



**Opening Statement of
Chairman Mick Mulvaney
Subcommittee on Contracting and Workforce
Hearing: “Subpar Subcontracting: Challenges for Small Business Contractors”
October 6, 2011**

Good morning. The hearing will come to order.

We’re here today to talk small businesses and subcontracting. We are going to look at the challenges small businesses face both when they’re the prime contractor, as well when they’re the subcontractor. Additionally, this hearing will examine the three systems the government uses to monitor and promote small business subcontracting.

When a prime contract is set aside for a small business, the government wants to make sure that the small business is not simply a front for a large business, so the Small Business Act requires that the small business perform a certain percentage of the work. However, there are two problems with the current system – it is very hard to catch bad actors, and it is very hard for small businesses to comply. These problems make legitimate small businesses pay even more in compliance costs, and in turn waste even more taxpayer money.

While many of the contracts we will hear about today deal with the 8(a) program, especially Alaska Native Corporations, these problems are not limited to any one program. However, it is inevitable that the larger dollar contracts attract more attention. By addressing these challenges, we hope to open up opportunities for legitimate small businesses to obtain government contracts. The government-wide goal for small business prime contracting dollars is 23%, and legitimate small businesses – not fronts for large corporations – deserve those dollars.

There are also challenges when small businesses are the subcontractors. In FY 2010, federal prime contractors subcontracted over \$200 billion. The Small Business Administration has established a government-wide goal of awarding 35.9% of those subcontracting dollars to small businesses – a goal that has decreased from 40% less than 5 years ago.

To help small businesses compete for those \$200 billion in subcontracts, large prime contractors are required to submit subcontracting plans. These plans detail how much a business will subcontract to each type of small business. Failure to make a good faith effort to comply with this plan is supposed to result in a fine. However, companies are failing to report to the government on their actual subcontracting achievements, and yet no prime contractor has *ever* been fined as a result. Clearly, in the last five years all of the almost 3,000 prime contractors

have always properly submitted their subcontracting plans, worth over \$1 billion, or we have a serious problem in our enforcement mechanism. We need to address how to retool the subcontracting program.

Finally, there are three systems the government uses to monitor and promote subcontracting. First, there is the Federal Subcontracting Reporting System, which requires that all contractors report each subcontract above \$25,000. Second, there is the Electronic Subcontracting Reporting System, which requires that firms with subcontracting plans report their subcontracts. Third, there is the SBA Subcontracting Network, which allows prime contractors to post subcontracting opportunities over \$10,000 for small business competition. We need to examine duplication in these systems, as well as their effectiveness.

Small business, both as prime and subcontractors, are good for government and good for the economy. They increase competition, increase innovation, create jobs, and save taxpayer dollars. As this Subcommittee considers the issues surrounding small businesses and subcontracting, we want to learn how we can improve compliance without overly burdening small firms. If we succeed at that goal, we will help small businesses compete, create jobs, and save taxpayers money. I want to thank our witnesses for their participation today, which will help us achieve those ends.

I now yield to Ranking Member Chu for her opening remarks.