these are prime small business awards, they are reported in the PMRS system and SPAWAR receives credit for them. Consequently, all “M” type contracts were excluded from consideration.

SPAWAR awarded 38 orders to large business firms under GSA schedules that were under \$500K in FY 00. As was discussed in a previous section, prime GSA orders to small businesses are being credited to SPAWAR at this time. The objective of identifying large business GSA orders would be to estimate what portion would end up in small business hands through subcontracting. But, SPAWAR does not receive subcontracting credit for GSA orders. Consequently, all “F” type orders were excluded from consideration.

The last category of contracts excluded from consideration are those under \$500K awarded to small businesses, though not part of the mandatory set-asides. Like the “M” types, PMRS captures this small business utilization and SPAWAR gets credit for it.

What is left for consideration are those contracts under \$500K, awarded to large businesses in FY 00 as “C” type contracts. SPAWAR had 7 of these contracts totaling \$1,027,564 in FY 00. Assuming these large firms subcontracted 30% of the award amount (not likely), and that 34.0% ended up in small business hands, **\$104,811**, is the estimated first-tier small business subcontracted amount. Like OTs, we could estimate the amount of second-tier small business subcontracting. However, it would be smaller than the amount for OTs and hence, not significant. FY 01 data was not analyzed for under-reporting in this area.

8. Micro-Purchases

Micro-purchases are those procurements at or under \$2,500. The Government-wide commercial purchase card is the preferred method to purchase and pay for micro-purchases. Dollars obligated in this method are not reported on either the DD 350 or DD 1057 reports. Hence, any small business purchases are not captured or reported. Also,

micro-purchases are not reserved for small business set-asides. What impact would this program have on SPAWAR goals if small business reporting were required?

First of all, because of the small dollar value involved for each transaction, it is highly unlikely that firms doing business using this method would subcontract anything. This means that any small business utilization would occur at the prime level, i.e. with the original firm the Government purchases from. SPAWAR’s FY 00 official small business utilization percentage at the prime level is 15.75% for procurements above the micro-purchase threshold. In FY 00, SPAWAR obligated \$1,974,795 via the micro-purchase method. Using the preceding utilization percentage, estimated micro-purchase small business utilization is **\$311,030** for FY 00. FY 01 data was not analyzed for under-reporting in this area.

C. SUMMARY OF SOURCES OF UNDER-REPORTING

1. Fiscal Year (FY) 2000 Statistics

The preceding analysis has identified eight sources of under-reported or mis-credited small business utilization existing under the current policy/system. Table 4.8 below shows these sources arranged in descending order of magnitude.

Table 4.8 Summary of FY 00 Sources of Under-reported Utilization

Source	Prime	First-Tier	Second-Tier	Total
1 st tier subcontracts	N/A	\$72,607,777	N/A	\$72,607,777
Interagency Acquisition	N/A	\$11,512,250	\$2,411,098	\$13,923,348
2 nd tier subcontracts	N/A	N/A	\$8,984,909	\$8,984,909
GSA Orders	N/A	\$5,101,488	\$633,785	\$5,735,273
Indirect Costs	N/A	\$2,649,790	N/A	\$2,649,790
Other Transactions	\$665,000	\$388,610	N/A	\$1,053,610
Micro-Purchases	\$311,030	N/A	N/A	\$311,030
Contracts <\$500K	\$104,811	N/A	N/A	\$104,811
Total	\$1,080,841	\$92,259,915	\$12,029,792	\$105,370,548

2. Fiscal Year (FY) 2001 Statistics

The preceding analysis has discussed four sources of under-reported or mis-credited small business utilization existing in the current policy/system. Table 4.9 below shows these sources arranged in descending order of magnitude.

Table 4.9 Summary of FY 01 Sources of Under-reported Utilization

Source	First-Tier	Second-Tier	Total
1 st tier subcontracts	\$39,036,418	N/A	\$39,036,418
2 nd tier subcontracts	N/A	\$3,935,696	\$3,935,696
Interagency Acquisition	\$2,815,280	\$404,708	\$3,219,988
GSA Orders	\$872,382	\$89,024	\$961,406
Total	\$42,724,080	\$4,429,428.00	\$47,153,508

3. Observations/Implications

First-tier small business subcontracting utilization data is not actually under-reported, it is just credited to the contract administration office rather than the buying activity, i.e. DCMA vice SPAWAR. The policy of crediting DCMA for small business first-tier subcontracting utilization obscures the magnitude of a buying activities’ overall commitment to the small business program. The impact of these dollars on goal achievement is huge.

Second-tier small business utilization data is totally unreported. Prime contractors aren’t consistently collecting it, and the Government neither requests it from primes nor credits it to anyone. The regulatory authority to collect the data exists, however, current policy forbids taking credit for it. The policy of forbidding small business second-tier subcontracting credit prevents a meaningful amount of utilization from becoming visible. Collecting data to quantify second-tier utilization is very difficult; hence, the administrative burden must be weighed against the value of capturing second-tier utilization.

Interagency acquisition and GSA FSS orders small business utilization at the prime and first-tier subcontracting level is probably not under-reported. Rather, this utilization is obscured by the crediting policy and reporting mechanism that currently exists. GSA’s interpretation of the OFPP memo establishes defacto policy of retaining credit for subcontracting utilization on its contract vehicles, regardless of who funds the action. Although this seems contrary to the intent of the OFPP memo, there are practical reasons why GSA should retain this credit at all levels of subcontracting.

None of the other sources of under-reporting generate enough small business utilization to significantly impact SPAWAR's overall utilization percentage. It's doubtful whether the inconvenience to contractors caused by mandating indirect cost reporting would be outweighed by the utilization credit generated. In the case of OTs and Micro-purchases, no mechanisms exist to capture small business utilization data, even if it was advantageous. Given the miniscule amount of utilization generated on contracts under \$500K, thought should be given to raising the threshold for requiring subcontracting plans from \$500K to \$1M, thereby matching the construction contract threshold.

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V. DATA COLLECTION MECHANISMS FOR SMALL BUSINESS SUBCONTRACTING

A. BACKGROUND

Chapter III discussed the current small business utilization system in use to set small business goals, collect utilization data and report those data to higher authority. By way of review, small business prime contracting utilization is captured in the Procurement Management Reporting System (PMRS) via DD350 input for the Navy. According to data generated from SPAWAR's FY 2000 contract actions, utilization occurring at the prime level is not substantially under-reported. Therefore, the discussion of data collection for prime contracting in Chapter III will not be further amplified here.

Chapter IV discussed areas of potential under-reporting of small business utilization within the current system. Small business subcontracting at the first and second-tier levels represented roughly 80% of the potentially under-reported utilization for SPAWAR in FY 2000 and 2001. First-tier subcontracting utilization is generally not under-reported. Rather, utilization credit policy obscures the overall contribution of small businesses to a buying activity. Second-tier subcontracting utilization is totally under-reported, as it is neither credited nor collected. In order to ensure that all potentially under-reported small business subcontracting utilization is accurately captured, the current SF 294/295 data collection system must be examined.

This chapter deals with data collection in the SF 294/295 system. Department of Energy (DoE), Directorate of Information, Operations and Reports (DIOR), and Defense Contract Management District West (DCMDW) have electronic systems for collecting small business subcontracting utilization. Defense Contract Management Agency (DCMA) and Naval Facilities Engineering Command (NAVFAC) have manual systems. Each system will be examined for its utility in capturing under-reported utilization.

B. PROBLEMS WITH THE CURRENT SYSTEM

Fundamentally, the issue at stake is whether all dollars ending up in the hands of small business contractors are captured and properly credited. There are a variety of reasons why this isn't happening, to include policy considerations, procedural inefficiencies and human errors. Three major issues discussed below are; 1) problems

identifying the universe of contracts requiring subcontracting data collection and reporting, 2) problems with manual collection and reporting systems, and 3) problems with under-reported data.

1. Identifying Contracts Requiring Small Business Subcontracting Reporting

Clearly, if a reporting activity doesn't know which prime contracts to expect SF 294/295s from, the completeness of reported data is potentially flawed. In this situation, dollars are flowing to small businesses but are not captured or reported. But is this really a problem? Does this situation exist in the real world of contract administration? We'll look at it from two perspectives; the Procuring Contracting Officer (PCO) 'shop' and the ACO shop.

It's already been mentioned that SPAWAR delegates contract administration to DCMA for all its contracts, so DCMA is primarily responsible for enforcement of the approved small business subcontracting plan. But, prime contractors must still provide the PCO (SPAWAR) with copies of all SF 294/295 reports. Does SPAWAR know all the contracts requiring SF 294/295 submission? Neither the Contracting Directorate nor the Office of Small and Disadvantaged Business Utilization (OSADBU) for SPAWAR had a listing of active contracts with a subcontracting plan, and hence, a reporting requirement. Through the PMRS system, the author was able to determine that for the period ending September 30, 2000, there were 74 active SPAWAR contracts with subcontracting plans. The contract files of less than 10% of these contracts contained the required reports. *The PCO organization does not know the universe of contracts requiring small business subcontracting reporting.*

No single DCMA office has all the SPAWAR contracts for administration since they are a geographically based organization. However, after contacting all the cognizant DCMA offices for the 74 active contracts, there were no reports in the file for approximately 10-15% of them. After being asked why they didn't have a required SF 294 report, one DCMA office indicated they only tracked those contracts (contractors) that had already submitted a report. In other words, if a new contractor failed to submit its first required SF 294, that DCMA office would never know it was delinquent.

Presumably, most DCMA offices are more proactive in tracking which contractors owe reports than the one previously mentioned. Nevertheless, *the ACO organization doesn't always know the universe of contracts requiring small business subcontracting reporting.*

The good news from the above research was that when the firms were approached who had no reports in the Government contract files, all but four had completed reports in their files and were able to provide them. That still left those four who had 'fallen through the cracks.' Because of inadequate Government oversight, and incomplete contractor compliance, a portion of the dollars actually going to small businesses was not reported. *That is a problem!*

2. Problems With Manual Collection And Reporting Systems

In addition to the problems described above with simply not having a paper copy of a required report, manual reporting poses a number of other clerical problems. Here's a list of such problems:

- Reports received, but misfiled/misplaced by the Government
- Illegible reports received requiring resubmission
- Inaccurate/erroneous data received on the report, again requiring resubmission
- Legible/accurate report received, but Gov't transcription errors in higher reporting
- Multiple handlings of a single report
- Archival data lost or inaccessible due to changes at ACO or contractor facility
- Production of internal tracking/status reports are very time-consuming

3. Problems With Under-Reported Data

There are two broad categories of under-reported data. One is data that should be reported, but for some human error, is overlooked and not listed on the appropriate report. Although this does happen, both contractor and Government personnel are adequately motivated by Congressionally mandated goals to include all legitimate utilization data they can think of. For that reason, we won't focus on this as a problem. The other broad category relates to dollars that end up in the hands of small businesses

but the current system does not require it to be reported. Since there is no reporting requirement under current policy, an undetermined amount of utilization is happening that gains no visibility.

One significant type of under-reported small business utilization is second-tier subcontracting. FAR clause 52.219-9, Small Business Subcontracting Plan, mandates that a prime contractor, "...require all subcontractors (except small business concerns) that receive subcontracts in excess of \$500K...to adopt a subcontracting plan that complies with the requirements of this clause." In other words, large businesses with first-tier subcontracts over \$500K must submit a subcontracting plan and report their small business utilization to the prime, the same way the prime does to the ACO. Instructions on the SF 294/295 forms explicitly state that, "Credit cannot be taken for awards made to lower tier subcontractors." Hence, second-tier subcontracting utilization data is currently neither credited nor collected.

C. CURRENT COLLECTION/REPORTING MECHANISMS

As was mentioned in the background, several automated and manual systems exist for the purpose of collecting small business subcontracting utilization. A brief description of each follows.

1. Manual Collection and Reporting by DCMA

The SF 294/295 system is primarily a manual method of collecting and reporting small business subcontracting utilization data. For prime contractors required to submit small business subcontracting plans, collection and reporting of utilization data is mandatory. For those firms submitting SF 294s on individual contracts, small business utilization statistics are collected on a semi-annual basis and reported to the ACO (or to the SADBUI in his/her regional office) on a paper form. For firms with comprehensive or commercial subcontracting plans, only SF 295s are submitted to the ACO. In both cases, paper forms are prepared, signed and mailed to the cognizant ACO in whose geographic area the firm resides. It is the ACO's responsibility to gather, tabulate and further report to higher authority the statistics on these individual forms.

The author found that DCMA does not follow uniform procedures for collecting or maintaining subcontracting reports. In some areas, the ACO kept the reports on file

and was enforcing the subcontracting plan. However, in most areas, the DCMA regional SADBUs performed these responsibilities. Furthermore, from region to region differences existed in how the SADBUs did this job. Some relied solely on paper files and manual tabulations, others manually entered reports on a spreadsheet and still others had their spreadsheets feed an automated consolidated report file. The fact that differences in procedures exist is not necessarily problematic, however, it does show the spectrum of manual methods attempted to address this collection/reporting task.

2. Automated System Prototype by DCMDW

The Defense Contract Management District West (DCMDW) is one of three districts within the DCMA organization. It is responsible for all contracts/contractors roughly west of the Mississippi. During the late 1990s, they have developed a prototype system that automates much of the small business subcontracting collection and reporting process. The system has been developed and tested, but has not been fully implemented throughout DCMA. External customer access to this system is available on the DCMDW small business website: http://www.dcmdw.dla.mil/business/small_business/.

The DCMDW system allows registered contractors to access the website, electronically enter and submit small business utilization data in the SF 295 format. Once submitted, the system routes the electronic form to the appropriate validating/ approving official at the cognizant ACO office. If unacceptable, the firm receives email notification to resubmit. If approved, the form is automatically filed and made available for viewing. Only the registered user/contractor can submit SF 295 data, but once approved, anyone can view the utilization statistics. These statistics are archived to include not only the current period, but also the past four years as well. Important features of this system are its ability to sort data by fiscal year, geographic regions and to roll-up the data for the entire district for any given reporting period. Additional report details are available on an individual contractor basis. [Ref. 34]

At the time of this writing, the system has no capability to electronically collect SF 294 reports even though DCMA receives submissions of both SF 294s and SF 295s manually. However, SF 295s are submitted semi-annually even by firms without comprehensive or commercial subcontracting plans, for the purpose of summarizing all

individual contract small business utilization statistics. Hence, from DCMDW's perspective, they are not losing the SF 294 data, but are capturing it in a summarized form. This lack of functionality was due to a cost trade-off decision in the development phase [Ref. 35]. The system does not interface with the DIOR system at this time, meaning that ACO offices must report the same data to both DCMDW and DIOR systems [Ref. 36].

The system is also void of any mechanism to track the universe of contracts from which SF 294 reports should be submitted. As mentioned earlier, this may be a general weakness of the DCMA organization, rather than an oversight of this particular system. While knowing both this universe of contracts, and its utilization data is important, it may not be practical to incorporate both into this current system. Data for the former would come from within the Government, while data for the latter comes from the contractor community.

3. Summary Subcontract Reporting System By DIOR

The Directorate for Information, Operations and Reports (DIOR) has developed an automated system for the collection of summary subcontracting data from SF 295s. DIOR is a central source of statistical information on the Department of Defense. Their system is in beta test during FY 01. Input into this system comes only from Government entities and not from the contractor community. [Ref. 37]

Like the DCMDW system, the DIOR system is accessed via the Internet using commercially available browsers. It requires an Oracle plug-in and a user ID/password. Registered users have the capability to enter new SF 295 data, correct data previously entered, produce reports or download data from the database. Certain users have capability to manipulate contractor data in the Master File. The system has an error-detection feature, preventing completion of a record until the error is corrected. A reports menu allows the user to select from three pre-programmed reports; 1) Subcontracting Reports Submitted This Reporting Period, 2) Missing Pcode Report, or 3) Error Report. The first report shows all the records submitted by a reporting activity in the current reporting period. The second report lists the contractors that were reported on the

previous period, but not the current period. The last report displays all the errors detected in an activity's reports. [Ref. 38]

Again, like the DCMDW system, the DIOR system has no SF 294 functionality. It also doesn't track individual contracts requiring SF 294 submission. The purpose of this system is more general/big-picture than the DCMDW system; hence, it wouldn't be expected to track either of these items. While the system does produce reports for registered users, non-users have no access to any current data. The general public can obtain access to this data only after the reporting period is over and the standard reports have been finalized. Access to this information can be obtained at the following website: <http://web1.whs.osd.mil/peidhome/peidhome.htm>.

4. Subcontracting Reporting System by DoE

Of the automated systems discussed, the DoE system has the greatest functionality and is furthest in its lifecycle. DoE has developed, tested and implemented this system. It has been in use for a period of about two years. Users can access this system at the following website: <http://www.pr.doe.gov/srs/>.

As with the other systems, this one is accessed via the Internet. Users must register to obtain an ID and password. The system is designed around four types of users: Contractors, Head of Contracting Activity (HCA) Offices, DoE HQ and unspecified DoE Users. Contractors use the system to input both/either SF 294/295 data. HCA offices review and approve the SF 294/295s. DoE HQ consolidates approved SF 294/295 data. DoE users are allowed access to various types of reports of SF 294/295 data. [Ref. 39]

Contractors accessing the system may create, update or submit SF 294/295 data. In the 'create' mode, the system will present a listing of contracts DoE has with that contractor under which previous SF 294/295s have been submitted. If the current report is under one of those contracts, the contractor selects that contract to auto-fill fields in the instant report. The 'update' mode allows contractors to revise data fields prior to submission or resubmission. Upon submission, the report is routed to the HCA office for review/approval. If unacceptable, the contractor receives an email notification to

resubmit. The contractor may then utilize the update mode and resubmit. An approved report is automatically forwarded to DoE HQ. [Ref. 40]

Reports available to DoE users include individual SF 294/295s, DoE-wide achievement based on submitted SF 294/295s, timeliness/missing SF 294 reports, subcontracting achievement versus goals, reports received sorted by DoE organizational unit, and individual contractor socioeconomic achievements. [Ref. 41]

Unlike the preceding systems, the DoE system does accommodate SF 294 data input. It also moves closer to tracking individual contracts requiring SF 294 submission than the other systems. Although there is no mechanism to ensure the listing of contracts requiring a report is totally complete, the system does remember previous contract numbers requiring a report and displays them, plus has a reporting function to list reports it presumes are missing. The reporting functionality is very robust, allowing reports to be sorted by fiscal year, DoE organizational unit, and type of business entity.

5. Hybrid Manual/Electronic Method to Track Active Contracts Requiring Subcontracting Reporting by Naval Facilities Engineering Command (NAVFAC)

NAVFAC retains contract administration and therefore, receives and reports small business subcontracting utilization data from its prime contractors. Their ‘system’ is actually more manual than automated.

The NAVFAC Engineering Field Division (EFD) SADBUs maintain a listing of contracts on which previous SF 294/295 data were submitted. Throughout the subsequent reporting period the SADBUs keep track of new subcontracting plans routed to their office for review by EFD Contracting Officers. The solicitation/contract numbers are captured and added to the existing list of contracts requiring subcontracting reporting. The list is maintained on a spreadsheet and constantly updated as new contracts are added to the list and as periodic reports are received. Upon receipt of all reports for the period, the SADBUs total reported data using the spreadsheet summation function and forwards to DoN and DIOR for receipt of utilization credit. [Ref. 42]

Although this method comes closest to capturing the list of contracts requiring submission of subcontracting utilization data of the systems we’ve discussed, it is neither automated nor completely accurate. Essentially, this is a manual process loaded on a

spreadsheet. Its accuracy depends on the conscientiousness of the Contracting Officer sending in plans for review and on the SADBUs diligently capturing each plan as it arrives. It also has no systemic mechanism for deleting contracts from the list whose period of performance has expired.

D. UNREPORTED SECOND-TIER SUBCONTRACTING DATA

In the preceding section, the problems of identifying the universe of contracts requiring subcontracting data collection and reporting and the problems with manual collection and reporting systems were discussed and analyzed. In this section, the problem with under-reported data will be discussed. As was previously identified, the discussion will focus on one particular type of unreported data: second-tier subcontracting.

FAR clause 52.219-9(d)(9) states, “the offeror will require all subcontractors (except small business concerns) that receive subcontracts in excess of \$500,000 (\$1,000,000 for construction of any public facility) to adopt a plan similar to the plan that complies with the requirements of this clause.” FAR clause 52.219-9(d)(10)(i) requires that primes “Cooperate in any studies or surveys as may be required” and (iv), “Ensure that its subcontractors agree to submit SF 294 and 295.” On the basis of these clause sections, the Government has the right to expect prime contractors to collect these data and provide it when requested. Is it happening?

For FY 00, the author selected ten contracts from the list of 74 active contracts requiring subcontracting plans to test contractor compliance with the above requirement. The ten represented those firms with the highest actual cumulative amount subcontracted to first-tier large businesses. Of the ten, all required their subcontractors of over \$500K to submit subcontracting plans, but only seven stated they regularly collected utilization data from their subcontractors. Of the seven, two provided utilization data to the Government, one had no subcontractors over \$500K and four could not provide data. This raises the question of whether the four actually collected data from their subcontractors at all. A more thorough list of contracts was examined in FY 01 with similar results.

Assuming it was DoD policy to collect and credit second-tier subcontracting data, how could it be done? Actually, the authority and mechanisms are already in place. First-tier large businesses with subcontracts over \$500K should submit second-tier small business utilization data to their prime on a semi-annual SF 294 report. What is currently not done is for the prime to collect all of these reports and provide them to the Government along with their own SF 294 submission. Additionally, the primes should identify the total dollar value of each first-tier large business subcontract over \$500K. This would allow the Government to determine the proportion of the prime's SF 294 block 10b (total subcontracted to large business concerns) that is subject to second-tier small business utilization data collection. One final note; to prevent double counting of second-tier data, the prime should be required to indicate whether the utilization reported by the large business subcontractor was already being reported under a separate DoD subcontracting plan [Ref. 43]. If it is already reported under a comprehensive or commercial subcontracting plan, the instant contract could not take credit for this utilization. The above discussion assumes prime contractors would be motivated to collect this data by granting them authority to take small business utilization credit for it. If the actions in this paragraph were to happen, then second-tier utilization could be captured in the same system used to collect first-tier utilization.

E. OBSERVATIONS/IMPLICATIONS

DoD is experiencing problems identifying the universe of contracts requiring subcontracting data collection and reporting, problems with manual collection and reporting systems, and problems with under-reported small business subcontracting utilization data. These problems create an undetermined amount of small business subcontracting utilization which is under-reported and for which agencies are not being credited. Two broad issues need to be confronted in order to address these problems: a single, DoD-wide, automated data collection system and a coherent policy for crediting small business subcontracting utilization at the first and second-tier.

Currently there is no single automated data collection system for small business subcontracting utilization in DoD. Several good models exist, however, none of them offer the full range of capabilities necessary to solve the problem of potential under-

reporting. Whether a new system is developed, or an existing system is modified, important capabilities that must be included are; 1) the system must be able to receive automated SF 294 input from contractors, 2) the system must be able to facilitate electronic routing and approval of submitted SF 294/295s, 3) the system must be able to produce utilization reports by procuring activity, 4) the system must be able to automatically upload utilization data to the DIOR system, 5) the system must be able to create and edit a list of contracts requiring a subcontracting plan, and hence, SF 294/295 reporting, 6) the system must be able to produce reports identifying missing or late SF 294/295s and 7) the system must be able to archive utilization data and retrieve these data using sort criteria.

The current policy for crediting small business subcontracting utilization appears inconsistent. First-tier subcontracting is credited, but second-tier subcontracting is not. Consequently, a data collection system exists to gather first-tier utilization (albeit an imperfect one), but none exists to gather second-tier utilization. Were the second-tier policy to change, by not prohibiting receiving credit for this utilization, an improved first-tier data collection system could be fashioned to capture second-tier utilization as well. Clearly, this would require a policy change at least at the DoD level, and perhaps even higher. Safeguards would also be needed to prevent double counting second-tier utilization.

A number of benefits would accrue if the two issues above were confronted. There would be significant labor savings as contractors, vice Government personnel, populate an automated data collection system. Data accuracy would improve as data will only be input a single time and electronically handled, and archived, from that point on. There would be better visibility of utilization statistics as reports would be produced, and sorted by numerous parameters, electronically. More timely reporting of utilization data to higher authority would result, as the automated system interfaces directly with the DIOR system. There would be a more complete measurement of actual small business utilization by allowing credit for second-tier subcontracting, thus addressing a critical under-reporting area. There would be greater efficiency in tracking utilization reporting required by contractors as the system prompts Government users with a listing of

contracts requiring reports. Other benefits may also accrue as Government and contractor users become more proficient with the new system and crediting policy.

VI. ANALYSIS OF POTENTIAL CHANGES TO THE SMALL BUSINESS UTILIZATION SYSTEM

A. BACKGROUND

In conducting this study, the premise was that small businesses might actually be making a greater contribution to SPAWAR's mission than reported statistics in the current small business utilization system demonstrate. Consequently, our research focused on those aspects of small business utilization that are mis-counted or not currently counted toward accomplishing small business utilization goals. The aim was to answer this question: "To what extent are small and disadvantaged businesses contributing to the overall mission of Space and Naval Warfare Systems Command and what methods might be used to best capture and analyze the procurement data that reflect this contribution?"

Chapter III discussed the current small business utilization system in use to set small business goals, collect utilization data and report those data to higher authority. Chapter IV discussed areas of potential under-reporting of small business utilization within the current system. Chapter V dealt with small business subcontracting data collection in the SF 294/295 system. By way of refresher, first and second-tier subcontracting represented the majority of potentially mis/under-reported small business utilization identified by the research. Previous chapters have not analyzed the impact of this mis/under-reporting on SPAWAR's reported statistics for small business utilization.

This chapter statistically analyzes the impact of each of the eight areas of potential mis/under-reporting identified in Chapter IV on SPAWAR's reported small business utilization. A discussion of the advantages and disadvantages of incorporating each area into the existing small business utilization system is also offered. Following this discussion is an analysis of a particular scenario: i.e. the impact to the current small business utilization system if first and second-tier subcontracting utilization are included in SPAWAR's reported statistics. The chapter concludes with an analysis of the impact of changing the measure/metric used to demonstrate SPAWAR's small business utilization.

B. ANALYSIS OF THE IMPACT OF INCORPORATING MIS/UNDER-REPORTED SMALL BUSINESS UTILIZATION IN SPAWAR'S STATISTICS

1. First-tier Subcontracting

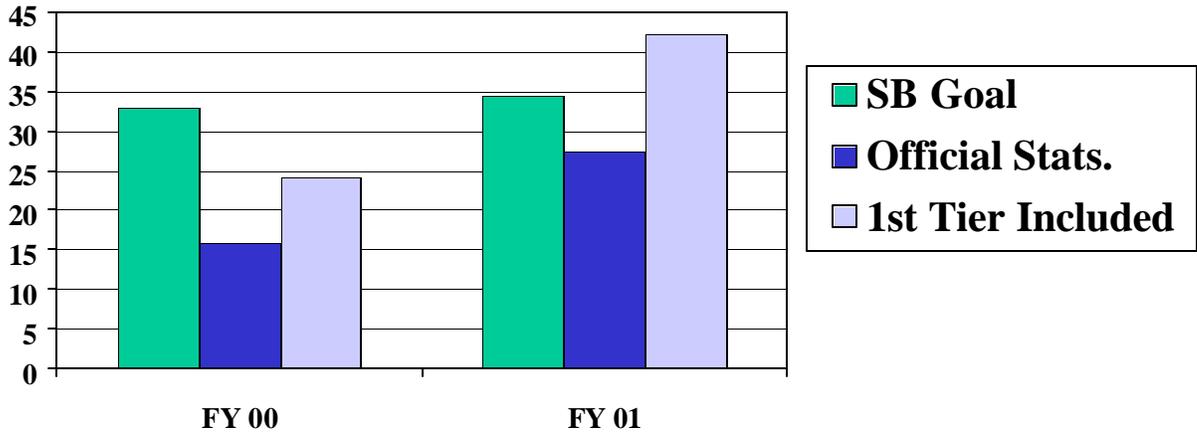


Figure 6.1 Impact of First-Tier Subcontracting on Small Business Statistics

Table 6.1 First-Tier Subcontracting Statistics

FY	SB Goal	Official Stats.	Percent	1 st Tier Subs. Included	Percent	Increase
2000	33.0%	\$136,960,181	15.75%	\$209,567,958	24.09%	08.34%
2001	34.5%	\$72,864,847	27.42%	\$111,901,265	42.11%	14.69%

Figure 6.1 and Table 6.1 show in a graphical and tabular way the impact of including first-tier small business subcontracting in SPAWAR's statistics. No attempt was made to further break down this utilization into its component parts, i.e. small disadvantaged and women owned business, etc. FY 2000 statistics are based on \$869,814,202 of obligations for the full year. FY 2001 statistics are based on \$265,725,510 of obligations for the first half of the year. These obligation figures are used throughout this chapter unless otherwise noted.

More than any other area researched, first-tier subcontracting has the greatest impact on SPAWAR statistics. As previously discussed, this small business utilization is not under-reported, but because of the policy to credit the administering office rather than the buying office, it may be mis-reported. Current crediting policy obscures the proportion of funds from the buying activity that ultimately end up in small business

hands. In the case of first-tier subcontracting, this has a huge impact on the statistics. The impact on FY 2000 statistics shows an absolute increase of over 8% in the utilization percentage. Though the overall prime contracting goal was not achieved by including first-tier subcontracting, the shortfall was substantially reduced. The impact in FY 2001 is more telling. Including first-tier subcontracting changes prime contracting goal accomplishment from being 7% under the goal to being 7% over the goal! Clearly, subcontracting goals would need to be considered before assuming that including first tier subcontracting in the prime goal is a panacea.

In light of the dramatic impact first-tier subcontracting has on SPAWAR's statistics, consideration should be given to altering the current small business utilization system to address this area of 'mis-reporting.' What are the advantages and disadvantages of granting the buying activity with first-tier subcontracting credit, even though they don't provide the contract administration?

The most compelling advantage of granting the buying activity first-tier subcontracting credit is to demonstrate a more accurate representation of the magnitude of small business contribution to the overall mission of the organization. Whether awarded to prime or subcontractors, the dollars originate from the buying activity, not the administering activity. A second advantage of crediting the buying activity is the motivation it provides PCOs in negotiating higher small business goals on prime's subcontracting plans. If credit for subcontracting utilization generated under these plans accrues to the buying activity, the PCO has a vested interest in encouraging the prime to maximize small business usage. Finally, crediting the buying activity is advantageous because it fosters communication among all participants and strengthens ownership of the small business program. Given that crediting the buying activity will allow for visibility of the magnitude of small business participation, program office personnel, the contracting community and SADBUs will be much more inclined to view both prime and small business subcontractors as significant and valuable members of the overall team effort.

There are some disadvantages of granting the buying activity first-tier subcontracting credit. The foremost disadvantage is the disconnect caused by the buying

activity not administering the subcontracting plan. DCMA performs this administration function and currently collects small business subcontracting statistics. Related to the first disadvantage, a second involves the added burden on the SADBUs of the buying activity. If credit accrued to the buying activity, the SADBUs would be responsible, if not for subcontracting plan administration, then at least for collecting the utilization statistics. These disadvantages could be mitigated by orderly transition planning involving training provided by DCMA and additional staffing provided to the buying activities' SADBUs office.

2. Second-tier Subcontracting

Figure 6.2 and Table 6.2 show in a graphical and tabular way the impact of including second-tier small business subcontracting in SPAWAR's statistics. Second-tier subcontracting has a measurably significant, but smaller, impact on SPAWAR statistics than did first-tier subcontracting. Unlike first-tier subcontracting, second-tier small business subcontracting utilization is not reported at all in the current system. The impact on both fiscal years statistics shows over a 1% absolute increase in the utilization percentage.

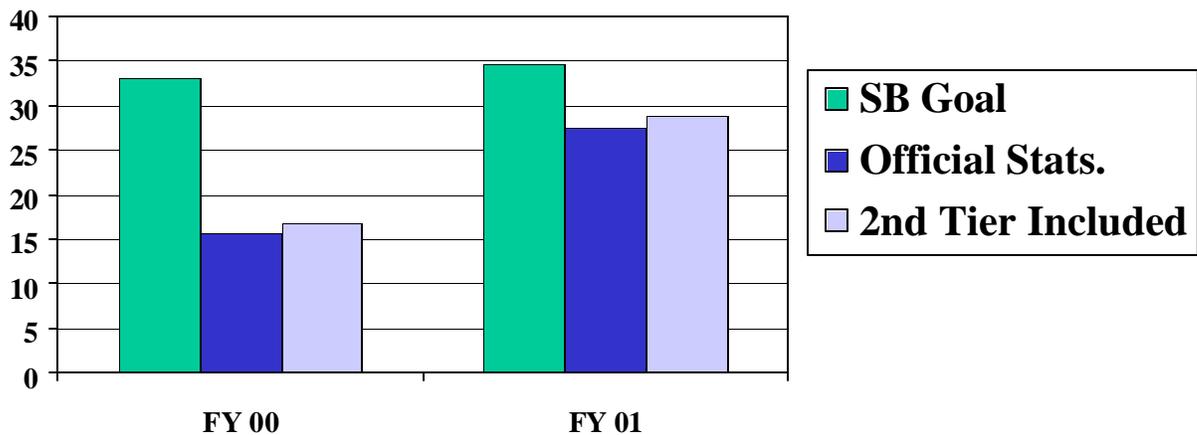


Figure 6.2 Impact of Second-Tier Subcontracting on Small Business Statistics

Table 6.2 Second-Tier Subcontracting Statistics

FY	SB Goal	Official Stats.	Percent	2nd Tier Subs Included	Percent	Increase
2000	33.0%	\$136,960,181	15.75%	\$145,945,090	16.78%	1.03%
2001	34.5%	\$72,864,847	27.42%	\$76,800,543	28.90%	1.48%

Given the measurably significant impact second-tier subcontracting has on SPAWAR's statistics, consideration should be given to altering the current small business utilization system to address this area of under-reporting. Unlike first-tier subcontracting where the only issue at stake was who should receive credit, second-tier subcontracting has at least two issues. First, prime contractors are currently forbidden from counting second-tier small business utilization on their SF 294/295 submissions to the Government. Second, like first-tier subcontracting, who should receive credit must be resolved. For analysis purposes, we'll assume that prime contractors can be freed from this restriction and buying activities can take credit for second-tier utilization. Thereupon, what are the advantages and disadvantages of granting the buying activity with second-tier subcontracting credit?

The biggest advantage of granting the buying activity second-tier subcontracting credit is to capture bona fide small business utilization that the current system presently ignores. Although these expenditures represent only about 1% of SPAWAR's obligations, if extrapolated across the entire DoD procurement budget, tens and perhaps hundreds of millions of dollars of second-tier small business utilization could be captured. A second advantage is the motivation it will provide prime contractors in negotiating higher small business goals with their first-tier subcontractors. This is a contractual incentive that encourages all levels of the contractor community to maximize small business usage. Finally, this change is advantageous because it gives visibility and recognition to both contractors and buying activities for small business utilization that has always occurred but has never been officially recognized.

The primary disadvantage of crediting second-tier subcontracting utilization is the labor-intensive process necessary to collect the data. The current system for first-tier data collection is inconsistent and not automated. However, it is infinitely better than the non-existent system for second-tier data. Another disadvantage is the possibility that second-tier small business utilization could be double counted in the process. Some firms already report utilization under commercial or comprehensive subcontracting plans. Dual reporting would skew statistics. These disadvantages could be mitigated by implementing a robust, automated system for the collection of both first and second-tier

subcontracting data and by instituting safeguards in the collection process to prevent double counting.

3. GSA Federal Supply Schedule Orders

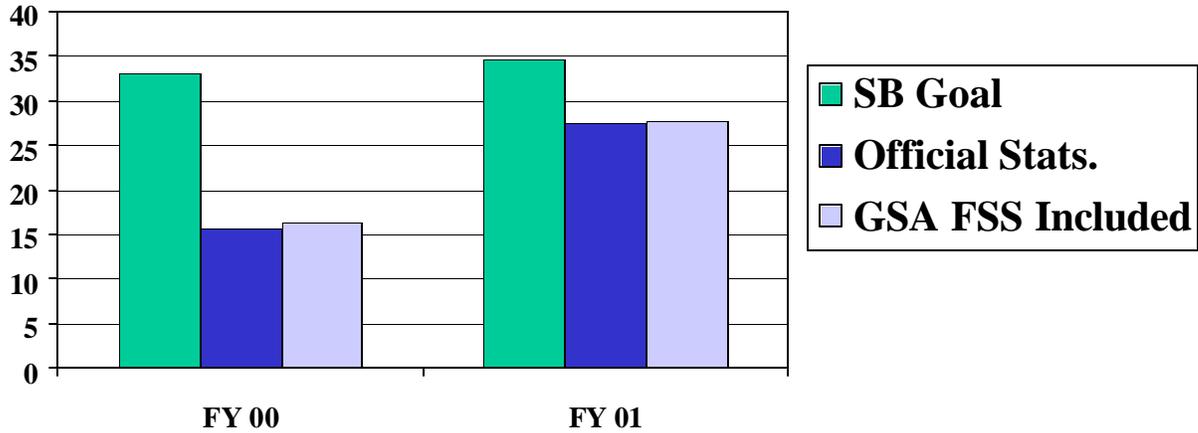


Figure 6.3 Impact of GSA FSS Orders on Small Business Statistics

Table 6.3 GSA FSS Orders Statistics

FY	SB Goal	Official Stats.	Percent	GSA FSS Subs Included	Percent	Increase
2000	33.0%	\$136,960,181	15.75%	\$142,695,454	16.40%	0.66%
2001	34.5%	\$72,864,847	27.42%	\$73,826,253	27.78%	0.36%

Figure 6.3 and Table 6.3 show in a graphical and tabular way the impact of including first and second-tier subcontracting under GSA Federal Supply Schedule Orders in SPAWAR’s statistics. Prime orders are currently reported and credited to the buying activity and not listed in the graphics above. The subcontracting utilization shown above has a modest impact on SPAWAR’s statistics. GSA FSS first-tier subcontracting utilization is reported, but second-tier subcontracting utilization is not reported in the current system. GSA is credited with first-tier utilization. The impact on both fiscal years statistics shows less than a 1% absolute increase in the utilization percentage.

In considering whether to alter the current small business utilization system to address this area of under-reporting, different issues arise than in first and second-tier subcontracting. Although the issue of who should receive credit is still a factor, we must also now consider the unique aspects of GSA’s contract vehicles and the broad clientele

they service. With this in mind, what are the advantages and disadvantages of granting the buying activity with first and second-tier subcontracting credit for orders under GSA FSS contracts?

The only advantages of granting the buying activity subcontracting credit under GSA orders are to give visibility of the first-tier dollars originating from the buying activity currently buried in GSA's utilization statistics and to capture bona fide small business utilization at the second-tier that the current system presently ignores. When these advantages are measured against the impact they make on SPAWAR's utilization statistics they appear relatively minor.

The main disadvantage of crediting subcontracting utilization at either tier to the buying activity is the immense burden it would place on contractors and GSA to identify and account for the funding source of each subcontracted dollar. FSS contracts are used by all government agencies, not just DoD. There are hundreds of agencies. GSA awards and administers these vehicles, and hence, receives the subcontracting reports from prime contractors. For credit to be given to a buying activity, the contractor would need to maintain a separate ledger for each activity ordering under a single FSS contract. Every reporting period, rather than submitting a single SF 294/295 report, the contractor would submit what amounts to a report for every buying activity using that single FSS contract. At that point, GSA, as the administration office, would need to devise a method to accurately and timely relay those utilization statistics to the affected buying activities. When one considers not only the large number of government agencies, but also the large number of FSS contracts, the burden this represents is huge.

4. Interagency Acquisitions

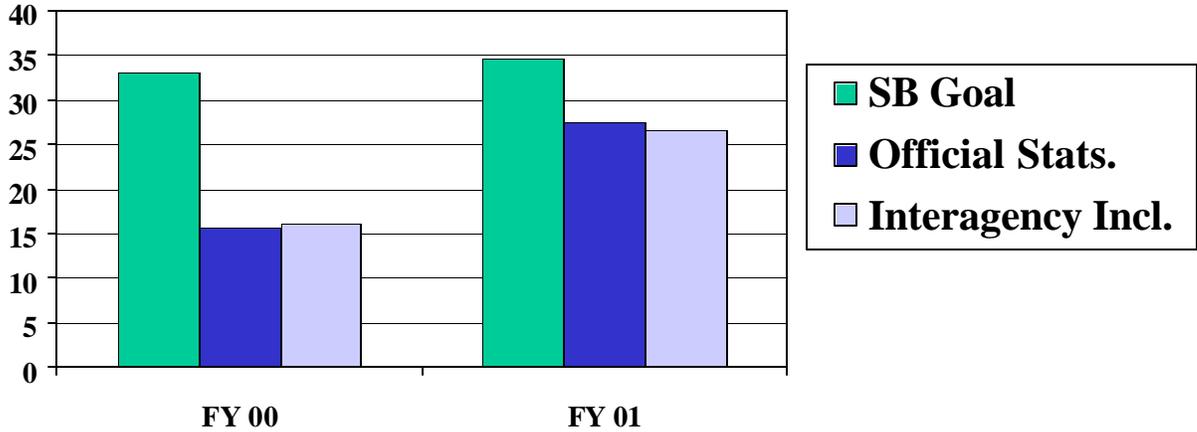


Figure 6.4 Impact of Interagency Acquisitions on Small Business Statistics

Table 6.4 Interagency Acquisition Statistics

FY	SB Goal	Official Stats.	Percent	Interagency Subs Incl.	Percent	Increase
2000	33.0%	\$136,960,181	15.75%	\$150,883,529	16.15%	0.40%
2001	34.5%	\$72,864,847	27.42%	\$76,084,835	26.56%	-0.86%

Figure 6.4 and Table 6.4 show in a graphical and tabular way the impact of including first and second-tier subcontracting under interagency acquisitions in SPAWAR’s statistics. Prime orders are currently reported and credited, so are not listed in the graphics above. The subcontracting utilization shown above has a modest, but mixed, impact on SPAWAR’s statistics. As with GSA FSS orders, interagency first-tier subcontracting utilization is reported, but second-tier subcontracting utilization is not reported in the current system. The agency obligating interagency acquisition dollars, usually GSA, is credited with first-tier utilization. The impact on both fiscal years statistics shows less than a 1% absolute change in the utilization percentage, although FY 00 is positive and FY 01 is negative. The reason for this is because the dollars obligated under interagency acquisitions are not currently counted in determining SPAWAR’s small business utilization percentage. If we include the aforementioned small business utilization in the numerator of the percentage, we must also include the total obligations of those acquisitions in the denominator. Hence, actual interagency obligations of

\$64,446,886 in FY 00 and estimated interagency obligations of \$20,761,872 in the first half of FY 01 must be added to SPAWAR's obligations of \$869,814,202 and \$265,725,510 for each respective FY. When the percentages are recalculated with both numerator and denominator changed, it impacts small business utilization positively in FY 00 and negatively in FY 01.

In considering whether to alter the current small business utilization system to address this area of under-reporting, similar issues arise as with GSA FSS orders. The new issue to consider is the impact of total interagency obligations on the net percentage of small business utilization. The advantages and disadvantages of granting the buying activity subcontracting credit under interagency acquisitions are substantially no different than under GSA FSS orders, with one exception. It is clear under GSA FSS orders that by counting subcontracting, a buying activities' small business utilization percentage will increase, however slight. That is because the total obligations within which the subcontracting utilization is occurring are already counted in calculating the utilization percentage. This is not the case with interagency acquisitions. Counting subcontracting may or may not increase the utilization percentage depending on the relative amount of small business subcontracting verses the amount of total obligations generating that utilization.

Research results from FY 00 showed that the preceding four areas of potential under-reporting were likely to measurably impact SPAWAR's small business utilization statistics. Consequently, data were also collected in FY 01 to continue quantifying this impact. The following four areas did not present the same likelihood of measurable impact, hence, data were collected in FY 00 only.

5. Indirect Costs

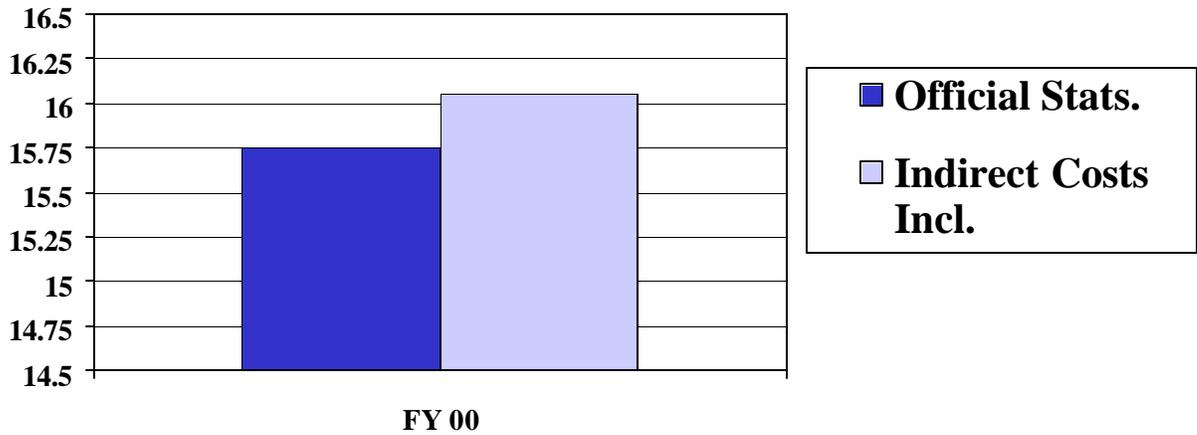


Figure 6.5 Impact of Indirect Costs on Small Business Statistics

Table 6.5 Indirect Cost Statistics

FY	Official Stats.	Percent	Indirect Costs Included	Percent	Increase
2000	\$136,960,181	15.75%	\$139,609,971	16.05%	0.30%

Figure 6.5 and Table 6.5 show in a graphical and tabular way the impact of including indirect costs in SPAWAR’s statistics. Note that the scale on the graph has changed from previous graphs. What looks like a larger change on Figure 6.5, is actually a smaller change than on Figure 6.4 (for FY 00) due to the change in scale. Including indirect costs has a relatively minor impact on SPAWAR statistics. As discussed in Chapter IV, this estimated small business utilization is under-reported, but only so if all contractors were required to include indirect costs in their SF 294/295 reports, which they currently are not.

Should consideration be given to altering the current small business utilization system to address this area of under-reporting? Probably not. The advantage of minor potential gains in the utilization percentage are outweighed by the burden placed on firms by mandating tracking of size status on their indirect subcontracts. If a significant proportion of a firm’s overall costs are indirect, then mandating the inclusion of small business utilization from indirect costs could actually negatively impact the firm’s reported small business percentage. This is not a desirable outcome.

6. Other Transactions (OTs)

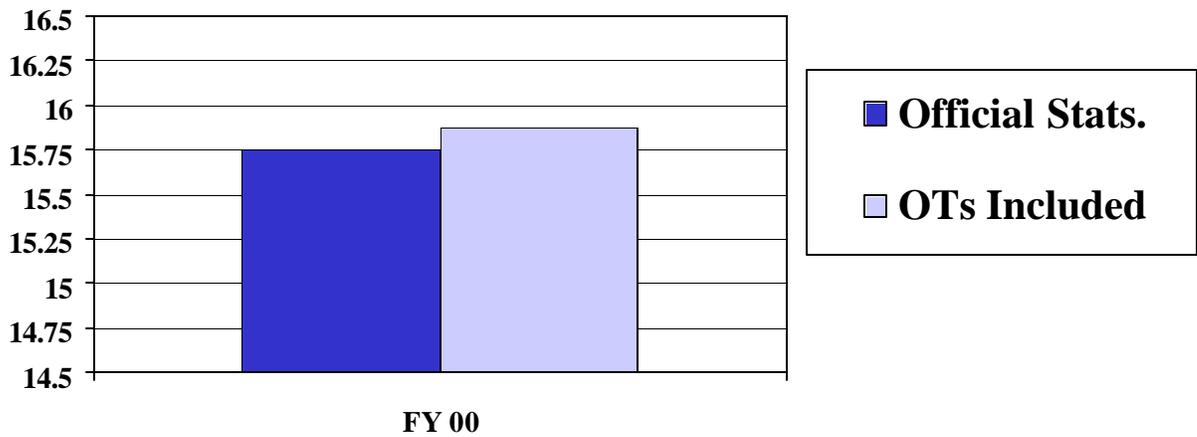


Figure 6.6 Impact of Other Transactions on Small Business Statistics

Table 6.6 Other Transaction Statistics

FY	Official Stats.	Percent	Other Transactions Incl.	Percent	Increase
2000	\$136,960,181	15.75%	\$138,013,791	15.87%	0.12%

Figure 6.6 and Table 6.6 show in a graphical and tabular way the impact of including Other Transactions in SPAWAR’s statistics. OTs have a relatively minor impact on SPAWAR statistics. As discussed in Chapter (delete)IV, OTs are non-FAR covered procurement instruments. As such, the ‘contractors’ are not subject to small business reporting requirements. Hence, the above utilization is truly under-reported.

Should consideration be given to altering the current small business utilization system to address this area of under-reporting? Again, probably not. The gains in SPAWAR’s utilization percentage are minimal if OTs are included. However, this may not be the case if an agency makes extensive use of OTs. Statutory and regulatory changes would be required to subject these instruments to reporting requirements. Since the whole purpose of OTs is to remove the ‘bureaucratic red tape’ associated with federal procurement, there is little point to pursue changes at odds with this purpose.

7. Micro-Purchases

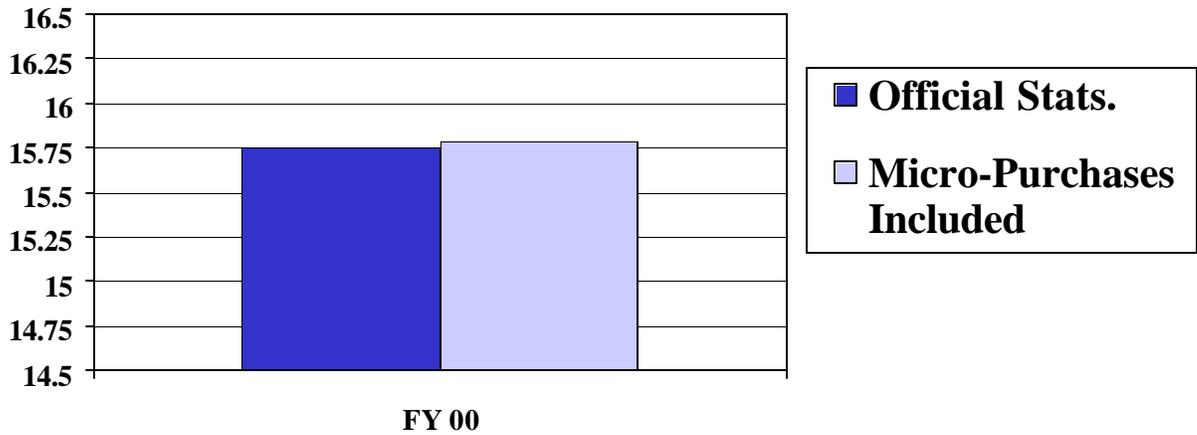


Figure 6.7 Impact of Micro-Purchases on Small Business Statistics

Table 6.7 Micro-Purchase Statistics

FY	Official Stats.	Percent	Micro-Purchases Included	Percent	Increase
2000	\$136,960,181	15.75%	\$137,271,211	15.78%	0.03%

Figure 6.7 and Table 6.7 show in a graphical and tabular way the impact of including Micro-purchases in SPAWAR’s statistics. Micro-purchases have an insignificant impact on SPAWAR statistics. Micro-purchases are those procurements at or under \$2,500 and are not subject to small business reporting requirements. Hence, the above utilization is truly under-reported.

Should consideration be given to altering the current small business utilization system to address this area of under-reporting? No. There is virtually no gain in SPAWAR’s utilization percentage if Micro-purchases are included. Additionally, there is no mechanism to collect small business utilization data even if such a change were deemed desirable.

8. Contracts Under \$500K

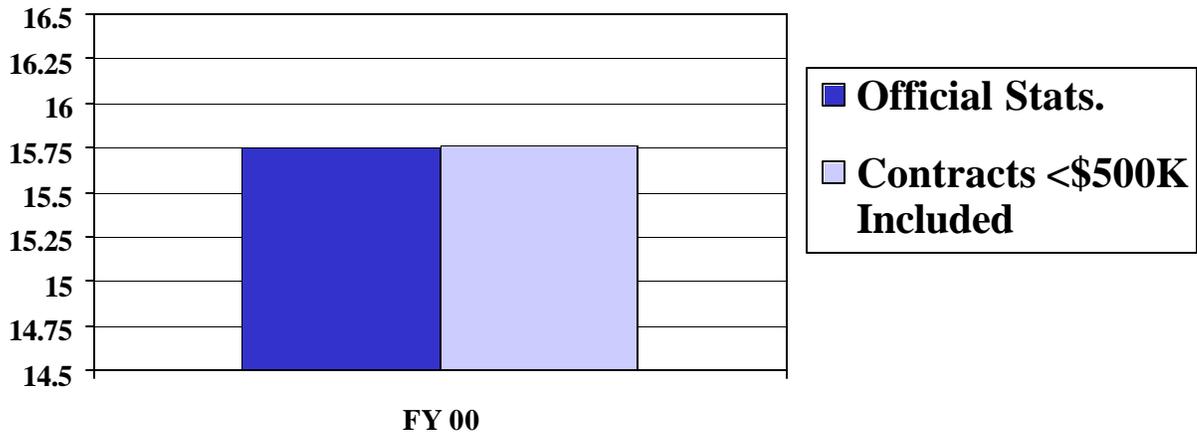


Figure 6.8 Impact of Contracts Under \$500K on Small Business Statistics

Table 6.8 Contracts Under \$500K Statistics

FY	Official Stats.	Percent	Contracts <\$500K Included	Percent	Increase
2000	\$136,960,181	15.75%	\$137,064,992	15.76%	0.01%

Figure 6.8 and Table 6.8 show in a graphical and tabular way the impact of including contracts under \$500K in SPAWAR’s statistics. These contracts have an insignificant impact on SPAWAR statistics. These contracts do not contain the clauses requiring a subcontracting plan and are therefore not subject to small business reporting requirements. Hence, the above utilization is truly under-reported.

Should consideration be given to altering the current small business utilization system to address this area of under-reporting? No. There is virtually no gain in SPAWAR’s utilization percentage if these contracts are included, hence, the additional administrative burden is unjustified.

9. Impact of All Eight Areas

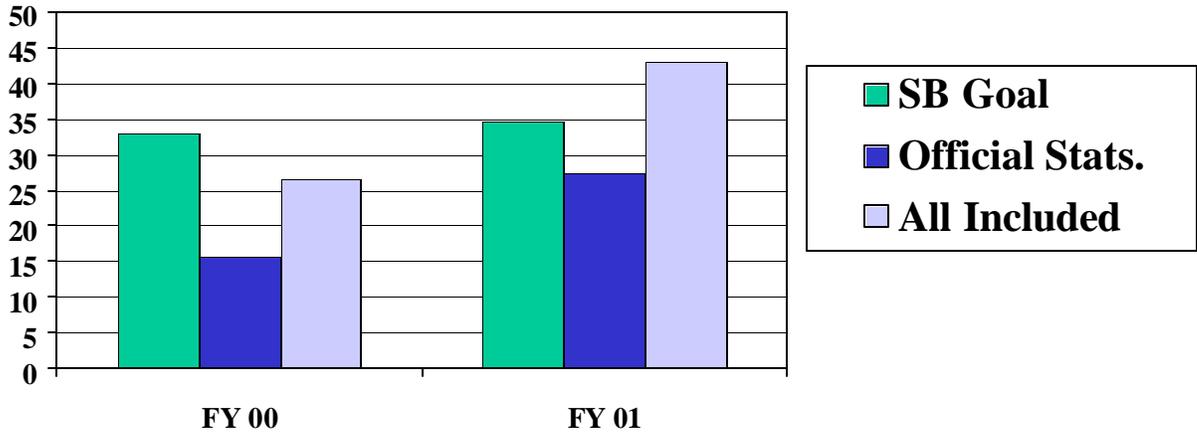


Figure 6.9 Impact of All Eight Areas on Small Business Statistics

Table 6.9 Statistics from All Eight Areas of Under-Reporting

Source	FY 00 SB \$	FY 00 SB % Inc	FY 01 SB \$	FY 01 SB % Inc
1 st tier subcontracts	\$72,607,777	8.34%	\$39,036,418	14.69%
2 nd tier subcontracts	\$8,984,909	1.03%	\$3,935,696	1.48%
GSA Orders	\$5,735,273	0.66%	\$961,406	0.36%
Interagency Acquisition	\$13,923,348	0.40%	\$3,219,988	-0.86%
Indirect Costs	\$2,649,790	0.30%		N/A
Other Transactions	\$1,053,610	0.12%		N/A
Micro-Purchases	\$311,030	0.03%		N/A
Contracts <\$500K	\$104,811	0.01%		N/A
Total	\$105,370,548	10.89%	\$47,153,508	15.67%

Figure 6.9 and Table 6.9 show in a graphical and tabular way the impact of including all eight areas of potential mis/under-reporting in SPAWAR’s statistics. Given the official small business utilization statistics of \$136,960,181 for FY 00 and \$72,864,847 for the first half of FY 01, the amounts of mis/under-reporting in the table above are very significant. Even with the understanding that subcontracting goals are not taken into account in Figure 6.9, the impact of all these areas on SPAWAR’s statistics causes a huge difference in prime contracting goal achievement. One may consider it inappropriate to compare the impact these areas have on prime contracting goal achievement because of the presence of subcontracting utilization. If so, then the

graphical representation of this impact on the total percentage of SPAWAR’s obligated dollars going to small businesses should be sufficient to demonstrate the immense impact these areas have. Clearly, small businesses are making a much larger contribution to the overall mission of SPAWAR than the current small business reporting system shows.

10. Impact of Only First and Second-Tier Subcontracting Statistics

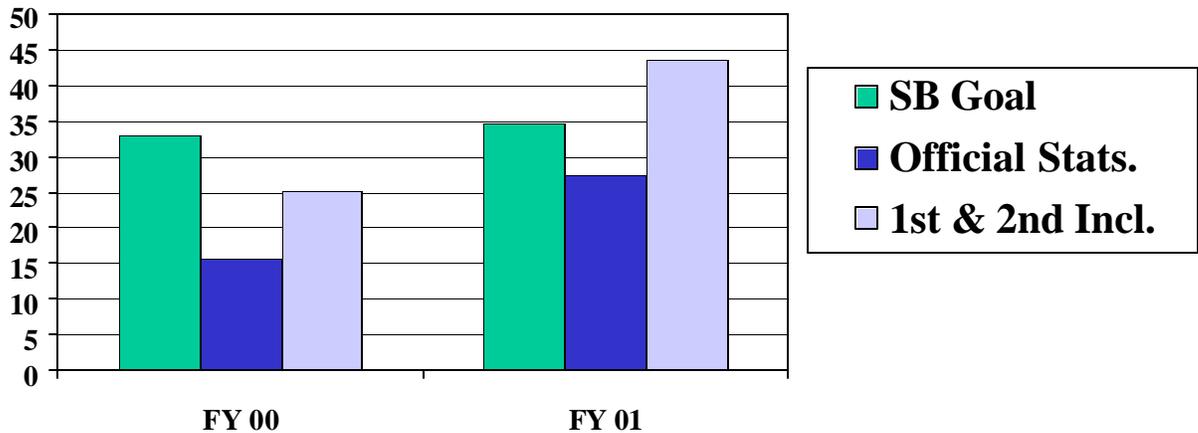


Figure 6.10 Impact of Only First and Second-Tier Subcontracting on Small Business

Table 6.10 First and Second-Tier Subcontracting Statistics

Source	FY 00 SB \$	FY 00 SB % Inc	FY 01 SB \$	FY 01 SB % Inc
1 st tier subcontracts	\$72,607,777	8.34%	\$39,036,418	14.69%
2 nd tier subcontracts	\$8,984,909	1.03%	\$3,935,696	1.48%
Sub-total	\$81,592,686	9.37%	\$42,972,114	16.17%

Table 6.11 Proportion of First and Second-Tier Subcontracting Relative to All Eight Areas

Source	FY 00 SB \$	FY 00 SB % Inc	FY 01 SB \$	FY 01 SB % Inc
1 st & 2 nd tier only (A)	\$81,592,686	9.37%	\$42,972,114	16.17%
All 8 areas (B)	\$105,370,548	10.89%	\$47,153,508	15.67%
A divided by B	77.43%	86.04%	91.13%	103.19%

Figure 6.10 and Table 6.10 show in a graphical and tabular way the impact of including only first and second-tier subcontracting in SPAWAR’s statistics. A casual

glance at Figures 6.9 and 6.10 does not reveal any substantive differences. Table 6.11 demonstrates the quantitative differences between the two. It is readily apparent that first and second-tier subcontracting constitute, by far, the majority of all the mis/under-reporting occurring.

As the advantages and disadvantages of each area of mis/under-reporting was discussed in the paragraphs above, it became clear that the case for including each in SPAWAR's statistics was not equally compelling. Including contracts under \$500K or micro-purchases is not advantageous at all. Including OTs and indirect costs are largely disadvantageous. Including GSA FSS orders and interagency agency acquisitions present a more complicated choice, however, the disadvantages seem to outweigh the advantages. Only for first and second-tier subcontracting do the advantages appear to outweigh the disadvantages. From Table 6.11 it is clear that these two areas comprise the bulk of mis/under-reported small business utilization. The next section, will analyze the implications of incorporating first and second-tier subcontracting into the existing small business utilization system.

C. ANALYSIS OF CHANGES TO THE SMALL BUSINESS UTILIZATION SYSTEM NEEDED TO INCORPORATE FIRST AND SECOND-TIER SUBCONTRACTING INTO SPAWAR'S STATISTICS

The preceding paragraphs have provided a statistical analysis of the impact of each of the eight areas of mis/under-reporting on SPAWAR's small business utilization statistics. The section closed with a demonstration that first and second-tier subcontracting comprised the vast majority of all mis/under-reported small business utilization researched. The following paragraphs analyze the impact of changing the current small business utilization system to incorporate first and second-tier subcontracting into a buying activity like SPAWAR's statistics. Changes analyzed include those to credit policy, goal setting, data collection and accomplishment reporting.

1. Analysis of Changes to Credit Policy

Chapter IV discussed the current policy for crediting small business utilization. To review, first-tier subcontracting is credited to the contract administration office. For SPAWAR contracts, DCMA receives this credit since they are delegated contract

administration responsibilities. No one receives credit for second-tier subcontracting since these utilization data are not collected.

What changes to the current small business utilization system would be necessary to credit SPAWAR with first-tier subcontracting? Research revealed that first-tier credit policy rests upon an inferential interpretation of the instructions for completing the SF 294/295 forms and upon the conventional wisdom that since the contract administration office enforces the subcontracting plan; they should get the utilization credit. The researcher found no overt, written policy guidance from senior government officials specifying credit policy for first-tier subcontracting. Were the argument to prevail that first-tier subcontracting small business utilization generated by SPAWAR's dollars should be visible and credited to them, then written guidance granting credit to the buying activity would need to be issued. Within DoD, that guidance would come from the Under Secretary of Defense for Acquisition, Technology and Logistics, USD (AT&L). If this guidance were issued, then clearly, the instructions on the SF 294/295 forms would need clarification, as well. The forms would need to emphasize the contractor's responsibility to report small business utilization not only to the contract administration office, but also to the buying activity. Actually, the forms already require the contractor to do this, however, compliance is spotty.

What changes to the current small business utilization system would be necessary to credit SPAWAR with second-tier subcontracting? The instructions on the SF 294/295 forms explicitly prohibit prime contractors from taking credit for second-tier subcontracting. Nevertheless, if the prime has included the clause at FAR 219-9 in its first-tier subcontracts over \$500K, as it should have, it has the right, and the responsibility, to collect second-tier subcontracting small business utilization data from its first-tier subcontractors. Compliance with this requirement is very limited. Hence, the first step in crediting a buying activity with second-tier subcontracting is to change the SF 294/295 instructions to allow primes to take credit for this utilization. Such a change would necessitate two subsidiary changes. First, the FAR 219-9 clause does not require the primes to report second-tier subcontracting utilization, even if they do collect it. So, this clause would need language added to incorporate a reporting requirement.

Second, due to the existence of commercial and comprehensive subcontracting plans, there is a potential for double counting second-tier subcontracting small business utilization. Accordingly, the SF 294/295 instructions would need to clearly instruct prime contractors not to include second-tier utilization already reported to the Government under these other types of subcontracting plans. In addition to revising the clause and report forms, written policy guidance is needed to unambiguously grant second-tier subcontracting credit to the buying activity. In the same way as with first-tier subcontracting, this guidance would come from USD (AT&L). Depending of whether there was a perceived need to track subcontracting utilization by tier, structural changes to the SF 294/295 forms may also be necessary to accommodate utilization at two tiers instead of the current single tier.

2. Analysis of Changes to Goal Setting

Chapter III discussed the current set of prime and subcontracting goals, their statutory origin and the process used by the various agencies within the Government to establish annual small business utilization goals for a particular buying activity like SPAWAR. What changes to the current small business utilization system, specifically the goal setting aspect, would be necessary if SPAWAR was credited with first and second-tier subcontracting?

If SPAWAR was credited with first and second-tier subcontracting small business utilization, no changes would be necessary to the prime contracting goals. This portion of the system would remain unaffected. SPAWAR currently has prime goals and receives credit for prime small business utilization. Similarly, for those buying activities that also administer their own contracts, neither their prime nor subcontracting goals would change, with one exception. These ‘cradle to grave’ activities currently have subcontracting goals, but only for first-tier subcontracting. If both first and second-tier subcontracting credit were granted, their subcontracting goals would presumably increase by an amount commensurate with projected second-tier subcontracting small business utilization.

As mentioned in previous chapters, SPAWAR delegates administration of all its contracts to DCMA, hence, under existing crediting policy SPAWAR receives no

subcontracting credit and therefore, has no subcontracting goals. Were the credit policy to change as envisioned, SPAWAR would need to negotiate subcontracting goals with its chain of command in the same way as its prime goals are negotiated. The only new aspect to this process would be the inclusion of projected second-tier utilization in the subcontracting goal. If there was a perceived need to track subcontracting utilization by tier, then two subcontracting goals instead of one would be necessary.

DCMA is the organization whose goals would be most significantly impacted by a change in policies on subcontracting credit. Their FY 2001 small business subcontracting goal is \$37B. If all buying activities currently delegating administration to DCMA were to have their own subcontracting goals, then DCMA would experience a precipitous drop in its subcontracting goal. Other than the addition of second-tier utilization, there would be no net change in overall utilization, however. Who reports and gets credit for the utilization would be the only change.

The existing goal setting process under the current small business utilization system can accommodate the changes envisioned above. However, if the objective of such changes is to give better visibility to the total contribution small businesses are making to a particular buying activity's mission, then perhaps a more substantive change to small business goals is needed. Perhaps the prime/subcontracting paradigm is obscuring small businesses' total contribution. Section D in this chapter will explore a new metric upon which goals may be based to provide a more accurate accounting of small business contribution to a particular buying activity.

3. Analysis of Changes to Data Collection

Chapter V discussed three automated systems in various degrees of use for collecting, tabulating and reporting small business subcontracting data. What changes to the current small business utilization system, specifically the data collection aspect, would be necessary if SPAWAR was credited with first and second-tier subcontracting?

If SPAWAR was credited with first-tier subcontracting small business utilization, no changes to the existing data collection system of manually receiving and tabulating SF 294/295 reports from contractors are absolutely required. However, currently roughly a dozen regional DCMA SADBUs are collecting these data. If buying activities

were to receive first-tier credit, hundreds of offices would now be responsible for doing what the dozen DCMA offices previously did. Hence, additional effort would need to be invested by many buying activity's SADBUs to manually collect and tabulate these data. A better situation would involve the use of an automated system. There is no single automated system currently in use throughout DoD's buying activities to collect subcontracting data. None of the three systems discussed in Chapter V has the full range of capabilities needed to effectively accommodate the transition of credit from DCMA to buying activities. However, the DCMDW system could be enhanced to provide the seven capabilities listed in Chapter V in order to offer buying activities the necessary functionality to effectively document first-tier utilization. This would involve an additional investment of money and manpower to upgrade the system, an implementation plan to deploy the system to each buying activity and an ambitious training program to equip the users of the system.

If SPAWAR was credited with second-tier subcontracting small business utilization, a data collection system would need to be devised and implemented, since none now exists. As with first-tier data, buying activities are dependent upon the prime contractor to collect and report actual utilization. If the changes to the SF 24/295 forms and the clause at 52.219-9 discussed in the credit policy paragraph are implemented, second-tier utilization could be documented by the prime on the same forms as first-tier utilization. Were that to occur, and were the automated system envisioned in the preceding paragraph employed, second-tier data could be collected in the same system as first-tier data. This would be an additional functionality for the automated system not previously discussed in Chapter V. The same method of implementation of this functionality would apply since it would be organic to the automated system discussed above.

4. Analysis of Changes to Accomplishment Reporting

Chapter III discussed the current method used to report accomplishment of small business goals. For prime contracting goals, SPAWAR uses the PMRS system to collect and tabulate these data. What changes to the current small business utilization system,

specifically the accomplishment reporting aspect, would be necessary if SPAWAR was credited with first and second-tier subcontracting?

For reporting prime contracting goal achievement, there would be no changes to the current small business utilization system. PMRS feeds DCADS feeds FPDS which is the official repository of small business utilization statistics. However, subcontracting small business utilization is not reported through PMRS. Were the buying activity to receive subcontracting credit, SPAWAR would now have to manually report subcontracting goal accomplishment rather than DCMA. That report would need to include both first and second-tier goal accomplishment.

The data collection paragraph above discussed the implementation of an automated system to collect and tabulate subcontracting data. One of the seven functionalities identified in Chapter V as necessary for this system is an ability to automatically upload small business subcontracting utilization data from the buying activity to DIOR, the guardians of DCADS. As mentioned above, DCADS is able to interface electronically with FPDS. Hence, the implementation of such a system offers an automated way for the buying activity to report its subcontracting goal achievement. This capability exists nowhere within DoD currently.

D. ANALYSIS OF A POSSIBLE CHANGE IN METRICS FOR THE SMALL BUSINESS UTILIZATION SYSTEM

1. The Total Contribution (TC) Metric

The intent of Congress in passing the small business legislation described in Chapter II was to ensure that small businesses were afforded the maximum practicable opportunity to participate in federal acquisitions. The current small business utilization system evolved to demonstrate to Congress that the Executive branch was indeed providing this opportunity to small businesses. Within DoD, Activity Commanders are being held accountable for their success in achieving goals spawned by this system. But the goals, by the way they are structured, may be obscuring the true extent to which small businesses have been afforded the opportunity to participate in a particular activity's acquisitions.

Prime contracting goals are a set of metrics whose values are calculated by dividing the amount of small business prime awards by the total procurement obligations of the buying activity. The resultant percentage provides a clear indication of the proportion of the buying activity's procurement dollars that ended up in the hands of small businesses. Subcontracting goals are a set of metrics whose values are calculated by dividing the amount of small business subcontracted dollars by the total amount of subcontracted dollars of the prime contractor. The resultant percentage provides an indication of the prime's commitment to small businesses, but has no statistical relationship to the proportion of the buying activities' procurement dollars that ended up in the hands of small businesses. An example may be useful.

Suppose the buying activity's total procurement obligations were \$100 for a given year and that activity achieved its 30% goal for prime contracting. This tells us that \$30 went to small businesses. Now suppose that one of the activity's large prime contractors achieved a 100% subcontracting goal. The 100% sounds good but tells us nothing about how many of the remaining \$70 (\$100-\$30) ended up in the hands of small businesses. It depends on how many dollars the prime subcontracted.

One method to deal with the aforementioned disconnect between prime and subcontracting goal achievement percentages is to adopt what will be called the Total Contribution (TC) Metric. This metric is illustrated throughout Section B of this chapter. The dollar value of prime contracting utilization is added to the dollar value of any other utilization occurring in that year and then divided by the activities' total procurement obligations for that year. The resultant percentage provides a clear indication of the proportion of the buying activities' procurement dollars that ended up in the hands of small businesses, regardless of the source the utilization. For example, in subsection B.1, with respect to first-tier subcontracting only, SPAWAR has only prime goals, hence, its official metric showed 15.75% for FY 00. The TC metric shows 24.09% for the same period. From Table 6.11 we can calculate the TC metric for first and second-tier subcontracting combined to be 25.12%.

The current small business utilization system does not utilize the TC metric. This metric may be a superior method of revealing the total small business utilization of a

buying activity. Consequently, consideration should be given to altering this aspect of the current system. What are the advantages and disadvantages of altering the current small business utilization system, specifically the goaling portion?

The primary advantage of using the TC metric is that it provides a more complete and accurate picture of the total small business utilization of a particular buying activity. It does this by converting all utilization to the common denominator of a buying activity's total procurement obligations. The current system obscures total small business utilization by the two distinct and differently calculated sets of goals, i.e. prime and subcontracting. A second, and related, advantage of the TC metric is that it simplifies the analysis of the magnitude of small business contribution to a particular buying activity. It does this by 'rolling up' all small business utilization into a single, understandable percentage. Since this percentage is based on a buying activity's total procurement obligations, one can determine at once how many of that activity's dollars end up in the hands of small businesses. Another advantage of the TC metric is that it provides a single, universally applicable measure of a buying activity's commitment to small business. This is particularly useful as greater accountability is being levied upon Activity Commanders for their success in achieving small business goals.

The TC metric is not without its disadvantages. Congress has authored the plethora of prime and subcontracting goals to achieve certain social, political and economic objectives. Each goal carries the same weight of having statutory origin. Consequently, an attempt to 'roll up' these statutory goals into a single TC metric runs counter to the intent of Congress. This disadvantage can be mitigated, however. Executive agencies need not ask for legislative relief from existing socio-economic goals to implement the TC metric. The current goaling system can be retained for the purpose of complying with and reporting accomplishment of statutory goals. However, Executive agencies have the authority to 'overlay' the TC metric as an administrative process to improve the efficiency and effectiveness of the current system. OFPP could issue a policy memo for government-wide implementation, or USD (AT&L) could issue a policy memo for DoD-wide implementation of the TC metric. This implementation could be internal to the Executive branch and run concurrently with reporting statutory goal

accomplishment to Congress according to the current model. A more aggressive method of mitigating the disadvantage of a ‘rolled up’ TC metric is to actually seek legislative relief from existing socio-economic goals. This might take the form of a “Section 800” type of panel to study and recommend methods to streamline and reduce the universe of socio-economic legislation. Clearly, this would be a multi-year effort marked by heated political debate.

A second disadvantage of the TC metric is related to the unique nature of each buying activity. One of the advantages listed was this metric being a universally applicable measure of a buying activity’s commitment to small business. The metric does enable an outside observer to compare the proportion of all buying activity’s obligations that go to small businesses. However, due to the nature of what is bought, establishing a single TC metric goal for all buying activities may not be useful. For example, suppose one buying activity acquires major weapon systems. Most often, these activities award high dollar value production contracts to the large businesses that did the development. Now suppose another buying activity acquires base operating support services for a single base. Many of these services are available from small businesses. Is it fair to impose a single TC metric goal on both buying activities? Clearly not. Perhaps the best method to mitigate this disadvantage is to view the TC metric as a buying activity unique goal against which that activity attempts to improve its trend over time. If this view is taken, the injustices of a ‘one size fits all’ mentality can be prevented.

2. The Total Contribution (TC) Metric Goal for SPAWAR

The previous subsection introduced the concept of the TC metric. It also suggested that this metric should be considered as a buying activity unique goal. If the TC metric were implemented, what might be a reasonable goal for SPAWAR? For discussion purposes, it will be assumed that first and second-tier subcontracting are credited to SPAWAR and included in the TC metric. The following paragraphs look at 18 months of SPAWAR’s small business utilization data in order to suggest a possible range for this goal.

Table 6.12 Total Contribution Metric Calculation

Source	FY 00 \$	FY 00 %	FY 01 \$	FY 01 %
Obligations	\$869,814,202	100.00%	\$265,725,510	100.00%
Prime SB Utilization	\$136,960,181	15.75%	\$72,864,847	27.42%
1 st & 2 nd Tier Utilization	\$81,592,686	9.38%	\$42,972,114	16.17%
Total SB Utilization	\$218,552,867	25.12%	\$115,836,961	43.59%

Table 6.12 demonstrates a number of important statistics. Obligations refer to SPAWAR’s total procurement obligations and represent the common denominator for determining the percentages listed. Prime small business utilization represents what SPAWAR currently reports as its official percentage. First and second-tier small business utilization represents subcontracting utilization generated with SPAWAR dollars, but not credited to SPAWAR under the current system. Lastly, total small business utilization is merely the sum of prime and subcontracting amounts. This row is actually the Total Contribution metric.

Determining an appropriate TC metric goal range for SPAWAR is complicated by two observations from Table 6.12. First, SPAWAR’s performance varies widely between FY 00 and FY 01. Second, only the first half of FY 01 data are available. When the final statistics become available for FY 01, these figures may change substantially. Another complicating factor not listed on the table is that SPAWAR’s current prime small business goals of 33% for FY 00 and 34.5% for FY 01 represent Claimancy-wide goals and are not uniquely assigned to SPAWAR Headquarters, the source of all small business utilization data researched. Nevertheless, we’ll use these Claimancy-wide goals in formulating an appropriate range.

The Government-wide statutory goal for prime contracting is 23%. We know from Table 6.12 that approximately 9 – 16% of SPAWAR’s obligations are subcontracted to small businesses. This would suggest that at a minimum, SPAWAR’s TC metric goal should range from 32 – 39%. But, SPAWAR’s allocated prime contracting goal is now 34.5%. This would suggest that at a maximum, SPAWAR’s TC metric goal should range from 43.5 – 50.5%. However, SPAWAR has historically fallen short of its allocated prime contracting goal by approximately 7 – 17%. The implication

of this latter statistic is that it would completely offset the increases due to including subcontracting in SPAWAR's statistics. It is not reasonable to implement a TC metric containing subcontracting and then set a goal below the existing prime goal, regardless of historical small business utilization. Consequently, the author would suggest a minimum TC metric goal of 34.5% and a maximum TC metric goal of 38%. The maximum value is calculated by adding the mid-point value (3.5%) of the increase of subcontracting utilization to the minimum amount. Clearly, this range should be considered a starting or baseline amount with which future years actual utilization can be compared. What is important is the trend of this utilization percentage, not the absolute value of it at any given point in time.

E. SUMMARY

This chapter has covered a great deal of important information. It analyzed the statistical impact of including each of the eight areas of mis/under-reporting in SPAWAR's small business utilization statistics. It went on to analyze the changes that would be necessary to the current small business utilization system in order to incorporate first and second-tier subcontracting utilization in SPAWAR's statistics. Finally, it analyzed a new metric to be used in measuring the total small business contribution to a buying activity and suggested a goal range for this metric at SPAWAR. In the next chapter, all preceding research will be brought to a set of conclusions and recommendations.

VII. CONCLUSIONS AND RECOMMENDATIONS

A. BACKGROUND

Research for this paper began with the premise that small businesses might actually be making a greater contribution to SPAWAR's mission than the reported statistics demonstrate. The current small business utilization system with its supporting laws, regulations and policies was investigated. Data were collected and analyzed in eight areas of potential mis/under-reporting of small business utilization. Various automated systems for collecting small business subcontracting utilization were studied for possible enhancement and implementation. Focused attention was given to potential changes to the existing small business utilization system, including its goals and metrics. This chapter will draw conclusions from the aforementioned analysis by answering the research questions posed in Chapter 1 and make recommendations for changes to the existing small business utilization system.

B. CONCLUSIONS

There are eight secondary research questions posed in Chapter 1. The following paragraphs address each of these questions in sequence. After addressing the secondary questions, the primary research question will be addressed.

1. What is the Current System for Goal Setting, Data Collection and Reporting of Small Business Utilization?

The current small business utilization system is described in depth in Chapter 3. It consists of a plethora of prime and subcontracting goals and programs, most with statutory origin. These government-wide goals 'flow-down' to individual activities like SPAWAR through the Small Business Administration, the Executive level agency (DoD) and the component (DoN). At each stage, proposed goals, negotiation and counter-proposals are employed to arrive at specific, agreed upon goals for the activity. As the activity does procurements, prime contracting small business utilization data are collected in automated systems, PMRS for SPAWAR, and forwarded via DCADS (throughout DoD) to FPDS. There is no single automated system in use at the activity level throughout the government for the collection and reporting of subcontracting small

business utilization data. At the end of each fiscal year, activities report their prime contracting small business utilization accomplishment through their automated systems, supplemented by written reports. Subcontracting small business utilization data flows in from prime contractors on paper reports and is collated at contract administration offices for further reporting. Prime and subcontracting small business utilization data are rolled up through the component and agency level and provided to SBA for ultimate reporting to the President.

2. Which Areas of Small Business Contribution to SPAWAR's Mission are Reported, and which may be Under-Reported, in the Current System?

As of FY 2001, SPAWAR has eight prime contracting goal areas within which small business utilization data is collected and reported. Since SPAWAR delegates administration of all of its awarded contracts to DCMA, it has no subcontracting goals within which it collects or reports small business utilization data. The eight prime contracting goal areas are:

- Small Business
- Small Business Set-Aside
- Small Disadvantaged Business
- Woman-Owned Business
- HUBZone Small Business
- Service-Disabled Veteran Owned Small Business
- Small Business R&D
- Historically Black Colleges & Universities and Minority Institutions

Coincidentally, the research also focused on eight areas of potential mis/under-reporting. As was made clear in Chapter IV, not all of these eight areas actually represent under-reporting. In some areas, small business utilization data are accurately reported, but due to existing credit policy, they may be mis-reported, i.e. reported for credit to an inappropriate activity. The eight areas of potential mis/under-reporting are:

- First-tier Subcontracting
- Second-tier Subcontracting
- Interagency Acquisition

GSA FSS Orders
Indirect Costs
Other Transactions
Micro-Purchases
Contracts under \$500K

The case for including and reporting small business utilization in each of the above eight areas in SPAWAR's statistics is not equally compelling. In fact, only for first and second-tier subcontracting do the advantages outweigh the disadvantages. These two areas comprise the majority of mis/under-reported small business utilization. As such, they are the only two areas that should be considered under-reported in SPAWAR's statistics under the current system.

3. How Might Under-Reported Utilization Data, if any, be Best Collected?

First-tier subcontracting small business utilization is mis-reported. Second-tier subcontracting small business utilization is unreported. For ease of discussion, we will refer to both as under-reported. Consequently, the author believes that the current under-reporting of small business utilization definitely justifies adoption of a better data collection system.

Chapter V deals extensively with various automated systems currently in use for collecting subcontracting utilization. None of the three systems discussed therein have the full range of capabilities needed to effectively and efficiently capture first and second-tier subcontracting utilization. However, the DCMDW system, if upgraded and fully deployed, offers the greatest likelihood of successfully improving the current data collection process for subcontracting utilization.

4. Can the SF 294/295 and DD350 Data Collection Systems be Enhanced to Reliably Collect and Measure Currently Under-Reported Data or does a New Reporting System Need to be Adopted/Developed?

The system within which data are collected should be the same system used to report those small business utilization data. For prime contracting at SPAWAR, PMRS using DD 350s as input is both the data collection and reporting system. The research

revealed no significant under-reported utilization data at the prime contracting level, hence, the PMRS/DD 350 system does not need to be replaced or enhanced.

The situation for subcontracting utilization is messier than for prime contracting. Like the DD 350, the SF 294/295 forms are the data collection input mechanism for subcontracting. Unlike PMRS, there is currently no equivalent automated system within which the SF 294/295 input could both be collected and reported. The DCMDW automated system discussed in Chapters IV and VI, and mentioned in subsection B.3 above, if upgraded and fully deployed, could fulfill this function. Changes to the SF 294/295 forms themselves are also required to facilitate this transition. Accordingly, for first and second-tier subcontracting, the only areas identified by this research as under-reported, the existing DCMDW data collection and reporting system does need to be enhanced and deployed. Also, attendant changes should be made on the SF 294/295 forms to facilitate reliable collection, measurement and reporting of under-reported utilization.

5. If SPAWAR were to Include Small Business Subcontracting Utilization and any Other Potentially Under-Reported Data, what would be the Measurable Impact on the Command's Prime Contracting Goal?

Chapter VI analyzes this question in depth. The table below illustrates these impacts.

Table 7.1 Impact of both First and Second-Tier Subcontracting and All Other Areas of Under-Reporting on SPAWAR's Small Business Statistics

Source	FY 00 \$	FY 00 %	FY 01 \$	FY 01 %
Obligations	\$869,814,202	100.00%	\$265,725,510	100.00%
Prime SB Utilization	\$136,960,181	15.75%	\$72,864,847	27.42%
1 st & 2 nd Tier Utilization	\$81,592,686	9.38%	\$42,972,114	16.17%
Prime&Sub. Utilization	\$218,552,867	25.12%	\$115,836,961	43.59%
All other SB Utilization	\$23,777,862	2.73%	\$4,181,394	1.57%
Total SB Utilization	\$242,330,729	27.85%	\$120,018,355	45.16%

SPAWAR's actual prime contracting goal accomplishment in FY 00 was 15.75%. First and second-tier subcontracting utilization would have had a 9.38% positive impact

on the prime goal accomplishment. By including all the other areas of potential under-reporting, there would have been an additional 2.73% positive impact on the prime goal accomplishment.

SPAWAR's actual prime contracting goal accomplishment in the first half of FY 01 was 27.42%. First and second-tier subcontracting utilization would have had a 16.17% positive impact on the prime goal accomplishment. By including all the other areas of potential under-reporting, there would have been an additional 1.57% positive impact on the prime goal accomplishment.

6. Would a Change in the Method of Reporting Goal Accomplishment Add Value to the Process, and if so, what Changes would be Best?

Goal accomplishment reporting must, of necessity, follow the structure of goals actually set for an activity. But, the current structure of separating prime and subcontracting goals makes it impossible to report goal accomplishment in a way that shows the total proportion of a buying activity's dollars that end up in small business hands. Given the current crediting policy, this is especially true for activities like SPAWAR that delegate their contract administration to another activity. Hence, changing goal accomplishment reporting methods would add value to the process to the extent that changes show the total proportion of a buying activity's dollars that end up with small businesses.

Since prime contracting does not have significant under-reported utilization, goal achievement reporting would not need to change. PMRS feeds DCADS, which in turn feeds FPDS with a clearly recognizable method of quantifying small business utilization statistics. Subcontracting goal achievement reporting must change in several ways. First and second-tier subcontracting utilization must be credited to the buying activity necessitating revised goals. Also, an upgraded DCMDW automated data collection and reporting system that ultimately feeds FPDS must be implemented at the activity level. Finally, a new metric must be adopted that recognizes all reportable small business utilization generated with a particular buying activity's dollars.

7. If the Changes Referred to in Question 6 were Adopted, what Metrics would Best Illustrate the Small Business Contribution to SPAWAR's Mission?

One method that recognizes all reportable small business utilization generated with a particular buying activity's dollars is the Total Contribution (TC) metric. To calculate the value of the TC metric, the dollar value of prime contracting utilization is added to the dollar value of any other utilization occurring in that year and then divided by the activity's total procurement obligations for that year. The resultant percentage provides a clear indication of the total proportion of the buying activity's procurement dollars that ended up in the hands of small businesses, regardless of the source the utilization.

By including first and second-tier subcontracting utilization in SPAWAR's statistics, the official FY 00 goal accomplishment of 15.75% increases by 9.38% to a new TC metric value of 25.12%. The official first half of FY 01 goal accomplishment of 27.42% increases by 16.17% to a new TC metric value of 43.59%. The TC metric enables anyone to clearly see the total proportion of SPAWAR's procurement dollars going to small businesses, at a glance.

8. What Amendments to Laws, Regulations or Policies would be Necessary to Implement Changes to the Method of Reporting Goal Accomplishment and to Associated Measures/Metrics?

Foundational to implementing any of the changes envisioned above is written guidance from senior government officials specifying the credit policy for first and second-tier subcontracting small business utilization. It is the author's belief that credit should be granted to the activity whose dollars generated the utilization. The SF 294/295 forms and instructions need revision to allow prime contractors to take credit for second-tier utilization and to prevent double counting this utilization. FAR clause 219-9 needs language added to incorporate a reporting requirement for second-tier utilization. The same senior government officials specifying credit policy above, need to direct the upgrade and deployment of DCMDW's automated subcontracting data collection and reporting system. Existing legislation need not be amended to implement these changes.

Having addressed the eight secondary research questions, we are ready to tackle the Primary Research Question: "To what extent are small and disadvantaged businesses

contributing to the overall mission of Space and Naval Warfare Systems Command and what methods might be used to best capture and analyze the procurement data that reflect this contribution?” In a nutshell, small businesses are directly contributing to over 43% of all acquisition activity at SPAWAR so far in FY 01. The existing PMRS for prime contracting and an upgraded DCMDW system for subcontracting are the best ways to capture this utilization. And, the Total Contribution metric offers the best method of analyzing the utilization data that reflect small businesses’ overall contribution to the SPAWAR mission.

C. RECOMMENDATIONS

The recommendations that follow are aimed at implementing changes that impact SPAWAR, hence, are generally confined to DoD. However, these recommendations could be implemented throughout other Executive agencies as well. Accordingly, when reference is made to the Under Secretary of Defense for Acquisition, Technology and Logistics, USD (AT&L), the Office of Federal Procurement Policy could be substituted for application beyond DoD. Recommendations will be addressed in three general areas; changes to law/regulation/policy, changes to data collection and reporting and changes to goals and metrics.

1. Recommended Changes to Law/Regulation/Policy

- a. The FAR Council should revise the clause at FAR 219-9 to require prime contractors to collect and report second-tier small business utilization on subcontracts over \$500K.
- b. The FAR Council should revise SF 294/295 forms and instructions allowing prime contractors to take credit for second-tier utilization and to prevent double counting of this utilization.
- c. USD (AT&L) should issue policy to DoD buying and contract administration offices granting first and second-tier subcontracting credit to buying activities.
- d. Though no change to existing legislation is required, OFPP/OMB should recommend to the President the appointment of a special

committee, similar to the Section 800 Panel from which the Federal Acquisition Streamlining Act arose, to study and recommend to Congress the elimination, consolidation and/or streamlining of small business legislation, particularly in the area of goal categories, enabling more efficient federal procurement practices.

2. Recommended Changes to Data Collection and Reporting

- a. USD (AT&L) should issue a directive to upgrade and deploy DCMDW's automated subcontracting data collection and reporting system throughout DoD, to the buying activity level.
- b. The following functionalities should be added to the DCMDW system:
 - i. Enable the system to receive automated SF 294 input from contractors, in addition to the SF 295 capability it now possesses.
 - ii. Enable the system to produce reports by procuring activity, in addition to the current geographical administration office sort feature.
 - iii. Once the new automated DIOR system has passed beta test, enable the DCMDW system to automatically upload utilization data to the DIOR system. The goal is for the DIOR/DCADS system to automatically forward subcontracting utilization to FPDS.
 - iv. Enable the system to create and edit a list of contracts requiring a subcontracting plan, and hence, SF 294/295 reporting.
 - v. Enable the system to produce reports of missing or late SF 294/295s.

- vi. Enable the system to receive, tabulate, sort, report and archive second-tier subcontracting utilization data from contractors.
- c. DCMA, Defense Agency and Military Department SADBUs should convene an executive level steering group to draft an implementation plan to accommodate the change in first and second-tier credit policy together with the aforementioned enhancements to the data collection and reporting system. This implementation plan should address:
 - i. Amount and source of funding to accomplish the envisioned system upgrades and deployment to the buying activity level
 - ii. Manpower imbalances created by the transition of data collection responsibilities from DCMA to buying activities, including recommended transfer or elimination of billets
 - iii. Training requirements to equip system administrators, buying activity users and contractors with the skills needed to effectively accomplish automated data collection
 - iv. Policy and procedural guidance to cover the new method of automated goal accomplishment reporting
 - v. Schedule considerations to accomplish a phased deployment of the system

3. Recommended Changes to Goals and Metrics

- a. Individual buying activities should negotiate subcontracting goals with their chain of command. If the buying activity already has subcontracting goals, then those goals should be updated to reflect the inclusion of projected second-tier subcontracting utilization.
- b. USD (AT&L) should implement the Total Contribution metric throughout DoD as a standard means of measuring a buying activity's overall commitment to the small business program.

D. SUMMARY

The research has shown that small businesses are making a greater contribution to SPAWAR's mission than reported statistics demonstrate. In the case of first-tier subcontracting, utilization data are not under-reported, but rather mis-reported, thereby obscuring the total proportion of SPAWAR's procurement dollars that end up in the hands of small businesses. In the case of second-tier subcontracting, utilization data are unreported. These two areas account for the majority of mis/under-reported utilization, and are the only areas whose inclusion in SPAWAR's utilization statistics offers more advantages than disadvantages. It can be demonstrated that an additional 9-16% of SPAWAR's procurement dollars end up in the hands of small businesses by granting SPAWAR credit for first and second-tier subcontracting utilization. The enhancement and deployment of DCMDW's automated system will enable SPAWAR to efficiently and effectively collect and report subcontracting utilization data. Use of the Total Contribution metric will clearly demonstrate SPAWAR's overall commitment to the small business program. Clear policy guidance and direction from USD (AT&L) and the FAR Council can bring about the aforementioned changes.

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