

SBA deals go to big contractors

*By Kevin J. Shay
Gazette.net
September 29, 2006*

Federal agencies have a goal of awarding 23 percent of contracts to small companies – potentially worth more than \$70 billion annually.

The U.S. Small Business Administration helped small companies land \$79.6 billion in contracts in fiscal 2005, meeting the 23 percent goal for the third consecutive year, according to a recent SBA report. Most of that – \$53.8 billion – was from the Pentagon.

But Lloyd Chapman, president of the American Small Business League of Petaluma, Calif., and others disputed that number. He pointed to about a dozen studies by the U.S. Government Accountability Office, the SBA Inspector General's office and others that reported on large businesses receiving contracts that should have gone to small companies.

About 30 percent of federal defense contracts that should have gone to small companies between 1998 and 2003 went to large businesses, according to one report by the Center for Public Integrity, a Washington, D.C., research organization.

Among the large defense contractors receiving or inheriting contracts reserved for small companies during those five years were three of the largest private employers in Maryland – Northrop Grumman Corp., BAE Systems and Lockheed Martin Corp., the study reported. The list included just about every top defense contractor, including General Dynamics Corp., Halliburton Co., Honeywell International and Boeing Co.

While Karen Hontz, associate administrator for government contracting with the SBA, had not read the center's study, many such reports contain misleading information, she said.

"There is a lot of misinformation about large businesses getting small-business contracts," Hontz said. "It's more of a data issue about how contracts are recorded."

There could also be instances in which small companies grew large during the life of the contract – which can span decades – or small businesses were acquired by larger firms, she said. Federal rules – which some call "regulatory loopholes" – allow small companies that grow large or were purchased by larger corporations before December 2004 to retain their small status during the contract.

Another possibility is that some subsidiaries of large companies might not be reporting all of their affiliations, Hontz said.

Also, large businesses may sometimes obtain small-business contracts because SBA employees are unfamiliar with requirements and mistakes are made in recording contracts, SBA Inspector General Eric M. Thorson said during a recent hearing before the U.S. Senate Committee on Small Business and Entrepreneurship.

Fraud plays a role

Then there is fraud committed by companies, Thorson said. In the past five years, the office has opened 69 cases and obtained 24 fraud convictions, resulting in fines and settlements of more than \$17 million, he said.

Fraud plays a large role in the situation, said Anthony W. Robinson, president of the Minority Business Enterprise Legal Defense and Education Fund in Largo. He has heard complaints for several years, especially from owners of small minority-owned companies.

"The large companies will say something like they bought a small company that had these contracts. But I think it's more than that. Many companies purposely claim to be small when they are not," Robinson said. "The SBA should be accountable for who represents themselves as being small. How do you miss a Northrop Grumman?"

Officials are working to change the rules to make companies certify they are small more often and tighten the data recording in the central contracting registry, Hontz said. "We want to ensure the accuracy of data," she said.

Employees need more training and rules on the SBA's authority to debar contractors for misrepresentations need to be clarified, Thorson said. Congress could establish an office within the SBA to monitor the integrity of contracts, he said.

For its part, Congress has only started to address the issue. The Senate small-business committee recently approved a bill that would make it harder for large companies to win small-business contracts, but it hasn't yet been introduced before the entire Senate, said Brian Clavelle, a committee staff member.

The legislation would increase federal authority to prosecute and suspend large corporations that misrepresent themselves as small businesses. It would also strengthen the SBA's authority to decide whether a company is really a small business.

The House Committee on Small Business has issued reports, such as one in July that concluded that about \$12 billion in contracts that federal agencies reported as going to small businesses in fiscal 2005 actually went to large companies.

It's encouraging to see some action on the matter in Congress, Robinson said. But because the current Congress is winding up today to let members campaign for the Nov. 7 elections, it's doubtful anything will get done on the proposed Senate bill until next year, Robinson said. That leaves it for the SBA to make internal changes, he said.

"If the SBA becomes more aggressive on the issue, something could get done on the regulatory end quicker than through Congress," Robinson said.