



## U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

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**BEFORE THE**

**SUBCOMMITTEE ON CONTRACTING AND WORKFORCE  
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS**

***“Helping Small Businesses Compete: Challenges within Programs Designed to Assist Small Contractors”***

**SEPTEMBER 15, 2011**

Chairman Mulvaney, Ranking Member Chu, and members of this Subcommittee, thank you for inviting the U.S. Small Business Administration (SBA) to testify today. My name is Joseph Jordan and I am the SBA’s Associate Administrator of Government Contracting and Business Development.

Our top priority at the SBA is to maximize opportunities for small businesses and ensure that the benefits of our programs flow to the intended recipients. My office works each day to provide increased opportunities for eligible small businesses to compete for and win federal contracts. Federal contracting with small businesses is a win-win. Small businesses—who are drivers of the American economy—get the revenue they need to grow and create jobs. Meanwhile, the federal government has to chance to work with the most innovative and responsive companies around.

As a principal advocate for small business procurement, our primary objective is to ensure that eligible small businesses receive their fair share of federal contracts. We are always looking for ways to increase small business contracting opportunities, and I am proud to say that in the two and a half years I have been in my position, we have made significant improvements.

The federal government is the largest purchaser of goods and services in the world. The government spends about \$500 billion every year through federal contracts. With the SBA’s support and assistance, small businesses receive nearly \$100 billion of that spend each year.

In fiscal year 2010, small businesses won 22.7% of federal contracting dollars. This marks the second consecutive year of increase after three consecutive years of decline and was the largest two-year increase in over a decade. SBA is committed to exceeding the 23% statutory goal and getting more contracts into the hands of small businesses. At the same time, we are working to implement the provisions of the Small Business Jobs Act of 2010, and eliminating fraud, waste, and abuse from all of our programs.

With these priorities in mind, please allow me to discuss the three Government Accountability Office (GAO) reports that are the subject of today's hearing.

The first report concerned SBA's Procurement Center Representatives (PCRs) and Commercial Marketing Representatives (CMRs). These members of the Office of Government Contracting and Business Development team play a critical role in ensuring small businesses receive their fair share of government contracts. They are located at the largest buying activities across the country and work closely with acquisition teams at various agencies to ensure small business utilization is maximized. PCRs help increase small businesses' share of Federal procurement awards by initiating small business set-asides, reserving procurements for competition among small business firms, providing small business sources to Federal buying activities, and counseling small firms. PCRs also provide oversight at the buying activities they cover by reviewing contracts to ensure small business utilization is maximized. CMRs are stationed in area offices to conduct compliance reviews of prime contractors, counsel small businesses on how to obtain subcontracts, conduct matchmaking activities to facilitate subcontracting to small business, and provide orientation and training on the Subcontracting Assistance Program for both large and small businesses.

The GAO suggested various areas for improvement related to the PCR and CMR function, and recommended that SBA assess the resources allocated to PCRs and CMRs and develop a plan to better ensure that these staff can carry out their responsibilities. While there is always room for improvement, I believe we are moving in the right direction to ensure we optimize the role of PCRs and CMRs.

We recently conducted an analysis of the PCR and CMR function and their roles and responsibilities. This analysis helped us determine how we can more effectively utilize PCRs and CMRs to increase opportunities for small business contracting. Additionally, our analysis looked into whether we have appropriately allocated our PCRs and CMRs in the most effective, efficient way. In fact, in the fiscal year 2012 budget, the President asked for additional full-time employees, including PCRs, to provide oversight for small business contracting programs and eliminate fraud, waste and abuse. Our analysis also looked at how we can utilize our Government Contracting Area Report (GCAR) to track and measure key metrics and outcomes. We are currently reviewing the results of this analysis and working to develop and implement an improved system, along with revised standard operating procedures and tools.

The second GAO report is in regards to the Offices of Small and Disadvantaged Business Utilization (OSDBU) that work in each federal agency. SBA works very closely with the Directors and staff of these offices. We chair monthly meetings with the Small Business Procurement Advisory Council, which is comprised of the OSDBU Directors, to share program updates, discuss policy and regulatory changes, and share best practices. We also work with the OSDBU Directors to set small business goals for their agency, help them develop plans to meet their goals, monitor their progress, and report on their agencies' actual performance on our annual Goaling Report and Scorecard. Additionally, we work with OSDBU Directors and staff to provide their agencies' procurement teams training on small business programs and we also assist OSDBU staff with issues and concerns related to specific contracts.

The GAO's report addressed three key issues. The first issue is in regards to Section 15(k)(3) of the Small Business Act, which says that OSDBU Directors should report to agency or deputy agency heads. SBA strongly supports the underlying policy set forth in Section 15(k)(3) of the Small Business Act and is asking all agencies to ensure they are in compliance with the requirements. Open and direct communication between the OSDBU Director and the Secretary, Deputy Secretary or their equivalent is paramount to ensure that small businesses receive the maximum practicable opportunity to compete for and win federal contracts. In fact, SBA Administrator Karen Mills recently sent a Memorandum to all agency heads and deputy heads reinforcing the importance of this requirement and asking each agency to ensure they are in compliance with the statute.

Second, the GAO noted that eight OSDBU functions are listed in 15(k) of the Small Business Act, but it does not necessarily require that OSDBU Directors personally carry them out themselves. OSDBU Directors vary on how extensively they carry out these functions. The SBA is committed to ensuring OSDBU Directors and staff have the appropriate tools and resources to increase small business utilization in federal procurements and achieve their small business goals. As mentioned, we chair monthly Small Business Procurement Advisory Council Meetings, which provide a great forum to discuss challenges and opportunities for how to execute the OSDBU function, and for sharing best practices. We also provide OSDBU Directors with training, as well as guidance on how to increase small business contracting opportunities.

And lastly, in the GAO report, OSDBU Directors reported three challenges in performing their functions: (1) inadequate staffing levels, (2) limited budgetary resources, and (3) lack of influence in the procurement process. SBA strongly believes in the importance of the OSDBU role and has worked hard over the last two years to elevate the OSDBU within each agency. For example, SBA works closely with the White House and the Office of Federal Procurement Policy (OFPP) to engage senior officials at both the White House and at each agency on the importance of small business contracting and to also keep agencies accountable for achieving their goals. Additionally, SBA and OFPP have held events to bring together the OSDBU community and Chief Acquisition Officer community to create a strong link between the small business advocates and the acquisition teams.

The third and final report concerned mentor-protégé programs. Mentor-protégé programs are arrangements in which mentors—typically experienced prime contractors—provide business development assistance to small business protégés. In return, the program provides incentives for mentor participation, such as credit toward subcontracting goals and additional evaluation points toward the awarding of contracts. Mentors may also enter into joint-venture arrangements with protégés to compete for government contracts.

SBA currently only runs and oversees one Mentor-Protégé program, which is for participants in the 8(a) Business Development program. However, the Small Business Jobs Act of 2010 gave the agency authority to implement additional programs for HUBZone, Women-owned, and Service-Disabled Veteran-Owned Small Businesses. We are in process of implementing these new programs. We conducted robust public outreach via a 13-city Small Business Jobs Act Tour and have held several meetings with various agency and public stakeholders to collect input and feedback on the implementation of these programs. We are now in the process of drafting proposed regulations for public comment and subsequent implementation.

Other Federal agencies also have their own Mentor-Protégé programs. The GAO looked at the effectiveness of various Mentor-Protégé programs across the government. SBA does not oversee other agencies' Mentor-Protégé programs, but we are supportive of efforts made to increase opportunities for small businesses to compete for and win federal contracts.

In addition to sharing our views on the three GAO reports, I would also like to take this opportunity to share with you three important initiatives our Office of Government Contracting and Business Development is currently focused on.

The first is our efforts to combat fraud, waste and abuse in the small business contracting programs. We have no tolerance for fraud, waste and abuse in our programs and have implemented a comprehensive three-pronged strategy to identify, prevent and pursue non-compliance or fraud across all our government contracting programs. The three prongs of our fraud, waste and abuse strategy are as follows:

1. Effective certification processes
2. Continued surveillance and monitoring
3. Robust and timely enforcement.

The first prong is designed to ensure there are effective certification processes that provide clear and comprehensive eligibility screening on the front-end to make sure only qualified, eligible firms participate in our programs. The small business community should clearly understand how each SBA program works, who is intended to benefit from it, and how to apply for it. Program eligibility rules should be straightforward and effectively applied. Therefore, the first prong is focused on having clarity and consistency at the front-end of each of our programs.

The second prong of our strategy is conducting continued surveillance and monitoring on firms once they are in our programs. Only those firms entitled to benefit from SBA's programs should remain in them. We therefore conduct ongoing reviews and monitoring of firms in our programs, including those which have been certified by SBA, as well as those which have self-certified (in those programs which permit self-certification). Review and monitoring confirms that only eligible firms have been certified, and identifies firms whose eligibility may have lapsed since certification. We use several tools in this stage, including site visits, eligibility reviews, and eligibility protests. Additionally, each program has developed unique processes to address eligibility issues.

The last prong of the strategy is taking robust and timely enforcement on any non-compliant or fraudulent firms. SBA's programs must be reserved for those who are – and who remain – eligible. We have a range of enforcement tools to use when we have identified a firm which is ineligible (or no longer eligible) to participate in our programs. Certain firms may not be aware that they are out of compliance, and simply withdraw when made aware of their ineligibility. Others are bad actors, and are taking intentional and often fraudulent advantage of our programs. SBA has no tolerance for a firm found to be acting fraudulently, and where appropriate we will act decisively to oust them from our programs and from doing business with the government generally. We also refer fraudulent activity to the SBA's Suspension and Debarment officials, the SBA's Inspector General, and/or the Department of Justice.

Over the past two years, we removed over 4,000 firms from the HUBZone program, over 1,000 firms from the 8(a) program, and over 50 firms from the SDVOSB program. In fiscal year 2011, we have also suspended, proposed for debarment or debarred over 30 firms and individuals involved in procurement misconduct.

We have also recently assembled a Suspension and Debarment Task Force at the SBA, which is chaired by our General Counsel. The Task Force has developed a strategic framework for suspension and debarment of firms that use fraud or other wrongful practices to gain improper access to programs intended to benefit small business. The Task Force is working closely with every SBA program office and with the Agency's Inspector General to identify bad actors, vigorously pursue them, and expel them from further government business. SBA intends to continue to send the message that we take enforcement seriously and will come down hard on those who seek to take unfair advantage of our programs and services to the detriment of the many honest small businesses that depend upon those programs and services.

The second initiative is the implementation of the Small Business Jobs Act (SBJA) of 2010. I would first like to thank Congress for passing the Act, which included 19 provisions related to small business contracting. As mentioned, we are in the process of implementing these provisions and are excited about the impact they will have not only on small businesses, but in also improving contracting oversight processes. Below are some key highlights:

- Parity - The SBJA reaffirms “parity” among federal small business contracting programs. This means that contracting officers are free to choose among businesses owned by women and service-disabled veterans, as well as businesses participating in HUBZone programs and 8(a) programs. This clarification helps federal agencies meet each of the government's small business contracting goals.
- Repeal of Competitiveness Demonstration Program - The law repeals the Competitiveness Demonstration Program, which actually harmed many small firms. By repealing this program, the SBA reinstates set-asides in about 10 industries where small businesses typically excel, such as landscaping, construction and pest control.
- Size Standards review - The law requires SBA to conduct a detailed review of the small business size standards. SBA is currently in the process of conducting this review and is on schedule to meet the timeline outlined in the Act.
- Presumption of Loss - The SBJA strengthens the government's ability to take legal action against willful misrepresentations of small businesses' size or status to gain a federal contract or grant.
- Policy on Prosecution of the size and status fraud – SBA will issue a government-wide policy on the prosecutions of fraud or misrepresentation of size standards.
- Mandatory small business training – SBA is currently implementing a provision of the SBJA, which was also a recommendation from the President's Interagency Task Force on Small Business Contracting to strengthen the skills of the acquisition workforce by revising existing core certification and requiring training on small business contracting.

The third and last issue I would like to discuss with you is in regards to our Historically Underutilized Business Zone (HUBZone) program. With the public release of the 2010 Census data, a number of existing areas will no longer be designated HUBZones due to the statutory mandate to remove the past redesignated areas as of the later of: (1) The date on which the Census Bureau publicly releases the first results from the 2010 decennial census; or (2) Three years after the date on which the census tract or non-metropolitan county ceased to be so qualified. This mandate will have an impact on existing HUBZone firms in the program whose area has been redesignated and no longer qualify for the program. We are currently working on implementing this congressionally-mandated change to ensure only qualified firms remain in the program. One issue we are currently working on is related to certain areas where there is a 15 month gap between the expiration of redesignated areas and the possibility of that census tract being qualified again for the program. SBA is supportive of allowing firms impacted by this 15 month gap to remain in the program until it is determined whether their area is qualified for the program, however, only Congress has the power to make this change. We are also happy and willing to work with Congress on any other proposals related to this issue to promote economic development and employment growth in distressed areas.

As demonstrated by the initiatives and efforts described in this testimony, SBA has taken great strides to strengthen our small business contracting programs and strategy for combating fraud, waste and abuse. These efforts are critical in ensuring small businesses gain access to federal contracting opportunities. While we have made significant progress, we continue to look for ways to identify further opportunities for improvement and to maximize small businesses' access to this important source of revenue so that they can grow their businesses and create jobs.

Thank you for allowing me to share SBA's views and initiatives with you today, and I will be happy to answer any questions you may have.