

Defense giants got funds meant for small firms

By David Washburn
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Several large defense contractors either based in San Diego or with significant operations here garnered more than \$1.3 billion in federal money last year that was earmarked for small businesses, according to a new analysis of government contracts.

Since 2002, the companies – Science Applications International Corp., General Dynamics, L-3 Communications, General Atomics, ViaSat and Cubic Corp. – have reaped nearly \$3 billion in small-business contracts, according to the analysis by the American Small Business League, a Bay Area-based advocacy group.

Nationwide, dozens of Fortune 500 corporations like these, including household names Lockheed Martin, Microsoft and Wal-Mart, have received tens of billions of dollars in small-business awards in recent years, the analysis shows.

There have been instances of fraud – 24 federal convictions in the past five years – but the vast majority of cases involve shoddy record keeping and a system that favors large corporations that regularly acquire small businesses and small companies that grow large over the life of a contract, which can be as long as 20 years.

General Dynamics, for example, has acquired 43 companies in the past decade. Since 2000, ViaSat has grown from 375 to 1,400 employees.

The Small Business Administration last month announced a new regulation aimed at fixing the problems, but members of Congress and small-business advocates say the rule postpones true reform and does not address the primary reasons why small businesses so often lose out in government contracting.

“Nearly five years ago, the president released a small-business agenda that aimed to make the federal marketplace more accessible to small firms,” said Rep. Nydia Velazquez, D-N.Y., the incoming chairwoman of the House Small Business Committee. “Yet we continue to see large businesses receiving small-business awards.”

The Small Business Act requires federal agencies to consider small businesses when awarding contracts. In 1997, Congress began mandating that 23 percent of all prime contract dollars go to businesses defined as small when based on annual revenue and number of employees.

The SBA reported 25.4 percent of federal prime contracting dollars went to small businesses in 2005. However, Valazquez and other House Democrats say \$12 billion in small-business contracts actually went to large firms last year.

SBA officials acknowledge problems with the federal procurement data system – the database that keeps track of all federal contracts – and say they are investigating the Democrats' accusation.

“We are going to the federal agencies that had questionable data and asking them to review their contracts to see if there was inaccurate reporting,” said SBA spokesman Calvin Jenkins.

Advocates and government watchdogs, including the SBA's inspector general, say such problems have persisted for years. A 2003 report by the General Accounting Office – now called the Government Accountability Office – showed five large companies had received small-business awards totaling \$460 million.

Earlier this year, SBA Inspector General Eric M. Thorson testified before the Senate about “several regulatory loopholes” that allow large companies to perform small-business contracts. “Legitimate small businesses lose out as agencies have little incentive to identify other small-business contracting opportunities,” he said.

Officials from Cubic, General Dynamics and General Atomics said they do not identify themselves, or any of their subsidiaries, as small businesses when vying for government contracts.

SAIC, ViaSat and L-3, which owns Titan Corp., refused to comment for this story. Those who spoke to *The San Diego Union-Tribune* said many of their contracts require them to use small businesses as subcontractors.

“We fully support the government's small-business policy because it is an important part of our overall business strategy,” said Jae Lande, a spokeswoman for Cubic.

A new SBA rule, set last month and effective starting in June, requires small businesses receiving government contracts to recertify their size when they merge or are purchased by another company or at the end of the first five years of a contract.

Current SBA regulations allow a company's size certification to stay the same throughout the contract.

“This regulation will go a long way toward ensuring that small-business contract awards are fairly and accurately reported,” said SBA Administrator Steven C. Preston in a statement.

But it doesn't go far enough, said Congresswoman Velazquez and other small-business advocates.

“The issue of miscoding has become increasingly worse over the past several years,” Velazquez said. “Eighty percent of the contracts miscoded were due to other factors than small businesses simply growing too large, which is all this regulation focuses on.”

And, small-business advocates say, allowing companies five years to recertify their size will ensure that the problem will persist until 2012.

“We have all these companies that bought small businesses over the past decade that will keep their small-biz status for five more years,” said Lloyd Chapman, founder of the Small Business League, the group that did the analysis of government contracts.

Chapman said public comment on the new rule overwhelmingly favored an annual recertification. He added that the rule's June start allows seven more months in which the government could award small-business contracts to large companies.

SBA spokesman Jenkins said many of the coding errors Valazquez refers to are the result of trouble in implementing upgrades to the government's procurement data system. He said the number of errors should drop substantially as agencies become familiar with the new system.

Regarding recertification, Jenkins said the SBA proposed it be annual but changed the time frame after small employers said it would limit the growth of their businesses, and federal officials expressed fears of being inundated with paperwork.

“Contracting officers told us that if they have to go through the hassle of an annual recertification, there could be a disincentive for agencies to seek out small businesses,” Jenkins said.