

Impersonators in the Land of Small Business

By Ron Nixon
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WASHINGTON, July 5 – When it comes to government contracting, few companies are as aggressive or successful as GTSI, a Virginia-based information technology company with about 850 workers and almost \$900 million in revenue. Last year, it won contracts worth over \$500 million.

Unfortunately, for small businesses like MySource, a computer hardware company in Springfield, Pa., GTSI's gain was its loss.

Donna Bozzetto, the owner, bid on several Air Force computer contracts reserved exclusively for small companies, and was surprised to see GTSI as one of the companies also competing. "I was confused because this was supposed to be a small-business set-aside contract," Ms. Bozzetto said.

The Small Business Administration and other federal agencies are mandated by law to provide at least 23 percent of federal contracts to small businesses. But for years, government studies show, large corporations like GTSI, Boeing, General Dynamics and Northrop Grumman have been counted as small businesses either through legal loopholes, via acquisitions or simply by mistake. And despite some efforts by the federal government to correct the mistakes, problems persist.

The stakes for small businesses are huge as they try to compete for contracts in an expanding federal marketplace. Since 2000, the amount of federal contracting has grown 55 percent, to \$377 billion.

Last year, at least \$4.9 billion worth of contracts, coded as small business, went to 13 of the largest government contractors, according to a review by The New York Times of contracting data provided by Eagle Eye, a research firm based in Virginia.

"The S.B.A.'s handling of small business contracting is a mess," said Harry C. Alford, president and chief executive of the National Black Chamber of Commerce. "They know about this problem and yet it continues to happen. The agency is either unwilling or unable to deal with it."

Representative Nydia M. Velázquez of New York, the senior Democrat on the House Small Business Committee and a frequent critic of the agency, agrees. "They've known about this for years and continued to put out these reports saying 'we've exceeded our goal of awarding contracts to small businesses,' " Ms. Velázquez said in an interview. "But every study points out that they are not truly achieving those goals. Small businesses don't want a handout, but they want a shot at competing on a level playing field."

The Small Business Administration, however, gives itself high marks. In a news release last week, the agency said that it had awarded more than a quarter of contracts to small businesses.

"This is excellent news for small businesses doing business with the federal government," said the departing S.B.A. administrator, Hector V. Barreto, in the release. "For the third year in a row, the federal government has met or exceeded its small-business contracting goal. The president and his administration are committed to helping small businesses get their fair share of government contracts."

GTSI was able to compete for the Air Force contract because of a provision in the law that allows

companies to compete for small-business contracts even when they grow larger.

In 1996, GTSI was awarded a 10-year General Services Administration contract for a company with 500 employees or fewer, which the government considers a small business, said Paul Liberty, a spokesman for GTSI. "Since the company was classified as a small business at the time of the contract, it maintains that status until the contract ends," Mr. Liberty said.

The contract ends next year, and GTSI may no longer qualify as a small business, but until then the company can compete for contracts as a small business. "We don't make the rules, we just follow them," Mr. Liberty said.

Ms. Bozzetto, the owner of MySource, said this loophole in federal contracting laws provided much larger competitors like GTSI an unfair advantage over her sole proprietorship.

"When you have small companies like mine with a few employees trying to compete for contracts with a company with 500 employees and \$1 billion in revenue, we don't stand a chance," Ms. Bozzetto said. "It's ludicrous to call a company that big a small business."

Rob Doolittle, a spokesman for General Dynamics, which was listed as having 47 contracts, said those probably resulted from acquisitions.

"We've acquired a number of companies in the Northern Virginia area, and if they had small-business contracts prior to that they would still be listed as small-business contracts," Mr. Doolittle said.

Officials at Northrop Grumman, which was listed as having 121 contracts, also said the company was most likely included because it acquired smaller concerns with existing contracts. The company said those business units would not be eligible for small-business contracts in the future.

A spokesman for Boeing, listed as having 37 contracts, said the company was listed because it had acquired some small businesses with contracts or because its subsidiaries had received contracts as small businesses.

"The government is looking at these companies as small business and not at Boeing as a whole," said Bob Jorgensen, a Boeing spokesman. "They feel these companies shouldn't be penalized because they are associated with a large company."

In its own study this month, Eagle Eye found that the percentage of federal contracts given to small businesses dropped in 2005 to 17 percent from 20 percent, but that included larger companies so the percentage could be much smaller. The instances of large companies' being awarded small-business contracts have grown to the point that the S.B.A.'s Office of Inspector General listed it as one of the most serious management challenges facing the agency this year.

Under federal contracting laws, a small business is determined by revenue and number of employees, under standards set by the Small Business Administration. Any manufacturer with fewer than 500 workers is viewed as small. And in the service and retail industries, the threshold is typically \$6.5 million in revenue. But because the agency has more than three dozen classifications for size, a company can be listed as small for some contracts and large for others.

If a business is given a contract while it is classified as a small business, it retains that classification for the life of the contract, regardless of how much it grows, as was the case with GTSI. These contracts are called "multiple award schedules," which are big umbrella contracts that the federal government uses to buy goods and services and are supposed to help agencies make more efficient purchases.

Schedule contracts are maintained by the General Services Administration, which requires companies to reclassify their status every five years. This allows them to compete as small businesses during that time.

Government studies show that large companies sometimes improperly receive small-business contracts because of errors by federal agency contracting officers who fail to check if companies were indeed small or relied on inaccurate information to determine their size.

Two weeks ago, a Government Accountability Office audit of a contracting program for the Department of Commerce found several examples of contracting officers who were unable to document the size of companies awarded small business contracts. The audit also found instances of companies continuing to be listed and awarded contracts as small businesses even after being acquired or merged with larger contractors.

The S.B.A.'s inspector general said the audits raised serious issues for the federal government and small businesses.

"If agencies are permitted to count contracts as meeting their annual small-business goals even though the contracts are actually being performed by larger business, this creates a disincentive for those agencies to identify other small-business opportunities, and legitimate small business lose out," Eric M. Thorson, the inspector general, said in an interview.

The agency has also tried to correct database errors and has removed hundreds of companies that have been erroneously miscoded as small businesses.

"We're not saying that the misreporting issue is not important, but you can't say that the information shows that small businesses are losing business to large businesses," said Gary M. Jackson, assistant administrator for size standards at the S.B.A. "It's the policies that were in place. We think that the changes we've made will make the reporting of small-business contracts much more accurate."