STATUS OF VETERANS SMALL BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC OPPORTUNITY

OF THE

COMMITTEE ON VETERANS' AFFAIRS
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CONTENTS

April 29, 2010

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THURSDAY, APRIL 29, 2010

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON VETERANS' AFFAIRS,
SUBCOMMITTEE ON ECONOMIC OPPORTUNITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:42 p.m., in Room 334, Cannon House Office Building, Hon. Stephanie Herseth Sandlin [Chairwoman of the Subcommittee] presiding.

Present: Representatives Herseth Sandlin, Adler, and Boozman.

OPENING STATEMENT OF CHAIRWOMAN HERSETH SANDLIN

Ms. HERSETH SANDLIN. Good afternoon, ladies and gentlemen, the Committee on Veterans' Affairs, Subcommittee on Economic Opportunity, hearing on the Status of Veterans Small Businesses will come to order.

I ask unanimous consent that all Members have 5 legislative days to revise and extend their remarks and that written statements be made part of the record. Hearing no objection, so ordered.

Today's hearing will provide the U.S. Government Accountability Office (GAO) an opportunity to update us on the ongoing work on veteran-owned small businesses (VOSBs), and also provide the U.S. Small Business Administration's (SBA's) Office of Advocacy the opportunity to update us on the veteran small business population.

We will also hear from the veteran's community about the barriers encountered by veteran-owned small business while providing them the opportunity to submit recommendations on how to improve existing programs.

Finally, we will hear from Administration officials highlighting veteran small business programs within their respective offices. This timely hearing comes 3 days after President Obama authorized an Executive Order to establish an Interagency Task Force on Veterans Small Business Development, of which we would like to learn more about.

I look forward to hearing from all of our panelists today on this very important topic. I thank all of our witnesses on each of the panels for their patience in light of the last series of votes and our late start today, but I don't think we will have any more interruptions on votes for awhile.

I now recognize our distinguished Ranking Member, Mr. Boozman, for his opening remarks.

[The prepared statement of Congresswoman Herseth Sandlin appears on p. 34.]

Mr. BOOZMAN. I think in the interest of time with our interruptions, what I would like to do is ask unanimous consent to submit my statement for the record.

[The prepared statement of Congressman Boozman appears on p. 34.]

Ms. HERSETH SANDLIN. Hearing no objection, so ordered.

We will move right to our first panel then.

Joining us on our first panel is Mr. William Shear, Director of Financial Markets and Community Investment for the U.S. Government Accountability Office, Mr. Joseph Sobota, Assistant Chief Counsel for the Office of Advocacy, U.S. Small Business Administration, and Ms. Diane Farrell, Director for the Export-Import (Ex-Im) Bank of the United States.

I would like to remind all of our panelists, the witnesses on this panel and others, that your complete written statements have been made part of the hearing record, and we ask you to limit your remarks to 5 minutes so that we have sufficient time for questions for each of the witnesses on the panel after you provide your testimony.

So Mr. Shear, we will start with you. You are now recognized for 5 minutes.

STATEMENTS OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; JOSEPH F. SOBOTA, ASSISTANT CHIEF COUNSEL FOR ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION; AND DIANE FARRELL, DIRECTOR, EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENT OF WILLIAM B. SHEAR

Mr. SHEAR. Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee, it is a pleasure to be here this afternoon to discuss our evaluation of U.S. Department of Veterans Affairs (VA) actions to expand Federal contracting opportunities for veteran-owned small businesses and service-disabled veteran-owned small businesses.

Our work is mandated by the Veterans Benefits Health Care and Information Technology Act of 2006.

My statement today is based on preliminary observations from our ongoing 3-year study looking at VA's efforts to contract with VOSBs and service-disabled veteran-owned small businesses (SDVOSBs).

As to the status of our study we have provided a draft report to obtain agency comments from VA. We plan to issue our final report by the first week of June.

My statement discusses first the extent to which VA met its prime contracting goals for SDVOSBs and VOSBs in fiscal years 2007 through 2009, and second, VA's progress in implementing procedures to verify the ownership, control, and veteran status of firms in its mandated database of SDVOSBs and VOSBs.

As shown in my statement, VA has exceeded its contracting goals. The increase of awards was associated with the agency's use of unique veteran preference authorities established by the 2006 Act; however, a review of interagency agreements found that VA lacked an effective process to ensure that interagency agreements include required language that the other agencies comply to the maximum extent feasible with VA's contracting goals and preferences for veteran-owned small businesses.

With respect to verification, VA has made limited progress in implementing its verification program. While the 2006 Act requires VA to use veteran preference authorities only to award contracts to verified businesses, VA's regulation does not require that this take place until January 1st, 2012.

To date VA has verified about 2,900 businesses or approximately 14 percent of businesses in its mandated database of veteran-owned small businesses.

In our evaluation of VA's verification program we have identified a number of weaknesses. They include first, files missing required information and explanations of how staff determine that control and ownership requirements had been met. Second, a large and growing backlog of higher risk businesses awaiting site visits as required by VA procedures. And third, although site visit reports indicate a high level of misrepresentation, VA has not developed guidance for referring cases of misrepresentation for enforcement action.

Here I will add that such businesses are subject to debarment under the 2006 Act.

In our final report we anticipate making recommendations to VA addressing its verification program and other matters.

It is a pleasure to appear before you today. I would be happy to answer any questions you may have.

[The prepared statement of Mr. Shear appears on p. 35.]

Ms. HERSETH SANDLIN. Thank you, Mr. Shear. Mr. Sobota, you are now recognized.

STATEMENT OF JOSEPH F. SOBOTA

Mr. SOBOTA. Chairwoman Herseth Sandlin, Members of the Subcommittee, good afternoon, and thank you for the opportunity to appear before you today to update information provided to the Subcommittee last year and to provide new data in response to the questions you have posed.

My name is Joe Sobota, and I am an Assistant Chief Counsel in the Office of Advocacy at the U.S. Small Business Administration.

Because Advocacy was established to provide independent counsel to policymakers, its testimony is not circulated for comment through the Office of Management and Budget (OMB) or other Federal offices, and the views expressed by Advocacy here do not necessarily reflect the position of the Administration or of SBA.

Economic research on all types of small business issues has been one of Advocacy's core missions since its inception. Public Law 106–50 further directed Advocacy to develop information about firms owned by veterans and by service-disabled veterans and the role that they play in our economy.

Advocacy continues a long-term research effort in this important area. This includes the collection and interpretation of data from existing sources, commissioning of special tabulations of unpublished data, and contract research on issue specific topics.

The most important source of data on veterans in business remains the U.S. Census Bureau's somewhat dated 2002 Survey of Business Owners and Self-employed Persons, what we call the SBO. The Census Bureau plans to issue a new report on veterans in business in May 2011 using data from its 2007 SBO. Until then, the 2002 SBO remains our best source.

Concerning the questions you have posed, we are pleased to be able to offer some very interesting information that Advocacy has developed by commissioning special tabulations of SBO data that have not been published in the Census reports. These special tabulations help us fill some data gaps and have not received wide circulation.

Using both the new and previously available data we can address three of the questions that the Subcommittee posed, those relating to location, industry sector, and export sales.

First, a few general statistics. The 2002 SBO indicated that 14.5 percent of all business owners were veterans and about 7 percent of these were service-disabled. The Census also found that 12.2 percent of all firms were veteran-owned. If these percentages remained the same in 2009, there would have been about 3.6 million veteran-owned firms last year, of which perhaps 250,000 were owned by service-disabled veterans.

Caution needs to be used with this sort of extrapolation, and if you want we can return to that subject.

Veteran-owned firms mirror the greater business community in most respects, including their distribution by size both in terms of revenue and number of employees; their distribution by industry type; the percentage of those that are home based; in their level of franchise ownership; in the sources of capital used for business startup, acquisition and expansion; in the types of workers they use; and in the types of their major customers.

Veteran business owners are, however, much older as a group than other owners, and they are overwhelmingly male. These characteristics reflect the demographics of the underlying population of all veterans.

The top 10 States for veteran business owners were California, Texas, Florida, New York, Pennsylvania, Illinois, Ohio, North Carolina, Georgia, and Michigan. Virginia and Washington State also appeared on the top 10 list for service-disabled veteran owners.

Advocacy's special tabulation also showed that concentrations of both veteran and service-disabled veteran owners were slightly higher in rural areas than those for all business owners. Generally speaking, about 8½ percent of all veteran owners were in rural areas, those being areas without urban core populations of 10,000 or more.

Those industries with the largest share of veteran-owned firms were the same as those for all U.S. firms. Professional, scientific, and technical services lead at 18.7 percent of all veteran-owned firms; construction, 13.9 percent; other services, 10.2 percent; retail trade, 9.5 percent; and real estate and rental leasing, 9.3 percent.

Some variations occur in these distributions between employers and nonemployers.

Finally, Advocacy's special tabulation provides information on owners whose firms have major export customers, those customers accounting for 10 percent or more of a firm's sales, and among employer firms this is about 2 percent of all owners; 1.8 percent of veteran owners, and 2.2 percent of service-disabled veteran owners had major export customers. There were slightly lower levels among nonemployers.

Advocacy currently has in progress two additional economic research projects on veteran-related issues. One is examining factors affecting entrepreneurship among veterans, and another is looking at tax and regulatory problems facing veteran entrepreneurs.

This study should help us answer another question you have posed, and it is currently in peer review and should be ready this summer.

We have only mentioned a very small fraction of the large amount of information in the special tabulations we have appended to our written testimony today. I hope that this additional data will be useful to the Subcommittee, and we stand ready to help answer any questions that arise in connection with its review.

We at Advocacy very much appreciate the Subcommittee's interest in veteran entrepreneurship issues and Advocacy's work in this area. We look forward to continuing to work with the Subcommittee in any way we can to help advance our knowledge about veterans in business and to help you in your deliberations on how to best serve the Nation's veterans community.

[The prepared statement of Mr. Sobota appears on p. 44.]

Ms. HERSETH SANDLIN. Thank you, Mr. Sobota.

Ms. Farrell, we believe it may be the first time that the Export-Import Bank has testified before our Subcommittee, so we welcome you and look forward to your testimony.

STATEMENT OF DIANE FARRELL

Ms. FARRELL. Thank you very much, Madam Chairwoman, and also thank you to Ranking Member Boozman for inviting us here this afternoon. We welcome the opportunity to talk about veterans and small business.

I do bring greetings from our Chairman, Fred P. Hochberg, who I might add was the Acting Administrator of the Small Business Administration during a prior Administration, so he brings commitment and dedication to the small business area, especially when it comes to Ex-Im Bank.

Because we are a small agency, I did want to take a moment just to share exactly that which it is that we do to provide support to U.S. companies, especially veterans and small businesses, and then talk a little bit about what we are doing going forward.

We are first and foremost a jobs agency. That is how we see ourselves. We are dedicated to providing a level playing field to U.S. companies who want to compete overseas, recognizing that 95 percent of markets these days tend to be overseas. This is a particularly important moment in time for Ex-Im Bank and the service that it provides.

We actually provide short-term support, which would be either in the form of working capital or export credit insurance. We also provide medium term, 3- to 5-year financing, as well as long term, which can run anywhere from 5 to say, 18 years. However, the focus today is clearly on the short-term products.

We are not here to compete with the banks. I think that is very important. We are here to provide assistance when it is necessary. If a market is of particular concern and it has an opportunity to an exporter but a bank may be somewhat hesitant to become involved, that is where Ex-Im can really take a role in providing the kind of assurance to the exporters bank in order to make sure that that sale can go through and that the exporter can be successful.

We are a self-sustaining agency. I am always proud of saying that. And to the envy of some of my colleagues in this field we are of course chartered through the Congress. Our budgets are overseen by Office of Management and Budget, but we do have an arrangement with the U.S. Treasury, and each year we do actually return funds to the Federal coffers, and we are quite proud of that fact.

We do not have a lot of offices. We are a small agency. We have six offices across the country. They are listed in your official testimony, but we do a lot with the SBA, a lot with the Department of Commerce. We have a presence in all of the U.S. Export Assistance Centers (USEACs) across the country.

And to our Chairman's credit, we have embarked upon a very ambitious marketing program over the last year where we have actually held events known as ExportsLive, in a number of key markets, and that is continuing now to what might be considered secondary markets, and I offer to our Members of Congress and this Committee that we are happy to provide an ExportsLive event in any of your districts should you feel that it is an appropriate opportunity.

In addition to that we are also very active with the TPCC, the Trade Promotion Coordinating Committee. In that regard again we are trying as best we can to find multipliers as it were to get the word out about Ex-Im and what exactly we are able to do.

To date this year we know that we have positively effected 109,000 jobs. We also know that we are on track to have another historic year. Last year we did $21 billion in exports, $4.4 billion of that amount fit the SBA definition of small business. So again, we are seeing an uptick.

Our Chairman has also raised the bar and wants to see us get to $6 billion if at all possible this year, so you can imagine that we are exceptionally busy.

We also in addition to some of these broader outreach efforts I am pleased to say that we do work with the Interagency Network of Enterprise Assistant Providers (INEAP), as well as the Center for Veterans Enterprise (CVE).

And I might add that while your delay may have been vexing to some in the audience, it did give me the opportunity to meet a number of key constituents who are here, and I think that we have begun a conversation that we are going to be able to carry forward in terms of outreach to members of those organizations.

The last point that I will leave you with is really a very quick story, but I always think that these are the things that bring it home. As I always say, we are the rubber that meets the road, we are the actual U.S. Government facility that can provide help with a transaction.

And there was a couple in 1956 in southeast Maine who were both veterans and decided that they wanted to start a business. They could see that there was an opportunity to purchase a lobster business, not surprising coming from Maine.

Fast forward to 2010. The business transferred to their daughter and to their son-in-law who actually realized that given the fact that there is a glut of lobster due to overfishing—we can get into the science of this at a future date—they realized that they had tremendous opportunity to sell overseas, and it was through our export credit insurance that we were able to provide the support that they needed, and now their business is almost exclusively overseas. First in the United Kingdom and Italy, now they are looking to Spain and Korea. And they note that at least 20 of their lobstermen, the individuals who are out there in the boats who are supplying the lobster, are in fact veterans themselves.

So it is a good story, one that I think again sort of brings all that we do down to the real, to the true, to the personal level and to the exporter themselves.

Thank you again for inviting us to testify.

[The prepared statement of Ms. Farrell appears on p. 59.]

Ms. HERSETH SANDLIN. Thank you, Ms. Farrell. Let us just go from there then on the story. How did the daughter and son-in-law find out about the export credit insurance program?

Ms. FARRELL. That is a wonderful question. They actually contacted the USEAC in Boston who put them in touch with the appropriate Ex-Im representative who is actually based out of New York, but knows enough about lobster that we were able to get the transaction through.

Ms. HERSETH SANDLIN. Okay. What is a USEAC?

Ms. FARRELL. Oh, I am so sorry. A U.S. Export Assistance Center. So those are offices around the country that will have representatives from the U.S. Commercial Services, Department of Commerce——

Ms. HERSETH SANDLIN. Okay.

Ms. FARRELL [continuing]. From SBA, Ex-Im, et cetera.

Ms. HERSETH SANDLIN. Are there fees associated to the small business? What kind of fees could the business in the story that you described or others expect, if what we are looking at is veteran-owned small business——

Ms. FARRELL. Yes.

Ms. HERSETH SANDLIN. They want to get in touch and learn about some of the programs that you provide. We know that there are always fees, and sometimes we try to waive those fees temporarily to spur utilization of the programs or the loans. Could you describe those for us in terms of what Export-Import Bank would do?

Ms. FARRELL. Well the fees are determined by our credit underwriters. As we like to say, every credit is a unique credit. They obviously have to take into account the level of risk that is involved with the particular market that our exporter wants to sell into.

What I can say about the fees generally is that they are cents on the dollar when it comes to export credit insurance, as was the case with the lobster facility. And in fact, in many cases—and this is an opportunity that we actually present when we are talking to

U.S. exporters—if you take out export credit insurance through Ex-Im Bank oftentimes then your buyer is not required to take out a letter of credit when it comes to procuring the funds that they need from their, you know, bank, the bank overseas. And so what we explain to exporters is number one, it gives you peace of mind that in the event of a nonpayment you are covered. It gives your bank peace of mind that in the event of a nonpayment they, you know, they have the expectation that they are still covered, and it can help the buyer. And so that helps our exporter to say, hey, I am helping you out as well by taking out this insurance because your bank is going to be more comfortable about the way the transaction works.

So the fees—we have never really had a complaint about the amount of the fees—the fees are really there to sort of service what it takes for us to provide it.

In fact as we talk about expanding more aggressively and from a credit underwriting perspective, we are actually discussing the fact that the fees may not in fact cover the cost of this program, but that when you look at the bank's transactions overall where that is a loss, there are other programs say in the aircraft sector, for example, that do provide a healthy enough return that we can cover the losses adequately.

Ms. HERSETH SANDLIN. Then through your partnerships that you have with SBA, Department of Commerce, the Center for Veterans Enterprise, are you in a position with the resources that you have, or is it through these partnerships where you are not just sort of waiting for the business to have identified an export market opportunity, but you are aggressively looking at, through trade policies, through monitoring, what is happening in the global marketplace, particular export opportunities that would match up and in sharing that information with these other agencies that know of businesses that are out there that could take advantage of what is happening globally?

Ms. FARRELL. Yes, absolutely. Again, when Chairman Hochberg came in one of the things he did immediately was to take stock. And you know, we are only about 400 employees. I mean, that is how small a Federal agency we are, so we have to rely upon the SBA, Department of Commerce, and work closely also with the U.S. Trade Development Agency (USTDA), as well as the Organization of the Petroleum Exporting Countries, you know, to maximize our exposure and the number of impressions that we can make.

But one of the things that Chairman Hochberg did initially was to identify key markets in strategic regions around the world so that we were at least, you know, placing our maximum efforts where we felt we were going to get the maximum return.

We do the same thing to a degree in sectors, because we are required—again, as a jobs agency here to create and maintain jobs we have certain content requirements to ensure that the jobs are happening here in the U.S. as opposed to, you know, potentially facilitating for jobs to migrate overseas, and that is probably the single most complex restriction that we have within terms of working with companies here, but we are providing ways to be as expansive as possible in our support.

So yes, I would say we rely upon the kindness of strangers to quote Tennessee Williams, but it works very cooperatively. We do trade missions with Commerce, with USTDA, we share information, and of course the export cabinet that was created as part of the National Export Initiative when President Obama actually rolled this at our annual conference last month, has been very good as well in terms of coordination and strategic efforts to bring good business prospects to our exporters.

Ms. HERSETH SANDLIN. If the Ranking Member doesn't mind I will just maybe pose one more question as sort of a segue. I think that is an important restriction. Right, the objective is to create jobs here in the United States, and so that leads me to my question for Mr. Shear. We have, as it relates to contracting requirements, a goal of making sure that it is veteran-owned businesses that are getting these opportunities, just as it is in terms of the restriction Ms. Farrell described, but they are jobs created here as the objective.

In your written testimony you stated that the VA had hired a contractor to assess the verification programs process and the contractor report included recommendations. I mean again, we are a little concerned with sort of the progress the VA is making on the verifications as it relates to those on the database who have been verified to be veteran-owned businesses to deal with the issue of veteran shopping that we have had concerns about with the Subcommittee previously.

Can you elaborate on what recommendations were given to the VA?

Mr. SHEAR. I will paraphrase in a way that, we have, as I stated, we have a draft report, and there is a need to implement our VA's information technology in a way that allows for more efficient processing of these applications.

You also need—really it is development of people in terms of their ability and the guidance that they have to have in terms of how they verify businesses.

So I am segueing a little bit into what, what we are reporting on, but basically that VA has been very slow in this process, and the reason we think it is very important to verify is because the preferences are meant to serve veterans and veteran-owned small businesses, and there is not an assurance that that is occurring, and it has been delayed for some period of time.

So just the fact that the consultant study took so long until VA moved in that direction is of concern to us.

Ms. HERSETH SANDLIN. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair.

Mr. Shear, Public Law 109–461 requires VA to review contracts for compliance with subcontracting proposals. Would you share GAO's view of VA's performance in implementing the provisions?

Mr. SHEAR. Subcontracting will be contained in our final report. And what we observed with subcontracting requirements, there are certain issues as far as the date when the requirements become effective. But what we have observed to date is that with respect to subcontracting VA falls very short of its goals.

Mr. BOOZMAN. Thank you very much.

Ms. HERSETH SANDLIN. One final question. Mr. Sobota, of the States that you listed you didn't list South Dakota or Arkansas. The 10 that you listed have a very high population, high density population States, and so did you do an analysis—I know you gave us some—in terms of the additional materials to your testimony, did you do an analysis per capita by States, and then can you elaborate just a little bit more in terms of the rural nature of the businesses that you described?

Mr. SOBOTA. Yes, ma'am. The top 10 States are certainly correlated to population. And all 50 States and the District of Columbia are listed in the prepared testimony.

I must say that the way that the Census Bureau presents its data in terms of percentages makes it a little more difficult to translate that into raw numbers that would be more user-friendly, and you have to go through a number of steps in order to get to an estimate, and there are some statistical problems involved.

However, yesterday preparing for the hearing I decided that I ought to run a couple States just to see what they look like, and at random I just picked South Dakota and Arkansas, and so I will make an estimate without going through all the methodology, because I know that we have time constraints here.

In 2002 it would appear that South Dakota would have had about 11,900 total respondent veteran owners, of which about 800 would have been service-disabled. In Arkansas, it would be a little bit larger than that, and in Arkansas we figured about 32,700 total respondent veteran owners, and about 2,200 of those would have been service-disabled.

Now those are 2002 numbers, and as explained in the testimony, this is a bit dated, and we hope when we get the 2007 data in 2011 that we will have some updated information here.

There is a way to make an extrapolation from the 2002 data to 2009, but we really have more and more difficulty with reliability the further away you get from the base year, and there is a further problem with the demographics in that we know that there are about 25 percent more businesses now than there were in 2002, but the long-term trend for the veteran population is down as the population ages, so we actually have about 10 percent fewer veterans in 2009 than in 2002, and I just looked that up this morning on the Department of Veterans Affairs Web site.

So while we have a growth in the business community as a whole, we have fewer veterans, and that makes the use of the 2002 factor of 12.2 percent of all firms being owned by veterans problematic in 2009. That percentage could well come down in this next round. So we are a little hesitant to make a prediction at the State level for the number of veteran-owned firms today, but we can certainly work with staff there to try to flesh out more information and anything else that we can do. But those two overall numbers I gave you I think are reasonably close for 2002.

We will have better information too after the new Census Bureau report comes out.

Ms. HERSETH SANDLIN. Which is when?

Mr. SOBOTA. May 2011 is what Census has currently scheduled.

Ms. HERSETH SANDLIN. All right, thank you.

Mr. Adler, did you have any questions to this panel?

Mr. ADLER. Madam Chair, I am embarrassed that I came a little late, so I think I am going to defer for now.

Ms. HERSETH SANDLIN. I understand. Mr. Boozman and I covered quite a bit of ground in terms of the testimony that we heard and getting a little bit of clarification from the GAO interim report and what we can anticipate, so you can also submit any questions for this panel for the written record.

Mr. ADLER. And thank you for your opportunity.

Ms. HERSETH SANDLIN. I want to thank each of you for highlighting your findings on veteran-owned small businesses, elaborating more on the work that your agencies are doing. Your feedback of course helps us to better understand the population that the Subcommittee and the full Committee seek to assist. We look forward to learning more as you receive more up-to-date information in the weeks, months and years ahead.

Mr. Sobota, again we will—I think you make some good points in terms of how to keep up with this data effectively, and so again we appreciate the information on the status of our veteran-owned small businesses and we will look forward to seeing the finalized reports currently in process.

Thank you very much.

Mr. SHEAR. Thank you.

Ms. HERSETH SANDLIN. I now invite the second panel to the witness table. Joining us on our second panel of witnesses is Mr. Joseph Sharpe, Director of the National Economic Commission for the American Legion; Mr. Joe Wynn, Senior Advisor for the Vietnam Veterans of America (VVA); and Ms. Mary Kennedy Thompson, Vice Chairwoman of the Veterans Transitioning Franchise Initiative, the International Franchise Association (IFA).

Again your written statements have been made part of the hearing record. We will recognize you each for 5 minutes, and Mr. Sharpe we will begin with you. Welcome back to the Subcommittee.

STATEMENTS OF JOSEPH C. SHARPE, JR., DIRECTOR, NATIONAL ECONOMIC COMMISSION, AMERICAN LEGION; JOE WYNN, SENIOR ADVISOR, VIETNAM VETERANS OF AMERICA; AND MARY KENNEDY THOMPSON, PRESIDENT, MR. ROOTER PLUMBING CORPORATION, WACO, TX, AND VICE CHAIRWOMAN, VETFRAN COMMITTEE, INTERNATIONAL FRANCHISE ASSOCIATION

STATEMENT OF JOSEPH C. SHARPE, JR.

Mr. SHARPE. Madam Chair, Ranking Member Boozman, and Members of the Subcommittee, thank you for the opportunity to submit the views of the American Legion's regarding the status of veteran businesses.

In fiscal year 2009, Federal agencies missed their small business contracting goals by 2 percent. Procurement officers have made statements according to the Chair of the House Small Business Committee that those numbers are insignificant and nothing to be concerned about; however, while a 2 percent shortfall may not sound like a lot to those officers, it ultimately cost entrepreneurs approximately $10 billion in missed opportunity and employment for veterans.

According to the Department of Labor, the present unemployment rate for recently discharged veterans is an alarming 20 percent, and for veterans between the ages of 18 to 24 there is a 30.2 percent unemployment rate.

Furthermore, presently one out of every four veterans who do find employment earns less than $25,000 per year.

Historically small businesses have created an estimated 65 to 75 percent of the net new jobs, therefore, providing a central element for strong economic growth.

The American Legion believes that government should assist in the creation of new jobs by encouraging qualified entrepreneurs to start and expand their small businesses.

The American Legion also knows that no group is better qualified or deserving of this type of assistance than veterans.

Increasingly, the near term growth and stability of this Nation's economy is dependent on the long-term success of small business networks across the country.

In conclusion, the American Legion strongly supports the mandates of the Veterans Entrepreneurship and Small Business Development Act of 1999, Public Law 106–50, that were designed to assist all veterans wishing to start, expand, or protect their business.

Agency leadership need to be held responsible for meeting the 3 percent Congressionally mandated goal, and this Committee should schedule hearings with all Federal agencies who consistently do not meet their Federal procurement goals with the service-disabled veteran-owned business.

Madam Chair, this concludes my statement. I will be happy to answer any questions you may ask.

[The prepared statement of Mr. Sharpe appears on p. 63.]

Ms. HERSETH SANDLIN. Thank you, Mr. Sharpe, appreciate your testimony.

Mr. Wynn, you are now recognized.

STATEMENT OF JOE WYNN

Mr. WYNN. Thank you, Madam Chairwoman. Good afternoon, and good afternoon to Ranking Member Boozman, Members of the Subcommittee.

I am here today on behalf of the Vietnam Veterans of America and its members to address our views regarding the status of veterans small businesses and are we failing them?

Just to quickly put it, yes, I think in many ways we probably are as we focus on contracting for veteran-owned businesses.

I am just going to hit on a couple of points, itemize a few points, because I know that this Committee has been very supportive of veterans and veteran business opportunities.

One of the things that hasn't been happening is still a lack of accountability, oversight, and enforcement. The agencies that have been directed to carry out the laws still are not being held accountable, they still—if they don't make the 3 percent nothing happens. There is still a lot of ambiguities in the laws that govern the service-disabled vet program.

We have heard a lot over previous years about the word "may," as it pertains to the service-disabled vet program, the word "may" that governs this program is often interpreted as, "I don't have to."

What would be more effective is to change that word "may" to "shall," and change it in all programs, all of the preference programs, at least the 8(a) and HUBZone, as well as service-disabled vet so that we would have some true equal parity.

We used to have or we still have an Executive Order 13–360, but it has faded significantly in its significance. In that Executive Order it called for agencies to actually write out a strategic plan showing how they would increase contracting opportunities for service-disabled vets. That doesn't seem to be happening very much anymore, and instead we later came up with—SBA came up with a scorecard program for all small businesses that doesn't seem to be as effective, at least in terms of veteran businesses increasing.

There is still an overuse of large prime contractors and bundling. This not only affects veteran-owned small businesses, it affects small businesses across the board. When you continue to lump contracts together and make them awful large, small businesses just can't compete.

There is also no authorization within the service-disabled vet program for contracting officers to make direct awards in the same manner as it is within the 8(a) program. Again, if we are going to equalize the playing field let us make the activity and actions equal across the board.

A couple of other reasons I would just like to hit on quickly. There is still limited business development assistance. We know that recently there was grant awards made to the SBA Office of Veteran Business Development to increase the number of veteran business centers, business outreach centers, but the amount of the funding is still woefully low. One hundred fifty thousand dollars per center to cover huge geographic areas is not acceptable.

One other point too on the VA's Veterans First Contracting Program. While this has been a significant step forward, it is still for some reason there is a prevailing belief that SDVOB stands for small and disadvantaged veteran-owned businesses, wherein all of our veteran-owned businesses are not in that category. So this is a disservice to those that are capable and qualified of competing on the open market.

VA contracting with Veterans First really should be a governmentwide model, and we would like to see this program improved and actually have it implemented across the government.

We hear often that small business is the engine that fuels the economy and it creates more jobs. This is a statistical fact, and we would like to see more effort put into creating opportunities for our veteran small business owners.

Just recently this week as a matter of fact, we listened to the announcement about an Executive Order to increase contracting opportunities for veterans. We are definitely appreciative that this has come forward. Although I might note that this Executive Order for veteran businesses actually mirrors the language that was in Public Law 110–186 2 years ago. So hopefully this will now move forward since this Administration is supporting it.

Let me conclude my statement by just saying that if we are going to help veterans, we need to help them now. The majority of our veterans are Vietnam veterans. Of course we know as time continues to move forward our veterans are getting older, we want to bring more new veterans into the marketplace, but we don't want to—the other day we were talking about increasing the number of service-disabled veterans. Quite frankly, we really don't want to increase more veterans to have to be service-disabled before they can get a contract, but at any rate let us see if we can do more for our veterans.

Thank you.

[The prepared statement of Mr. Wynn appears on p. 68.]

Ms. HERSETH SANDLIN. Thank you, Mr. Wynn.

Ms. Thompson.

STATEMENT OF MARY KENNEDY THOMPSON

Ms. THOMPSON. Good afternoon, Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee.

My name is Mary Kennedy Thompson and I am President of Mr. Rooter Plumbing based in Waco, Texas. Mr. Rooter is a proud brand of The Dwyer Group family of service enterprises, and we have more than 270 locations across the United States.

As a veteran, I am truly honored to have this chance to speak to the Subcommittee on Economic Opportunity about veteran entrepreneurship.

I appear today on behalf of the International Franchise Association.

According to a 2008 study conducted by PricewaterhouseCoopers, there are more than 900,000 franchised establishments in the United States that are responsible for creating 21 million American jobs and generating $2.3 trillion in economic output.

Today, I will talk about a program that is very near and dear to my heart, the Veterans Transition Franchise Initiative, or VetFran. I will also highlight specific legislation, H.R. 2672, the "Help Veterans Own Franchises Act," that will make it easier for veterans to purchase a franchise.

But first, I would like to share the story of how I decided that franchising was the right path to small business ownership for me. Helping fellow veterans make the transition to civilian life and realize their dream of small business ownership is one of my passions. I have taught what franchising offers at entrepreneurship classes offered specifically to disabled veterans. I also serve as the Vice Chairwoman of the IFA's VetFran Committee.

Franchising is the great American dream. It allows people to own a business, and it teaches them a system to help them be successful. It did just that for me.

In 1985, I received my commission as an officer in the United States Marine Corps where I served for 8 years and achieved the rank of Captain while on active duty and later the rank of Major in the reserves. When I left active duty, I chose franchising because it provided me a framework of training and support to help me succeed as a small business owner.

I became a multi-unit franchisee in the Cookies by Design system where I earned company awards for Top Performer and Outstanding Customer Service. My success lead to being asked that I join the corporate team. I started out as Director of Franchise Operations, and eventually becoming the brand's President.

I joined Mr. Rooter in October of 2006 to proudly serve the 40-year-old company as its first female President.

The military and franchising have a lot in common.

As a veteran from a military family I didn't know how to run a business, I didn't know how to get it started; however, I had the dream of being my own boss, and my military experience enabled me to lead others toward a common goal.

The Marine Corps also trained me how to follow a system and successfully execute a plan.

Members of our Armed Forces are disciplined, hard-working, and passionate people who understand how to work well within systems. They are accustomed to following standard operating procedures, they have strong teamwork skills, and they are dedicated to mission success. These are crucial attributes that make military veterans excellent candidates for franchise ownership.

An estimated 250,000 men and women transition out of the military each year. Like me, many of these veterans are looking for a chance to be their own boss and leaders within their communities.

The vision to use franchising to help military veterans transition to civilian life began nearly 20 years ago. Don Dwyer, Sr., the founder of The Dwyer Group and a veteran himself, conceived the plan to help our veterans achieve the American dream by owning their own franchised small business. Mr. Dwyer's plan has become the IFAs VetFran program, a voluntary effort of IFA member companies designed to encourage franchise ownership by offering financial incentives to honorably discharged veterans.

Since 2002, more than 1,700 veterans have purchased their own franchise business from nearly 400 participating systems with the help of this program. What began as the idea of one veteran entrepreneur has today become a path to the American dream for thousands of veterans.

I am proud to report that in February of this year, The Dwyer Group topped the $1 million mark in VetFran discounts awarded to veterans.

Since 2002, The Dwyer Group has sold franchises to 233 military veterans through this program, and Mr. Rooter Plumbing was recently recognized by *USA Today* as one of the top 50 franchises for military veterans.

Congress has the opportunity to make this important effort more effective. Legislation has been introduced to cement the benefits of a program like VetFran into policy and encourage more franchise systems to support veterans as small business owners.

I strongly urge the Members of the Subcommittee to cosponsor and for Congress to pass H.R. 2672, the "Help Veterans Own Franchises Act." This bill is coauthored by Representatives Aaron Schock and Leonard Boswell, and currently has more than 30 bipartisan cosponsors.

This legislation establishes a tax credit for franchised businesses offering qualified veterans a discounted initial franchise fee. The tax credit would amount to 50 percent of the total franchise fee discount offered by the franchisor capped at $25,000 per unit, and also provides a tax credit to the veteran for the remaining initial franchise fee paid.

I want to thank Ranking Member Boozman who has already cosponsored this important legislation.

Enactment of this tax credit will encourage economic growth and make it easier for veterans to become small business owners. Our veterans deserve this chance after so faithfully serving our country.

Again, on behalf of the International Franchise Association, Mr. Rooter Plumbing, and The Dwyer Group family of brands, we sincerely appreciate the work of the Subcommittee. Thank you.

We strongly urge you to support and pass the "Help Veterans Own Franchises Act" so that more of our veterans may return home and begin building a bright future for themselves, a bright future for their families, and for their communities through small business ownership.

Thank you, and I look forward to answering any questions you may have.

[The prepared statement of Ms. Thompson appears on p. 73.]

Ms. HERSETH SANDLIN. Thank you, Ms. Thompson. You have an impressive record of military service and professional achievements, and we are very pleased to have you here today.

In addition to your advocacy for H.R. 2672 and the tax credits to be provided, what are some of the current existing discounts or benefits available to veterans purchasing a franchise?

Ms. THOMPSON. Well with the VetFran program any of the participating members, and we have over 400 members, any of those participating members are offering discounts up to about 50 percent of the franchise fee that is offered to the veteran.

In Mr. Rooter Plumbing we have offered that and given that to over 50 franchises already—veteran franchises.

Ms. HERSETH SANDLIN. Can you tell us what the average cost is of a franchise for a perspective veteran?

Ms. THOMPSON. Certainly. I can speak from my own experience. An average franchise especially in our system is going to cost about anywhere from $50,000 to $100,000, that is including equipment and including the franchise fee and getting started. They are going to probably pay about $30,000 for a franchise fee, so they get a 50 percent discount, which means that they get a $15,000 discount, and that $15,000, that is a truck. In the world of plumbing that is a truck. And they get more trucks on the road, they get their business started faster.

Ms. HERSETH SANDLIN. That is very helpful. Can you elaborate on the details of the Memorandum of Understanding between the VA and the International Franchise Association?

Ms. THOMPSON. I sure can. We do have a Memorandum of Understanding that—let me grab my notes really quickly. There it is.

We came into that Memorandum of Understanding a few years ago, and it is a collaborative agreement with the VA and VetFran to champion free enterprise and to expand business opportunities for veterans.

In 2006, we renewed our official Memorandum of Understanding with the VA and IFA jointly promoting the program.

Ms. HERSETH SANDLIN. Thank you, Ms. Thompson.

I do have a question for both Mr. Sharpe and Mr. Wynn.

According to witness testimony for the hearing today, as well as phone calls from veterans to our Subcommittee staff, veterans have been unsuccessful when applying for the SBA's Patriot Express Loan. Have either of you been made aware of this problem or similar problems?

Mr. SHARPE. That is probably the largest most frequent complaint that we receive from our business owners, that they are not able to access loans, and that the credit crunch in their viewpoint is a serious problem. That is one reason why we have been advocating for a direct loan program from SBA.

Ms. HERSETH SANDLIN. Mr. Wynn.

Mr. WYNN. Yes. I would have to concur with that. We were actually set up—we have set up a veteran business resource center here in DC, and one of the primary services we are planning to offer is how to access capital.

In talking with some of the veterans with regard to the Patriot Express Loan, they are having difficulties also to acquire that capital.

The rationale seems to be because the—you know, the banks in general seem to be tightening the credit, their lending practices, so that is, you know, kind of what we are hearing. We are not understanding though why that is affecting the SBA Patriot Loan Program.

Ms. HERSETH SANDLIN. Ms. Thompson, I saw you nodding your head. Are you aware of this problem too in terms of maybe some of the potential veteran franchisees and how important this loan would be to offset some of the initial costs of getting the franchise?

Ms. THOMPSON. Yes, ma'am, I am aware of it. While the SBA does have some good opportunities out there, the Patriot Loan is difficult to get. It is a very long process. I have had franchisees report to me that they have had a difficult time and they found better financing and better rates through other sources through the SBA.

Ms. HERSETH SANDLIN. Mr. Boozman.

Mr. BOOZMAN. Thank you, Madam Chair.

It is interesting. We have had the opportunity on several occasions to be at the Transition Assistance Program, the TAP programs where they tell about, as you separate and things. I can remember on several occasions as we visited with breakout groups that many, many of the people separating are interested in franchises, and so I very much support anything that we can be supportive of the legislation, that you mentioned.

Another thing that we have been asked to do at times, and I have been interested in doing, is the GI Bill, pays for education, it is trying to separate out the educational component versus the rest of the component, on a franchise fee. One of the problems though has been the difficulty in doing that. Do you have any advice for us in that regard?

Ms. THOMPSON. Well the advice I would have is that there are lots of ways to get an education, and our veterans returning back really deserve the chance to be able to use their educational funds in a way that they can educate themselves and create value for themselves and their families. And through franchising and through trade schools they can create great value for themselves.

Our average, a Mr. Rooter plumber has a very good living, and a Mr. Rooter franchisee has a very good living, but he is going to need to go to trade schools, and he is going to need to go to franchise training. And when you only allow it to go for something like a college education you are limiting that.

I mean, I think about the jobs that I myself, and I represent veteran-owned businesses everywhere, that I was able to create and the taxes we paid and what we brought back to the community, it was that—it was really that education that brought me to it.

Mr. BOOZMAN. Okay. How would you identify the cost—how would you separate out the cost of the education component versus the other?

Ms. THOMPSON. I think you could delineate it as trade schools, or with the franchising world. We are very, very specific, and with our franchise disclosure documents it specifically states in there what the franchising is—franchise training is, how long it is, how much it will cost. We have a lot of rules and requirements and legislation that requires us to follow for how we franchise. And so you could go into any franchise disclosure document in any company and say if it is their training in there and it lays out how long their training, that is franchise training.

For example, in Mr. Rooter our training is a week long, and we know it is exactly—I know it is 52.8 hours worth of training, and it is in writing in our franchise disclosure document.

Mr. BOOZMAN. Okay. Very good, that is very helpful.

Well thank all of you for being here. As always, we appreciate your testimony.

Thank you, Madam Chair.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman.

One final question for Mr. Sharpe and Mr. Wynn, and Ms. Thompson if you would like to weigh in as well.

What penalties can or should be levied against an agency for noncompliance with the 3-percent set-aside contracting goal?

Mr. SHARPE. Well, I know we have mentioned this before, that there should be some sort of performance requirement in the valuations of agency heads.

We have actually visited a number of agencies in the last couple of months, and again, there seems to be this attitude that we can't find veterans to work with, we can't find veterans that are able to perform the task that we are looking for, and from our experience that is not the case, because we have veterans that are able to build submarines and airplanes and those other large projects that U.S. Department of Defense is actually looking for. But it is not in the agency's—they don't seem to be really concerned in regards to going the extra mile and making sure that they find those veteran businesses and that they are treated fairly and looked at as a serious, competent, you know, company.

Ms. HERSETH SANDLIN. But they might have an incentive to do so if there was a carrot or a stick. So do you have any suggestions on any penalties or incentives that could be imposed or offered if they fall short of the goal?

Mr. SHARPE. If the Secretary or the head of that particular department doesn't fulfill that requirement when it comes to evaluation time, then it should be duly noted and documented and look at possibly removing that individual or they are not going to get the kind of bonus that they are looking for, but it should be an evaluation that they meet their goals, yeah.

Ms. HERSETH SANDLIN. Okay. Mr. Wynn.

Mr. WYNN. Yeah. The 3-percent minimum requirement, you know, should be applied and is applied to agencies as well as large primes, and how you handle the two of them would be somewhat different.

With the large primes there could be—the penalties associated with not making the 3 percent would be in the contract evaluations factors when they come up for the next time they bid on a contract if they haven't been making the 3 percent, haven't been making a good faith effort, then they shouldn't be viewed and allowed to participate on upcoming contracts in the same way they have in the past.

We know it is difficult to look at once a contract has started to evaluate that particular agency or that particular large prime contractor and stop the contract once it has been started, but in future contracts going forward certainly they should not be allowed to continue to just continue to receive contracts if they are not abiding by what the laws are currently.

With agencies, we have often talked about agencies to effect the performance of agencies is that the senior level managers or contracting officers, there needs to be something in their performance evaluation which if they are not demonstrating that they are moving forward in a productive manner in trying to achieve the minimum 3 percent then they shouldn't continue to get bonuses, their salaries shouldn't continue to increase.

You can't just penalize the agency in general, because you know, we are talking about lots of people when we talk about an agency, but individually on the contract level perhaps we should look at those people who are directly responsible for managing and awarding these contracts. If they are not demonstrating that they are actively pursuing, meeting the required goals, then they should be held accountable.

Ms. THOMPSON. I do understand that the business world is different from the government world. I would say that in the business world we pay and reward and bonus our people based on creating results.

So I would ask can there be something in place that rewards and bonuses those who are following the system and creating the results that we are looking for?

Ms. HERSETH SANDLIN. Thank you, Ms. Thompson.

Mr. Boozman, any further questions for this panel?

Well we thank all three of you for your testimony, your responses to our questions, the insights that you have offered, and we appreciate the ongoing service to our Nation's veterans. And again, we will follow up with you on some of the recommendations and suggestions that you have made to improve programs that are there to help veterans succeed in their small business ventures.

So thank you again for your testimony today.

Mr. SHARPE. Thank you.

Ms. THOMPSON. Thank you.

Ms. HERSETH SANDLIN. We now invite panel three to the witness table. Joining us on our third panel is Mr. Tim Foreman, Executive

Director of the Office of Small and Disadvantaged Business Utilization (OSDBU), U.S. Department of Veterans Affairs, and Mr. Joseph Jordan, Associate Administrator for Government Contracting and Business Development at the U.S. Small Business Administration. Mr. Jordan is accompanied by Ms. Janet Tasker, Deputy Associate Administrator for Capital Access, and Mr. William Elmore, Assistant Administrator for Veterans Business Development, both within the U.S. Small Business Administration.

Again, your written statements will be entered into the record.

We will begin with you, Mr. Jordan. Welcome to the Subcommittee. You are now recognized.

STATEMENTS OF JOSEPH G. JORDAN, ASSOCIATE ADMINISTRATOR, GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY JANET A. TASKER, DEPUTY ASSOCIATE ADMINISTRATOR FOR CAPITAL ACCESS, U.S. SMALL BUSINESS ADMINISTRATION; WILLIAM D. ELMORE, ASSOCIATE ADMINISTRATOR FOR VETERANS BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION; AND TIM J. FOREMAN, EXECUTIVE DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION, U.S. DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF JOSEPH G. JORDAN

Mr. JORDAN. Thank you very much, Madam Chair.

Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee, thank you for inviting SBA to testify. I am accompanied by Janet Tasker, the Deputy Associate Administrator for Capital Access and Bill Elmore, the Associate Administrator for Veterans Business Development.

Veteran-owned small businesses have always played a key role in America's economy. Veterans have the leadership, the know-how, and the drive to succeed as entrepreneurs.

As thousands of troops return home, the SBA has taken many steps to serve them as they have served us. We do that in three main ways: capital, counseling, and contracting.

Capital. SBA is committed to helping veteran-owned small businesses get the capital they need. Under the American Recovery and Reinvestment Act Enhancements and Extensions to our top two loan programs over the past 14 months we have been able to provide more than $2 billion in lending support for veteran entrepreneurs and small business owners.

We also have an increasingly popular loan program that is available not only to veterans, but also to Reservists, spouses, widows, and others called Patriot Express.

This program helps address the fact that our military forces currently rely on Reserve components as well as support for military families.

We make thousands of these loans each year, which feature our lowest interest rates and faster turnaround times.

I should also mention that we provide dozens of military Reservists economic injury disaster loans each year to small businesses that need additional capital due to the fact that an owner or essential employee has been called to active duty in their role as a military Reservist.

Now counseling. In the area of counseling each of our 68 field offices has a designated staff member for veterans business development. They are engaged with hundreds of veterans serving organizations and reach thousands of veterans and Reservists each year.

In fiscal year 2009, SBA and its resource partners trained or counseled about 150,000 veterans in addition to Reservists, Guard members, and active duty clients.

In the future we hope to serve even more, because since 2008 we have tripled the number of our veterans business outreach centers.

These centers help veterans with business plans, monitoring, and much more. They also help our Office of Veterans Business Development provide about 60,000 SBA veteran and Reservist business information kits each year.

Also, we know that veterans are heavy users of our online tools such as our small business training network. That is why we launched an online training course for veterans small business owners to learn how to become government contractors. And last November we entered into a partnership agreement to support the Entrepreneurship Bootcamp for Veterans with Disabilities consortium operating at six top universities across the country. We are very proud to be part of this 14-month entrepreneurial development program for service-disabled veterans who were injured in Iraq or Afghanistan since 2001.

Finally contracting. The SBA works hard to ensure that veteran- and service-disabled veteran-owned small businesses have access to opportunities and Federal contracting. We work across all Federal agencies to ensure that at least 3 percent of Federal contracting dollars go to service-disabled veteran-owned small businesses.

In fiscal year 2008, this group received about $6.5 billion, or 1.5 percent of Federal prime contracts. Preliminarily data for fiscal 2009 indicates that both of these numbers are increasing.

Today we are proud of the fact that 6.3 percent of Recovery Act prime contracting dollars have gone to veterans and 4.3 percent of that has gone to service-disabled veterans thus far.

I should also mention that this Administration supports the Congressional intent of equal treatment among our business development and contracting programs, service-disabled veteran-owned, 8(a), HUBZone, and women-owned small businesses. However, in light of a recent court decision, it would be useful to clarify and reiterate Congress' original intent that there be parity among these programs.

Finally, just a few days ago, the President signed an Executive Order to once again demonstrate the high priority that veteran-owned small businesses have in this Administration by establishing an Interagency Task Force on veterans small business development.

The task force will be led by Administrator Karen Mills, and will include seven agencies and four representatives from the veterans community. This task force recognizes that many in our veteran community have chosen or will choose to step out and start their own business, so it will provide recommendations to the Administration in several key areas, including those I have just discussed today, capital, contracts, and counseling.

An additional Executive Order to create a task force or small business contracting as a whole will help amplify this effort.

We look forward to the recommendations that will come out of these task forces as we recommit ourselves to meeting the needs of our veteran entrepreneurs and small business owners.

We will now be happy to take any of your questions.

[The prepared statement of Mr. Jordan appears on p. 75.]

Ms. HERSETH SANDLIN. Thank you very much, Mr. Jordan, we appreciate your testimony.

Mr. Foreman, welcome back to the Subcommittee, you are now recognized.

STATEMENT OF TIM J. FOREMAN

Mr. FOREMAN. It is my pleasure to return to you today again to testify regarding the progress of veteran-owned businesses. The concept of veteran-owned business providing products and services for veterans constructs a win-win scenario. Who better understands the needs of our veterans than other veterans.

Congress seemed to recognize this when through Public Law 109–461 it created the Veterans First Contracting Program. This program gives meaningful assistance to veterans seeking business opportunities with VA, it has a direct and positive impact on VA's prime contracting and subcontracting opportunities.

The VA and I thank you for this legislation.

Your hearing title asks, are we failing veterans? Madam Chair, we are not failing our veterans. We are leaders in many pro-veteran business program areas. VA has been able to focus on service-disabled veterans and other veteran businesses. This focus has achieved a tangible result and is why the VA leads the Federal Government in the percentage of contracting dollars awarded to these types of veteran-owned small business.

Additionally, on Monday of this week, President Obama signed an Executive Order that energized an Interagency Task Force on veteran small business development. This task force will enhance communication among veterans, small business enterprises, and key organizations within the Federal Government. It may well serve as an instrument to help us identify obstacles facing perspective veteran-owned business owners and help them find solutions and contracts.

Members of this Subcommittee, it would be reasonable that any claim to our success be linked to a measurement of performance.

VA is proud to report that for fiscal year 2009, VA awarded 19.3 percent of our dollars to veteran-owned small businesses. Likewise, the VA also awarded 16.3 percent to service-disabled veteran businesses in the same timeframe, bettering by more than twice the amount of our own internal goal.

While VA has current and reliable data for performance in some areas, we do need to have a broader portfolio of current information regarding the characteristics of veteran-owned business.

Useful analysis of the variables that impact success of veteran-owned businesses is in the U.S. Census Bureau's characteristics of veteran-owned businesses last published in 2007 using data collected in 2002.

I also note that the Small Business Administration has been very helpful in providing data that helps VA better understand the process and the impact on veteran-owned businesses by collecting and reporting and analyzing data in a more timely fashion. Because of this, we will be better able to gauge the performance.

It is in this way we will better analyze the effectiveness of our program against a broader backdrop. We will be able to better shepherd our programs and optimize the results. This will help us to better identify obstacles associated with certain business sectors and their geographical locations; and, perhaps to also identify some solutions.

In my written statement I address several factors that may impact success of veteran-owned small business. Most of the work needed by the VA is clustered near its facilities; however, the next generation of veteran-owned small businesses may be more heavily into use of technology and the performance of work remotely will most probably be one outcome. Geographical data then will be used in a different manner.

I also report that some business sectors had a higher percentage of veteran-owned business than did others.

For example, I will note that veterans tended to do better in mining, construction, manufacturing, wholesale trade, transportation, finance and insurance, and in the professional and scientific sectors. Whereas, businesses that fell below that or were underrepresented against the industrial average were in the retail trade, information and administrative support, waste management, education services, health care, arts and entertainment, and in the hotel and food industries.

There is a significantly higher proportion in terms of percentages of male veterans than female veterans, and this too may speak to some of the differences and some of the factors.

When the Small Business Administration's Shawne Carter McGibbon testified before your Subcommittee last year she provided an excellent overview of the program and identified some significant difference between service-disabled veteran and non-service-disabled veteran business owners.

I believe that my time is running out so I will go ahead and just wrap up and say I would be happy to take any of your questions. Thank you.

[The prepared statement of Mr. Foreman appears on p. 77.]

Ms. HERSETH SANDLIN. Thank you, Mr. Foreman.

Mr. Jordan, we have heard that some veterans are having problems securing a Patriot Express Loan. As previously asked to the representatives of the veterans service organizations on the prior panel, are you aware of any problems or complaints that veterans are having in accessing the Patriot Express Loan?

Mr. JORDAN. I am actually going to defer to my colleague, Ms. Tasker from the Office of Capital Access for that question.

Ms. HERSETH SANDLIN. Okay, Ms. Tasker.

Ms. TASKER. Thank you for the question.

Honestly, we haven't heard specific problems about the Patriot Express Program itself. That program is one of our easiest to access programs. Our Express suite actually allows lenders to use their own existing processes, they don't have to use a separate SBA process to make those loans, so I am interested to get more information from you on specific situations so we can look into it.

Ms. HERSETH SANDLIN. Well, I think given the testimony from the prior panel there seems to be a lot of concern and complaint. So I think, certainly the Subcommittee will help facilitate the exchange of information from some of our VSOs and their members and others in the small business community with your office.

Ms. TASKER. And we would welcome that.

I would just add that with the economic situation in the past year we saw a dramatic decline in lending generally, and the banks did in fact tighten credit, so I do know that it has been harder for small businesses to access credit.

A lot of the actions that the Congress did in passing the Recovery Act have supported more lending, but specific to Patriot Express we will certainly work with you to find out more about what is going on there.

Ms. HERSETH SANDLIN. I think we need to do that in light of the fact that this is a program intended to make accessing a loan through the community banking institutions easier.

Ms. TASKER. Uh-huh.

Ms. HERSETH SANDLIN. And so if they are having difficulty getting the guarantee, this was supposed to help address some of the credit crunch in good times. I mean, you know what I am saying.

Ms. TASKER. I do.

Ms. HERSETH SANDLIN. I am a little concerned that if you haven't been hearing the complaints, is there an avenue that can help facilitate the exchange of information.

Because we hope that the credit markets will continue to improve, but we want to make sure that the programs are intended to sort of help give the banks the confidence that they need in a government backed loan that this is—and overcome any problems that there may be.

Ms. TASKER. Right. And I just do want to be clear, we are aware that there has been a general tightening of credit, I just had not heard that people were having trouble with Patriot Express specifically, but we will work with you.

Ms. HERSETH SANDLIN. Okay.

Mr. Jordan, you had stated that veterans received $523 million of the 7(a) loans and $176 million of the 504 development loans, and that is in your testimony.

Mr. JORDAN. Right.

Ms. HERSETH SANDLIN. Do you know how many home businesses these dollar amounts equate to? Ms. Tasker.

Ms. TASKER. It is over 4,000 businesses, or approximately 4,000.

Ms. HERSETH SANDLIN. Okay.

Ms. TASKER. I guess it is 3,980 some.

Ms. HERSETH SANDLIN. Also, what is the average operating budget of a veteran business outreach center?

Mr. ELMORE. Yes, ma'am. The amount of funds that we have historically provided to a veteran business outreach center each year has been a maximum of $150,000. In the latest competition, we have now been able to grow the program to approximately

$165,000 for some of our previously existing centers that were successful in competing for a second agreement. So that is what we provide.

However, I should tell you that while we don't require a match when we go through the application and the evaluation process, we really push our centers to secure other sources of funding as well. We realize that 150 or 165 is not a lot for the responsibilities that they have. That has simply been limited by the amount of funds we have had to grant.

Ms. HERSETH SANDLIN. Okay.

Finally, Mr. Jordan, those were impressive numbers you list as it relates to the Recovery Act dollars. What is going on? How is that being overseen differently than what we do on a regular basis across agencies?

Mr. JORDAN. Madam Chair, are you referring to the contract which I think that——

Ms. HERSETH SANDLIN. Yes.

Mr. JORDAN [continuing]. There are a few things going on there. I had the opportunity to testify in front of the Subcommittee almost a year ago to the day, and at the time the topic was primarily the contracting performance and the 3 percent there. We have done a number of things over that year to try to reverse engineer success and determine what can we do to achieve the 3 percent. Because while it is moving in the right direction, we would all agree that nothing short of that 3 percent is really acceptable.

So we looked at the Recovery Act because it had individually trackable dollars and was going out over a finite period of time. We used that as a testing ground for some of the different efforts we thought could really move the needle for small business contracting, and yes, for service-disabled veterans as well as the other subgroups.

Specifically what we did was look at both ends of the equation, the small businesses, and we did a lot of training education and outreach. We found that there is an awareness gap sometimes. So while there are almost 50,000 veteran-owned small businesses and about 17,000 or 18,000 service-disabled veteran-owned small businesses listed in the central contract registration or dynamic small business search, those businesses are not always aware of what the opportunities are out there.

Vice versa we worked with the agencies to say not only do we have to help those small businesses become aware in advance of these opportunities that are going out, we need to really step up our efforts to go out and find those qualified businesses and improve our market research techniques. We met with every single agency to discuss this.

We had them put out a calendar of events that they were going to do in terms of outreach. We had them develop forward looking procurement plans, and then the Vice President convened the Cabinet and said: "How are you doing on each of these areas?"

We obviously work very closely with VA because they have some unique ability to set aside contracts for these groups, but they also have a deep passion, and a good understanding of the stakeholders involved. So we have key learning there, and we syndicated those best practices all around.

So the next step is: How is it going to apply to the regular contracts? And we have now taken some of the best practices that we learned from this effort, some of the things that we thought moved the needle positively, and we are going around and doubling down on those things with each agency. Over the next 6 to 12 months you will see a series of efforts aimed again at both sides of the equation to try to get to that 3 percent.

Last year when I was here I said that our number 2,007 was 1 percent, but it looked like it would go up. It did, it went up by 50 percent to 1½. This year I am saying it was 1½ and we think it is going to go up to around 2 percent. That still is not 3, and that is where we need to get.

Ms. HERSETH SANDLIN. I may have some followup questions, but I would like to recognize the Ranking Member, Mr. Boozman, for his questions.

Mr. BOOZMAN. Thank you, Madam Chair.

Mr. Jordan, what is the fiscal year 2011 budget proposed for the Veterans Business Development Office, and what additional initiatives with that fund, and what is the timeline for implementing those initiatives?

Mr. JORDAN. Mr. Ranking Member, if it is okay I would defer that to Mr. Elmore. Thank you.

Mr. BOOZMAN. Yes, that is fine. Certainly, Mr. Elmore.

Mr. ELMORE. The budget request that went forward for our veterans business outreach centers is steady. We received $2.5 million from Congress this year, which allowed us to expand the number of centers, and the 2011 budget request is the same amount.

However, internally as I expect you understand, as we move through the year if additional funds become available because of underexpenditure and other program offices we intend and we will compete for those funds inside the agency.

Mr. BOOZMAN. Okay, very good.

Mr. Foreman, what were all of the—in regard to implementing P.L. 109–46, I think we hired somebody to help us in regard to what we needed to be doing. What were the recommendations, and did VA disagree with any of the recommendations? If so, which ones?

Would you provide the Subcommittee with a plan outlining the specific dates VA will fill vacant staff positions and CVE and OSDBU and dates to implement the contractor's recommendations?

Mr. FOREMAN. I would be happy to. I think we have already started on this. I have hired—I have my new deputy back here, Len Sistek, who is a service-disabled veteran, and I have hired about four more people in my office, and we have about three people going into the CVE, which is now going to be renamed. We are in a reorganization phase.

One of the things that I recognize is I felt like we were losing focus on the verification process. I thought the process was a little bit bureaucratic and a lot of paperwork involved, so automation would really go a long way toward streamlining the whole process.

And the last time I talked to you I talked about some of the problems that we were having in terms of the growth in the backlog. Well, part of that I come to find out was due to an error in the data system. When people would go online to apply for it there was a little caption you have to go on, and this is for verification. You know, in order to get into the data system you had to be verified, so that caused a spike of over 300 businesses per month coming into the system. They have turned that off so a business can actually go in and just get into the system, and then if in fact there is a problem or somebody suspects there is a problem there is a protest.

I am the guy who takes care of the protest. I have done five where I have sustained the protest, i.e., I found that the contractor was actually not a service-disabled veteran or lacked the status to have the contract. I have determined that two were in fact verifiable service-disabled veterans and were good.

So far it has all involved service-disabled protests. I have not seen one yet on a veteran's status issue. I take that back. I did see one on a veteran status issue. It wasn't an issue. A firm objected to the firm claiming it wasn't service-disabled, but the set-aside was a veteran set-aside. So that was kind of just a non-issue.

So we are doing it. We will probably do about four to six more next week, and I am trying to get it over to the SBA.

They had two issues. One issue—they had the same issue I had. They didn't like the idea you could only have one business and be a service-disabled veteran or a veteran, and I agreed with that. So we changed that on a policy. Of course they want it in writing, and I don't blame them. To make it easier on them I went ahead and used their regulation. I took 13 CFR 125.9 through 13 CFR 125.13, and we also added .15 for ownership and control issues. And the fact that my people had directed the folks down there to go ahead and draft a response for the *Federal Register* saying this is our final rule and just go ahead and post it. When that happens you will have it and hopefully I will be out of that business and be able to free up two additional members to do verifications instead of supporting me in the protest process. So part of it is process driven.

[The VA subsequently provided the following information:]

Since the contractor reviewed CVE's processes, there have been changes in the organization driving a more streamlined focus on examinations and verifications; therefore, a few initial contractor recommendations may need to be adapted to meet new organizational priorities. The contractor had submitted 41 recommendations in 9 general categories: (1) changes to the Vendor Information Pages database; (2) changes to the application form, VA Form 0877; (3) implementation of a case management system; (4) additional training for CVE staff; (5) changes to the Risk Management Program; (6) changes to document collection; (7) changes in communication strategies and content; (8) changes to internal procedures for examining individual identity records; and (9) other process improvements.

VA agreed with 37 of the recommendations, noting that 13 required no new action as they were already in process. Implementing the changes to the Vendor Information Pages (VIP) database, acquiring the case management system and developing the interface between it and the database will require the greatest period of time to execute. On June 1, 2010, VA awarded a contract to a service-disabled, veteran-owned small business to update and further automate the VIP database with a modification called VIP 5. Long-term changes may require up to 22 months to resolve as application development must occur and then the software must pass certification and accreditation testing. As an interim solution, VA plans to award a contract by the end of FY 2010 to help clear the anticipated inventory of applications awaiting timely verification not later than January 1, 2012.

Mr. BOOZMAN. Thank you very much. Can I do one final?

I guess my question. VA is working hard, to try and get this implemented. Mr. Jordan, we don't have jurisdiction over the other agencies, but do you have any advice on how we can help prod them in the right direction?

Mr. JORDAN. Well, I do think that in many ways they are, and because we are working collaboratively I would say in many cases we are moving in that right direction.

I think that the first thing is when you look at fraud base and abuse overall, which I know has been a concern with these programs for VA and something my office looks at quite seriously, we are looking at it in three steps.

We are looking at the certification, in which there were some specific nuances of VA that we need to look at. But then for the service-disabled veteran or small business program overall, despite the fact that it is self-certifying, there is no reason that we can't do things up front to dissuade any potentially unqualified person from saying that they are an SDVOSB.

Then there is the ongoing surveillance and monitoring, which we already have in place. We have partnered with VA in the protest process for service-disabled small business protests (which the SBA handles) and year after year those numbers of protests have increased. But when you look at the number of protests sustained, i.e., the company that was awarded the contract was, in fact, not what they said they were, that percentage has gone down. So we are handling more, the percent is going down, which shows that up front certification and the surveillance and monitoring is improving because it is coupled with the last step:

Enforcement, punishing the bad actors. During the last panel you spoke about incentives and other processes. We need to make sure that people understand that there is punishment for acting inappropriately.

Mr. BOOZMAN. Thank you, Madam Chair.

Ms. HERSETH SANDLIN. Thank you, Mr. Boozman.

So what is that punishment?

Mr. JORDAN. There are a range of issues. So it would start with referral to either our suspension debarment official for potential suspension debarment action proceedings, or our IG for further investigation.

For example, all 10 of the firms in the GAO report on service-disabled veterans have been referred to SBA's Inspector General (IG) and they are currently under investigation. And as soon as I have specific outcomes to report I would be happy to follow up with the Committee.

Then there are also further steps depending on the severity or the type fraud or abuse perpetrated in which we are working closely with the Department of Justice to have them take up some more of these cases so we can really set examples of some of these bad actors.

Ms. HERSETH SANDLIN. Very good.

Mr. Foreman, is the VA working then on developing guidance for referring cases of misrepresentation for the enforcement actions?

Mr. FOREMAN. Yes, Madam Chairwoman. What we have done, very similarly, when I do a protest evaluation and I have anybody who I sustain the protest, they are bad actors, I refer them to the

IG for further investigation and appropriate disposition. That can mean anything from I am going to refer it over to the Justice Department, this is so egregious that they ought to be investigating.

We are also standing up, and that is still in process, standing up our own debarment committee. I guess we had one a year ago, but it has since fallen by the wayside, so we are standing up right now.

We are also looking at bringing, I don't know about in-house, but having an attorney work with our office specifically on small business issues, including the protest issues as well as others.

Ms. HERSETH SANDLIN. So when you say that is in the process of being stood up in terms of a debarment committee and bringing a lawyer on, I mean, do you anticipate that that will then be in place to pursue enforcement actions then by this summer?

Mr. FOREMAN. It should be in by the summer. We should have no problem in standing it up that soon.

Ms. HERSETH SANDLIN. Okay.

Mr. FOREMAN. You know, my counterpart is really doing that, and that is Mr. Haggstrom and Glen Frye, because it comes under contracting.

Ms. HERSETH SANDLIN. Uh-huh.

Mr. FOREMAN. And so that is where a debarment committee should be.

Ms. HERSETH SANDLIN. Well, this may be a question maybe better aimed at them too, but has the VA awarded a contract to assist with the verification in addition to the contract that would provide best practices and site visits?

Mr. FOREMAN. I am sorry?

Ms. HERSETH SANDLIN. Has the VA awarded a contract to assist with the verification in addition for the contract that is going to provide for best practices in site visits?

Mr. FOREMAN. Yes, ma'am. We have three current contracts going with various contractors who support us, all of which are service-disabled vets.

The first one was to help us where we have a lot of the process, how we establish it. Two were to go out and perform verifications, and those two also did in-house verifications. Part of the problem you run into is sometimes the training is not quite as good, so they don't crank out as many per person as our own people.

The other part is our own people. We are kind of scattered in some of their organization to doing other kind of outreach things. I am pulling them back in. I am doing a lot of outreach. As a matter of fact, I was down in Little Rock, Arkansas, this week. I flew down on Monday, flew back on Tuesday so I would be back at work on Wednesday. So we go around, we have a heck of a schedule on conferences.

The one thing I have done is to initiate a certain amount of consciousness that we don't waste money. Never send two when one will do is one of my standard statements to them, and let us be efficient. I never go to a conference so I am going to pass out literature, but I will go if they need a keynote speaker and other things. And we do, by the way, have good relationships with Joseph.

The question you had asked was interesting, because we were just talking before the hearing about me coming over and seeing how they are doing the verification of HUBZones and conversely him coming over and looking at my system, and we could pass back and forth some best practices.

So sometimes these hearings are good because, you know, we don't get a lot of time to just talk to each other. So thank you for that.

Ms. HERSETH SANDLIN. Well I am glad to know that some of the sharing of best practices across agencies is something helpful coming out of the hearing.

Both of you mentioned the Interagency Task Force. Yes, I think we are all recognizing the importance of interagency coordination, cooperation. I think it is important at the Congressional Committee level, we do that as well. But I guess that raises maybe just two final questions.

And one, Mr. Foreman, according to the GAO findings, the VA lacks an effective process to ensure that interagency agreements include language that will require other agencies to comply with the VA's contracting goals and preferences for veteran-owned small business, service-disabled veteran-owned small businesses.

Why is the VA failing to include the required language to require other agencies to comply with these goals? Is there a reason that the language isn't being included?

Mr. FOREMAN. You have me on that one. I am going to have to take that one for the record.

Ms. HERSETH SANDLIN. Okay.

Mr. FOREMAN. I didn't know that they were not including the language.

Ms. HERSETH SANDLIN. Okay.

Mr. FOREMAN. So when we look at P.L. 109–461 they should be using that information when they go over in a habit, and I don't know the specifics, and that would be helpful if I could know what partnership agreements are we not doing that in.

Ms. HERSETH SANDLIN. Okay.

Mr. FOREMAN. And if we have a problem we will correct it.

Ms. HERSETH SANDLIN. Great. Well, we will clarify that in terms of the GAO findings too and work together to get the answer.

Mr. FOREMAN. Very good.

[The VA subsequently provided the following information:]

In the past, this language was not included in all VA interagency agreements. However the Department is taking steps to ensure compliance. The requirement to include the appropriate language in interagency agreements was included in the Veterans First Contracting Program training sessions which were accomplished from January–March 2010. This training, coupled with the existing requirement that all interagency agreements executed on behalf of VA require review and concurrence by the Office of the General Counsel and VA Deputy Senior Procurement Executive, ensures compliance with the 2006 Act. Additionally, virtual training is available to all personnel via the VA Knowledge Network. The training schedule and reference materials are available to VA employees through VA's Intranet site; a copy of this Intranet page is attached for reference. [The attachment is being retained in the Committee files.]

Ms. HERSETH SANDLIN. My last question is, as Mr. Boozman and I and our Subcommittee staff have looked into this issue for a while now, we know that there is some concern among the veteran service organizations about double and triple counting. You know, what are your thoughts on that?

I mean, I think you know, you cited some very good statistics for the VA. We hope to continue to see these trends in terms of increases and the percentages to get to 3 percent, but we have heard this both for the VA and the SBA, and if there are concerns there with agencies that are meeting the goals but then those that aren't yet, what are your thoughts on the issue of how we factor in what is counted as it relates to sort of credit awarded under these multiple goal categories?

Mr. FOREMAN. Madam Chair, I have pretty strong feelings. I have been around for a long time and I have set up databases to collect data and working the DD350 for the Department of Defense. These things are great tools in terms of identifying and digging into the depths of the statistics of how the firms operate. It is good to know of the veteran service, disabled veterans, et cetera, that do business, how many of them are HUBZones also, how many are women-owned, how many are minority-owned, and where do they fall? And the categories are quite interesting.

HUBZones for example, we got a lot of hits from the minority business community. Oh, they are terrible, they are taking away from the 8(a). Well, it turns out 50 percent of the dollars go to minority business concerns in historically underutilized business zones. If you restricted that, that information would be lost. And you need information even more important than us because you develop policy.

And one of the things I used to do when I went out to the field and talked to the buying activities, tell them the importance of completing the DD350 correctly and how key it is. And nobody understood. They thought it went into a big void and it was never used for anything so they didn't really care about the quality.

I care about the quality because you need it in order to do your job and I need it to do my job, to have those statistics, to get that baseline, to see about measurement. So it is incredible.

Ms. HERSETH SANDLIN. I don't think we disagree the importance of gathering the information and what it can shed light on as it relates to some of the policy decisions we are making, but in terms of then how one that is counted two or three times is used to calculate the 3 percent.

Mr. FOREMAN. Only if they meet those things. And they can only count one time for the 3 percent. They have to be a service-disabled veteran. They couldn't be an award in the 8(a) program, but we have the Veterans First Program. If anything we are doing less and less in 8(a) and less and less in HUBZone, but that is all right. The Veterans First is a priority to us. We wanted that.

[The VA subsequently provided the following information:]

Small Business is a category on its own. Awarding credit in any other small business category does not result in inflating credit in the small business category. The small business credit is not calculated by adding up the credits awarded in the various subcategories, but is calculated independently, precisely to avoid double-counting.

If a contract were awarded to an individual small business owner who was a woman and a service-disabled veteran from a HUBZone, they would receive only one credit under each of the following categories: woman-owned, veteran, service-disabled veteran, HUBZone and Small Business. The multiple categories are counted in the Federal Procurement Data System (FPDS) reporting required of Federal contracting officers.

Mr. JORDAN. I agree. I think that the important things are one, getting the data right, two, hitting the goals so it doesn't become inward looking between the programs or between the goals competition. We need to expand the pie so that we hit the 23 percent and the 5–5–3–3.

Now if you are a qualified, certified, eligible business in multiple categories then I personally don't see anything wrong with that being reflected in the data. When you look at the numbers it doesn't seem to be taking away from one group or another. And should you limit or restrict the categories which you would count.

I think the important thing is we need to hit all of the goals. And as Tim said, there is not double counting within any category itself, so at this point we don't see it as a major source of concern.

Ms. HERSETH SANDLIN. Well, I appreciate both your perspectives on that. We may want to follow up with some additional questions based on the GAO findings, based on some of the concerns that we have heard previously and how we—to your point, Mr. Jordan, I think both of you made the point, how we accurately and honestly meet all the goals.

So I think again, I mean important points you both just made are compelling, but I want to keep working through that issue, because I don't know that it entirely satisfies the concerns that have been raised over time about that.

Mr. Foreman, a final comment?

Mr. FOREMAN. One additional thought, and I thought about this earlier when people say, oh, we have multiple counting. Let us artificially turn off the switch on all these other areas. So if I am a woman-owned business who is a minority who happens to be a service-disabled veteran, et cetera, we are going to turn off these switches. What you are going to get is data that that has been changed and forever changed. I mean it is going to be real hard to dig that back out of the system if in fact we did that.

I think you don't want to do that. You can back it out now. If I want to I can say okay, in every program area show me Hispanic Americans, show me Native Americans, and I pull that data, not necessarily to get awards in those areas, but where did they get the awards? Was it under the 8(a) program, the HUBZone program, the service-disabled program? I can tell you that.

In terms of changing or artificially reducing something I think you actually lose for all time data.

Ms. HERSETH SANDLIN. But I don't know that anyone is suggesting that.

Mr. FOREMAN. Yeah.

Ms. HERSETH SANDLIN. No one is suggesting losing the data. I think it is how you back it out, how you do your calculations as it relates to each of the goals.

I hear your concern, but I don't think that is what is being proposed.

Mr. FOREMAN. Okay.

Ms. HERSETH SANDLIN. I don't think I would support that in light of how important that data is, but it is okay then, you know, don't just switch them off and lose the data, but back it out so we can accurately say, are we meeting all of the different goals independently of one another?

Mr. JORDAN. Just one comment, Madam Chair. One of the things that will help with the transparency and the data itself, is the Executive Order by the President on small business contracting which asks the Chief Information Officer and the Chief Technical Officer in conjunction with the co-chairs of that task force to come up with a dashboard in 90 days that will reflect the government's performance along these goals. So hopefully some more transparency and accountability will help drive some of these very important questions.

Ms. HERSETH SANDLIN. Okay. Thank you very much. I appreciate again the testimony, your responses to your questions, your patience with the late start that we had today. I appreciate your service to our Nation's veterans, our small business owners, especially those owned by our veterans and service-connected disabled veterans.

The Administration has had some success clearly in assisting our veterans develop and achieve their small business goals. We hope to see more as we know more opportunity exists.

So we welcome again the opportunity to work with the executive branch to ensure that current laws are properly applied and enforced. We should also continue to re-evaluate laws that aren't meeting their intended purpose or need to be updated, and therefore, I welcome the feedback provided by all of our panelists today. I look forward to our continued dialogue, and I thank you for participating in today's hearing.

The hearing stands adjourned.

[Whereupon, at 3:23 p.m., the Subcommittee was adjourned.]

APPENDIX

Prepared Statement of Hon. Stephanie Herseth Sandlin, Chairwoman, Subcommittee on Economic Opportunity

I ask unanimous consent that all Members have 5 legislative days to revise and extend their remarks and that written statements be made part of the record. Hearing no objection, so ordered.

Today's hearing will provide the U.S. Government Accountability Office an opportunity to update us on the ongoing work on veteran-owned small businesses, and also provide the Small Business Administration's Office of Advocacy opportunity to update us on the veteran small business population.

We will also hear from the veteran's community about the barriers encountered by veteran-owned small business while providing them the opportunity to submit recommendations on how to improve existing programs.

Finally, we will hear from Administration officials highlighting veteran small business programs within their respective offices. This timely hearing comes 3 days after President Obama authorized an Executive Order to establish an Interagency Task Force on Veterans Small Business Development, of which I would like to learn more about.

I look forward to hearing from all of our panelists here today. I now recognize our Ranking Member, Representative John Boozman for any opening remarks he may have.

Prepared Statement of Hon. John Boozman, Ranking Republican Member, Subcommittee on Economic Opportunity

Good afternoon.

Madame Chair, veteran-owned businesses comprise a significant portion of the small business community and as long as I have the privilege of representing Arkansas, one of the things I will count as the most important is the passage of the veteran-owned small business provisions in Public Law 109–461. Since the passage of those provisions, the value of contracts awarded to veteran- and disabled veteran-owned small businesses increased from about $197 million in 2005 to $2.8 billion in fiscal 2009 or a fourteenfold increase in spending with veteran and disabled veteran businesses. I believe that can only be termed a success and I congratulate VA for its efforts to recognize the value of doing business with our veterans.

But as some of our witnesses will testify today, all is not well. More than 3 years after passage of P.L. 109–461, VA continues to lag in implementing the database of validated veteran businesses. This means that companies falsely claiming veteran- or disabled veteran-owned status are stealing business from valid businesses. VA also continues to do contract with businesses that have been identified as not meeting the requirements of being categorized as a veteran- or disabled veteran-owned small business.

Madam Chair, as you know, GAO has provided us with a draft report on VA's small business program and while it would not be proper to go into details until the report is final, I believe it is fair to say that it shows both the Bush and Obama administrations have dragged their feet implementing some important portions of P.L. 109–461. We have passed legislation that will clarify the intent of the law regarding the VIP database, but other issues such as staffing and process remain for our oversight.

Today, GAO will testify that VA is falling somewhat short in other set-aside categories. However, I would like to point out that unlike any other set-aside category, veterans have earned their place inline by service, not a factor of race, gender or location. In fact, the most admirable thing about the veteran category is that veterans largely represent the makeup of American society with the exception of the number of women in uniform, a number that is steadily increasing. So, when you do business with veteran-owned businesses, you do business with America.

Finally, I concur with the criticisms by our witnesses of the Small Business Administration regarding under-resourcing the Office of Veterans Business Development. If there is one place in the Federal Government that should be properly resourced to help veteran entrepreneurs, the Office of Veterans Business Development is it and I hope that we will hear from SBA today how that office will receive the resources our veterans deserve. Absent significant improvement in its resources, perhaps we must consider where that office could best serve veterans.

Madam Chair, I look forward to hearing from today's witnesses and a lively discussion and I yield back.

Prepared Statement of William B. Shear, Director, Financial Markets and Community Investment, U.S. Government Accountability Office

DEPARTMENT OF VETERANS AFFAIRS: Preliminary Observations on Issues Related to Contracting Opportunities for Veteran-owned Small Businesses

GAO Highlights

Why GAO Did This Study

The Veterans Benefits, Health Care, and Information Technology Act of 2006 (the 2006 Act) requires the Department of Veterans Affairs (VA) to give priority to veteran-owned and service-disabled veteran-owned small businesses (VOSB and SDVOSB) when awarding contracts to small businesses. This testimony discusses preliminary views on (1) the extent to which VA met its prime contracting goals for SDVOSBs and VOSBs in fiscal years 2007–2009, and (2) VA's progress in implementing procedures to verify the ownership, control, and veteran status of firms in its mandated database. GAO obtained and analyzed data on VA's contracting activities, and reviewed a sample of verified businesses to assess VA's verification program.

What GAO Recommends

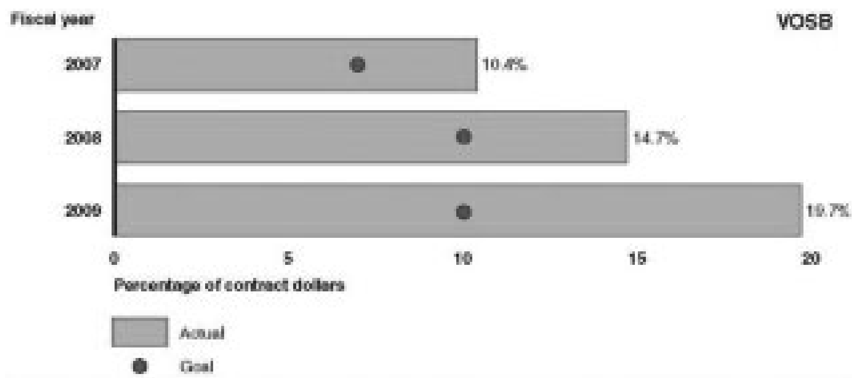
Because this testimony is based on an ongoing engagement, it does not include recommendations. GAO anticipates making recommendations in its final report.

What GAO Found

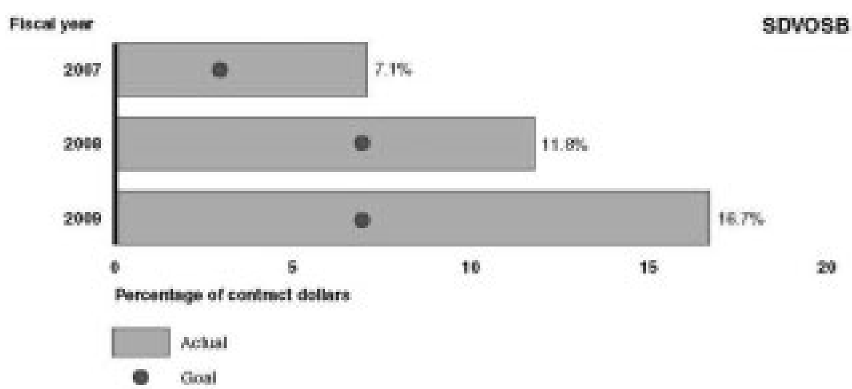
As shown below, VA exceeded its contracting goals with SDVOSBs and VOSBs for the past 3 years, but faces challenges in monitoring agreements with other agencies that conduct contract activity on VA's behalf. The increase of awards to SDVOSBs and VOSBs was associated with the agency's use of the unique veteran preferences authorities established by the 2006 Act. However, GAO's review of interagency agreements found that VA lacked an effective process to ensure that interagency agreements include required language that the other agencies comply to the maximum extent feasible with VA's contracting goals and preferences for SDVOSBs and VOSBs.

VA has made limited progress in implementing its verification program. While the 2006 Act requires VA to use veteran preferences authorities only to award contracts to verified businesses, VA's regulation does not require that this take place until January 1, 2012. To date, VA has verified about 2,900 businesses—approximately 14 percent of businesses in its mandated database of SDVOSBs and VOSBs. Among the weaknesses GAO identified in VA's verification program were files missing required information and explanations of how staff determined that control and ownership requirements had been met. VA's procedures call for site visits to investigate the ownership and control of higher-risk businesses, but the agency has a large and growing backlog of businesses awaiting site visits. Although site visit reports indicate a high rate of misrepresentation, VA has not developed guidance for referring cases of misrepresentation for enforcement action. Such businesses are subject to debarment under the 2006 Act.

VA's Percentage of Contract Dollars to VOSBs and SDVOSBs, FY07–09



Source: GAO Analysis of FPDS–NG data.



Madam Chairwoman and Members of the Committee:

I am pleased to be here today to discuss issues associated with the Federal Government's contracting with veteran-owned and service-disabled veteran-owned small businesses (VOSB and SDVOSB). The Federal Government's longstanding policy has been to use its buying power—the billions of dollars it spends through contracting each year—to maximize procurement opportunities for small businesses, including those owned by veterans. In fiscal year (FY) 2009, Federal agencies awarded $17 billion to VOSBs, including $9 billion to SDVOSBs.

To increase contracting opportunities for SDVOSBs and VOSBs, the Veterans Benefits, Health Care, and Information Technology Act of 2006 (the 2006 Act) requires the Department of Veterans Affairs (VA) to give priority to these two categories of small businesses when awarding contracts. It provides for the use of limited-competition contract awards (sole-source and set-aside) to achieve contracting goals VA is required to establish under the 2006 Act.[1] Additionally, the law requires VA to maintain a database of SDVOSBs and VOSBs and verify the ownership, control, and veteran or service-disabled status of the businesses in the database. Businesses must be listed in the database, which VA refers to as VetBiz.gov, to receive the contracting preferences for SDVOSBs and VOSBs.

My statement today is based on preliminary observations from our ongoing 3-year study looking at VA's efforts to contract with VOSBs and SDVOSBs on which we plan to issue a report in the near future, as required by the 2006 Act. Specifically,

[1] Pub. L. No. 109–461 § 502 (Dec. 22, 2006), 38 U.S.C. § 8127.

this statement discusses (1) the extent to which VA met its prime contracting goals for SDVOSBs and VOSBs in fiscal years 2007 through 2009, and (2) VA's progress in implementing procedures to verify the ownership, control, and veteran status of firms in its mandated database of SDVOSBs and VOSBs.

In conducting this work, we obtained and analyzed data on contracts from the Small Business Administration's (SBA) Goaling Reports and VA contracting data from the Federal Procurement Data System—Next Generation (FPDS–NG) to determine the extent to which VA met contracting goals for fiscal years 2007 through 2009. We reviewed VA's policies and procedures for administering the verification program and conducted a file review of a sample of verified businesses to determine the extent to which VA followed its procedures and to identify any deficiencies in VA's verification process and maintenance of the database of verified SDVOSBs and VOSBs. We interviewed agency officials and representatives of veteran service organizations to obtain information about VA's contracting with veteran-owned small businesses and administration of the verification program. Finally, we also relied upon recent work by our fraud investigators that examined procurement activities in the governmentwide SDVOSB program.[2]

The work on which this testimony is based was performed from October 2007 through April 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Federal agencies' contracting with private businesses is, in most cases, subject to goals for various types of small businesses, including SDVOSBs.[3] The Small Business Act sets a governmentwide goal for small business participation of not less than 23 percent of the total value of all prime contract awards—contracts that are awarded directly by agencies—for each fiscal year.[4] The Small Business Act also sets annual prime contracting goals for participation by four other types of small businesses: small disadvantaged businesses (5 percent); women-owned (WOSB, 5 percent); service-disabled veteran-owned, (3 percent); and businesses located in historically underutilized business zones (HUBZone, 3 percent). Although there is no governmentwide prime contracting goal for participation by all VOSBs, VA had voluntarily set an internal goal for many years before the enactment of the 2006 Act.

The Veterans Benefits Act of 2003 authorized agencies to set contracts aside and make sole-source awards of up to $3 million ($5 million for manufacturing) for SDVOSBs (but not other VOSBs).[5] However, an agency can make a sole-source award to an SDVOSB only if the contracting officer expects just one SDVOSB to submit a reasonable offer. By contrast, VA's authorities under the 2006 Act apply both to SDVOSBs and other VOSBs. The 2006 Act provides VA authorities to make noncompetitive (sole-source) awards and to restrict competition for (set-aside) awards to SDVOSBs and VOSBs. VA is required to set aside contracts for SDVOSBs or other VOSBs (unless a sole-source award is used) if the contracting officer expects two or more such firms to submit offers and the award can be made at a fair and reasonable price that offers the best value to the United States. VA may make sole-source awards of up to $5 million.

VA's Office of Small Disadvantaged Business Utilization (OSDBU) in conjunction with the Office of Acquisition and Logistics is responsible for development of policies and procedures to implement and execute the contracting goals and preferences under the 2006 Act. Additionally, OSDBU serves as VA's advocate for small business concerns; provides outreach and liaison support to businesses (large and small)

[2] GAO, *Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts*, GAO–10–108 (Washington, D.C.: October 2009) and GAO, *Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts*, GAO–10–306T (Washington, D.C.: Dec. 16, 2009).

[3] The Small Business Act defines a small business generally as one that is "independently owned and operated and that is not dominant in its field of operation." In addition, a business must meet the size standards published by SBA to be considered small; these standards may use criteria such as a business' annual revenue or its number of employees to determine size. 15 U.S.C. § 632(a).

[4] 15 U.S.C. § 644(g). Because agencies' activities lend themselves to differing contracting opportunities, SBA negotiates goals in annual procurement with Federal agencies to achieve the governmentwide goals.

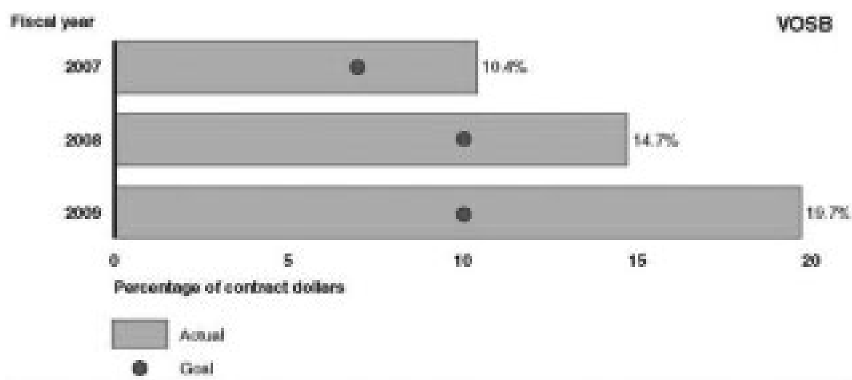
[5] Pub. L. No. 108–183 title III § 308 (Dec. 16, 2003), 15 U.S.C. § 657f.

and other members of the private sector for acquisition-related issues; and is responsible for monitoring VA's implementation of socioeconomic procurement programs, such as encouraging contracting with WOSBs and HUBZone businesses. The Center for Veterans Enterprise (CVE) within OSDBU seeks to help veterans interested in forming or expanding their own small businesses.

VA Exceeded Its Veteran Contracting Goals since FY07, but Faces Challenges in Monitoring Interagency Agreements

For FY07, VA established a contracting goal for VOSBs at 7 percent—that is, VA's goal was to award 7 percent of its total procurement dollars to VOSBs. In FY07, VA exceeded this goal and awarded 10.4 percent of its contract dollars to VOSBs (see fig. 1). VA subsequently increased its VOSB contracting goals to 10 percent for FY08 and FY09, and exceeded those goals as well—awarding 14.7 percent of its contracting dollars to VOSBs in FY08 and 19.7 percent in FY09.

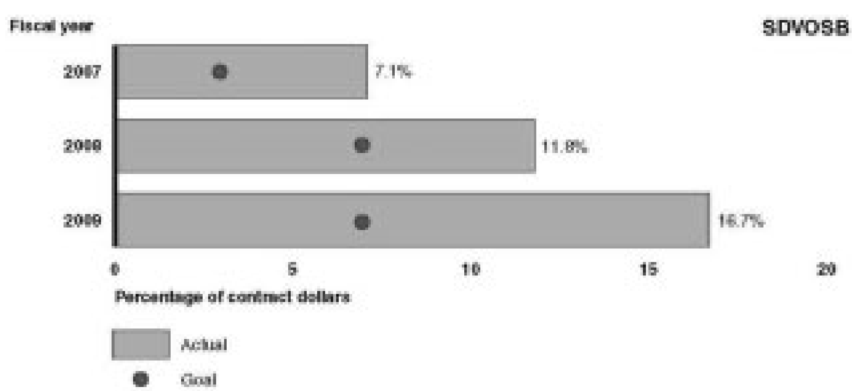
Figure 1: VA's Percentage of Contract Dollars to VOSBs, FY 07–09



Source: GAO Analysis of FPDS–NG data.

For FY07, VA established a contracting goal for SDVOSBs equivalent to the governmentwide goal of 3 percent and exceeded that goal by awarding 7.1 percent of its contract dollars to SDVOSBs (see fig. 2). VA subsequently increased this goal to 7 percent for FY08 and FY09, and exceeded the goal in those years as well. Specifically, VA awarded 11.8 and 16.7 percent of its contract dollars to SDVOSBs in FY08 and FY09, respectively.

Figure 2: VA's Percentage of Contract Dollars to SDVOSBs, FY 07–09

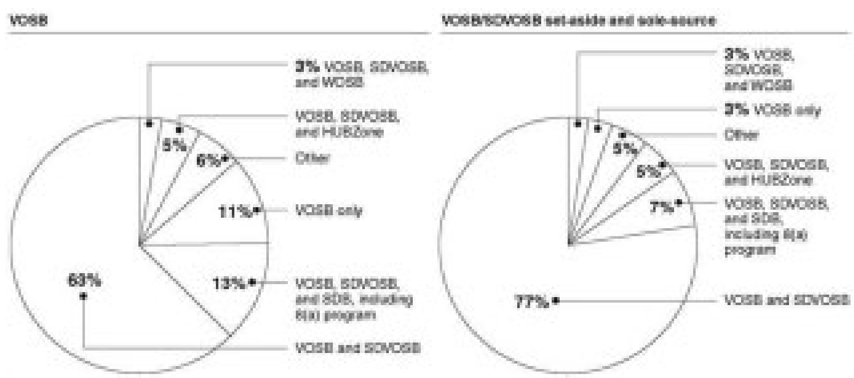


Source: GAO Analysis of FPDS–NG data.

In nominal dollar terms, VA's contracting awards to VOSBs increased from $1.2 billion in FY07 to $2.8 billion in FY09, while at the same time, SDVOSB contracting increased from $832 million to $2.4 billion. The increase of awards to VOSBs and SDVOSBs largely was associated with the agency's greater use of the goals and preference authorities established by the 2006 Act. For example, veteran set-aside and sole-source awards represented 39 percent of VA's total VOSB contracting dollars in FY07. But in FY09, VA's use of these preference authorities increased to 59 percent of all VOSB contracting dollars. In nominal dollar terms, VA's use of these authorities increased by $1.2 billion over the past 3 years.

According to SBA's Goaling Program, a small business can qualify for one or more small business categories and an agency may take credit for a contract awarded under multiple goaling categories. For example, if a small business is owned and controlled by a service-disabled, woman veteran, the agency may take credit for awarding a contract to this business under the SDVOSB, VOSB, and WOSB categories. All awards made to SDVOSBs also count toward VOSB goal achievement. In FY09, of the $2.8 billion awarded to VOSBs, the majority (63 percent) applied to both the VOSB and SDVOSB categories and no other (see fig. 3). Furthermore, of the $1.7 billion awarded through the use of veteran preference authorities (VOSB and SDVOSB set-aside and sole-source) in FY09, an even greater majority (77 percent) applied both to the VOSB and SDVOSB categories and no other (see fig. 3).

Figure 3: VOSB Contracting Dollars and VOSB/SDVOSB Set-aside and Sole-source Contracting Dollars by Small Business Category, FY09



Source: GAO Analysis of FPDS–NG data.

In the Veterans' Benefits Improvement Act of 2008 (the 2008 Act) Congress enhanced the 2006 Act's provisions by requiring that any agreements VA enters with other government entities on or after January 1, 2009, to acquire goods or services on VA's behalf, must require the agencies to comply, to the maximum extent feasible, with VA's contracting goals and preferences for SDVOSBs and VOSBs.[6] Since January 1, 2009, VA has entered into three interagency agreements (see table 1). According to agency officials, VA entered into agreements with additional Federal agencies, such as the Army Corps of Engineers, before January 1, 2009, and therefore the provisions of the 2008 Act do not apply.

Table 1: Summary of VA's Interagency Agreements With Federal Agencies, Entered On or After January 1, 2009

Agency	Description of services	Amount
General Services Administration (GSA)	Assisted acquisition services for information technology equipment, services, and support.	$137 million

[6] Pub. L. No. 110–389 § 806 (Oct. 10, 2008).

Table 1: Summary of VA's Interagency Agreements With Federal Agencies, Entered On or After January 1, 2009—Continued

Agency	Description of services	Amount
Department of the Interior (DOI)	Assisted acquisition services for information technology services, research and development, supplies, renovations and alternations, and financial assistance and professional services.	$2.6 million
Department of the Navy, Space and Naval Warfare Systems Center (SPAWAR)	Technical support for analysis, planning, program review, and engineering services for information management and information technology initiatives.	$154 million

Source: GAO analysis of VA documents.

VA issued guidance to all contracting officers about managing interagency acquisitions in March 2009.[7] However, the agreement with DOI did not include the required language addressing VA's contracting goals and preferences until it was amended on March 19, 2010, after we informed the agency the agreement did not comply with the 2008 Act. According to VA officials, the agency's acquisition and contracting attorneys are responsible for reviewing interagency agreements for compliance with these requirements. VA uses Office of Management and Budget templates to develop its interagency agreements. However, VA did not ensure that all interagency agreements include the 2008 Act's required language or monitor the extent to which agencies comply with the requirements. For example, agency officials could not tell us whether contracts awarded under these agreements met the SDVOSB and VOSB preferences. Without a plan or oversight activity such as monitoring, VA cannot be assured that agencies have made maximum feasible efforts to contract with SDVOSBs or VOSBs.

VA Has Made Limited Progress in Implementing Its Verification Program and Has Not Developed a Thorough and Effective Program

In May 2008—approximately a year and a half after the 2006 Act was enacted and a year after the provisions discussed here became effective—VA began verifying businesses and published interim final rules in the *Federal Register*, which included eligibility requirements and examination procedures, but did not finalize the rules until February 2010 (see fig. 4).[8] According to VA officials, CVE initially modeled its verification program on SBA's HUBZone program; however, CVE reconsidered verification program procedures after we reported on fraud and weaknesses in the HUBZone program.[9] More recently, in December 2009, the agency finalized changes to its acquisition regulations (known as VAAR) that included an order of priority (preferences) for contracting officers to follow when awarding contracts and trained contracting officers on the preferences and the VetBiz.gov database from January through March 2010.[10]

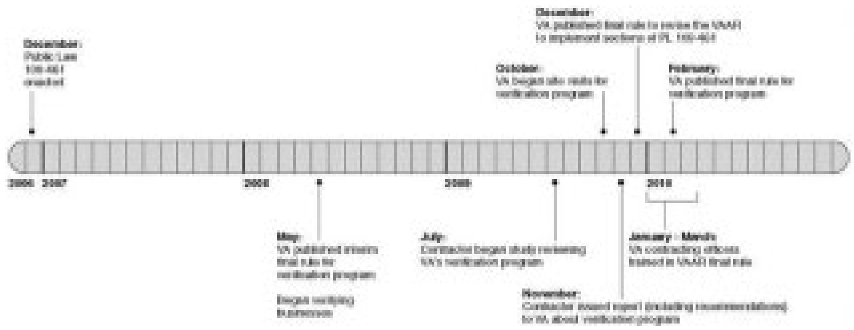
[7] Information Letter 001–AL–09–04, Managing Interagency Acquisitions, March 23, 2009.

[8] P.L. 109–461 established a transition rule that was in effect for a 1-year period, which began when section 502 became effective. Pub. L. No. 109–461 § 502(b). The effective date, defined in the Act as 180 days after the date on which the law was enacted, was June 20, 2007. Pub. L. No. 109–461 § 502(d). For the 1-year period, the transition rule established a presumption of eligibility for inclusion in the VA database of VOSBs and SDVOSBs covered by the Act for businesses that were listed in any small business database maintained by VA. The final rule for the verification program, with changes, became effective February 8, 2010. 75 Fed. Reg. 6098 (Feb. 8, 2010).

[9] GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, GAO–08–643 (Washington, D.C.: June 2008); *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, GAO–08–975T (Washington, D.C.: July 17, 2008); and *HUBZone Program: SBA's Control Weaknesses Exposed the Government to Fraud and Abuse*, GAO–08–964T (Washington, D.C.: July 17, 2008).

[10] 74 Fed. Reg. 64619, 64620 (Dec. 8, 2009), effective January 7, 2010.

Figure 4: Timelines of Major Events Related to Verification Program



Source: GAO analysis of various VA documents.

Leadership and staff vacancies plus a limited overall number of positions also have contributed to the slow pace of implementation. For approximately 1 year, leadership in VA's OSDBU was lacking because the former Executive Director retired and the position remained vacant from January 2009 until January 2010. Furthermore, one of two leadership positions directly below the Executive Director has been vacant since October 2008 and an Acting Director temporarily filled the other position. The agency also faced delays in obtaining contracting support. More than a year after the agency began verifying businesses, a contractor began conducting site visits (which further investigate control and ownership of businesses as part of the verification process). As of April 2010, CVE had 6.5 full-time equivalent position vacancies, and VA officials told us existing staff have increased duties and responsibilities that also contributed to slowed implementation.[11]

The slow implementation of the program appears to have contributed to VA's inability to meet the requirement in the 2006 Act that it use its veteran preference authorities to contract only with verified businesses. Currently, contracting officers can use the veteran preference authorities with both self-certified and verified businesses listed in VetBiz.gov. However, in its December 2009 rule VA committed to awarding contracts using these authorities only to verified businesses as of January 1, 2012.[12] According to our analysis of FPDS–NG data, in FY09 the majority of contract awards (75 percent) made using veteran preferences went to unverified businesses. In March 2010, the recently appointed Executive Director of OSDBU acknowledged in a Congressional hearing before this Committee how large an undertaking the verification program has been and some challenges associated with starting a new program.[13]

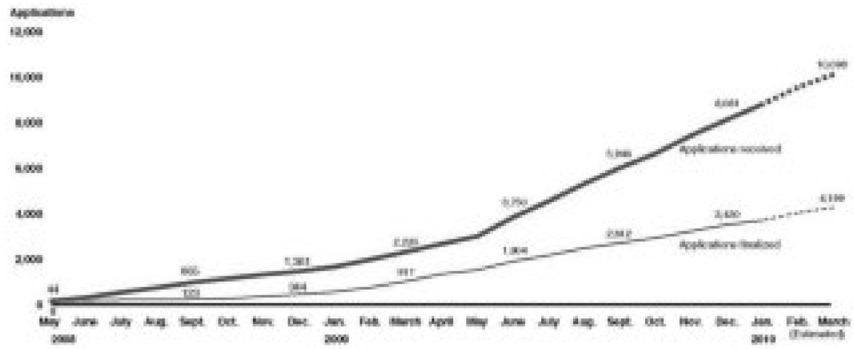
As of April 8, 2010, VA had verified about 2,900 businesses—approximately 14 percent of VOSBs and SDVOSBs in the VetBiz.gov database. VA has been processing an additional 4,701 applications but the number of incoming applications continues to grow (see fig. 5). As of March 2010, CVE estimates it had received more than 10,000 applications for verification since May 2008.

[11] In FY09, CVE was authorized 23 full-time equivalent positions, an increase from the 17 full-time positions authorized in FY08.

[12] 74 Fed. Reg. 64619, 64620 (Dec. 8, 2009).

[13] House Committee on Veterans Affairs, Subcommittee on Economic Opportunity, U.S. Department of Veterans Affairs' Center for Veteran Enterprise, Statement of Tim J. Foreman, Department of Veterans Affairs, Executive Director of the Office of Small Disadvantaged Business Utilization, 111th Congress, 2nd session, March 11, 2010.

Figure 5: Verification Applications Received and Finalized



Source: GAO analysis of CVE provided data.
Note: The "applications finalized" figures include applications approved, denied, and finalized for other reasons.

As discussed previously, VA must maintain a database of verified businesses and in doing so must verify the veteran or service-disability status, control, and ownership of each business.[14] The rules that VA developed pursuant to this requirement require VOSBs and SDVOSBs to register in VetBiz.gov to be eligible to receive contracts awarded using veteran preference authorities.[15] An applicant's business must qualify as "small" under Federal size standards and meet five eligibility requirements for verification: (1) be owned and controlled by a service-disabled veteran or veteran; (2) demonstrate good character (any small business that has been debarred or suspended is ineligible); (3) make no false statements (any small business that knowingly submits false information is ineligible); (4) have no Federal financial obligations (any small business that has failed to pay significant financial obligations to the Federal Government is ineligible); and (5) have not been found ineligible due to an SBA protest decision.[16]

VA has a two-step process to make the eligibility determinations for verification. CVE staff first review veteran status (and, if applicable, service-disability status) and publicly available, primarily self-reported information about control and ownership for all applicants. Business owners submit applications (VA Form 0877), which ask for basic information about ownership, through VetBiz.gov.[17] When applicants submit Form 0877, they also must be able to provide upon request other items for review, such as financial statements; tax returns; articles of incorporation or organization; lease and loan agreements; payroll records; and bank account signature cards. Typically, these items are reviewed at the business during the second step of the review, known as the site visit.

Site visits further investigate control and ownership for select high-risk businesses. In September 2008, VA adopted risk guidelines to determine which businesses would merit the visits.[18] Staff must conduct a risk assessment for each business and assign a risk level ranging from 1 to 4—with 1 being a high-risk business and 4 a low-risk one. The risk guidelines include criteria such as previous government contract dollars awarded, business license status, annual revenue, and percentage of veteran-ownership. For example, if a business has previous VA contracts totaling more than $5 million, staff must assign it a risk level of 1 (high). According to VA, it intends to examine all businesses assigned a high or elevated risk level

[14] 38 U.S.C. § 8127(f).

[15] According to VA, under full-and-open competition, SDVOSBs or VOSBs do not need to be listed in the VetBiz.gov database to be awarded a contract.

[16] Ownership is defined as a firm being at least 51 percent unconditionally and directly owned by one or more veterans or service-disabled veterans. Control is defined as both the day-to-day management and the long-term decisionmaking authority. For example, an applicant's management and daily business operations must be conducted by one or more veterans or service-disabled veterans to be verified. Debarred or suspended business concerns are determined by checking the GSA-maintained database known as the Excluded Parties List System (EPLS). See 75 Fed. Reg. at 6103–6104.

[17] VA Form 0877 asks for information such as business name, owners name(s), veteran or service-disabled status, Social Security Number(s), and percentage of ownership in the business.

[18] Verification Program Risk Guidelines (September 2008).

with a site visit or by other means, such as extensive document reviews and phone interviews with the business' key personnel.

VA plans to refine its verification processes to address recommendations from an outside contractor's review of the program. VA hired the contractor to assess the verification program's processes, benchmark VA's program to other similar programs, and provide recommendations for improving it. VA received the contractor's report and recommendations in November 2009.[19] VA officials told us that they plan to implement the contractor's recommendations to require business owners to submit additional documentation as part of their initial application and to upgrade their data systems.[20]

Based on our review of a random sample of the files for 112 businesses that VA had verified by the end of FY09, an estimated 48 percent of the files lacked required information or documentation that CVE staff followed key verification procedures.[21] Specifically,

- 20 percent were missing some type of required information, such as evidence that veteran status had been checked or a quality review took place;
- 39 percent lacked information about how staff justified determinations that control and ownership requirements were met; and
- 14 percent either were missing evidence that a risk assessment had taken place or the risk assessment that occurred did not follow guidelines.[22]

Data system limitations also appear to be contributing factors to weaknesses we identified in our file review. For example, data entry into CVE's internal database largely is done manually, which can result in missing information or errors. Furthermore, CVE's internal database does not contain controls to ensure that only complete applications that have received a quality review move forward. Internal control standards for Federal agencies require that agencies effectively use information technology in a useful, reliable, and continuous way.[23] According to agency officials, two efforts are underway to enhance CVE's data systems. For example, CVE plans systems enhancements that would automatically check and store information obtained about veteran status and from some public databases. Additionally, CVE plans to adopt case management software—as recommended in the contractors' report—to help manage its verification program files. The new system will allow CVE to better track new and renewal verification applications and manage the corresponding case files.

VA started verifying businesses in May 2008, but did not start conducting site visits until October 2009. As of April 8, 2010, VA has used contractors to conduct 71 site visits but an additional 654 high- and elevated-risk businesses awaited visits. Because of this delay, it currently has a large backlog of businesses awaiting site visits and some higher-risk businesses have been verified months before their site visits occurred or were scheduled to occur. According to VA officials, the agency plans to use contractors to conduct an additional 200 site visits between May and October 2010. However, the current backlog likely will grow over future months.

According to site visits reports, approximately 40 percent of the visits resulted in evidence that control or ownership requirements had not been met, but as of April 2010, CVE had not canceled any business' verification status. According to these reports, evidence of misrepresentation dates to October 2009, but VA had not taken actions against these businesses as of April 2010. According to VA's Office of Inspector General, it has received one referral (on April 5, 2010) as a result of the

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[19] Addx Corporation and Mahan Consulting Group, "Reengineered Verification Processes, Verification Advisory, and Assistance Services," (Nov. 16, 2009).

[20] According to a CVE Memorandum, staff will identify businesses with current VA contracts that have not submitted VA Form 0877 and invite them to apply for verification. CVE will require these applicants to provide documentation such as business licenses, articles of incorporation, corporate bylaws, and operating agreements. *Verification Change Sheet—Priority Processing* (March 11, 2010).

[21] We conducted a review of a random sample of 112 files on businesses that VA had verified by September 30, 2009, to determine the agency's compliance with its own application procedures. All percentage estimates based on this sample have 95 percent confidence intervals within plus or minus 10 percentage points of the estimate itself.

[22] The percentages in the three bulleted points do not sum to 48 percent because individual files may have demonstrated one or more of the deficiencies we noted in the bullets. For example, one file may have been missing some type of required information and the business also may have been assigned an incorrect risk level.

[23] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD–00–21.3.1 (Washington, D.C.: November 1999).

verification program.[24] Staff have made no requests for debarment as a result of verification program determinations as of April 2010.[25]

Under the 2006 Act, businesses determined by VA to have misrepresented their status as VOSBs or SDVOSBs are subject to debarment for a reasonable period of time, as determined by VA for up to 5 years.[26] Additionally, under the verification program rules, whenever CVE determines that a business owner submitted false information, the matter will be referred to the Office of Inspector General for review and CVE will request that debarment proceedings be initiated.[27] However, beyond the directive to staff to make a referral and request debarment proceeding, VA does not have detailed guidance in place (either in the verification program procedures or the site visit protocol) that would instruct staff under which circumstances to make a referral or a debarment request.[28]

To summarize our observations concerning VA's verification efforts, the agency has been slow to implement a comprehensive program to verify the veteran status, ownership, and control of small businesses and maintain a database of such businesses. The weaknesses in VA's verification process reduce assurances that verified firms are, in fact, veteran owned and controlled. Such verification is a vital control to ensure that only eligible veteran-owned businesses benefit from the preferential contracting authorities established under the 2006 Act.

These remarks are based on our ongoing work, which is exploring these issues in more detail. As required by the 2006 Act, we will issue a report on VA's contracting with VOSBs and SDVOSBs later this year. We anticipate the forthcoming report will include recommendations to the Department of Veterans Affairs to facilitate progress in meeting and complying with the 2006 Act's requirements.

Madam Chairwoman and Members of the Subcommittee, I appreciate this opportunity to discuss these important issues and would be happy to answer any questions that you may have. Thank you.

GAO Contact and Acknowledgements

For further information on this testimony, please contact William B. Shear at (202) 512–8678 or ShearW@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Harry Medina, Assistant Director; Paola Bobadilla; Beth Ann Faraguna; Julia Kennon; John Ledford; Jonathan Meyer; Amanda Miller; Marc Molino; Mark Ramage; Barbara Roesmann; Kathryn Supinski; Paul Thompson; and William Woods.

Prepared Statement of Joseph F. Sobota, Assistant Chief Counsel for Advocacy, U.S. Small Business Administration

Executive Summary

Advocacy and veteran entrepreneurship research. Pursuant to Public Law 106–50, SBA's Office of Advocacy began a long-term effort to develop new information on veterans in business and related topics. Advocacy has collected and interpreted data from existing sources, commissioned special tabulations of unpublished data, and supported contract research on issue-specific topics related to veteran entrepreneurship.

Sources of data on veterans in business. The most important source of data on veterans in business that we now have is the U.S. Census Bureau's 2002 Survey of Business Owners and Self-Employed Persons (SBO). In 2007, Census issued two important reports on veterans in business based on its SBO data, and Advocacy re-

[24] VA's Office of Inspector General has received referrals about the businesses identified in our October 2009 report on the governmentwide SDVOSB program, but these referrals were made as a result of our work, not VA's verification program.

[25] One business was referred to VA's committee for Federal Acquisitions Regulations debarment. The committee requested additional information and the case remains active. This business was identified in our October 2009 report on the governmentwide SDVOSB program and was found ineligible because of issues with performance (not adhering to subcontracting limitations) which is not a verification issue.

[26] 48 CFR 809.406–2. See 74 Fed. Reg. at 64630.

[27] 38 CFR Part 74.2. See 75 Fed. Reg. at 6103–6104.

[28] While VA contracting officers can use protests to determine if a business misrepresented its status, CVE staff conduct verifications on businesses that submitted applications to be reviewed and if approved listed in the VetBiz.gov database as verified. These businesses may not have procurements with VA and therefore CVE staff cannot use status protests as a means to determine misrepresentation.

leased its own report the same year, also using that data. Census plans to issue a new report on veterans in business in May 2011 using data from its 2007 SBO. Until then, the 2002 SBO remains our best source.

How many veteran-owned firms are there? Census found that in 2002, 14.5 percent of all respondent business owners were veterans, and about 7 percent of those were service-disabled. About 12.2 percent of all businesses were veteran-owned. Advocacy estimates that there were about 29.6 million businesses in the U.S. in 2009. If the 12.2 percentage of veteran ownership in 2002 remained true in 2009, an estimate of 3.6 million veteran-owned firms would result, of which perhaps 250,000 were owned by service-disabled veterans.

Veteran-owned firms were similar to all U.S. firms in most respects, except for their age. Their distribution by size was nearly identical to all firms, both in terms of revenues and employees. This correspondence also was true of their distribution by type of industry; in the percentage of those which were home-based; in their level of franchise ownership; in the sources of capital used for business start-up, acquisition and expansion; in the types of workers they used; and in the types of their major customers.

Geographic distribution of veteran-owned firms. Although the published 2002 SBO reports did not give us information on the geographic distribution of veteran owners, Advocacy did commission a special tabulation of Census data to provide this information. The top 10 States for veteran owners were: California, Texas, Florida, New York, Pennsylvania, Illinois, Ohio, North Carolina, Georgia, and Michigan. Virginia and Washington also appeared in the top 10 States for service-disabled veteran (SDV) owners.

Rural/urban concentrations. Advocacy's special tabulation of 2002 SBO data also told us whether or not veteran owners were located in areas with urban core populations of 10,000 or more, that is to say, in urban or rural areas. The concentrations of both veteran owners and SDV owners were slightly higher in rural areas than those for all owners. Among employers, 7.6 percent of all owners, 8.2 percent of veteran owners, and 8.3 percent of SDV owners were in rural areas. Among non-employers, 7.8 percent of all owners, and 8.8 percent of both veteran and SDV owners were in rural areas.

Top five industries for veteran-owned firms. Those industries with the largest shares of veteran-owned firms were the same as those for all U.S. firms: professional, scientific, and technical services, 18.7 percent; construction, 13.9 percent; other services, 10.2 percent; retail trade, 9.5 percent; and real estate and rental/leasing, 9.3 percent. Some variations in rankings occur between employers and non-employers.

Exporting. Advocacy's special tabulation provides information on owners whose firms have "major" export customers (accounting for 10 percent or more of a firm's sales). Among employer firms, 2.0 percent of all owners, 1.8 percent of veteran owners, and 2.2 percent of SDV owners had major export customers. Among non-employers, 1.4 percent of all owners, 1.3 percent of veteran owners, and 1.5 percent of SDV owners had major export customers.

Chairwoman Herseth Sandlin and Members of the Subcommittee, good afternoon and thank you for the opportunity to appear before you today to update information provided to the Subcommittee last year and to provide new data in response to questions you have posed. My name is Joe Sobota, and I am an Assistant Chief Counsel in the Office of Advocacy at the U.S. Small Business Administration (SBA). Congress established the Office of Advocacy in 1976 as an independent entity within SBA to represent the views of small business before Federal agencies, to provide counsel on small business issues to the President and the Congress, to perform economic research related to small business and entrepreneurship, and for other purposes specified in our statutory charter.[1]

Because Advocacy was established to provide independent counsel to policy-makers, its testimony is not circulated for comment through the Office of Management and Budget (OMB) or other Federal offices, and the views expressed by Advocacy here do not necessarily reflect the position of the Administration or of SBA.

Background on Advocacy and Veteran Entrepreneurship Research

Advocacy's mission is to be an independent voice for small business inside the government in the formulation of public policy and to encourage policies that support their startup, development, and growth. Its creation was premised on the belief that

[1] Title II, Public Law 94–305; June 4, 1976; 15 U.S.C. § 634a *et seq*.

small business needs representation in the legislative, regulatory, and administrative processes that profoundly affect them, and that good policy requires good information.

Advocacy works with Federal regulatory agencies and OMB to ensure agency compliance with the Regulatory Flexibility Act.[2] We help regulators develop smarter rules that will accomplish their objectives while minimizing unnecessary adverse impacts on small entities. Our activities in this area during FY 2009 saved small entities $7 billion in foregone one-time regulatory costs and $745 million in annually recurring costs.[3]

Our economic research activities both support our regulatory advocacy and develop information on a wide variety of small business topics for use by government policymakers and other stakeholders. Advocacy's own professional economists work with data from many sources, including some that originate at other Federal agencies and cannot be accessed by private sector researchers because of important statutory privacy protections. In addition to a variety of periodic reports and reference materials that are produced by our own staff, Advocacy also sponsors contract research on issue-specific topics that vary from year to year depending on current issues and problems, the needs of stakeholders, and the availability of resources. On average, Advocacy releases about 25 research reports and data products annually.[4]

Advocacy's activities on behalf of all small firms should benefit veteran-owned firms to the same extent they help small firms in general, but our economic research function forms a special connection between Advocacy and the veterans business community. Subsequent to the enactment of the Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106–50), Advocacy began a long-term effort to develop new information on veterans in business and related topics. This proved to be more difficult than expected, especially in the early years, largely because most data sources and records of routine business transactions and processes (e.g., bank loans) do not include information on veteran or disability status, information largely irrelevant to their purposes, if not to those with research or policy interests. For example, there is no easy way to tell how many veteran-owned firms, or even individual veterans, are in bankruptcy. The forms used in this process simply don't ask for veteran status.

Gradually, Advocacy, in cooperation with our friends in other agencies,[5] has been able to use specialized techniques, including surveys and the matching of administrative data from disparate sources, to develop information on veterans in business which is not available "off the shelf." All of our published reports are posted on Advocacy's veterans economic research Web site.[6] These include both studies that are dedicated to veteran-specific issues and studies on more general topics where we were able to develop and include veteran-specific information because veteran "markers" were available in the underlying data, something that we now try to do whenever possible.

Advocacy currently has in progress two additional economic research projects on veteran-related issues, one examining factors affecting entrepreneurship among veterans, and another looking at tax and regulatory problems facing veteran entrepreneurs. These will be posted on our Web site when complete. The study on tax and regulatory problems, being conducted by an Advocacy contractor and now in peer review, should address one of the questions posed in your invitation to this hearing; and we will be pleased to provide a briefing when the project is finished this summer.

Concerning the other questions you have posed, we have had discussions with your staff and are pleased to be able to offer some very interesting data on veteran and service-disabled veteran business owners, information that Advocacy has developed by commissioning special tabulations of U.S. Census Bureau data that have not been published by that agency. This information has not received wide circulation, and we are hopeful that it will help the Subcommittee in its work. I will return to this subject in a few minutes, but first we should put these data in context.

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[2] Public Law 96–354; September 19, 1980; 5 U.S.C. § 601 *et seq*.

[3] For full information, see Advocacy's annual report to the President and the Congress on implementation of the Regulatory Flexibility Act, which can be accessed at http://www.sba.gov/advo/laws/flex/09regflx.pdf.

[4] See Advocacy's homepage at http://www.sba.gov/advo/ for additional information on economic research.

[5] Including the Census Bureau, the Bureau of Labor Statistics, the Internal Revenue Service, the Federal Reserve Board, the Departments of Defense and Veterans Affairs, and others.

[6] http://www.sba.gov/advo/research/veterans.html.

Small Businesses In General

Last year, Advocacy presented the Subcommittee with some key statistics on small businesses in general before presenting data on veterans in business. I would like to update those numbers now because they help us understand how important the subset of firms owned by veterans and service-disabled veterans are. Advocacy also publishes other very popular documents loaded with more data on small firms. Our **Frequently Asked Questions**, **State Economic Profiles**, and **Quarterly Indicators** all can be downloaded from our Web site.[7] These products are periodically updated and written for general users. Links to many other kinds of business data are also available at this site. Of special interest are these three measures:

- **Number.** Advocacy estimates that, in 2008, there were 29.6 million businesses in the United States.[8] Small firms with fewer than 500 employees represent 99.9 percent of all the businesses (including both employers and nonemployers), as the most recent data (2006) showed only about 18,000 large businesses with 500 or more employees.[9]
- **Employer/Nonemployer.** The most recent available Census data (2006) show that 22.5 percent of all firms had employees, while the balance were nonemployers.[10]
- **Self-employment.** Advocacy estimates that there were about 15.1 million self-employed individuals in the workforce at the end of 2009, including 5.5 million incorporated and 9.6 million unincorporated individuals.[11]

Source of Data for Veterans In Business

The most important primary source of data that we now have on veterans in business remains the Census Bureau's **2002 Survey of Business Owners and Self-Employed Persons (SBO)**, part of the Economic Census the agency conducts every 5 years.[12] In July 2007, Census released two new reports on veterans in business, based on data collected in the agency's 2002 SBO. These reports, **Characteristics of Veteran-Owned Businesses** (CVOB) and **Characteristics of Veteran Business Owners** (CVBO), are the most important data from Census on veterans in business since an earlier report based on 1992 data. The scope of the reports released in 2007 is also much broader than that of the 1992 report, representing the most detailed information on veterans in business ever released by Census.[13]

We at Advocacy are most appreciative that the Census Bureau has recognized the importance of veteran business data and that the agency again included questions on veteran and service-connected disability status in its pending 2007 SBO.[14] The current effort is polling 2.4 million businesses about their characteristics and the characteristics of their owners. Tabulation and analysis of their responses are now in progress, and Census currently plans to release a special report on veteran business data in May 2011.[15] Some more limited preliminary data may also be available in a report to be released in July this year.

For the present, we are limited to the 2002 SBO veteran business data that we do have, even though it is becoming somewhat dated. Advocacy prepared a synopsis of findings from the Census data for publication as a chapter in the 2007 edition

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[7] http://www.sba.gov/advo/research/.

[8] http://web.sba.gov/faqs/faqindex.cfm?areaID=24. This estimate uses the most common definition of "small business" which is based on all IRS tax returns reporting $1,000 or more in business income during the tax year.

[9] http://www.sba.gov/advo/research/us88__06.pdf.

[10] Ibid.

[11] See http://www.sba.gov/advo/research/sbqei0904.pdf. Some reports on self-employment exclude incorporated individuals; however, Advocacy research usually includes both types together, including individuals who choose to conduct their business activities as Subchapter S corporations or other pass-through entities, very popular types of business organization.

[12] The SBO is a quinquennial survey first conducted in its present form in 2002. The SBO incorporates many of the purposes and survey questions of three predecessor surveys: the Survey of Minority-Owned Business Enterprises (SMOBE), the Survey of Women-Owned Business Enterprises (SWOBE), and the 1992 Characteristics of Business Owners (CBO) survey. The SMOBE/SWOBE surveys continued in 1997, while the CBO was discontinued as a separate survey after 1992, although elements of it are included in the 2002 and 2007 SBOs.

[13] The 2002 SBO reports, together with accompanying summaries, press releases, and charts are all available at http://www.census.gov/econ/sbo/index.html.

[14] Information for the 2007 SBO is based on tax year 2007, and actual survey data collection was in 2008 and 2009.

[15] See http://www.census.gov/econ/sbo/releaseschedule07.html for a schedule of all planned 2007 SBO releases.

of our annual report to the President and the Congress.[16] This report, which is posted on Advocacy's Web site,[17] is an effort to interpret in a user-friendly way the massive amount of information provided in the 2002 SBO reports, which comprise nearly 200 pages of tabular data.

Although the published 2002 Census SBO data on veterans in business are substantial, there is still the potential to "mine" the underlying survey and associated administrative data to answer any number of questions that the published reports do not address. Advocacy did commission such a special tabulation of 2002 SBO data that included a variety of breakouts of information on veteran business owners, including service-disabled owners. Today, I will present some of our findings from this special tabulation, including those that help address the questions you have posed on location, industry, and export sales. Our findings will be largely limited to veteran business owners, not to veteran-owned firms. This is because, for the purposes of the SBO, service-connected disability is considered a characteristic of an owner and not of a firm. Accordingly, Census did not provide direct information on firms owned by service-disabled veterans (SDVOBs), but only on their owners. To compare SDVOBs and veteran-owned firms in general, we must look to data on owners for insight. Our special tabulation provides that data.

Appended to this testimony are four tables with the special tabulation data we are presenting today. All of the data in these tables are expressed in percentages. This is how most data in the Census Bureau's SBO reports are expressed, and a word of explanation is in order here. These percentages represent shares of all SBO survey respondents. To be counted as a respondent, a survey recipient had to both respond and answer certain key questions. Census did not make an estimate of the total universe of all veteran owners or veteran-owned firms, but did provide estimates based on respondents only. Advocacy has estimated that the number reported for total respondent **firms** in 2002 understated the total number of actual firms by a factor of 1.4, based on other widely used Census reports.[18] We do not have an analogous upward adjustment factor for veteran firm **owners**, but we know that the reported number of respondent veteran business owners understates the universe of all veteran owners by some factor attributable to nonrespondents.

With this limitation in mind, we can report the 2002 SBO's estimates for all respondent firm owners. These are the base numbers to which the percentages in the attached tables can be applied. However, it should be remembered that these base numbers: (1) are from 2002 and now somewhat dated, and (2) understate the actual totals because of nonrespondents. The table which follows presents more detail on Census respondent estimates, including these basic three:

- 20,527,000 total respondent business owners
- 2,973,000 total respondent veteran business owners
- 194,000 total respondent service-disabled veteran business owners

The 2002 SBO also estimated that 14.5 percent of all respondent business owners were veterans and that 12.2 percent of all respondent firms had one or more veterans as majority interest owners (i.e., were veteran-owned). Nearly 7 percent of veteran business owners were disabled as the result of injury incurred or aggravated during active military service.[19] Just over 66 percent of veteran owners had a majority interest in their firms, while 26.8 percent were equal interest owners, and 7.1 percent were minority interest owners.

Table 5.3: Owners of Respondent Firms by Owner's Veteran Status and Business Interest, 2002

(percent except as noted)

	Owners of respondent firms	Owners of respondent firms with employees	Owners of respondent nonemployer firms
All owners (number)	20,526,725	5,574,044	14,954,681

[16] Office of Advocacy, *The Small Business Economy*, December 2007; Chapter 5, Characteristics of Veteran Business Owners and Veteran-owned Businesses, pp. 119–149, hereafter referred to as SBE.

[17] See http://www.sba.gov/advo/research/sbe__07__ch5.pdf.

[18] See SBE, p. 123, footnote 16, for a discussion of this problem.

[19] See http://www.census.gov/econ/sbo/02/cbosof.html.

Table 5.3: Owners of Respondent Firms by Owner's Veteran Status and Business Interest, 2002—Continued

(percent except as noted)

	Owners of respondent firms	Owners of respondent firms with employees	Owners of respondent nonemployer firms
Majority interest owners	64.1	48.6	69.9
Equal interest owners	27.4	29.1	26.7
Nonmajority interest owners	8.6	22.3	3.4
Veteran owners (number)	2,973,246	811,740	2,161,506
Majority interest owners	66.2	55.9	70.1
Equal interest owners	26.8	25.8	27.1
Nonmajority interest owners	7.1	18.3	2.8
Service-disabled veteran (number)	193,750	37,521	156,229
Majority interest owners	68.8	59.2	71.1
Equal interest owners	26.5	27.1	26.3
Nonmajority interest owners	4.7	13.7	2.6
Non-service-disabled veteran (number)	2,600,043	724,445	1,875,598
Majority interest owners	65.8	55.5	69.8
Equal interest owners	26.9	25.8	27.3
Nonmajority interest owners	7.3	18.7	2.9
Nonveteran (number)	17,411,631	4,566,839	12,547,792
Majority interest owners	64.1	47.7	70.1
Equal interest owners	27.3	29.6	26.5
Nonmajority interest owners	8.6	22.7	3.4

See http://www.census.gov/prod/ec0w/sb0200cscbo.pdf. Note all estimates are based on owners of firms that responded to the 2002 Survey of Business Owners (SBO), both firms with paid employees and firms with no paid employees. A respondent firm is defined as a business that returned the survey form and provided the gender, Hispanic or Latino origin, or race characteristics for the owner(s). No detail is provided on respondents who did not report veteran or disability status. Percentage columns represent the percentage of owners of firms in the designated categories.

Source: U.S. Census Bureau, 2002 Survey of Business Owners (SBO), *Characteristics of Business Owners*; p. 25, Table 4.

Note that 2.1 percent of respondent owners did not answer the veteran status question, and 6.0 percent of respondent veteran owners did not answer the disability status question. Accordingly, the total of veteran and non-veteran owners does not equal the number of all owners, nor does the total of veterans with and without disabilities equal all veterans.

Veteran Business Owner Characteristics

The special tabulations that are appended to this testimony provide a wealth of information about the distribution of respondent veteran business owners within 11 different reporting categories:

- Employment size of firm
- Receipt size of firm
- Legal form of organization
- Year business acquired
- Owner status
- Geographic concentration
- State

- Industry
- Customers with 10 percent or more of sales
- Source of startup capital
- Source of expansion financing

Eight of these categories appeared in the Census reports that were published in 2007 (with some minor variations in breakpoints and formatting). Advocacy has previously provided the Subcommittee with information on these characteristics. However, Advocacy's special tabulation now gives us additional information not included in the earlier Census reports or our previous testimony. These data relate to geographic concentration, State location, and legal form of organization. Using both the new and older data, we can address three of the questions that the Subcommittee posed, those relating to location, industry sector, and export sales.

Location. Although we have no data on location by city, Advocacy did ask Census for data by State, and these are displayed in Table 7b appended to this testimony. The report generated from this tabulation shows the percentage of all respondent owners in the United States who are located in each State and in the District of Columbia. These are broken into two main categories for each State, employers and nonemployers. Within each of these two main categories, a breakout is provided on the local distribution percentage for all owners, veteran owners, service-disabled veteran owners, and those owners under 35 and over 65 years of age. This type of depiction makes it possible to compare the relative concentrations of the different types of business owners in any given State.

For example, California's share of business owners is large because of the State's size, but there are differing concentrations among employer owners, with all owners representing 11.6 percent of the national total, veteran owners 10.4 percent of their national total, and service-disabled veteran owners 9.8 percent of their national total. In Texas, by contrast, veterans and service-disabled veterans have larger shares than all employer owners, with all owners representing 6.1 percent of their national total, veteran owners 6.6 percent of their total, and service-disabled veteran owners 7.8 percent of all service-disabled veteran owners.

Following are listings of the 10 States with the most veteran or service-disabled respondent business owners, with separate listings for employers and nonemployers. There are differences between these two main categories that are masked in analyses that combine them. Analogous information is available for all States and the District of Columbia in the appended Table 7b. We have also listed in each line below the shares for veteran owners, service-disabled veteran owners (SDVs), and all owners, so that each group's relative share can be readily seen together. This helps us identify States where veteran or service-disabled veteran owners are either under- or over-represented relative to all owners at large. First, here are the top 10 States for veteran owners of employer firms:

- California (veterans, 10.4 percent; SDVs, 9.8 percent; all, 11.6 percent);
- Texas (veterans, 6.6 percent; SDVs, 7.8 percent; all, 6.1 percent);
- Florida (veterans, 5.7 percent; SDVs, 7.8 percent; all, 6.1 percent);
- New York (veterans, 5.0 percent; SDVs, 5.1 percent; all, 6.3 percent);
- Pennsylvania (veterans, 4.3 percent; SDVs, 3.0 percent; all, 4.1 percent);
- Illinois (veterans, 4.2 percent; SDVs, 2.7 percent; all, 4.5 percent);
- Ohio (veterans, 4.1 percent; SDVs, 2.9 percent; all, 3.9 percent);
- North Carolina (veterans, 3.3 percent; SDVs, 3.5 percent; all, 2.9 percent);
- Georgia (veterans, 3.0 percent; SDVs, 3.0 percent; all, 2.7 percent);
- Michigan (veterans, 3.0 percent; SDVs, 2.8 percent; all, 3.4 percent).

The same 10 States led the Nation in terms of veteran owners of nonemployer firms:

- California (veterans, 10.5 percent; SDVs, 10.2 percent; all, 12.3 percent);
- Texas (veterans, 7.7 percent; SDVs, 8.0 percent; all, 7.2 percent);
- Florida (veterans, 6.5 percent; SDVs, 7.8 percent; all, 6.1 percent);
- New York (veterans, 4.5 percent; SDVs, 3.9 percent; all, 6.2 percent);
- Pennsylvania (veterans, 4.3 percent; SDVs, 3.3 percent; all, 4.0 percent);
- Ohio (veterans, 3.8 percent; SDVs, 2.8 percent; all, 3.8 percent);
- Illinois (veterans, 3.5 percent; SDVs, 2.4 percent; all, 4.0 percent);
- North Carolina (veterans, 3.2 percent; SDVs, 3.6 percent; all, 2.9 percent);
- Michigan (veterans, 3.1 percent; SDVs, 2.7 percent; all, 3.4 percent);
- Georgia (veterans, 3.0 percent; SDVs, 3.6 percent; all, 2.7 percent).

While the top 10 States for veteran owners are the same for both employers and nonemployers, new States appear on top 10 lists of States for service-disabled owners of employer firms:

- California (SDVs, 9.8 percent; veterans, 10.4 percent; all, 11.6 percent);
- Texas (SDVs, 7.8 percent; veterans, 6.6 percent; all, 6.1 percent);
- Florida (SDVs, 7.8 percent; veterans, 5.7 percent; all, 6.1 percent);
- New York (SDVs, 5.1 percent; veterans, 5.0 percent; all, 6.3 percent);
- North Carolina (SDVs, 3.5 percent; veterans, 3.3 percent; all, 2.9 percent);
- Virginia (SDVs, 3.4 percent; veterans, 2.9 percent; all, 2.5 percent);
- Pennsylvania (SDVs, 3.0 percent; veterans, 4.3 percent; all, 4.1 percent);
- Georgia (SDVs, 3.0 percent; veterans, 3.0 percent; all, 2.7 percent);
- Washington (SDVs, 3.0 percent; veterans, 2.8 percent; all, 2.6 percent);
- Ohio (SDVs, 2.9 percent; veterans, 4.1 percent; 3.9 percent).

Finally, here are the top 10 States for service-disabled owners of nonemployer firms:

- California (SDVs, 10.2 percent; veterans, 10.5 percent; all, 12.3 percent);
- Texas (SDVs, 8.0 percent; veterans, 7.7 percent; all, 7.2 percent);
- Florida (SDVs, 7.8 percent; veterans, 6.5 percent; all, 6.1 percent);
- New York (SDVs, 3.9 percent; veterans, 4.5 percent; all, 6.2 percent);
- North Carolina (SDVs, 3.6 percent; veterans, 3.2 percent; all, 2.9 percent);
- Georgia (SDVs, 3.6 percent; veterans, 3.0 percent; all, 2.7 percent);
- Pennsylvania (SDVs, 3.3 percent; veterans, 4.3 percent; all, 4.0 percent);
- Virginia (SDVs, 3.2 percent; veterans, 2.7 percent; all, 2.4 percent);
- Ohio (SDVs, 2.8 percent; veterans, 3.8 percent; all, 3.8 percent);
- Michigan (SDVs, 2.7 percent; veterans, 3.1 percent; all, 3.4 percent).

Geographic concentration. Another new measure in Advocacy's special tabulation was geographic concentration. We asked Census to identify whether business owners were located within a metropolitan or "micropolitan" statistical area, that is to say, in areas with an urban core population of 10,000 or more.[20] Those not within such areas could be described as being located in rural areas. These data are depicted in the appended Table 7b. The tabulation shows that 7.6 percent of all employer business owners and 7.8 percent of all nonemployer owners were located outside of metro/micro areas in 2002, i.e., in rural areas.

Slightly higher numbers of veteran owners and service-disabled veteran owners were located outside of metro/micro areas. Table 7b shows that 8.2 percent of veteran employer owners and 8.3 percent of service-disabled veteran employer owners were located in rural areas. This trend was also true among nonemployer owners, where 7.8 percent of all such owners were located outside of metro/micro areas, but 8.8 percent of both veteran and service-disabled veteran owners were located in rural areas.

Industry. The Subcommittee has asked for information on veteran-owned firms by industry type. The appended Table 7c from our special tabulation of Census data includes data in the same format described above for each of 20 main industry classifications (two-digit NAICS codes). Percentage shares are set out for all owners, veteran owners, and service-disabled veteran owners in both the employer and nonemployer classifications. This distinction is of interest because there are significant differences in many industries that are masked when both employers and nonemployers are combined into a single group.[21]

For example, 6.7 percent of all employer owners, but only 1.7 percent of all nonemployer owners, owned firms in manufacturing. However, when we look at all firms (not owners) together, Census reported in 2002 that 2.7 percent of all firms were manufacturers. Similarly, 5.1 percent of all employer owners and 12.9 percent of all nonemployers were in the real estate renting and leasing group. The combined share for all firms in this group was 9.6 percent. To help shed light on this phenomenon and to provide additional context for our special tabulations, I have also appended a chart prepared by the Census Bureau depicting firm distribution by industry for both all firms and veteran-owned firms.[22]

To summarize from Census firm data, veteran-owned firms are generally distributed among the 20 major industries (two-digit NAICS codes) similarly to the distribution of all respondent firms, as depicted in the chart appended to my testimony. The five largest categories are the same for both groups:

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[20] Metropolitan statistical areas have an urban core with 50,000 or more inhabitants. Micropolitan statistical areas have an urban core with 10,000 to 49,999 inhabitants. See definitions or maps for more information on metropolitan and micropolitan areas.

[21] For a discussion of this problem, see "Do Business Definition Decisions Distort Small Business Research Results?" (August 2008: http://www.sba.gov/ADVO/research/rs330tot.pdf), an Advocacy working paper by Brian Headd and Radwan Saade.

[22] This chart is also available at http://www2.census.gov/econ/sbo/02/vetbuscharts.pdf.

- Professional, scientific, and technical services (veterans, 18.7 percent; all, 15.7 percent);
- Construction (veterans, 13.9 percent; all, 11.7 percent);
- Other services (veterans, 10.2 percent; all, 11.2 percent);
- Retail trade (veterans, 9.5 percent; all, 11.6 percent); and
- Real estate and rental/leasing (veterans, 9.3 percent; all, 9.6 percent).

However, when we look at employer owners instead of firms, using Advocacy's special tabulations from Census, the top five are different:

- Professional, scientific, and technical services (veterans, 14.7 percent; all, 14.0 percent);
- Construction (veterans, 13.7 percent; all, 13.7 percent);
- Retail trade (veterans, 13.3 percent; all, 14.2 percent);
- Health care and social assistance (veterans, 9.4 percent; all, 8.8 percent);
- Manufacturing (veterans, 7.4 percent; all, 6.7 percent).

If we shift to nonemployer owners, again using the special tabulations, we get yet another view:

- Professional, scientific, and technical services (veterans, 17.1 percent; all, 15.5 percent);
- Real estate and rental/leasing (veterans, 14.8 percent; all, 12.9 percent);
- Construction (veterans, 12.1 percent; all, 10.8 percent);
- Other services (veterans, 10.9 percent; all, 12.3 percent);
- Retail trade (veterans, 10.4 percent; all, 11.4 percent).

We can also rank the top five industries for service-disabled veteran employer owners:

- Professional, scientific, and technical services (SDVs, 14.8 percent; all veterans, 14.7 percent);
- Construction (SDVs, 13.7 percent; all veterans, 13.7 percent);
- Retail trade (SDVs, 13.6 percent; all veterans, 13.3 percent);
- Other services (SDVs, 7.4 percent; all veterans, 6.4 percent);
- Health care and social assistance (SDVs, 7.2 percent; all veterans, 9.4 percent).

Finally, a ranking of the top five industries for service-disabled nonemployer owners:

- Professional, scientific, and technical services (SDVs, 16.0 percent; all veterans, 17.1 percent);
- Construction (SDVs, 12.7 percent; all veterans, 12.1 percent);
- Other services (SDVs, 11.9 percent; all veterans, 10.9 percent);
- Retail trade (SDVs, 11.6 percent; all veterans, 10.4 percent);
- Real estate and rental/leasing (SDVs, 11.1 percent; all veterans, 14.8 percent).

We have presented these various rankings in order to show that there are differences between employers and nonemployers that are often missed in analyses that combine the two. The appended special tabulations let us see these differences and avoid incorrect generalizations.

Exporting. The Subcommittee also asked for information on exporting by veteran-owned firms. We have 2002 Census SBO data that can help us here. The main report on veterans in business examined types of "major customers" of respondent firms, those customers that accounted for 10 percent or more of a firm's sales. Included among the possible categories of major customers was an "export sales" category on which data were reported. Those firms with major export customers made up 1.4 percent of all respondent firms, 1.8 percent of respondent employers, and 1.3 percent of respondent nonemployers.

Veteran-owned firms reported similar, but slightly smaller, percentages of firms with major export customers: 1.3 percent of all veteran-owned firms, 1.6 percent of veteran-owned employers, and 1.2 percent of veteran-owned nonemployers.

Advocacy's special tabulation of 2002 Census owner characteristics also gave us information on owners whose firms had major export customers. This data is in Table 7c appended to this testimony. Among employer firm owners, 2.0 percent of all owners, 1.8 percent of veteran owners, and 2.2 percent of service-disabled veteran owners had major export customers. Among nonemployers, 1.4 percent of all owners, 1.3 percent of veteran owners, and 1.5 percent of service-disabled veteran owners had major export customers.

Federal procurement. Advocacy does not compile the official statistics on Federal procurement, socio-economic goaling or agency performance on goaling targets. Data of this type are maintained by SBA's Office of Government Contracting and by the Federal Procurement Data System (FPDS). We will defer to the responsible offices on this subject. Detailed data on goaling and performance are also posted on both the SBA and FPDS Web sites.

Conclusion

This concludes my prepared testimony. While we do not have exact answers to all the questions posed by the Subcommittee, I hope that the information that we did provide on your questions relating to veteran business location, industries, and exporting will be helpful. We have only mentioned a very small fraction of the large amount of information in the special tabulations we have appended to this testimony. I hope that the additional data will be useful to the Subcommittee, and we stand ready to help answer any questions that arise in connection with its review. Also, as I mentioned earlier, we do have a research study nearing completion that we hope will be able to address your question on barriers to veteran entrepreneurship. Advocacy will keep the Subcommittee's staff informed, and when this contract project is completed, we will be pleased to provide a briefing.

We at Advocacy very much appreciate the Subcommittee's interest in veteran entrepreneurship issues and Advocacy's work in this area. We look forward to continuing to work with the Subcommittee in any way we can to advance our knowledge about veterans in business, and to help you in your deliberations on how to best serve our Nation's veterans community.

Table 7a: Owner Characteristics by Firm-Size Related Variables, 2002
(percent)

	Employers					Non-Employers				
	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)
Employment size of firm										
Nonemployers	--	--	--	--	--	100.0	100.0	100.0	100.0	100.0
0*	12.2	10.4	15.6	23.5	7.8	--	--	--	--	--
1-4	44.4	47.0	52.4	43.2	47.2	--	--	--	--	--
5-9	18.3	18.2	17.7	16.3	17.6	--	--	--	--	--
10-19	12.3	11.9	7.4	9.3	12.2	--	--	--	--	--
20-99	10.9	10.7	6.1	6.8	12.7	--	--	--	--	--
100-249	1.3	1.3	0.7	0.6	2.0	--	--	--	--	--
250+	0.8	0.8	0.2	0.2	0.8	--	--	--	--	--
Receipt size of firm										
< $10,000	1.5	1.6	1.8	2.4	1.7	41.8	40.3	42.9	52.1	44.5
$10,000 to $49,999	7.6	7.9	10.7	11.1	9.7	35.9	36.1	37.7	34.5	35.5
$50,000 to $99,999	9.8	10.3	13.8	12.8	10.2	10.8	11.6	10.6	7.4	9.2
$100,000 to $249,999	21.6	21.8	25.7	24.9	19.8	7.8	8.4	8.4	4.3	7.0
$250,000 to $999,999	34.0	33.4	33.4	32.6	30.4	3.4	3.5	2.3	1.6	3.7
$1 million to $4.9 million	19.1	18.7	11.9	13.2	19.6	0.2	0.2	0.1	0.1	0.1
$5 million +	6.4	6.3	2.7	3.1	8.5	0.0	0.0	0.0	0.0	0.0
Legal form of organization										
Corporations (including tax-exempt corp.)	69.0	68.1	64.0	66.0	70.2	7.1	7.9	6.5	4.1	9.2
Partnerships	10.6	9.1	7.7	15.0	9.4	9.1	9.7	5.6	5.0	12.9
Sole proprietors	16.5	18.0	22.5	16.6	14.3	83.8	82.4	88.0	90.9	78.0
Other**	3.9	4.9	5.8	2.4	6.1	0.0	0.0	0.0	0.0	0.0
Year business acquired										
Before 1980	19.0	33.2	26.0	4.8	52.2	11.1	21.9	17.3	0.8	36.6
1980 to 1989	23.2	24.6	24.5	5.5	22.2	16.2	19.5	18.1	1.6	22.0
1990 to 1998	34.6	27.1	28.1	35.5	16.1	32.2	29.8	31.4	23.2	25.6
1999	5.8	3.9	5.5	11.5	2.1	6.8	5.3	6.0	9.0	3.6
2000	6.4	4.1	5.9	14.3	1.9	8.7	6.6	7.6	13.9	3.8
2001	6.0	3.9	5.6	15.0	1.8	10.0	7.0	7.6	19.1	3.6
2002	5.0	3.1	4.5	13.4	1.6	14.8	9.8	12.0	32.5	4.7
Owner status										
Only one owner	38.5	44.0	45.8	34.0	59.6	59.5	57.5	59.6	68.8	52.2
Family-owned	40.3	36.5	40.6	44.8	34.9	32.1	34.3	34.9	23.5	39.8
Not family-owned	22.3	21.0	14.4	22.3	5.6	8.7	8.5	5.8	8.1	8.2

* Annual payroll but no employees on March 12, 2002.

**Contains nonprofits and some miscellaneous legal forms of organization.

Source: Office of Advocacy, U.S. Small Business Administration, from special tabulations of U.S. Census Bureau, Survey of Business Owner data.

Table 7b: Owner Characteristics by Metropolitan Location and State, 2002
(percent)

	Employers					Non-Employers				
	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)
Geographic concentration										
Not within a metro/micro area	7.6	8.2	8.3	7.3	8.4	7.8	8.8	8.8	7.7	8.8
Within a metro/micro area	92.8	92.3	91.9	92.8	92.3	92.2	91.2	91.2	92.3	91.2
State										
Alabama	1.3	1.6	1.6	1.4	1.4	1.3	1.5	2.0	1.4	1.3
Alaska	0.3	0.3	0.7	0.2	0.2	0.3	0.4	0.8	0.3	0.2
Arizona	1.8	1.8	2.2	1.8	1.5	1.7	1.9	1.8	1.5	1.7
Arkansas	1.0	1.1	1.3	1.1	1.1	0.9	1.1	1.1	1.0	1.0
California	11.6	10.4	9.8	10.2	11.9	12.3	10.5	10.2	11.6	12.0
Colorado	2.4	2.2	2.4	2.8	1.8	2.2	2.3	2.4	2.4	1.9
Connecticut	1.4	1.3	1.2	1.1	1.5	1.3	1.3	1.0	1.1	1.4
Delaware	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.2	0.3	0.3
District of Columbia	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.2	0.2
Florida	6.1	5.7	7.8	6.2	5.7	6.1	6.5	7.8	5.5	6.6
Georgia	2.7	3.0	3.0	3.1	2.4	2.7	3.0	3.6	3.2	2.2
Hawaii	0.4	0.4	0.7	0.3	0.5	0.5	0.5	0.7	0.4	0.5
Idaho	0.7	0.7	0.8	0.8	0.5	0.6	0.6	0.8	0.7	0.5
Illinois	4.5	4.2	2.7	4.3	4.9	4.0	3.5	2.4	4.3	4.1
Indiana	2.2	2.3	2.0	2.3	2.3	2.1	2.0	1.8	2.3	2.2
Iowa	1.3	1.4	0.8	1.3	1.4	1.2	1.2	1.0	1.4	1.4
Kansas	1.2	1.2	1.3	1.1	1.4	1.0	1.1	1.2	1.0	1.3
Kentucky	1.3	1.4	1.0	1.3	1.4	1.4	1.3	1.4	1.6	1.2
Louisiana	1.4	1.6	1.3	1.4	1.6	1.4	1.5	1.4	1.4	1.4
Maine	0.6	0.7	1.1	0.6	0.5	0.6	0.7	0.8	0.6	0.7
Maryland	1.8	1.8	1.5	1.7	1.8	2.0	2.1	2.3	1.8	2.0
Massachusetts	2.4	2.4	2.8	2.1	2.3	2.4	2.2	2.4	2.3	2.3
Michigan	3.4	3.0	2.8	3.6	3.4	3.4	3.1	2.7	3.6	3.3
Minnesota	2.3	2.3	2.7	2.8	1.7	2.2	2.1	1.8	2.5	1.8
Mississippi	0.8	0.9	0.8	0.7	1.0	0.8	0.9	0.9	0.8	0.8
Missouri	2.2	2.4	1.8	2.2	2.4	2.1	2.2	1.9	2.2	2.1
Montana	0.6	0.7	0.7	0.6	0.5	0.5	0.6	0.6	0.4	0.5
Nebraska	0.8	0.9	0.9	0.8	0.8	0.7	0.8	1.1	0.8	0.8
Nevada	0.7	0.8	0.7	0.7	0.7	0.7	0.8	1.1	0.6	0.8
New Hampshire	0.6	0.7	0.8	0.5	0.5	0.6	0.7	0.8	0.5	0.5
New Jersey	3.4	2.9	2.4	3.0	3.4	2.8	2.3	1.8	2.4	2.9
New Mexico	0.6	0.7	1.2	0.6	0.7	0.6	0.7	1.1	0.6	0.6
New York	6.3	5.0	5.1	6.9	6.9	6.2	4.5	3.9	6.3	6.1
North Carolina	2.9	3.3	3.5	3.2	3.0	2.9	3.2	3.6	3.0	2.7
North Dakota	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Ohio	3.9	4.1	2.9	3.7	4.2	3.8	3.8	2.8	3.8	3.8

Table 7b: Owner Characteristics by Metropolitan Location and State, 2002
(percent)

	Employers					Non-Employers				
	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)
Oklahoma	1.3	1.5	1.9	1.2	1.7	1.4	1.6	2.2	1.4	1.6
Oregon	1.7	1.8	1.8	1.7	1.4	1.4	1.5	1.5	1.3	1.4
Pennsylvania	4.1	4.3	3.0	3.9	4.4	4.0	4.3	3.3	3.7	4.2
Rhode Island	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.2	0.3	0.3
South Carolina	1.3	1.7	1.6	1.3	1.5	1.2	1.6	1.6	1.2	1.3
South Dakota	0.4	0.4	0.5	0.5	0.4	0.3	0.4	0.4	0.4	0.4
Tennessee	1.8	2.0	1.6	1.7	2.0	2.0	2.1	2.2	2.2	1.7
Texas	6.1	6.6	7.8	5.8	6.8	7.2	7.7	8.0	7.3	7.6
Utah	1.0	0.7	0.6	1.8	0.7	0.9	0.7	0.7	1.4	0.7
Vermont	0.3	0.3	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Virginia	2.5	2.9	3.4	2.4	2.6	2.4	2.7	3.2	2.3	2.4
Washington	2.6	2.8	3.0	2.6	2.1	2.2	2.3	2.7	1.9	2.0
West Virginia	0.6	0.6	0.6	0.5	0.7	0.5	0.5	0.5	0.5	0.6
Wisconsin	2.3	2.2	1.5	2.5	2.0	1.9	1.9	1.3	2.0	1.8
Wyoming	0.3	0.3	0.5	0.3	0.3	0.2	0.3	0.1	0.2	0.2

Source: Office of Advocacy, U.S. Small Business Administration, from special tabulations of U.S. Census Bureau, Survey of Business Owner data.

Table 7c: Owner Characteristics by Major Industry, 2002
(percent)

	Employers					Non-Employers				
	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)
Industry										
Forestry, fishing and hunting, and ag. support srv.	0.6	0.5	0.4	0.7	0.6	1.3	1.4	1.5	1.4	1.2
Mining	0.4	0.5	0.6	0.2	0.9	0.6	0.9	0.7	0.2	1.5
Utilities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Construction	13.7	13.7	13.7	17.3	8.9	10.8	12.1	12.7	13.5	6.8
Manufacturing	6.7	7.4	5.5	4.6	9.3	1.7	2.0	1.8	1.3	1.9
Wholesale trade	6.6	7.1	6.8	4.7	8.5	2.1	2.5	2.2	1.6	2.6
Retail trade	14.2	13.3	13.6	12.9	16.6	11.4	10.4	11.6	11.4	12.0
Transportation and warehousing	2.9	3.3	4.0	3.2	3.0	3.9	4.9	6.0	4.0	3.0
Information	1.3	1.1	1.1	1.6	1.3	1.3	1.0	0.9	2.0	0.8
Finance and insurance	4.2	5.3	5.0	3.7	4.9	3.9	5.5	5.0	2.9	5.9
Real estate and rental and leasing	5.1	5.8	5.6	3.4	9.8	12.9	14.8	11.1	6.2	20.1
Professional, scientific, and technical services	14.0	14.7	14.8	12.6	11.5	15.5	17.1	16.0	14.4	16.8
Management of companies and enterprises	0.5	0.5	0.2	0.2	0.9	0.0	0.0	0.0	0.0	0.0
Admin. & support & waste mngt. & remediation srv.	5.3	4.9	6.0	7.6	3.9	6.4	5.5	5.4	7.8	4.8
Educational services	0.7	0.6	0.5	1.0	0.6	2.0	1.4	1.6	2.4	1.6
Health care and social assistance	8.8	9.4	7.2	7.5	8.9	7.3	4.4	4.6	8.9	5.3
Arts, entertainment, and recreation	1.5	1.3	1.0	1.9	1.8	5.0	3.8	4.1	6.9	4.0
Accommodation and food services	7.6	5.3	6.8	9.6	7.0	1.3	1.2	1.7	1.0	1.4
Other services (except public administration)	6.9	6.4	7.4	7.5	5.5	12.3	10.9	11.9	13.9	10.1
Industries not classified	0.2	0.2	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.0
Customer (10 percent or more of total sales) *										
Export sales	2.0	1.8	2.2	2.2	2.3	1.4	1.3	1.5	1.7	1.3
Federal government	3.0	3.8	5.8	2.5	3.2	1.9	2.4	3.4	1.8	2.2
State and local government	8.5	9.4	9.8	7.1	8.6	4.8	5.3	6.0	4.2	4.7
Household consumers/individuals	56.0	54.1	54.2	58.9	50.8	52.6	49.2	52.2	54.2	45.0
Other businesses/organizations	43.0	45.0	42.4	41.4	41.6	33.0	35.4	32.2	31.7	30.7
All others	16.5	17.9	19.3	15.5	21.2	21.3	22.7	23.4	21.0	28.3

* Firms can be in more than one sales category.

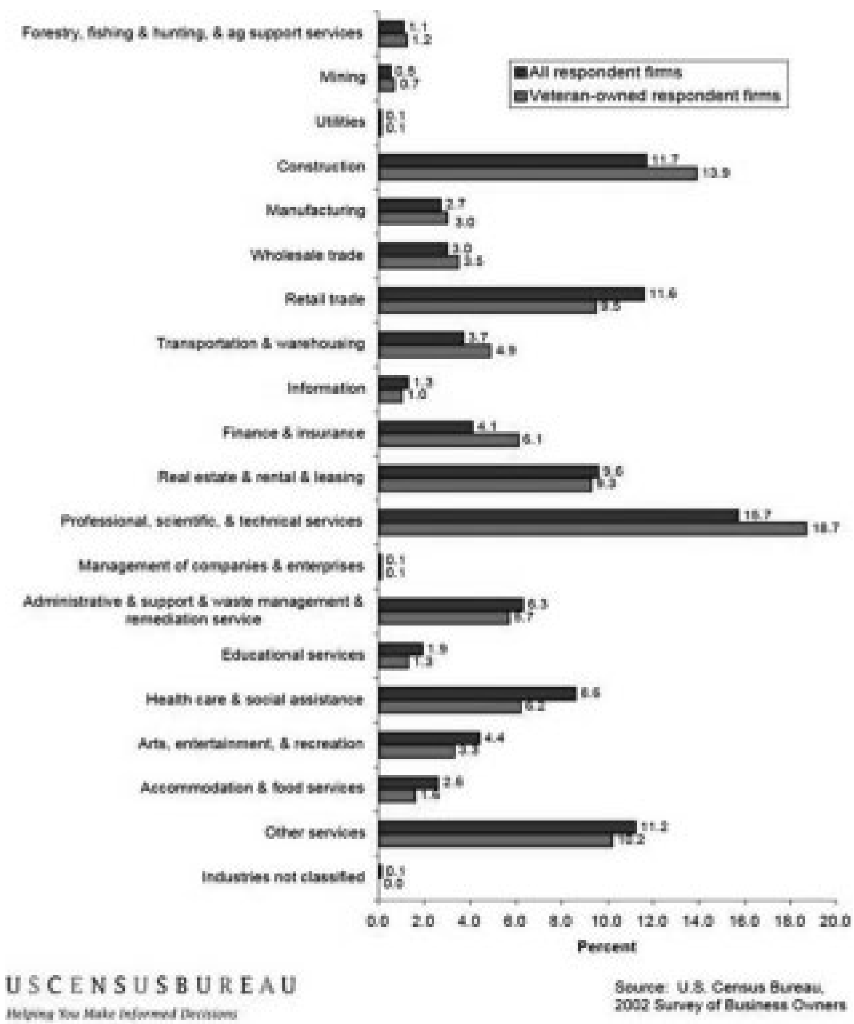
Source: Office of Advocacy, U.S. Small Business Administration, from special tabulations of U.S. Census Bureau, Survey of Business Owner data

Table 7d: Owner Characteristics by Finance Type, 2002
(percent)

	Employers					Non-Employers				
	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)	All	Veteran	Disabled Veteran	Younger (under 35)	Older (65 and over)
Start-up capital										
Business loan from bank	24.7	25.0	22.1	24.0	23.8	9.8	10.9	8.6	6.5	10.6
Personal/business credit card	9.9	8.2	13.3	16.8	3.9	9.3	8.2	11.3	11.8	3.6
Government-guaranteed bank loan	2.0	1.8	2.4	2.5	1.3	0.4	0.5	0.5	0.3	0.4
Business loan from government	1.7	1.6	1.8	2.3	1.4	0.8	0.8	0.8	0.7	0.8
None needed	9.4	10.1	8.9	8.1	11.2	30.8	28.7	27.0	38.1	34.5
Other personal/family assets	15.3	14.4	17.4	17.6	13.8	9.1	9.6	10.2	7.5	8.7
Outside investor	4.6	4.1	4.3	5.9	3.9	2.3	2.0	1.8	2.4	2.0
Personal/family savings	69.7	69.3	73.3	69.7	69.3	55.7	57.5	60.4	50.4	52.3
Expansion financing										
Business loan from bank	23.1	22.2	22.2	23.5	19.6	6.9	7.5	7.3	4.9	5.9
Government-guaranteed bank loan	0.7	0.6	0.8	1.0	0.5	0.2	0.2	0.3	0.2	0.1
None needed	51.9	54.9	45.9	42.9	61.1	61.1	62.7	55.2	60.6	72.0
Outside investor	1.8	1.3	1.7	2.9	1.1	1.1	0.9	0.9	1.4	0.6
Personal/business credit card	13.3	11.6	18.1	20.4	6.4	11.8	10.5	15.3	13.9	5.0
Business loan from government	0.9	0.8	1.2	1.2	0.7	0.4	0.4	0.8	0.4	0.3
Other personal/family assets	6.6	6.2	9.8	9.4	4.6	5.4	5.3	7.0	5.2	3.4
Personal/family savings	25.7	24.0	33.4	32.7	20.6	28.1	26.7	32.9	29.9	19.9

Source: Office of Advocacy, U.S. Small Business Administration, from special tabulations of U.S. Census Bureau, Survey of Business Owner data.

Figure 3: Percentage Distribution of Respondent Firms by Kind of Business for All Firms and Firms With One or More Veterans As a Majority Interest Owners: 2009



Prepared Statement of Diane Farrell, Director, Export-Import Bank of the United States

The Export-Import Bank of the United States (Ex-Im Bank) is the official export credit agency of the U.S. Government.

Ex-Im Bank, which recently celebrated its 75th anniversary, is an independent Federal agency chartered by the U.S. Congress with its mission to sustain and increase U.S. jobs.

Ex-Im Bank provides loans, loan guarantees and insurance to help U.S. companies export their goods and services. Ex-Im Bank products facilitate commerce at all levels. Ex-Im Bank helps American business reach the 95 percent of the global marketplace that is beyond our borders. All regional offices of Ex-Im Bank, including New York, Miami, Houston, Chicago, Los Angeles, and San Francisco are committed to small business outreach.

Ex-Im Bank does not compete with private sector lenders but provides export financing that fill trade financing gaps. The Bank assumes credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank further levels the playing field for U.S. exporters by matching the financing that other governments provide to their exporters.

It is important to note—Ex-Im Bank is self-sustaining—meaning the Bank pays for its operations from the interest and fees it collects.

As part of its mission, Ex-Im Bank is committed to providing opportunities for *all* American businesses—especially Service-Disabled, Veteran-Owned Small Business firms.

Ex-Im Bank staff continues to support meetings in connection with the Interagency Network of Enterprise Assistance Providers. We continue our collaboration with the Center for Veterans Enterprise, benefiting from their partnerships with the Small Business Administration, American Small Business Development Associations, Department of Defense, Department of Veterans Affairs, and the Department of Labor.

Export loan authorizations by Ex-Im Bank more than doubled to $13.2 billion during the first half of the current fiscal year. That is a 125-percent increase compared to the record $5.9 billion authorized during the same period in Fiscal Year 2009.

An estimated 109,000 American jobs have been supported by the Bank's financing this fiscal year to date, compared to about 61,000 jobs supported during the same period last fiscal year.

Small business export loan authorizations have increased half a billion dollars during the same period to $2.3 billion, 28 percent greater than the first half of FY2009.

The 2010 first-half figures are the latest in a series of records set by Ex-Im Bank while addressing tightened liquidity in the marketplace. In FY2009, total Ex-Im Bank authorizations came to $21 billion while authorizations for small business exporters totaled $4.36 billion—both historic highs.

To assist small businesses, the Bank implemented new products and services such as a premium rate reduction of 15 percent on our short-term multi-buyer insurance policies and short-term small business environmental multi-buyer insurance polices. The premium rate reduction affects approximately half of all Ex-Im Bank insurance policyholders.

As of March 31, 2010, the self-sustaining Bank's FY2010 receipts in excess of costs totaled $162.6 million. We are proud that we are able to function at no expected cost to the U.S. taxpayer.

My colleagues at Ex-Im Bank and I look forward to working with the groups testifying today to increase our support within the veteran small business community.

Chairwoman Herseth Sandlin, Ranking Member Boozman, Members of the Subcommittee, I welcome the opportunity to testify before you on the efforts the Export-Import Bank of the United States (Ex-Im Bank) is undertaking to help not only our veterans, but also U.S. small businesses, succeed in an increasingly difficult and complex international marketplace.

Our veterans deserve all the gratitude and assistance that the Federal Government can provide for them. I commend all our veterans for their service and sacrifice to this country.

Chairman Hochberg wishes he could be here today, and he, along with all my colleagues at the Bank are committed to working with this Committee and the other groups and agencies represented here to expand our outreach to small businesses owned by our veterans.

While the credit crunch appears to be easing, Ex-Im Bank remains committed to filling the gaps in trade financing and supporting and sustaining U.S. jobs, just as it has done for every economic crisis faced by this country since the Great Depression.

A few introductory words about the Bank may be helpful. Ex-Im Bank is the official export credit agency of the United States, and an independent Federal agency chartered by the U.S. Congress.

Ex-Im Bank provides loans, loan guarantees and insurance to help U.S. companies export their goods and services. We have a variety of products to facilitate commerce at all levels. Ex-Im Bank helps American business reach the 95 percent of the global marketplace that is beyond our borders.

It does not compete with private sector lenders but provides export financing that fill trade financing gaps. The Bank assumes credit and country risks that the private sector is unable or unwilling to accept. It also levels the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. Importantly, the Bank is self-sustaining, meaning the Bank pays for its operations from the interest and fees it collects. As of March 31, 2010, the self-sustaining Bank's FY2010 receipts in excess of costs totaled $162.6 million.

For more than 75 years, the Bank's mission to grow and sustain American jobs has remained unchanged.

Just last month at Ex-Im Bank's Annual Conference, President Obama charged this government under his National Export Initiative with the goal of doubling U.S. exports and creating 2 million American jobs within the next 5 years. The Bank's support of small businesses and veteran-owned businesses will lead the economic recovery and achieve the President's target.

Ex-Im Bank is committed to providing opportunities for *all* American businesses—especially Service-Disabled, Veteran-Owned Small Business firms.

While I am proud to be here today to let our friends in the veterans community know that Ex-Im Bank can help, this is not the first outreach the Bank has done to this important community. Ex-Im Bank staff recently attended National Veteran Small Business Conference and Expo in July of last year. The U.S. Department of State (Office of Small and Disadvantaged Business) requested our participation along with the Danish Embassy and Australian Embassy on an International Business Development Panel at the conference. Seventy veteran-owned businesses attended the session where the Bank detailed our products that are available to them. I am happy to report that there were approximately 2,600 conference attendees.

Ex-Im Bank staff continues to support meetings in connection with the Interagency Network of Enterprise Assistance Providers (INEAP).

We continue our collaboration with the Center for Veterans Enterprise (CVE), benefiting from their partnerships with the Small Business Administration, American Small Business Development Associations, Department of Defense, Department of Veterans Affairs, and the Department of Labor. Ex-Im Bank staff maintains contact through the INEAP/Manufacturing Extension Partnership. Ex-Im Bank promotional materials are shared with the Veterans Business Outreach. The last meeting was in March of this year.

I would like to take a moment to highlight a veteran's success story at Ex-Im Bank. In 1956, George and Gertrude Gascon, 10 years in the military, sought to purchase property in Southwest Harbor, Maine on which to settle after retirement from the U.S. Navy. Gertrude's parents, John and Dorothy Dunbar, mentioned that Ogden's Lobster Pound was for sale. Flash forward 54 years to January 2010, when the Gascons' son-in-law, Anthony Pettegrow, now co-owner of the business with the Gascons' daughter Josette, called Ex-Im's Northeast Regional Office. The domestic market, Mr. Pettegrow explained, had become overly competitive due to an unexpected consequence of overfishing in the North Atlantic. There had been a virtual elimination of the Maine lobster's natural marine predators and lobster populations had swelled, with lobsters surviving long enough to grow to larger weights. The resulting oversupply has significantly impacted domestic prices. Trenton Bridge Lobster Pound recognized that American lobsters commanded a premium overseas, and began selling abroad at healthier margins than had been possible at home. As Mr. Pettegrow also explained, there are costly barriers to entry to exporting lobsters, and Trenton Bridge Lobster Pound is already set up properly to expand its more lucrative export sales. Two existing customers in the UK and Italy now account for most of the company's sales. Inquiries have recently been received from new buyers in Spain, Korea, and elsewhere, which the Pettegrows would like to pursue, but with prudent coverage. As the company qualifies as a small business per SBA definition, Mr. Pettegrow was directed by the Regional Office toward the risk protection and marketing benefits of Ex-Im Bank's Small Business Short-Term Multi-Buyer Export Credit Insurance Policy. Trenton Bridge placed a policy application shortly after this conversation through a broker and by early February had received and accepted a quotation from Ex-Im Bank. Approximately 20 of the independent lobstermen supplying the company are also veterans, who now benefit from Trenton Bridge Lobster Pound's newly opened markets.

I would like to provide a brief review of recent financing figures that will give you an idea of the challenges and opportunities that abound.

Export loan authorizations by Ex-Im Bank more than doubled to $13.2 billion during the first half of the current fiscal year. That is a 125-percent increase compared to the record $5.9 billion authorized during the same period in Fiscal Year 2009.

An estimated 109,000 American jobs have been supported by the Bank's financing this fiscal year to date, compared to about 61,000 jobs supported during the same period last fiscal year.

Small business export loan authorizations have increased half a billion dollars during the same period to $2.3 billion, 28 percent greater than the first half of FY2009.

The 2010 first-half figures are the latest in a series of records set by Ex-Im Bank while addressing tightened liquidity in the marketplace. In FY2009, total Ex-Im Bank authorizations came to $21 billion while authorizations for small business exporters totaled $4.36 billion—both historic highs.

Export financing for buyers of U.S. goods and services sold in Asia increased from $456 million last year to $1.9 billion so far this fiscal year; all other regions in the world posted increases this fiscal year except Africa where exports are roughly even.

We pay for our operations from the interest and fees collected. This means we are able to finance our program budget, the amount we must set aside to cover risks, as well as our administrative budget, through the fees and payments received through our programs.

As of March 31, 2010, the self-sustaining Bank's FY2010 receipts in excess of costs totaled $162.6 million. We are proud that we are able to function at no expected cost to the U.S. taxpayer.

Ex-Im Bank is uniquely able to fill the current financing gap in a number of ways.

First, is our institutional flexibility. Institutions such as Ex-Im Bank are prepared to respond to abrupt economic changes. For instance, prior to FY2009, most of the Bank's larger transactions, and some smaller- and medium-sized, were financed through loan guarantees, where Ex-Im Bank would guarantee up to 85 percent of a commercial bank loan to a foreign buyer. But Ex-Im Bank also had the option of lending directly to a foreign buyer. In FY2009, commercial banks lacked the liquidity to offer loans. So, where appropriate, increasingly Ex-Im Bank has stepped in and provided direct loans.

In our working capital program, Ex-Im Bank modified its credit standards to help small businesses so their exports could be stimulated and U.S. jobs sustained and created. These actions have led to a banner year for the working capital product, eclipsing the former record for authorizations by over $70 million. We, of course, carefully monitor this portfolio to minimize default risks.

Also to assist small businesses, the Bank implemented new products and services such as a premium rate reduction of 15 percent on our short-term multi-buyer insurance policies and short-term small business environmental multi-buyer insurance polices. The premium rate reduction affects approximately half of all Ex-Im Bank insurance policyholders.

During this economic downturn, Ex-Im Bank has introduced a "take-out" option, which allows commercial banks to sell their Ex-Im Bank guaranteed medium- and long-term loans back to Ex-Im Bank. This enables commercial banks to reduce their liquidity risks, lower borrowing rates, increase their own ability to lend, and make U.S. exports more competitive.

Looking to the future, we are seeking ways to do even more. Inter-agency coordination and cooperation can be strengthened through the Trade Promotion Coordinating Committee, or TPCC, which is made up of 20 U.S. Government agencies involved in trade, under the direction of the Department of Commerce. The Secretary of Commerce, who serves as the committee's chairman, has made a vital TPCC a strategic priority. I look forward to working with Secretary Locke, Ex-Im Bank Chairman Hochberg, and the TPCC to ensure that every effort is made to reach out directly to small businesses, including our veteran-owned businesses that either currently export or could potentially export.

Ex-Im Bank, in close cooperation with other government agencies, is doing this through a hugely successful and widely attended "ExportsLive" series. These trade promotion events provided exporters, small businesses new to exporting, and banks in New York, Boston, Miami, Houston, Detroit, Chicago, Los Angeles, Cincinnati, Minneapolis, Madison, WI, and Seattle areas with direct access to agency representatives from Ex-Im Bank, SBA, Commerce, USTR, OPIC, and TDA, along with one-on-one counseling for exporters. I look forward to more success from our "ExportsLive" trade events where we plan to visit Montana, Colorado, and Long Island, New York. I am sure that Ex-Im Bank would welcome the chance to work with you and your Committee colleagues in hosting such events back in your districts.

Moreover, all of the regional offices of Ex-Im Bank, including New York, Miami, Houston, Chicago, Los Angeles, and San Francisco, are fully devoted to small business outreach.

We host or attend over 400 conventions, seminars, or trade shows annually, have thousands of one-on-one meetings with businesses, and work aggressively to ensure banks and economic development agencies are aware of Ex-Im Bank and our products and services.

We estimate that there are 259,000 actual small business exporters in the United States. With a business development staff of less than 40, Ex-Im Bank is working incredibly hard to reach these companies.

Similar outreach efforts are necessary to get commercial banks involved, or in many cases, re-involved as the banks are closer to American business, and can advise business on the resources Ex-Im Bank and other Federal agencies can offer to increase their sales and increase employment.

Because of our limited resources, we need to use more third party "multipliers" in our outreach efforts. For instance, we are refocusing our efforts to partner with Senators, Members of Congress, Governors, Mayors, State legislators, and others to host in-State trade seminars with local businesses. That is one of the reasons I am so proud to be here today, and I thank you for this opportunity to inform our veterans about the services provided by Ex-Im Bank.

We stand ready to work with you to help finance exports from veteran-owned businesses in your States and across the country. And while there is still much more to be done, we know how to do it and what the goal is—to increase U.S. exports—thereby increasing U.S. jobs and opportunities for all Americans, but especially those who have served this country with honor and distinction.

I look forward to partnering with the other veterans groups testifying here today in getting our message out on how to increase exports by our veteran exporting community.

Thank you again for this opportunity and I am happy to answer your questions.

Prepared Statement of Joseph C. Sharpe, Jr., Director, National Economic Commission, American Legion

EXECUTIVE SUMMARY

According to opening remarks made by Chair Nydia M. Velazquez during a Small Business hearing in March of this year, in FY 2009 "Federal agencies missed their small business contracting goals by 2 percent. Procurement officers will tell you that number is negligible, and no big deal. But while a 2 percent shortfall may not sound like a lot, it ultimately cost entrepreneurs $10 billion in missed opportunity. Or to put it another way, it cost Americans $10 billion in lost job creation. Small contractors, like all other small firms, create roughly 70 percent of new jobs. So when their ability to win contracts is compromised, employment numbers are too."

The American Legion concurs with National Veteran-Owned Business Association's assessment in their statement submitted for this hearing regarding the 2009 White House announcement that executive agencies shall not engage in noncompetitive contracts. We are concerned though that the announcement made no distinction between the thousands of sole source awards to productive and efficient small businesses under the SDVOSB, HUBZone or 8(a) programs and the billions of dollars awarded sole source to large businesses such as KBR and Halliburton. Specific guidance needs to be provided to contracting officers as to whether the Administration is restricting the use of legitimate contracting mechanisms to support the Nation's small businesses, or to restrict multi-billion dollar noncompetitive awards to large prime contractors.

Therefore, The American Legion recommends:

- Service-disabled, veteran-owned small businesses set-asides should be allowed under the Federal Supply Schedule Program. Currently, GSA schedules are exempt from Federal Acquisition Regulations part 19. Without this change, SDVOSB will be limited in their quest for small business opportunities to compete for Federal contracts.
- The SBA needs to emphasize Executive Order 13–360 and establish it as a procurement priority across the Federal sector. Federal agencies need to be held accountable by the SBA for implementing the Executive Order and the SBA needs to establish a means to monitor agencies progress and where appropriate, establish a report to identify those that are not in compliance, and pursue ongoing followup.

The American Legion believes that the majority of funding allocated to veteran and military projects through the stimulus bill, as well as future spending bills, should be spent exclusively with veteran-owned firms. It was the veteran who volunteered to defend this Nation, the veteran who continues to keep our democracy intact, and the veteran who deserves the right to participate in rebuilding America's infrastructure and other necessary projects. In this capacity, veterans will continue to serve the people of the United States by building and growing strong, reliable, dependable businesses.

Chair Herseth Sandlin, Ranking Member Boozman and Members of the Subcommittee:

Thank you for the opportunity to present The American Legion's views on the Status of Veteran Small Businesses.

The American Legion views small business as the backbone of the American economy. It is the mobilizing force behind America's past economic growth and will continue to be a major factor as we move well into the 21st century. Reports show that businesses with fewer than 20 employees account for 90 percent of all U.S. firms and are responsible for more than 75 percent of all new jobs, generated $993 billion in income in 2006, and employ 58.6 million people. There are 27 million small businesses in the U.S. and 99.7 percent of all firms are small businesses.

In FY 2007, the Small Business Administration's (SBA's) Office of Government Contracting reported that of more than $378.5 billion in Federal contracts identified as small business eligible, small businesses only received a total of $83 billion in prime contract awards and about $64 billion in subcontracts. Service-Disabled Veteran-Owned Businesses (SDVOBs) were recipients of $3.81 billion, or 1.01 percent of those available contract dollars.

According to opening remarks made by Chair Nydia M Velazquez during a Small Business hearing in March of this year, in FY 2009 "Federal agencies missed their small business contracting goals by 2 percent. Procurement officers will tell you that number is negligible, and no big deal. But while a 2 percent shortfall may not sound like a lot, it ultimately cost entrepreneurs $10 billion in missed opportunity. Or to put it another way, it cost Americans $10 billion in lost job creation. Small contractors, like all other small firms, create roughly 70 percent of new jobs. So when their ability to win contracts is compromised, employment numbers are too."

America has benefited immeasurably from the service of its 23.4 million living veterans, who have made great sacrifices in the defense of freedom, preservation of democracy, and the protection of the free enterprise system. Due to the experience veterans gain in the military the success rate of veteran-owned businesses is higher than other non-veteran owned businesses. The current War on Terror has had a devastating impact on the Armed Forces and has contributed to exacerbating this country's veteran unemployment problem, especially within the Guard and Reserve components of the military. According to the Department of Labor the present unemployment rate for recently discharged veterans is an alarming 20 percent, and for veterans between the ages of 18 to 24 there is a 30.2 percent unemployment rate. Furthermore, presently one out of every four veterans who do find employment earns less than $25,000 per year. Unfortunately, many of the thousands of servicemembers who are currently leaving the service are from the combat arms and nonskilled professions that are not readily transferable to the civilian labor market.

As reported earlier in this statement the best way of combating unemployment is through the creation of new jobs. Small business creates an estimated 65 percent to 75 percent of net new jobs, therefore providing a central element for strong economic growth. Government should assist in the creation of new jobs by encouraging qualified entrepreneurs to start and expand their small businesses. The American Legion believes no group is better qualified or deserving of this type of assistance than veterans.

Increasingly, the growth and stability of this Nation's economy is dependent on the long-term success of the small business networks across the country. However, during a time of war there is much to be accomplished. Ironically, for too many years, the very men and women who served in uniform, stood ready to fight, and if necessary die in order to protect and preserve America's free enterprise system, are summarily ignored by the Federal agencies responsible for meeting their small business needs.

The Small Business Administration has the responsibility of supporting business owners who are military veterans, yet the office empowered to oversee these programs remains critically understaffed, underfunded, and still marginalized despite laws championed by the Small Business Committee to further empower veterans' entrepreneurship programs.

The Department of Defense (DoD), who will have the responsibility of directing more than $6.5 billion of stimulus infrastructure, continues to be satisfied with an embarrassing, less than 1 percent achievement of the federally-mandated 3 percent SDVOB contracting goal. Especially important to note is that all of the stimulus money has been dedicated to construction and infrastructure improvement, and these are two of the strongest areas of SDVOB ownership according to the Federal Central Contractors Registry.

Additionally, the Army Corps of Engineers combined appropriations to improve and construct VA hospital and medical facilities adds up to nearly $6 billion. All totaled, there will be more than $12 billion spent just out of the stimulus package alone. The omnibus FY2009 Appropriations Act (P.L. 111–8) increased that amount by more than $4.3 billion for the Army Corps in Construction and Maintenance, and additional billions in DoD spending.

With the more than $20 billion being spent on veteran and military related projects, The American Legion finds it unconscionable that businesses owned by veterans remain at the back of the line when competing for Federal contracts according to the Federal Acquisition Regulation.

Veteran Small Business Training Centers

Last year, The American Legion pointed out that although the stimulus package included a number of economic development and small business outreach programs, not a dime was specifically targeted toward the development of veteran-owned businesses. Veterans deserve the finest assistance available. Year after year this Nation struggles to maintain the operation of three Veterans Business Resource Centers originally funded through the National Veterans Business Development Corporation, nor has Congress increased the assistance to the five other Centers supported by the SBA's Office of Veterans Business Development in more than 5 years.

However, on March 31, 2010, SBA announced the award of grants to 10 local SBA Small Business Development Centers (SBDCs) to increase entrepreneurial assistance to veterans. The grants will provide approximately $1 million to fund programs for veterans who promote business ownership and provide services to small businesses dealing with the deployment of key personnel overseas. Each SBDC receiving funds will promote increased coordination of services to veterans, and will use multimedia tools to connect veterans through distance learning and customized online businesses counseling by providing services to reach the local veteran business community. The American Legion applauds $1 million in additional funding for grants to be given out on the behalf of veterans; nevertheless, SBA was given $10 million in additional discretionary spending. The American Legion believes a portion of that money needs to be directed toward the Office of Veterans Business Development for veteran's entrepreneurial endeavors.

Currently, too many military families are suffering financial hardship while their loved ones are recuperating in military hospitals around the country. Spouses are leaving their jobs to be with that disabled servicemember only to watch their family finances deteriorate. In many cases, seamless transition is just a wishful thought; however if business development training was offered to military members, a small home-based business could be the answer in guaranteeing a constant source of revenue for the family. Again, these Centers can be a vital link toward fulfilling this need.

The American Legion strongly supports the mandates of the "Veterans Entrepreneurship and Small Business Development Act of 1999" (P.L. 106–50) that were designed to assist all veterans wishing to start, expand, or protect their business. If there is a true desire to assist veterans returning from Iraq and Afghanistan in developing small businesses, we must work together to enforce and expand upon the mandates of P.L. 106–50.

The Office of Veterans Business Development within the SBA remains crippled and ineffective due to inadequate funding, and $750,000 in FY 07 and $742,000 in FY 08 is woefully short to realistically support veteran entrepreneurship. These amounts, which are less than the office supply budget for the SBA, are expected to support the Nation's entire population of veteran entrepreneurs. The American Legion feels that this is insufficient and disappointing to America's veteran business owners and clearly undermines the spirit and intent of P.L. 106–50. The American Legion strongly supports increased funding for SBA's Office of Veterans Business Development so it can provide enhanced outreach and community-based assistance to veterans and self-employed eligible members of the Reserves and National Guard. The American Legion recommends this office receive an additional $13 million, up from its current level of $2 million in FY 2010, to $15 million in FY 2011 in order to implement a nationwide community-based assistance program to veterans and self-employed members of the Reserve and National Guard.

Small Business and the Credit Crunch

Small businesses are another casualty of the credit crunch caused by the ongoing financial crisis. By the end of 2008, more than half of the Nation's small businesses looking for credit were unable to obtain a loan. This credit freeze will force many businesses to shut their doors, while others will be unable to expand. In either case, it means a loss of American jobs. Congress should implement current efforts to thaw the credit market for small businesses by establishing a direct lending program within the SBA. This program could provide loans to small businesses that cannot otherwise find credit, thereby potentially saving or creating tens of thousands of American jobs.

During the fourth quarter of 2008, 70 percent of banks reported tightening their lending standards for small firms. As a consequence, fewer than half of the small businesses that tried to get a loan in the fourth quarter of 2008 were able to get one. Of the small businesses that tried to obtain a new line of credit, only 3 in 10 succeeded. The credit crisis is hitting small businesses across the board, including those that have been current in their payments and have no ties to high-risk sectors of the economy such as housing.

From November 2007 to November 2008, more than one quarter of small businesses reported a decline in the number of jobs at their companies. In December 2008, only one in eight small businesses said they planned to hire new employees in the next 12 months, a 48 percent drop since August 2008. In addition, the number of small businesses filing for bankruptcy rose 54 percent from 2007 to 2008.

The 7(a) loan program is the SBA's largest and most used lending program. Under this program, SBA provides a guaranty of up to 85 percent for loans provided by private-sector to small businesses. But because 7(a) loans are offered through private-sector banks, which are reeling from the current crisis, small businesses may not be able to get the relief they need. From the first quarter of 2008 to the first quarter of 2009, the number of loans approved by the 7(a) program dropped 57 percent. Moreover, the SBA is expected to guarantee only about $10 billion in loans this year, down from its historic norm of $20 billion per year.

To help ease the credit crisis for small businesses, The American Legion urges Congress to establish a direct lending program through the SBA. This effort would offer low-interest loans to otherwise healthy veteran-owned and service-disabled veteran-owned businesses that are having trouble obtaining the credit they need for necessary operating expenses or expansion.

Legislation and Veterans Federal Procurement Opportunity

The American Legion seeks and supports legislation to require a 5 percent goal, with set-asides and sole source authority for Federal procurements and contracts for businesses owned and operated by service-disabled veterans and businesses owned and controlled by veterans. This includes those small businesses owned by Reserve component members who have been or may be called to active duty, or may be affected by base closings and reductions in the military forces.

The American Legion has encouraged Congress to require reasonable "set-asides" of Federal procurements and contracts for businesses owned and operated by veterans. We have supported legislation in the past that sought to add service-connected disabled veterans to the list of specified small business categories receiving 3 percent set-asides. The American Legion continues to support this Subcommittee's effort to raise the priority level of Service-Disabled Veteran Business Owners in the Federal Acquisition Regulation by changing "may" to "shall" and further by eliminating the "Rule of 2."

Noncompetitive Contracts

The American Legion concurs with National Veteran-Owned Business Association's assessment in their statement submitted for this hearing regarding the 2009 White House announcement that executive agencies shall not engage in noncompetitive contracts. The American Legion is concerned though that the announcement made no distinction between the thousands of sole source awards to productive and efficient small businesses under the SDVOSB, HUBZone or 8(a) programs and the billions of dollars awarded sole source to large businesses, such as KBR and Halliburton. Specific guidance needs to be provided to contracting officers as to whether the Administration is restricting the use of legitimate contracting mechanisms to support the Nation's small businesses, or to restrict multi-billion dollar noncompetitive awards to large prime contractors.

The American Legion also agrees that pressures being exerted on the Federal contracting community will probably result in greater use of the General Services Administration's (GSA's) Federal Supply Schedule Program. While this program holds a higher contracting preference compared to the small business programs, it unfortunately does not allow set-asides for any small business group. The American Legion agrees that expanded use of this program will further diminish opportunities for small businesses, especially small businesses owned by veterans.

Therefore, The American Legion recommends:

- Service-disabled, veteran-owned small businesses set-asides should be allowed under the Federal Supply Schedule Program. Currently, GSA schedules are exempt from Federal Acquisition Regulations part 19. Without this change, SDVOSB will be limited in their quest for small business opportunities to compete for Federal contracts.
- Implementation of a coordinated standardized training program for procurement staff that focuses on SDVOSB procurement strategies in their respective agency.
- President Obama should reissue Executive Order 13–360 "Providing Opportunities for Service-Disabled Veteran Businesses" to increase Federal contracting and subcontracting opportunities for veterans, and require that its tenets be incorporated into SBA Regulations and Standard Operating Procedures.
- The SBA needs to emphasize Executive Order 13–360 and establish it as a procurement priority across the Federal sector. Federal agencies need to be held accountable by the SBA for implementing the Executive Order. The SBA needs to establish a means to monitor agencies progress and where appropriate, establish a report to identify those that are not in compliance, and pursue ongoing followup.
- In order to achieve the mandates of Executive Order 13–360, the SBA must assist Federal agencies to develop a strategic plan that is quantifiable, and will assist them in establishing realistic reporting criteria.
- The American Legion also recommends that the House Small Business Committee embrace and promote development of stronger policy and legislative language that champions the utilization of Veteran-Owned Small Business (VOSB) Joint-Venturing (JV) as a ready solution to the Small Business Spending requirements of the Stimulus Spending initiative.
- Hold the agency leadership responsible for meeting the 3 percent congressionally mandated goal. The American Legion Small Business Task Force has proactively developed an initiative to challenge the leadership of DoD service components that are not meeting the 3 percent goal. We identified the Defense Logistics Agency (DLA) as among the worst performing organizations in terms of award percentage to SDVOBs. According to the Federal Procurement Data System—Next Generation (FPDS–NG) dated January 21, 2010, each major supply center fell well short of the 3 percent goal; and overall, DLA awarded only 0.70 or less than three-quarters of 1 percent of contracted dollars to SDVOBs. More disconcerting is that the percentages of DLA awards to SDVOBs actually decreased from 0.73 in FY 08 to 0.70 in FY 09. The American Legion Small Business Task Force communicated their concerns to Vice Admiral Alan S. Thompson, Director of DLA, back in January 2010, in regards to our concerns associated with his agency's dismal record of contracting with SDVOBs. We also requested a meeting with him and his staff to offer our assistance in developing a plan for increasing participation within his agency. It took his office more than 2 months to respond and agree to a meeting. As of April 27, 2010, the meeting still has not been scheduled. Vice Admiral Thompson is a flag officer serving as a director of a DoD agency supporting America's war fighters; however, his organization continues to fail at meeting a congressionally mandated goal aimed at assisting the very community that has sacrificed so much. We recommend this Subcommittee schedule a hearing with all Federal agencies, like DLA, who consistently do not meet their Federal procurement goals with SDVOBs.

CONCLUSION

The American Legion believes that the majority of funding allocated to veteran and military projects through this stimulus bill, as well as future spending bills, should be spent exclusively with veteran-owned firms. It was the veteran who volunteered to defend this Nation, the veteran who continues to keep our democracy intact, and the veteran who deserves the right to participate in rebuilding America's infrastructure and other necessary projects. In this capacity, veterans will continue to serve the people of the United States by building and growing strong, reliable, dependable businesses.

The mission of The American Legion's National Economic Commission is to take actions that affect the economic well-being of veterans, including issues relating to veterans' employment, home loans, vocational rehabilitation, homelessness, and small business. Small business continues to be a primary job generator and a major trainer for American employees. The small firm workforce includes more young and entry-level workers than colleges and large businesses combined. It is vital that Veteran-Owned and Service-Disabled Veteran-Owned Businesses receive a fair and proportionate amount of Federal contracts so these veterans can build and maintain successful businesses. The American Legion reiterates that the Small Business Administration's Office of Veterans Business Development should be the lead agency to ensure that veterans returning from Iraq and Afghanistan are provided with Entrepreneurial Development Assistance.

We look forward to continuing to work with the Committee to enhance entrepreneurship among America's veterans. Again, thank you Chair Herseth Sandlin and Ranking Member Boozman for allowing The American Legion to present our views on this very important issue.

Prepared Statement of Joe Wynn,
Senior Advisor, Vietnam Veterans of America

EXECUTIVE SUMMARY

Many of us know that it was Public Law 106–50, the Veterans Entrepreneurship and Small Business Development Act of 1999 that laid the foundation for veterans interested in starting or expanding their own small businesses to get Federal assistance. Congress even stated in its findings of P.L. 106–50 that America had not done nearly enough to "assist veterans, particularly service-disabled veterans, in playing a greater role in the economy of the United States by forming and expanding small business enterprises."

P.L. 106–50 called for the creation of new entities and the restructuring of existing ones in order to assist veterans in pursuit of entrepreneurship. Under this law, the Office of Veterans Business Development (under SBA), the Center for Veterans Enterprise (under VA), and the National Veterans Business Development Corporation (quasi independent), were created. It also established a 3 percent procurement goal for Federal agencies and large prime contractors to purchase goods and services from service-disabled veteran-owned businesses. But agencies did not pay much attention until 2003 when Public Law 108–183 made the 3 percent minimum **MANDATORY**.

And even then, it took a Presidential Executive Order (13–360) in October 2004 to really get agencies to carry out the law. Under the Order, agencies were instructed to designate a senior-level official to be held accountable for submitting a strategic plan showing how and when they would achieve the 3 percent contracting goal for service-disabled veteran-owned businesses. But with no oversight and penalties associated with noncompliance, after a few years the effort diminished.

So Congress took another direction in 2006 and passed Public Law 109–461 which authorized ONLY the VA to implement a unique "Veterans First" approach to VA contracting. This approach would change the priorities for contracting preferences within the Department of Veterans Affairs (VA), by placing Service-Disabled Veteran-Owned Small Businesses (SDVOSBs) and Veteran-Owned Small Businesses (VOSBs) first and second, respectively, in satisfying VA's acquisition requirements.

Then in February 2008, Congress passed Public Law 110–186, the "Military Reservist and Veteran Small Business Reauthorization and Opportunity Act" to provide additional funding to the SBA Office of Veterans Business Development to increase the number of veteran business outreach centers and to provide veteran business owners some needed assistance with business development and access to capital.

Now after more than 10 years since Congress first laid the foundation for a veterans procurement program, veterans are returning home from active duty facing high rates of unemployment, limited contracting opportunities, and a system that values profits over people. Yes, existing laws have made it possible for veterans to participate in the American Dream that they fought so hard to protect—"Owning Your Own Business." But what good is it for them to own their own business if the revenue from that business is insufficient to care for them and their family. Truly more can be done for our veterans.

INTRO

Good afternoon, Madam Chair and Members of the Subcommittee. On behalf of VVA National President John Rowan and all of our officers and members we thank you for the opportunity for Vietnam Veterans of America (VVA) to appear here today to share our views on the "**Status of Veteran Small Businesses: Are We Failing Our Veterans**." I ask that you enter our full statement in the record, and I will briefly summarize the most important points of our statement.

As you know, my time of service was many years ago, as a Vietnam Era veteran of the U.S. Air Force with the 66th Strategic Missile Squadron. I still have very vivid memories of that military experience. I'm also a lifetime member of the National Association for Black Veterans, and have spent the past 10 years assisting and advocating on behalf of veterans in need of health care, housing, education, employment and especially those veterans seeking to start or expand their own small business. While doing so, I have been serving as **Senior Advisor to the Vietnam Veterans of America**, Treasurer for the Veterans Entrepreneurship Task Force (VET-Force) and President of the Veterans Enterprise Training & Services Group (VETS Group).

It is primarily through developing the **VETS Group** and serving as a member of **VET-Force**, that I have become very familiar with the status of veteran business owners within the Federal marketplace. I've also spent considerable time reviewing the legislation that created the Service-Disabled Veteran-Owned Business (SDVOB) Federal Procurement Program and communicate regularly with many of the agency representatives directed to assist veterans with Federal contracting.

The VET-Force, which is composed of over 200 organizations and affiliates representing thousands of veterans throughout the United States, a high percentage of which are small businesses, has made it their mission to monitor the implementation of the programs, agencies, and organizations referenced under P.L. 106–50, P.L. 108–183, Executive Order 13–360, P.L. 109–461, and P.L. 110–186. The VET-Force presents a strong unified veterans' voice for virtually all of the major veterans groups, veteran entrepreneurs, and serves as an advocate for veterans seeking assistance with their small business or self-employment.

The VETS Group, a nonprofit 501(c)3, community-based organization that I founded in 2004, offers a holistic program of services to help veterans achieve economic empowerment through education, employment, and entrepreneurship. The VETS Group is able to provide information, outreach, Federal procurement training and support to hundreds of veterans by utilizing a network of Patriot Resource Partners, a Coalition of Advisors, and many Technical Assistance Providers.

While the majority of our veteran business owners are from the Vietnam Era, a new generation of veterans now exist that are well trained, loyal, battle-tested and eager to pursue entrepreneurial opportunities. But just as it was reported in the VET-Force 2005 Report to the Nation, that "as a nation, we have been unsuccessful in providing the originally promised assistance our veterans have earned, deserved, and required so that they would have the opportunity to be as successful in their civilian pursuits as they were in their military assignments," evidence shows that while things have improved, we still have a way to go.

Why We Are Still Failing Our Veterans in the Federal Marketplace

If veterans and service-disabled veteran-owned businesses are to succeed in the public sector, agencies will have to stop making excuses for why they can't make the minimum 3 percent procurement requirement. The pervasive ignorance of the law and resistance to contracting with veteran-owned small businesses has to change. Agencies and large prime contractors must be held accountable for not adhering to the laws that mandate maximum practical utilization of SDVOBs as primes or subcontractors. Inaccurate agency data, miscoding, contract bundling, and double counting must be eliminated. And the preference for agencies to contract with large businesses most often (67 percent of the time) should shift to utilizing small businesses much more often.

In addition, the SBA and particularly its Office of Veterans Business Development, the VA's Center for Veterans Enterprise, and other veteran small business assistance providers (SBDCs, PTACs, SCORE, Women Business Centers, VBOCs) must increase their efforts in identifying and registering the capabilities of veteran business owners where required, promote the use of veteran business owners by all large prime contractors and monitor their compliance with their subcontracting plans. They should also create situations that foster the development of relationships between agency procurement officers and veteran business owners, and improve the process of identifying and matching veteran businesses with procurement opportunities.

Lack of Accountability, Oversight and Enforcement

In 1999, when P.L. 106–50 was first enacted, Congress demonstrated that veterans should be an integral part in this Nation's economic development strategy. But the agencies directed to carry out the law were not held accountable. There have not been any penalties associated with an agency or large primes' failure to comply with the laws governing small business contracting with veteran-owned businesses. Even after P.L. 108–183 was passed in 2003 making it mandatory to contract with SDVOBs, the President had to issue an Executive Order to get agencies and large primes to realize that the use of veteran business owners in the Federal contracting process should be taken seriously.

But after the SBA, the agency directed by Executive Order to provide oversight and technical assistance to agencies in the development of their strategies to increase contracting opportunities for SDVOBs, failed to do its part to hold agencies accountable, agencies and large primes have no incentive to meet or surpass the minimum requirements.

Agencies and large primes have to be held accountable for not doing what the law requires them to do. But equally important is that it must be made clear who will be the enforcer and what penalties will be applied to those deemed to be noncompliant.

Ambiguities in the Laws That Govern the SDVOB Program

As it stands now, contracting officers "**may**" set aside procurements for SDVOBs. The word "**may**" in the statute (P.L. 108–183) that governs the SDVOB Federal procurement program, is more often interpreted as "**I don't have to**." **This one little word has probably caused the greatest harm to veteran business owners than any other provision of law.** Why, because the statute that governs the HUBZone program states that a contracting officer "**shall**" set aside procurements for HUBZone companies and the 8a statute states that they "**should**" use 8a companies.

While changing all three statutes to "**may**" would seem to equalize things among the two groups, it's more likely that it would only open the door to **fewer actions and less accountability**. To create true parity among all three groups, the statutes should be changed to "**shall**." This way would ensure that contracting officers would be required to take actions for one or the other, notwithstanding any other provisions of law. **Equal Parity = Shall, Shall, Shall** (8a, HUBZone, SDVOB).

For years now, members of VET-Force have been calling for equal parity among all three preference groups—HUBZones, SDVOBs, and 8a contractors. However, to date, equal parity does not exist even though the SBA and the Department of Justice believe it does. According to a recent U.S. Court ruling, agencies "must" attempt to contract with HUBZones first.

Old Executive Order "A Thing of the Past"

The Presidential Executive Order 13–360 that was issued in 2004 to direct agencies to more effectively implement the "mandatory" legal requirement to procure "not less than" 3 percent of their goods and services from Service-Disabled Veteran-Owned Businesses and to do so by reserving more procurements exclusively for SDVOBs called for each agency to develop a "written" strategic plan that would provide details and guidance as to how they will increase contracting opportunities for SDVOBs.

This was working for a while; agencies were posting their plans on their Web sites and some were actually trying to achieve better results. But by late 2007, SBA decided to move away from support for the Executive Order and instead implement a Score Card System whereby agencies are not required to submit a strategic plan and primarily measured by the number of small business contracts awarded. So if an agency meets its overall small business goals while not making all of the individual preference group goals, it could still receive a Green Score which means it is doing a good job. Never mind that they may be at only 1.5 percent for SDVOBs!

Overuse of Large Prime Contractors and Bundling

Seemingly very few agencies are doing anything to encourage their large prime contractors to award more subcontracts to SDVOBs. When you talk to contracting officers or acquisitions personnel, they all say that they are challenged by the enormous task of monitoring the subcontracting plans of the agency's large primes while also having to meet the demands of new requirements. There is a shortage of contracting personnel governmentwide but an increase in the number of contract actions. So very few penalties, if any, are being imposed on the large prime contractors for failing to comply with their subcontracting plans. It's often more convenient to place procurement requirements into large bundles and award them as a single contract to a large prime.

While Contract Bundling or sometimes referred to as Strategic Sourcing may be necessary at times in order to make more efficient use of limited contracting personnel and agency resources, it wouldn't be so bad if large primes subcontracted significant portions of the work to small businesses as they are required to do. However, small businesses, including SDVOBs, are constantly reporting that large primes often fail to subcontract with them even though they had promised to do so before the contract was awarded. This continues to happen time and time again because large primes are not being held accountable and neither are contracting personnel who should be monitoring them.

No Authorization To Make Direct Awards

Contracting officers don't have the authority to issue direct awards to a SDVOB of their choosing under the Simplified Acquisition Threshold as is allowed under the Small Business Act for 8a companies. Under the SDVOB Federal Procurement Program a contracting officer must use what is referred to as the "Rule of Two."

The Rule of Two as introduced under P.L. 108–183 is contained in Part 19 FAR, and the Code of Federal Regulations (CFR) 13 CFR, Part 125. The Rule of Two states if a contracting officer knows of two or more SDVOBs that can do the work, then the requirement must be competed. However, the same law also states that if the contracting officer only knows of one SDVOB that can meet the requirement, a sole source award CAN BE made. But even when this is the case, it's reported that this authority is seldom exercised.

So it's widely known that contracting officers who are often under pressure to get certain requirements awarded quickly, will routinely go to 8(a) firms even though there is an SDVOB that can do the job. Under the SBA's 8a program, contracting officers are allowed to make direct awards even if there are other 8a firms available to do the work. In these cases, the government does not have time to even consider restricted competition among SDVOBs because of time factors. Thus, the SDVOB suffers and the government fails the veteran once again.

Other Reasons Why the System Is Failing Its Veterans

Limited Business Development Assistance. Before last year the SBA Office of Veterans Business Development managed five Veteran Business Outreach Centers (VBOCs) that provide services to veterans for the entire country. Last year, the SBA made direct awards to three independent veteran business centers in order to expand its number of centers to eight. Then just this month, SBA awarded grants to some existing centers and added four more centers, thus increasing its total to twelve.

This may seem to be steps in the right direction, but the Office of Veterans Business Development has been operating for more than 10 years! And by comparison to the number of Women Business Centers (WBCs) funded by the SBA, veterans receive only a drop in the bucket. Each of the VBOCs receives only $150,000 per year for a total of $1,800,000. However, the WBCs receive over $50 million each year.

Congress needs to increase the budget for SBA and SBA needs to direct more funding to its Office of Veterans Business Development. At present, not only are the VBOCs underfunded, the Office has only one staff person to provide direct assistance to thousands of veteran business owners seeking to do Federal contracting. And that one staff person does not even have an administrative assistant.

VA's "Veterans First" Approach to VA Contracting

The use of Veterans First should be applied to All VA procurements and not just selected ones. The prevailing belief among many within the VA that SDVOB means Small and Disadvantaged Veteran-Owned Business is a disservice to those VOBs and SDVOBs that are perfectly capable and qualified to handle sizable procurements including those being considered by the VA's T–4 Acquisition Team.

This time last year, this same Subcommittee held a hearing focusing on "Contracts and Contracting Policy at the VA" created by **Public Law (P.L.) 109–461**. We noted then that this legislation authorized a unique "Veterans First" approach to VA contracting. This approach changes the priorities for contracting preferences within the Department of Veterans Affairs (VA) by placing Service-Disabled Veteran-Owned Small Businesses (SDVOSBs) and Veteran-Owned Small Businesses (VOSBs) first and second, respectively, in satisfying VA's acquisition requirements.

But in so doing, all SDVOSBs and VOSBs must register in the VA's Vendor Information Pages (VIP), aka **Veterans Small Business Database**, available at www.VetBiz.gov, and be "VERIFIED" by the VA's Center for Veterans Enterprise (CVE), to be eligible for/to receive contracts exclusively within the Department of Veterans Affairs.

Other significant sections of the law direct the VA, for SDVOSBs and VOSBs, to: (1) Establish Contracting Goals and Review Mechanisms; (2) Allow Noncompetitive, Sole Source, and Restricted Competition; (3) Permit Survivorship for 10 Years, if the deceased veteran business owner was 100 percent disabled; (4) Produce Annual Progress Reports; and (5) Conduct a 3-Year Study.

The law was passed in 2006 and to date (more than 3 years later), the VA is still struggling with developing policies and procedures that will expedite the processing of more than 21,000 veteran business owners. Rather than go back over all of the issues with the VA's verification process of veteran business owners, I will just refer the Committee to testimony and statements received at its hearing held here on April 23, 2009.

However, I would like to add at this time that while the verification or certification of veteran business owners is only required when doing business with the VA, this requirement has created the perception that veteran business owners must be verified by the VA in order to do business with other agencies as well. Since the VA's Veterans Small Business Database is open to the public, agencies and large primes often use the database to search for capable and qualified veteran businesses. For those veteran businesses that have not yet been verified because of the huge backlog, their opportunities for procurements outside of the VA are also affected because then their status is questionable.

More resources need to be allocated to the VA's Center for Veteran's Enterprise such that they can increase the number of staff persons needed to complete the verification of all veteran business owners in less than 60 days. Additional staff is also needed to assist veteran business owners with the process of marketing to the Federal agencies and large primes.

Close the Loopholes With the Use of FSS/GSA Schedules

Use of FSS/GSA Schedules (FAR Part 8) allow contracting officers easy selection of large businesses by not having to adhere to small business mandates (FAR Part 19). So the schedules are often used to avoid the small business set-aside requirements and even to avoid the use of Veterans First at the VA. Contracting officers at the VA are not required to use Veterans First when selecting contractors from the schedules.

In Summary

The Federal marketplace is a trillion dollar industry. And 3 percent of that annual budget is easily in the billions, not to mention the billions of dollars in the budgets of large primes. Both Federal agencies and commercial vendors owe more to the many veterans who have sacrificed so much and deserve more than a little. It should be abundantly clear to all that our servicemembers, their families, and citizens throughout the United States are taking note of how this new generation of servicemembers are being treated. The actual and perceived treatment of our Nation's veterans, especially those returning from the Wars in Iraq and Afghanistan, will be a symbol of how valued their sacrifice was and a clear signal to any future enlistees on the ultimate value of their service to the Nation.

For some time now, members of VET-Force have supported the ideal that, "the presence of successful and prominent veterans within and across our Nation's business communities is a testimony of a grateful nation—a nation that honors and respects the sacrifices made by veterans on behalf of our country, both today and tomorrow." Veterans are uniquely qualified to work as contractors to the Federal Government because of their service experience and their dedication to providing quality products, on time and at a reasonable cost. Effective legislation such as P.L. 106–50, P.L. 108–183, P.L. 110–186 and Executive Order 13–360, has provided many opportunities for America to honor the service of veterans who continue to serve by helping to build a stronger economy.

Hopefully the latest efforts by this Administration to improve services to Veteran- and Service-Disabled Veteran Business Owners will not be significantly impacted by OMB's Policy on Insourcing, whereby Federal agencies are already eliminating contracts staffed by small businesses.

The announcement earlier this week of the Presidential Executive Orders to create two task forces is very promising. The first task force will focus on improving procurement opportunities for all small businesses and the second task force will focus exclusively on improving contracting opportunities for small businesses owned by veterans and service-disabled veterans. The structure of the Veterans Small Business Interagency Task Force was extracted nearly verbatim from a section in P.L. 110–186, the law that was passed in 2008. Perhaps now, 2 years later, that the President and this Administration have directed the SBA to implement it, actions will be taken.

Although some progress has been made in recent years, very few Federal agencies have reached their small business contracting goals for SDVOBs. Obviously, more needs to be done for our veterans so that the system does not continue to fail them.

Thank you for allowing me to share these points of view.

This concludes my statement.

Prepared Statement of Mary Kennedy Thompson, President, Mr. Rooter Plumbing Corporation, Waco, TX, and Vice Chairwoman, VetFran Committee, International Franchise Association

Good afternoon Chairwoman Herseth Sandlin, Ranking Member Boozman and Members of the Subcommittee. My name is Mary Kennedy Thompson and I am President of Mr. Rooter Plumbing based in Waco, TX, which is a proud brand of The Dwyer Group family of service enterprises. Mr. Rooter currently has more than 270 locations across the United States. As a veteran, I am honored to have the opportunity to speak to the Subcommittee on Economic Opportunity about veteran entrepreneurship.

I appear before you today on behalf of the International Franchise Association (IFA). As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA protects, enhances and promotes franchising by advancing the values of integrity, respect, trust, commitment to excellence and diversity. Franchising operates in a variety of industries; including automotive, commercial and residential services, restaurants, lodging, real estate and business and personal services. According to a 2008 study conducted by PricewaterhouseCoopers, there are more than 900,000 franchised establishments in the U.S. that are responsible for creating 21 million American jobs and generating $2.3 trillion in economic output.

Today, I will talk about a program that is very near and dear to my heart—the Veterans Transition Franchise Initiative, or VetFran. I will also highlight specific legislation, H.R. 2672, the Help Veterans Own Franchises Act, that Congress can act upon to make it easier for veterans to purchase a franchise. But first, I would like to take a moment to share with you the story of how I decided that franchising was the right path to small business ownership for me.

In 1985, I received my commission as an officer in the U.S. Marine Corps where I served for 8 years and achieved the rank of Captain while on active duty and later the rank of Major in the Reserves. During my service, I had the honor to become the first female platoon commander for my Beach and Port unit. When I returned home I made the decision to go into franchising because it provided a model that would help me succeed as a small business owner. I became a multi-unit franchisee in the Cookies by Design system where I earned company awards for Top Performer and Outstanding Customer Service. My success within the Cookies by Design system created wealth and opportunity for my family. I so impressed the corporate office that they later asked me to be Director of Franchise Operations, eventually becoming the brand's President. I came to Mr. Rooter in October of 2006 to proudly serve the 40-year-old company as its first female President.

The IFA and its members have long supported the efforts of this Subcommittee and the Department of Veterans Affairs' Center for Veteran Enterprise. For several years, the IFA has maintained an ongoing dialogue with the U.S. Department of Veterans Affairs' Center for Veteran Enterprise, seeking ways to improve program outreach to transitioning veterans. The agency is exploring new ways to help the association promote the program. In 2003, the agency honored the VetFran program with a Champion of Free Enterprise Award for expanding business opportunities for veterans and in 2006 renewed its official Memorandum of Understanding with IFA to jointly promote the program.

Why Franchising?

Franchising is the American Dream. It allows people to own a business and teaches them a system to help them be successful. It did just that for me. Owning a franchise gives you control over what you are doing in your life—you are your own boss. At Mr. Rooter we say the business is the means to your dreams. I grew up in a military family and served in the military; we were not an entrepreneurial family, and when I started I did not know how to run a business. However, I wanted that control—to be my own boss and lead others toward a common goal.

When I was in the Marine Corps, I became accustomed to following military systems, and it has directly helped me succeed in franchising where systems are the foundation of success. That is why I believe that franchising offers significant advantages over other business models—particularly for military veterans. Members of the military learn to effectively work within systems and have the discipline to succeed. As was the case with my experience, we often say that franchising allows you to be in business for yourself, but not by yourself. By choosing franchising, an entrepreneur has access to support, training and expertise from the franchisor. You are also acquiring the rights to use a valuable and recognized name brand that customers trust. The franchisor provides the entrepreneur with a business plan and operations manual that were developed to help guide and direct the successful operation of the business. Franchising gives small business owners a solid foundation to be successful and a leg up on the competition.

As a proud veteran of the United States Marine Corps, I can attest to the fact that members of our Armed Forces are disciplined, hardworking and passionate people who have an ingrained trait to work well within systems. They are accustomed to following standard operating procedures, have strong teamwork skills and are dedicated to mission success. That is the main reason why I believe former members of the military make excellent candidates for franchise ownership.

An estimated 250,000 men and women transition out of the military every year. These men and women are looking forward to rejoining their families, going back to school or starting their own businesses. There are more than 85 different industries that use franchising and with the diversity of jobs in the military, veterans reenter civilian life with the skills needed to succeed in the system of their choice. Moreover, their Military Occupation Specialty, which is the military's way to identify an individual's particular specialty, can help our returning service men and women identify the best franchise system that meets their skills and training.

Helping fellow veterans make the transition to civilian life and realize their dream of small business ownership is one of my passions. I have taught at the Entrepreneurship Bootcamp for Veterans with Disabilities hosted by the Center for New Ventures and Entrepreneurship at Texas A&M University. I also serve as the vice chairwoman of the IFA's VetFran Committee. In this role, I work with other members of the IFA and VetFran participating companies to encourage more systems to offer veterans discounts and benefits when purchasing a franchise.

Veterans' Transition Franchise Initiative—VetFran

VetFran is a voluntary effort of IFA member companies designed to encourage franchise ownership by offering financial incentives to honorably discharged veterans. The vision to use franchising to help military veterans transition to civilian life began nearly 20 years ago. Watching the events of the Gulf War unfold in 1990, Don Dwyer Sr., the president and founder of The Dwyer Group and a veteran himself, decided he had to do more for our service men and women. He considered the traditional ways of support, but saw nothing that captured the spirit on the scale he envisioned. He conceived the ideal solution: Help our veterans achieve the American Dream by owning their own franchised small business.

Just before Veterans Day in 1991, the program was officially launched and soon, more than 100 franchise systems were participating as partners in the effort, providing financial incentives for honorably discharged veterans. Following the events of September 11, 2001, the VetFran initiative was reenergized in 2002 and now boasts more than 400 franchise systems participating. Since 2002, over 1,700 veterans have purchased their own franchise business with the help of the program. What began as the idea of one entrepreneur who had served in military uniform has today become a path to the American Dream for veterans of the U.S. Armed Forces.

I am proud to report that in February of this year, The Dwyer Group topped the $1 million mark in VetFran discounts awarded to veterans. Since 2002, The Dwyer Group has sold franchises to 233 military veterans. We have also expanded our resources to veterans through our Department of Veterans Entrepreneurship and the introduction of the complementary P.A.V.E. (Program for Assisting Veteran Entrepreneurship) Program, which offers educational and financial resources to veterans and transitioning military personnel who want to buy a franchise.

The profiles of VetFran participating companies, as well as the financial incentives they offer to veterans, can be viewed on the IFA Web site at www.franchise.org.

Help Veterans Own Franchises Act

Congress has the opportunity to make this important effort even more effective. Legislation has been introduced to cement the benefits of a program like VetFran into policy as well as encourage more franchise systems to support veterans as small business owners. I strongly urge the Members of the Subcommittee to cosponsor and for Congress to pass H.R. 2672, the Help Veterans Own Franchises Act. This legislation is coauthored by Representatives Aaron Schock of Illinois and Leonard Boswell of Iowa and currently has over 30 bipartisan cosponsors. I would like to highlight and thank Members of the Committee on Veterans' Affairs who have already agreed to cosponsor this important legislation. They include: Representatives Michael Michaud, Glenn Nye, Jeff Miller, Ranking Member John Boozman, Vern Buchanan and David Roe. Additional cosponsors include Representatives Ike Skelton and Buck McKeon, Chairman and Ranking Member of the Armed Services Committee as well as Rep. Charlie Rangel.

The legislation establishes a tax credit for franchised businesses that choose to offer qualified veterans a discounted initial franchise fee. The tax credit would amount to 50 percent of the total franchise fee discount offered by the franchisor to the franchisee, capped at $25,000 per unit, and also provide a tax credit for the remaining initial franchise fee paid by the veteran franchisee.

Given the current economic climate, many franchised businesses are finding it harder to access the capital they need to open new stores and recruit new investors. In order to encourage economic growth and to make it easier for veterans to own their business, the IFA supports enactment of this tax credit for those franchise systems that choose to offer qualified veterans a discounted franchise fee. Our veterans deserve this chance after so faithfully serving our country.

Conclusion

Again, on behalf of the International Franchise Association as well as Mr. Rooter Plumbing and the entire Dwyer Group family of brands, we sincerely appreciate the work of this Subcommittee. We strongly urge you to support and pass the Help Veterans Own Franchises Act, so that more of our veterans may return home to begin building a bright future for themselves, their families and their communities through small business ownership. The members of the IFA look forward to a continued working relationship with this Subcommittee as well as supporting the initiatives underway at the Department of Veterans Affairs and the Small Business Administration to assist our returning men and women of the Armed Services.

Thank you.

Prepared Statement of Joseph G. Jordan, Associate Administrator, Government Contracting and Business Development, U.S. Small Business Administration

Chairwoman Herseth Sandlin, Ranking Member Boozman, and Members of the Subcommittee, thank you for inviting the Small Business Administration to testify this morning.

With the understanding that veterans play an important role in our economy, SBA Administrator Karen Mills has sent three representatives from the agency to participate in today's hearing. The three of us represent different areas within the SBA and demonstrate the SBA's commitment to serving veteran small business owners.

We know that thousands of troops have been returning from overseas. We also know that 18 percent of veterans are still unemployed 1 to 3 years after they return. The good news is that veterans have a higher-than-average rate of self-employment. They have the leadership, the know-how, and the drive to succeed as entrepreneurs.

The President and the U.S. Small Business Administration recognize this and have made veterans a priority across all levels and programs of the Federal Government. SBA is pleased to highlight overall veteran and service-disabled veteran participation levels in agency financial, management and technical assistance, and procurement programs. Though the SBA does have an office dedicated to serving veterans (the Office of Veterans Business Development), it is important to note that veterans are supported throughout every component of SBA programming, which covers capital, counseling, contracting, and disaster relief and preparedness.

Capital

SBA is committed to assisting veteran-owned small businesses access the capital they need. All of SBA's loan programs are available to veterans. In FY 2009, veteran-owned small businesses received 8.00 percent of all 7(a) loans, totaling approximately $523 million, and 4.56 percent of all 504 development company loans, or $176 million. Additionally, veteran-owned small businesses received 4.33 percent of all microloans, totaling approximately $1.9 million. In total, SBA has supported more than $2 billion in recovery lending to veteran-owned small businesses.

SBA also has a loan program dedicated to the military community—Patriot Express. This program is available not only to our veterans but also to Reserve component members, TAP eligible servicemembers and their spouses and widows. By making this loan program available to the larger military community, it reflects the current composition of our military forces which includes a significant reliance on Reserve components and supports their families when they are called to active duty.

It features our lowest interest rates and fastest turnaround times, often within days. These loans have also benefited from the enhancements under the Recovery Act. In FY 2009, we approved more than 2,300 Patriot Express loans and are on track to increase those numbers in FY 2010.

Patriot Express loans are available up to $500,000 and qualify for SBA's maximum guaranty of up to 85 percent for loans of $150,000 or less and up to 75 percent for loans over $150,000 up to $500,000. (All Patriot Express loans made under the Recovery Act are guaranteed at 90 percent.) For loans above $350,000, lenders are required to take all available collateral.

The Patriot Express loan can be used for most business purposes, including startup, expansion, equipment purchases, working capital, inventory or business-occupied real estate purchases. Patriot Express loans feature SBA's lowest interest rates for business loans, generally 2.25 percent to 4.75 percent over prime depending upon the size and maturity of the loan. Local SBA district offices work in their communities to promote the availability of capital to veterans.

Finally, SBA also provides loans to small businesses who need additional capital due to the fact that the owner or an essential employee has been called to active duty in their role as a Military Reservist. Last year, SBA provided 25 Military Reservist Economic Injury Disaster Loans, totaling approximately $2.4 million.

Counseling

SBA's counseling services are helping veteran small business owners every day. Each of our 68 field offices has a designated staff member for veteran's business development. They are engaged with hundreds of external veterans serving organizations and reach thousands of veterans and Reservists each year.

In FY 2009, SBA's resource partners—including about 900 Small Business Development Centers, over 100 Women's Business Centers, and 350 chapters of our mentoring program, SCORE—trained or counseled about 150,000 veterans and over 21,000 Reservists and Guard members, as well as 1,000 active duty clients.

In addition, we are very proud that since 2008, we have expanded the number of Veteran's Business Outreach Centers (VBOCs) from 5 to 15. These centers help with business plans, feasibility studies, mentoring and more.

Veterans are heavy users of online tools such as our Small Business Training Network. In fact, about 62,000 veterans used this tool in 2009. Last summer, SBA launched an online training course for veteran small business owners to learn how to become government contractors. We will continue to strengthen our IT tools that veterans use and value.

SBA's Office of Veterans Business Development (OVBD) provided 61,087 SBA Veteran/Reservist Business Information Kits to 81 requesting organizations and individual veterans.

Finally, in November 2009, we entered into a partnership agreement to support the Entrepreneurship Bootcamp for Veterans with Disabilities consortium operating at Syracuse University, the University of Connecticut, Florida State University, Texas A&M University, the University of California at Los Angeles, and Purdue University. This is a 14-month entrepreneurial development program for service-disabled veterans who were injured in Iraq or Afghanistan since 2001.

Contracting

The SBA works hard to ensure that veteran- and service-disabled veteran-owned small businesses have access to much needed opportunities in Federal contracting. Using tools provided by the SDVOSB, 8(a), and HUBZone programs, SBA works with all Federal agencies toward the goal of awarding at least 3 percent of Federal contracting dollars to SDVOSBs. In FY 2008 SDVOSBs received $6.5 billion and 1.5 percent of Federal prime contracts. Preliminary FY 2009 data indicates that both the dollars and percentage of prime contracts going to SDVOSBs have increased. Efforts we have made in collaboration with the contracting agencies through the Recovery Act have already shown tangible progress. Through April 23rd, 6.3 percent of Recovery Act prime contracting dollars, or almost $1.6 billion, has gone to veteran-owned businesses. Over that same period, 4.3%, or almost $1.1 billion, has gone to service-disabled veteran-owned small businesses (SDVOSBs).

Veteran- and service-disabled veteran-owned small businesses also participate in other SBA government contracting and business development programs. In FY 2009, 1,257 veteran-owned and 597 service-disabled veteran-owned small businesses participated in the section 8(a) Business Development Program, and 786 veteran-owned firms and 636 SDVOSBs participated in the Historically Underutilized Business Zone (HUBZone) program.

Separately, an important issue has come up in the past few weeks that I'd like to bring to the Committee's attention. The SBA and the White House support the congressional intent of parity—or equal treatment—among our contracting programs: 8(a), HUBZone, service-disabled veteran and, soon, women-owned small businesses. However, in light of a recent court decision [Mission Critical v. U.S., (09–864 C, Ct. of Fed Claims, Feb. 26, 2010)], it would be useful to clarify and reiterate

Congress's original intent that there be parity among the programs. The Administration supports legislative efforts to confirm Congress's original intent to provide for parity.

Executive Order—Veteran-Owned Small Businesses

On April 26th, the President signed an Executive Order to once again demonstrate the high priority that veteran-owned small businesses have in this Administration by establishing an Interagency Task Force on Veterans Small Business Development.

The task force, which Administrator Karen Mills will lead, includes seven agencies (Department of Treasury, Department of Defense, Department of Labor, Department of Veterans Affairs, Office of Management and Budget, Small Business Administration, and General Services Administration) and four members from a veteran's service or military organization or association to be chosen by the Administrator. This task force will focus on the needs of our veteran-owned small businesses.

This task force recognizes that among our veteran community many have chosen or will choose to step out and start their own small business. It will provide recommendations to the Administration in several key areas, including access to capital, expanding Federal contracting opportunities and more robust entrepreneurial education.

An additional Executive Order to create a Task Force on small business contracting—as a whole—will help amplify this effort. The Interagency Task Force on Federal Contracting Opportunities for Small Businesses will further support our goals for government contracts going to small businesses. Through these task forces we will continue to expand our outreach to small businesses to make sure we are increasing their opportunities to compete for and win Federal contracts.

We look forward to the recommendations that will come out of these task forces as we recommit ourselves to meeting the needs of our veteran entrepreneurs and small business owners.

I'm happy to take your questions.

Prepared Statement of Tim J. Foreman, Executive Director, Office of Small and Disadvantaged Business Utilization, U.S. Department of Veterans Affairs

Good afternoon, Madam Chairwoman, Ranking Member Boozman and Members of the Subcommittee. It is privilege to return here today to testify regarding the progress of veteran-owned enterprises both in the United States and overseas. Your hearing title asks, "Are We Failing Our Veterans?" I answer on behalf of the Department that we are not failing our veterans. In many regards, we are excelling. We are leaders in many veteran business areas.

VA is the recognized Federal leader in its share of contracts to small business owners who are veterans, and the provisions of the *Veterans First Contracting Program* authorized by Public Law 109–461 are responsible for much of our recent success and growth. Throughout this targeted expansion to service-disabled and other veteran-owned small businesses the quality of products and services provided to our veterans remains high. As the program grows, our veteran clients will continue to receive quality services and products from increasing numbers of veteran suppliers who, as fellow veterans, better understand the needs of the community VA serves. This symbiotic aspect of VA's program is a "win-win." Like many programs of broad and comprehensive scope, however, we can still do better.

When I testified before your Subcommittee 7 weeks ago, we discussed the backlog of veteran-owned small business (VOSB) and service-disabled veteran-owned small business (SDVOSB) verifications at our Center for Veterans Enterprise (CVE) and the way ahead. Resolving this backlog continues to be a top priority for the Office of Small and Disadvantaged Business Utilization (OSDBU). The list of VA-verified VOSBs and SDVOSBs will eventually constitute a database that will serve as the backbone of VA's small business contracting efforts. Careful review of the applications and site visits, where appropriate, will eliminate most status fraud in small business contracts and will streamline program administration. Resolving this backlog will be the singular focus of OSDBU's CVE for the near future.

Madam Chairwoman, your kind letter of invitation to this hearing requested that I focus my testimony on four general areas of interest. I will address each area separately, but let me start by recognizing some of the valuable sources we consulted to address your questions, while noting some of the data limitations. VA OSDBU is most appreciative of the effort of the U.S. Census Bureau in its report titled, *Characteristics of Veteran-Owned Businesses*, published in 2007 that reports data collected in 2002. This excellent, albeit dated, source material was useful in preparation of this statement. Additionally, the Small Business Administration (SBA) was helpful in providing some demographic information. I would like to specifically attribute to the testimony of SBA's Shawne Carter McGibbon who appeared before this Subcommittee in April 2009 and eloquently addressed many of the same issues before us today. That testimony addressed the demographics of, and problems facing, veteran business owners; it also addressed the limited availability and reliability of data for analyses of veterans in business without the support of further surveys or samples.

Overall, readily available, current data and information is scant in the areas in which you have expressed interest. It often requires comparison of multiple data sets, sometimes collected under different conditions, with different assumptions, or for different purposes. This may adversely undercut the validity of information gleaned from such a process. Additionally, veterans who enter the business world are not required to report their veteran status. Reporting veteran status may be required to win contracts or to receive certain types of electronic funds transfer, but many veterans may embark on a business career and not report that they are a veteran. For example, it is possible that a veteran may own a fast food franchise—he or she is simply performing as a small business without letting anyone know their veteran connection.

Impact of Geography

You asked about the impact of geography on veterans' enterprises with regard to the location of the business—for example, various types of city or rural settings.

As most VA facilities are located in or near population centers, it follows that contractors with VA perform much of their work in those locations. But, in the Internet era, place specificity is not essential. We may see an increase in the proportion of all businesses, including SDVOSBs and VOSBs, that conduct work remotely. The next U.S. Census report on the characteristics of veteran-owned businesses may reflect an increase for information, education, and certain management sectors that are not venue-based. VA will work with the U.S. Census Bureau to assure that useful veterans' business information is collected in future surveys and other data collection efforts. The next U.S. Census report on the *Characteristics of Veteran-Owned Businesses* is due in June 2011.

Business Sector Influence

You also asked how veterans' enterprises are doing in the different business sectors, illustrating your point with examples that included manufacturing, retail, Internet and others.

Using U.S. Census Bureau data from the *Characteristics of Veteran-Owned Businesses* published in July 2007, it is possible to disaggregate the 2002 data used in the report to make some general comparisons between veteran-owned businesses and all responding businesses. According to this report, veteran-owned businesses had a higher percentage of several business sectors than did the typical respondent. Veteran-owned businesses outrepresented the industry average in mining, construction, manufacturing, wholesale trade, transportation, finance and insurance, and in the professional and scientific sectors. Veteran business owners underrepresented the industry average in retail trade, information, administrative support and waste management, educational services, health care, arts and entertainment, and in the accommodation and food industry sectors.

The 2002 data also indicate that veteran businesses have proportionally greater representation at 51.7 percent in the 1–4 employee size grouping than are other respondents at 47.3 percent. In all other organizational size groupings, responding veterans tend to represent a smaller share than non-veteran owners.

Identification of Obstacles

You asked me to identify any obstacles that these enterprises may face when doing business with the Federal Government—asking if veterans are more successful in contracting with some Federal agencies than others.

I would associate myself with Ms. McGibbon's April 2009 testimony before this Subcommittee in that, except for age and gender, service-disabled and other veteran-owned small businesses mirror the business community at large, not only demographically, but for the problems that they face. She presented measures of service-disabled and non-service-disabled business problems ranked in order of importance. Some differences and anomalies were apparent.

For example, the highest "critical" problem facing non-service-disabled veterans was, by a wide margin, the affordability of health insurance. This compares to a fifth-place ranking for this problem among service-disabled veterans, who may have health care provided by TriCare or by VA. However, other critical problems identified were generally similar between the two cohorts. Both cohorts ranked knowledge of programs for small business in general, attaining government resources, and knowledge of veteran small business program opportunities very highly.

VA OSDBU is addressing these identified critical problem areas through counseling programs and partnerships. Counselors at OSDBU and CVE assist veterans seeking small business contracts, mostly under the *Veterans First Contracting Program*. Additionally, OSDBU has partnerships with the Procurement Technical Assistance Centers (PTACs) that leverage VA's information outreach and help prospective veteran business owners get the information they most need to pursue a contract. As the survey of veteran business owner problems referenced by Ms. McGibbon predates both the establishment of the *Veterans First Contracting Program* and VA's redoubled outreach effort through counseling and partnerships, it would be valuable to repeat this survey and see where we stand today.

Additionally, when the U.S. Census Bureau releases new data regarding veteran-owned businesses in June of 2011, VA and OSDBU will be ready to use these data to identify new areas where veterans may seek business opportunities. Most military skills translate well into the private sector. This Administration is taking steps to assure that every soldier, sailor, airman and marine will have skills and opportunities that translate well into the business world.

One characteristic that needs to receive universal appreciation is the work ethic, dedication, and ingenuity of America's veterans. Not only did they serve, they also carry a determination to succeed that will buttress any business effort. Others in the business world need to understand and value that characteristic. Unfortunately, sometimes our veterans do not get to take those first steps because of bias by the uninformed in the business community. VA and all partners in the business world must get the word out regarding the value of veteran-owned businesses.

Earlier this week, President Obama gave us another tool to help identify obstacles facing service-disabled and other veteran-owned small businesses. By Executive Order, he energized provisions of the Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008 and established an interagency task force to coordinate the efforts of Federal agencies to improve capital, business development opportunities, and pre-established Federal contracting goals for small business concerns owned and controlled by veterans and service-disabled veterans. Not only will this task force allow us to identify obstacles, it will also facilitate solutions.

Veterans in Overseas Business Endeavors

Finally, you asked how veteran enterprises are doing business abroad.

U.S. veterans often engage various types of business in or near U.S. posts and installations globally. We also have some businesses that reach across international borders and seek work on foreign soil. The Department of Commerce and the SBA both maintain U.S. Export Assistance Centers to provide technical assistance to small- and medium-sized businesses looking to do business abroad. Every veteran interested in such commerce should take full advantage of these resources.

Madam Chairwoman, Ranking Member Boozman, and Members of this Subcommittee, VA is proud to be a leader in government for contracting with veteran and service-disabled veteran small businesses. We are a steadfast advocate for the value of veteran entrepreneurship. Secretary Shinseki has reached out to fellow Members of the President's Cabinet seeking support for veteran-owned small businesses in government. The charge and the challenge are clear—and the VA is ready to do what is necessary to continue serving veterans seeking business opportunities.

I would be pleased to answer the Subcommittee's questions.

Statement of Christina M. Roof,
National Deputy Legislative Director, American Veterans (AMVETS)

Madam Chair, Ranking Member Boozman, and distinguished Committee Members, on behalf of AMVETS, I would like to extend our gratitude for being given the opportunity to share with you our views and recommendations regarding veteran's small businesses.

AMVETS feels privileged in having been a leader, since 1944, in helping to preserve the freedoms secured by America's Armed Forces. Today our organization prides itself on the continuation of this tradition, as well as our undaunted dedication to ensuring that every past and present member of the Armed Forces receives all of their due entitlements. These individuals, who have devoted their entire lives to upholding our values and freedoms, deserve nothing less.

By way of background, The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs (VA) to give priority to veteran-owned small businesses (VOSB) and service-disabled veteran-owned small businesses (SDVOSB) when awarding contracts, and also in establishing a certain number set-aside contracts for SDVOSBs. Furthermore, in December 2009 the final rule regarding VA Acquisition Regulation entitled *Supporting Veteran-Owned and Service-Disabled Veteran-Owned Small Businesses*, 48 Code of Federal Regulations (CFR) Parts 802, 804, 808, 809, 810, 813, 815, 817, 819, 828, and 852, was updated to reflect veterans' small business preference in the Federal procurement process. The newly published CFR states:

> *This document implements portions of the Veterans Benefits, Health Care, and Information Technology Act of 2006 (the Act) and Executive Order 13–360, providing opportunities for service-disabled veteran-owned small businesses (SDVOSB) to increase their Federal contracting and subcontracting. The Act and the Executive Order authorize the Department of Veterans Affairs (VA) to establish special methods for contracting with SDVOSBs and veteran-owned small businesses (VOSB). Under this final rule, a VA contracting officer may restrict competition to contracting with SDVOSBs or VOSBs under certain conditions. Likewise, sole source contracts with SDVOSBs or VOSBs are permissible under certain conditions. This final rule implements these special acquisition methods as a change to the VA Acquisition Regulation (VAAR). This document additionally amends SDVOSB/VOSB, Small Business Status Protests, where VA provided that VA would utilize the U.S. Small Business Administration (SBA) to consider and decide SDVOSB and VOSB status protests. This requires VA and SBA to execute an interagency agreement pursuant to the Economy Act. Negotiations of this interagency agreement have not yet been finalized. Therefore, VA has amended these regulations with an interim rule to provide that VA's Executive Director, Office of Small and Disadvantaged Business Utilization (OSDBU) shall consider and decide SDVOSB and VOSB status protests, and provides procedures there for, until such time as the interagency agreement is executed by the agencies.*

Although VA has reportedly exceeded its contracting goals with SDVOSBs and VOSBs for the past 3 years, AMVETS believes that due to the lack of internal oversight and the self-reporting verification processes within VA's procurement offices, that realistically the 3 percent goal has not been met. The Government Accountability Office (GAO) also voiced the same concern in a hearing held in December 2009, *Acquisition Deficiencies at the U.S. Department of Veterans Affairs*. During this hearing GAO stated they found that the SDVOSB program is vulnerable to fraud and abuse, which could result in legitimate service-disabled veterans' firms losing contracts to ineligible firms. In fact, their 10-case study found firms that GAO investigated previously had received approximately $100 million in SDVOSB sole-source and set-aside contracts through fraud, abuse of the program, or both.

Now, in April of 2010, GAO's most recent review of interagency agreements found that VA is still lacking an effective process to ensure that interagency agreements include required language that the other agencies comply to the maximum extent feasible with VA's contracting goals and preferences for SDVOSBs and VOSBs. And just as disturbing is the fact GAO reports VA has made limited progress in implementing its verification program. While the 2006 Act requires VA to use veteran preferences authorities only to award contracts to verified businesses, VA's regulation does not require that this take place until January 1, 2012. To date, VA has verified about 2,900 businesses, approximately 14 percent of businesses in its mandated database of SDVOSBs and VOSBs. Respectfully, Madam Chair, AMVETS finds there to be absolutely no acceptable justifications on why VA has repeatedly ignored or not taken the necessary actions to end such blatant examples of fraud and abuse of funds.

VA issued guidance to all contracting officers about managing interagency acquisitions in March 2009. However, numerous interagency agreements did not even include the required language addressing VA's contracting goals and preferences until it was amended on March 19, 2010. This serves as just another example of how VA not having an established hierarchy or clear delegation of duties in oversight activities, that VA cannot be assured that agencies have made maximum feasible efforts to contract with SDVOSBs or VOSBs. AMVETS is led to believe that many are forgetting that this is not just data or monetary figures we are continually discussing, but rather thousands of veterans lives and the failure to protect those lives and the entire VOSB and SDVOSB communities. AMVETS has dedicated themselves to protecting the due entitlements of those who currently serve and those who have honorably served in the past. AMVETS does not believe that all possible measures have been, nor are currently being taken, to end this never-ending cycle of fraud and untruths occurring within VA's VOSB and SDVOSB procurement systems. AMVETS respectfully asks the Committee and those involved at VA, how much longer are we going to allow these behaviors to unfairly and negatively impact the entrepreneurial livelihoods of those veterans we have all promised to protect?

AMVETS recommends the following actions as a way of getting the VA procurement system back on track regarding our VOSB and SDVOSBs:

1. AMVETS believes that implementing a centralized and uniform training program for all persons involved in VA procurement processes, regardless of location or position, will provide a foundation of clarity and standardized education to every individual involved in VA's procurements process. This will also aide VA in establishing an unambiguous hierarchy and establish a system of unquestionable accountability in regards to procurement. VA's organizational alignment should be examined to ensure appropriate placement of the acquisition functions are occurring within the agency, and that employees clearly understand their individual defined roles and responsibilities. AMVETS is not questioning the ethical standards of VA or its employees, rather the structural framework currently in place regarding procurements. VA must protect the integrity of their procurement process and the authorities granted to them by closely examining their current acquisition hierarchy on every level.
2. AMVETS also believes VA should re-examine their current oversight methods and develop a plan granting authorities to field contract officers, so that they may conduct random inspections of VA's awards to ensure that the integrity of all VA contracts are protected and enforced. VA must steer away from such a "reactive" way of conducting contracting oversight and move toward a more "pro-active" approach of procurement processes.
3. AMVETS is very concerned by the fact that VA is not currently auditing their contracts. AMVETS recommends that VA immediately put into place a functional verification system that allows traceability of every system and process VA currently uses non-uniformly. Even a very simple system will allow VA, as well as the Subcommittee if need be, to have a single centralized source. A functional system will allow VA to accurately process all of their interdependent and linked procedures, which at every stage, consume one or more VA resource (contracts, employees, funds) to convert the inputs into outputs. These outputs then serve as inputs for the next stage of the functional verification process until a known goal or end result is reached.
4. AMVETS strongly believes that, the often overlooked process, of **internally auditing** an organization's or agency's current policies, procedures and employee knowledge is often key in overcoming any hurdles an organization may face when implementing successful internal systems and policies. Internal audits are regularly used by most successful organizations and agencies, as a means of measuring internal successes, quality controls and shortfalls within an organizational system.
5. An organization will only be successful and run at its full potential if it is able to recognize its weaknesses and any unnecessary duplication of efforts.
6. Finally, AMVETS believes it is necessary to discuss **traceability** when discussing the current state of the VA's procurement systems. VA has clearly demonstrated that they possess little to no assurances they are receiving the services they have paid for or that all contract criteria they are setting forth is being met, on any level. We must not forget that many of the larger or prime contracts have very specific clauses outlining the use of SDVOSB or VOSBs as subcontractors. AMVETS believes that an unimaginable number of SDVOSB and VOSB have lost the opportunity to conduct business with the Federal Government, as outlined by law, due to VA not having any solid systems of traceability on their awards granted.

   From an accounting standpoint, traceability is vital for any organization to have the ability to track a specific piece of financial information by means of recorded data. Equally important is traceability in cost accounting. VA should already have a system of cost accounting in place to assign a cost directly to an activity or cost of an object on the basis of cause-and-effect contractual relationships. These measures offer VA a uniformed auditing process tool when reviewing that all terms of an award have been met. This should also include the review of certified payroll records to ensure the VOSB and SDVOSB clauses of larger awards are being met. Certified payroll records should include all payments made as 1099 financial exchanges between the prime and subcontractors.

The last part of traceability, vital to the stability of any acquisitions program, is in that of quality control traceability. This is the ability to track system requirements from a system function to all those elements that individually or collectively perform that function. Most importantly traceability gives VA the tool necessary to ensure that SDVOSB and VOSBs are indeed being awarded the Federal awards that have been set-aside for them by law.

AMVETS is optimistic that the Executive Order signed on April 26, 2010, by President Barack Obama, will bring more attention to this much overlooked, yet very important issue, regarding the stability and financial wellbeing of our veteran entrepreneurship community. AMVETS is also hopeful that Veterans Small Business Interagency Task Force will finally be able to provide the necessary measures needed for the implementation and execution of a consistent and nondiscretionary system of oversight within the VOSB and SDVOSB Federal procurement system.

Madam Chair, AMVETS again thanks you and the Subcommittee for being given the opportunity to share with you our concerns and recommendations on veteran small business matters. AMVETS applauds this Subcommittee for their unwavering dedication to improving the lives of our veteran entrepreneur community. This concludes my testimony and I will be happy to answer any questions the Subcommittee may have for me.*

SBA: Top 10 States for VOSB Employer Firms:

- California (veterans, 10.4 percent; SDVs, 9.8 percent; all, 11.6 percent);
- Texas (veterans, 6.6 percent; SDVs, 7.8 percent; all, 6.1 percent);
- Florida (veterans, 5.7 percent; SDVs, 7.8 percent; all, 6.1 percent);
- New York (veterans, 5.0 percent; SDVs, 5.1 percent; all, 6.3 percent);
- Pennsylvania (veterans, 4.3 percent; SDVs, 3.0 percent; all, 4.1 percent);
- Illinois (veterans, 4.2 percent; SDVs, 2.7 percent; all, 4.5 percent);
- Ohio (veterans, 4.1 percent; SDVs, 2.9 percent; all, 3.9 percent);
- North Carolina (veterans, 3.3 percent; SDVs, 3.5 percent; all, 2.9 percent);
- Georgia (veterans, 3.0 percent; SDVs, 3.0 percent; all, 2.7 percent);
- Michigan (veterans, 3.0 percent; SDVs, 2.8 percent; all, 3.4 percent).

SBA: Top 10 States for SDVOSB Employer Firms:

- California (SDVs, 9.8 percent; veterans, 10.4 percent; all, 11.6 percent);
- Texas (SDVs, 7.8 percent; veterans, 6.6 percent; all, 6.1 percent);
- Florida (SDVs, 7.8 percent; veterans, 5.7 percent; all, 6.1 percent);
- New York (SDVs, 5.1 percent; veterans, 5.0 percent; all, 6.3 percent);
- North Carolina (SDVs, 3.5 percent; veterans, 3.3 percent; all, 2.9 percent);
- Virginia (SDVs, 3.4 percent; veterans, 2.9 percent; all, 2.5 percent);
- Pennsylvania (SDVs, 3.0 percent; veterans, 4.3 percent; all, 4.1 percent);
- Georgia (SDVs, 3.0 percent; veterans, 3.0 percent; all, 2.7 percent);
- Washington (SDVs, 3.0 percent; veterans, 2.8 percent; all, 2.6 percent);
- Ohio (SDVs, 2.9 percent; veterans, 4.1 percent; 3.9 percent).

SBA: Top 10 States for VOSB Non-Employer Firms:

- California (veterans, 10.5 percent; SDVs, 10.2 percent; all, 12.3 percent);
- Texas (veterans, 7.7 percent; SDVs, 8.0 percent; all, 7.2 percent);
- Florida (veterans, 6.5 percent; SDVs, 7.8 percent; all, 6.1 percent);
- New York (veterans, 4.5 percent; SDVs, 3.9 percent; all, 6.2 percent);
- Pennsylvania (veterans, 4.3 percent; SDVs, 3.3 percent; all, 4.0 percent);
- Ohio (veterans, 3.8 percent; SDVs, 2.8 percent; all, 3.8 percent);
- Illinois (veterans, 3.5 percent; SDVs, 2.4 percent; all, 4.0 percent);
- North Carolina (veterans, 3.2 percent; SDVs, 3.6 percent; all, 2.9 percent);
- Michigan (veterans, 3.1 percent; SDVs, 2.7 percent; all, 3.4 percent);
- Georgia (veterans, 3.0 percent; SDVs, 3.6 percent; all, 2.7 percent).

SBA: Top 10 States for SDVOSB Non-Employer Firms:

- California (SDVs, 10.2 percent; veterans, 10.5 percent; all, 12.3 percent);
- Texas (SDVs, 8.0 percent; veterans, 7.7 percent; all, 7.2 percent);
- Florida (SDVs, 7.8 percent; veterans, 6.5 percent; all, 6.1 percent);
- New York (SDVs, 3.9 percent; veterans, 4.5 percent; all, 6.2 percent);

*Accompanying this testimony you will find the data requested pertaining to VOSB and SDVOSB industry locations, the 2009 top 10 earners per NAICS code for VOSB and SDVOSB, as well as other relevant data. Please note this data was supplied to AMVETS by several Federal agencies upon our requests.

- North Carolina (SDVs, 3.6 percent; veterans, 3.2 percent; all, 2.9 percent);
- Georgia (SDVs, 3.6 percent; veterans, 3.0 percent; all, 2.7 percent);
- Pennsylvania (SDVs, 3.3 percent; veterans, 4.3 percent; all, 4.0 percent);
- Virginia (SDVs, 3.2 percent; veterans, 2.7 percent; all, 2.4 percent);
- Ohio (SDVs, 2.8 percent; veterans, 3.8 percent; all, 3.8 percent);
- Michigan (SDVs, 2.7 percent; veterans, 3.1 percent; all, 3.4 percent).

2009 SDVOSB & VOSB Top Industry Revenues by NAICS Codes			
Service-Disabled Veteran-Owned Small Business		Veteran-Owned Small Business	
Industry	Dollars	Industry 2	Dollars 2
21—Mining	$660,084	21—Mining	$2,304,692
71—Arts & Entertainment	$3,064,940	71—Arts & Entertainment	$5,901,901
22—Utilities	$6,489,831	22—Utilities	$9,059,826
11—Agriculture	$7,857,769	72—Food Services	$20,572,500
72—Food Services	$10,215,892	92—Public Administration	$21,039,303
92—Public Administration	$10,872,755	52—Finance & Insurance	$24,109,640
53—Real Estate	$13,349,528	11—Agriculture	$35,033,632
44–45—Retail Trade	$56,943,623	53—Real Estate	$190,758,521
52—Finance & Insurance	$109,877,162	81—Other Services	$191,264,308
81—Other Services	$121,499,673	51—Information	$287,178,976
42—Wholesale Trade	$157,823,490	61—Education Services	$314,894,004
61—Education Services	$168,613,703	44–45—Retail Trade	$359,708,172
51—Information	$169,425,337	62—Health Care	$399,073,692
62—Health Care	$178,948,601	48–49—Transportation	$427,002,663
48–49—Transportation	$186,786,673	42—Wholesale Trade	$464,114,994
31–33—Manufacturing	$602,925,471	56–Administrative Services	$2,117,492,276
56—Administrative Services	$1,303,562,860	31–33—Manufacturing	$2,216,749,205
23—Construction	$2,782,820,953	23—Construction	$3,800,840,932
54—Professional Services	$3,209,455,436	54—Professional Services	$6,289,580,239

Statement of Tim Embree, Legislative Associate, Iraq and Afghanistan Veterans of America

Madam Chairwoman, Ranking Member, and Members of the Subcommittee, on behalf of Iraq and Afghanistan Veterans of America's 180,000 members and supporters, I would like to thank you for allowing us to submit written testimony to your Subcommittee. The "Status of Veterans Small Business" is an important issue facing many Iraq and Afghanistan veterans and IAVA welcomes the opportunity to discuss this issue at length with you.

KFC, founded by Army veteran Harland Sanders, FedEx, founded by Marine veteran Fred Smith, and EDS, founded by Navy veteran Ross Perot are just three examples of the many highly recognizable businesses that have been started by veterans. Today, on military installations around the world, our service men and women are conjuring up small business ideas. Whether it's starting up a local lawnmower service, building a new restaurant or inventing a better mousetrap, veterans are always dreaming big dreams. What better way to stay awake while pulling guard duty at "0-dark-thirty" in a far-off country then mentally putting the finishing touches on your new small business pitch. When these veterans return home from Iraq and Afghanistan, many are taking those refined business pitches and starting their own small business. Veterans represent 14.5 percent of small business owners nationally[1] and their military wisdom to adapt, innovate and overcome serves them well as entrepreneurs.

Repeated deployments and a tough economy have made the dream of successfully running a small business all the more difficult for our Nation's veterans. Strong programs for veteran small business owners do exist but, IAVA recommends the following steps to ensure that veterans have every opportunity to turn those dreams into a reality:

- Develop pre- and post-deployment training modules specifically for small business owners (incorporating SBA's Balancing Business & Deployment guide).
- Provide National Guard and Reserves additional access to capital, insurance and bonding.
- Offer grants to returning small business owners to help jump-start their struggling businesses.
- Ensure future stimulus programs maintain veterans' preference protections.

Repeated Deployments Take Their Toll

"I had to totally shutter the doors on my construction business. It put my family in a very difficult position."—IAVA Vet

National Guard and Reservist small business owners often suffer the brunt of multiple deployments; Clients leave, new competitors move in and revenues dry up.

"My business was shut down for approximately 18 months. Rightfully so, most of my clients moved on to other attorneys."—IAVA Vet

Many Guard and Reservists feel that current deployment training materials are not geared for the self-employed. IAVA recommends that pre- and post-deployment training modules are developed specifically for small business owners and incorporate SBA's Balancing Business & Deployment guide.

"People tell me 'don't worry, USERRA protects you' . . . against what, myself?"—IAVA Vet

Short notice deployments are particularly hard on small business owners. IAVA believes that the military must continue to do everything it can to develop predictability in its deployment cycles so veteran National Guard and Reserve owned businesses are given a fighting chance for success.

"Attempted to train a replacement, but lead up time was not sufficient. The other employees and subsequently the customers of the business suffered. Business was terminated by the middle of deployment."—IAVA Vet

Last, when veterans return home many feel like they are starting from scratch with their business, and they need our help. One suggestion we heard was, "I need help getting advertising. It costs a lot to get going again." This is why IAVA recommends offering grants to returning small business owners to help jump-start their fledgling businesses.

Small Business Help

Navigating through the maze of red tape to (A) start a business and (B) get it registered as a Disabled Veteran-Owned Business. . . . A small business owner wears a lot of hats, and the soft skills acquired through military experience are not enough, I needed some real hands-on experience or time with a mentor to help create a successful enterprise."—IAVA Vet

For Reservist and veteran business owners looking for technical or financial assistance, support is available through the Small Business Administration (SBA) and the Department of Veterans Affairs. Last year, the SBA assisted more than 180,000 veterans, Reservists, active servicemembers and spouses through its entrepreneurial counseling and training services.[2]

The agency offers low-interest capital through the new Patriot Express Pilot Loan Program. The SBA Office of Veterans Business Development also operates five veteran-specific business outreach centers and provides Federal contracting assistance to veterans, although it has relatively limited resources to accomplish these goals.

[1] Characteristics of Veteran Business Owners and Veteran-owned Businesses, Chapter 5 of The Small Business Economy for Data Year 2006, A Report to the President, http://www.sba.gov/advo/research/sbe__07__ch5.pdf.

[2] Small Business Administration, FY 2009 Performance Report, page 66, http://www.sba.gov/idc/groups/public/documents/sba__homepage/fy__2011__cbj__09__apr.pdf.

"The SBA can preach 'Patriot Express' all day long but find a single person that's ever managed to get this loan and I'll buy you lunch!"—IAVA Vet

In addition, the SBA has teamed up with the VA and the International Franchise Association to create the Veterans Transition Franchise Initiative, which offers 30 percent off franchising fees for veterans on nearly 400 businesses including Dunkin Donuts, ExxonMobil, and Gold's Gym. To date VetFran has helped more than 1,700 veterans become small business owners.

Veterans can also turn to the VA's Center for Veterans Enterprise (CVE) for assistance with starting or expanding their businesses. However, since this Committee recently held a hearing on this particular issue we would like to associate our comments with the testimony of Joe Sharpe, from the American Legion when he concluded, "The implementation of CVE is small and does not necessarily provide the right assistance to veterans. The VetBiz.gov Web site is not easily navigated and needs to become a more user-friendly Web site."

"During my deployment I had to totally shutter the doors on my construction business. It put my family in a very difficult position"—IAVA Vet

IAVA believes that the VA must work to mitigate the effect of frequent and lengthy deployments by providing small businesses owners in the National Guard and Reserves with additional access to capital, insurance, and bonding via the VA's Center for Veterans Enterprise. The Center for Veterans Enterprise should receive appropriate funding and resources to achieve this goal.

Federal Contracting

The Federal Government is the world's largest buyer of goods and services, with purchases totaling over $425 billion each year.[3] IAVA was troubled to learn the Troubled Asset Relief Program (TARP), authorizing up to $770 billion to bail out banks, exempted banks receiving Federal bailouts from veterans hiring requirements, while protections for minorities, women and disabled individuals were still included. IAVA believes that TARP should be amended to force compliance with veterans' preference rules and that all future stimulus programs should not overlook veterans' hiring preferences.

Conclusion

On April 26, 2010, President Obama took a critical first step at evaluating what needs to be done for veteran small business owners. The new Executive Order will create a veteran-owned small business task force that "will recommend specific improvements in how small businesses are created, including expanded access to capital, advice on how to cash in on lucrative Federal contracts and better counseling so that businesses remain on a strong economic footing."[4] IAVA applauds this effort, and we urge the Administration to include new veterans in this process.

However, more must be done. IAVA looks forward to working with this Subcommittee to improve the "Status of Veteran Small Business," and create the next Greatest Generation of veteran-owned small businesses. Thank you.

[3] http://www.sba.gov/contractingopportunities/index.html.
[4] http://www.armytimes.com/news/2010/04/military__smallbusiness__veterans__042610w/.

POST–HEARING QUESTIONS AND RESPONSES FOR THE RECORD

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. William B. Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW, Room 2440B
Washington, DC 20548

Dear Mr. Shear:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

U.S. Government Accountability Office
Washington, DC.
June 15, 2010

The Honorable Stephanie Herseth Sandlin
Chairwoman
Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
House of Representatives
Washington, DC

Dear Chairwoman Herseth Sandlin:

I am pleased to provide the following answers in response to questions that you posed, in conjunction with the hearing entitled "Status of Veteran Small Businesses: Are We Failing Our Veterans?" held by the Subcommittee on Economic Opportunity on Tuesday, April 29, 2010. Please do not hesitate to contact me at (202) 512–8678 or shearw@gao.gov if you have additional questions or want further information.

Sincerely yours,

William B. Shear
Director, Financial Markets and Community Investment

Enclosure

Question 1: You state that VA is exceeding its veteran contracting goals as an agency. Are there any subdivisions that are not doing well?

Response: In fiscal year (FY) 2009, VA exceeded its veteran-owned small business (VOSB) contracting goals of 10 percent of its contracting dollars—awarding 19.7 percent to VOSBs. Additionally, VA exceeded its service-disabled veteran-owned small business (SDVOSB) goal of 7 percent—awarding 16.7 percent of contracting dollars to SDVOSBs. According to data compiled by VA's Office of Small and Disadvantaged Business Utilization, eight VA subdivisions (within the Veterans Health Administration) did not meet the contracting goals for VOSBs and SDVOSBs in FY09—seven were mail-out pharmacy units and one was the Health Eligibility Center in Atlanta, Georgia. One staff organization within VA failed to meet its veteran contracting goals—VA's Office of Inspector General.

Question 2: At its current rate, how much time will it take VA to verify all the veteran-owned small businesses in its Vendor Information Pages database?

Response: As of April 2010, VA had verified about 2,900 businesses—approximately 14 percent of VOSBs and SDVOSBs in the VetBiz.gov Vendor Information Pages database. According to VA, the agency uses the VetBiz.gov database to fulfill multiple statutory requirements. For example, VA uses the database to fulfill Pub. L. No. 109–461's requirement to have a database of verified businesses, but it also uses the database to fulfill Pub. L. 106–50's requirement to provide notices about services to veteran-owned small businesses each year. While there are over 20,000 businesses listed in VA's VetBiz.gov database, not all businesses have applied for verification.

According to VA, as of May 1, 2010, the backlog of applications grew to over 5,000. VA plans to hire all vacant positions within the Center for Veterans Enterprise by the end of July 2010, request additional full-time-equivalent positions between May and August 2010 to support the verification program, and shift the workload of its staff to focus more directly on verifications. According to VA, the agency's current goal is to examine at least 6,000 applications by December 31, 2011. However, it is unclear if VA will be able to meet its goal at its current pace of verification.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. Joseph F. Sobota
Assistant Chief Counsel
Office of Advocacy
U.S. Small Business Administration
409 3rd Street, SW, Suite 7800
Washington, DC 20416

Dear Mr. Sobota:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Office of Advocacy, U.S. Small Business Administration
Responses to Questions for the Record Submitted by the
House Committee on Veterans Affairs,
Subcommittee on Economic Opportunity
Hearing Conducted on April 29, 2010:

Status of Veteran Small Businesses: Are We Failing Our Veterans? [1]

Question 1: Other than the large population of veterans in California, to your knowledge is California doing something unique to make it the number one ranking State with veteran or service-disabled business owners? Does it have anything to do with economic development plans that the State of California has or small business State tax credits?

Response: The Office of Advocacy has no information on the effects of California's veteran-related programs or tax law on business formation or survival. California does have a Department of Veterans Affairs that is responsible for administering a variety of specialized services and conducting outreach to the State's sizable veteran community.[2] California was also a pioneer in establishing a 3 percent goal for service-disabled veterans in State government procurement. The State is home to many nonprofit veteran service providers, not to mention the extensive network of Federal offices providing services of all types to veterans. However, Advocacy has no way to link the statistical data presented in our testimony to any of these programs or services.

It is safe to say that California's standing as the State with the most veteran business owners is correlated to its ranking as the State with the largest population. As Chairwoman Herseth Sandlin pointed out during the hearing, the top 10 States in terms of their numbers of veteran business owners were all high population States. She also asked whether Advocacy had more information on smaller States and on veteran business ownership on a per capita basis.

In order to answer such a question, it is necessary to control for the tremendous variation in State populations. One way to do this is to examine the percentage of **all business owners** nationwide who are located in each State, and then compare this factor with the percentage of **all veteran business owners** nationwide who are located in those States. Comparing these percentages helps show where firms owned by veterans or service-disabled veterans are over-represented or under-represented in each State, relative to all business owners in that State.

Advocacy commissioned a special tabulation of Census Bureau data that allows us to make such a comparison. The special tabulation answers questions on veteran business ownership that were not addressed in previously published Census reports, including data on veteran business owners by State. These data were included in Advocacy's testimony and are expressed in terms of each State's percentage of all owners nationwide. The table below depicts these percentages as shares of all business owners, all veteran business owners, and all service-disabled veteran business owners. These data are presented for both employer owners and nonemployer owners.[3]

Percentage of All Veteran Business Owners Nationwide by State—2002

Location	Employer firm owners			Nonemployer firm owners		
	All owners	Veteran owners	Service-disabled veteran owners	All owners	Veteran owners	Service-disabled veteran owners
Alabama	1.3	1.6	1.6	1.3	1.5	2.0
Alaska	0.3	0.3	0.7	0.3	0.4	0.8

[1] Because the Office of Advocacy was established to provide independent counsel to policymakers, its testimony is not circulated for comment through the Office of Management and Budget (OMB) or other Federal offices, and the views expressed by Advocacy here do not necessarily reflect the position of the Administration or of SBA.

[2] See http://www.cdva.ca.gov/newhome.aspx for more information.

[3] The data presented here and in Advocacy's prepared testimony come from a special tabulation commissioned by Advocacy of data from the Census Bureau's **2002 Survey of Business Owners and Self-Employed Persons (SBO)**. The SBO's methodology is explained at http://www.census.gov/econ/sbo/methodology.html. Data on veteran business owners is based on SBO respondents only. Caution should be used with data on service-disabled veteran owners, particularly with employer owners in smaller States, due to the relatively small numbers of such owners—only 0.67 percent of all respondent employer owners nationwide were service-disabled.

Percentage of All Veteran Business Owners Nationwide by State—2002—Continued						
	Employer firm owners			Nonemployer firm owners		
Location	All owners	Veteran owners	Service-disabled veteran owners	All owners	Veteran owners	Service-disabled veteran owners
Arizona	1.8	1.8	2.2	1.7	1.9	1.8
Arkansas	1.0	1.1	1.3	0.9	1.1	1.1
California	11.6	10.4	9.8	12.3	10.5	10.2
Colorado	2.4	2.2	2.4	2.2	2.3	2.4
Connecticut	1.4	1.3	1.2	1.3	1.3	1.0
Delaware	0.3	0.3	0.3	0.3	0.3	0.2
District of Columbia	0.2	0.1	0.1	0.2	0.1	0.1
Florida	6.1	5.7	7.8	6.1	6.5	7.8
Georgia	2.7	3.0	3.0	2.7	3.0	3.6
Hawaii	0.4	0.4	0.7	0.5	0.5	0.7
Idaho	0.7	0.7	0.8	0.6	0.6	0.8
Illinois	4.5	4.2	2.7	4.0	3.5	2.4
Indiana	2.2	2.3	2.0	2.1	2.0	1.8
Iowa	1.3	1.4	0.8	1.2	1.2	1.0
Kansas	1.2	1.2	1.3	1.0	1.1	1.2
Kentucky	1.3	1.4	1.0	1.4	1.3	1.4
Louisiana	1.4	1.6	1.3	1.4	1.5	1.4
Maine	0.6	0.7	1.1	0.6	0.7	0.8
Maryland	1.8	1.8	1.5	2.0	2.1	2.3
Massachusetts	2.4	2.4	2.6	2.4	2.2	2.4
Michigan	3.4	3.0	2.8	3.4	3.1	2.7
Minnesota	2.3	2.3	2.7	2.2	2.1	1.8
Mississippi	0.8	0.9	0.8	0.8	0.9	0.9
Missouri	2.2	2.4	1.8	2.1	2.2	1.9
Montana	0.6	0.7	0.7	0.5	0.6	0.6
Nebraska	0.8	0.9	0.9	0.7	0.8	1.1
Nevada	0.7	0.8	0.7	0.7	0.8	1.1
New Hampshire	0.6	0.7	0.6	0.6	0.7	0.8
New Jersey	3.4	2.9	2.4	2.8	2.3	1.8
New Mexico	0.6	0.7	1.2	0.6	0.7	1.1
New York	6.3	5.0	5.1	6.2	4.5	3.9
North Carolina	2.9	3.3	3.5	2.9	3.2	3.6
North Dakota	0.3	0.4	0.4	0.3	0.3	0.3
Ohio	3.9	4.1	2.9	3.8	3.8	2.8
Oklahoma	1.3	1.5	1.9	1.4	1.6	2.2
Oregon	1.7	1.8	1.8	1.4	1.5	1.5
Pennsylvania	4.1	4.3	3.0	4.0	4.3	3.3
Rhode Island	0.4	0.4	0.3	0.4	0.4	0.2
South Carolina	1.3	1.7	1.6	1.2	1.6	1.6
South Dakota	0.4	0.4	0.5	0.3	0.4	0.4
Tennessee	1.8	2.0	1.6	2.0	2.1	2.2

Percentage of All Veteran Business Owners Nationwide by State—2002—Continued						
	Employer firm owners			Nonemployer firm owners		
Location	All owners	Veteran owners	Service-disabled veteran owners	All owners	Veteran owners	Service-disabled veteran owners
Texas	6.1	6.6	7.8	7.2	7.7	8.0
Utah	1.0	0.7	0.5	0.9	0.7	0.7
Vermont	0.3	0.3	0.4	0.3	0.3	0.3
Virginia	2.5	2.9	3.4	2.4	2.7	3.2
Washington	2.6	2.8	3.0	2.2	2.3	2.7
West Virginia	0.6	0.6	0.6	0.5	0.5	0.5
Wisconsin	2.3	2.2	1.5	1.9	1.9	1.3
Wyoming	0.3	0.3	0.5	0.2	0.3	0.1

Source: SBA Office of Advocacy special tabulation of U.S. Census Bureau data from its **2002 Survey of Business Owners and Self-Employed Persons**. Data based on survey respondent owners only.

As can be readily seen, the percentages of veteran business ownership in any given State are not always the same as those for business ownership in general. In some States veterans may be underrepresented in terms of business ownership relative to all business owners, while in other States veterans may be overrepresented.

For example, California has the largest number of both veteran and all business owners nationwide because of the State's size, but the concentrations among the State's employer owners differ between all owners and veteran owners, with all owners representing 11.6 percent of the national total, veteran owners 10.4 percent of their national total, and service-disabled veteran owners 9.8 percent of their national total. So despite the fact that California has the largest number of veteran business owners, they are actually underrepresented, relative to all firm owners. In Texas, by contrast, veterans and service-disabled veterans have larger shares of their national totals of employer owners than do all Texas employer owners, with all owners representing 6.1 percent of their national total, veteran owners 6.6 percent of their national total, and service-disabled veteran owners 7.8 percent of their national total.

Question 2: In your testimony you mentioned two ongoing research projects that the Office of Advocacy is working on, when do you plan on publishing your findings? Can you elaborate on what these projects will include?

Response: Advocacy does have two separate contract research projects now underway that relate to veteran entrepreneurship issues. One project is examining whether there may be tax or regulatory barriers to veteran business ownership or that otherwise have a disproportionate effect on veteran business owners. A draft of this study has been undergoing peer review, and Advocacy hopes to release the finished study by the end of summer. Advocacy's contractor on this project is Microeconomic Applications, Inc. in Washington, DC.

The second contract project on veteran-related issues is looking at factors affecting veteran entrepreneurship. This project is being conducted by the SAG Corporation, a service-disabled veteran-owned firm in Annandale, VA. Advocacy expects this project to be completed before the end of the year.

The reports on both projects must complete peer review and meet Advocacy and governmentwide data quality standards before they are released.

Question 3: From the numbers you have available, in general, have veteran business owners been increasing or decreasing?

Response: The Census Bureau's 2002 Survey of Business Owners and Self-Employed Persons (SBO) estimated that, in 2002, 14.5 percent of all business owners were veterans, of which about 7 percent were service-disabled.

The SBO is conducted once every 5 years, and Census has scheduled the release of new information from its 2007 SBO on July 13, 2010. This will be a preliminary report with summary information, to be followed by 10 more detailed reports, including a special report on veteran-owned businesses, now scheduled to be released in May 2011.[4]

[4] See http://www.census.gov/econ/sbo/releaseschedule07.html for updates on the 2007 SBO report release schedule.

The preliminary SBO report should help us identify trends in veteran business ownership since the 2002 SBO and provide an answer to the Subcommittee's question. However, we already have some indications that the number of veteran business owners is probably going down.

- Advocacy estimates that, from 2002 to 2008, the total number of all firms has gone up by 25 percent, while the total number of veterans has gone down by about 10 percent.
- A separate Census data source indicates that 13.0 percent of all business owners were veterans in early 2006, and 12.5 percent were veterans in early 2009.[5]
- Census data from 1992 showed that 24.2 percent of all firm owners were veterans then.[6]

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Ms. Diane Farrell
Director
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Ms. Farrell:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record for the House Committee on Veterans' Affairs Subcommittee on Economic Opportunity

Diane Farrell, Director, Export-Import Bank of the United States April 29, 2010

Hearing on
Status of Veteran Small Businesses: Are We Failing Our Veterans?

Question 1: How big does a business need to be to seek Export-Import Bank services?

Answer: The Export-Import Bank (Ex-Im Bank) is capable of helping all U.S. companies, regardless of size, turn export opportunities into real sales that help maintain and create American jobs and contribute to a stronger national economy.

[5] U.S. Census Bureau, **Survey of Income and Program Participation** (http://www.census.gov/sipp/index.html).

[6] See http://www2.census.gov/econ/sbo/92/cbo-9201.pdf, U.S. Census Bureau, **1992 Characteristics of Business Owners**, pp. 62–69, for more information. This report was one of three predecessor reports to the 2002 SBO.

The export value of Ex-Im Bank financing has supported deals ranging from a few hundred dollars to several millions of dollars. All of our Ex-Im Bank products are available to small businesses, including short-term insurance, although the product most widely used by small business exporters tends to be the Working Capital Guarantee.

Ex-Im Bank understands that exporting is a challenge for many small businesses, so Ex-Im Bank has five regional State offices (New York, Florida, California, Illinois, and Texas), and three satellite offices (San Diego, San Francisco, Dallas), and staff in Washington, DC, devoted to providing American small businesses with the tools they need to finance exports. Approximately 80 percent of staff time is spent on small business.

Question 2: Does Export-Import Bank look for specific businesses that could export goods and services?

Answer: Ex-Im Bank will support the export of any good or service meeting its underwriting, content, environmental and other requirements. That said, as part of Ex-Im Bank's recent strategic initiative, it has identified several industries where the United States may have a comparative advantage, including agricultural machinery; construction equipment and services; medical equipment and related services; aircraft and avionics; and power-generation equipment and related services. Additionally, Ex-Im Bank identified nine countries [Mexico, Brazil, Colombia, Nigeria, South Africa, Turkey, India, Indonesia, Vietnam] having growing economies and infrastructure needs.

In reaching these markets and others around the world, Ex-Im Bank has partnered with other export interested entities such as the: Small Business Administration; U.S. Department of Commerce; Trade and Development Agency; Overseas Private Investment Corporation; and City/State Development Offices through a successful and widely attended "Exports Live!" series. These trade promotion events have provided exporters, small businesses new to exporting, and banks in New York, Boston, Miami, Houston, Detroit, Chicago, Los Angeles, Cincinnati, Minneapolis, Madison, WI, and Seattle areas with direct access to aforementioned agency representatives. There are also opportunities for one-on-one counseling for the attending exporters. Building on the momentum and success of these "Exports Live!" trade events, two more events were recently held just this month in Montana and Colorado.

It is an important point to remember that all of the regional offices of Ex-Im Bank, including New York, Miami, Houston, Chicago, Los Angeles, and San Francisco, are fully devoted to small business outreach and that any small business exporter likely is eligible for Ex-Im Bank financing.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. Joseph Sharpe, Jr.
Director, National Economic Commission
The American Legion
1608 K Street, NW
Washington, DC 20006

Dear Mr. Sharpe:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

American Legion
Washington, DC.
June 22, 2010

Honorable Stephanie Herseth Sandlin, Chair
Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
U.S. House of Representatives
335 Cannon House Office Building
Washington, DC 20515

Dear Chair Herseth Sandlin:

Thank you for allowing The American Legion to participate in the Subcommittee hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. I respectfully submit the following in response to your additional questions:

Question 1: Your recommendations to help Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses include establishing a direct lending program within the SBA, and allowing veteran-owned small businesses set-asides under the Federal Supply Schedule Program. Since most of your recommendations are out of our jurisdictions, have you spoken to the appropriate committee regarding your recommendations?

Response: Yes, The American Legion has been communicating our recommendations and agenda to the appropriate committee concerning the plight of veteran and service-disabled veteran business owners. In addition, The American Legion Small Business Task Force has proactively developed an initiative to challenge Federal agencies that are not meeting the 3 percent goal. We're meeting with individual Federal agencies, particularly the ones with very low procurement numbers, to develop plans that would enable them to boost their service-disabled veteran procurement numbers. It is very disturbing that Federal agencies continue to fail at meeting a congressionally mandated goal aimed at assisting the very community that has sacrificed so much.

Question 2: You state that Federal agencies should be held accountable by SBA for implementing existing Executive Orders. How can SBA hold other agencies accountable?

Response: Currently, SBA cannot be held accountable as they have no authority over various agencies. However, SBA could provide to the Administration clear information and statistics relative to the failures of agencies that do not reach their mandated goals. The SBA has a Veterans Committee in place, but SBA has yet to be able to fully act under P.L. 106–50. Technically, this Veterans Committee could call in agency representatives to answer for their failures in meeting the procurement goal. Also, this group is supposed to work with SBA to ensure that stats/reports are being made to the agency heads and the Administration. Furthermore, there could be language included in the specific Executive Order(s) to report directly to the White House and/or OMB could fine any agency that fails to implement these Executive Order(s). Historically, when the White House takes the lead on veteran services coordination across agencies, a more coordinated and cooperative approach occurs.

Question 3: When veterans separate from the military do some veterans take time off before looking for employment or going to school?

Question 3(a): If so, how can we account for them?

Response: Yes, some veterans do take time to process out of the military before immediately starting school and/or searching for employment. It would be beneficial if the Transition Assistance Program (TAP) could provide better followup with those who attend. Also, more resources should be allocated to communicate and market veterans' benefits within the Federal Government along with opportunities that await them in the civilian workforce. You have a better chance of accounting for veterans if they (along with their families) were aware of education, training, employment and business opportunities both in the public and private sector.

Question 4: What is a qualified entrepreneur?

Response: A qualified entrepreneur is one that has marketable skills, a business idea or plan, and a vision to succeed. It also includes an individual who has an idea and acts on it in such a manner that he/she creates work opportunities for themselves and others.

Question 5: What more would the SBA's Office of Veterans Business Development do with an additional $13 million you propose?

Response: The additional funding would support the establishment of more Regional Veterans Small Business Resource Centers, while providing better support for those currently in existence. In addition, SBA could re-establish the 1980s/1990s successful Veterans Entrepreneurship Training Program at colleges, universities and other training institutions with updated elements that include the Entrepreneurship Bootcamp for Veterans with Disabilities (EBV).

Question 6: In your written testimony, you stated that the number of small businesses bankruptcy rose 54 percent from 2007 to 2008. Do you know how many were veteran enterprises?

Response: To our knowledge, IRS does not keep data on veterans' bankruptcy. We also note that the Community Reinvestment Act (CRA) does not require or collect data on servicemembers, veterans, Reservists or military family status for their reporting of access to credit (homes or small businesses). Revising CRA could move us to a position of knowing about access to credit for the entire military community.

Question 7: For recently separated veterans are there differences in employment between the combat arms veteran and the non-combat arms veterans?

Response: In most occasions, both the combat and non-combat veteran would need additional training after active-duty service to hone their skills as well as learn new skills to aggressively compete in today's marketplace. However, the combat veteran would require more specialized training that readily fits into a professional setting. Technological skills, soft skills and networking skills are critical ingredients in succeeding into the civilian workforce. The American Legion's goal is to see combat and non-combat veterans receive training, retraining, and support services that lead to long-term and high-wage career jobs. Please note: Whether a combat arms veteran or non-combat arms veteran, the major factor in acquiring employment after transitioning from the military is skill sets and experience obtained before entering the Armed Forces.

Question 8: In reviewing Office of Advocacy testimony on the predominant business industries that Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses are part of, can we surmise that these small businesses may only cater to certain Federal agencies or business sectors?

Response: The American Legion believes that it would be incorrect to surmise that position. VOBs and SDVOSBs are adept at taking opportunities and adding to them once their foot is in the door. These businesses are not restricted to one agency per se, but can provide services to almost every agency within the government and to prime contractors. Administration, IT, Management, Construction and Logistics is needed by every agency, which VOBs and SDVOSBs can fulfill when awarded these opportunities.

Question 9: Currently what can be done to penalize a large prime who fails to provide subcontracts to veteran enterprises?

Response: The American Legion believes the most effective penalty would be a financial one; however, the Federal Acquisition Regulation (FAR) is a barrier here since it states the prime must make a good faith effort in identifying a qualified subcontractor. This policy makes it almost impossible to prove that the prime has purposely neglected to identify a qualified subcontractor. The large primes should be required to establish a subcontracting program, not just a plan. SBA could work with DOL, VA and DoD to review the programs. If the primes do not perform to established standards for all the goal groups, penalize their profits. In addition, another consequence for large primes could be disqualification from doing business with the Federal Government for a specific amount of time.

Thank you for your continued commitment to America's veterans and their families.

Sincerely,

Joseph C. Sharpe, Jr., *Director*
National Economic Commission

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. Joe Wynn
Senior Advisor
Vietnam Veterans of America
8719 Colesville Road
Silver Spring, MD 20910

Dear Mr. Wynn:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Joe Wynn, Senior Advisor, Vietnam Veterans of America
President, Vets Group, Inc.

Per your request, here are my responses to the questions for the record from the House Committee on Veterans' Affairs Subcommittee on Economic Opportunity regarding the hearing on "Status of Veteran Small Businesses: Are We Failing Our Veterans?"

Question 1: If set-asides were allowed in the Federal Supply Schedule what would be the impact?

Answer: More small businesses would be selected and the Federal Government would have a better chance of meeting the 23 percent small-business-mandated goal. Recent SBA data shows that the 23 percent goal was not achieved in FY2009.

Question 2: How reliable and useful is the Score Card System?

Answer: The current SBA score card system is supposed to draw attention to an agency's small business goals achievement. However, it is not specific to any one small business preference group. It is based on their overall percentage. So if an agency does exceptionally well in one small business category and poorly in the others, the agency would still receive a favorable score of Green. The SBA should still be requiring agencies to follow Executive Order 13–360 which called for each agency to develop a written strategic plan showing how they would increase contracting opportunities to SDVOBs.

Question 3: Currently what can be done to penalize a large prime who fails to provide subcontracts to veteran enterprises?

Answer: There are several things that can be done to large primes who fail to provide subcontracts to VOBs/SDVOBs: (1) Points could be deducted from their next proposal evaluation; (2) They could be denied consideration to continue the contract in option years; (3) Their names could be added to a public list detailing their failure to comply; (4) They could be required to pay a fine; and (5) They could be exempted from receiving future contracts.

Question 4: In your view, is SBA really in a position to effectively help small businesses and veterans based on their staff size and budget?

Answer: The SBA is in a position to help small businesses and VOBs by utilizing the staff they have. However, to be more effective, the number of staff persons must be increased. The Office of Veterans Business Development has only one Veterans Federal Procurement Liaison Officer to assist thousands of veteran business owners. The SBA has about 67 Procurement Center Representatives to monitor thousands of contract actions throughout the Federal Government. In addition, the SBA oversees the operation of 13 Veteran Business Resource Centers, each with a budget of $150,000 per year to provide services to thousands of veteran business owners around the country.

Question 5: Should the SBA go back to having agencies post plans on their Web sites?

Answer: Yes, the SBA should go back to complying with Executive Order 13–360 which required Federal agencies to develop a written strategic plan demonstrating how they would increase contracting opportunities for SDVOBs each year and to publicly display those plans via their Web sites.

Question 6: Who is responsible for enforcing Public Law 106–50 and Public Law 108–183?

Answer: According to Executive Order 13–360, the SBA should be responsible for overseeing the implementation of Public Laws 106–50 and 108–183. However, they still have not been granted any real authority to compel Federal agencies to comply with the laws. Ultimately, Congress should provide oversight and ensure that penalties are applied to agencies that do not comply with their laws.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Ms. Mary Kennedy Thompson
President
Mr. Rooter Plumbing Corporation
International Franchise Association
P.O. Box 3146
1010 N. University Parks Drive
Waco, TX 76707–0146

Dear Ms. Thompson:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

In an effort to reduce printing costs, the Committee on Veterans' Affairs, in cooperation with the Joint Committee on Printing, is implementing some formatting changes for material for all full Committee and Subcommittee hearings. Therefore, it would be appreciated if you could provide your answers consecutively on letter size paper, single-spaced. In addition, please restate the question in its entirety before the answer.

Due to the delay in receiving mail, please provide your response to Ms. Orfa Torres by fax at (202) 225–2034. If you have any questions, please call (202) 226–5491.

Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Hearing on
Status of Veteran Small Businesses: Are We Failing Our Veterans?

Hearing Date: April 29, 2010:

Mary Kennedy Thompson, President, Mr. Rooter Plumbing Corporation Representing the International Franchise Association

May 5, 2010

Question 1: Can you tell us more about the Entrepreneurship Bootcamp for Veterans with Disabilities that is hosted by the Center for New Ventures and Entrepreneurship?

Response: In Summer 2009 I was honored to present the basics of franchising to a class at the Entrepreneurship Bootcamp for Veterans with Disabilities hosted by Texas A&M University. The class was filled with eager, smart, and disciplined disabled veterans planning to go into business for themselves.

The "Entrepreneurship Bootcamp for Veterans with Disabilities" (EBV) at Texas A&M University in College Station, Texas represents a significant collaboration on the campus between the Center for New Ventures and Entrepreneurship, Center for Executive Development and the Mays Business School. The EBV initiative offers cutting-edge, experiential training in entrepreneurship and small business management to soldiers, sailors, airmen, and marines disabled as a result of their service supporting operations Enduring Freedom and Iraqi Freedom. The intent of the EBV is to open the door to entrepreneurial opportunity and small business ownership to those veterans, by developing their competencies in the many steps and activities associated with creating and sustaining an entrepreneurial venture, and also by helping disabled veterans coordinate their efforts with programs and services for veterans and others with disabilities.

The EBV was first introduced by the Whitman School of Management at Syracuse University in 2007. In 2008, the EBV Consortium of Schools was launched, a national partnership with the Mays Business School at Texas A&M University, UCLA Anderson School of Management, and Florida State University's College of Business. Each of these business schools offered EBV on their campuses in summer 2008. The Krannert School of Management at Purdue University also joined the EBV consortium, and all five schools offered the EBV on their campuses in summer 2009.

Like the bootcamp, this program is intense, rigorous, and challenging. Building upon the university's unique culture and resources, the bootcamp in College Station Texas consists of a series of training modules designed to assist the veteran in growing businesses successfully and profitably. A team of experienced faculty and successful entrepreneurs will work with them, providing a fun, interactive, and informative experience. They will introduce entrepreneurship ideas and concepts, and show how to apply them to a current or potential business. The EBV program is offered entirely free to qualified veterans accepted into the program.

Estimated program dates for the 2010 EBV sessions are as follows:

Texas A&M University, August
Florida State University, June
University of California, Los Angeles, August
Syracuse University, August
Purdue University, August

To see more online about this great program for disabled veterans you can go to http://wehner.tamu.edu/ebv/. If I may provide additional information you are most welcome to email me at mary.thompson@mrrooter.com.

Question 2: Can the military discharge be a General Discharge to qualify for financial incentives?

Response: Currently the International Franchise Association (IFA) VetFran program only offers the discount incentive to honorably discharged veterans. The same holds true for veterans applying for scholarship awards from the IFA.

However in H.R. 2672, The Help Veterans Own Franchises Act, an eligible veteran is defined as found in 38 USC Sec. 101, the term "veteran" means a person who served in the active military, naval, or air service, and who was discharged or released there from under conditions other than dishonorable.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. Joseph G. Jordan
Associate Administrator
Government Contracting and Business Development
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Dear Mr. Jordan:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

U.S. Small Business Administration

Responses to Questions for the Record from the House Committee on Veterans Affairs, Subcommittee on Economic Opportunity

Hearing on
Status of Veteran Small Businesses: Are We Failing Our Veterans?

Question 1: Does SBA have any partnerships with the private sector?

Response: The SBA helps Americans start, build and grow businesses. Through an extensive network of field offices and partnerships with public and private organizations, SBA delivers its services to people throughout the United States, Puerto Rico, the U.S. Virgin Islands and Guam.

Question 2: Many VSOs complain that Executive Order 13–360 is not being followed by Federal agencies. What assurances can you give us that the new Executive Orders will be followed by Federal agencies?

Response: SBA works with other Federal agencies to ensure that small businesses are receiving maximum opportunities in government contracting. As Associate Administrator Jordan mentioned in his testimony before the Committee, SBA is working in several ways with the other agencies to increase contracting participation for Service-Disabled Veteran-Owned Small Businesses. The two Executive Orders referenced in the question are critical to this mission.

Over the last year, the SBA has taken several steps to improve the contracting opportunities for SDVOSBs and to ensure that we effectively oversee and administer this critical program as thousands of veterans return from combat. In addition to the Executive Order signed by the President that created the Interagency Task Force on Veterans Small Business Development, the SBA has been:

- **Improving outreach:** SBA has been providing targeted outreach to make the Federal contracting market less confusing and more accessible to the SDVOSB community. In fiscal year 2010 and succeeding fiscal years we are focusing on enhancing Office of Veterans Business Development (OVBD) outreach, counseling and training to all veterans, especially service-disabled veterans. This is happening in our VBOC program (Veterans Business Outreach Program) which grew from 8 centers in FY09 to 16 centers in FY10. In addition, we continue to grow local outreach initiatives developed and implemented by SBA district offices, as well as "online" services;
- **Working collaboratively with VA:** This includes better data and better access to that data for both the SBA and the VA. Teams from both agencies have met several times in the last few months to discuss a wide range of important issues that touch both agencies, including the SDVOSB program. Administrator Mills has met with Secretary Shinseki and his Deputy Secretary as well; and
- **Enhancing oversight to eliminate fraud, waste and abuse:** We have enhanced our SDVOSB bid protest process by implementing stricter terms for those firms found ineligible. For example, we have instituted a new policy where firms that are found ineligible must de-certify themselves in CCR within 30 days of our determination or they will be referred to our IG. We have conducted 111 SDVOSB bid protest reviews YTD in FY 2010. In all of FY 2009, we conducted 94 SDVOSB bid protests. We will continue to explore new ways, given our resources, to make our surveillance of the program more robust.

Question 3: In your opinion what is the average rate of failure for regular businesses and veteran businesses?

Response: SBA does not track the average rate of failure for either of these categories, and thus cannot provide an opinion.

Committee on Veterans' Affairs
Subcommittee on Economic Opportunity
Washington, DC.
May 4, 2010

Mr. Tim J. Foreman
Executive Director
Office of Small and Disadvantaged Business Utilization
U.S. Department of Veterans Affairs
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear Mr. Foreman:

I would like to request your response to the enclosed questions for the record I am submitting in reference to our House Committee on Veterans' Affairs Subcommittee on Economic Opportunity hearing on the *Status of Veteran Small Businesses: Are We Failing Our Veterans?* on April 29, 2010. Please answer the enclosed hearing questions by no later than Tuesday, June 22, 2010.

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Sincerely,

Stephanie Herseth Sandlin
Chairwoman

JL/ot

Questions for the Record

House Committee on Veterans Affairs,
Subcommittee on Economic Opportunity

Chairwoman Stephanie Herseth Sandlin

Hearing on
"Status of Veteran Small Businesses: Are We Failing Our Veterans?"

April 29, 2010

Question 1: In your written testimony you stated that you generally agree with Shawne Carter McGibbon's testimony who testified on behalf of the Small Business Administration in a 2009 hearing. In her testimony she identified problems reported by Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses. Three of those problems were knowledge of programs for small business owners in general, obtaining resources from the government, and knowledge of programs for veteran small business owners. How is the VA working to help veteran small business owners obtain resources?

Question 1(a): How is the VA working to improve knowledge of existing programs for veteran small business owners?

Response: The Department of Veterans Affairs (VA) Office of Small and Disadvantaged Business Utilization (OSDBU) provides counseling to Service-Disabled Veteran-Owned Small Business (SDVOSB) and Veteran-Owned Small Business (VOSB) firms through various means. We provide a Vendor Day Counseling Session once each month in our office. These sessions give an overview of VA's organization and the applicable procurement offices within the Department. The counseling sessions provide information on how to sell to VA specifically and how to sell to the Federal Government in general. As many VA requirements are filled via the General Services Administration's (GSA) Federal Supply Schedule (FSS) contracts, we have partnered with GSA to have them take part in these Vendor Day sessions. They provide an overview to our attendees on how to obtain FSS contracts. Since many SDVOSB and VOSB firms are not located within the Washington, DC area, VA OSDBU also takes part in many small business conferences throughout the country, including the Annual National Veterans Small Business Conference. Overall, we participated in 61 conferences in fiscal year (FY) 2009 and 70 thus far in FY 2010.

VA OSDBU's travel schedule allows us to provide additional counseling to SDVOSB and VOSB firms in person, all over the country. Many events are associated with small business conferences and provide optimal ways to reach our stakeholders. VA OSDBU also participates in matchmaking events throughout the country. These events are one-on-one sessions specific to the needs of the small business owner, especially SDVOSB and VOSB. The aim is to provide participants with a real sense of upcoming procurements in the locales where the matchmaking events are held. VA OSDBU also responds to numerous telephone, e-mail, and hard copy correspondence inquiries and requests for assistance each day.

VA OSDBU maintains a Web page (www.va.gov/osdbu) that provides comprehensive information, small business resource tools, and links to many other Web sites that are valuable to SDVOSB and VOSB firms seeking to do business with the Federal Government. Among other items, the Web page includes a contact listing of all the VA Small Business Liaisons located at the various VA contracting activities throughout the Nation and a Forecast of Contracting Opportunities database, a listing of small business conferences scheduled throughout the country that offer valuable insight and networking opportunities for small firms. The Web page also links to our partner organizations (Procurement Technical Assistance Centers (PTAC), Small Business Development Centers, etc.) who share our mission of providing maximum practicable opportunities to SDVOSB and VOSB firms.

VA OSDBU works with numerous outside organizations to ensure SDVOSB and VOSB firms are made aware of training, counseling, and resource opportunities that are offered in the geographic areas where the SDVOSB and VOSB firms are located. The PTAC (http://www.aptac-us.org/new/) and the Small Business Development Centers (http://www.sba.gov/aboutsba/sbaprograms/sbdc/sbdclocator/SBDC__LOCATOR.html) are particularly close partners of VA OSDBU in providing training to SDVOSB and VOSB firms that need counseling regarding starting and growing their small businesses. VA OSDBU participates with many of the local branches of these organizations and takes part in their conferences to provide presentations, training sessions, matchmaking participants, and counselors. VA OSDBU realizes small businesses are not always capable of performing on large VA contracts. All small business firms, especially SDVOSB and VOSB, are encouraged to examine the Subcontracting Directory. This directory lists all prime contract holders with VA. Small businesses can research these firms and market their respective products and services to these prime contractors.

VA has partnered with the Small Business Administration (SBA) on a working group to coordinate on issues of specific interest to SDVOSB and VOSB firms. This effort will be further expanded with the recent (April 26, 2010) issuance of the President's Executive Order on the Interagency Task Force on Veterans Business Development. VA will work with SBA, the Department of Defense, Department of Labor, Office of Management and Budget, GSA, and representatives of Veterans Services Organizations to coordinate administrative and regulatory activities and develop proposals relating to:

- Improving capital access and capacity of small business concerns owned and controlled by veterans and service-disabled veterans through loans, surety bonding, and franchising;
- Ensuring achievement of the pre-established Federal contracting goals for small business concerns owned and controlled by veterans and service-disabled veterans through expanded mentor-protégé assistance and matching such small business concerns with contracting opportunities;
- Increasing the integrity of certifications of status as a small business concern owned and controlled by a veteran or service-disabled veteran;
- Reducing paperwork and administrative burdens on veterans in accessing business development and entrepreneurship opportunities;
- Increasing and improving training and counseling services provided to small business concerns owned and controlled by veterans; and,
- Making other improvements relating to the support for veterans business development by the Federal Government.

VA OSDBU will implement a Mentor Protégé Program (MPP) this fiscal year. Under the VA MPP, protégé firms must be SDVOSB or VOSB. The program is designed as a developmental program to provide vital business expertise to veteran-owned enterprises. The MPP will serve as a tool for veterans who are business owners to become viable and/or more competitive in the small business community.

Question 2: In your written testimony you said that the "VA will work with the U.S. Census Bureau to assure that useful veterans' business information is collected in future surveys and other data collection efforts." Have you spoken to the U.S. Census Bureau about this?

Question 2(b): What additional data would be helpful to collect?

Response: Yes. OSDBU's Executive Director has established a dialogue with the Chief, Small Business Programs Administrator, Acquisition Systems, Planning and Policy Branch, Acquisitions Division, U.S. Census Bureau. The initial focus is on capturing information in three new areas:

1. Number of service-disabled, veteran-owned businesses by business category;
2. Number of woman-owned businesses who are also veterans by business category; and,
3. The number of veteran-owned businesses that have gone out of business since the last survey.

Future areas for discussion involve how to define and capture virtual organizations controlled by veterans.

Question 3: Where is VA on the verification program for the Vendor Information Pages database?

Response: On June 1, 2010, VA awarded a contract for the modernization of the Vendor Information Pages (VIP) database with a modification called VIP5. In July 2010, VA plans to publish a Request for Proposal (RFP) to process applications for vendor verification for the VIP database by making case-by-case recommendations to VA OSDBU regarding the veteran-status of putative owners and business control of applicants. VA plans to award this second contract in September 2010. The VA's goal is to assure that by January 1, 2012, a timely verification decision has been made for all applicants.