

Defense Industrial Initiatives Current Issues: Small Businesses

The Washington Post article on government contracting and small businesses raises significant concerns about federal contracts and the instruments used to implement them.¹ The Post focuses on federal prime contract awards and small businesses. From a sample of \$89 billion in contracts classified as small business awards, the article notes that at least \$5 billion were actually awarded to large corporations. When confronted with these data at a press conference, the SBA could not explain why they did not uncover these errors or how they could be avoided in the future.

The Defense-Industrial Initiatives Group at CSIS has been looking at these issues from the service-contracting side for the last four years.² Some results of our research relate to the Post article, both specific problems with the Federal Procurement Data System (FPDS) and broader policy issues of government contracting to small businesses.

On FPDS, two issues are worth noting:

FPDS Data Integrity Issues

The data are indeed problematic, especially when analyzing awards to small businesses. For example, in our research, we found that many subsidiaries and predecessor companies of large corporations are listed separately in FPDS, sometimes as small businesses. We manually combined a company's various entries into a single entry based on information about mergers and acquisition of those companies. We believe government agencies can do

a better job of updating the lists of small businesses in near-real time.

Dynamic Nature of the Data

FPDS is continuously being updated, so data that are entered incorrectly in 2008 have a good chance of being corrected, even as long as 3 or 4 years later. For example, over \$100 billion dollars worth of entries for FY 2005 have been modified during FY 2008. Therefore, the Post's sample contracts may be significantly improved in the next few months. In 2006, a review of FPDS by SBA and OMB uncovered \$4.6 billion worth of contracts that had been mistakenly entered as small-business contracts. Those reviews should be more frequent.

On government contracting policy our research highlights the following points:

Set-asides going to the wrong companies

Not only have contracts to large companies been misidentified as ones made to small companies, but small business set-asides were actually entered as having been awarded to large companies. In 2007, \$635 million in small business set-asides were classified as awarded to large corporations, up from \$486 million in 2005.

Mismatched oversight and enforcement

We cannot tell how much of the problem is data entry error and how much is a real procurement problem. Stricter enforcement of existing regulations is needed requiring agencies to ensure that the data they enter into FPDS is correct and that require companies to report acquisition of small businesses and discontinue all set-aside contracts awarded to them. There is an opportunity for the administration to make this a priority.

- Guy Ben-Ari and Greg Sanders

¹ Carol D. Leonnig, "Government Counted Big Firms as Small", *Washington Post*, October 22, 2008

<http://www.washingtonpost.com/wp-dyn/content/article/2008/10/21/AR2008102102989.html>

² Chao et. al. (2007) *Structure and Dynamics of the U.S. Federal Services Industrial Base, 1995-2005*, CSIS: Washington, DC,

http://www.csis.org/media/isis/pubs/070501_psc.pdf