

Small-business Deals Under Investigation

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The U.S. Attorney's Office in Washington and the General Accounting Office are investigating whether large businesses are fraudulently pursuing -- and winning -- government contracts set aside for small businesses.

If the allegations are true, the amount of contracts going unfairly to large businesses could represent billions of dollars, said Wendy Belzer, spokeswoman for Rep. Nydia Velazquez, D-N.Y., ranking member of the House Small Business Committee.

Leaders of the House and Senate committees on small business requested the GAO investigation in January. The federal government each year buys approximately \$200 billion in goods and services from the private sector, according to the House committee.

The House committee will hold hearings when the GAO report is released, Belzer said. The report is expected in March or April, sources said.

Sen. Barbara Boxer, D-Calif., requested the U.S. Attorney's Office investigation last fall following complaints that large companies were winning contracts intended for small business.

The investigations have been spurred on by Lloyd Chapman, president of the Novato, Calif.-based Microcomputer Industry Suppliers Association. Chapman started the association about nine months ago to lobby for small IT resellers. The group now has about 1,000 members, he said.

Chapman is also general manager of GC Micro Corp. in Novato, a software and computer reseller with 2001 sales of \$34 million.

"One of the things that prompted me to get involved was the fact that I saw a lot of resellers, such as GC Micro, competing on a daily basis with some of the biggest computer suppliers in the world," he said.

GC Micro is a woman-owned, small disadvantaged business employing about 26 people. Five years ago, sales to federal agencies as a prime and subcontractor constituted most of its business. Now those sales are about 20 percent of the firm's business, Chapman said.

Chapman has amassed eight four-drawer file cabinets and numerous boxes of government and private-sector documents that he said show large businesses are indeed winning work that is meant to go to small businesses. He said some of the largest IT suppliers to the federal government are representing themselves as small businesses and winning contracts meant for small businesses.

Chapman has met with congressional staffers and made repeated phone calls to government agencies to rally officials to his side. So far, his efforts have helped instigate the two investigations and prompted the Small Business Administration inspector general to look into the matter.

In addition, SBA officials have removed hundreds of companies from the agency's PRO-Net

database, which federal contracting officers use to identify small businesses.

One of the companies removed, according to Chapman, is IT reseller GTSI Corp. of Chantilly, Va., which has about 600 employees and 2002 revenue of nearly \$935 million. Others removed include CDW Government Inc. and ASAP Software, Chapman said. Both are subsidiaries of large firms. CDW-G is a division of CDW Computers Inc. of Vernon Hills, Ill.; ASAP is a unit of Buhrmann NV of Amsterdam. Buhrmann employs more than 25,000 people in 30 countries and logged revenue of \$10.7 billion in 2002. CDW employs about 2,800 people and had revenue of nearly \$4.3 billion in 2002.

Jack Littlely, senior vice president of program and information services at GTSI, said the company has not won any contracts as a small business since 2001, but continues to qualify as a small business under a GSA schedule contract that it won years ago.

Procurement rules allow companies who have won multiple-award contracts, such as a GSA schedule, to remain small through the life of the contract, including option years that could be up to two decades. But the White House this month took steps to change this policy.

Chapman said some government employees initially were hostile to his complaints, but now congressional staffers are calling him to see how they can help.

"I am converting people every day," Chapman said. "I'm like the Baptist preacher. When I first talk to people, they are fighting me. They are the typical, cynical government employees. By the time I get off the phone with them, they say, 'I guess we do need to take a look at this ... this needs to change.'"

After Chapman complained to Boxer, the California senator wrote a letter Sept. 24, 2002, to the U.S. Attorney's Office in Washington asking for an investigation.

"With small businesses in California facing a difficult business environment, it is important that government contracts set aside for small businesses be made available to small businesses," Boxer wrote.

Channing Phillips, spokesman for the attorney's office, said its probe is ongoing. He said he could not comment on what companies the office is investigating.

Pete McClintock, SBA acting inspector general, said, "We're looking at complaints that were provided to both Sen. Boxer and us."

In December, the General Accounting Office began its own investigation based on information Chapman provided, said David Cooper, director of GAO's Acquisition and Sourcing management office.

"We are looking into the issue of whether large businesses are receiving contracts intended for small businesses," Cooper said. "We are seeing there is a problem. What we are trying to do is validate what the problem is, what the factors are that caused the problem to occur and whatever corrective actions might be needed to address the issue."

And in January, leaders of the House and Senate small business committees followed, officially asking GAO to investigate on their behalf.

Sen. Olympia Snowe, R-Maine, chairwoman of the Senate Committee on Small Business and Entrepreneurship, wrote Jan. 13 to GAO chief David Walker, requesting "a full investigation into whether large companies are indeed obtaining government contracts set aside for small businesses."

Twenty-three percent of federal prime contract dollars are supposed to go to small businesses

each year. But a Senate Small Business Committee staff member said, "It looks like what [agencies] have told us is going to small business isn't ... It looks like a fraction of what is being reported is going to small businesses. We are going to be looking at this closely."

On Jan. 17, Velazquez and Rep. Donald Manzullo, R-Ill., chairman of the House Committee on Small Business, also wrote to Walker, saying, "We ask your immediate assistance in assessing whether large businesses are unfairly receiving contracts that should be legitimately awarded to small businesses. If so, we ask GAO to identify actions that are necessary to correct this very serious problem."

Manzullo and Velazquez asked the GAO to include in its investigation large businesses that have received GSA Federal Supply Service schedule contracts; what actions have been taken by the SBA to address the problem, including reviewing PRO-Net for inaccuracies; and small-business protests to the SBA on size standard issues for the last five years.

Chapman, who regularly logs 14-hour days trying to advance his cause, said he hopes his efforts will pay off with policy changes to ensure multinational conglomerates and billion-dollar companies don't get small-business contracts.

"I feel extremely driven, really compelled," he said. "It's hard to describe. A lot of people that were supposed to be helped by these [small-business contracting] programs are being hurt by these programs."