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Impact of Acquisition Reform on Awards to Disadvantaged Businesses

Office of System Architecture and Investment Analysis
Evaluation and Configuration Management Division
Program Evaluation Branch (ASD-210)

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EXECUTIVE SUMMARY

This report presents the results of the Program Evaluation Branch's review to determine whether the percentage of contract awards, based on contract dollars, to disadvantaged businesses decreased after the implementation of the Acquisition Management System (AMS), and, if so, to determine the causes for the decrease.

Due to multiple systems and processes used by the various Federal Aviation Administration (FAA) offices generating Major Procurement Program Goals reports, and because of the difficulty in obtaining verifiable data, we limited our review to FAA headquarters. Our review included contract awards, plus associated modifications, awarded at FAA headquarters during the period October 1994 through September 1997. The data represented the 18-month period prior to the implementation of AMS through the 18-month period following the implementation of AMS. Using the Contract Information System, which was intended to be the primary system for collecting contracting information, we determined that headquarters contract awards and associated modifications during this time accounted for 70 percent of total FAA contract dollars. We determined the combined results from headquarters and the Mike Monroney Aeronautical Center account for 90 percent of FAA contract dollars awarded during this period. A second review is planned at a later date to address contract awards at the Mike Monroney Aeronautical Center.

We found the implementation of AMS created

- a decrease in SEDB awards, which were those awards set aside for competition only among disadvantaged businesses holding a Small Business Administration Section 8(a) certification;
- an increase in SDB awards, which were all awards to disadvantaged businesses obtained through any process other than the set-aside process; and
- an overall decrease in awards to all disadvantaged businesses.

This occurred because AMS eliminated the primary method for making SEDB awards while also relaxing the requirement for contracting officers and Integrated Product Teams to coordinate contract needs through FAA's Small Business Utilization Staff, which is tasked with identifying opportunities suitable for SEDB awards. We also found that although the FAA changed its acquisition process, it did not change how it counts SEDB awards for reporting purposes.

Before the implementation of AMS, the primary method for making SEDB awards at headquarters was through noncompetitive set-aside contracts to disadvantaged businesses holding a Small Business Administration Section 8(a) certification. Under a noncompetitive set-aside contract, contracting officers could award contracts through a less formal process than competitive awards and without competition. This made the noncompetitive set-aside process quick, and, when it was reasonable for the circumstances, it was preferred by many contracting officers and Integrated Product Teams. In addition to the noncompetitive set-aside process, a competitive set-aside process was available for SEDB awards. This is a formal process requiring competition. We found headquarters' contracting officers and Integrated Product Teams did not use this formal competitive set-aside process for making SEDB awards during the 18-month period prior to AMS. However, after the implementation of AMS, this competitive set-aside process became the *only* way to make an SEDB award. Headquarters' contracting officers and Integrated Product Teams did begin using the competitive set-aside process to make SEDB awards after the implementation of AMS, but the increase in competitive set-aside awards was not sufficient to compensate for the elimination of the noncompetitive set-aside process.

At the same time, AMS encouraged, but no longer required, contracting officers or Integrated Product Teams to coordinate through the Small Business Utilization Staff, which is tasked with identifying proposed SEDB awards. Some contracting officers and Integrated Product Teams did coordinate through this office, but many did not. Under AMS, when appropriate, individual procurements may be set aside for SEDB awards. However, efforts to make SEDB awards were less effective when the contracting officer or Integrated Product Teams did not coordinate through the Small Business Utilization Staff. Since competitive set-aside awards represent the only way FAA currently measures whether goals for SEDB awards are met, coordinating through the Small Business Utilization Staff may increase the likelihood of achieving established goals and ensuring the FAA is in compliance with the Congressional mandate for achieving the nation's social goals.

We found that although the FAA changed its acquisition process, it did not change how it counts SEDB awards for reporting purposes. For reporting purposes in the Major Procurement Program Goals reports, the FAA counts those awards made to disadvantaged businesses holding a Small Business Administration Section 8(a) certification as "SEDB awards" *only when* those businesses received awards through the SEDB/8(a) set-aside process. The FAA counts disadvantaged businesses that obtain awards through any process other than the competitive set-aside process as "SDB awards," *whether or not the business holds a Small Business Administration Section 8(a) certification*. Therefore, some FAA awards to disadvantaged businesses that are certified by the Small Business Administration under Section 8(a) are counted as SDB awards rather than SEDB awards. The FAA cannot determine how many awards to disadvantaged businesses holding a Small Business Administration Section 8(a) certification are counted in the SDB award category. Without a distinct accounting for awards to all disadvantaged businesses that hold a Small Business Administration Section 8(a) certification, regardless of how those businesses

received awards, the FAA has limited ability to measure the success of the AMS in encouraging competition among these businesses.

In addition, we found contract award information used to report the FAA's progress in meeting goals to award contracts to the various categories of small businesses was not consistent. We found multiple systems were used to collect contract award information for Major Procurement Program Goals reports. Although the Contract Information System was established to collect the contract data required, we found the FAA also collected contract award information from two other database systems to produce the Major Procurement Program Goals report. Some FAA offices also used manual contract logs and actual contract files. The use of these different systems resulted in inconsistent data collection and reporting. In addition, information collected to produce the Major Procurement Program Goals reports was not consistent throughout the FAA. For example, some offices included credit card purchases when developing the Major Procurement Program Goals report, while other offices did not.

We also found data entered in the Contract Information System was not always accurate. This occurred for three reasons.

- First, the Contract Information System was confusing to use. Before AMS, the FAA used specific codes within the Contract Information System to identify the various types of awards. This coding was revised as a result of AMS, however, formal policy on these coding revisions had not been issued. Terminology and coding changes after the implementation of AMS added to the confusion of entering data in the Contract Information System.
- Second, the Contract Information System did not have internal software to trigger alerts when inconsistent data was entered. For example, it was not configured with internal controls to ensure data entered in one data field was compatible with data entered in other data fields.
- Third, the Contract Information System does not interface with other systems. For example, it does not interface with the Departmental Accounting and Financial Information System to ensure the contractors get paid, nor does it interact with the budget system to ensure it does not over obligate the Government.

As a result of the multiple systems, inconsistencies, and errors identified, we were limited in our ability to quantify the exact level of decrease in SEDB awards FAA-wide, and the FAA was unable to monitor its level of achievement in meeting established goals for major procurement programs accurately.

The use of three different database systems and various combined methodologies to generate the quarterly Major Procurement Program Goals reports will be replaced by a single new database system, Modernization of Procurement Automation (ACQUIRE). ACQUIRE is expected to replace two of the multiple database systems,

but will not replace the Contract Information System. The FAA is in the process of converting to ACQUIRE, with full implementation targeted for December 31, 1998. The Program Evaluation Branch conducted a limited review of ACQUIRE prior to its installation. Based on this limited review, the Program Evaluation Branch could not verify whether ACQUIRE will correct all deficiencies noted in the current systems for collecting contract award information. An evaluation of this system, once it is fully operational, will be necessary to document its effectiveness.

Although we did not find that SDB awards were adversely affected by acquisition reform during the period of our review, we did find the potential exists for these awards to be impacted in the future. FAA's success in increasing SDB awards relies on disadvantaged businesses being aware of FAA contracting opportunities. We found socially and economically disadvantaged businesses, both those certified by the Small Business Administration and those that were self-certified, were not always aware of FAA contract opportunities and either did not know how to access information on FAA contract opportunities using the internet or did not have access to the internet. In addition, disadvantaged businesses identified "bundling" of multiple smaller contract requirements into a single larger contract as a primary reason they were unable to compete on FAA contracts.

Summary of Recommendations:

- 1 A** The FAA currently has only one method for meeting SEDB award requirements and the potential success of that method is tied to the functions of the FAA Small Business Utilization Staff. Therefore, we recommend the FAA Administrator establish incentives to encourage both contracting officers and Integrated Product Teams to coordinate with the FAA Small Business Utilization Staff to ensure the FAA has every opportunity to identify awards suitable for SEDB awards.
- 1 B** We recommend the FAA Administrator adjust the criteria for counting awards to disadvantaged businesses holding a Small Business Administration Section 8(a) certification by including all awards to these businesses in the SEDB award category regardless of how those awards were received.
- 2 A** We recommend the Director, Office of Acquisitions: (i) establish agency-wide policy on proper coding for the Contract Information System after the implementation of AMS and disseminate it to all users, and (ii) work with the DOT to program the Contract Information System to block out coding no longer needed post-AMS or to notify the user at the time of input.
- 2 B** We recommend the FAA Administrator direct the regions and centers to update and correct data in the Contract Information System to ensure contract award information is recorded accurately and is in compliance with the new coding policy. In addition, we recommend the FAA Administrator ensure regions and centers phase out the use of the System for Acquisition

Management and the Procurement Automated System within a reasonable time after ACQUIRE has been implemented.

- 2 C** We recommend the FAA Integrated Product Team lead responsible for implementing ACQUIRE ensure this new system does address any weaknesses identified during the pilot phase and ensure: (i) adequate internal controls have been established to minimize input errors, (ii) adequate controls are in place to ensure completeness of contract award data entered into ACQUIRE, (iii) adequate controls exist to test the interfacing mechanisms of all ACQUIRE interfaces with other systems (e.g., the Departmental Accounting and Financial Information System and the Contract Information System) as designed in the system requirements specifications documents, and (iv) adequate audit trail exists to track edits and modifications.

MANAGEMENT RESPONSE

DIRECTOR , OFFICE OF ACQUISITIONS COMMENTS

The Director, Office of Acquisitions agreed with recommendations 1A and 1B, but did not state whether he agreed or disagreed with recommendations 2A, 2B, and 2C.

SPECIAL ASSISTANT, SMALL BUSINESS UTILIZATION STAFF COMMENTS

The Special Assistant, Small Business Utilization Staff did not state whether she agreed or disagreed with recommendations 1A, 2A, 2B, and 2C, but did state that she disagreed with recommendation 1B. The Special Assistant, Small Business Utilization Staff disagreed with recommendation 1B to adjust the criteria for counting SEDB awards because she believes this would make it impossible to compare FAA's performance against other agencies' performance and it distorts the statistics making FAA's performance appear better than it really is.

THE OFFICE OF PROGRAM EVALUATION RESPONSE TO COMMENTS:

While we recognize the need to follow Federal guidelines on how to count SEDB awards and compare performance in the SEDB set aside program, we believe that the FAA is not capturing FAA's success in awarding contracts to disadvantaged holding a Small Business Administration Section 8(a) certification. The FAA needs to know how successful the AMS has been in encouraging disadvantaged businesses holding a Small Business Administration Section 8(a) certification to compete and win all awards whether set aside or not. Implementing this recommendation would provide this information.

Table of Contents

	<u>Page</u>
EXECUTIVE SUMMARY	i
TABLE OF CONTENTS	vi
I. INTRODUCTION	
A. Background.....	1
B. Objective.....	4
C. Scope.....	4
D. Methodology.....	5
II. FOLLOW-UP ON PRIOR EVALUATIONS	5
III. RESULTS OF EVALUATION	
Results Summary.....	6
IV. FINDINGS AND RECOMMENDATIONS	
Finding #1: Decrease in Percent Change of Awards	7
Finding #2: Contract Award Information was not Consistent and was not Always Accurate.....	16
V. OTHER MATTERS	21
VI. EXHIBITS	
Exhibit A: Detailed Methodology.....	22
Exhibit B: Contract Information System Errors.....	26
Exhibit C: Glossary of Terminology Used.....	29
VII. APPENDICES	
Appendix A: Management Response to Draft Report from Director, Office of Acquisitions, ASU-1.....	31
Appendix B: Management Response to Draft Report from the Special Assistant, Small Business Utilization Staff, ARA-5.....	35

I. INTRODUCTION

A. Background

Congressional Mandate to Meet Contract Award Goals

Congress has mandated Federal agencies to establish goals, representing the nation's social goals, for awarding contracts to small business concerns, specifically to small business concerns owned and controlled by socially and economically disadvantaged individuals and to small business concerns owned and controlled by women. According to the Small Business Administration's "Guidance on Goal Setting Under Procurement Preference Programs [for fiscal years 1997 and 1998]:"

Section 221 of Public Law 95-507 [dated October 1978] and Public Law 100-656, Sections 502 and 503 [dated November 1988] require the head of each Federal agency, after consultation with the Small Business Administration, to establish realistic goals for the award of contracts to small business concerns and to small business concerns owned and controlled by socially and economically disadvantaged individuals. A government-wide goal of 20 percent of all prime contract awards for small business concerns was established, in addition to a government-wide goal of 5 percent of the total value of all prime contract and subcontract awards for each fiscal year for small business concerns owned and controlled by socially and economically disadvantaged individuals.

Public Law 103-355, dated October 1994, established a government-wide goal of 5 percent of the total value of all prime contract and subcontract awards for small business concerns owned and controlled by women.

To help achieve these goals, Congress has given Federal agencies the authority to set aside contracts exclusively for small business concerns, in general, and for small business concerns owned and controlled by socially and economically disadvantaged individuals, specifically. Only business concerns meeting the criteria for the category of small business concerns owned and controlled by socially and economically disadvantaged individuals may compete for set-aside awards in that category.

The Department of Transportation and the Federal Aviation Administration's Roles in Meeting the Congressional Mandate

Each year, the U.S. Department of Transportation (DOT) establishes goals with all its modal administrations, one of which is the Federal Aviation Administration (FAA). FAA's Small Business Utilization Staff is responsible for ensuring that FAA meets its goals.

To measure the success in meeting these goals, the FAA collects contract award information from its headquarters, nine regions, and two centers. These organizations prepare and submit quarterly Major Procurement Program Goals reports to FAA's Small Business Utilization Staff. Once received, the Small Business Utilization Staff consolidates these Major Procurement Program Goals reports into one FAA report for submission to DOT. Prior to April 1, 1996, when the FAA's Acquisition Management System (AMS) was established, this information, along with information from other modal administrations in DOT, was incorporated into DOT's combined report on achieving contract award goals and was submitted to the Small Business Administration and the Office of Federal Procurement Policy. After the implementation of AMS, the FAA statistics were submitted separately because AMS exempted FAA from the Federal Acquisition Regulation, effective fiscal year 1997.

FAA Acquisition Reform

In November 1995, the President signed the Department of Transportation and Related Agencies Appropriation Act of 1996, which exempted the FAA from the Federal Acquisition Regulation and granted the FAA Administrator authority to develop and implement an acquisition system. In response to this, the FAA created the AMS which became effective April 1, 1996. AMS was intended to simplify, integrate, and unify the elements of lifecycle acquisition management into an efficient and effective system that increased the quality, reduced the time, and decreased the cost of delivering needed products and services to its customers.

In addition to exempting the FAA from the Federal Acquisition Regulation, the Department of Transportation and Related Agencies Appropriation Act exempted the FAA from the Small Business Act and other provisions of Federal acquisition law. Although FAA was specifically exempted from the Small Business Act, the law stated that "...all reasonable opportunities to be awarded contracts shall be provided to small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals...."

Distinctions Between Types of Disadvantaged Businesses

Technically, "small business concerns owned and controlled by socially and economically disadvantaged individuals" are considered disadvantaged businesses. This category is further divided into two basic types of disadvantaged businesses. Disadvantaged businesses are small business concerns owned and controlled by socially and economically disadvantaged individuals that either:

- (1) hold current certification from the Small Business Administration under Section 8(a) of the Small Business Act; or
- (2) do not hold the Small Business Administration's Section 8(a) certification, but rather, have self certified.

Disadvantaged businesses can receive awards from FAA in various ways, including, but not limited to, (1) full and open competition or unrestricted, (2) sole or single source award, (3) small business set-aside competition, or (4) SEDB/8(a) set-aside competition. Only those disadvantaged businesses that hold current certification from the Small Business Administration are eligible to compete in a SEDB/8(a) set-aside competition.

FAA collects data on awards made to all small businesses. The FAA makes a distinction between awards made to the two basic types of disadvantaged businesses. Disadvantaged businesses can receive awards either through SEDB/8(a) set-aside competition or through any other process. Awards to disadvantaged businesses through SEDB/8(a) set-aside competition were counted by FAA as "SEDB awards." Awards to disadvantaged businesses through any other process, whether or not those disadvantaged businesses held a current certification from the Small Business Administration, were counted by FAA as "SDB awards." (See Table 1 below for distinctions between SEDB and SDB awards.)

For the purposes of this report, we referred to SEDBs and SDBs collectively as "disadvantaged businesses." FAA established separate goals for SEDB awards and for SDB awards. FAA's goals for small business, SEDB, and SDB awards have routinely been established at or above the national goals since fiscal year 1995 (see Table 2 on page 4 for comparison). All awards to women-owned businesses were grouped in a separate category and no distinction was made whether the women-owned businesses were also businesses that were disadvantaged.

**TABLE 1
FAA DISTINCTION BETWEEN SEDB AND SDB AWARDS**

SEDB awards	<ul style="list-style-type: none"> • Awards to disadvantaged businesses that hold current certifications from the Small Business Administration <i>AND</i> obtained contract award through an SEDB/8(a) set-aside competition.
SDB awards	<ul style="list-style-type: none"> • Awards to disadvantaged businesses that hold current certifications from the Small Business Administration, but obtained contract award through means <i>other than</i> an SEDB/8(a) set-aside competition. <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> • Awards to disadvantaged businesses that do not hold current certifications from the Small Business Administration.

TABLE 2
NATIONAL VERSUS FAA GOALS FOR
SMALL AND DISADVANTAGED BUSINESS AWARDS

	FY 1995	FY 1996	FY 1997	FY 1998
Small Business awards:				
National Goal	20%	20%	20%	20%
FAA Goal	25%	25%	20%	25%
SEDB awards:				
National Goal	5%	5%	5%	5%
FAA Goal	15%	15%	5%	10%
SDB awards:				
National Goal	5%	5%	5%	5%
FAA Goal	5%	5%	5%	5%

B. Objective

The objective of this evaluation was to determine whether the percentage of contract awards, based on contract dollars, to disadvantaged businesses decreased after the implementation of AMS, and, if so, to determine the causes for the decrease.

C. Scope

Due to the multiple systems and processes used by the various FAA offices generating Major Procurement Program Goals reports, and because of the difficulty in obtaining verifiable data, this review was limited to FAA headquarters data. This data included contract awards, including associated modifications awarded during the period October 1994 through September 1997, representing the 18-month period prior to the implementation of AMS through the 18-month period following the implementation of AMS. Using the Contract Information System, we determined that headquarters contract awards and modifications during this time accounted for 70 percent of total FAA contract dollars. Only prime contract awards and associated modifications were considered in this evaluation; subcontract awards were not considered.

Using the Contract Information System, we determined the combined results from headquarters and the Mike Monroney Aeronautical Center accounted for 90 percent of FAA contract dollars awarded during this period. A second review is planned at a later date to address contract awards at the Mike Monroney Aeronautical Center.

D. Methodology

In order to conduct this evaluation, we employed various techniques, practices and procedures. (See Exhibit A beginning on page 22 for a detailed explanation of the methodology performed during this review.)

- (1) Conducted background research to understand the Federal requirements for awarding contracts to, or setting contracts aside for, disadvantaged businesses.
- (2) Determined how FAA captured this contract award data.
- (3) Evaluated the accuracy of the headquarters data included in the Contract Information System using a random statistical sample of 95 contract awards and contract modifications for the 36-month period surrounding the implementation of AMS.
- (4) Determined whether FAA contract awards, including associated modifications, to disadvantaged business decreased after the implementation of AMS.
- (5) Determined the cause(s) for the decrease in headquarters SEDB awards, and considered possible conditions which could affect SDB awards as well. For this step, we selected a judgmental sample of 35 contracts from 70 new awards made during the 18-month period following AMS.

II. FOLLOW-UP ON PRIOR EVALUATIONS

In the FAA's report entitled, "Evaluation of the FAA Acquisition Reform, The First Year," dated May 1997, the Program Evaluation Branch found contract awards to disadvantaged businesses had decreased since the implementation of AMS and recommended the FAA determine the requirements for, and articulate the benefits of, awards to disadvantaged businesses and implement guidance accordingly.

The report entitled "Independent Assessment of the Federal Aviation Administration's Acquisition Management System, (AMS)," dated September 19, 1997, prepared by Booz-Allen & Hamilton, Inc., identified a decrease in SEDB awards and recommended the FAA determine the extent and cause(s) of any decrease.

In response to the findings and recommendations in the FAA's evaluation of the first year of AMS, staff from the Program Evaluation Branch offered to conduct a review to determine the extent and cause of any decrease in awards to disadvantaged businesses. The Associate Administrator for Research and Acquisition accepted that offer, and this review began in June 1997. When the independent assessment of the first year of AMS was published in September 1997, staff from the Program Evaluation Branch considered the findings and recommendations of that report to ensure those issues were addressed in the current evaluation.

III. RESULTS OF EVALUATION

Results Summary

The implementation of AMS created an apparent negative impact on SEDB awards. Following the implementation of AMS, FAA headquarters' SDB awards increased while SEDB awards decreased significantly. Combined results show an overall decrease in awards to disadvantaged businesses after AMS. This occurred because AMS eliminated the primary method for making SEDB awards while also relaxing the requirement for contracting officers and Integrated Product Teams to coordinate contract needs through FAA's Small Business Utilization Staff, which is tasked with identifying opportunities suitable for SEDB awards. We also found that although the FAA changed its acquisition process, it did not change how it counts SEDB awards for reporting purposes.

In addition, we found contract award information used to report the FAA's progress in meeting goals to award contracts to small businesses was not consistent and was not always accurate. We found multiple systems were used to collect contract award information for Major Procurement Program Goals reports, and information collected to produce the reports was not consistent throughout the FAA. We also found data entered into the Contract Information System, intended to be the primary system for collecting contract information, was incorrect. This occurred because the Contract Information System was confusing to use, did not have internal software to trigger alerts when inconsistent data was entered, and was not interactive. As a result, we were limited in our ability to quantify the exact level of decrease in SEDB awards FAA-wide, and the FAA was unable to monitor its level of achievement in meeting established goals for major procurement programs accurately. The FAA is in the process of converting to a new database system, Modernization of Procurement Automation (ACQUIRE), which is expected to replace the multiple database systems currently in use for generating the Major Procurement Program Goals reports. FAA needs to ensure this new system will address the weaknesses identified in this report.

IV. FINDINGS AND RECOMMENDATIONS

FINDING #1. DECREASE IN PERCENT CHANGE OF AWARDS

SEDB awards decreased dramatically after the implementation of AMS. From our review of data from headquarters for two different blocks of time, we found the change in percent of SEDB awards, based on contract dollars, decreased between 91 and 100 percent. At the same time, the change in percentage of SDB awards for these two blocks of time increased between 44 and 138 percent; the change in percentage of contract awards to women-owned businesses increased between 39 and 246 percent; and the change in percentage of contract awards to other small business concerns varied between an increase of 34 percent and a decrease of 35 percent. We found the decrease in the percentage change in SEDB awards was so substantial that when this figure was combined with the other three categories, it resulted in an overall decrease in awards to disadvantaged businesses as a subset and an overall decrease in awards to small businesses as a whole.

A. Review of Contract Information System Data

We reviewed the headquarters data included in the Contract Information System for new contract awards and modifications to small businesses, including SEDB awards, SDB awards, women-owned business awards, and other small business awards. We determined headquarters contract awards and modifications captured in the Contract Information System represented 70 percent of total FAA contract dollars.

We compared the data for pre- and post-AMS results in two different blocks of time: (1) the 18-month periods immediately preceding and following the implementation of AMS, and (2) the six-month period immediately following the implementation of AMS and the same six-month period in the previous year, which was pre-AMS. We computed the second set of data to ensure our comparisons were for equivalent calendar periods and to measure any short-term confusion surrounding the implementation of AMS. In both comparisons, we found the percent change in awards, based on contract dollars, substantially decreased for SEDB awards while increasing for the other three categories of small businesses.

B. Eighteen-Months Pre- and Post-AMS

We compared headquarters data from the Contract Information System for the 18-month period immediately following the implementation of AMS with the same data for the 18-month period immediately preceding the implementation of AMS.

As shown in Table 3, page 8, we found in this comparison that the percent change in SEDB awards, based on contract dollars, decreased by 91 percent after the implementation of AMS. When this decrease was combined with the other three categories of small businesses, we found the percent change in awards to

disadvantaged businesses decreased by 66 percent and the percent change in awards to small businesses as a whole decreased by 18 percent. This was true even though the other three categories of small businesses all had increases in the percent change of awards after the implementation of AMS.

TABLE 3
HEADQUARTERS CONTRACT AWARD COMPARISON FOR THE
18-MONTHS PRE- AND POST-AMS¹

A	B	C	D	E	F	G
		18-Months Pre-AMS		18-Months Post-AMS		
		(October 1994 - March 1996)		(April 1996-September 1997)		
	Types of Awards	Total Obligations	Percent of Total Obligations	Total Obligations	Percent of Total Obligations	Percent Change in Percent of Total Obligations
1	Total	\$477,772,376.00	100.00%	\$481,542,948.00	100.00%	0%
2	SEDB	\$54,989,971.00	11.51%	\$5,098,261.00	1.06%	-91%
3	SDB	\$6,681,158.00	1.40%	\$15,979,475.00	3.32%	137%
4	Women-Owned	\$2,605,169.00	0.55%	\$3,639,746.00	0.76%	39%
5	Other Small Business	\$54,627,499.00	11.43%	\$73,611,698.00	15.29%	34%
6	Combined Disadvantaged Businesses (lines 2+3)	\$61,671,129.00	12.91%	\$21,077,736.00	4.38%	-66%
7	Combined for Small Businesses (lines 2+3+4+5)	\$118,903,797.00	24.89%	\$98,329,180.00	20.42%	-18%

C. Six-months Pre- and Post-AMS

We also compared headquarters data from the Contract Information System for the six-month period immediately following the implementation of AMS and the same six-month period in the year prior to the implementation of AMS. We did this for two reasons. First, the results in the “Evaluation of FAA Acquisition Reform, The First Year: April 1996 - March 1997” report identified percent changes computed for contract awards FAA-wide; we needed to calculate the results for headquarters

¹ The amounts and percentages calculated in this table, for each respective 18-month period, refer to new contract awards, plus all associated modifications and delivery orders within the time period specified. They do not include modifications associated with contract awards made prior to those periods.

² Column G = (Column F - Column D)/Column D

only. Second, we wanted to measure any short-term confusion resulting from the implementation of AMS.

As shown in Table 4 below, we found in this six-month comparison that the percent change in SEDB awards, based on contract dollars, decreased by 100 percent after the implementation of AMS. When this decrease was combined with the other three categories of small businesses, we found the percent change in awards to disadvantaged businesses decreased by 88 percent and the percent change in awards to small businesses as a whole decreased by 55 percent. This was true even though SDB awards and women-owned business awards had increases in the percent change of awards after the implementation of AMS. (Other small businesses showed a decrease in the percent change in awards for this six-month period.)

TABLE 4
HEADQUARTERS CONTRACT AWARD COMPARISON FOR 6-MONTHS
PRE- AND POST-AMS

A	B	C	D	E	F	G
		6-Months Pre-AMS ³ (April 1995 - September 1995)		6-Months Post-AMS ⁴ (April 1996 -September 1996)		
	Types of Awards	Total Obligations	Percent of Total Obligations	Total Obligations	Percent of Total Obligations	Percent Change in Total Obligations⁵
1	Total	\$209,048,073	100.00%	\$67,486,139	100.00%	0%
2	SEDB	\$31,831,869	15.23%	\$0	0.00%	-100%
3	SDB	\$3,003,019	1.44%	\$1,395,742	2.07%	44%
4	Women-Owned	\$1,162,605	0.56%	\$1,297,408	1.92%	246%
5	Other Small Businesses	\$38,991,390	18.65%	\$8,178,940	12.12%	-35%
6	Combined for Disadvantaged Businesses (lines 2+3)	\$34,834,888	16.67%	\$1,395,742	2.07%	-88%
7	Combined for Small Businesses (lines 2+3+4+5)	\$74,988,883	35.88%	\$10,872,090	16.11%	-55%

D. FAA Evaluation of FAA Acquisition Reform, May 1997

³ The amounts and percentages calculated in this table for the six-month period between April 1995 and September 1995 refer to new contract awards, plus all associated modifications and delivery orders within the time period specified. They do not include modifications associated with contract awards made prior to that period.

⁴ The amounts and percentages calculated in this table for the six-month period between April 1996 and September 1996 refer to new contract awards, plus all associated modifications and delivery orders within the time period specified. They do not include modifications associated with contract awards made prior to that period.

⁵ Column G = (Column F - Column D)/Column D

We compared the results of our analysis for the 18-month period and the 6-month period with results reported in the "Evaluation of FAA Acquisition Reform, The First Year: April 1996 - March 1997" report. That report identified a decrease in the percent change of SEDB awards, to SDB awards, and to women-owned business awards. Only the category identified as other small businesses showed an increase in the percent change after the implementation of AMS. The increase in this category was substantial enough to cause an increase in the overall percent change for small businesses as a whole even though the other three categories all showed a decrease in percent change following AMS.

**TABLE 5
COMPARISON TO AMS FIRST YEAR EVALUATION**

Types of Awards	FAA First Year Review	6-Month Analysis	18-Month Analysis
	FAA-wide	Headquarters Only	Headquarters Only
	(New awards, no modifications)	(New awards plus associated modifications and delivery orders)	
SEDB	- 83%	-100%	-91%
SDB	- 75%	+44%	+138%
Women-owned	- 25%	+246%	+39%
Other small businesses	+ 76%	-35%	+34%
Combined Disadvantaged Businesses	- 79%	-88%	-66%
Combined Small Businesses	+ 13%	-55%	-18%

The data for the AMS first year results was FAA-wide and relied on information provided by headquarters, the regions, and the centers recorded in the Major Procurement Program Goals reports submitted to the Small Business Utilization Staff. At that time, no analysis had been completed on the Contract Information System, the System for Acquisition Management database, or the Procurement Automated System, from which most of the numbers for the reports were generated.

E. Booz-Allen & Hamilton, Inc. Independent Assessment, September 1997

The Independent Assessment of the FAA's AMS completed by Booz-Allen & Hamilton, Inc., covering the period April 1, 1996, through March 31, 1997, identified a decrease in SEDB awards and an increase in awards of competitive contracts to small businesses in general. However, the independent assessment did not include significant analysis focused on trying to identify changes in awards to small businesses and the report did not quantify the percent change reported. Accordingly, we could not compare the results of that report here.

Decrease Due to Changes Under AMS

SEDB awards decreased after the implementation of AMS because AMS eliminated the primary method for making SEDB awards while also relaxing the requirement for contracting officers and Integrated Product Teams to coordinate contract needs through FAA's Small Business Utilization Staff, which is tasked with identifying proposed SEDB awards. In addition, although the FAA changed its acquisition process, it did not change how it counts SEDB awards for reporting purposes.

Elimination of Primary Award Method

In formalizing the intent of AMS, the Acquisition Reform Blue Ribbon Committee suggested all set-aside awards for small businesses be competitive. This policy was adopted under AMS.

Before the implementation of AMS, the primary method used at headquarters for making SEDB awards was through noncompetitive set-aside contracts. Under a noncompetitive set-aside contract, contracting officers could award contracts through a less formal process than with competitive awards and without competition. This made the noncompetitive set-aside process quick, and, when it was reasonable for the circumstances, it was preferred by many contracting officers and Integrated Product Teams. We found 100 percent of headquarters SEDB awards pre-AMS (between October 1994 and March 1996) came from the noncompetitive set-aside process.

In addition to the noncompetitive set-aside process, a competitive set-aside process was available for SEDB awards. This was a formal process requiring competition. We found, for the period reviewed before the implementation of AMS, no headquarters SEDB awards came from the competitive set-aside. However, after the implementation of AMS, this competitive set-aside process became the *only* way to make an SEDB award. FAA began using this competitive set-aside process for SEDB awards, and headquarters definitely improved in making awards through this competitive set-aside process. However, the increase in SEDB awards under the competitive set-aside process was not sufficient to compensate for the elimination of the noncompetitive set-aside process.

TABLE 6
CONTRACT PROCESS AVAILABLE FOR MAKING SEDB AWARDS

	18 months Pre-AMS	18 months Post-AMS
	<i>Headquarters awards using this process</i>	<i>Headquarters awards using this process</i>
Noncompetitive set-aside	100%	Not applicable
Competitive set-aside	0%	100%

Coordination through FAA's Small Business Utilization Staff

The AMS eliminated the noncompetitive set-aside option for SEDB awards at the same time it relaxed the requirement for contracting officers and Integrated Product Teams to coordinate through the Small Business Utilization Staff. Prior to AMS, contracting officers or Integrated Product Teams were required to coordinate all contract requirements through the Small Business Utilization Staff. This office is tasked with identifying proposed SEDB awards, both through the noncompetitive and the competitive set-aside processes. The Small Business Utilization Staff continues to have this responsibility. As such, they maintain a database of disadvantaged businesses holding Small Business Administration Section 8(a) certifications that may be capable of meeting FAA's contract requirements.

With the implementation of AMS, contracting officers and Integrated Product Teams were no longer required to coordinate through the Small Business Utilization Staff. Although some contracting officers and Integrated Product Teams did coordinate through this office, many did not. We found FAA contracting officers and Integrated Product Teams had not coordinated 27 of 35 sampled awards with the Small Business Utilization Staff. In some cases, contracting officers or Integrated Product Teams determined only one source was capable of meeting contract requirements and considered it unnecessary to coordinate through the Small Business Utilization Staff. In other cases, contracting officers or Integrated Product Teams simply elected not to coordinate through the Small Business Utilization Staff. In both situations, the FAA may have lost opportunities for the Small Business Utilization Staff to identify contracts for competitive set-aside awards.

Under AMS, contracting officers and Integrated Product Teams have the authority to designate contracts for competitive set-aside awards; they also have the option of working through the FAA Small Business Utilization Staff. The Small Business Utilization Staff reported that contracting officers and Integrated Product Teams were conscientious in trying to meet the FAA's goals by identifying potential contracts for competitive set-aside awards. However, these efforts were less effective when the contracting officer or Integrated Product Teams did not coordinate through the Small Business Utilization Staff. For example, the Small Business Utilization Staff reported contract requirements issued directly by the contracting officer or Integrated Product Teams were sometimes advertised with contradictory language regarding whether the requirement contract was set aside for small businesses in general, or for disadvantaged

businesses holding a Small Business Administration Section 8(a) certification in particular. When this occurred, there was confusion among contractors about who could bid, and the FAA did not always get appropriate responses.

Since competitive set-aside awards represent the only way FAA currently measures whether goals for SEDB awards are met, coordinating through the Small Business Utilization Staff may increase the likelihood of achieving established goals and ensuring the FAA is in compliance with the Congressional mandate for achieving the nation's social goals.

Method Used to Identify SEDB Awards

We also found that although the FAA changed its acquisition process, it did not change how it counts SEDB awards for reporting purposes. The FAA counts only those awards made to disadvantaged businesses holding a Small Business Administration Section 8(a) certification as "SEDB awards" *when* those businesses received awards through the SEDB/8(a) set-aside process. For reporting purposes in the Major Procurement Program Goals reports, the FAA counts disadvantaged businesses that obtain awards through any process other than the competitive set-aside process as "SDB awards," *whether or not the business holds a Small Business Administration Section 8(a) certification.* Therefore, some FAA awards to disadvantaged businesses that are certified by the Small Business Administration under Section 8(a) are counted as SDB awards rather than SEDB awards. The FAA cannot determine how many awards to disadvantaged businesses holding a Small Business Administration Section 8(a) certification are counted in the SDB award category because those businesses received awards through a means other than the set-aside process.

One of the intents of acquisition reform was to encourage competition among all small businesses, including socially and economically disadvantaged businesses. Without a distinct accounting for awards to all disadvantaged businesses that hold a Small Business Administration Section 8(a) certification, regardless of how those businesses received awards, the FAA has limited ability to measure the success of the AMS in this area. In addition, the FAA cannot determine accurately whether it is meeting the goals established by the agency and mandated by Congress for awarding contracts specifically to disadvantaged businesses, both those that hold a Small Business Administration Section 8(a) certification and those that are self-certified.

RECOMMENDATIONS

- 1 A** The FAA currently has only one method for meeting SEDB award requirements and the potential success of that method is tied to the functions of the FAA Small Business Utilization Staff. Therefore, we recommend the FAA Administrator establish incentives to encourage both contracting officers and Integrated Product Teams to coordinate with the FAA Small Business Utilization Staff to ensure the FAA has every opportunity to identify awards suitable for SEDB awards.

- 1 B** We recommend the FAA Administrator adjust the criteria for counting awards to disadvantaged businesses holding a Small Business Administration Section 8(a) certification by including all awards to these businesses in the SEDB award category regardless how those awards were received.

MANAGEMENT RESPONSE

DIRECTOR, OFFICE OF ACQUISITIONS COMMENTS

The Director, Office of Acquisitions agreed broadly with recommendation 1A and agreed with recommendation 1B. With respect to recommendation 1A, the Director, Office of Acquisitions believed more could be done besides encouraging contracting officers and Integrated Product Teams to coordinate with the Small Business Utilization Staff. He suggested "... working with the small business community, doing small business outreach, looking for faster ways to contract with small businesses (such as the GSA schedule), and supporting other contracting officers in keeping small businesses in mind as they structure new procurements...."

SPECIAL ASSISTANT, SMALL BUSINESS UTILIZATION STAFF COMMENTS

The Special Assistant, Small Business Utilization Staff did not agree or disagree with recommendation 1A, but did disagree with recommendation 1B to adjust the criteria for counting SEDB awards. She commented that in addition to providing guidelines on how to count 8(a) [or SEDB] awards, the Federal government also monitors agencies' performance in the 8(a) set-aside program. She further commented that implementing the recommendation would make it impossible to compare FAA's performance against other agencies' performance and distort the statistics making FAA's performance appear better than it really is.

PROGRAM EVALUATION BRANCH'S RESPONSE TO COMMENTS:

We recognize the need to follow Federal guidelines on how to count 8(a) [or SEDB] awards and compare performance in the 8(a) set-aside program. These guidelines were set for all Federal agencies -- for all agencies following similar procurement rules. FAA, as a result of acquisition reform, is under a new acquisition system, one of the main intents of the system being the encouragement of competition among all small businesses, including socially and economically disadvantaged businesses. The Federal guidelines for goal setting under procurement preference programs do not capture efforts by any agency such as the FAA to encourage disadvantaged businesses holding a Small Business Administration Section 8(a) certification to rely less on SEDB awards and more on non set-aside awards. When disadvantaged businesses holding a Small Business Administration Section 8(a) certification compete and receive awards other than SEDB awards, there is no way to determine the extent of this activity. The FAA needs to know how successful the AMS has been in encouraging disadvantaged businesses holding a Small Business

Administration Section 8(a) certification to compete and win all awards whether set aside or not. Implementing the recommendation would provide this information.

The Small Business Utilization Staff can still report procurement preference goals using Federal government guidance for comparison purposes. But we recommend that the Special Assistant, Small Business Utilization Staff also adjust the criteria for counting awards to disadvantaged businesses holding a Small Business Administration Section 8(a) certification by including all awards to these businesses in the SEDB award category regardless of how those awards were received. In this manner, FAA can evaluate its success in satisfying the goals of AMS.

**FINDING #2. CONTRACT AWARD INFORMATION WAS NOT CONSISTENT
AND WAS NOT ALWAYS ACCURATE**

Contract award information used to report the FAA's progress in meeting goals to award contracts to small businesses was not consistent and was not always accurate. We found multiple systems were used to collect contract award information for Major Procurement Program Goals reports, and information collected to produce the reports was not consistent throughout the FAA. We also found data entered into the Contract Information System, intended to be the primary system for collecting contract information, was incorrect. This occurred because the Contract Information System was confusing to use, did not have internal software to trigger alerts when inconsistent data was entered, and did not interface with other systems. As a result, we were limited in our ability to quantify the exact level of decrease in SDB and SEDB awards FAA-wide, and the FAA was unable to monitor its level of achievement in meeting established goals for major procurement preferences accurately. We did find the FAA is in the process of converting to a new database system, Modernization of Procurement Automation (ACQUIRE), which is expected to replace two of the multiple database systems currently in use.

A. Multiple Systems

Public Law 93-400 required the Office of Management and Budget's Office of Federal Procurement Policy to "...establish a system for collecting, developing, and disseminating the procurement data which takes into account the needs of the Congress, the executive branch, and the public sector." The Contract Information System was established, and the FAA uses it, to collect the data mandated by the Office of Federal Procurement Policy. However, we found the FAA also collected contract award information to produce the Major Procurement Program Goals report from two other database systems. The use of these three different systems resulted in inconsistent data collection and reporting.

While the Contract Information System was used by headquarters, all regions, and the two centers to enter various data, only headquarters relied on this system to generate results to produce the Major Procurement Program Goals report. We found FAA's nine regions and the William J. Hughes Technical Center relied on the System for Acquisition Management and the Mike Monroney Aeronautical Center relied on the Procurement Automated System. In addition, some FAA offices developed the Major Procurement Program Goals reports by using manual contract logs and actual contract files. We also found the data collected for the reports was inconsistent. For example, some offices included credit card purchases when developing the Major Procurement Program Goals report, while other offices did not.

We found the regions and the two centers lacked confidence in the accuracy of the Contract Information System. They were reluctant to use the Contract Information System because it was confusing to use and provided no direct benefit. The Contract Information System did not interface with any other system and could not

generate additional information and reports from the same level of data input effort as the two alternative systems used in the regions and centers. Both the System for Acquisition Management and the Procurement Automated System interfaced with the Departmental Accounting and Financial Information System, which issues the contractor payments. This interfacing provided more incentive for the regions and centers to ensure data in the System for Acquisition Management and the Procurement Automated System were accurate.

Because FAA used multiple systems to generate information for the Major Procurement Program Goals report and it was not the responsibility of the Small Business Utilization Staff to verify the accuracy of the information submitted, we could not comment on the accuracy of the data consolidated by the Small Business Utilization Staff and reported to DOT.

B. Data Entered Incorrectly

We found information collected and reported from the Contract Information System was not accurate. During our evaluation, we found headquarters personnel entered data incorrectly into the Contract Information System. For example, in our sample of 95 contract awards, we found ten data input errors where the "extent competed" data field was coded improperly. In one of these errors, an SEDB set-aside contract award should have been designated by code B as "not available for competition," but instead was entered as code A indicating a "competed action." Another contract was coded as "not competed" when, in fact, it was a full and open competed contract. We found data was entered incorrectly because the Contract Information System was confusing to use, did not have internal software to trigger alerts when inconsistent data was entered, and did not interface with other systems.

(1) Contract Information System Confusing to Use

Before AMS, the FAA used specific codes to identify the various types of awards. The coding for the Contract Information System was revised as a result of AMS. DOT and FAA held a series of meetings following the implementation of AMS to adjust the coding of contract awards in light of changes made by AMS. Formal policy on these coding revisions had not been issued to headquarters, the nine regions, or the two centers. However, informal policy on coding changes as a result of those meetings was issued by electronic mail to the regions and centers in July 1997 by the FAA Program Analyst responsible for the Contract Information System at headquarters. The FAA Program Analyst who issued the electronic mail told our evaluation team that there could be a combination of codes used for SEDB and SDB from April 1996 to July 1997 because of the delay in dissemination of these instructions.

Terminology and coding changes after the implementation of AMS added to the confusion of entering data in the Contract Information System. For example, code B in the "extent competed" data field was designated for SEDB/8(a) awards under the noncompetitive set-aside process before the implementation of AMS. Under AMS, the noncompetitive set-aside option was eliminated, but the

database system did not prohibit entering the same code B and did not alert the contracting officer or Integrated Product Team to the incorrect entry. We found 37 contract actions awarded post-AMS had been coded B incorrectly in this data field. These 37 contract actions, totaling almost six million dollars, were not included in the results on the Major Procurement Program Goals report. As a result, the FAA understated awards to disadvantaged businesses and was unable to determine how many, if any, of these awards should have been counted as SEDB awards.

The FAA Program Analyst responsible for the Contract Information System has made correcting entries to the data field coding on some, but not all, of the contract actions which had been incorrectly coded in the system since the implementation of AMS. These corrections were made following a reconciliation for fiscal year 1997. In March 1998, we performed a comparison of the corrected data to the original data and determined the error rate was 14 percent.

(2) Contract Information System Lacks Internal Alerts

In addition to being confusing to use, the Contract Information System is not configured with internal controls within the system to perform self-logic checks to ensure codes entered in one data field are compatible with codes entered in other data fields. For example, we observed instances where one code indicated that the requirement was not available for competition and, therefore, was under some kind of preferential program, yet it was simultaneously coded as a non-preferential program. In another example, we found errors in the contract numbering scheme itself where the letter "Y," which designates an SEDB award was substituted by the letter "C," which is not used with SEDB awards. The Contract Information System did not alert the contracting officer or Integrated Product Team that the wrong numbering scheme had been used even though other codes already entered indicated the contract was an SEDB award. We found 19 errors in contract numbering schemes among the 95 sampled, all of which had used the "C" in the numbering scheme when the "Y" should have been used to depict an SEDB award. Without a logic check, these inconsistencies may be missed by the contracting officers or Integrated Product Teams, and incorrect data will affect the totals generated for the Major Procurement Program Goals reports.

(3) Contract Information System Does Not Interface with Other Systems

The Contract Information System does not interface with the Departmental Accounting and Financial Information System to ensure the contractors get paid, nor does it interact with the budget system to ensure it does not over obligate the Government. The nine regions, the William J. Hughes Technical Center, and headquarters use the System for Acquisition Management to ensure the contractors get paid. There is no other system reconciling with the Contract Information System that checks any of the data fields entered in the system. As a result, data input was not cross checked or verified by any other system to ensure completeness and accuracy.

C. ACQUIRE

The independent assessment of AMS year one by Booz-Allen & Hamilton, Inc. reported many of the same deficiencies we identified here and recommended implementing a centralized database for contracting. The FAA is in the process of converting to a new database system, Modernization of Procurement Automation (ACQUIRE). This single new database system is expected to replace two of the three different database systems and the various combined methodologies to generate the quarterly Major Procurement Program Goals reports. ACQUIRE will replace the System for Acquisition Management database used by the regions and the William J. Hughes Technical Center, and it will replace the Procurement Automated System database used by the Mike Monroney Aeronautical Center. It will not, however, replace the Contract Information System. This system cannot be replaced because requirements of the Office of Federal Procurement Policy continue to rely on extracts from this system. Full implementation of ACQUIRE agency-wide is scheduled for December 31, 1998.

The Program Evaluation Branch conducted a limited review of ACQUIRE. We interviewed core members of the ACQUIRE Integrated Product Team and reviewed key documentation, including the Mission Needs Statement, Requirements Document, Statement of Work, Functional Specifications Document, student guide manuals for requisitioners and buyers, and the Acceptance Test and Readiness Determination draft report on the Northwest Mountain Region dated February 27, 1998. Although the ACQUIRE documentation was detailed and contained many of the controls that were lacking in the other two database systems, our program evaluation team was not able to test the system. Based on our limited review, the Program Evaluation Branch could not verify whether ACQUIRE will correct all deficiencies noted in the current systems for collecting contract award information. An evaluation of this system, once fully operational, will be necessary to document its effectiveness.

RECOMMENDATIONS

- 2 A** We recommend the Director, Office of Acquisitions:
- (i) establish agency-wide policy on proper coding for the Contract Information System after the implementation of AMS and disseminate it to all users, and
 - (ii) work with the DOT to reprogram the Contract Information System to disallow coding no longer needed post-AMS or to notify the user at time of input.
- 2 B** We recommend that the FAA Administrator direct the regions and centers to update and correct data in the Contract Information System to ensure contract award information is recorded accurately and is in compliance with the new coding policy. In addition, we recommend the FAA Administrator ensure

regions and centers phase out the use of the System for Acquisition Management and the Procurement Automated System within a reasonable time after ACQUIRE has been implemented.

- 2 C** We recommend that the FAA Integrated Product Team lead, responsible for implementing ACQUIRE, ensure this new system does address any weaknesses identified during the pilot phase and ensure the following:
- (i) adequate internal controls have been established to minimize input errors,
 - (ii) adequate controls are in place to ensure completeness of contract award data entered into ACQUIRE,
 - (iii) adequate controls exist to test the interfacing mechanisms of all ACQUIRE interfaces with other systems (e.g., the Departmental Accounting and Financial Information System and the Contract Information System) as designed in the system requirements specifications documents, and
 - (iv) adequate audit trail exists to track edits and modifications.

MANAGEMENT RESPONSE

DIRECTOR, OFFICE OF ACQUISITIONS COMMENTS

The Director, Office of Acquisitions did not state whether he agreed or disagreed with recommendations 2A, 2B, and 2C, but stated that the Contract Information System is a DOT-owned system and neither the FAA Administrator nor the FAA Director, Office of Acquisition, is responsible for it. He further commented that the Contract Information System had problems in the past, but in the last two fiscal years, since the implementation of on-line Contract Information System, incorrect data cannot be entered into this system. He also believed that ACQUIRE will ensure that the Major Procurement Program Goals reports will be accurate and will automatically generate a CIS report for the DOT when it is fully implemented.

SPECIAL ASSISTANT, SMALL BUSINESS UTILIZATION STAFF COMMENTS

The Special Assistant, Small Business Utilization Staff did not agree or disagree with recommendations 2A, 2B, and 2C.

PROGRAM EVALUATION BRANCH'S RESPONSE TO COMMENTS

We agree that the Contract Information System is a DOT-owned system and consequently, the Director, Office of Acquisitions cannot reprogram it. As a result, we modified the recommendation to have the Director, Office of Acquisitions work with DOT to have it reprogrammed. As for the statement that incorrect data

cannot be entered into the Contract Information System, we do not agree. Our evaluation noted discrepancies between Contract Information System data and actual contract data input in the past two fiscal years. In addition, we are not confident that ACQUIRE will correct all deficiencies noted in the current systems for collecting contract award information and reiterate that an evaluation of this system, once fully operational, will be necessary to document its effectiveness.

V. OTHER MATTERS

Although we did not find that SDB awards were adversely affected by acquisition reform during the period of our review, we did find the potential exists for these awards to be impacted in the future. FAA's success in increasing SDB awards relies on disadvantaged businesses being aware of FAA contracting opportunities. We found disadvantaged businesses, both those certified by the Small Business Administration and those that were self-certified, were not always aware of FAA contract opportunities and either did not know how to access information on FAA contract opportunities using the internet or did not have access to the internet. In addition, disadvantaged businesses identified "bundling" of multiple smaller contract requirements into a single larger contract as a primary reason they were unable to compete on FAA contracts.

With the assistance of the FAA Small Business Utilization Staff, we identified 20 contracts, which may have been suitable for disadvantaged businesses to perform, from a judgmental sample of 35 contracts that were awards other than SEDB or SDB awards. We contacted 37 disadvantaged businesses identified from the Standard Industrial Classification code listings as businesses capable of meeting the contract requirements in the 20 contracts. We asked each disadvantaged business contacted whether they were aware of the contract solicitation.

Twenty-two of 37 (59 percent) disadvantaged businesses contacted told us they were unaware of the specific FAA contracting opportunity identified in our sample. We found these small businesses were familiar with the Federal Acquisition Regulation procedures in effect prior to acquisition reform and may have been aware that new procedures were implemented by the FAA under acquisition reform, but they did not always know how to access information specific to FAA contracting opportunities on the internet. Disadvantaged businesses currently holding prime contracts with the FAA, or businesses that held FAA prime contracts within the past two years, were aware of acquisition reform. Disadvantaged businesses that had never held FAA contract work at any time, and were not actively pursuing FAA contracts, had no knowledge of AMS. If disadvantaged businesses are not aware of contracting opportunities with the FAA, future SDB awards may decline and the FAA may not be able to meet the established goals for SDB awards.

VI. DETAILED METHODOLOGY

In order to conduct this evaluation, we employed various techniques, practices and procedures. Below is a description of some of the work performed.

- 1) Conducted background research to understand the Federal requirements for awarding contracts to, or setting contracts aside for, disadvantaged businesses.
 - Reviewed the Congressional language included in Public Laws 95-507, 100-656 and 103-355.
 - Reviewed the 1995 U. S. Supreme Court decision in the *Adarand, Inc. v Peña* case. In this case, a prime contractor that was awarded a highway construction project, solicited bids from subcontractors for a portion of the project. Adarand, a nonminority-owned highway construction company, submitted the lowest bid and was capable of completing the portion of the contract requirements being solicited. However, the prime contractor selected a higher bid subcontractor that was a disadvantaged business under the provisions of the Subcontracting Compensation Clause. Thus, the prime contractor received a \$30,000 incentive payment under this provision used by the Federal Highway Administration to encourage minority contracting. Adarand sued in the U.S. District Court contending that the Subcontracting Compensation Clause program violated the Fifth Amendment. In a 5 to 4 ruling, the U. S. Supreme Court set a tough new standard for affirmative action programs, requiring that any preferences serve a compelling governmental interest and be narrowly tailored to address past discrimination. This ruling had far reaching effects on Federal contracting practices, including contracting practices at the FAA.
 - Visited the Small Business Administration to understand its role and to discuss the interaction between FAA, DOT, and the Small Business Administration in meeting FAA goals in awarding contracts to disadvantaged businesses.
- 2) Determined how FAA captured this contract award data.
 - Interviewed individuals responsible for establishing and reporting goals in DOT and in FAA's Small Business Utilization Staff to determine FAA's contract award goals, to understand how those goals fit within DOT's goals, and to learn how AMS changed the way FAA recorded results for meeting those goals.

- Interviewed individuals at headquarters, the regions, and the centers who were responsible for preparing the various Major Procurement Program Goals reports to determine how contract award data was collected and how information was generated for those reports.
 - Confirmed FAA headquarters used the Contract Information System and Standard Form 281 (for purchase orders \$25,000 and under) to generate Major Procurement Program Goals reports submitted to the FAA Small Business Utilization Staff.
 - Determined that the amounts included in the Contract Information System for headquarters awards represented 70 percent of total FAA awards, based on contract dollars.
 - Confirmed that the Small Business Utilization Staff combines the information from headquarters' Major Procurement Program Goals reports with information in Major Procurement Program Goals reports submitted by the regions and centers to develop a single Major Procurement Program Goals report, which is forwarded to DOT.
- 3) Evaluated the accuracy of the headquarters data included in the Contract Information System.
- Because our review to determine whether there was a decrease in contract awards to disadvantaged businesses was based on reports generated from the Contract Information System at FAA headquarters, we evaluated the accuracy of the headquarters data in this system.
 - Using a random statistical sampling software package, we selected 95 contract awards and contract modifications for the 36-month period surrounding the implementation of AMS. This statistical sample was based on over 5,000 contract actions and included all contract awards and modifications within this 36-month period without regard to when the initial contract was awarded. This resulted in 86 contract actions on awards prior to AMS and 9 contract actions on awards after AMS. (The sample included some purchase orders.) We determined this sample had been skewed by the inclusion of contract modifications for awards which had been made prior to the 18-month period before AMS, but which were still active during the 36-month period of our review time. This had no impact on our evaluation of the accuracy of data in the Contract Information System because we used a statistical sample of all contract actions for the period, but it did prevent us from drawing inferences to the entire population based on the statistical sample.

- We determined FAA contracting officers or Integrated Product Teams can enter up to 38 different data fields for each contract action in the Contract Information System; we selected nine of these data fields to verify our sample data. These nine data fields were selected based on their ability to identify data elements specifically related to SEDB awards and SDB awards.
 - Using the nine data fields for each of the 95 contract actions in our statistical sample, we compared entries in the Contract Information System with actual contract file information and determined the error rate to be eight percent. We also determined the impact of those errors.
 - While we were evaluating the accuracy of entries based on our sample, the FAA Program Analyst responsible for administering the data field coding at headquarters, informed us that he had corrected much of the coding already in the Contract Information System for fiscal year 1997. He stated that he did this because of confusion created when DOT revised the coding methodology of contract awards and modifications entered into the Contract Information System after the implementation of AMS. We compared the corrected Contract Information System data to the original data and determined the error rate to be 14 percent.
- 4) Determined whether FAA contract awards, including associated modifications, to disadvantaged business decreased after the implementation of AMS.
- Using the Contract Information System, identified the total contract dollars awarded at headquarters for the 18-month period immediately preceding the implementation of AMS and for the 18-month period immediately following the implementation of AMS. This total was based on new contract awards made during that 18-month period and any associated contract modifications to the new awards during the same period only.
 - For each 18-month period, identified contract dollars for SEDB awards, SDB awards, women-owned businesses awards, and other small business awards not included in the first three categories. Data was sorted and analyzed within these four categories, which were included in the Major Procurement Program Goals report, so results would be comparable and would yield the greatest value to the FAA.
 - For each of these four categories of small business awards, we determined the percentage of contract dollars to the total contract dollars for each 18-month period. We compared the percentage of pre-AMS contract dollars for each category to the percentage of post-AMS dollars for the same category, and determined the percent change.

- 5) Determined the cause(s) for the decrease in headquarters SEDB awards. Considered possible conditions which could affect SDB awards as well.
- Selected another sample. Because of the imbalance between the number of pre- and post-AMS contract actions in the statistical sample above, we selected a judgmental sample of 35 contracts from 70 new awards made during the 18-month period following AMS. We identified the population of 70 contract awards from contracts awarded to small and large businesses, but not to disadvantaged businesses. We did not include purchase orders in this sample.
 - Interviewed contracting officers and Integrated Product Teams to determine why contracts in the judgmental sample had not been awarded to disadvantaged businesses. Asked contracting officers and Integrated Product Teams whether initial requirements for the sample contracts had been coordinated with FAA's Small Business Utilization Staff and confirmed contracting officer and Integrated Product Team responses with the Small Business Utilization Staff.
 - The Small Business Utilization Staff reviewed our judgmental sample of 35 contracts and determined 20 of those contracts may have been able to be performed by a disadvantaged business, and might have been suitable for a SEDB/8(a) set-aside competition. The Small Business Utilization Staff provided us with a Standard Industrial Classification code listing of disadvantaged businesses that also had Small Business Administration Section 8(a) certification who might have been able to fulfill the requirements of those 20 contracts. The Standard Industrial Classification code listings provided by the Small Business Utilization Staff included multiple potential candidates for each contract. Using those listings, we contacted 37 companies to determine whether they were aware of that particular contract opportunity. If they were aware, we asked whether they had competed. If they were aware and had not competed, we asked why they had elected not to compete. If they were not aware, we asked why they were not aware and whether they believed they would have competed had they known about it.

VI. CONTRACT INFORMATION SYSTEM ERRORS

Of the 38 possible different data fields which describe each contract action in the Contract Information System, we confirmed the following nine data fields because when combined, these fields could have impacted the recording and reporting of SEDB, SDB, and other small business awards in the Major Procurement Program Goals report. For the two samples we reviewed, we counted as errors those data fields where:

- supporting documentation included in the contract files contradicted the data captured in the Contract Information System,
- supporting documentation did not exist in the contract files maintained by the contracting officers, and
- supporting documentation could not be located because contracting officers could not locate the contract files. Contracting officers could not locate 4 of the 95 sampled contract files.

	Names of the Data Fields Evaluated	Total of errors in the 95 Sample	Total of errors in the 35 Sample	Total Errors
1	Value of the Action	9	1	10
2	Effective Date	11	4	15
3	Contract Number	19	1	20
4	Modification Number	6	Not Applicable ⁶	6
5	Extent Competed	10	3	13
6	Type of Contractor	10	8	18
7	Preference Program	9	1	10
8	Standard Industrial Classification	18	6	24
9	Competition In Contracting Act	4	1	5
	Total errors for each sample:	96	25	121

⁶ The 35 sample selected from post-AMS contract awards did not include any modifications.

Impact by line item identified on the previous page:

1. Value of the Action

The total amount of errors for the two samples was \$3,412,368.

2. Effective Date

For the contract data we could confirm, the errors in the effective date field did not impact Major Procurement Program Goals reporting or the current evaluation as the correct dates did not place the contract award information in a different fiscal year for pre- versus post-AMS category. We could not assess the impact for the four files that could not be located.

3. Contract Number

For the contract data we could confirm, the errors in contract numbering were due mainly to the numbering scheme being entered with a “C” when the correct type was actually a “Y” signifying an SEDB award. We could not assess the impact for the four files that could not be located. This data field may be an important extraction tool in sorting for SEDB awards to be counted toward the goals.

4. Modification Number

For the contract data we could confirm, one had a wrong number and the other had all the information of a canceled modification within it. This resulted in a \$58,000 understatement of SEDB awards. We could not assess the impact for the four files that could not be located.

5. Extent Completed

For the contract data we could confirm, the total amount of errors was \$2,351,000. This resulted in a \$151,000 overstatement of SEDB awards and a \$151,000 understatement of SDB awards. The remaining \$2,200,000, although wrong, did not have an impact on the Major Procurement Program Goals reporting. We could not assess the exact impact for the remaining files which represented \$1,622,372.

6. Type of Contractor

For the contract data we could confirm, the total amount of errors was \$18,323,671. This resulted in a \$17,567,839 overstatement of small business awards, a \$15,367,837 understatement of large business awards, a \$58,000 overstatement of SEDB awards, and a \$58,000 understatement of Federal prison awards. These miscoded entries would have affected a percentage of dollars in each of the Major Procurement Program Goals reporting categories. We could not assess the exact impact for the remaining files which represented \$1,209,567.

7. Preference Program

For the contract data we could confirm, the total amount of errors was \$2,591,816. This resulted in a \$391,816 overstatement of SEDB awards and a \$391,816 understatement of small business awards. The remaining \$2,200,000, although wrong, did not have an impact on the Major Procurement Program Goals reporting. We could not assess the exact impact for the remaining files which represented \$1,252,191.

8. Standard Industrial Classification

Errors in the Standard Industrial Classification code did not impact Major Procurement Program Goals reporting, but could have impacted obtaining suitable disadvantaged businesses from the Small Business Utilization Staff database which contains capability statements of these businesses by Standard Industrial Classification codes.

9. Competition in Contracting Act

From the contract data we could confirm, the total amount of errors was \$2,200,000, which although wrong, did not have an impact on the Major Procurement Program Goals reporting. We could not assess the impact of the four files that could not be located.

VI. GLOSSARY OF TERMINOLOGY USED

AMS	Acquisition Management System , established on April 1, 1996, to address the unique needs of the agency and provide more timely and cost effective acquisitions of equipment and materials.
DOT	The U.S. Department of Transportation , formed on April 1, 1967, consists of twelve modal administrations representing the various transportation modes, one of which includes the Federal Aviation Administration.
Disadvantaged Business	This is a category of small business that includes small business concerns owned and controlled by socially and economically disadvantaged individuals. This category is further divided into two basic types of disadvantaged businesses . Disadvantaged businesses are small business concerns owned and controlled by socially and economically disadvantaged individuals that either: (1) hold current certification from the Small Business Administration under Section 8(a) of the Small Business Act, or (2) do not hold the Small Business Administration's Section 8(a) certification, but are self certified.
FAA	The Federal Aviation Administration received its current name on April 1, 1967, when it became one of several modal organizations within DOT. It was formerly known as the "Federal Aviation Agency" and functioned as an independent body established as a result of the Federal Aviation Act of 1958 to administer air traffic control, airman and aircraft certification, safety enforcement, and airway development.
MPPG	Major Procurement Program Goals . This represents the goals established by the FAA to award contracts, based on contract dollars, to small businesses, disadvantaged business, and women owned businesses. The Major Procurement Program Goals report captures contract dollars awarded to each category of small business concern, as well as total contract dollars. A Major

Procurement Program Goals report is prepared by headquarters, each region, and by the two centers quarterly and at the end of the fiscal year. These reports are forwarded to the Small Business Utilization Staff, which combines the results into a single FAA Major Procurement Program Goals report and forwards this combined report to the Department of Transportation.

Other Small Business Concern Awards

This category represents small business awards that do not fit within the other three small business types of award categories (i.e., disadvantaged businesses that receive SDB awards, disadvantaged businesses that receive SEDB awards, and women-owned business awards).

SDB Awards

These are FAA awards to disadvantaged businesses that hold current certifications from the Small Business Administration, but obtained contract award through means *other than* an SEDB/8(a) set-aside competition or awards to disadvantaged businesses that do not hold current certifications from the Small Business Administration.

SEDB

Socially and Economically Disadvantaged Business

SEDB Awards

These are FAA awards to disadvantaged businesses that hold current certifications from the Small Business Administration and obtained contract award through an SEDB/8(a) set-aside competition.

Small Business Concern Awards

This category combines all types of small business awards, including: SEDB, SDB, women-owned business, and other small business concern awards. The procurement goals set for this category of awards represent the combined results of the four small business type of award categories.

Women-Owned Business Awards

These are awards to small business firms that are 51 percent owned and controlled by women. Within this category are SEDB, SDB, and other small business concern awards. However, FAA collects and reports the total women-owned business awards and does not break them out into SEDB, SDB, or other small business concern award categories.

VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
DIRECTOR, OFFICE OF ACQUISITIONS, ASU-1



U.S. Department
of Transportation
Federal Aviation
Administration

Memorandum

Subject: Comments on Final Draft Report: Impact
of Acquisition Reform on Awards
to Disadvantaged Businesses

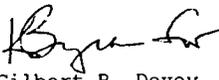
Date: May 11, 1998

From: Director of Acquisitions, ASU-1

Reply to
Attn. of:

To: Manager, Program Evaluation Branch, ASD-210

Attached are our comments on the subject report.

for 
Gilbert B. Devey, Jr.
Attachment

VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
DIRECTOR, OFFICE OF ACQUISITIONS, ASU-1

Attachment

Thank you for the opportunity to review the report and to include our comments as an appendix to it. The report does much to illuminate the issues around reduction in FAA dollars flowing to disadvantaged businesses since implementation of the Acquisition Management System (AMS).

General comments

More attention to AMS principles

We would have liked to see the report add context to its findings by analyzing the intent of AMS. Congress allowed FAA to write AMS to streamline the labyrinth of rules which had accumulated over the years, mostly in the Federal Acquisition Regulation (FAR) and supporting directives. We premised AMS on the right business decisions made by empowered individuals working together on teams. AMS depends less on forced compliance with rules, and more on empowering teams to seek the best ways to meet understood objectives. For procurements, those objectives include not only FAA's technical requirement, but also the values of competition and development of small business. The approaches of FAR and AMS are in this sense different: comply with every rule, or understand the objectives and do what makes sense to achieve them.

More attention to small business objectives

In this same vein, we would add context to the requirements which flow down to us as small business goals in which we participate with the Department of Transportation. While this is not our area of expertise, these requirements are clearly driven by public policy goals of developing economically disadvantaged businesses, and bring efficiency and creativity to the Government from small businesses. As such, and in the spirit of AMS, we would like to discover some alternative goals that could meet the overall objectives even better than those which were prescribed under the FAR umbrella. Such a broader recommendation might be more effective than energy expended about arguing whether coordinating through the small business office would increase the percentage of FAA contracts awarded after being set-aside for small and economically disadvantaged business certified under section 8(a) of the Small Business Act.

As an example, the report finds that all of the small business awards in the pre-AMS sample were made sole source. While this was legal, one could argue that if business development is the goal, making awards to businesses which do not have to compete for them might leave those businesses ill prepared to compete when their eligibility for the set-asides ran out. Following the rules and attaining the derivative goal as was done prior to AMS, it could be argued, led to frustration of the broader objective. Admittedly, there is a place for sole source awards, and AMS allows them. But, for example, a goal which gives more credit for set-aside competitions might yield a better result against the objective.

We are pleased that the report does not preclude these conclusions, but we are disappointed that it does not lead us more clearly to them.

VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
DIRECTOR, OFFICE OF ACQUISITIONS, ASU-1

Attachment

Specific comments on recommendations

1A:

We agree broadly with the sense that someone should do something, but encouraging contracting officers and IPT's to coordinate with the Small Business Office falls far short of what could be done. For example, in ARA, each senior executive's performance standard includes accomplishing the goals in ARA's Performance Plan. Goal 15 links ARA's success to meeting Departmental goals. In ASU, we have flowed that goal down to every contracting officer, asking each to propose performance management plan objectives he or she can agree to that ensure all possible steps are taken to meet the goals. One of these is, indeed, to coordinate with the small business utilization staff. But working with the small business community, doing small business outreach, looking for faster ways to contract with small businesses (such as the GSA Schedule), and supporting other contracting officers in keeping small business in mind as they structure new procurements will also help.

From what we learned during our participation in the small business conferences organized by the Small Business Office, we are preparing an on-line guide that will help small businesses understand how to do business with FAA. It will list available contracting methods and will include a roster of IPT's and their functions. We are proposing a revision to AMS to lower the current \$100,000 threshold for advertising procurements to \$25,000. We have also requested that the Small Business Staff put on line their database of available SEDB contractors so that the information is readily available to the IPT's.

1B

We agree with the recommendation, although we will work to broaden it to other possibilities for metrics which meet the business development objectives in an AMS context.

2

The CIS is a DOT-owned system that feeds data in to the Governmentwide Federal Procurement Data System (FPDS). Neither the Administrator of the FAA nor the FAA's Director of Acquisition is responsible for it. Several years ago the OIG determined that DOT had a material weakness in accordance with A-123 due to the CIS. At that time, the goal was to get the CIS accuracy rate up to 95 percent so that the material weakness would be lifted. FAA, both field and headquarters, spent considerable resources to improve the accuracy of CIS. Once that was accomplished, the material weakness was lifted.

Before the last two fiscal years, CIS data was transmitted to DOT through the System for Acquisition Management (SAM) system via magnetic tape. On a monthly basis headquarters/regions/centers would receive error reports because SAM did not have the edit checks that were in CIS. Two years ago, however, each DOT agency shared the cost of developing a CIS on-line system so that the errors can be identified as the data is entered. No

**VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
DIRECTOR, OFFICE OF ACQUISITIONS, ASU-1**

Attachment

record can be entered unless the data is accurate. The only problem is getting the user to input the data. SAM does not interface with the on-line CIS, so SAM users must input data into SAM then input similar data into CIS.

With the advent of the AMS, there was confusion on the proper coding for SEDB's. That problem was resolved in July 1996 and ASU corrected headquarters data back to 4/1/96.

We think that ACQUIRE will provide a viable solution. ACQUIRE will provide the coding that is required to correctly report SEDB's and SDB's which will ensure that the Major Procurement Program Goals (MPPG) report will be accurate. The ASD report contains a chart of codes for SEDB, SDB, etc. that will be incorporated into the AMS CIS guidance so that CIS data FAA-wide will be accurate, since CIS does not have a singular code that specifies SEDB's.

Currently, OST is making changes to the CIS report. Until those changes are finalized, ACQUIRE will generate an interim standard CIS report. ACQUIRE will have the capability to interface directly with CIS once the interface specifications are resolved by OST. When the interface is complete (prior to 12/98), it should eliminate user entry of CIS data.

VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
THE SPECIAL ASSISTANT, SMALL BUSINESS
UTILIZATION STAFF, ARA-5



U.S. Department
of Transportation
Federal Aviation
Administration

Memorandum

Subject: INFORMATION: "Impact of Acquisition
Reform on awards to Disadvantaged
Businesses"; Draft Report of 5/6/98

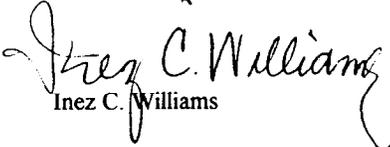
Date: MAY 20 1998

From: Special Assistant for Small
Business, ARA-5

Reply to
Attn. of:

To: Manager, Evaluation and Metrics
Branch, ASD-210

Attached please find my comments on the "Impact of Acquisition Reform on awards
to Disadvantaged Businesses" report.


Inez C. Williams

Attachment

VII. MANAGEMENT RESPONSE TO DRAFT REPORT FROM
THE SPECIAL ASSISTANT, SMALL BUSINESS
UTILIZATION STAFF, ARA-5

Attachment

“Impact of Acquisition Reform on awards to Disadvantaged
Businesses”, Dated: May 6, 1998 (Draft Report)

1. UNDER:

EXECUTIVE SUMMARY

Page i, Paragraph 3, last sentence

After the word “process”, insert:

“due to directions contained in Guidance on Goal Setting Guidelines, ...
add this sentence: This guidance provides guidelines on how to count major
procurement program goal accomplishments, which are guidelines to all Federal
agencies, therefore, FAA at the present time does not have the flexibility to change
how it counts (SEDB/8(a)) awards for reporting purposes”.

2. UNDER:

METHOD USED TO IDENTIFY SEDB AWARDS

Page 14, Paragraph 2

FAA is no different than other Federal agencies in how we are required to count 8(a)
awards. This allows the Federal government to monitor very clearly and accurately
how agencies are doing in the governments 8(a) set-aside program.

3. UNDER:

RECOMMENDATION 1B

Page 15

Non-concur. This recommendation will distort actual efforts made in support of the
8(a) set-aside program. By definition, 8(a) is a set-aside program. At the present time
neither the FAA, nor the rest of the Federal government have SDB set-aside authority.
To mix (SEDB/8(a)) and SDB statistics can and probably will be viewed as an effort
to distort the facts. This recommendation makes the FAA look better to the outside
world, while giving ourselves a warm “fuzzy” that we are supporting the intent of the
8(a) program when we really are not. This recommendation will also be viewed by the
outside world as yet another attempt by the FAA to “game” statistics when they don’t
say what makes us feel or look good. This recommendation would make it impossible
for FAA SEDB/8a and SDB statistics to be compared to the rest of the Federal
government. The Guidance On Goal Setting Guidelines was established so that
Congress would have an accurate reading of what’s going on with Federal
procurement dollars as they relate to the 8(a) program.