

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2561 Rayburn House Office Building  
Washington, DC 20515-6515

**MEMORANDUM**

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**TO:** Members, Small Business Committee  
**FROM:** Nydia M. Velázquez, Chairwoman  
**DATE:** June 23, 2022  
**RE:** Hybrid Hearing: “SBA Management Review: Office of Government Contracting and Business Development”

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The Committee on Small Business will meet for a hybrid hearing titled “SBA Management Review: Office of Government Contracting and Business Development.” The hearing is scheduled to begin at **10:00 A.M. on Thursday, June 23, 2022, in person in 2360 Rayburn House Office Building and via the Zoom platform.**

The hearing will allow members to learn more about the Office of Government Contracting and Business Development (GCBD), which works to create an environment that fosters the maximum participation by small businesses in the federal procurement space. The purpose of the hearing is to examine GCBD’s administration of SBA’s business development and contracting programs, progress towards implementing key legislation, and the ongoing efforts to address administrative challenges. The sole witness for the hearing is:

- Ms. Bibi Hidalgo, Associate Administrator, Office of Government Contracting and Business Development, U.S. Small Business Administration, Washington, D.C.

**Background**

In 1953, Congress passed the Small Business Act (the Act) authorizing the U.S. Small Business Administration (SBA) to aid, counsel and protect small business concerns to ensure a fair proportion of contracts and subcontracts for the federal government were placed with small businesses; preserve free markets and competition; and strengthen the overall economy.<sup>1</sup> In turn, the federal government benefits from the quality goods and services small firms have to offer.

In accordance with this mandate, the Act sets forth the governmentwide goal of awarding at least 23% of all eligible federal contracting dollars to small businesses. Additionally, the Act establishes the goals of awarding 5% of prime contracts and subcontracts for women-owned small businesses and small disadvantaged businesses; and 3% of prime contracts and subcontracts for service-disabled veteran-owned small businesses and HUBZone certified small businesses.<sup>2</sup> Achievement of these goals is tracked based on the dollar amount of the contracts awarded.

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<sup>1</sup> The Small Business Act of 1953, P.L. 83- 163, 67 Stat. 232 (1953), as amended.

<sup>2</sup> 15 U.S.C. §644(g)(1)(A)

Within the SBA, GCBD is the umbrella office that oversees the federal government's performance against the contracting goals. The office also administers and sets the policies for the 8(a) program, the Women-Owned Small Business (WOSB) Program, the HUBZone Program and the Service-Disabled Veteran-Owned Small Business (SDVOSB) Program, which provide contracting preferences based on socioeconomic categories and assist agencies in meeting the contracting goals. Other programs administered by GCBD include the All-Small Mentor-Protégé Program and the 7(j) Program.<sup>3</sup> Given its importance in maximizing small business participation in federal procurement, it is imperative to guarantee that the GCBD office and its contracting programs are working properly.

### **Small Business Participation in Prime Contracts and Goals Achievement**

In recent years, the federal government has been successful in achieving the 23% goal. In FY 2020, for example, the federal government awarded 26.02% or \$145.7B of all eligible prime contracting dollars to small businesses.<sup>4</sup> However, the overall participation of small firms has declined significantly over the years, largely because of initiatives like Category Management. In fact, from the time the initiative was first implemented in 2016 to 2019, the number of small businesses providing common goods and services decreased by 17%.<sup>5</sup> In the hearing, the Committee hopes to understand what steps SBA is taking to ensure the small business base does not continue to shrink.

Additionally, not all of the contracting goals have been met. In FY 2020, the federal government met the prime contracting goals for small and disadvantaged businesses (10.54%) and SDVOSBs (4.28%). However, it failed to meet the 5% prime contracting goal for the Women-Owned Small Business program (4.85%) and the 3% goal for the HUBZone program (2.44%).<sup>6</sup> In fact, the goal for the Women-Owned Contracting Program has only been met twice and the HUBZone goal has never been met. Moreover, the subcontracting goals were not met for small and disadvantaged Businesses (4.40%), SDVOSBs (2.14%) and HUBZones (1.65%).<sup>7</sup> The Committee is interested in learning more about efforts to increase and surpass the statutorily mandated small business goals.

### **8(a) Program**

The 8(a) Program is a nine-year program that offers business development and assistance to eligible SDBs seeking to participate in federal contracting. A major benefit of the program is that participants have access to training, technical assistance, and contracting opportunities in the form of set asides or sole-source opportunities. This business development and assistance is primarily delivered through a network of Business Opportunity Specialists in 68 District Offices across the nation.

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<sup>3</sup> The 7(j) program provides management and technical assistance training to 8(a) participants and other small businesses.

<sup>4</sup> U.S. Small Business Admin., *FY 2020 Small Business Procurement Scorecard*, available at: <https://www.sba.gov/document/support-small-business-procurement-scorecard-overview>

<sup>5</sup> Gov't Accountability Off., GAO-21-40, *Federal Buying Power: OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data and Training* (Nov 2020).

<sup>6</sup> FY 2020 Scorecard, *supra*, note 4.

<sup>7</sup> FY 2020 Scorecard, *supra*, note 4.

The number of participants in the 8(a) Program declined from about 7,000 in 2010 to about 4,900 in 2016.<sup>8</sup> While SBA engaged in efforts to increase participation in 2016, the amount of 8(a) participants continued to decline in subsequent years and through 2020. As of August 2021, the program has slightly grown and is back to its 2016 numbers with a total of 4,906 firms.<sup>9</sup> The Committee is interested in knowing how many companies are currently participating in the program and in what efforts is SBA engaging on to ensure participation keeps growing.

In addition, through the FY 2023 Congressional Budget Justification, SBA requested an additional \$5 million to be divided between the 8(a) Program, HUBZone and WOSB for staffing resources. The Committee is interested in obtaining more details as to what this funding will support and how it will be segregated between the 3 contracting programs.

### **Women-Owned Small Business Program**

The WOSB Program levels the playing field by restricting competition for federal contracts to qualified women-owned small businesses in certain industries where women are substantially underrepresented. Additionally, there is a subset of contracts reserved solely for Economically Disadvantage Women-Owned Small Businesses (EDWOSBs). EDWOSBs can receive contracts in either WOSB or EDWOSB eligible industries.

On October 15, 2020, the SBA finally implemented a formal certification process for the program, which was required by the 2015 National Defense Authorization Act (NDAA).<sup>10</sup> According to the latest data, SBA initially received 15,000 WOSBs and EDWOSBs applications, out of which 3,402 were approved, 87 were denied and 12,000 were screened and returned to the applicant for more information.<sup>11</sup> The Committee seeks to gain a better understanding of how many applications are still in the queue and what efforts, if any, are being implemented to ensure applicants submit a complete application package right from the start.

### **Service-Disabled Veteran-Owned Small Business Program**

The SDVOSB Program provides procuring agencies with the authority to set aside contracts for exclusive competition among small businesses owned by service-disabled veterans as well as the authority to make sole-source awards. Currently, the main issue affecting the program is that it relies on self-certification. That is why Congress enacted legislation in the FY 2021 NDAA eliminating small businesses' ability to self-certify and instituted a formal certification process.<sup>12</sup> Moreover, the statute abolished the verification program used by the Department of Veterans Affairs (VA) for its own veteran-owned small business program and vested the SBA with the authority to provide formal certifications for that program starting January 2023. The Committee would like to obtain more details as to the progress that has been made to stand up this certification process.

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<sup>8</sup> U.S. Small Bus. Admin., Office of Inspector Gen., Report 22-02, *Top Management and Performance Challenges Facing the Small Bus. Admin. in Fiscal Year 2022* (2021). [hereinafter, FY 22 Management Report].

<sup>9</sup> *Id.*

<sup>10</sup> Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015, Pub. L. No. 113-291, § 825, 128 Stat. 3292 (2014).

<sup>11</sup> FY 22 Management Report, *supra*, note 8.

<sup>12</sup> William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, §862, 134 Stat. 3388 (2021).

### **HUBZone Program**

The HUBZone Program was created in 1997, with the purpose of promoting economic development by providing federal assistance to firms located in economically distressed areas.<sup>13</sup> According to the SBA OIG, the agency has made substantial progress lately in adding controls to the program to detect ineligible firms. For example, in 2020, SBA updated its HUBZone policy directives and trained staff to standardize analysis and oversight.

The National Defense Authorization Act for Fiscal Year 2018 brought several changes to the HUBZone Program,<sup>14</sup> which for the most part the agency has implemented through regulations. Among the changes, it required SBA to measure the program's success in meeting its objective of promoting economic growth by publishing performance metrics, collecting data that demonstrates how the program is performing in light of those metrics and reporting to Congress. The Committee is interested in learning whether SBA created these performance metrics and built the processes that would be needed to collect this data.<sup>15</sup>

Additionally, in its budget request, SBA petitioned \$4 million for a "Manufacturing Hub" proposal, a new initiative that addresses the supply chain deficiencies made visible during the COVID-19 pandemic. According to the information shared, SBA seeks to establish a Manufacturing HUB Office which would be an expansion of the HUBZone Program Office. The office would be tasked with coordinating efforts with federal, state and private partners to help small and underserved manufacturing enterprises in multiple areas, including entering new markets, expanding capacity, and strengthening resiliency. The Hub office would also coordinate resources within SBA to ensure that small manufacturers have access to the resources needed to start and grow.<sup>16</sup> The Committee is interested in learning more about how this initiative will work and its relationship with the HUBZone Program.

### **The All Small Mentor-Protégé Program**

The All Small Mentor-Protégé Program allows small business to enter into agreements with small or large firms to receive business assistance from their mentors. As part of these agreements, a small business is able to joint ventures with its mentor to pursue contracting opportunities.

The latest OIG report regarding the program highlights multiple challenges, such as that program officials were not effectively and consistently implementing established processes to review initial applications and annual evaluations.<sup>17</sup> For example, 9 out of 12 case files did not contain sufficient documentation demonstrating whether mentors were qualified to serve as mentors, although according to program officials, said information was reviewed.<sup>18</sup> Moreover, program officials failed to collect annual evaluation reports from program participants and only conducted annual evaluations for 24 percent of the required evaluations due during the scope of the OIG's investigation. These annual reviews also lacked proper documentation. Finally, while the program counts with a process to measure its effectiveness, SBA did not collect sufficient data to accurately

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<sup>13</sup> Small Business Reauthorization Act of 1997, Pub. L. No. 105-135, §601, 111 Stat. 2592, 2627 (1997).

<sup>14</sup> Pub. L. No. 115-91, §1701, 131 Stat. 1283, 1802 (2017).

<sup>15</sup> Pursuant to the 2018 NDAA, the due date for publishing performance metrics is not later than January 1, 2021.

<sup>16</sup> FY 23 SBA Budget Justification, *supra* note 20 at 72.

<sup>17</sup> Small Bus. Admin. Off. of Inspector Gen., Report 19-17, *Evaluation of SBA'S All Small Mentor-Protégé Program* (Sept. 2019).

<sup>18</sup> *Id.*

measure program success.<sup>19</sup> The Committee is interested in knowing what SBA is doing to ensure internal processes and adequate safeguards are in place.

### **Certify.SBA.gov**

Certify.SBA.gov is an IT system that SBA envisioned would serve primarily as a certification management system to enhance service delivery across the contracting programs.<sup>20</sup> It was also intended to streamline the application process and offer a multiplicity of functionalities to SBA officials, including analytical tools and reporting capabilities. However, many of the applications were never developed or lacked basic functionalities.<sup>21</sup>

After having spent 4 years and \$30 million on the platform, in August 2019, SBA decided to abandon Certify.SBA.gov altogether, alleging it was unsustainable on a long-term basis due to the costs of maintaining it; had unaddressed security vulnerabilities and latent defects; and that it was difficult to understand and improve.<sup>22</sup> In October 2020, the SBA informed the Committee that it would perform a “strategic review of the overall Certify.gov project to determine the most effective oversight, contract delivery, and technical approach for continued development.”<sup>23</sup> Based on our latest engagements with the agency, said strategic review was already performed by a contractor. A robust IT platform is imperative to ensure adequate levels of service in the contracting programs. The Committee is interesting in knowing more about the plans and next steps to implement an IT system that serves the contracting programs, including associated timelines and estimated costs.

### **Procurement Staffing Levels**

In addition to those that directly work with the contracting programs, there is personnel dedicated to ensuring contracting opportunities for small businesses. For example, Procurement Center Representatives (PCRs) are responsible for overseeing over \$665 billion in prime federal contracting and play an important role in helping agencies identify opportunities for small businesses. As of January 6, 2021, there were a total of 57 authorized PCR positions, which is already a limited number to cover all federal buying activities across the country. Forty-four of these positions were filled. The remaining 13 positions were vacant due to funding constraints. There is also a limited number of Commercial Market Representatives (CMRs) assisting small businesses with subcontracting opportunities. Specifically, as of January 2021, there were 6 CMRs nationwide.

The lack of resources available to review contracting actions has prevented small businesses from receiving the maximum practicable opportunities available to them and as a result fewer of these firms have been able to participate in the marketplace. The Committee is interested in having a better understanding of how many positions are currently filled and any efforts put in place to increase the number of positions.

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<sup>19</sup> *Id.*

<sup>20</sup> Small Bus. Admin. Off. of Inspector Gen., Report 20-17, *Evaluation of Certify.SBA.gov* (Jul. 2020)

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> Letter from Francis Spampinato, Associate Administrator for the Office of Government Contracting and Business Development, U.S. Small Bus. Admin, to Representative Jared Golden, Chairman of the Subcommittee on Contracting and Infrastructure (Oct. 19, 2020) (on file with the Committee on Small Business).

## **Conclusion**

GCBD is a key office within SBA because of its crucial role in enabling small business participation in the federal procurement space. However, there are many issues that need to be overcome as well as initiatives that need to be culminated to ensure these programs function adequately and efficiently, particularly now when these contracting programs are needed the most. IT issues, lack of internal controls and the implementation status of key legislation are some of the topics members will have the opportunity to discuss with GCBD in this hearing.