Audit Report

8(a) Competitive Business Mix Requirements

Report No. 5-3-E-101-021

September 29, 1995

Summary

Competitive mix regulations for the Minority Small Business and Capital Ownership Development Program (8(a) Program) established required targets in 1989 for 8(a) companies to obtain an increasing percentage of non-8(a) business during their last 5 years (the Transitional stage) in the Program. This was to assure that 8(a) companies prepare for the competitive marketplace after 8(a) Program assistance ends, instead of becoming unduly reliant on sole source 8(a) contracts. The Auditing Division of the Office of Inspector General (OIG) reviewed SBA's implementation of the statutory competitive mix requirements, i.e., the percentage of total revenue that has to be non-8(a), to determine whether these requirements were achieved and whether meeting them improved 8(a) participants' chances for success after leaving the Program.

We found that SBA's actions to ensure that companies met applicable competitive mix targets were not effective. At February 9, 1995, 36 percent of the companies reporting 8(a) revenues and subject to the competitive mix requirements did not comply with these requirements. More significantly, these non-complying companies received about $1.4 billion, or 63 percent, of total 8(a) revenues reported by companies subject to the mix requirements in their prior fiscal year. Although SBA regulations identified a range of remedial actions that could be taken to improve compliance, the specific actions were left to the discretion of the individual SBA Business Opportunity Specialist (BOS). We found that when 8(a) companies did not meet the required competitive mix target, SBA personnel often took minimal or no action. Thus, companies were not compelled to comply with the regulations.

SBA did not measure the success of the 8(a) Program, as defined by the Congress, namely " . . . the number of firms that exit the Program without being unreasonably reliant on section 8(a) contracts and that are able to compete on an equal basis in the mainstream of the American economy." Procedures did not provide for compiling and reporting data on the number of companies that met their competitive mix requirements while in the 8(a) Program and those that remained in business after they no longer had 8(a) revenues. Thus, SBA could not determine whether the 8(a) Program was successful in relation to competitive mix requirements.

As a result of this lack of data, we could not accomplish the second objective of this audit, i.e., to determine whether there was a correlation between good competitive mix and "success." Although we developed and sent questionnaires to former 8(a) participants and SBA BOS's to obtain information on competitive mix, the results were inconclusive. Questionnaire responses showed that many companies that remained in business for several years after program exit still had substantial revenue from carryover 8(a) contracts. By including companies with 8(a) revenues in the number of companies still in business after leaving the 8(a) Program, SBA did not report on the number of former 8(a) companies that are able to compete on an equal basis in the mainstream of the American economy. We are recommending that the Associate Administrator for Minority Enterprise Development (1) implement mandatory limits on the dollar value of 8(a) contracts that can be awarded to any 8(a) company not meeting its competitive mix requirement and (2) establish procedures to determine whether the 8(a) Program is successful, as defined by Congress.

The AA/MED generally concurred with our recommendations. We evaluated his comments, and based on them, modified one recommendation.

The findings included in this report are the conclusions of the OIG Auditing Division based upon testing of the auditee's operations. The findings and recommendations are subject to review, management decision and corrective action by Minority Enterprise Development according to existing Agency procedures for follow-up and resolution.

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