

**THE CENTRAL CONTRACTOR
REGISTRATION NEEDS LARGE BUSINESS AND SMALL
BUSINESS DESIGNATION IMPROVEMENTS**

MANAGEMENT ADVISORY REPORT NO. 6-18

March 21, 2006

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**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

MANAGEMENT ADVISORY REPORT
Issue Date: March 21, 2006
Report Number: 6-18

TO: Karen C. Hontz
Associate Administrator for Government Contracting

FROM: **/s/ original signed**
Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: The Central Contractor Registration Needs Large Business and Small
Business Designation Improvements

While reviewing a congressional request to determine whether a Hurricane Katrina related Federal Emergency Management Agency (FEMA) contract was appropriately reported as a small business in the Federal Procurement Data System – Next Generation (FPDS – NG), we noted that the General Services Administration’s (GSA) Integrated Acquisition Environment’s (IAE) initiative, the Central Contractor Registration (CCR), allows contradictory information on a contractor’s size status to be included in the system. An edit check and additional instructions need to be added to CCR to correct this problem.

Background

In an October 21, 2005 letter, Congressman Bennie Thompson, Ranking Member of the House of Representatives Committee on Homeland Security, expressed concerns about Corporate Express (the contractor), a company which had been awarded a contract by FEMA for almost \$1 million. FEMA reported that the contract was awarded to a small business in FPDS - NG even though the contractor appeared to be other than small.

In order for a company to be eligible to receive a small business set-aside or for a Federal agency to record that it has awarded a contract to a small business, the business, including all of its affiliates, must be small for the North American Industry Classification System (NAICS) code under which the contract is awarded. Some NAICS

codes are revenue based, i.e., size is determined by the company's average annual revenues for the preceding three completed fiscal years, and some are employee based, i.e., the company's average numbers of employees for each pay period of the 12 months preceding their contract offer.

The contractor, a Buhrmann company subsidiary, is one of the world's largest providers of office and computer products and services. The contractor has more than 200 facilities in several countries and in 2004, had approximately \$4.5 billion in North American sales and employed 10,775 people in North America. In September 2005, as a result of the Hurricane Katrina disaster, the contractor was awarded a contract for \$861,306 under NAICS code 453210. The contract went to their Baton Rouge, LA office and was recorded in FPDS - NG as being awarded to a small business. The size standard for NAICS code 453210 is revenue based. In order to be a small business for a contract awarded under that NAICS code, a company's average revenue for the preceding three years could not exceed \$6 million dollars. For Fiscal Years 2002, 2003, and 2004, Buhrmann NV's North American revenues exceeded \$4 billion each year, well over the \$6 million threshold to be considered a small business.

The CCR website was developed by the Department of Defense (DoD) to provide a way for contractors to receive payment when contracting with the Federal government. Subsequently the CCR became a marketing tool for contractors. In order for a company to receive payment, it must be registered in CCR. Contracting Officers, as well as businesses/individuals contracting with the Federal government, use the information in CCR to identify small businesses. In an initiative to simplify the procurement process, on January 1, 2004, the integration of the SBA system "Pro-Net" into the CCR database as a separate section called the "Dynamic Small Business Search" began. Pro-Net and now the Dynamic Small Business Search portion of CCR contain information on small businesses to aide these businesses in marketing and to act as a search engine for Contracting Officers. SBA's size logic identifies whether a company is small for each of the company's NAICS codes included in the Dynamic Small Business Search.

Finding: CCR Can Contain Contradictory Size Information On Companies.

CCR has two sections that reflect a company's size information and the information in one section can mistakenly contradict the information in the other section. This occurs because there are no checks in the CCR registration process to ensure consistency between the two sections. Contracting Officers and other government officials may use incorrect size information to justify a small business procurement, and this appears to have occurred on the FEMA contract. According to the Office of Management and Budget (OMB) "Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication" each agency is required to develop information resources management procedures for substantiating the quality of information before it is disseminated.

The two sections of CCR contain information on whether the company is a small business. In the “Corporate Information” section of CCR, the company must designate whether it is a large business. In the “Small Business Types” section, SBA’s size logic indicates whether a company is small for each of the NAICS codes based on SBA data bases which contain information on small businesses that participate in certain SBA programs, such as the section 8(a) business development program. For companies that do not participate in any SBA program, SBA’s size logic identifies whether a company is small for each NAICS code based solely on unconfirmed annual revenue and number of employee figures the company periodically enters into CCR.

There are no checks in CCR to ensure that there is consistency between data concerning a company’s size in the “Corporate Information” and “Small Business Types” sections. Because of this inconsistency, Contracting Officers are more likely to access incorrect information on the size of businesses. In the case of the contractor, the Contracting Officer said she did not award this procurement as a small business set-aside and she made no entries into FPDS - NG. She had been detailed to FEMA to assist shortly after Hurricane Katrina and went back to her agency, leaving the file for data entry to another person. The CCR printout showed the contractor was a large business in the “Corporate Information” section, but showed the contractor as a small business under the “Small Business Types” section. It appears someone else entered the incorrect information into FPDS - NG, because the company was listed as small for each of its NAICS codes, while ignoring the “Corporate Information” section in CCR where the contractor reported it was other than small.¹ If an edit check had been included prohibiting further entries due to conflicting information in these two CCR sections, a check could have been made that would have determined that the contractor was not a small business.

The annual revenue and number of employees a company enters in CCR may be incorrect because the instructions are not specific. When registering in CCR, a company enters its DUNS number, the company’s annual revenues and its number of employees. When entering the data into CCR, there are no explanations on the input screen of how to determine the revenues and number of employees, i.e., whether or not to include data for company affiliates. However, this information is contained on the CCR homepage as well as in the CCR Handbook. Companies can have multiple DUNS numbers corresponding to each of its offices. Company employees not familiar with requirements for reporting annual revenue and number of employee’s may input this information using only the number of employees and revenues specific to the entered DUNS number.

According to OMB Circular A-123, *Managements Responsibility for Internal Control*, “Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application’s interfaces to verify inputs and outputs, such as edit checks.” In information processing, a variety of control activities should be used, including edit checks of data entered. According to the Government Accountability

¹ Contracting officers should rely on the contractor’s Online Representations and Certifications (ORCA) to determine the size of the business.

Office (GAO) report, “Standards for Internal Control in the Federal Government” (GAO/AIMD-00-21.3.1), computerized edit checks should be built into systems to review the reasonableness of data. A common control activity is to include edit checks to control data entry, according to the GAO report, “Internal Control Management and Evaluation Tool” (GAO-01-1008G). According to the Office of Management and Budget’s guidelines, “Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice; Republication” and Public Law 106-554, Section 515, each agency is to maintain a basic standard of quality (i.e., objectivity, utility and integrity), in the information it disseminates, and take appropriate steps to include information quality criteria in public dissemination practices.

SBA’s Office of Size Standards and the IAE Project Management Office have been working to correct the inconsistency between the two CCR sections. They are working with DoD to add an “edit check” in CCR so that the information on a company’s size would be consistent. As of March 2, 2006, the offices were in the process of developing the parameters before submitting a change request to the IAE for approval or implementation of these changes. Finally, the three offices are in the process of redesigning the CCR input pages so that company-wide and division information will be requested. It is anticipated that this revision will be implemented in FY 2007.

Recommendations

We recommend that the Associate Administrator for Government Contracting continue to work with the DoD and GSA and ensure CCR is modified by:

1. Adding an “edit check” that ensures that the data in CCR concerning company size is consistent. Specifically, if the company’s self-designation that it is a large business in the Corporate Information section does not agree with the SBA determination included in the Small Business Types section, an error message should be generated to have the data confirmed and made consistent.
2. Including a description of how to calculate the number of employees and annual revenue number where the registrant inputs this data.

SBA Management’s Response

The Office of Government Contracting (GC) agreed with the finding and recommendations. However, they requested several editorial changes that were reviewed and incorporated into the final draft, as appropriate. GC’s response, less the attachment, is included as Attachment 1.

* * * * *

The finding included in this report is the conclusion of the Office of Inspector General’s Auditing Division. The finding and recommendations are subject to review,

management decision, and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Please provide us your management decision for each recommendation addressed to you within 30 days. Your management decisions should be recorded on the attached SBA Forms 1824, "Recommendation Action Sheet," and show either your proposed corrective action and target date for completion, or explanation of your disagreement with our recommendations.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-[FOIA Ex. 2].

Attachments



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

MAR 16 2006

DATE:

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Karen C. Hontz [FOIA Ex (b)]
Associate Administrator for Government Contracting

SUBJECT: Comments on Draft Management Advisory Report--The Central
Contractor Registration Needs to be Modified

The Office of Government Contracting agrees with the report's findings and recommendations. However, several editorial changes are requested to describe more accurately the current CCR processes. In addition, the report's title could be revised to describe more specifically the nature of the issue and recommendations. I recommend revising the title to read "The Central Contractor Registration Needs to Make Improvements to its Large Business and Small Business Designations."

Attached are specific editorial comments on the report. These address several areas. First, the report makes several references to "SBA determines...." This characterization may be confused with the SBA's formal size determination decision in response to a size protest. It may also suggest, incorrectly, that SBA has conducted a definitive review of a registrant's small business status. A more appropriate characterization is that "SBA's size logic identifies...."

Second, information on how to calculate average annual receipts and number of employees is available in CCR, but not on the CCR screens. Both the CCR handbook and CCR homepage contain this information.

Third, the term "Business Types/Grants" section should be changed to "Corporate Information."

Fourth, on page 2, second paragraph, CCR was originally created as a payment system, not a marketing tool. The words "and market their businesses to the Federal government" should be removed. The attached document includes related revisions.

Finally, on page 3, first full paragraph, a contracting officer is to rely on an offeror's Online Certifications and Representations (ORCA) to report small business status into FPDS-NG, not CCR. Size is determined at the time an offeror submits its bid. At the time of award, the offeror's small business status may have changed since the time between bid and award could be many months, and in some cases, more than a year. The offeror at the time of its bid certifies

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ATTACHMENT 1

that the information in CCR is accurate or provides a written self-certification that it is a small business. The discussion in this paragraph needs revision to take into account the ORCA process.

If you have any questions on these comments, please contact Gary Jackson, Assistant Administrator for Size Standards.

Report Distribution

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