

**EFFECTIVENESS OF THE SMALL BUSINESS
ADMINISTRATION'S SURVEILLANCE REVIEW
PROCESS**

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U.S. Small Business Administration
Office of Inspector General

Memorandum

To: Joseph G. Jordan
Associate Administrator, Government Contracting and
Business Development

Date: March 31, 2011

From: /s/ Original Signed
Peter L. McClintock
Deputy Inspector General

Subject: Effectiveness of the Small Business Administration's Surveillance Review Process,
Report No. 11-11

This report presents the results of our audit of the *Effectiveness of the Small Business Administration's (SBA) Surveillance Review Process*. Our audit objectives were to determine whether: (1) SBA's small business and 8(a) surveillance reviews adequately assessed the small business programs of contracting activities; and (2) appropriate action was taken to ensure that areas of non-compliance were corrected in a timely manner.

To determine the adequacy of surveillance reviews, we analyzed reports from 30 reviews¹ conducted in fiscal year (FY) 2009 and available supporting documentation.² We compared SBA's report contents, interviews, and contract analysis checklists to requirements in the Federal Acquisition Regulation (FAR) and applicable SBA regulations. We also compared each review team's use of checklists, sampling methodologies, and rating criteria to determine consistency in performing the assessments. Because only 16 of the 30 review teams documented the sampling universe from which they selected contract actions for review, we could not determine the percentage of contract actions reviewed by all teams. We interviewed personnel responsible for conducting and overseeing surveillance reviews within SBA's Office of Government Contracting (GC). We also reviewed SBA and Federal regulations governing small business procurement and agency procedures to identify and evaluate materials used to perform surveillance reviews. Further, we determined the elapsed time between headquarters' receipt of draft surveillance review reports for FY 2009 and issuance of those reports to contracting activities.

To address whether appropriate action was taken in a timely manner, we interviewed SBA personnel and procurement officials at the contracting activities regarding corrective

¹SBA reported that it conducted 32 reviews in FY 2009, however, we determined 30 reviews were completed because (1) SBA was unable to gain access to a contracting activity in a reasonable amount of time, and (2) one contracting activity sold timber, which was not a procurement activity.

²Supporting documentation was not available for six surveillance review reports.

actions taken in response to recommendations from SBA's FYs 2007 and 2008 surveillance reviews. We also interviewed SBA officials to determine the extent of follow-up conducted to ensure deficiencies were corrected. We did not review contract files to determine if surveillance review teams reached the proper conclusion, or corroborate statements made by contracting activities concerning their efforts to address recommendations. Detailed information concerning our audit scope and methodology can be found in Appendix I. We performed our audit between August 2009 and August 2010 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

BACKGROUND

SBA plays an important role in ensuring that small businesses gain access to Federal contracting opportunities. In an effort for the Federal government to collectively meet the 23-percent statutory goal for contract dollars awarded to small businesses, SBA negotiates agency-specific goals. SBA also establishes goals for individual socioeconomic programs, such as SBA's Historically Underutilized Business Zones, 8(a) Business Development, and women-owned small businesses. However, goal attainment is primarily the responsibility of Federal procuring agencies. Also, while SBA helps eligible socially and economically disadvantaged 8(a) firms compete in the economy through various business development activities, SBA has delegated its 8(a) contract execution functions to procuring agencies through partnership agreements. These partnership agreements establish the responsibilities between SBA and the procuring agencies for oversight, monitoring, and compliance with procurement laws and regulations governing 8(a) contracts. Under the 8(a) partnership agreements, SBA retains the right to perform on-site reviews to determine whether agencies have properly executed 8(a) contracts and monitored compliance with 8(a) regulations.

Although SBA is heavily reliant on Federal agencies to maximize procurement opportunities for small businesses, SBA is ultimately responsible for ensuring that businesses receive a fair and equitable opportunity to participate in Federal contracts and subcontracts and for ensuring that 8(a) companies comply with 8(a) program regulations. To fulfill this responsibility, SBA conducts annual surveillance reviews of selected contracting activities. Surveillance reviews, which serve as a small business evaluation activity, are authorized by the Small Business Act and the FAR. Specifically, the Small Business Act³ authorizes Procurement Center Representatives⁴ (PCR) to monitor the performance of contracting activities to which they are assigned for small business opportunities. Similarly, FAR 19.402(c)(5), *Small Business Programs*, authorizes SBA to conduct surveillance reviews to assess Federal agencies' management of their small business programs and compliance with regulations and applicable procedures.

³ Section 15(m)(2) of the Small Business Act.

⁴ SBA procurement analysts and engineers are located throughout the nation at major military and civilian Federal buying activities to ensure small businesses have a fair and equitable opportunity to compete for Federal procurements.

SBA's GC office manages the surveillance reviews, which are performed by teams in GC's six area offices. Area Directors assigned to these offices coordinate the selection of review sites with GC headquarters during the final quarter of each fiscal year. Also, Area Directors designate review teams that include one or more PCRs within their respective geographical areas. In FY 2009, GC conducted surveillance reviews of 30 contracting activities that had purchases totaling \$17.3 billion. The 30 activities represented 1 percent of the 3,285 contracting activities that year and 3 percent of the total procurement dollars for the 3,285 activities. The detailed list of FY 2009 contracting activities that had a surveillance review can be found in Appendix II.

In FY 2009, SBA had 60 PCRs responsible for monitoring the performance of contracting activities, which includes conducting surveillance reviews. PCRs also perform many other primary functions, such as: (1) conducting full reviews of purchase requisitions, acquisition forecasts not set aside or proposed for competition by the Contracting Officer, and subcontracting plans; (2) counseling small businesses through outreach and training; and (3) reviewing proposed bundled acquisitions and making recommendations to enhance small business participation for prime contracting opportunities.

Surveillance reviews are intended to be comprehensive assessments of contracting activities' small business programs. SBA's Standard Operating Procedure (SOP) 60 02 7 states that these reviews should assess the quality of a contracting activity's small business program and its impact on small businesses, and recommend changes to improve small business participation in the contracting activity's acquisition process. Additionally, in FY 2009, SBA expanded the scope of the reviews to include an evaluation of the activity's compliance with 8(a) award requirements and its monitoring of contractor compliance with 8(a) requirements. The expansion was made in response to a prior SBA Office of Inspector General (OIG) recommendation that 8(a) reviews be regularly conducted to ensure contracting activities monitor and enforce compliance with 8(a) program regulations.⁵

Further, in response to contracting issues identified in SBA's OIG Management Challenge reports, the Agency stated that surveillance reviews would address some of those procurement problems.⁶ Specific problem areas include assuring that contracting activities: (1) provide adequate training to contracting personnel on small business contract procedures, and (2) have accurate contractor size certifications procedures in place, e.g., whether contract officers verified the on-line certifications made by contractors in the governmental Online Representations and Certifications Application (ORCA) prior to awarding contracts.

⁵SBA OIG-06-15, *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, March 16, 2006.

⁶SBA OIG, *FY 2010 Reports on the Most Serious Management and Performance Challenges Facing the Small Business Administrations*, October 15, 2010. Additional fiscal year is FY 2009.

RESULTS IN BRIEF

The FY 2009 surveillance reviews conducted by SBA did not adequately assess the small business programs of contracting activities. The Agency did not use a systematic and analytical process for establishing review priorities to ensure reasonable coverage of the 3,285 contracting activities. In some cases the rationale for selecting activities was unrelated to the factors outlined in the SOP and candidates that should have been considered were not recommended because of the limits placed on the number of contracting activities that each area office could recommend for review. Also, in selecting activities for review, SBA did not consider information in anomaly reports, which are produced to identify discrepancies in small business reporting to FPDS. Lastly, although a major purpose of the surveillance reviews is to monitor 8(a) delegated contract execution authority, little consideration was given to 8(a) activity in selecting procurement centers.

Additionally, the 30 surveillance reviews conducted in FY 2009 were superficial, limited in scope, poorly documented, and untimely, and thus were inadequate for making determinations about the effectiveness of the contracting activities' small business programs or their compliance with small business rules. For 16 of the 30 surveillance reviews⁷ conducted in FY 2009, review teams used small judgmental samples to assess the number and severity of deficiencies in contracting activities' acquisition processes. For example, SBA reviewed only 29 of the over 4,400 contract actions of a contracting activity that obligated more than \$5 billion for the surveillance review period. As a result, the small judgmental samples examined were not sufficient to establish with certainty whether the activities complied with small business and 8(a) program requirements.

The teams conducting the surveillance reviews also did not consistently or sufficiently gather information needed to conduct their assessments and generally did not evaluate the extent to which small businesses complied with the FAR performance of work requirements. Consequently, teams may have missed deficiencies. Teams also did not assess known problem areas and poorly documented their reviews, leaving it unclear how reported deficiencies were identified. Adequate assessments were not made because management did not give priority or dedicate sufficient resources to conduct more than a minimal number of reviews, and review teams were given wide discretion in determining the scope and content of reviews. As a result, the reviews were not effective as a monitoring tool for determining whether contracting activities complied with small business and 8(a) requirements.

Finally, SBA did not follow-up on prior recommendations to ensure that deficiencies identified by surveillance review teams were corrected in a timely manner. According to SBA, a lack of staff resources and competing priorities prevented the agency from doing so. We followed up on the status of 45 recommendations made in 5 FY 2007 reports, and 65 recommendations made in 6 FY 2008 reports. We were told by SBA or contracting activities' staff that corrective actions had been taken for only 61 of the 110

⁷Supporting documentation for the remaining surveillance review reports did not contain contract listings.

recommendations. Also, while some recommendations were addressed, SBA did not determine in subsequent reviews whether actions taken were effective in correcting deficiencies identified, leaving the small business programs at the contracting activities vulnerable.

Based on the collaborative efforts of the OIG and GC management, the Agency took steps to address some of the issues we identified in our audit. To further assist the Agency in improving the quality of its surveillance review process, we made 12 recommendations in this report.

Management concurred with recommendations 1a – 1b, 2, 3, 5a – 5d, 6a – 6b, 7, and partially concurred with recommendation 4. We consider management’s comments to be fully responsive to all of the recommendations.

RESULTS

SBA Did Not Adequately Assess the Small Business Programs of Contracting Activities

The FY 2009 surveillance reviews conducted by SBA did not adequately assess small business activities because: (1) it did not use a systematic and analytical process for establishing review priorities and ensuring reasonable coverage for the more than 3,000 contracting activities; and (2) the reviews were superficial, limited in scope, poorly documented, and untimely. This occurred because management did not give priority, or dedicate sufficient resources, to conduct more than a minimal number of reviews, and review teams were given wide discretion in determining scope and content of the review. As a result, reviews were not effective as a monitoring tool for ensuring that contracting activities comply with small business and 8(a) requirements.

SBA Lacks a Systematic and Analytical Process for Establishing Review Priorities

The Agency did not prioritize surveillance reviews from a national government-wide perspective or utilize an analytical approach to determine the relative importance of the over 3,000 contracting activities with small business contracting programs that were candidates for review. Instead, according to GC headquarters officials, in FY 2009 SBA decided to review 32 activities—which allowed the Agency to increase slightly the number of reviews it had conducted in the previous year.⁸ However, it conducted only 30 reviews because SBA could not schedule one of the reviews within the required time frame, and another involved timber sales that did not qualify as a procurement activity. Headquarters then divided up the number of reviews among the six area offices, as shown in Table 1.

⁸The number of reviews conducted in prior years was largely determined by the number of PCRs assigned to each area office.

Table 1
Contracting Activities Selected for Review in FY 2009

GC Area Office	Number of PCRs	No. of Activities Selected
I	6	4
II	14	6
III	11	6
IV	10	5
V	9	3
VI	10	6
Total	60	30

Source: Generated by the SBA OIG using data provided by SBA’s Office of Government Contracting.

In selecting contracting activities for review, SOP 60 02 7 directs area offices to consider the:

- Availability of GC contracting staff who are within commuting distance of the buying agency, or other budgetary considerations;
- Contracting activity mission and acquisition workload;
- Small business program goal achievement and overall level of small business participation over the past two fiscal years;
- Experience indicating known or potential problems; and
- Changes in a contracting activity’s acquisition policy.

In recommending activities for review, some area offices considered the volume of contracts, complaints from small businesses, lack of prior reviews, and failure to meet small business goals, among other factors. However, we noted in 15 cases that the rationale for selecting activities was either unrelated to the factors in the SOP or related to the factor on budgetary consideration or commuting distance, which may not have identified the best candidates for review. For example, interviews with Area Directors disclosed that two activities undergoing base realignments/closures were selected because SBA wanted to determine how to reassign PCRs given expected changes in contracting activity. Three were selected based on low travel costs and another four were selected because the PCRs assigned to the activities were new. While these may be valid concerns for an area director’s activities, they are unrelated to a determination of whether a particular procuring activity presents a high risk to the proper achievement of small business goals. Furthermore, SBA’s selection approach did not provide a means of determining the relative importance of the review candidates because the SOP did not weigh the importance of the selection criteria and allowed area offices wide discretion in which criteria to use in selecting activities for review.

Moreover, SBA generally did not use “anomaly reports” to identify contracting activities with questionable small business reporting practices.⁹ These reports, which are produced

⁹Prior to FY 2009 surveillance reviews, anomaly reports were produced at the Federal procurement activity level and not at the individual contracting activity level.

by the Government Contracting and Business Development staff, identify discrepancies in small business data reported in Federal Procurement Data System (FPDS-NG) by contracting activities and are provided to contracting activities so that they can check for potentially miscoded procurement actions. For example, FPDS may report a contract's North American Industry Classification System¹⁰ (NAICS) code as 11110, which is soybean farming, while ORCA, which is a database that contains business size certifications, may show the NAICS code for the business as 541512, which is computer systems design services. This inconsistency would suggest that the contracting activity may not have accurately reported its small business contracts. Although several surveillance review reports mentioned anomaly reports or issues related to ORCA, PCRs told us that they did not use the anomaly reports to select FY 2009 activities for review. Given that the Government has missed its 23-percent small business contracting goal for past 2 years, and there has been significant data reliability issues involving small business activity reported in FPDS, surveillance reviews could be an important tool to identify and fix reporting problems, and provide better assurance that contracting agencies are properly measuring their small business goal achievements.

Finally, SBA did not consider or use any analysis of 8(a) contracting data or related information in selecting potential procuring activities. As discussed below, surveillance reviews should be assessing the adequacy of 8(a) contract execution functions.

Because SBA lacks a systematic and analytical process for prioritizing candidates, it may not have directed its limited surveillance review resources in an effective manner. Over the past 7 years, SBA has assessed the small business programs of only 154 of the more than 3,000 contracting activities. We believe that SBA needs to develop and implement a strategy that prioritizes all contracting activities that may not be maximizing Federal procurement opportunities for small businesses to undergo a surveillance review.

Surveillance Reviews were Superficial, Limited in Scope, Poorly Documented, and Untimely

Our examination of the 30 surveillance reviews disclosed that they were superficial, limited in scope, poorly documented and untimely. Surveillance reviews were: (1) superficial because they relied on small judgmental samples; (2) limited in scope because review teams did not consistently gather information needed to conduct their assessments; (3) poorly documented because identified report deficiencies were not clearly explained in the supporting documentation; and (4) untimely because reports sat in headquarters for a significant amount of time before being released to contracting activities.

Reliance on Small Judgmental Samples Resulted in Superficial Reviews that Prevented SBA Teams from Drawing Meaningful Conclusions

The surveillance SOP requires the selection of enough contract files to permit detection of significant trends and to establish valid findings. However, most of the review teams

¹⁰ NAICS are codes assigned to all economic activity or industry within twenty broad sectors. SBA uses NAICS codes to establish size standards for whether a business is small and eligible for Federal programs.

relied on small judgmental samples of contracts from varying time periods¹¹ occurring between FY 2006 and May 2009 to assess the number and severity of deficiencies in the acquisition processes of contracting activities reviewed. The judgmental sampling process cannot be relied upon to form conclusions about the population being sampled. Therefore, the small judgmental samples examined by the review teams were not sufficient to establish with certainty whether the activities complied with the FAR and 8(a) requirements.

Because only 16 of the review teams documented the sampling universe, we could not determine the percentage of contract actions reviewed for all 30 teams. As shown in Table 2 below, the 16 teams sampled between less than 1 to 19 percent of the total contract actions. While generally a higher percentage of contract actions were sampled for activities that had less than 1,000 contract actions during the period reviewed, the limited percentage of actions sampled appeared to be driven by the number of days that the review team was on site and team size, versus the volume of contracting activity. For example, in one instance SBA reviewed only 29 of more than 4,400 contract actions of an activity that obligated more than \$5 billion during the period reviewed.

Table 2
Percentage of Contract Actions Sampled from 16 Contracting Activities Ranging from 2 to 4 years

Total Contract Actions	Contract Actions Sampled	Percentage	Small Business Procurement	Size of Review Team	Number of Day(s) On-Site
63	8	13%	\$556M	5	1
124	24	19%	\$535M	3	2
211	21	10%	\$128M	2	3
220	39	18%	\$185M	3	4
267	15	6%	\$242M	3	1
286	17	6%	\$500M	3	3
367	11	3%	\$11M	3	4
633	23	4%	\$654M	3	1
748	40	5%	\$758M	4	2
795	19	2%	\$1B	2	1
1,190	31	3%	\$1B	3	3
1,584	50	3%	\$16B	3	1
1,642	20	1%	\$4B	3	1
2,261	36	2%	\$6B	3	5
2,915	31	1%	\$4B	5	3
4,419	29	<1%	\$5B	3	2

Source: Generated by the SBA OIG based on analysis of documentation supporting FY 2009 surveillance reviews provided by SBA's Office of Government Contracting.

Sample sizes varied and were arbitrarily determined because SBA's surveillance review guidance requires review teams to analyze only enough contracts to detect significant trends and ensure that their findings are valid. The guidance does not state a minimum

¹¹Reviews of 18 contracting activities examined contracts over 4 years or more; and 12 reviews covered less than 4 years of contracting activity.

percentage for determining a sample size when deciding the validity of findings. Consequently, in the absence of definitive guidance, review teams relied on their judgment to determine sample sizes.

Additionally, the surveillance guidance instructs that review teams should plan to spend 1 to 1 ½ days on site reviewing contract actions. PCRs we interviewed told us that the time allowed on site, in addition to the small size of the review teams, limited the number of contract actions they could review. For example, one team was able to review only 21 of the 57 contract actions it selected for review. Some PCRs suggested that one way to improve the surveillance review process is to extend the on-site review.

Scope of Reviews Was Limited Due to Insufficient Data Collected to Support Conclusions

Surveillance review teams did not consistently gather the information needed to conduct their assessments and did not assess known problem areas, including work performance requirements. Review teams were expected to collect information for their assessments by fully completing an interview checklist and a contract analysis checklist. However, review teams did not collect all of the requested data on the contract analysis checklist or interview checklist, thus impairing sound conclusions on the small business programs at the contracting activities. For example, teams did not ask the contracting activity's procurement staff all of the interview questions. Some review teams did not use the interview checklist and one team only asked the contracting activity procurement staff three questions because they believed that all questions did not have to be addressed as the SOP indicated that the checklists contained sample questions.

We also observed that most teams used a streamlined contract analysis checklist that, in some instances, had entire sections that were left blank. We discussed our observations with GC management and found that their expectations were not consistent with review guidance. SBA should revise SOP 60 02 7 to clarify that review teams must address all interview and contract analysis questions.

Review teams also did not always evaluate contract files for longstanding problem areas identified by past OIG reports. Examples of these problem areas include contracts intended for small businesses that were: (1) "pass through" contracts awarded to small businesses, but the work was then subcontracted to large businesses, or (2) misapplication of the size standard which occurred when a contracting officer designated an incorrect NAICS code, thereby potentially qualifying a large business as a small business, or (3) errors by the contracting activity in entering data into FPDS relating to size of the business. Prior to this audit, GC management informed SBA OIG that surveillance reviews would address known problem areas, through validation of NAICS codes and verification of the on-line size certifications that contractors enter into ORCA.

Based on our review of the surveillance review reports and supporting documentation, we found, however, that teams did not always check the size of businesses awarded small business contracts by verifying that the contracting officers validated the size of the business in ORCA. Of the 30 reports, 8 addressed ORCA, size standards, or NAICS

deficiencies. Supporting documents for the remaining 22 were inconclusive on whether the teams reviewed procuring activities' proper use of ORCA certifications and NAICS for determining size requirements. Without the verification of the appropriateness of the NAICS codes and company size listed, contracts intended for small businesses could be awarded to businesses that do not qualify as small.

Reviews Did Not Assess Compliance with 8(a) Partnership Agreements

A March 16, 2006 OIG audit report found that neither SBA nor procuring agencies ensured that 8(a) companies complied with applicable regulations when completing 8(a) contracts.¹² The audit report recommended that SBA regularly conduct surveillance reviews of procuring agencies' monitoring and enforcement of regulations relating to 8(a) contracts. SBA advised that it would incorporate 8(a) requirements into these surveillance reviews. One area of concern was that contracting officers were not monitoring "performance of work" requirements which establish limits on how much work can be subcontracted.¹³

On September 26, 2008, SBA issued a procedural notice¹⁴ revising Chapter 4 of SOP 60 02 7. The SOP revision required teams to assess how well contracting activities performed the responsibilities of their 8(a) partnership agreements in monitoring 8(a) firm compliance. Although Chapter 4 was revised, the SOP appendices were not updated to include revisions. As a result, 8(a) revisions were not included in: (1) the contract analysis and interview checklists, (2) documents used by the review teams to gather data, and (3) the report template, which was used to report results. The procedural notice expired September 1, 2009, without finalizing the revisions to the SOP.

In our review of the 2009 surveillance reviews, we noted review teams generally did not evaluate the extent to which contracting officers monitored the performance of 8(a) contracts to ensure that small businesses completed the required share of work in the contract. FAR and SBA regulations require small businesses to perform established percentages of work based on the type of contract. However, only 2 of the 30 reviews conducted in FY 2009 had documentation showing that the reviewer examined whether contracting personnel were monitoring performance of work requirements involving 8(a) contracts. For one of the two cases, the review team reported there was no evidence that the contracting officer made an effort to monitor the percentage of work performed by the small business. The other example involved an 8(a) joint venture where the review team concluded that there was no way of tracking the percentage of work performed by the 8(a) firm.

As noted above, Procedural Notice 8000-632, was in effect for most of FY 2009. Based on this, a Government Contracting and Business Development senior official told us that review teams were expected to check for monitoring of compliance with performance of

¹²SBA OIG-06-15, *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, March 16, 2006.

¹³13 CFR 125.6, Prime contractor performance requirements (limitations on subcontracting).

¹⁴Procedural Notice 8000-632, "How do I Perform a Surveillance Review?" September 26, 2008.

work requirements on contracts awarded to 8(a) firms and were also expected to ensure that monitoring occurred for all small businesses.

Poorly Documented Supporting Documentation Did Not Clearly Convey Identified Report Deficiencies

Review teams reported deficiencies that were not always documented by the team. Specifically, teams did not always prepare interview notes, or analyses of contract files to support information reported on the surveillance reviews checklists. Further, some of the checklists were not fully completed and did not always identify deficiencies in the contract files to support report conclusions. Other than the contract analysis and interview checklists, additional supporting documentation varied, including print-outs of contract actions and correspondence, such as emails. Documentation was poor because the SOP does not guide staff on what to document during the surveillance review. It only guides staff on what to review and verify in the contract files. According to GC management, review teams were expected to fully complete checklists. However, our review of documentation supporting the 30 surveillance reviews conducted in FY 2009 found that the teams generally modified and created their own checklists, and in seven instances did not use the interview checklist at all. In addition, we interviewed PCRs that completed the streamlined contract analysis checklist differently from other PCRs. The streamlined contract analysis checklist contains specific actions with a box beside each for the review team to check. However, the directions for the checklist do not instruct review teams when to check the box, if the actions were taken or not on the checklist. As a result, PCRs had to use their own judgment on the checklists, resulting in some PCRs marking boxes if the action applied to that particular contract, while others did not.

Further, the SOP requires PCRs to submit their back-up documentation to the respective Area Directors after GC Headquarters management distributes the surveillance review report to the contracting activity. However, we found that not all review teams retained their supporting documentation, which could potentially aide PCRs in future monitoring of the contracting activities. For example, supporting documentation for four surveillance review reports that were all completed in the same district area had been destroyed, while several PCRs told us that they retain their checklists, evaluative write-ups, and analyses of contract files for at least 3 years to use in monitoring the contracting activity. SBA should be explicit in how review teams should document information found during the on-site review and provide guidance on retaining the information.

Results Were Not Communicated Timely

Our analysis of the elapsed time for the 30 surveillance review reports¹⁵ issued in FY 2009 showed that delays occurred between the time that teams submitted their reports to headquarters for review, and the time they were issued to contracting activities. For example, as shown in Table 3, headquarters took 3 to 7 months to review and issue 11 reports. However, because of the untimely release of the reports, PCRs did not know when to expect corrective actions to be taken, thereby delaying the follow-up process.

¹⁵We were not able to calculate the elapsed time for 6 of the 30 reports due to incomplete date information.

We believe that report issuance delay sends the wrong message to contracting activities that there is no sense of urgency to correct the identified deficiencies.

Table 3
Time Elapsed Between Headquarters Receipt Date and Mailing Date
For Select FY 2009 Surveillance Review Reports

Report Received in Headquarters	Report Mailed to Agency	Elapsed Time (mos.)
08/12/2009	03/03/2010	7
09/08/2009	03/03/2010	6
09/28/2009	03/03/2010	5
09/03/2009	02/16/2010	5
07/24/2009	12/16/2009	5
09/10/2009	01/25/2010	4
08/27/2009	12/23/2009	4
07/13/2009	11/23/2009	4
10/06/2009	01/08/2010	3
10/01/2009	01/08/2010	3
09/01/2009	12/02/2009	3

Source: Generated by the SBA OIG using data provided by SBA's Office of Government Contracting

GC headquarters staff told us that delays occurred in their review of the reports because they often faced competing priorities and reviewing the reports was not always a top priority. Further, while the SOP provided specific timelines for some aspects of the surveillance review process, such as requiring that draft reports be submitted to headquarters 30 days after an exit briefing with the contracting activity, the guidance did not include timelines for headquarters review and issuance of the reports. In the future, SBA should develop a plan to ensure that surveillance review reports are issued in a timely manner.

SBA Did Not Give Priority or Dedicate Sufficient Resources to Surveillance Reviews

SBA's six area offices had limited resources to perform surveillance reviews. Of the 60 PCRs assigned to the area offices, 39 PCRs conducted reviews in FY 2009. The remaining PCRs performed size determinations, certificates of competencies, and other primary tasks. GC management emphasized that surveillance reviews are not the PCRs main responsibility. PCRs consider surveillance reviews a good tool to assess contracting activities' small business contracting practices. However, both SBA and GC management did not give sufficient priority and resources to conduct an effective surveillance review program.

Follow-up on Previous Recommendations Was Not Conducted

GC officials reported that surveillance review teams were expected to follow-up on previous recommendations when conducting surveillance reviews. Based on our review of the FYs 2007 and 2008 Summary Action Reports (SAR) submitted by contracting activities, only 61 of the 110 recommendations were addressed. Of the 61 recommendations addressed, 57 were implemented and 4 were not implemented. No SARs were received to address the remaining 49 recommendations. SARs contain

planned actions to correct deficiencies and areas of noncompliance. We interviewed some PCRs about the report recommendations without SARs, however, they were not aware of the status for those recommendations. Some of the PCRs didn't have a clear understanding of what was required for follow-up and stated that their workload limited their time for follow-up. A summary of the recommendations that were not addressed is presented in Appendix III.

SBA has no established policy requiring that follow-up be conducted. SOP 60 02 7 states that the surveillance review process should result in improvements to the contracting activity's acquisition process, but does not require that surveillance review teams follow-up. Some PCRs we interviewed voluntarily conducted follow-up as part of their daily monitoring of contracting activities to determine whether corrective actions were implemented. PCRs also told us there was no established process or clear responsibility placed on anyone to monitor the correction of the identified deficiencies.

Additionally, a lack of staff resources and competing priorities prohibited SBA from following up on the status of recommendations. While surveillance reviews are an important tool to monitor small business contracting, they are not legislatively mandated. Consequently, surveillance reviews took a backseat to statutory tasks PCRs were required to do within specific time frames. Some statutory tasks included handling size determination requests and verifying certificates of competency. As a result, GC management told us that surveillance reviews were “. . . nice to have, but not a priority.”

Without a formal follow-up process, SBA lacks assurance that contracting activities are taking the required steps to improve their small business programs and may not be targeting problem areas with continuing problems for attention during subsequent reviews. While the Agency plans to perform 10 follow-up surveillance reviews in FY 2010¹⁶ to determine whether corrective actions have been taken to address previous findings, SBA needs to revise its SOP and establish a formal follow-up process.

Other Observations

The surveillance review SOP directs GC staff to assign ratings to contracting activities that categorize the quality and effectiveness of its small business programs. The SOP identifies five rating categories—outstanding, highly satisfactory, satisfactory, marginally satisfactory, and unsatisfactory—that can be assigned based on deficiencies noted in the review checklists. However, the definitions for each of the rating categories are vague and subjective. For example, reviewers are instructed to rate the activity as outstanding if it “has no major deficiencies,” yet the SOP does not define or give examples of ‘major deficiencies.’ As a result, review teams were left to use their own judgment, creating a lack of consistency in assigned ratings.

GC management told us they were aware of the need for improvements in the rating criteria and were planning to better define the ratings. In April 2010, GC held a conference attended by Area Directors and PCRs nationwide, in which it addressed

¹⁶These reviews will include contracting activities that received a past rating of Marginally Satisfactory or less.

among other things, the inconsistencies and subjectivity in the process of assigning surveillance review ratings. However, no additional guidance has been forthcoming. We encourage GC management to modify the definitions of ratings to minimize subjectivity in the process and ratings assigned.

Conclusion

Surveillance reviews conducted in FY 2009 to evaluate small business programs at contracting activities were not as effective as they could have been in monitoring small business and 8(a) compliance. SBA's SOP 60 02 7 provided unclear guidance to GC review teams on how to perform surveillance reviews. Review teams evaluated small sample sizes of contracting activities, which did not provide a sufficient amount of data to evaluate the contracting activities' small business program. Additionally, the limited information collected was poorly documented by review teams and difficult to link how it supported conclusions made in the surveillance review report. Lastly, since surveillance reviews were not legislatively mandated, the reviews were not a priority for SBA. While GC officials have taken steps to address some of the inadequacies we identified in our audit, more actions need to be taken.

RECOMMENDATIONS

We recommend that the Associate Administrator for Government Contracting and Business Development take the appropriate steps to:

1. Amend SBA's selection criteria to:
 - 1a. Include errors identified in GC's anomaly reports, data on 8(a) contracting activity, and inquiries to SBA's 8(a) Business Development staff on suspected problems on 8(a) contract execution.
 - 1b. Eliminate those criteria that do not indicate risk with the contracting activity, i.e. availability to staff within commuting distance.
2. Develop and implement a strategy that ensures contracting activities that meet SBA's selection criteria are identified, prioritized on a nation-wide basis and targeted for a surveillance review.
3. Determine (a) the level of effort needed to establish an effective monitoring process for small business procurement activities and (b) the amount of resources needed to implement such a process.
4. Based on the results from recommendation #3, request resources from the Agency or through the annual budget process as appropriate.
5. Revise Chapter 4, *How Do I Perform a Surveillance Review?* and corresponding appendices, and update SOP 60 02 7, *Prime Contracts Program*, to:

- 5a. Include (1) 8(a) Business Development Program specific requirements as identified in the Partnership Agreements and Procedural Notice 8000-632; and (2) 8(a) Business Development Program in Appendix 7, *Analysis of Contract Files* and Appendix 8, *Interview Questions*.
- 5b. Modify definitions of rating categories to minimize subjectivity within each rating category, including examples of major and minor deficiencies.
- 5c. Establish a formal follow-up process that ensures that PCRs receive copies of final reports and follow up on deficiencies and recommendations.
- 5d. Update Appendix 8, *Interview Questions*, of SOP 60 02 7, *Prime Contracts Program*, to include GC's unofficial modified interview checklist that contains more open-ended questions.
6. Issue written instructions to remind surveillance review teams to:
 - 6a. Address all interview and contract review checklist questions.
 - 6b. Evaluate whether contracting activities are monitoring the performance of work requirements on the contracts that they administer.
7. Develop and implement a plan to ensure that surveillance review reports are issued to the contracting activity that was reviewed within a specific timeframe.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On February 24, 2011, we provided a draft of this report to SBA's Office of Government Contracting and Business Development for comment. On March 30, 2011, the Associate Administrator for Government Contracting and Business Development provided formal comments, which are contained in their entirety in Appendix IV. Management agreed with recommendations 1a – 1b, 2, 3, 5a – 5d, 6a. – 6d, 7, and partially agreed with recommendation 4. The Agency's comments and our evaluation of them are summarized below.

Recommendations 1a. - 1b.

Management Comments

Management concurred with the recommendations. Management stated that it will re-write Chapter 4 of Standard Operating Procedure (SOP) 60 02 7-Prime Contracts on Surveillance Reviews, which will include a more standardized analytical approach and methodology to be applied to surveillance reviews on a nation-wide basis. Further, management stated that it will explore establishing a headquarters based team to review all Area Director's proposed surveillance review recommendations to ensure conformance to the revised SOP requirements for surveillance reviews.

OIG Response

We consider management comments to be responsive to the recommendations.

Recommendation 2

Management Comments

Management concurred with the recommendation and will establish clear, concise and standardized selection criteria through the revision of SOP 60 02 7.

OIG Response

We consider management comments to be responsive to the recommendation.

Recommendation 3

Management Comments

Management concurred with the recommendation. Management stated that it will develop a more effective monitoring process by establishing and implementing a standardized and analytical approach for performing surveillance reviews. Further, management stated that it will perform a resource assessment to implement such a process.

OIG Response

We consider management comments to be responsive to the recommendation.

Recommendation 4

Management Comments

Management partially agreed with the recommendation and stated that it will determine the appropriate course of action after it completes process changes and a resource assessment.

OIG Response

Management comments appear to be responsive to our recommendation; however, we will obtain more details on the corrective actions during the audit follow-up process.

Recommendations 5a. - 5d.

Management Comments

Management concurred with the recommendations and stated that it will make the necessary changes in the re-write of SOP 60 02 7.

OIG Response

We consider management comments to be responsive to the recommendations.

Recommendations 6a. - 6b.

Management Comments

Management concurred with the recommendations and stated that it will incorporate the requirements outlined in the recommendations in the SOP re-write.

OIG Response

We consider management comments to be responsive to the recommendations.

Recommendation 7

Management Comments

Management concurred with the recommendation and stated that it will incorporate the requirement outlined in the recommendation in the re-write of SOP 60 02 7.

OIG Response

We consider management comments to be responsive to the recommendation.

ACTIONS REQUIRED

Please provide your management decision for each recommendation on the attached SBA Form 1824, *Recommendation Action Sheet*, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target dates(s) for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205-6586 or Riccardo R. Buglisi, Director, Business Development Programs Group at (202) 205-7489.

APPENDIX I. SCOPE AND METHODOLOGY

The audit objectives were to determine whether: (1) SBA small business and 8(a) surveillance reviews adequately assessed the small business programs of contracting activities; and (2) appropriate action were taken to ensure that areas of non-compliance were corrected in a timely manner.

To determine SBA's authority and responsibility to conduct surveillance reviews, we examined legislation and regulations that authorize the Agency to review the small business programs of Federal agencies.

To determine the universe of contracting activities and the respective Federal procurement dollars for FY 2009, we obtained data from the Agency that was retrieved from FPDS-NG. Although prior studies have determined FPDS-NG data to be inaccurate and incomplete, we relied on the information as it was the official and only source for data on Federal obligations to small businesses.

To determine the adequacy of SBA's assessment, we evaluated 30 FY 2009 surveillance review reports and the supporting documentation assigned to contracting activities, based on the Agency criteria.¹⁷ We examined the guidance used by review teams including Chapter 4 of SOP 60 02 7, *Prime Contracts Program* and corresponding appendices. We compared each review team's use of checklists, sampling methodologies, and rating criteria to determine consistency in performing the assessments. We interviewed SBA's GC headquarters staff and its six GC Area Directors to determine the Agency's strategy for annually selecting contracting activities for review. Additionally, we interviewed 14 of the Agency's 60 Procurement Center Representatives to determine the extent to which review teams were consistent in their approach to the surveillance review process. Finally, we analyzed information from GC's internal surveillance review tracking database to calculate the amount of time elapsed between headquarters' receipt of the draft review reports for FY 2009 and issuance of those reports to procuring agencies.

To determine the appropriateness and timeliness of actions taken by SBA and/or contracting activities, we selected 11 contracting activities which received surveillance reviews in FYs 2007 and 2008 and had a significant number of deficiencies and recommended corrective actions. For the selected contracting activities, we interviewed the Procurement Center Representatives that served as team leaders or were assigned to the contracting activities to determine SBA's follow-up process and the extent to which corrective actions had been taken by the contracting activities. When PCRs were not able to comment on actions taken to correct deficiencies, we interviewed contracting activity personnel that knew or should have known the extent to which action had been taken.

¹⁷Although SBA reports conducting 32 reviews, we excluded 2 reviews because one review was difficult to arrange with the contracting activity and the other review was for a contracting activity that sells timber, which was not a procurement activity.

The audit was performed between August 2009 and August 2010 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States.

APPENDIX II. CONTRACTING ACTIVITIES THAT RECEIVED SURVEILLANCE REVIEWS IN FY 2009

Dept/Agency	Contracting Activity	Location
Dept of Agriculture	Forest Service, Southern Region, Region 8	Atlanta, GA
Dept of Defense	Army Communications-Electronics, Life Cycle Management Command	Fort Monmouth, NJ
	Army Joint Munitions & Lethality Life Cycle Management Command	Picatinny Arsenal, NJ
	Army Research Development, and Engineering Command	Aberdeen Proving Ground, MD
	Marine Corps Installations East	Camp Lejeune, NC
	30th Space Wing Contracting Squadron	Vandenberg Air Force Base, CA
	Army Rock Island Arsenal Joint Manufacturing Technology Center	Rock Island, IL
	Army Material Command, TACOM Life Cycle Management Command	Watervliet Arsenal, NY
	50th Contracting Squadron, Schriever AFB	Colorado Springs, CO
	Dept of the Army, Mission and Installation Contracting	Fort Sill, OK
	Army Corps of Engineers, Louisville District	Louisville, KY
	Army Corps of Engineers	Alaska District, AK
	3rd Contracting Squadron	Elmendorf Air Force Base, AK
	Defense Information Technology Contracting Organization	Pacific, Pearl Harbor, Hawaii
	Naval Inventory Control Point	Philadelphia, PA
	Defense Supply Center Philadelphia	Philadelphia, PA
	Mission and Installation Contracting Command	Fort Meade, MD
	Dept of Air Force, Brooks City AFB, Center of Engineering and the Environment	San Antonio, TX
	Army Corps of Engineers	St. Paul, MN
	Army Corps of Engineers, Sacramento District	Sacramento, CA
Dept of Energy	Savannah River Operations	Aiken, SC
Dept of State	Office of Acquisitions Management Regional Procurement Support Office	Fort Lauderdale, FL
Dept of Transportation	Small Business Programs	Washington, DC
Dept of Veterans Affairs	VA Medical Center	Washington, DC
	Office of Acquisition and Material Management, National Acquisition Center	Hines, IL
Environmental Protection Agency	Cincinnati Procurement Operations Division	Cincinnati, OH
	Region 4, Office of Acquisition Management	Atlanta, GA
General Services Administration	New England Region	Boston, MA
	Great Lakes Region V	Chicago, IL
	Federal Acquisition Services	Kansas City, MO

Source: Generated by the OIG using list of FY 2009 Surveillance Reviews

**APPENDIX III: UNADDRESSED RECOMMENDATIONS FROM
SAMPLED SURVEILLANCE REVIEW REPORTS FOR
FISCAL YEARS 2007 AND 2008**

Contracting Activity	Recommendation
Army Corps of Engineers, Kansas City, MO	<ul style="list-style-type: none"> • Require all subcontracting plans to contain numerical values for small business programs as required by FAR 19.704(a)(1). • Develop a procedure for submitting solicitations that require subcontracting plans and forward to Chief of Small Business who will then forward to the Small Business Administration PCR for review prior to issuance in Fed Biz Ops. • Provide training for the contracting staff that will develop their knowledge of FAR Part 19 and other aspects of the Small Business Program.
Department of Veterans Affairs, Miami, FL	<ul style="list-style-type: none"> • Establish regularly scheduled training at least annually to address subcontracting program compliance.

Source: Generated by the OIG based on analysis.

APPENDIX IV: AGENCY COMMENTS



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

Date: March 30, 2011

To: Peter Mcclintock, Deputy Inspector General
Office of the Inspector General

From: Joseph G. Jordan, AA/GCBD [FOIA ex. 6]
[FOIA ex. 6]
John Klein, Acting Director, GC [FOIA ex. 6]
[FOIA ex. 6]

Subject: Effectiveness of the Small Business Administration's Surveillance Process

The Office of Government Contracting & Business Development (GCBD) is pleased to provide the following response to the draft report entitled "Effectiveness of the Small Business Administration's Surveillance Process", Project No. 9012.

1. Amend GC's selection criteria to:
 - 1a. Include errors identified in GC's anomaly reports, data on 8(a) contracting activity, and inquiries to SBA's 8(a) Business Development staff on suspected problems on 8(a) contract execution;
 - 1b. Eliminate those criteria that do not indicate risk with contracting activity, i.e., availability to staff within commuting distance.

We concur with the above recommendations and will re-write Chapter 4 of Standard Operating Procedure (SOP) 60 02 7 – Prime Contracts Program on Surveillance Reviews. The re-write will include a more standardized analytical approach and methodology to be applied to surveillance reviews on a nation-wide basis. Additionally, we are exploring the possibility of establishing a headquarters based team to review all Area Director's proposed surveillance review recommendations to ensure conformance to the revised SOP requirements for surveillance reviews.

2. Develop and implement a strategy that ensures contracting activities that meet GC's selection criteria are identified, prioritized on a nation-wide basis and targeted for a surveillance review.

We concur with the above recommendation and will establish clear, concise and standardized selection criteria through the revision of SOP 60 02 7.

3. Determine (a) level of effort needed to establish an effective monitoring process for small business procurement activities and (b) the amount of resources needed to implement such a process.

We concur with the above recommendation and will develop a more effective monitoring process by establishing and implementing a standardized and analytical approach to be applied when performing surveillance reviews. This will include an assessment of process resources.

4. Based on the results from recommendation #3, request resources from the Agency or through the annual budget process as appropriate.

We partially agree with this recommendation. We will determine the appropriate course of action after we have completed process changes and a resource assessment.

5. Review Chapter 4, *How Do I Perform a Surveillance Review?* And corresponding appendices, and update SOP 60 02 7, Prime Contracts Program to:
 - 5a. Include (1) 8(a) Business Development Program specific requirements as identified in the Partnership Agreements Procedural Notice 8000-632; and (2) 8(a) Business Development Program in Appendix 7, *Analysis of Contract Files* and Appendix 8, *Interview Questions*.

We concur with this recommendation and will ensure the incorporation of such in the re-write of SOP 60 02 7.

- 5b. Modify definitions of rating categories to minimize subjectivity within each rating category, including examples of major and minor deficiencies.

We concur with the above recommendation and will make the necessary changes in the re-write of SOP 60 02 7.

- 5c. Establish a formal follow-up process that ensures that PCRs receive copies of final reports and follow up on deficiencies and recommendations.

We concur with this recommendation and will make necessary process changes.

- 5d. Update Appendix 8, Interview Questions, of SOP 60 02 7, Prime Contracts Program, to include GC's unofficial modified interview checklist that contains more open-ended questions.

We concur with this recommendation and will update Appendix 8 of the SOP (Interview Questions) to incorporate current checklist of questions.

6. Issue written instructions to remind surveillance review teams to:

6a. Address all interview and contract review checklist questions.

We concur with this recommendation. This requirement will be incorporated into the SOP rewrite.

6b. Evaluate whether contracting activities are monitoring the performance of work requirements on the contracts that they administer.

We concur with this recommendation. This requirement will be incorporated into the SOP re-write.

7. Develop and implement a plan to ensure that surveillance review reports are issued to the contracting activity that was received within a specific timeframe.

We concur with this recommendation and will incorporate this requirement into the re-write of SOP 60 02 7.