GAO

United States General Accounting Office

Report to the Chairman, Committee on Small Business, U.S. Senate

July 2000

SMALL BUSINESS

SBA's 8(a) Information System Is Flawed and Does Not Support the Program's Mission

GAO

Accountability ★ Integrity ★ Reliability

United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-285284

July 19, 2000

The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Dear Mr. Chairman:

The Small Business Administration's (SBA) 8(a) program is a business
development and contracting program for small socially and economically
disadvantaged firms. Firms that are certified by SBA for participation in the
program are eligible to receive contracts that federal agencies set aside for
8(a) firms and business development assistance from SBA in the form of
technical assistance and management training. In fiscal year 1999, about
6,000 firms participated in the 8(a) program, and $6 billion in federal
contracts were awarded to participating firms. SBA developed and
maintains an information system for the program containing information
about the firms, such as the location, minority status, and gender of the
owners, and the government contracts awarded to the firms while they
participate in the program. SBA uses this information to report on the
program's results to the Congress, manage the program, and monitor the
progress of 8(a) firms.

Concerned about the quality of the information used to manage the 8(a)
program, you asked us to examine selected processes and procedures to
assess the strengths and weaknesses of the information system as a
management tool for SBA. As agreed with your office, this report addresses
the following questions: (1) Does the system meet the information needs of
SBA field and headquarters staff? (2) What plans, if any, does SBA have for
improving the existing system?

Results in Brief

The 8(a) information system, while intended to be a comprehensive tool
enabling SBA to monitor the program, does not meet the information needs
of headquarters or district officials. Potentially useful information, such as
the amount of training and assistance provided for participating firms, is
not captured as part of SBA's information-gathering process. This limits
SBA's ability to assess whether its efforts have an impact on the ultimate
performance goal of creating commercially viable and stable firms. In
addition, because of recent changes in the 8(a) contracting process, most

federal agencies are required to submit quarterly contracting data to SBA's headquarters instead of submitting copies of contracts to SBA's district offices. Some federal agencies have not submitted the quarterly information, and some of the information that has been submitted has not been in a usable format, so it has not been entered into the system or provided for the district offices, according to SBA's headquarters officials. These problems have severely undermined the completeness and accuracy of the information in the system on contracts. For example, the total value of the contracts awarded to participating firms is underrepresented by the system, on average, by nearly $500 million annually, according to SBA. The system is so difficult to use that most of the district offices we visited had devised other methods—including maintaining redundant local systems— to obtain the information they needed in a timely fashion.

SBA plans to update the 8(a) information system as part of an agencywide information systems modernization initiative. Although program officials have recognized the need to update the system since 1996 and have planned other update efforts, none of them resulted in substantial progress in improving the information system. SBA has an agencywide information systems modernization initiative under way, but planning for the modernization of the 8(a) system will not be completed for some time, according to SBA. In the meantime, SBA has begun to develop a strategic information technology plan for the 8(a) program that combines and updates recommendations from the agency's earlier business process reengineering studies, including efforts to update the information system. These studies include an April 1999 review that recommended that SBA (1) develop automated applications for firms wishing to enter the program, (2) consolidate all program information sources into one system, and (3) use another federal information system—the Federal Procurement Data System—as a source for 8(a) contract data.

We provided SBA with a draft of this report for review and comment. SBA concurred with the report's recommendations and provided technical clarifications, which were incorporated as appropriate.

Background

The Small Business Act, as amended, authorizes the 8(a) program to help socially and economically disadvantaged small businesses gain access to the economic mainstream of American society. Firms that enter the program are eligible to receive 8(a) contracts from federal agencies without competition from firms outside the program. Firms in the program may also receive training and other assistance through SBA.

To be eligible for the 8(a) program, a firm must be a small business that is at least 51- percent owned and controlled by one or more socially and economically disadvantaged individuals. A firm is considered small if it meets size standards established by SBA for its particular industry. Under the program, certain ethnic groups such as African Americans and Hispanic Americans are presumed to be socially disadvantaged. Other individuals can be admitted to the program if they can adequately document that they are disadvantaged. To meet the economically disadvantaged test, each individual must have a net worth of less than $250,000, excluding his or her ownership interest in the firm and personal residence. Also, a firm must generally have been in business for at least 2 years and possess a reasonable prospect for success as determined by SBA on the basis of the firm's operating revenues and the firm owner's technical and management experience, among other things.

Once a firm is accepted into the program, a business opportunity specialist in the SBA district office that serves the geographical area where the firm's principal place of business is located is assigned to service the firm during its participation in the program. The business opportunity specialist is responsible for, among other things, reviewing and approving contract offerings, entering and updating financial and contracting information in the 8(a) information system, assisting the firm with preparing a business plan, conducting annual reviews of the firm's progress in implementing its plan, and analyzing year-end financial statements for certain compliance issues.

SBA's current 8(a) information system was developed in response to the Small Business Act, as amended by the Business Opportunity Development Reform Act of 1988, which required SBA to develop and implement a process for the systematic collection of data on the operations of the 8(a) program and report annually to the Congress.[1] The mandate, among other things, required SBA to report data on the demographics of participating firms and the dollar value of the contracts the firms received, and to assess what additional resources are needed to provide services for firms in the program. SBA encountered numerous problems in developing the system, which was originally scheduled to be complete in 1990. Our previous work criticized the agency for not following federal regulations and guidelines

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[1] See sec. 7(j)(16) of the Small Business Act, as added by sec. 408 of the 1988 Reform Act (15 U.S.C. 636(j)(16)).
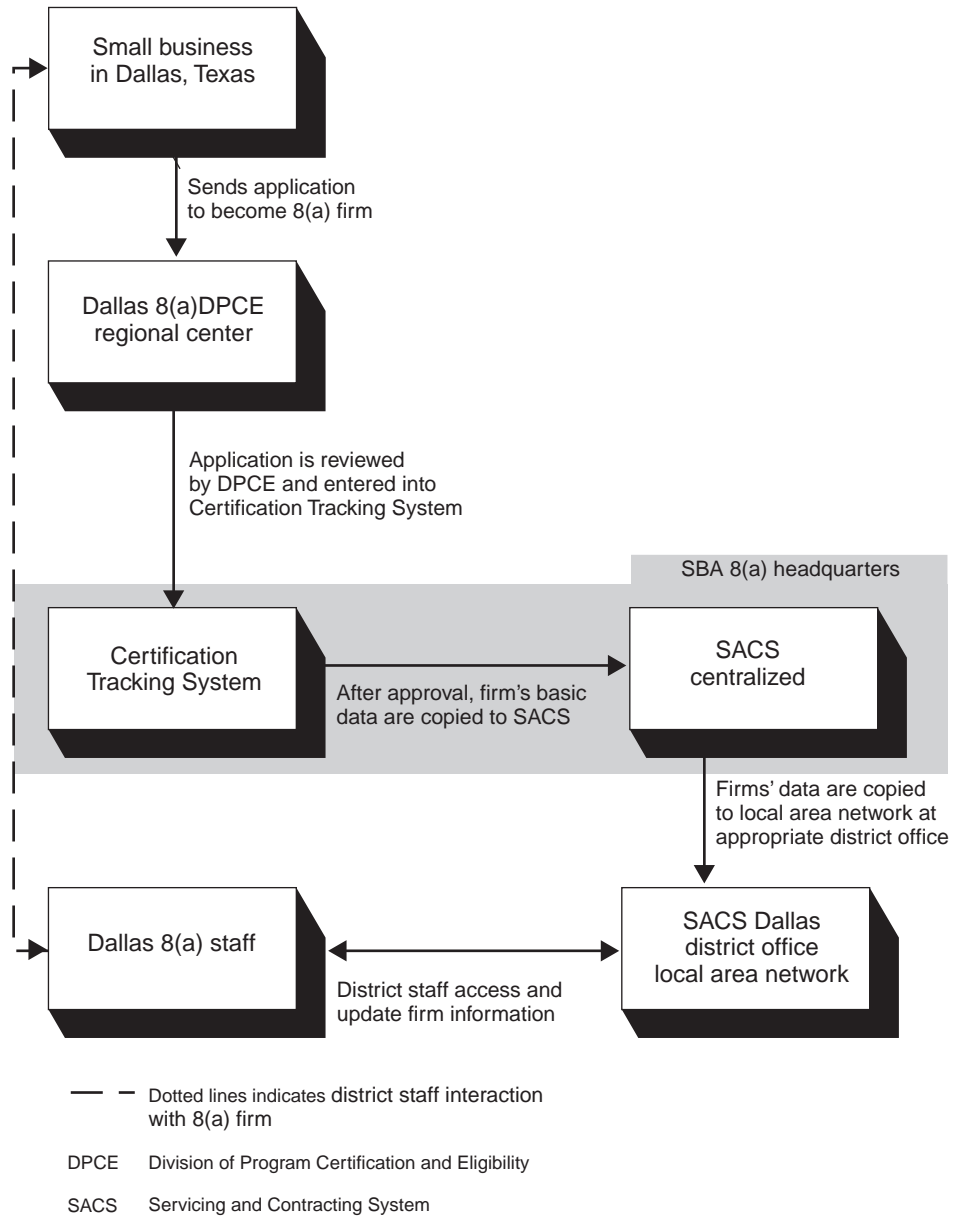
for defining the requirements of the system in relation to the agency's mission and users' needs. [2]

When SBA's information system was implemented in 1995—5 years after SBA's original projection—SBA described it as a comprehensive tool that would enable the agency to monitor the assistance provided for, the contracts awarded to, and the progress made with business development. The system, referred to as SACS/MEDCOR, is made up of two parts: the Servicing and Contracting System (SACS) and the Minority Enterprise Development Central Office Repository (MEDCOR). Basic information about 8(a) firms, including such demographic data as the location, minority status, and gender of the owners, is stored in SACS, while data about proposed and awarded contracts resides in MEDCOR.

SACS/MEDCOR is maintained at the district-office level, and information is transmitted periodically to a centralized location for headquarters' use. Data on firms applying to the program are initially entered into another 8(a) information system and are then transferred to SACS/MEDCOR when the firms are accepted into the program. Figure 1 illustrates how data are entered into SACS/MEDCOR from the point of a firm's application to enter the program.

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[2] See *Small Business: Problems Continue With SBA's Minority Business Development Program* (GAO/RCED-93-145, Sept. 17, 1993) and *Small Business: SBA Cannot Assess the Success of Its Minority Business Development Program* (GAO/T-RCED-94-278, July 27, 1994).

Figure 1: Processing of Data on 8(a) Firms

Small business
in Dallas, Texas

Sends application
to become 8(a) firm

Dallas 8(a)DPCE
regional center

Application is reviewed
by DPCE and entered into
Certification Tracking System

SBA 8(a) headquarters

Certification
Tracking System

After approval, firm's basic
data are copied to SACS

SACS
centralized

Firms' data are copied
to local area network at
appropriate district office

Dallas 8(a) staff

District staff access and
update firm information

SACS Dallas
district office
local area network

— — Dotted lines indicates district staff interaction
with 8(a) firm

DPCE   Division of Program Certification and Eligibility

SACS   Servicing and Contracting System

SBA's 8(a) Data System Does Not Meet Its Needs

SACS/MEDCOR, while intended to be a comprehensive tool enabling SBA to monitor the progress with business development, the contract awards, and the program performance, does not meet the information needs of 8(a) headquarters or district officials. The system does not allow for the tracking of training or assistance provided for firms, making it difficult to assess the program's effectiveness. Also, recent changes in the 8(a) contracting process have made the contract information in the system unusable. In addition, the system is so difficult to use that most of the district offices we visited had devised other methods—including maintaining redundant local systems—to obtain the information they needed in a timely fashion. Other problems, such as data validation weaknesses caused by the removal of edit checks from the system and unclear security procedures, also exist.

The System Does Not Track Business Development Activities

SBA does not currently have a method for systematically tracking the training and assistance that 8(a) firms receive. SBA's Deputy Assistant Administrator for Technology within the office that oversees the 8(a) program said that SBA had planned for its information system to track assistance provided through SBA's management assistance program but that this part of the system was never used because the management assistance program's appropriation declined about the time the system was implemented. Also, according to SBA, the system was obsolete by the time it was implemented because the program's emphasis shifted from client-specific technical assistance, accomplished under task orders, to classroom-type executive training, provided by recognized educational institutions. If information on training and assistance is needed, the 8(a) program manager said headquarters would send an information request to the district offices. However, SBA's district office officials in Atlanta, Dallas/Fort Worth, New York City, and San Francisco told us that they do not have a centralized system to track the training or assistance that they or others provide for 8(a) firms. SBA's District Office officials in Washington, D.C., said that since SBA does not have a centralized system to track the training or assistance provided for 8(a) firms, they maintain a spreadsheet with this information.

SBA managers said that the lack of a system to track and assess the results of business development activities creates a weakness in the program because it is difficult to assess the program's effectiveness. The officials said that the system's inability to record this type of training and assistance could lead to an underaccounting of the benefits that firms receive from the
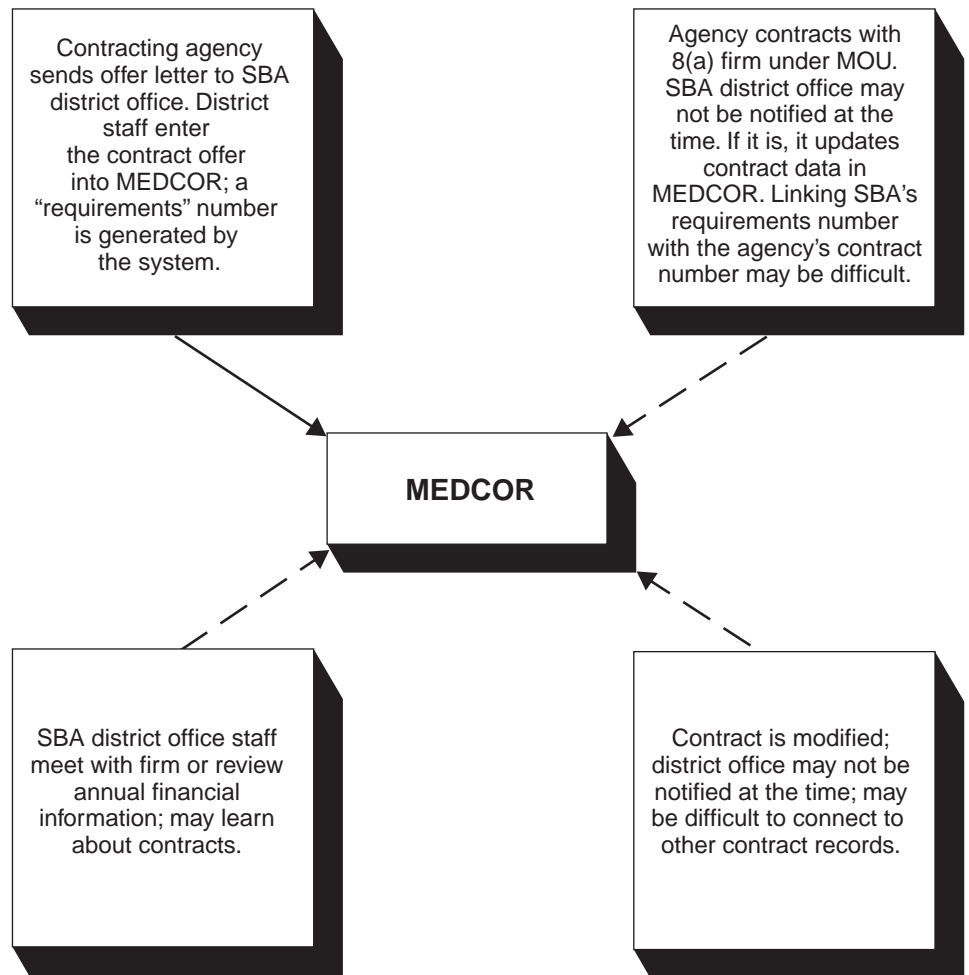
program. For example, a district manager noted a case in which an 8(a) firm received considerable assistance developing its marketing and other capabilities. This firm, through the auspices of the district office, later negotiated and won a contract with a commercial firm. This outcome could not be credited within the system because (1) staff have no way of recording the training and assistance provided for firms other than in informal notations and (2) the contract awarded to the firm was not an 8(a) contract, so the award information could not be noted in the system.

SBA has piloted a system—the Business Assessment Tool—for use by district business opportunity specialists to help define the developmental needs of 8(a) firms. The assessment tool was designed to match information from a series of 58 questions used to assess a firm's developmental assistance needs for the business training and counseling resources provided by SBA and other service providers. The tool also provided a mechanism for tracking training and assistance. In July 1999, SBA piloted the Business Assessment Tool at 14 SBA district offices, where it was used to assess 53 firms. SBA officials said that the tool, which is not integrated into SBA's current information system, is being reassessed because the pilot showed that it could be made more user friendly. For example, if a business opportunity specialist was not able to complete all the entries in one session, the system would not save the entries already completed.

Recent Changes in the Contracting Process Undermined the 8(a) Information System's Completeness and Accuracy

Headquarters and district staff maintained that they could no longer ensure that the 8(a) contract award information in the system is complete and accurate. District and headquarters staff have been responsible for entering data on 8(a) contracts. These entries can take place at various points: (1) when a contract requirement is sent to SBA for approval, (2) when a contract is actually awarded, and (3) when a contract is modified. This process is illustrated in figure 2.

Figure 2: Flow of Contract Data

Contracting agency sends offer letter to SBA district office. District staff enter the contract offer into MEDCOR; a "requirements" number is generated by the system.

Agency contracts with 8(a) firm under MOU. SBA district office may not be notified at the time. If it is, it updates contract data in MEDCOR. Linking SBA's requirements number with the agency's contract number may be difficult.

MEDCOR

SBA district office staff meet with firm or review annual financial information; may learn about contracts.

Contract is modified; district office may not be notified at the time; may be difficult to connect to other contract records.

— — Dotted lines indicate when the likelihood increases that data may be incomplete or inaccurate.

MOU   Memorandum of Understanding

MEDCOR Minority Enterprise Development Central Office Repository

District staff cite a marked decrease—estimated at up to 50 percent at one district office—in the notification of contract awards and modifications from contracting agencies during fiscal year 1999. SBA officials estimated that the 8(a) contracting amounts are underrepresented in SACS/MEDCOR,

on average, by nearly $500 million annually when compared with data from the Federal Procurement Data System (FPDS). According to SBA officials, the cause of this decrease is a recent change in the way that contracting agencies interact with and report back to SBA when contracts are awarded. Though agencies must report information on contracts of over $25,000 to FPDS, which is maintained by the General Services Administration, they are no longer required to provide SBA's district offices with copies of 8(a) contracts when contracts are awarded. Rather, most agencies are required to provide SBA's headquarters with contract information on a quarterly basis.[3] However, some agencies have not provided the information, and some of the information that has been provided has not been in a usable format, so it has not been entered into the system or provided for the district offices, according to headquarters officials.

District staff said that on occasion, they have become aware of contracts only because of incidental contacts with the firms they monitor—when issues arise between the contractor and the contracting agency—or as a part of their ongoing effort to maintain complete and accurate information for their files. District officials said they cannot readily produce accurate reports on the number of contracts awarded to 8(a) firms in their district. In fact, staff in one district office said they had been questioned by their district office director about why the number of contracts awarded to firms in their district had decreased dramatically when in fact the information system lacked data on an estimated 50 percent of the contracts awarded. Nevertheless, staff in every district we visited said that they spend time entering contracting data into the system.

Recognizing this shortcoming, SBA began using FPDS data in mid-fiscal year 2000 to prepare its fiscal year 1999 report to the Congress. However, difficulties that SBA encountered in matching its demographic information on firms to the contract information on 8(a) firms coming from FPDS caused SBA to miss its April 30 deadline for providing the Congress with its fiscal year 1999 report. SBA must connect FPDS data with information on 8(a) firms in its database in order to report on the mix of program participants and their success in winning contract awards. According to SBA, this matching entailed considerable staff effort. Also, without the linkages, the data cannot be broken down by district offices; hence, headquarters and district management do not have accurate numbers on

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[3] SBA plans this quarterly reporting to be an interim measure until the agency can convert to using FPDS.

the contract awards facilitated by each office. One SBA official noted that from at least half to perhaps all of one staff person's time is required over the course of the year to produce the annual report.

Additional Data Quality Problems Exist in the System

Our review of the current system uncovered additional data quality problems. We called 100 randomly selected firms to verify firms' addresses and found that about 10 percent of the data examined on these firms were inaccurate or incomplete. In addition, when we examined selected data from SACS/MEDCOR to test for logic and consistency among related data elements, we found anomalies in the data. For example, whereas each 8(a) firm has a single designated chief executive officer (CEO)—and may have multiple partners—the database showed that some firms did not have a CEO designated and others had multiple CEO designations. A knowledgeable SBA official told us that one reason for the data quality problems is that SACS/MEDCOR has a limited ability for edit checks on data and that even district offices known for quality data entry practices had been found to have data quality difficulties, such as duplicated information for some firms.

Using the system to track a firm over time can also be problematic. For example, if a firm changes its name—prompted, for example, by a new owner—SBA staff, when entering the firm's new name into the system, must remember to manually record the firm's previous name in a "history" file if a historical link is to be maintained in SACS/MEDCOR. Without this manual intervention, no record of the firm under its prior name would exist within the system. The lack of an automated process to record name change histories could impair the ability of SBA staff to manage or investigate their firms' status in the program.

Inefficient System Does Not Meet the Needs of District Office Staff

The current 8(a) information system does not meet the needs of district office staff, and as a result, district offices have developed redundant local systems. In a 1997 report, an SBA contractor said that in its survey of district offices, one district office said that SACS/MEDCOR "does not benefit workers (not a useful tool);" staff from another district said SACS/MEDCOR is "too complicated" and "cumbersome" and "does not help the BOS [business opportunity specialist]." Other districts had similar complaints. Four of the five district offices we visited—which together, are responsible for approximately 30 percent of the 8(a) firms in the program—had instituted some procedure to cope with their difficulties with entering, retrieving, or processing information. The office strategies ranged from

establishing a specific staff position to develop specialized reports and assist business opportunity specialists and contracting officers in their use of the system to developing and maintaining redundant local systems that staff found easier and more versatile to use. Although individualized reports and queries can be produced from SACS/MEDCOR through separate reporting software, some district staff had difficulty with the software or did not use it. District staff also noted that they did not find the standard reports available in the current system useful for their management needs.

Another problem with the current system is that the numbering scheme for contracts does not match the contracting agencies' contract numbers, thereby making it difficult for district staff to enter information pertaining to the contracts. When district staff enter a new contract offer into SACS/MEDCOR, the system automatically assigns a "requirements" number. This number is used to uniquely identify the contract offer (and later, the awarded contract and any associated contract modifications). If SBA's requirements number is not provided by the contracting agency on its award letter, district staff must explore SACS/MEDCOR for the associated data or, as a last resort, call the contracting agency and request that staff there look up the SBA number and provide it.

System Security Could Be Strengthened

The nature of SACS/MEDCOR—software and data located at both the headquarters- and district-office levels—creates a situation in which the data on 8(a) firms and contracts are only as secure as the measures taken at both levels to protect it. The SACS/MEDCOR application software and data collected on 8(a) firms are resident on the local network servers in the 67 district offices, and the data are uploaded periodically (generally once a week) to SBA's headquarters, where the national data are stored and can be accessed by headquarters staff. Data are input and maintained at both the district offices and the 8(a) headquarters office, and each office determines how to control access. Therefore, data that are input at each location are only as secure as the security measures—including access controls—at that location. Access should be limited to only the data and functions that individual staff need to perform their assigned duties.[4] However, at several of the district offices we visited, business opportunity specialists could review and change system data for any firm in the district.

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[4] See *Federal Information System Controls Audit Manual*, vol. 1 (GAO/AIMD-12.19.6, Jan. 1999).

In a recent review of agencywide security measures, we found that "SBA has not developed procedures to deal with risk assessments and to provide a framework for managing risk and monitoring the adequacy of controls. Standard Operating Procedures are obsolete."[5] SBA recently developed standard operating procedures for agencywide security issues. However, these procedures do not address the 8(a) program specifically, and the program is operating under Standard Operating Procedures established in 1990 before the system was developed.

No Substantial Improvements Have Been Made to the System, but SBA Plans to Modernize It As Part of an Agencywide Effort

While efforts to update the information system were planned beginning in 1996, and program officials recognize that the current system is outdated, no substantial improvement has been made to the system. For example, an effort to automate the 8(a) application process was piloted in October 1996 but never adopted. Another effort to streamline and automate the annual review process performed by district business opportunity specialists has also not been completed. According to program managers, this lack of progress is due in large part to the frequent changes in the 8(a) program's leadership. As shown in figure 3, the office under which the program is administered has been managed by five different Associate Deputy Administrators during the 4-year period from March 1996 to March 2000. Each time the Associate Deputy Administrator changed, there were corresponding management changes in the career-level managers of the 8(a) program. According to program officials, these leadership changes have contributed to an environment in which progress on the information system, as well as on the 8(a) program overall, has languished. In addition, according to SBA's Deputy Assistant Administrator for Technology within the office that oversees the 8(a) program, SACS/MEDCOR was developed collaboratively by the 8(a) program office and SBA's information resource management office; however, the system was not developed in adherence with Federal Information Processing Standards. In his opinion, such adherence to established software development standards would have reduced or eliminated the problems with software development continuity caused by management turnover.

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[5]See *Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes* (GAO/AIMD-00-170, May 31, 2000).

Figure 3: Time Line of SBA's 8(a) Information Systems (SACS/MEDCOR)

Terms of Associate Deputy Administrators for Government Contracting and Minority Enterprise Development											
Crusto		Stanley		Vacant		Neal		Whitmore	Hobson	Jenkins *(Acting)*	Hayes		Ballentine

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Original implementation date for new system			SBA did a limited pilot test of system	SBA's survey identified major system design flaws	SBA implements system in all field offices	Automated application piloted (never adopted)		Contractor's studies on revising system		SBA reviews old surveys to prepare for modernization
			GAO found that plans did not follow requirements and guidelines	GAO found system unable to provide basic data						

Events

SBA is in the process of modernizing its information systems across the entire agency; however, the modernization of the 8(a) system will not begin for some time. The SBA modernization is planned in three phases:

- Phase 1 of the initiative will focus on the Loan Monitoring System, which aids in loan monitoring and oversight.
- Phase 2 is intended to modernize SBA's financial management, human resource, and procurement systems.
- Phase 3 will focus on government contracting, entrepreneurial development, and minority enterprise development—all functions that are part of the 8(a) program. SBA plans to start the planning activities for phase 3 in 2002.

While SBA has not yet entered phase 3 of the modernization initiative, managers of the 8(a) program are moving ahead with plans to consolidate and update recommendations from previous studies of the system requirements for the 8(a) business development program. One study, performed by SETA Corporation for SBA and delivered on April 26, 1999, presented the basis for a revised information system to support core 8(a) business functions. It identified user requirements and specifications for a

recommended system, including (1) using automated applications to enter the 8(a) program, (2) consolidating all 8(a) information sources into one system, and (3) using the FPDS as a source for 8(a) contract data. Although the study identified user requirements, researchers did not talk with district office officials, who are the system's primary users.

Conclusions

The information system used in the 8(a) program is not providing the timely, accurate, complete, and appropriate information needed at the headquarters and district office levels to manage the program. District staff find the system cumbersome and difficult to use. Contracting data are so incomplete that the data cannot be used to provide meaningful management reports at either the headquarters or district level. Also, the system does not mirror the 8(a) program's stated goal of creating commercially viable and stable firms because no mechanism is in place to easily track the training received by firms or the assistance provided by district business opportunity or contract specialists that may result in additional contracts for the firms. Therefore, such activities cannot be readily measured in any meaningful way, and the success of individual activities, or of individual field offices, cannot be measured in an efficient manner. Although SBA is in the process of modernizing its information systems, the modernization of the 8(a) system will not begin for some time.

Recommendations

We recommend that the Administrator of the Small Business Administration ensure that her staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that

- provides a method for collecting data on appropriate performance measures, focusing on the assistance provided for 8(a) firms in addition to the number of 8(a) contracts awarded;
- takes advantage of the links to existing federal contract information sources, such as the Federal Procurement Data System, to minimize (1) the reporting responsibilities of contracting agencies and (2) data entry duties required at the district office level;
- is designed in light of current software and data management development procedures and business processes and allows maximum flexibility and ease of use by all levels of staff; and
- is protected at all levels by appropriate security controls, which are specifically addressed in up-to-date Standard Operating Procedures.

In the interim, SBA should not continue to require 8(a) district staff to enter contracting information into the current system.

Agency Comments and Our Evaluation

We provided SBA with a draft of our report for review and comment. SBA concurred with the report's recommendations and did not take exception to the factual accuracy of the report. SBA provided additional information to clarify certain points, including, its initial development of a strategic information technology plan for the Office of Government Contracting and Minority Enterprise Development; the changing nature of the 8(a) program since SACS/MEDCOR was deployed; and the use of data from the Federal Procurement Data System for reporting to the Congress. We have incorporated this additional information within the report as appropriate and have included SBA's comments in appendix 1.

Scope and Methodology

To provide information on the history of the current 8(a) information system, we interviewed SBA's headquarters and district office officials. SBA was unable to provide much documentation on the development of its current system, so we relied extensively on documents that we had retained in our files from previous reviews of the 8(a) information system, our previous reports on the 8(a) program, and legislative history information and regulations.

To determine whether the system meets the information needs of SBA's headquarters and district office staff, we interviewed headquarters and district office officials, collected and analyzed documents and studies, and obtained and assessed the 8(a) SACS/MEDCOR database. We interviewed business opportunity specialists and contracting officers and their managers at five district offices: Dallas/Fort Worth; New York City; San Francisco; Washington, D.C.; and Atlanta. We selected the district offices on the basis of the number of 8(a) firms they oversee and the geographic location of the offices. These five offices oversee more than 30 percent of the firms in the SACS/MEDCOR file that SBA provided us with at the beginning of our review. We collected and analyzed documents, such as the user manuals for SACS/MEDCOR, and studies performed by contractors that outline recommendations for system changes. We also performed electronic data testing on SACS/MEDCOR to determine the accuracy, completeness, and reasonableness of key data elements.

To determine what plans, if any, SBA has for improving the system, we interviewed SBA officials and obtained documentation for their plans. We also used information collected on our other reviews of SBA's overall information system modernization.

We performed our review from January through July 2000 in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Honorable John F. Kerry, Ranking Minority Member of the Committee; other interested congressional committees; the Honorable Aida Alvarez, Administrator, Small Business Administration; and other interested parties. Copies will be made available to others upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-7631. Key contributors to this report were Susan Campbell, Andy Clinton, Curtis Groves, Barbara Johnson, and Kirk Menard.

Sincerely yours,

Stanley J. Czerwinski
 Associate Director,
 Housing, Community Development, and
    Telecommunications Issues

Comments From the Small Business Administration

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

JUL 1 0 2000

Mr. Stanley J. Czerwinski
Associate Director
Housing, Community Development,
   and Telecommunications Issues
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Czerwinski:

     Thank you for the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled <u>SBA's 8(a) Information System is Flawed and Does Not Support the Program's Mission</u>, GAO/RCED-00-197, Code 385840.

     We concur with the report's recommendations. I am pleased to advise that we have begun the development of a strategic information technology (IT) plan for the Office of Government Contracting and Minority Enterprise Development (GC/MED). This effort should result in a time-phased and fully "costed" plan to upgrade all of GC/MED's business processes, including those systems that support the 8(a) Business Program. The development of this IT strategic plan includes an important consultative process with a "team" of GC/MED managers and key staff that will focus on improving processes and systems to better service our district offices. This will ensure that the resulting strategic plan addresses the IT support requirements of all GC & MED programs in an integrated manner.

     This planning process is undertaken in concert with our agency-wide systems modernization effort. Accordingly, it will guide our investment IT systems development for the 8(a) and other GC/MED programs for the foreseeable future. Because I regard this strategic IT plan as extremely important to remedying the deficiencies identified in your report, I will share the plan with you as soon as it is completed.

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Mr. Stanley J. Czerwinski   Page 2

      While we take no exception to the factual accuracy of the report, you will find enclosed comments that we feel illuminate certain sections of the report. Should you have questions, please contact Delorice Ford, Associate Administrator for the 8(a) Business Development Program at 202-205-7430.

                          Sincerely,

                          Kristine Marcy
                          Chief Operating Officer

Enclosure

ENCLOSURE

At page 2, the report states:

> *SBA has an agency-wide information systems modernization initiative underway,*
> *but planning for the modernization of the 8(a) system is not scheduled to begin*
> *until 2002. In the meantime, SBA plans to combine and update recommenda-*
> *tions from its earlier efforts to update the system, including those from an April*
> *1999 study that recommended that SBA (1) develop automated applications for*
> *firms wishing to enter the program, (2) consolidate all program information*
> *sources into one system, and (3) use another federal information system--the*
> *Federal Procurement Data System--as a source for 8(a) contract data.*

SBA has begun development of a strategic information technology (IT) plan for the
Office of Government Contracting and Minority Enterprise Development (GC/MED).
This effort is far more encompassing than a combination and updating of prior studies.
Indeed, its methodology includes a review of all business process re-engineering (BPR)
studies of the 8(a) program undertaken over the last several years. This review will help
preclude duplication of effort, and allow us to extract maximum benefit from our earlier
BPR investment. (Planning for Phase III of the systems modernization initiative will
begin earlier than 2002 but clearly will not be completed for some time.)

At page 5, the report states:

> *SBA does not currently have a method for systematically tracking the training*
> *and assistance 8(a) firms receive.... SBA had planned for its information system*
> *to track assistance provided through SBA's management assistance program,*
> *but this part of the system was never used because the management assistance*
> *program's appropriation declined about the time the system was implemented.*

As noted elsewhere in your report, the Servicing and Contracts System/Minority
Enterprise Development Central Repository (SACS/MEDCOR) development occurred
over a protracted period of time, and was ultimately implemented far later than originally
planned. During the period of planning and systems development, the 7(j) management
and technical assistance program changed dramatically in both magnitude and focus.
That is, annual funding declined from approximately $10 million to approximately $2.5
million, and program design emphasis shifted from client-specific technical assistance,
accomplished under task orders, to classroom-type executive education training, provided
by recognized educational institutions. Because the management and technical assistance
component of SACS/MEDCOR was built around task order services, it was obsolete by
the time the system was deployed.

Since SACS/MEDCOR was deployed, much of 8(a) program design--including
management and technical assistance--has changed. To this extent, we anticipate that the
above referenced strategic IT plan, and subsequent systems development for the 8(a)
program, will reflect changed business processes for district office "business

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development" of 8(a) firms. This will lead to the capture of relevant data regarding
management and technical assistance provided to firms by a variety of resources.

Now on pp. 8 and 9.

At page 7, the report states:

> ...One official estimated that the 8(a) contracting amounts in fiscal year 1999
> are underrepresented in SACS/MEDCOR by about $1.8 billion...when compared
> with data from the Federal Procurement Data System (FPDS). According to
> agency officials, the cause of this decrease is a recent change in the way
> contracting agencies must interact with and report back to SBA when contracts
> are awarded....

In 1997 and 1998, 8(a) contracting authority was delegated to contacting agencies in
order to streamline the program in the context of acquisition reform. Through delegation,
SBA sought to make the 8(a) program a more attractive acquisition tool in a changing
procurement environment. SBA also sought to re-direct the district offices' focus to
providing more business development assistance to 8(a) firms.

At the time it delegated contracting authority, SBA management intended to convert from
manual collection of data in SACS/MEDCOR to capturing contract information from
FPDS to get more reliable and complete data. On average, the variance between
SACS/MEDCOR and FPDS data aggregated nearly $500 million annually. It should be
noted that "purification" of SACS/MEDCOR contract data for Congressional reporting
purposes has proven to be highly staff intensive over a number of years.

Management intended that quarterly reporting of 8(a) contracting activity by acquisition
agencies would be an interim measure until SBA converted to the use of FPDS data. The
Agency did not begin using FPDS data for reporting purposes until mid FY 2000, when it
employed such data in preparation of its report to Congress on the 8(a) program for FY
1999. It should be noted that this first use of FPDS data entailed considerable staff effort
to "match" FPDS contract records with SBA firm records. It is our intent that future 8(a)
systems development simplify and automate the matching process.