

# **Data suggests feds inflated small-business stats by mislabeling firms**

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by Todd Wallack, Journal Staff*

View Larger General Electric Co. has more than 319,000 employees around the globe, including in Wilmington. The parent of Wenham's Mullen Advertising Inc., Interpublic Group of Companies Inc., has 42,000 workers. And Natick-based Boston Scientific Inc. has 29,000.

But all three companies won millions of dollars in federal awards last year that the government said went to small businesses, according to a Boston Business Journal analysis. Mullen alone won at least \$25 million in such pacts, even though it's far too large to qualify as a small contractor. And similar examples abound.

"It's a huge problem," said Lloyd Chapman, president of the American Small Business League, a membership group based in Petaluma, Calif. "Small businesses should have an opportunity to compete. But when they are bidding against the subsidiaries of major corporations and foreign institutes, they don't have much of a chance of winning."

To be sure, few of the federal contracts that went to big companies were specifically earmarked for small businesses. But in each case, federal procurement records show that government contracting officials reported the contract went to a small business -- raising the possibility that big corporations got preference in the bidding process they didn't deserve. The awards may also have skewed the official government statistics.

Overall, the U.S. government claims one-quarter of all federal contract awards went to small contractors in 2005, beating the statutory goal of 23 percent. But federal data shows the government counted contracts to Waltham-based Raytheon Co., GE and other major companies in its small-business figures, making it hard to know how much money actually went to small companies.

"I feel it's unfair," said Trevor Rhone, owner of Sparkle Cleaning Services in Framingham. Rhone says he recently lost a bid to clean several local post offices to a larger California company, even though Rhone says he submitted a lower bid. Rhone said he thinks bigger corporations have an advantage because they often know the government procurement officers. "It just does not seem like there is a level playing field."

Watchdogs have complained about the issue for several years. A 2002 report from the Government Accountability Office found that five large companies received nearly \$500 million in small business awards. Last summer, Eric Thorson, the inspector general for the U.S. Small Business Administration, told the U.S. Senate that errors, loopholes and

fraud routinely allow big corporations to win contracts that supposedly went to small companies. In many cases, for instance, government agencies continue to take credit for giving money to small businesses -- even after the recipients have grown into big companies or been sold to larger firms.

The exact definition of small business varies by industry. For manufacturers like GE, it's defined as 500 employees or fewer. For wholesalers, it's 100 workers. For retailers, it's a maximum of \$6.5 million in annual sales. But no one argues that companies such as GE, Mullen or Boston Scientific meet the definition of a small business.

Sen. John Kerry, who chairs the Senate Committee on Small Business and Entrepreneurship, said he was concerned about the Boston Business Journal's findings.

"Massachusetts firms should get more contracts -- big and small -- but the federal government does a disservice to our companies when it mislabels them," Kerry said in a written statement.

Kerry called for increased training to reduce errors, updating federal regulations to eliminate loopholes and holding companies accountable for fraud. An aide said he is also considering hearings on the issue.

The federal government has already taken some steps to address the problem.