

The Big Business of Small Business

Top defense contracting companies reap the benefits meant for small businesses

By Elizabeth Brown

WASHINGTON, September 29, 2004 — When defense contracting giant The Titan Corporation bought SenCom Corp. for \$35 million in 2000, it also received a nice secondary bonus—some \$176 million worth of contracts designated for small businesses.

Titan is not alone. Thirty percent of all defense contract money reported as going to small businesses and special minority-owned businesses has ended up in the hands of the top defense companies, the Center for Public Integrity has found.

Between 1998 and 2003, the Pentagon awarded more than \$47 billion in contracts designated for small businesses to companies that have each earned more than \$100 million from Defense Department contracts alone during that six year period.

More than half of the top 100 defense contractors—55 of them in all—received at least \$10 million in contracts with small business designations over the past six years. All told, the small business contracts won by the largest defense firms amounted to \$9.3 billion, the Center found.

Titan, the 34th largest defense contractor, has received more than half a billion dollars in preferential small business contracts by absorbing smaller companies and continuing to win awards on their small business contracts. This large amount accounted for 23 percent of the \$2.39 billion in defense contracts the company received from 1998 to 2003.

Nearly 45 percent of Titan's small business awards came in the form of small business set asides, which not only carry a preferential classification for government contracting, but are exclusively reserved for small companies. Nearly 80 percent of the \$176 million Titan received from 2000 to 2003 through awards on contracts SenCom Corp. won were recorded as funds set-aside to go to small businesses.

"We have no problem with the government procurement systems and how they handle these things," Titan spokesperson Ralph 'Wil' Williams told the Center.

According to current regulations, if a business is awarded a contract while it is classified as small, the business is considered small for the life of the contract. This allows millions of small business dollars to go to big companies when a small firm outgrows the classification or is acquired, as noted in a General Accounting Office investigation last year.

"In fact there is a lot of change going on with the small business awards" said Deidre Lee the Director of Defense Procurement and Acquisition Policy at the Department of Defense. "If it is truly a buy ... we should novate the contract, which would change the name, which would change the status. That is what should happen."

Contracting expert Charles Tiefer called the percent of contracts classified as going to small business that actually go to top companies "disheartening." He said government agencies have an incentive to award contracts to small businesses.

"Whether by goals or quotas departments are obliged to make sure that small businesses are taking contracts," said Tiefer, a professor of government contracting at the University of Baltimore law school.

According to government-wide goals set by Congress, 23 percent of prime contract dollars are supposed to be awarded to small businesses annually. The Small Business Administration reported that the Defense Department exceeded that goal by 2.4 percent in 2003.

L-3 Communications, which the Center found received \$5.15 billion in contracts during 1998-2003, collected 11 percent—or \$582 million—of its total contracts as those classified as going to small businesses. More than \$219 million of those contracts come from the management and technical services company EER Systems, which L-3 Communications acquired in 2001 to become part of its Government Services division.

Other top contractors receiving small business dollars include the military equipment support services company, Engineered Support Systems Inc.. More than one third of the company's \$1.57 billion in contracts during 1998 to 2003 came from contracts classified as going to small business.

Engineered Support Systems received \$188 million in small business dollars through Keco Industries, which it acquired in 1998. Radian Inc. also brought in \$162 million in small business dollars since Engineered Support Systems acquired the company in 2002.

'Get it right'

The Small Business Administration recently made changes to its regulations, set to go into effect December 2004, that would require companies to re-certify themselves as small businesses after they have been acquired by another company, said Gary Jackson, the assistant administrator for size standards at the SBA.

"The problem came up that a company may grow or be bought out but still gets recorded as small for the purposes of that contract," Jackson said. "In December we will look at situations when the contract is bought. The company would have to certify if the company is still a small business."

Jackson noted that the new regulations would not deny a company work on a contract previously won, but would remove the preferential classification for government reporting. He said the acquisition problem arose over the past five years after the government developed contracts that can last up to 20 years — plenty of time to grow out of a small business or be acquired by a larger company.

Tiefer said he was cautious about the Small Business Administration's introduction of certification regulations.

"[The regulation] sounds like a great idea, but many more promises are made about protecting the small business community, especially before an election," Tiefer said.

The GSA has already been requiring recertification of small businesses that win contracts through its schedules said David Drabkin, the deputy chief acquisition officer at the General Services Administration. "Under current regulations if you are small you remain small for the life of the contract, there is no requirement in regulation or law to investigate the size because of the SBA rule," Drabkin said.

But beginning in 2002, Drabkin said, General Services Administration contract officers were required to ask for recertification of small business size after the base period of the contract had ended, which is usually five years, to "keep in the spirit of what we are trying to do" with the small business program. Drabkin said the General Services Administration's new "Get It Right" campaign, launched to re-educate federal contracting employees about proper contracting methods, will include a review to see if contracting officers have been making the inquiry into business size.