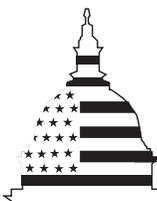


November 2002

SMALL BUSINESS ADMINISTRATION

The Commercial Marketing Representative Role Needs to Be Strategically Planned and Assessed



G A O

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SMALL BUSINESS ADMINISTRATION

The Commercial Marketing Representative Role Needs to Be Strategically Planned and Assessed

Highlights of [GAO-03-54](#), a report to Senator John Kerry, Chairman, Senate Committee on Small Business and Entrepreneurship, and Senator Max Cleland.

Why GAO Did This Study

Subcontracting on federal contracts is a large and growing marketplace for small businesses. The Small Business Administration's (SBA) Commercial Marketing Representatives (CMRs) have long been considered to be key to fostering small businesses' participation in subcontracts. GAO was asked to assess the role that CMRs are playing in administering SBA's subcontracting assistance program.

What GAO Found

CMRs are supposed to promote small business subcontracting in two primary ways. First, they review prime contractors' compliance with the requirements of their subcontracting plans—either through on-site visits to contractors or by simply reviewing their subcontractor activity reports. Second, they conduct various marketing activities, such as marketing small businesses to prime contractors.

In recent years, however, additional duties placed on CMRs have often taken priority over these responsibilities. In fact, in fiscal year 2000, 87 percent of the CMRs had other substantial responsibilities. Moreover, workloads and prime contractor coverage now vary greatly between CMRs. Additionally, CMRs are relying more on "desk" reviews of subcontractors' activity to monitor compliance with subcontracting plans as opposed to on-site reviews. This is a concern to some SBA officials who believe that on-site reviews are more thorough, though others believe the desk review offers the potential for greater coverage.

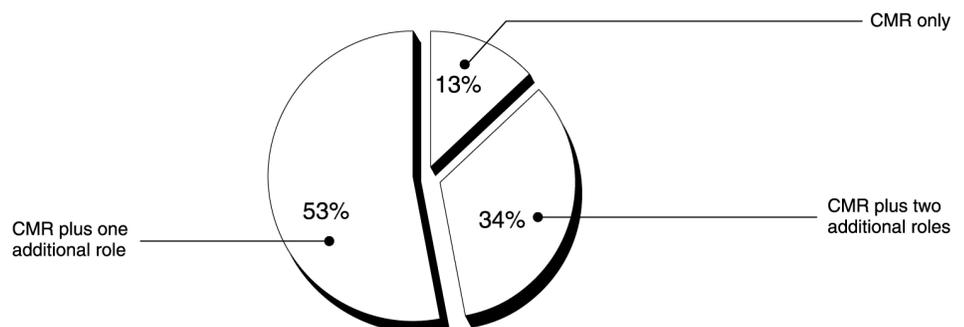
Declines in staffing and travel funds have contributed to the changing role of the CMR. With downsizing and retirements taking place and no staff assigned to replace lost personnel, the number of CMR full-time equivalents (FTEs) has decreased significantly and has resulted in workload imbalances.

While there are concerns about the changing nature of the CMR role, SBA has not strategically planned for these changes or assessed their collective impact. Instead, it has implemented ad hoc measures to deal piecemeal with resource declines. Unless steps are taken to better evaluate and plan for the future of CMRs, SBA will continue to lack an understanding of their contributions to small business subcontracting.

What GAO Recommends

GAO is recommending that SBA strategically assess, evaluate, and plan the CMR role. In doing so, it should address such issues as the impact of assigning multiple roles to CMRs and the effectiveness of compliance-monitoring methods.

SBA neither concurred nor disagreed with GAO's recommendations. However, SBA did agree that it needs to rethink the CMR role and develop outcome and impact measures to better assess CMRs' effectiveness. SBA also objected to some of GAO's conclusions but did not provide sufficient evidence to support its objections.



CMRs are increasingly taking on other roles and responsibilities

Contents

Letter		1
	Results in Brief	2
	Background	3
	The CMR Role Is Conflicted and in Decline	5
	Factors Affecting the CMR Role	15
	Conclusions	18
	Recommendations for Executive Action	18
	Agency Comments and Our Evaluation	18
	Scope and Methodology	19
Appendix I	Comments from the U.S. Business Administration	21

Tables		
	Table 1: Detailed Data on Time That CMRs Spent in Compliance Monitoring and Marketing in Fiscal Year 2000	9
	Table 2: Number and Percentage of On-Site Versus Desk Reviews Performed by Year	10
	Table 3: Number of Prime Contractors per CMR FTE by Area Office	11

Figures		
	Figure 1: Number of Full-Time and Number of Part-Time CMRs for Selected Years	6
	Figure 2: CMR Roles and Responsibilities in Fiscal Year 2000	7
	Figure 3: Percentage of Time Spent in Compliance Monitoring and Marketing in Fiscal Year 2000	8
	Figure 4: Percentage of On-Site versus Desk Reviews Performed	10
	Figure 5: Variances in CMR Workload	11



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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

November 1, 2002

The Honorable John F. Kerry
Chairman, Committee on Small Business
and Entrepreneurship
United States Senate

The Honorable Max Cleland
United States Senate

Subcontracting on large federal contracts is becoming increasingly important to small businesses, principally because subcontracts may offer the most opportunities for these businesses to participate in federal procurement in the near future.¹ The number of prime contracts is shrinking, and many prime contracts have become so large that small businesses find it difficult to compete for them. Moreover, the Small Business Administration (SBA) reported that dollars paid for subcontracts increased 40 percent from fiscal year 1993 through fiscal 2001, growing from \$65 billion to \$91.1 billion.²

SBA's Subcontracting Assistance Program focuses on increasing subcontracting opportunities for small businesses through major prime contractors. Historically, SBA staff known as Commercial Marketing Representatives (CMRs) have administered and implemented this program.

You asked us to assess the CMR role, particularly with respect to (1) what role CMRs are playing in administering and implementing the Subcontracting Assistance Program and;(2) what factors have affected this role. As part of our evaluation, we used data from a recent survey we conducted of all staff working as CMRs in fiscal year 2000.³ Our overall response rate was 97 percent.

¹ See the SBA Subcontracting Task Team Draft Recommendations, May 2001.

² All dollar figures in this report have been adjusted to 2001 dollars to account for inflation.

³ We conducted the survey for our report entitled *Small Business Subcontracting Validation Can Be Improved*, [GAO-02-166R](#) (Washington, D.C.: Dec. 13, 2001).

Results in Brief

The CMR role is conflicted and in decline. Most CMRs are now largely part-time and have substantial additional roles and responsibilities that often take priority over CMR duties. In addition, there are differences of opinion and concerns within the agency about the focus of the CMR role. Some SBA Area Directors, Supervisors, and CMRs believe that CMRs should focus more on monitoring prime contractors' compliance with their subcontracting plans. Other SBA officials believe that CMRs should focus more on helping small businesses connect with prime contractors for subcontracting opportunities.

There are also differences of opinion and concerns within the agency about the relative merits of the methods CMRs use to monitor compliance. Some SBA officials and many CMRs believe that going on-site to conduct detailed reviews of prime contractors is more effective than simply reviewing their subcontracting activity reports, which is now the most frequently used monitoring method. Other SBA officials argue that relying on report reviews is not only effective but also necessary because it is more cost-efficient. Finally, CMRs' geographic distribution and workloads are very uneven, as is their coverage of prime contractors.

Resource declines and the agency's ad hoc, piecemeal response are the main factors driving this situation. CMR roles and responsibilities have been affected by cutbacks in staff and travel funds during the past decade. For example, CMRs (and other staff) have been assigned multiple roles, and on-site reviews of prime contractors have been curtailed as economy measures. Workload distributions and prime contractor coverage have been affected in turn. As resources have declined, the agency has struggled to make adjustments piecemeal as particular situations have arisen, rather than stepping back to strategically assess and plan the CMR role. Thus, role change occurred not by design but by default.

Consequently, we do not know whether the CMR role is effective or not. Even though CMRs are considered to be critical to the successful implementation of SBA's Subcontracting Assistance Program, the agency does not have a clear strategic vision of what CMR roles and responsibilities should be and has not developed outcome or impact measures for the CMR role. In addition, the agency has not assessed or evaluated the effects of the various adjustments it has made to the CMR role in response to the resource challenges.

We are recommending that the agency strategically assess, evaluate, and plan the CMR role. This should include a careful assessment of such issues as the impact of assigning multiple roles to staff, appropriate role focus,

the effectiveness of different methods of compliance monitoring, uneven distributions of CMRs and CMR workloads, and uneven prime contractor coverage.

SBA neither concurred nor disagreed with our recommendations. However, SBA did agree that it needs to rethink the CMR role and develop outcome and impact measures to better assess CMRs' effectiveness. SBA also objected to some of our conclusions but did not provide sufficient evidence to support its objections.

Background

The federal government encourages federal prime contractors' use of small businesses as subcontractors by requiring prime contractors to develop plans with stated goals for subcontracting to various types of small businesses. Federal regulations require a subcontracting plan for each contract or contract modification that exceeds \$500,000 (\$1 million for construction contracts) and has subcontracting possibilities.⁴

The Subcontracting Assistance Program is SBA's vehicle for increasing the percentage of subcontract awards to small businesses and ensuring that small businesses have the maximum practicable opportunity to participate in the performance of federal government contracts.⁵ SBA's Office of Government Contracting (OGC) oversees this program. SBA/OGC has six Area Offices responsible for all prime contractors' subcontracting performance.⁶

The program is implemented by CMRs, who promote small business subcontracting in two primary ways, as described in SBA regulations.⁷ First, CMRs review prime contractors' compliance with the requirements of their subcontracting plans. They conduct on-site compliance reviews at prime contractors' facilities and validate how well the prime contractors are implementing their subcontracting plans. They also conduct "desk

⁴ See Federal Acquisition Regulation 19.702.

⁵ SBA is authorized to assist federal agencies and businesses in complying with their subcontracting responsibilities and to evaluate prime contractors' compliance with their subcontracting plans by 15 U.S.C. 637(d)(10)(C).

⁶ The Department of Defense's Defense Contract Management Agency also reviews subcontracting plans for defense prime contractors.

⁷ See 13 C.F.R. 125.3 (c)(d).

reviews,” which are reviews of relevant subcontracting reports that are submitted by prime contractors and completed without on-site visits.

Second, CMRs conduct various marketing activities, such as marketing small businesses to prime contractors or matching certain types of small business subcontractors with prime contractors. CMRs perform this “matchmaking” through both personal introductions and the use of Web-based tools that help to connect prime contractors and subcontractors. CMRs also provide various educational activities (e.g., seminars and workshops) for prime contractors, subcontractors, and agency officials as part of their marketing activities. In describing the duties required of CMRs, SBA regulations do not place a relative order of importance on any of these responsibilities.⁸

In addition, CMRs work on various SBA special initiatives as part of their marketing activities. For example, CMRs promote SBA’s special 8(a) subcontracting initiative, which focuses on increasing the number of subcontracts to small disadvantaged businesses. CMRs also promote several special initiatives involving SBA’s Procurement Marketing and Access Network (PRO-Net). PRO-Net is a Web-based system that allows prime contractors to advertise potential subcontracting opportunities and small businesses to advertise their capabilities as subcontractors.⁹ CMRs install PRO-Net access stations at large prime contractor sites and public libraries, and train interested businesses and agencies in the use of PRO-Net to match prime contractors and subcontractors. Finally, CMRs conduct special training for agencies and contractors on SBA’s historically underutilized business zones (HUB-Zone) Empowerment Contracting Program, which encourages economic development in HUB Zones.

SBA/OGC also employs other contract specialists, who focus on small businesses as prime contractors rather than subcontractors. These include Procurement Center Representatives (PCRs), size determination specialists, and Certificate of Competency (COC) specialists. PCRs work with agencies to determine whether it is appropriate for acquisitions not set aside for small businesses to be set aside.¹⁰ Size determination specialists determine whether a small business meets existing size

⁸ See C.F.R. 125.3 (c)(d).

⁹ Small businesses may also advertise their capabilities as prime contractors.

¹⁰ See 13 C.F.R. 125.2(b).

standards for all procurement programs for which status as a small business is required.¹¹ COC specialists review a contracting officer's determination that the small business in question is not competent to perform on a particular contract.¹²

The CMR Role Is Conflicted and in Decline

The CMR role is conflicted and in decline. Over the past few years, the CMR role has become part-time, and CMRs now usually have additional roles that often take priority. CMRs appear to spend slightly more time on marketing activities than on compliance monitoring, and they now rely much more frequently on desk reviews than on-site visits for the latter. In addition, workloads and prime contractor coverage vary greatly between CMRs. SBA officials and CMRs have several concerns about the CMR role.

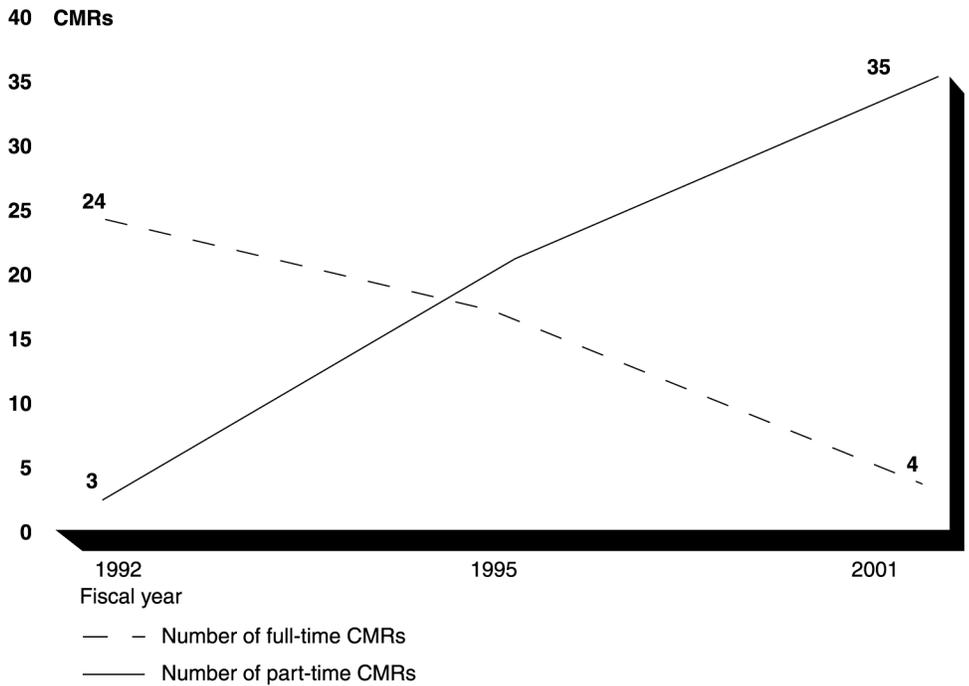
The CMR Role Is Usually Part-Time and Often Lower Priority

The CMR position is usually part-time. At the end of fiscal year 2001, about 90 percent of the CMRs had other substantial responsibilities in addition to their CMR duties. At that time, only 4 of the 39 CMRs were full-time CMRs. As figure 1 shows, the number of part-time CMRs has grown over time, increasing twelve-fold since 1992. (SBA officials anticipate the continued assignment of additional roles to CMRs and other contracting specialists.) In addition, despite the fact that a larger number of staff had CMR duties at the end of fiscal year 2001 than in fiscal 1992, the number of CMR full-time equivalents (FTEs) declined 28 percent—from 25 to about 18—during this period.

¹¹ See 13 C.F.R. 121.401.

¹² See 13 C.F.R. 125.5(f).

Figure 1: Number of Full-Time and Number of Part-Time CMRs for Selected Years



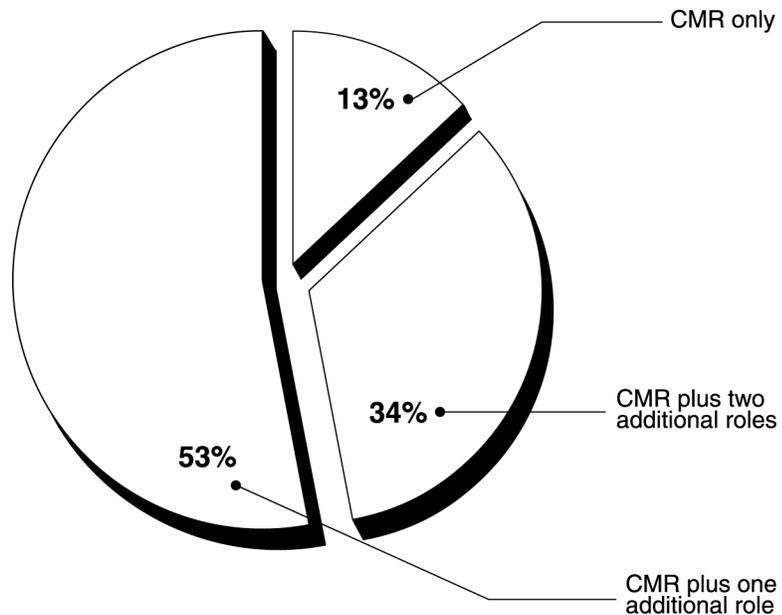
Source: SBA's personnel records.

The SBA officials and CMRs we interviewed told us that part-time CMRs have a variety of additional responsibilities, including serving as PCRs, COC specialists, and/or size determination specialists.¹³ For example, in our survey, 87 percent of the CMRs responding reported that in fiscal year 2000, they served in one or even two additional roles, as figure 2 shows.¹⁴ PCR was the most frequent additional role; 59 percent of the part-time CMRs also served as PCRs.

¹³ Most of these positions are GS-13 positions.

¹⁴ Since fiscal year 2000, SBA has assigned 6 additional part-time CMRs. Our survey includes 85 percent of the current population of 39 CMRs.

Figure 2: CMR Roles and Responsibilities in Fiscal Year 2000



Source: GAO survey.

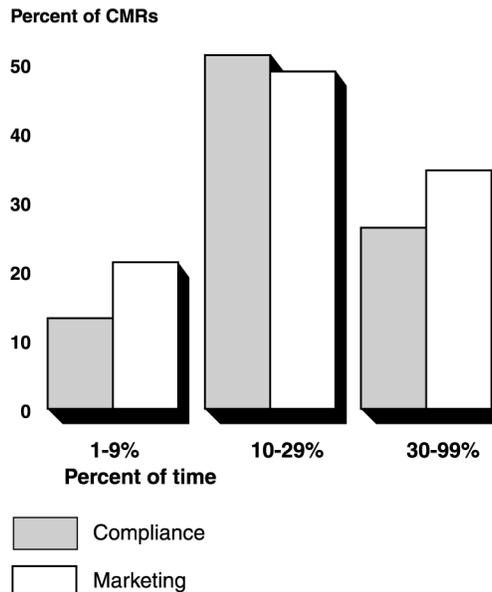
The CMRs and SBA officials we interviewed also told us that part-time CMRs often give lower priority to their CMR work than to their PCR, COC, and/or size determination work. This is consistent with our survey—57 percent of the part-time CMR respondents reported spending 60 to 89 percent of their time in fiscal year 2000 performing non-CMR duties. Only 31 percent reported spending less than 30 percent of their time on non-CMR duties. Apparently, there are several reasons for this, including not only the workload demands of these other roles, but also the time frames within which they must be performed. Generally, these roles are tied to specific procurements, and staff performing them must meet the procurement schedule. Regulations and guidance also mandate tight time frames for certain tasks.¹⁵ In contrast, CMR work is generally not as time sensitive, and several CMRs who perform these other roles told us they “fit in CMR work” when they have time.

¹⁵ See Federal Acquisition Regulation 19.4 and 19.6, SBA SOP 60 04 4, SOP 60 02 6.

Time Spent on Compliance Monitoring Versus Marketing Varies

CMRs generally seem to spend slightly more time on marketing than on compliance monitoring. Figure 3 and table 1 show details of how CMRs spent their time in fiscal year 2000. However, the SBA officials and CMRs we interviewed told us that the amount of time that both full- and part-time CMRs spend on the two primary CMR duties—compliance monitoring and marketing—varies considerably between Area Offices and between individual CMRs.

Figure 3: Percentage of Time Spent in Compliance Monitoring and Marketing in Fiscal Year 2000



Source: GAO survey.

Table 1: Detailed Data on Time That CMRs Spent in Compliance Monitoring and Marketing in Fiscal Year 2000

Percent of time spent	Compliance monitoring		Marketing	
	Number of CMRs	Percent of CMRs	Number of CMRs	Percent of CMRs
0	3	10	0	0
1-9	4	13	6	20
10-19	12	40	9	30
20-29	3	10	5	17
30-39	6	20	5	17
40-49	1	3	1	3
50-59	0	0	1	3
60-69	0	0	2	7
70-79	0	0	0	0
80-89	1	3	0	0
90-99	0	0	1	3
Total	30	99	30	100

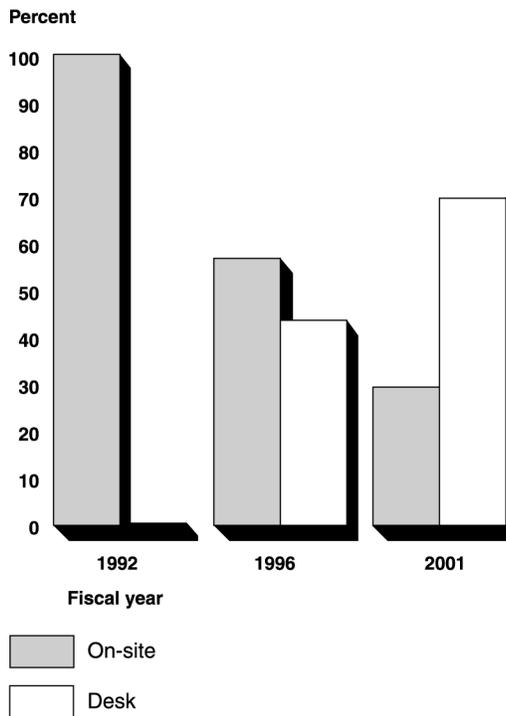
Note: Two of the CMRs surveyed did not respond completely to this question and therefore were omitted. Percents do not add to 100 because of rounding. Marketing includes outreach and marketing activities, special initiatives, and ongoing prime contractor assistance.

Source: GAO survey.

Shift from On-Site to Desk Reviews

CMRs use desk reviews far more frequently than on-site reviews to monitor prime contractors' compliance with subcontracting plans. In fiscal year 2001, 70 percent of all compliance reviews were desk reviews. Reliance on desk reviews has increased substantially since fiscal year 1992, when all compliance reviews were done on-site. Figure 4 and table 2 show more details.

Figure 4: Percentage of On-Site versus Desk Reviews Performed



Source: SBA's CMR database and SBA's Area records.

Table 2: Number and Percentage of On-Site Versus Desk Reviews Performed by Year

Fiscal year	All compliance reviews	On-site reviews ^a	Desk reviews
1992	380	380 (100%)	0
1993	458	458 (100%)	0
1994	470	470 (100%)	0
1995	484	484 (100%)	0
1996	777	441 (57%)	336 (43%)
1997	1,786	290 (16%)	1,496 (84%)
1998	1,497	233 (16%)	1,264 (84%)
1999	1,425	345 (24%)	1,080 (76%)
2000	1,096	252 (23%)	844 (77%)
2001	896	269 (30%)	627 (70%)

^aIncludes follow-up reviews, which are return visits to a contractor to determine whether recommendations from the original on-site review have been made.

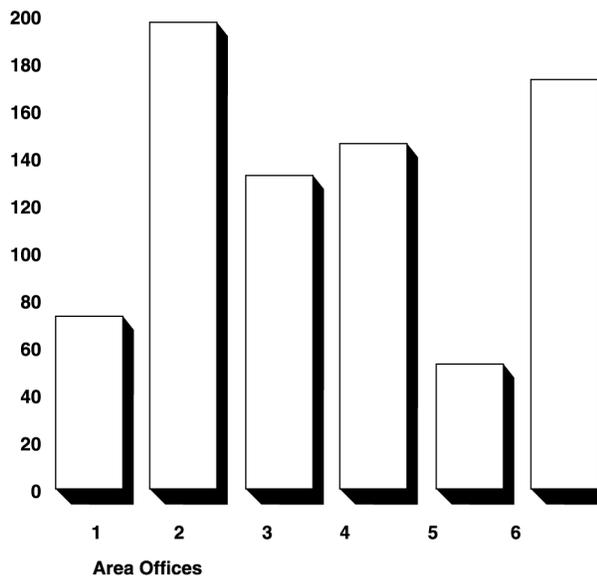
Source: SBA's CMR database and SBA's Area records.

Uneven CMR Workload and Prime Contractor Coverage

There is an uneven distribution of CMRs nationally and an uneven distribution of CMR workload. According to SBA, at the end of fiscal year 2001, there were about 18 CMR FTEs nationally to monitor the subcontracting activities of the 2,029 prime contractors under SBA's cognizance. Figure 5 and table 3 illustrate the wide range in CMR workload.

Figure 5: Variances in CMR Workload

Number of prime contractors per CMR FTE



Source: SBA's workload analysis.

Table 3: Number of Prime Contractors per CMR FTE by Area Office

Area Offices	CMR FTEs	Number of prime contractors	Number of prime contractors per CMR FTE
1	4.20	314	75
2	2.40	474	198
3	1.75	234	134
4	1.63	237	145
5	4.95	277	56
6	2.85	493	173
Total	17.78	2,029	114

Source: SBA's workload analysis.

The SBA officials and CMRs we interviewed also acknowledged wide variations in workload between individual CMRs, whether full-time or part-time, in different Area Offices or within the same Area Office. For example, in one Area Office, one CMR had 13 prime contractors to monitor, while another had 65. Both spend about 10 percent of their time as CMRs. Similarly, in another Area Office, one CMR had 120 prime contractors to monitor, while a CMR in another had only 2. Both spend about 20 percent of their time as CMRs.

Not surprisingly, the uneven distribution of CMRs and CMR FTEs has contributed to wide variations in the number of on-site reviews performed annually by Area Offices.¹⁶ For example, one Area Office conducted 15 on-site reviews in fiscal year 2001, while others conducted 40 or more. In addition, uneven workload distribution has contributed to the existence of large blocks of un-reviewed, that is, “uncovered,” prime contractors. For example, in one Area, there are no SBA reviews of any kind—on-site or desk—being done for 212 prime contractors, including all the prime contractors in one state and half of those in another. SBA officials told us that in fiscal year 2001, only 11.4 percent of the prime contractors nationwide received an on-site SBA review.¹⁷

Concerns about the CMR Role

CMRs and SBA officials have a range of concerns about the focus of the CMR role—particularly with regard to how CMRs should spend their time. Some believe that CMRs should concentrate more on monitoring prime contractors’ compliance with their subcontracting plans. Others believe they should focus more on helping small businesses connect with prime contractors for subcontracting opportunities. There are also differences of opinion and concerns within the agency about the relative merits of the methods that CMRs use to monitor compliance as well as with the uneven distribution of the CMR workload.

¹⁶ Differing emphasis by Area Directors and CMRs on compliance monitoring versus marketing and the lack of travel funds (especially in geographically large areas) also appear to be contributing factors.

¹⁷ SBA officials told us that agency-wide on-site review goals have not been set because of travel fund restrictions.

Disagreements about the Balance between Compliance Monitoring and Marketing

There are disagreements within SBA about the most appropriate focus for the CMR role, that is, the balance between compliance monitoring and marketing. The Area Directors, Supervisors, and CMRs we interviewed had different views about CMR work priorities. For example, one Area Director stated that compliance monitoring should be the first priority for CMRs and matchmaking (i.e., marketing) should be secondary. Another Area Director said that the CMR role should be a combination of compliance monitoring and matchmaking but that matchmaking should get more emphasis.

In contrast, the May 2001 report of the SBA Subcontracting Task Team clearly identifies compliance monitoring as the CMRs' main function.¹⁸ The report concludes that over the past several years, CMRs have spent a disproportionate amount of their time on special initiatives. The report recommends that compliance reviews become the CMRs' primary focus and that less emphasis be placed on ancillary duties, such as matchmaking or special initiatives. The report even proposes a new job title for the CMR, adding that "marketing" gives the wrong impression that matchmaking is the CMR's main role.

In contrast again, SBA's Web site does not mention compliance monitoring as part of the CMR role. Rather, the Web site, which is an important means of communicating with both prime contractors and small businesses, describes the CMR role as "assisting small businesses in obtaining subcontracts by marketing small businesses and matching them with large prime contractors."

Concerns about the focus of the CMR role are not new. SBA's Office of the Inspector General (OIG) issued a report in October 1995 citing the need to focus CMR efforts more effectively with respect to compliance monitoring and matchmaking.¹⁹

Concerns about Desk Reviews

SBA introduced desk reviews in fiscal year 1996 as an economy measure. Because desk reviews take place in the CMRs' offices rather than at the prime contractors' locations, CMRs do not have to travel. In addition, the desk review takes substantially less time to accomplish than does the on-

¹⁸ See SBA Subcontracting Task Team Draft Recommendations, May 1, 2001.

¹⁹ See SBA's Inspector General report Prime Contracts and Subcontracting Program, October 1995.

site review. Consequently, relying on desk reviews saves both travel money and CMR time.

SBA staff opinions differ about the relative merits of on-site versus desk reviews. Some SBA officials and many CMRs believe that on-site reviews are more effective and question the relative value of desk reviews as a means of monitoring compliance. During on-site reviews, CMRs determine if prime contractors are complying with their subcontracting plans by going to the prime contractor's location, reviewing files and documentation that support reported summaries of subcontracting activities, and interviewing officials. The CMRs we spoke with said that this type of in-depth review is one of their best tools to encourage the maximum use of small businesses as subcontractors. In contrast, other SBA officials believe that using desk reviews not only saves resources but also increases the total amount of monitoring that CMRs can do. SBA officials said they have never evaluated the effectiveness of the two types of reviews.

Concerns about CMR Workload and Prime Contractor Coverage

SBA's OIG observed the uneven workload distribution problem in October 1995.²⁰ Noting the limited subcontracting resources and variable staffing levels and workloads, the OIG concluded that the unequal distribution of workload among CMRs was correlated with the uneven coverage of prime contractors. Accordingly, the OIG recommended that SBA more evenly distribute prime contractors among CMRs to improve coverage. However, SBA officials told us that where CMRs are located is driven by factors other than the location of prime contractors with subcontracting plans. For example, they said that although they can request CMRs to relocate to provide better coverage, they cannot require staff to relocate.

It is likely that the full extent of the uneven workload and coverage problems has not yet been identified. SBA officials have estimated that as many as 1,500 additional prime contractors with subcontracting plans are not presently captured by SBA's data systems. While SBA officials told us they are working to improve the methods and databases for identifying and tracking prime contractors, progress appears to be very slow. Again in October 1995, the SBA OIG noted that the number of federal prime contractors with subcontracting plans was unknown, complicating SBA's

²⁰ See SBA's Inspector General report Prime Contracts and Subcontracting Program, October 1995.

efforts to focus subcontracting program activities and likely resulting in lost small business opportunities.²¹

Factors Affecting the CMR Role

Two primary factors have affected the CMR role: declines in resources and an ad hoc, piecemeal response to resource challenges. Both staffing and travel funds declined substantially over the past several years. With downsizing and retirements taking place and no staff assigned to replace lost personnel, the number of CMR FTEs declined significantly and resulted in workload imbalances across and even within SBA's Area Offices. Travel fund reductions have meant fewer on-site visits and greater reliance on desk reviews. Staff at all levels agreed that insufficient resources—particularly staffing and travel funds—are the biggest obstacles to greater CMR coverage of prime contractors.

SBA did not formulate a strategic plan for dealing with the impact of resource reductions on the CMR role. Without such a plan, SBA implemented ad hoc measures to deal piecemeal with resource declines. Nonetheless, these measures collectively have redefined the CMR role.

Declining Resources

SBA/OGC resources have declined substantially over the past few years. From fiscal year 1991 through fiscal 2000,²² staff declined 52 percent, from 333 to 159. During this same period, travel funds declined 54 percent, from \$440,000 to \$201,000. SBA officials agreed that these resource declines have significantly affected the CMR role. For example, SBA Area Directors told us that the need to assign multiple roles to field staff has increased since SBA experienced significant budget and staff cuts in the mid-1990s. Prior to these cuts, most field staff for both the prime and subcontracting programs were hired as specialists for one program. Now most, including CMRs, work on multiple programs. Similarly, the Subcontracting Task Team report pointed out that the merging of the CMR/PCR positions was workload driven and reflected the fact that positions were not being filled when incumbents retired.²³ Finally, several SBA officials told us that to cope with the loss of staff and lack of travel funds, as well as the increased

²¹ See SBA's Inspector General report Prime Contracts and Subcontracting Program, October 1995.

²² Fiscal year 2000 is the most recent year for which both staff and travel data were available from SBA.

²³ See SBA Subcontracting Task Team Draft Recommendations, May 1, 2001.

number of special initiatives, the assignment of multiple roles to staff became necessary and the desk review was created to replace the on-site review, when necessary.

The decline in travel funds has especially affected on-site compliance monitoring. The lack of travel funds has become a critical factor in decisions about which prime contractors receive on-site reviews, particularly in those Area Offices that cover large geographic areas. For example, in one Area, one CMR said that one major factor determining which contractors receive on-site visits was whether they could be reached on a tank of gas, since travel funds are so limited. In another Area, the Director said that travel funds have been a problem for a long time, and that for many months of the fiscal year, CMRs do not have access to any travel money. This prevents them from being able to effectively select prime contractors for on-site review.

Our survey indicated that the lack of travel funds also affected on-site reviews in fiscal year 2000. For example, 76 percent of the responding CMRs rated their Area Office's travel budget as very important in determining which prime contractors to review on-site. In comparison, fewer—66 percent—rated problems with contractor reports as very important. Still fewer—58 percent and 50 percent, respectively—rated poor/marginal ratings of the contractor during the last on-site review and the fact that the contractor had never had an on-site review as very important. Similarly, 78 percent rated the lack of travel funds as a significant barrier to conducting on-site prime contractor reviews.

Finally, the Task Team's report expressed concern that without the requisite travel money and other resources, SBA will continue to monitor (on-site) about 12 percent of the total prime contractor portfolio, thus limiting the effectiveness of the Subcontracting Assistance Program.²⁴

Ad Hoc, Piecemeal Response to Resource Challenges

SBA's response to these resource challenges has been largely ad hoc and reactive. As resources have declined, the agency has struggled to keep up with subcontracting program demands by making various piecemeal adjustments to address specific problems, such as assigning multiple roles to CMRs and instituting desk reviews to cover staffing shortages and travel fund declines. SBA has not stepped back—at either the agency or program

²⁴ See SBA Subcontracting Task Team Draft Recommendations, May 1, 2001.

level—and taken a broader, more strategic look at the CMR role, particularly in the context of today’s resource-constrained environment.

Strategic planning, assessment, and evaluation are essential elements of good management. This has been recognized for federal agencies since 1993, when the Government Performance and Results Act²⁵ became law. Effective management requires the establishment of goals and objectives as well as impact or outcome performance measures.

SBA has not extended such planning to the CMR role to help address the difficult challenges that declining resources pose for the Subcontracting Assistance Program. SBA’s agency-level plan does not address the CMR role at all.²⁶ Furthermore, SBA officials told us that SBA’s current strategic-planning process does not deal with the CMR role in subcontracting or provide for assessments, evaluations, or planning for the CMR role. In addition, they told us that neither OGC nor the Subcontracting Assistance Program has conducted strategic assessments or planning for the CMR role.

In sum, while regulations and operating procedures describe a variety of duties and responsibilities that CMRs may perform,²⁷ SBA has not developed goals and objectives for the CMR role. For example, the agency analyzed what might be desirable levels of prime contractor coverage or subcontracting plan compliance in today’s environment and how CMRs might contribute to achieving these goals. In addition, although SBA has productivity measures (e.g., the number of on-site and desk reviews conducted) to track CMRs’ performance, it does not have impact or outcome measures—or even such expectations—for CMRs. Finally, SBA has not strategically assessed, evaluated, or planned how best to address critical CMR role issues that have emerged during the past few years, such as the effect of multiple role assignments for CMRs, disagreements about the focus of the CMR role, the relative merits of on-site and desk reviews, and the impact of uneven distributions of CMRs and CMR workloads.

²⁵ See P.L. 103-62.

²⁶ See SBA Strategic Plan FY 2001-2006.

²⁷ See 13 C.F.R. Part 125, 3(c)(d), SBA SOP 60 03 5.

Consequently, we do not know how effective the CMR role is. Effectiveness cannot be assessed without outcome and impact measures tied to program goals and objectives. These do not exist for the CMR role.

Conclusions

Subcontracting on federal contracts is a large and growing marketplace for small businesses. CMRs have been long considered to be key to fostering small business participation in such subcontracting. However, the value of the CMR role and the effect of recent changes in it are unknown. Unless steps are taken to better assess, evaluate, and plan for the future of the CMR role, SBA will continue to lack an understanding of CMR contributions to small business subcontracting. Moreover, its approach to addressing challenges that CMRs face will continue to be ad hoc and piecemeal.

Recommendations for Executive Action

We recommend that the Administrator of SBA

- assess, evaluate, and plan the CMR role, including addressing such issues as the impact of assigning multiple roles to CMRs, the appropriate CMR role focus, the effectiveness of compliance-monitoring methods, and the impact of uneven CMR workloads and prime contractor coverage;
- develop specific outcome and impact measures for CMRs' effectiveness; and
- clearly communicate the strategic plan and expectations for the CMR role to both SBA staff and small businesses.

Agency Comments and Our Evaluation

SBA provided us with written comments on a draft of this report. The comments, along with our responses, appear in appendix I.

SBA neither concurred nor disagreed with our recommendations. However, SBA said that our report will be extremely helpful as it seeks ways to strengthen and improve its Subcontracting Assistance Program. In addition, SBA agreed that it needs to rethink the CMR role in today's environment and noted that some aspects of the role may change in the future. SBA also agreed that it needs to develop outcome or impact measures to better assess the effectiveness of the CMR role. Furthermore, SBA noted that it has changed its Web site to include compliance monitoring as part of the CMR role.

SBA objected to some of our conclusions, particularly (1) that SBA's response to the challenges posed by declining resources has been ad hoc and piecemeal; (2) that SBA lacks a clear, strategic vision of the CMR role; and (3) that CMRs' effectiveness is unknown. We continue to believe that our conclusions are correct. They are based on evidence that SBA has not strategically assessed, evaluated, or planned the CMR role in light of the current environment, including developing goals and objectives for the role and impact and outcome measures for CMRs.

SBA's comments do not provide any new evidence to the contrary. For example, the task force study that SBA cites as evidence of planning identified some specific problems with the CMR role and recommended some specific solutions. However, it did not strategically assess or plan the CMR role, nor was it tied to any SBA strategic-planning effort. In addition, the study did not use or establish measurable goals and objectives or outcome and impact measures for the CMR role. Similarly, the regulations and operating procedures that SBA references as evidence of vision are not tied to measurable goals and objectives and associated outcome and impact measures.²⁸ Rather, they simply describe a variety of duties and responsibilities that CMRs are required to perform. In addition, the conditions that SBA cites as evidence of CMRs' effectiveness may be the result of many factors other than CMRs' efforts alone. SBA has not conducted the assessments and evaluations necessary to determine what effect CMRs actually had on these conditions. Finally, SBA's agreement that it needs to rethink the CMR role and develop impact or outcome measures further supports our conclusions.

Scope and Methodology

To determine CMRs' duties and responsibilities, we analyzed pertinent legislation, regulations, and operating procedures and reviewed other agency documentation, including staffing profiles and workload analyses. We extracted information from the General Services Administration's Federal Procurement Data System database on prime and subcontractors. We also interviewed officials at SBA headquarters and Area Directors and CMRs located in all six SBA Area Offices. We interviewed all six Area Directors and several Area Supervisors. We also interviewed 15 of the 39 current CMR staff, accounting for about 51 percent of the total CMR FTEs. Finally, we analyzed data from a GAO survey of all 33 staff working as CMRs in fiscal year 2000, who constitute 85 percent of the current CMR

²⁸ See 13 C.F.R. Part 125, SBA SOP 60 03 5.

population. Our overall response rate was 97 percent. On our survey, we asked a variety of questions about CMRs' roles and responsibilities.

To identify the factors affecting the CMR role, we reviewed pertinent legislation, SBA staffing information, workload analyses, and travel budget fund submissions. We also interviewed SBA headquarters and Area Office personnel and reviewed agency audit reports and task force studies. We also met with SBA officials responsible for strategic planning.

We conducted our work from November 2001 through July 2002 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional committees; the Administrator, SBA; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions concerning this letter, please call me at (617) 565-7555. Key contributors to this review were Catherine Baltzell, Art Fine, David Bennett, Christina Chaplain, and Sylvia Schatz.



David E. Cooper
Director, Acquisition and Sourcing Management

Appendix I: Comments from the U.S. Business Administration

Note: GAO's comments supplementing those in the report's text appear at the end of this appendix.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OCT 8 2002

Ms. Catherine Baltzell
Assistant Director, Acquisition and Sourcing Management
General Accounting Office
441 G Street, NW
Room 4440/A
Washington, DC 20548

Dear Ms. Baltzell:

Thank you for your e-mail of September 18, 2002, providing us an opportunity to review and comment on your draft report entitled "The Commercial Marketing Representative Role Needs to be Strategically Planned and Assessed" (GAO-03-54). I wish to commend you for your thorough review. Your observations will be extremely helpful as we seek ways to strengthen and improve our Subcontracting Assistance Program.

We believe that the reference on page one of the report to 33 staff working as Commercial Market Representatives (CMRs) in fiscal year 2000 is misleading. You mention on page 6 and elsewhere in the report that the U.S. Small Business Administration (SBA) had only four (4) full-time CMRs on October 1, 2001, the beginning of the fiscal year in which your study was conducted. We would like to point out that, in addition to these four full-time CMRs, SBA has four other employees in the field who devote 80% or more of their time to the CMR function. Our records also indicate that on October 1, 2001, SBA had 31 other part-time CMRs. Accordingly, we suggest that this sentence be rewritten to say that, at the beginning of fiscal year 2001, SBA had "39 staff in the CMR program, only 8 of whom were essentially full-time." Otherwise the reader may begin reviewing the report with the misconception that SBA has almost three dozen full-time CMRs.

One of your main conclusions beginning on page 2, and elsewhere in the report, is that the SBA has had an "ad hoc, piecemeal response" to the problem of declining resources rather than "stepping back to strategically assess and plan the CMR role." This statement does not accurately depict SBA's approach to addressing this problem. In January 2001, we convened a task force consisting of 13 supervisors, PCRs, and CMRs representing some of our most experienced employees in the field. This task force examined the subcontracting program and submitted a draft report to senior management on May 1, 2001, with numerous recommendations for strengthening the program. We have already implemented some of those recommendations, primarily in the procedures and checklists that the CMRs use during compliance reviews. Also, we are now revising the CMR's Standard Operating Procedures (SOP) to implement many of the other recommendations within the coming year. To imply that SBA has not examined the program critically and taken remedial action is not accurate.

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See comment 1.

See comment 2.

Ms. Catherine Baltzell

Page 2

See comment 3.

On page two of the report, you state that “there are differences of opinion and concerns within the agency about the focus of the CMR role.” On page 14, you discuss this in more detail, citing the balance between compliance monitoring and marketing. This has been a critical issue for more than two decades, and SBA has always sought to find a balance between these two responsibilities. In fact, recognizing that each of the SBA Area Offices has its unique needs, we have deliberately given SBA’s Area Directors the flexibility to decide how they wish to prioritize their CMRs’ duties and responsibilities. In some cases, this means prioritizing compliance reviews; in other cases, it means prioritizing sourcing. The important point is that each Area Director can decide how to manage the program to achieve the best results under their own unique circumstances.

See comment 4.

We also do not agree with your statement on page 20 of the report, that SBA does not have a clear, strategic vision of the CMR’s roles and responsibilities. To the contrary, this vision is set forth explicitly in Title 13 of the *Code of Federal Regulations*, subpart 125.3, and in SOP 60 03 5, *Subcontracting Assistance Program*. We do agree, however, that we need to rethink the CMR’s role and how it is carried out in light of current resources and advances in information technology. Some aspects of the CMR’s roles and responsibilities may change in the future. We also agree that we need to develop outcome or impact measures that better indicate the effectiveness of the CMR Program.

See comment 5.

There is also much discussion beginning on page 15 of the report of the desk reviews (officially known as “Performance Reviews”) that we implemented in 1996. Desk reviews are done by examining the contractors’ SF-294s, *Subcontract Report on Individual Contracts*, and SF-295s, *Summary Subcontract Report*, without making site visits. While we concur that on-site compliance reviews are preferable to desk reviews, we believe that on-site reviews are less cost-effective and are not needed in every instance. Indeed, SBA uses the results of the desk reviews to determine which prime contractors should receive on-site reviews – a useful approach to risk management that addresses one of GAO’s primary concerns in a 2001 report (GAO-02-166R, *Small Business: Subcontracting Report Validation Can Be Improved*).

See comment 5.

The effectiveness of desk reviews can be seen by the increase in the total compliance reviews from 1995 to 1997, the year after we implemented them (desk reviews were implemented during fiscal year 1996). In 1995, we conducted only 484 compliance reviews; by contrast, in 1997, we conducted 1,786 compliance reviews. In other words, the desk reviews allowed us to more than triple the number of compliance reviews that we conducted, with fewer CMRs and no additional travel money. We believe that what you describe as an ad hoc response was a logical and cost-effective approach to maximizing the utilization of available resources.

See comment 5.

From the data mentioned above, it should be clear that your statement on page 15 that SBA officials have never evaluated the effectiveness of the two types of reviews (on-site vs. desk) is incorrect. To the contrary, we know that on-site visits are more effective, but we also know that they are less cost-effective than desk reviews and are not always necessary.

Ms. Catherine Baltzell

Page 3

Another example of SBA's resourcefulness is an agreement we signed with the Defense Logistics Agency (DLA) in 1996. That agreement delegated the primary responsibility for monitoring the subcontracting plans of most Department of Defense contractors to DLA, which has allowed SBA to focus its limited resources on monitoring the subcontracting plans of civilian agency contractors. SBA also monitors a small number of defense contractors not handled by DLA. The Defense Contract Management Agency (DCMA) now monitors subcontracting plans for the Department of Defense, and we are currently renegotiating the agreement with DCMA.

See comment 6.

We also do not agree with your statement that SBA does not know if the CMRs are effective or not. In fiscal year 2000 (the most recent year for which we have reliable data), small businesses received 39.7% of all subcontract awards; small disadvantaged businesses (SDBs) received 6.7%, and women-owned small businesses received 4.7%. These percentages are much higher than at the prime contract level. In other words, if measured on a percentage basis, prime contractors did much better than Federal agencies in achieving their goals. Another measure is the percentage of subcontract dollars awarded to SDBs, which has improved steadily over the past two decades, from barely more than 2% in the mid-1980s to well over six percent from 1995 to 2000. We believe these figures improved as a result of SBA's concerted effort to strengthen and revitalize the CMR program, which began in 1987 with the issuance of SBA Policy Notice 6000-215 and continued with SOP 60 03 3 in 1989. This Policy Notice and SOP set forth SBA's first rigorous approach to compliance reviews and resulted in a gradual improvement in subcontracting achievements, as measured by percentage, in subsequent years (see attachment).

Table 2 on page 11 (*Number and Percent by Year*) appears to be incorrect, and we are providing a corrected copy as an enclosure to this response. There appear to be two primary reasons for the discrepancies: (a) you did not include Follow-up Reviews, which are a type of on-site compliance review; and (b) you did not make an adjustment, as explained to your auditors during the review, for one CMR who failed to enter any compliance reviews into the database in 1999 and 2000. There are also some other discrepancies, but they are not statistically significant; for example, you show 1,504 desk reviews in 1997, while we show 1,496. In any case, we believe that our table represents a more accurate picture of the CMRs' performance over the past decade.

See comment 7.

In your discussion of goals and objectives on page 20, you leave the reader with the impression that SBA has never assigned specific, quantitative goals to the CMRs. This is not true. Every year CMRs are assigned specific Performance Standards that are tied to Critical Elements such as compliance reviews and other activities. Over the past decade, we have often established subcontracting goals for our Area Directors as well. We understand that GAO would like SBA to develop more substantive impact or outcome measures, and we believe this has merit. In any case, we recommend that you rephrase this section so that it will not give the reader the impression CMRs are not assigned goals and objectives.

Ms. Catherine Baltzell

Page 4

Since you examined the SBA web site (<http://www.sba.gov/GC/contacts.html>) during your audit, we have corrected the omission that you noted; the website now mentions compliance monitoring as part of the CMR's role.

See comment 8.

Your concerns about the CMR workload are also well taken, but we would like to clarify two points in this section of your report. You point out that there may be as many as 1,500 additional prime contractors with subcontracting plans that are not in our database. You also state that our effort to develop a database to identify and track prime contractors "appears to be very slow." In fact, the new database has been developed and is currently being field tested by the CMRs. Among other things, it provides a mechanism to capture all contractors listed in the Federal Procurement Data System with subcontracting plans. We fully expect to have every prime contractor with a subcontracting plan in our database by the end of the second quarter of fiscal year 2003.

See comment 9.

We should also like to point out that we maintained an extremely comprehensive database to support the CMR Program from 1991 to 2001. Although that database was limited by the technology that existed in the early 1990s, it contains a wealth of historical data on prime contractors that will continue to be useful in the future.

See comment 10.

On page 16, you point out that SBA's Office of Inspector General observed the uneven workload distribution in October 1995 and recommended that SBA more evenly distribute prime contractors among CMRs to improve coverage. Since then, we have addressed this problem by creating more "generalists," employees who perform more than one Office of Government Contracting function. The eight essentially full-time CMRs are supplemented by roughly 31 other SBA staff who perform CMR work as a collateral duty. It is true that there is currently one area of the United States where we still have an uneven workload distribution, and we are studying options to determine how we can best address this issue.

Finally, it has come to our attention that one of the other Federal agencies submitted incorrect subcontracting data to the Federal Procurement Data Center (FPDC) for fiscal year 2001. The FPDC provided SBA with a corrected report on August 14, 2002, which shows total subcontracting in fiscal year 2001 to be \$91.1 billion, not \$95 billion as previously reported. Accordingly, you may wish to correct the reference to \$95 billion on page 1 of your report.

Ms. Catherine Baltzell

Page 5

Once again, I wish to thank you for your report, which should prove to be invaluable as we seek ways to improve the effectiveness of our CMRs. I especially wish to commend the members of the GAO staff who worked on this assignment for their professionalism in conducting the audit.

Sincerely,



Fred C. Armendariz
Associate Deputy Administrator
for Government Contracting and
Business Development

Enclosure

The following are GAO's comments on the Small Business Administration's letter dated October 8, 2002.

GAO's Comments

1. We do not agree that 80-percent time is essentially equivalent to 100-percent time. Four staff that work 80 percent of their time as Commercial Marketing Representatives (CMRs) constitute about three full-time equivalents (FTEs), not four FTEs. This is a difference of about 20 percent. As we point out in our report, SBA's use of part-time CMRs for whom the CMR role is, as SBA comments, "a collateral duty," has not meant an increase in CMR staff resources. Rather, total CMR FTEs declined 28 percent from fiscal year 1992 through fiscal 2001.
2. SBA's task force study identified some specific problems with the CMR role and recommended some specific solutions, and SBA's efforts to implement some of these solutions can possibly lead to some incremental improvements. However, the task force study did not strategically assess or plan the CMR role, nor was it tied to any SBA strategic-planning effort. In addition, the study did not use or establish measurable goals and objectives or outcome and impact measures for the CMR role. In other words, the study did not address the larger issues of CMR strategic role assessment and planning. In the absence of such planning, SBA's approach to addressing challenges that CMRs face will continue to be ad hoc and piecemeal.
3. Delegating decisions about the focus of the CMR role to Area Directors may be appropriate. However, SBA has not conducted any assessments or evaluations that address what Area Office factors and characteristics make such delegation essential or effective. Furthermore, SBA has not evaluated the effectiveness of local decisions regarding the balance between compliance monitoring and marketing. The resource pressures on the CMR role heighten our concern. It may be that local decisions about the focus of the CMR role are more influenced by the realities of local resource constraints than by local compliance monitoring and marketing needs. Without sound assessment and evaluation, however, this and many other issues of role focus will remain clouded.
4. The regulations and operating procedures that SBA references do not constitute a strategic vision tied to measurable goals and objectives.

Rather, as we discuss in our report, they simply describe a variety of duties and responsibilities that CMRs are required to perform.¹ Since the regulations and guidance do not place a relative order of importance on these duties, and the Small Business Act and the Federal Acquisition Regulations do not mention CMRs, there is no law, regulation, or guidance requiring or suggesting that CMRs prioritize their work according to a strategic vision.

In contrast, a strategic vision is broader and more comprehensive. It is expressed in an overall strategic plan that articulates a mission and specific plans to fulfill that mission, including measurable goals and objectives and associated outcome and impact measures. SBA also appears to recognize at least to some degree the limitations of the regulations and operating procedures as a strategic vision because it agrees that it needs to rethink the CMR role and develop outcome or impact measures.

5. SBA recognizes that on-site reviews are both more effective than and preferable to desk reviews but asserts that they are “less cost-effective” and “not always necessary.” However, SBA does not offer persuasive evidence to support these assertions. During our review, SBA officials told us that they had not conducted assessments or evaluations of either of these compliance review methods or of their comparative effectiveness. Furthermore, SBA has not identified the criteria—that is, the strategic goals and objectives and associated impact or outcome measures—necessary to guide such assessments and evaluations.

SBA also says that it uses the results of desk reviews to determine which prime contractors should receive on-site reviews. However, as we discuss in our report, the lack of travel funds is the primary driver of decisions about which prime contractors receive on-site reviews.

6. SBA observes that in fiscal year 2000, small businesses, in general; small disadvantaged businesses; and women-owned small businesses received “much higher” percentages of all subcontract awards than of prime contract awards.² SBA also observes that the percentage of

¹ See C.F.R. Part 125.3(c)(d), SBA SOP 60 03 5.

² SBA did not provide data on prime contract awards, so we were unable to assess the magnitude of the differences between subcontract and prime contract awards to these types of businesses.

subcontract dollars awarded to small disadvantaged businesses has improved steadily over the past two decades.³ SBA then attributes both of these conditions solely to CMR efforts.

SBA has not conducted the assessments and evaluations necessary to support this conclusion. Moreover, while CMRs' efforts may well have contributed to these conditions, a number of other factors likely have had a significant impact. As we note in our report, federal regulations require a subcontracting plan for each contract or contract modification that exceeds \$500,000 (\$1 million for construction contracts) and has subcontracting possibilities.⁴ Federal agencies are independently responsible for complying with these regulations. Agencies may even conduct their own subcontract-monitoring efforts. For example, DOD reviews subcontracting plans for defense prime contractors. In fact, SBA commented that it has delegated the primary responsibility for monitoring the subcontracting plans of most DOD contractors to the responsible DOD agency so that SBA can focus its limited resources on monitoring civilian agencies' plans. Since DOD accounted for 65 percent of all subcontracted dollars awarded in 2001, it is not likely that CMRs alone are responsible for all small business subcontracting achievements.

There are also inherent business incentives for prime contractors to subcontract voluntarily with small businesses. For example, small business subcontractors can provide important specialized capabilities that the prime contractor does not have or wish to invest in developing. Small business subcontractors may also be able to provide some general services faster and more economically, thus saving prime contractor resources. Subcontracting also allows prime contractors to avoid permanent staffing increases that may not be sustainable in the face of market shifts. Finally, as we note in our report, the nature of federal contracting has changed. The number of prime contracts is shrinking, and many prime contracts have become so large that small businesses find it difficult to compete for them. This change alone may heavily influence the conditions that SBA cites as markers of CMRs' effectiveness.

³ SBA did not provide data on subcontract dollars awarded over time to small businesses in general or to women-owned businesses.

⁴ See Federal Acquisition Regulation 19.702.

7. We do not agree that our report leaves a mistaken impression with regard to the goals and objectives assigned to CMRs. Rather, we state clearly that SBA has productivity measures (such as the number of on-site and desk reviews conducted) to track CMRs' performance but that it does not have impact or outcome measures—or even such expectations—for CMRs. SBA agrees that it needs to develop outcome or impact measures to better measure CMR effectiveness.
8. We continue to believe that SBA's development of its new database appears to be slow. SBA began developing this new database in early 2001, after experiencing repeated problems with its original database. In October 2001, the SBA officials we interviewed told us that the new database would be operational in January 2002. In February 2002, SBA told us that it would be operational by June. Now, in October 2002, SBA says that it is only in test mode and acknowledges that it will not have a complete list of prime contractors with subcontracting plans until the end of the second quarter of fiscal year 2003.
9. While SBA's original database does provide some useful information, the SBA officials we interviewed told us that the data were not complete. The database did not contain a complete list of prime contractors with subcontracting plans.
10. We continue to have concerns about CMRs' workload and prime contractor coverage. As we discuss in our report, about 18 CMR FTEs nationally monitor the subcontracting activities of the 2,029 prime contractors currently identified. In addition, CMRs have various marketing duties. (In fiscal year 2000, CMRs generally seemed to spend slightly more time on marketing than on compliance monitoring.) CMR compliance monitoring Area Office workloads currently range from 56 to 198 prime contractors per CMR FTE. There are wide variations in CMR workloads both between Area Offices and within more than one Area Office. This situation may be exacerbated when additional contractors with subcontracts are identified and added to CMR workloads.

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