

**REVIEW OF SBA MONITORING AND
SUPPORT OF 8(A) PROCUREMENTS
RELATED TO THE GULF COAST
HURRICANES OF 2005**

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U.S. Small Business Administration
Office Inspector General

Memorandum

To: Luz A. Hopewell
Associate Administrator for Business Development

Date: May 10, 2007

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Associate Administrator for Field Operations

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Audit of Selected 8(a) Contracts for Gulf Coast Reconstruction
Report No. 7-24

As a result of Congressional interest on whether small, minority-owned businesses are receiving Gulf Coast contracts, we conducted an audit of Section 8(a) contracting related to Gulf Coast reconstruction. The objective of our audit was to determine whether SBA's partnered agencies obtained approval from SBA to accept 8(a) contracts and reported the procurements to SBA, per the partnership agreements. This report discusses our conclusions based on a review of the selected 8(a) procurements and information contained in an SBA database.

To accomplish our objective, we reviewed 60 8(a) contracts over \$1 million from the two largest Federal agencies procuring contracts for Gulf Coast reconstruction, the Department of Homeland Security (DHS) and the Department of Defense (DoD), out of a universe of 465 contracts for about \$699 million. According to Federal databases, as of September 30, 2006, DHS and DoD accounted for approximately 80 percent of the contract dollars obligated to 8(a) firms for Gulf Coast reconstruction, or about \$548 million. The contract data was obtained from the Federal Procurement Data System-Next Generation (FPDS-NG) and data submitted by DoD. We searched SBA's 8(a) database to determine if the 60 DHS and DoD 8(a) contracts were included in that database and noted any inconsistencies. We reviewed documentation from contract files, as well as relevant Federal laws and SBA policies and procedures. We also interviewed officials at SBA and the various procuring agencies. We limited our review to the communications between SBA and procuring agencies, and did not evaluate underlying contract performance terms or provisions. We performed the audit

from July 2006 to February 2007 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

BACKGROUND

As of June 30, 2006, the Congress had responded to the Gulf Coast Hurricanes of 2005¹ by providing nearly \$88 billion for relief and recovery through four emergency supplemental appropriations acts. It has been difficult, however, to get an estimate of the total Federal procurement for Gulf Coast reconstruction efforts because, according to a report by the U.S. Government Accountability Office (GAO), no one agency or central collection point exists to compile and report on how these funds were being spent.² It is nonetheless likely that billions of dollars in contracts, including millions of dollars to firms that have been accepted into SBA's 8(a) Business Development Program, have been awarded for Gulf Coast relief and recovery services.

The purpose of the 8(a) Business Development Program is to assist eligible small disadvantaged business concerns compete in the American economy through business development. Pursuant to section 8(a) of the Small Business Act, SBA is authorized to enter into all types of contracts with other Federal agencies. Where appropriate, SBA delegates the contract execution function to procuring agencies. In order for a procuring agency to receive and retain a delegation of SBA's contract execution and review authority, the agency must report all 8(a) contracts awards, modifications, and options to SBA. 8(a) contracts may be either sole source awards or awards won through competition with other 8(a) firms.

SBA regulations stipulate that a procuring agency contracting officer must indicate his/her formal intent to award a procurement as an 8(a) contract by submitting a written offering letter to SBA. Upon receipt of the offering letter, SBA determines whether it will accept the requirement for the 8(a) program. If it accepts the procurement, SBA responds with an acceptance letter to the contracting officer. The offer and acceptance responsibilities of SBA and the procuring agencies are explained in partnership agreements that are signed by representatives of the respective agencies.

SBA maintains an 8(a) information system, the Servicing and Contracting System/Minority Enterprise Development Central Office Repository (SACS/MEDCOR), which is used primarily to service and monitor 8(a) firms and collect data on a nationwide level. First implemented in 1995, the system was described by SBA as a comprehensive tool that would enable the agency to

¹ Gulf Coast Hurricanes of 2005 were Katrina, Rita, and Wilma.

² *Governmentwide Framework Needed to Collect and Consolidate Information to Report on Billions in Federal Funding for the 2005 Gulf Coast Hurricanes*, GAO-06-834 (September 6, 2006).

monitor the assistance provided for, the contracts awarded to, and the progress made with business development. Basic information about 8(a) firms, including demographic data, such as the location, minority status, and gender of the owners, is stored in SACS, while data about proposed and awarded contracts resides in MEDCOR. Reports generated from the system are used to manage, monitor, and evaluate program participants, and to report on program accomplishments and the effectiveness of business development assistance. SACS/MEDCOR is maintained by district offices, and information is transmitted periodically to a centralized location for headquarters' use.

RESULTS

Based on available information from the 60 8(a) contract files, we could not determine whether DHS and DoD were properly offering the contracts, and SBA was properly accepting them, per the partnership agreements. However, we noted that 31 of the 60 contracts awarded were either not reported to SBA, or they were reported but had not been entered into SACS/MEDCOR by district office staff.

According to emailed responses to auditor questions from several district offices, SACS/MEDCOR is missing data because procuring agencies have not provided 8(a) contract information. Partnership agreements require procuring agencies to provide the SBA servicing district office copies of contracts defined in the Federal Acquisition Regulation (FAR) 2.101, including basic contracts, orders, modification, and purchase orders, within 15 working days of the date of award. Also, according to one district office, SACS/MEDCOR is missing data because the district office was short-staffed and award documents received were not entered into the database.

The completeness of data in SACS/MEDCOR has been a continuing problem. In March 2004, we reported that data in SACS/MEDCOR, including much of the data needed for the annual report to Congress, were often missing, not up-to-date and inaccurate.³ GAO had similar findings in its July 2000 report, *SBA's 8(a) Information System Is Flawed and Does Not Support the Program's Mission* (GAO/RCED-00-197). In that report, GAO noted that various problems with SACS/MEDCOR severely undermined the completeness and accuracy of the information in the system.⁴

The validity of 8(a) contract data continues to be at risk because SACS/MEDCOR ceased operation on April 30, 2007. The integrity of the information contained

³SACS/MEDCOR: *Ineffective and Inefficient*, SBA OIG 4-15 (March 9, 2004). OIG reports can be found on our website: www.sba.gov/ig.

⁴*SBA's 8(a) Information System Is Flawed and Does Not Support the Program's Mission*, GAO/RCED-00-197 (July 19, 2000).

within the interim system is unknown by the OIG.

RECOMMENDATIONS

We recommend that the Associate Administrator for Business Development:

1. Notify procuring agencies that have partnership agreements with SBA that, according to those partnership agreements, they are required to provide a copy of any contract, as defined in FAR 2.101, including basic contracts, orders, modifications, and purchase orders, to the SBA servicing district office within 15 working days of the date of award.

We recommend that the Associate Administrator for Field Operations:

2. Provide training opportunities to Business Development Specialists to learn how to enter information into the successor database(s) to SACS/MEDCOR.
3. Develop a plan for ensuring that all data in SACS/MEDCOR is accurate and verified before migrating to its successor database(s).

AGENCY COMMENTS AND OIG RESPONSE

The Associate Administrator for Business Development concurred with recommendation 1, noting that the Office of Business Development has revised the Partnership Agreements with procuring agencies to include the language required in the recommendation. The Associate Administrator further noted that the Office of Business Development is currently conducting training on the revised Partnership Agreements to agency contracting personnel, and had established a target completion date of September 30, 2007 for this recommendation.

The Associate Administrator for Field Operations disagreed with recommendations 2 and 3 as they were written in the draft report because SACS/MEDCOR was being replaced with a new database. However, he stated that the Office of Business Development is currently developing an interim Oracle tracking system and that he would work with that office to ensure proper training is provided to field personnel on the Oracle system. The Associate Administrator for Field Operations did not, however, provide an implementation date. Accordingly, we revised those recommendations so they applied to the successor database(s).

We believe that management's comments are responsive to recommendations 1 and 2, but unresponsive to recommendation 3. The data integrity risks identified

in our review will likely not be addressed in the successor database(s) unless recommendation 3 is properly executed. Deploying a new database alone will not ensure that the same data integrity issues that plagued SACS/MEDCOR will not be repeated with the new system. Not only is data incomplete but it is not being accurately entered by the district offices. Some of these problems are attributed to district offices being short-staffed and the lack of controls over data entry. Because management has not addressed this issue in its response, we plan to pursue resolution of recommendation 3 through the audit resolution process.

ACTION REQUIRED

We request a target date from the Associate Administrator for Field Operations for the implementation of recommendation 2.

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We appreciate the courtesies and cooperation of your office’s representatives during this audit. If you have any questions concerning this report, please call me at (202) 205-[Exemption 2] or Jeff Brindle, Director, at (202) 205-[Exemption 2].

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