



May 2004

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April 27, 2004

## **State Small Business Persons of the Year to Travel To Orlando to Compete for National Honors**

U.S. Small Business Administration -- News Release

SBA Expo '04, Conference Will Take Place May 19-21

WASHINGTON - Small Business owners from across the country will travel to Orlando, Fla., next month to compete for honors as the National Small Business Person of the Year at the U.S. Small Business Administration's SBA Expo '04: Celebrating National Small Business Week.

The conference follows a series of events in local communities across the nation honoring state Small Business Persons of the Year in 50 states, the District of Columbia, Puerto Rico and Guam. A national Small Business Person of the Year and runners-up will be announced from among the individual state winners. The state winners represent a diverse cross section of America, and their businesses range from microbrewers to fire engine manufacturers to motorcycle dealers to home nursing services.

The annual celebration honoring the nation's leading small business entrepreneurs will be held in Orlando May 19-21, 2004, at the Orange County Convention Center. The announcement of the National Small Business Person of the Year award is one of the highlights of SBA Expo '04. SBA Expo '04 is co-sponsored by SCORE "Counselors to America's Small Business," a proud resource partner with the U.S. Small Business Administration.

"I am very proud of all of our state winners, and I look forward to meeting them in Orlando at SBA Expo '04," SBA Administrator Hector V. Barreto said. "Expo is our chance to honor the contributions of small businesses to our economy and our nation, and to help entrepreneurs take the next step in building their businesses.

"We've packed a lot into a three day conference, from business sessions to a town hall meeting to roundtable discussions to a session of our tremendously successful Business Matchmaking. We expect as many as 3,000 small business owners to attend. I think that every one of them will be glad they came when they see the chances for learning, networking, acquiring government contracts, and identifying ways to grow their businesses."

The Business Matchmaking event will be a significant element of SBA Expo '04. Business Matchmaking allows small business owners the chance to

schedule one-on-one meetings with buyers from federal, state and local governments as well as larger corporations, cutting through the red tape that is too frequently part of the federal contracting process. In other Business Matchmaking events held across the country, more than 4,000 small businesses have participated in more than 14,500 one-on-one meetings.

The CNNfn network will also cover various events at SBA Expo '04, including the Celebrating Women in Business Breakfast, a special event honoring some of the nation's best and brightest women entrepreneurs, the business sessions and the exhibit floor. CNNfn also will broadcast the Town Hall meeting, featuring Ken and Daria Dolan, hosts of the network's Dolans Unscripted.

The SBA also will honor entrepreneurs, small business resource providers, and champions of small business in a variety of areas, including government contracting, youth entrepreneurship, recovery from natural disasters, and small business lending. Also, several companies that have become successful with the help of the SBA will be inducted as members in the SBA Hall of Fame.

Interested small business owners, business organizations, and other individuals may find additional information, including online registration for SBA Expo '04 events, at [www.sba.gov/50](http://www.sba.gov/50).

April 22, 2004

## **Small Business Helps Protect The Environment**

### **Main Street Businesses Care About Their Neighbors And Communities**

U.S. Small Business Administration -- News Release

WASHINGTON, D.C. – America's Main Street businesses are an integral part of their communities, and that means caring for the environment of their children, neighbors, and friends. This environmental stewardship is fundamental to being a successful small business, according to a statement ([http://www.sba.gov/advo/laws/test04\\_0422.pdf](http://www.sba.gov/advo/laws/test04_0422.pdf)) today by Chief Counsel for Advocacy Thomas M. Sullivan.

The statement was presented to the U.S. House of Representatives, Committee on Small Business, Subcommittee on Regulatory Reform and Oversight for their hearing "Small Businesses Creating Jobs and Protecting the Environment." Celebrating the many positive contributions small businesses make to the environment, he said in part:

Small businesses help protect the environment by being an active part of the communities where they work. These businesses know their neighbors hold them accountable for keeping the community clean and healthy. . .

Small business helps protect the environment through innovation. Advocacy's economic research indicates that small businesses innovate at twice the rate of large businesses. That innovation often yields environmentally friendly products and technologies. Everyone benefits when small businesses, in an effort to improve their bottom line, create more efficient, environmentally sound products. . .

Small businesses are often clean businesses. Advocacy's economic research indicates that of the 22.9 million small businesses in the U.S., 53 percent of those are home-based businesses. The majority of these home-based businesses are sales and service-oriented, with very little potential for environmental harm.

The Office of Advocacy, the "small business watchdog" of the government, examines the role and status of small business in the economy and independently represents the views of small business to federal agencies, Congress, and the President. It is the source for small business statistics presented in user-friendly formats and it funds research into small business issues.

April 20, 2004

## **SBA Announces Proposal to Expand Services For America's Small Businesses**

U.S. Small Business Administration -- News Release

WASHINGTON - U.S. Small Business Administration Administrator Hector V. Barreto today submitted a legislative package to the U.S. Congress that would implement the President's fiscal year 2005 budget, improving the agency's wide range of services and allowing it to reach out to more small businesses than ever before.

"America's small businesses are leading the way in our economic recovery, and they deserve our help and support," Barreto said. "Last year was a record-breaking year for the SBA. Now we must look to the future. The legislation we are proposing today will allow us to reach out to more small businesses, and do more for them, than ever before. It will result in an SBA that is more responsive, more efficient, more modern - in other words, an SBA that is more like the small businesses it serves every single day.

"President Bush often says that government cannot create wealth and jobs, but it can help to create an environment in which the spirit of entrepreneurship can

thrive," Barreto added. "That is what this legislation does. It allows us to help America's small businesses do what they do best: grow the economy and create jobs."

Included in the legislative package are several initiatives that will enhance the agency's ability to deliver services to its small business clients, including: \* Permitting the 7(a) loan program to operate at a zero subsidy rate by allowing the SBA to annually adjust the fees for the program. The legislation will also allow the SBA to charge and retain fees for the cost of mandatory lender reviews; \* Giving the SBA more flexibility to assist companies adversely affected by Presidentially declared disasters; and \* Enhancing the Women's Business Center (WBC) program by coordinating WBC activities with the Small Business Development Center program.

SBA anticipates legislative action on some or all of these initiatives during late April, May and June during the movement of SBA's reauthorization bill.

April 19, 2004

## **Aronie: Defining Small by Committee**

I will admit to being a skeptic when it comes to stories about government officials seeking to simplify their procurement regulations. It's not that I don't trust the government, it's just that I know that the definition of a camel is a horse designed by a committee. And I understand that the government's streamlining efforts usually are committee-driven.

It was against this background that I recently read the Small Business Administration's newly proposed size-standard regulations.

Currently, federal contractors trying to determine if they qualify as small businesses must sort through 37 size standards covering more than 1,100 industries, from berry farming — excluding strawberry farming, which apparently views itself as above the farming of other, lesser berries — to tortilla manufacturing to electronic computer manufacturing.

To make matters worse, not only does the benchmark for small differ from industry to industry, the yardstick used to identify that benchmark differs as well. In some industries, business size is tied to the number of employees, while in others it is tied to annual revenue.

These crisscrossing regulations often produce unintended consequences. Many businesses, for example, are small when they sell one product, but large when they sell another. This is particularly problematic when a single set of federal contracts, such as the General Services Administration's schedule contracts, encompasses products that cross multiple industries.

In an effort to combat such confusion, SBA officials are proposing to do away with many size standards tied to revenue and instead rely on size standards tied only to employee numbers.

They also propose reducing the number of size standards from 37 to 10. The resulting 10 standards will range from 50 employees to 1,500 employees.

Unquestionably, this is a positive development, but the question of business size will never be easy to answer. For example, the move from revenue to business size standards covers most industries but not all of them. Even under the new rules, some businesses still will be subject to a receipts cap in addition to the employee-based size standards.

Furthermore, vendors should be aware that, when calculating number of employees, they must count "any person on the payroll...regardless of hours worked or temporary status," including employees of affiliated entities, the proposed rule states. Unless they are deemed to be affiliated with the vendor, subcontractors are not counted as employees.

The proposed regulations affect prime contractors and subcontractors. So, small-business subcontractors must take care to assess the effect of the proposed rules on the size certifications that they have made to prime contractors who maintain federal subcontracting plans.

In the end, SBA's proposed rule represents a worthwhile step in reducing the complexity and consequent risk inherent in government contracting. The government awards more than one-quarter of its prime contracts to small businesses, so this revision is long overdue. Industry should be watchful to ensure that, following the receipt of comments, the final rule doesn't devolve from a horse into a camel.

April 15, 2004

## **Show Your Appreciation**

The month of May is National Military Appreciation Month, a time for us all to think about the sacrifices made by our military and their families. This year more than any other, our service men and women need to know all of us appreciate their role in protecting and defending our nation's freedom - during times of peace and especially in times of war. National Military Appreciation Month includes VE Day, Military Spouse Day, Loyalty Day, Armed Forces Day, National Day of Prayer and Memorial Day. It doesn't take much time to become involved. You can show your appreciation by displaying the American Flag on your home, car, or business during May through Flag Day June 14. For more information on how you can participate and show appreciation, go to [www.NMAM.org](http://www.NMAM.org).

April 13, 2004

## **Northrop Wins Network Deal**

BY Dibya Sarkar

The Homeland Security Department has awarded Northrop Grumman Corp. a \$350 million contract to design, implement and operate a secure communications network

for classified information. Department officials said the Homeland Secure Data Network (HSDN) would eliminate its reliance on external networks while expanding its capability to interact with other classified ones. Eventually, the goal is to have HSDN become a private, certified and accredited network. It will also be scalable to accommodate high demand for classified information among academia, government and the private sector. "HSDN lays the foundation to consolidate five legacy wide-area networks down to one network for both classified and unclassified information, leading to one infrastructure, the first phase of which will be completed by the end of this year," DHS Secretary Tom Ridge said in a press release. Steve Cooper, the department's chief information officer, has previously said that DHS had set an aggressive goal to move from multiple information technology networks to one by December.

Wood Parker, president of Northrop Grumman IT's federal enterprise solutions, said his company would have a formal launch with DHS officials within days.

"I don't think it's possible to have a complete [HSDN] by the end of this year," he said. But he added that some agencies would be operating on the network to some degree. "Remember the Department of Homeland Security is this collection of 22 [agencies], it's got a dozen or more communications systems and networks and procedures and processes," he added. "So the challenge here is to take this disparate situation of different communication systems and networks and design and implement a single secure data network of the department."

Parker said DHS' real challenge is interoperability, so HSDN "is key to the success of the department to get this thing right." The award was made on the General Services Administration's Millennia contract

April 12, 2004

## **How to Build a Happy Relationship**

By Michael Hardy

Here are some tips for forming a successful mentor/protégé relationship, from Sharon Jones, director of the Small and Disadvantaged Business Utilization Office at the Defense Information Systems Agency. For protégés:

Come in with realistic expectations. You're not likely to get as many subcontracting opportunities as you might like, especially early on. But you'll be learning new skills and earning needed certifications and ratings.

Understand your own needs. "A lot of small businesses cannot articulate what their needs are," Jones said. "If they don't come in with a game plan about what they need to gain, they're wasting their time." For mentors:

Choose protégés that you already know well. Jones advises mentors to pick companies that they've already worked with. Establish a protégé implementation plan, a measure DISA requires. Every six months, protégé firms must report on what they are learning and how they plan to implement it. "What we have found in the past, by not making the protégé more committed to the program, they are just giving lip service to it," Jones said.

April 12, 2004

## Making it Big with Mentors

### Small businesses grow under watchful eyes of mentors

BY Michael Hardy

For small companies trying to grow in the government market, a relationship with a big brother might be just what's needed. Both large and small businesses are learning how to take advantage of mentor/protégé programs. Whether operating under the Defense Department's 14-year-old program, under a civilian agency's guidance or even informally, businesses are finding ways to increase the value of such relationships, according to observers. "I have seen a tremendous change in the program since it's been around," said Alicia Dudley, EDS' program manager for the mentor/protégé program. "Companies are doing more homework before they get into the program these days. They understand better the expectations that the mentor firms are having. Companies are being educated on what the programs both offer and require." Not only are companies learning, "the program is also maturing," said Sharon Jones, director of the Defense Information Systems Agency's Small and Disadvantaged Business Utilization Office. "We're finding things that give it more [value] for the protégés."

Large companies are free to form relationships with smaller companies at any time, but the formal programs provide funding and agency oversight. DOD gets about \$26 million a year in appropriated funds, spread among its various branches and agencies, to run its mentor/protégé program.

"This is a program that allows you to be so incredibly creative to help a small business," Jones said. She has run DISA's program since 1999.

Some civilian agencies also are running mentor/protégé programs. Mike Sade, director of the Office of Acquisition Management at the Commerce Department, is structuring the agency's Commerce Information Technology Solutions (COMMITTS) NexGen contract — which is reserved for small businesses — so that the largest small firms will have to mentor smaller players, he said.

"What we have seen, where it works well, is [mentors] really are helping [protégés] understand how to grow and how to market," Sade said. "A lot of these companies are growing and moving up the food chain. We want to fill the pipeline with companies that can deliver." "When that formal relationship is not there, you get lost in the shuffle," said Thomas Asefi, president of Global Analytic Information Technology Services (GAITS) Inc., a Springfield, Va.-based systems integrator and EDS protégé. "With that formal relationship, we can pick up the phone at any time if we have any kind of hiccup, any opportunities or any questions." Making the match Choosing partners is always a painstaking process, for both the mentor and the protégé. Both sides have a stake in the outcome of the relationship. The mentor wants to cultivate the smaller firms' skills in technologies or services, which the mentor can then tap, making the protégé a partner. Protégés want help in developing their skills and their business reach.

AT&T Government Solutions undertook a new mentor/protégé relationship earlier this year, under a \$170,000 Air Force contract. The one-year deal stipulates that AT&T officials will provide technology expertise and training in quality management and business development to Native American Information Technologies (NAIT) Inc., based in Santa Fe, N.M. NAIT, a systems integrator with seven employees, specializes in designing and implementing communications networks, including frame relay, private line, IP virtual private networks and broadband connectivity. The contract also calls for AT&T's team to train NAIT officials in DOD contracting procedures. The small firm's leaders will learn how to submit proposals, comply with government financial systems and hire employees with security clearances. Like many large firms, AT&T is experienced with mentoring, said Lou Addeo, president of AT&T Government Solutions. "We have an excellent track record for mentoring small firms looking to break into government contracting," he said. Steve Hogan, director of AT&T Government Solutions in Albuquerque, N.M., will be the hands-on leader of the relationship with NAIT. In choosing small firms to guide, AT&T officials look at what the small firms want to do, he said. "The process started for me with going out and meeting several small businesses to understand their goals and objectives," he said. "I'm looking at companies who are interested in the [information technology] world. We're looking at companies that have an interest in the telecommunications world. One of NAIT's interests is learning how to do continuity-of-operations planning, so we're going to be working with them on that." Building the right relationship takes trust, especially for the smaller partner, said Jack Richtsmeier, a vice president at NAIT. He had a bad experience a few years ago when he was working for another company, Native American Systems Inc., he said. That company, a hardware reseller, signed up for a mentor/protégé relationship with another DOD contractor that didn't deliver. "They didn't provide us with the technology transfer that they" had promised, Richtsmeier said. "They didn't provide us with subcontracting opportunities. They didn't put us on teams. It was clear that they just wanted us as a source of hardware. We ended up terminating" the arrangement. When Hogan and AT&T officials approached NAIT, Richtsmeier said, they came with a history of successful mentor/protégé pairings, which gave them credibility. The small companies must bring something to the table too, said Tom Burlin, IBM Corp. vice president of federal government industry. "My practice is to get to know the senior management in each of our protégés," he said. "One thing [IBM requires] is that they have a vision. When I have these conversations, if most of it circulates around 'What kind of business opportunities do I get from IBM in the short term?' it's probably going to be a short conversation. If they talk about what their company will be after this is over, that's the start."

In some mentor/protégé programs, mentor companies have rules to guide their choices. DISA, for example, requires protégé companies to be at least 8 years old, earn a minimum of \$3 million in annual revenues and have a minimum of 45 employees, Jones said. Each DOD agency runs its own program under congressional mandate, so their rules are not identical, she said. "We will consider waivers," she added. However, she said her agency has determined that the youngest, newest start-ups are generally not ready yet for a mentor relationship. "What everyone's starting to realize is that you can't work with a one- or two-person company," Jones said. "The

company should have a significant amount of business experience." At EDS, the focus is on developing long-term partnerships, Dudley said. The program generally has about six active relationships at any one time, she said. To sift through interested businesses to find those that are complementary, EDS officials have designed an extensive process to help them figure out what a potential protégé lacks that EDS might help supply, and also where the small company's leaders want their company to be in one, three and five years. "We do not approach the mentor/protégé program as a cookie-cutter program," Dudley said. "We realize all small businesses are different." GAITS recently became one of EDS' protégés under a DISA contract, and Asefi said the selection process was meticulous.

As Richtsmeier said, the protégé firms have some choices to make as well.

"You want to really pick a company that you think would really add value to your strategic plans and direction," said Joe Fergus, president and chief executive officer of Communication Technologies Inc., an IBM protégé better known as ComTek. "One of the vice presidents at IBM and I met at a conference, and immediately we agreed that some type of relationship between the two companies made sense." "It's quite a little courting ritual that goes on," Burlin said. "We've had experiences where companies wanted to go off into an area where we really didn't feel we could afford them the kind of expertise to get [them] to where they need [to be]. There's got to be a synergy in business to make it work." Once the mentor/protégé relationship is established, the day-to-day relationship can take many forms. Officials at protégé firms should realize that they may not get a great deal of immediate subcontracting work, Dudley said. "A lot of them, their primary focus is business development, teaming relationships and increased revenue," she said. "That is not something any company can guarantee." Apart from subcontracting opportunities, officials at the protégé firms can expect a variety of benefits. Mentors help them develop their technology offerings, gain needed certifications, train their employees and learn to navigate the federal procurement maze. DISA requires mentors to help protégés earn certifications, Jones said.

"Government is almost mandating [certifications for contractors] in everything that they do," she said. "If companies are doing the majority of their work in DOD, and that's become almost a DOD mandate," then it makes sense for the mentor/protégé program to help the smaller firms meet that requirement. EDS will help GAITS earn a Capability and Maturity Model (CMM) rating of 3, which demonstrates that the company has instituted systematic, repeatable processes for many tasks, Asefi said. The mentor company also will sponsor some of GAITS' managers to earn project manager professional certification and will cover the costs for several officials to earn Certified Information System Security Professional certification.

AT&T officials are helping NAIT develop a security program, Hogan said, along with an accounting and timekeeping system, so the protégé firm can meet government requirements. Hogan said he believes that the formal elements of the program should be balanced with informal discussions between his team and NAIT's leaders. "I want to make sure they understand what they're getting into," Hogan said. "We discuss pretty extensively what it's like to do business with the DOD. I talk to them about the way they run their business. I want to make sure they have ethical standards and won't run into trouble down the road. My reputation is at stake, too." IBM helped ComTek earn ISO 9001 certification last year, Fergus said, and that was a significant

boost for the firm. Without IBM's help, ComTek would have borne the cost of getting the quality certification — more than \$100,000. "They were the catalyst behind our going through that program," he said. "Not only did they provide guidance, they brought to bear all of the resources that we needed to build a quality program." Making it through When the formal mentor/protégé relationship ends, the smaller companies should be bigger and the larger companies should have new partners. "We hope to have a relationship with AT&T that extends beyond this Air Force program," Richtsmeier said. "I don't see us ever becoming a Lockheed [Martin Corp.], but I would like to see us become a stand-alone IT service provider whose principal business is with the feds." ComTek, which had about 300 employees when it started its formal relationship with IBM two years ago, has almost tripled in size and will have about 1,200 employees in another year, Fergus said. Now he is trying to strengthen the company's skills in IBM-related areas that will enable the two companies to continue to work together. Jones pointed to the IBM/ComTek relationship as one of her primary success stories. "That's what I really like, when a company gets it," she said of ComTek. "Some companies do not utilize the mentor/protégé program in the way that they could." Being a mentor is "good business, just because if you're going to work in the public sector, you're going to work with small businesses," IBM's Burlin said. "The better those companies are, the lower your risk is."

April 12, 2004

## NASA Rolls Out Remote Microscope

By Sarita Chourey

New NASA technology can help researchers study items that are located across the country. NASA has successfully tested a so-called super magnifying glass, which allows scientists to assist astronauts during long-duration space flights. Using the Remote Scanning Electron Microscopy (RSEM) technology developed at Ames Research Center, researchers can study laboratory specimens thousands of miles away. All that's needed to use the device is a suitable Web browser and network access to connect to the instrument. A remote-control system on the microscope gives researchers real-time control of the device, which uses electrons instead of light waves to magnify details of tissue from 10 to 100,000 times. It illuminates the sample with a great depth of field and produces 3-D, high-resolution images. "By providing remote access to a unique tool like SEM that is too expensive for many settings, NASA is enabling medical researchers to work with a wide variety of specimens without unnecessary travel costs," said Doris Wu, a molecular biologist and researcher with the National Institute of Deafness and Other Communication Disorders.

Wu's first SEM project with NASA seeks to understand how the inner ear develops structurally in order to hear sounds. Understanding this could help address hearing loss in astronauts

April 12, 2004

## **Prison Labor Program under Fire by Lawmakers, Private Industry**

By K. Daniel Glover

ALLENWOOD, Pa. -- A 30-mile stretch of U.S. 15 on the way north to this village looks just like the road to prison. Pornography shacks, private clubs, and bars dot the landscape, and road signs blare ominous warnings like "D.U.I.: You Can't Afford It" and "Target Enforcement Area." Even the advertisement for Dr. Tom's Leather Goods features a foreboding skull with a devilish half-smile. But those emblems are far from where the highway meanders to the Federal Correctional Complex just north of Allenwood, where officials are equally concerned about the road away from prison. More than 41,000 federal prisoners nationwide have returned to the streets in each of the past three years, and no one in the Justice Department's Bureau of Prisons wants to see them take a wrong turn onto Recidivism Road. The desire to steer convicts away from repeat offenses is part of the rationale behind Federal Prison Industries, a quasi-governmental agency that trains inmates in various trades. FPI's goal, said Joseph D. Dubaskas Sr., the associate warden of industries at the Allenwood complex and chief of its three factories, is to employ as many prisoners as possible and to "teach them a skill [and] a work ethic that they can take with them when they go to the street." "If they're medically able to work and they want to work," he said, "we put them to work." Some 200 miles away in Washington, the concept of prison labor is a far more complicated matter. Most believe that FPI serves a valuable function. The program keeps the prisoners busy and the penitentiaries more secure, and it teaches trade and business skills to people who may never have worked before. "We get people in here where their only job was to sell drugs on the street," Dubaskas said. Yet many lawmakers and interest groups have grown increasingly unhappy with the way FPI conducts its business. Twice in the past few years, Congress has voted to force FPI, which sells products such as furniture to the federal government, to compete with the private sector, and last fall the House overwhelmingly passed a bill that would mandate broader reforms. The measure would require FPI to compete for its contracts with federal agencies and to fulfill orders in a timely manner. It also would authorize money for inmate rehabilitation and training to address concerns that changes in FPI's procedures could force prisoner layoffs and thus put a greater strain on prison security. The competing Senate bill, which focuses on forcing FPI to compete for contracts, is expected to move through the Governmental Affairs Committee early this spring. One of the panel's subcommittees held a hearing on the bill on Wednesday. FPI has also been embroiled in a legal dispute with the Coalition for Government Procurement. "The current management of FPI is full of deceptive, ineffective people," said Rep. Pete Hoekstra, R-Mich., a leading FPI critic. "The current management has shown no empathy in their business decisions for the impact they've had in the private sector." Private-Sector Pain Federal Prison Industries,

also known by the trade name UNICOR, has its roots in the Great Depression. At the urging of President Franklin D. Roosevelt, Congress created FPI in 1934 and made it the "mandatory source" for products sold to federal entities. Under that system, if FPI wants a particular government contract, private businesses cannot compete for it -- even if they can offer lower prices, better quality, or faster delivery.

The system worked fairly smoothly for several decades, in part because government was smaller then and prisons were not overcrowded with inmates who needed to be kept busy. Back then, with fewer departments and agencies to buy the goods, and fewer prisoners to make them, the program's impact on the private sector was minimal. FPI's sales totaled only \$29 million in 1960.

But sales soared by more than 400 percent, to \$117 million, by 1980. The total more than doubled again, to \$238.9 million, in the next five years, and it peaked at \$678.7 million in 2002. Some of the private-sector industries that make competitive products, meanwhile, have been in decline. Textile and office-furniture manufacturers have been hit the hardest, and they have been frustrated in their attempts to secure or keep government contracts that would help protect them from the broader economic downturn caused in part by the loss of jobs to overseas companies. FPI "decimated the textile business," Hoekstra said. He added that prison labor has also undercut companies that make signs for federal agencies. The toll on the office-furniture business is particularly frustrating to Hoekstra, who was a furniture executive for Herman Miller before he was elected to Congress in 1992. His district is also home to two more of the nation's biggest manufacturers. As FPI has grown 25 percent, Hoekstra said, the office-furniture industry has declined 30 to 40 percent. "I've got people who make perfectly good office furniture who would love to compete for this business [but] who are laid off." Larry Allen, executive vice president of the Coalition for Government Procurement, argued that FPI "doesn't really need mandatory-source protection in order to be successful," and he cited the program's role in manufacturing certain goods for the military as evidence. FPI, he said, has not been the mandatory source in that arena for four years, yet it still gets the work.

"This is no longer a prisoner work program," said Allen, whose coalition thus far has failed to convince a federal court that FPI has overstepped its statutory authority in producing and selling office furniture. "It really has become a sole-source government procurement program." Years of congressional debate have generated anecdote after anecdote about companies that have fought FPI for existing or potential business. Sometimes firms have prevailed, typically after vigorous lobbying campaigns and congressional intervention. A few years ago, for instance, Glamour Glove of Long Island, N.Y., won the right to make gloves for the military. But more often than not, according to critics, companies must trim their payrolls or close shop entirely because of business lost to FPI. During House floor debate last year, Rep. Charlie Norwood, R-Ga., recounted one of the more ironic tales about FPI.

Habersham Metal Products, a company in his district, saw its work for one project cut from three months to three weeks because FPI snagged a large part of the contract. The work order called for the construction of prison doors. "This is not an isolated incident," Norwood said. "It has happened in this company alone many other times. But beyond money and the employment concerns, where in the world is the logic for allowing inmates to build their own prison doors? It makes no sense." Such stories

have furthered the push for reform, with the U.S. Chamber of Commerce, the AFL-CIO, and the Federal Managers Association, which represents managers and supervisors in the federal government, allied against FPI. The chamber included the final floor vote on the FPI reform bill, which the House passed on a 350-65 vote, in its scorecard of how well lawmakers supported the business community in 2003. Congress later included in the omnibus spending package for fiscal 2004 a provision that temporarily waives FPI's mandatory-source authority. As a result, federal entities cannot buy UNICOR goods or services unless UNICOR offers "the best value." The language extends to civilian agencies a rule that was imposed on the Defense Department in 2002. Brad Miller, the manager of communications and government affairs for the Business and Institutional Furniture Manufacturer's Association, said FPI's actions have forced such steps. "We find ourselves today with a prison-factory program where the bureaucrats running it may have learned more than they have taught from some of those they imprison -- more about strong-arming their way through life than meeting the needs of customers with quality service." Jobs and Attitudes

Opponents of legislative mandates on FPI emphasize the program's benefits: improved prison security; lower rates of repeat criminal behavior by UNICOR workers who leave prison with new skills; jobs for small businesses that provide the raw materials for FPI products, and for the industry experts who oversee and train the prisoners; and the payment of victim restitution, fines, and even child support from the wages of FPI workers, who earn from 23 cents to \$1.15 an hour. FPI jobs are so popular with inmates that factories tend to have long waiting lists. Allenwood has three separate factories, and all of them have far more applicants than jobs. In mid-March, the factory at Allenwood's low-security prison employed 125 prisoners and had nearly twice that number seeking work there. The medium-security prison employed 225 inmates, with 134 on the waiting list. And 129 inmates wanted jobs at the high-security penitentiary, which employed 160 at the time. For prisoners, FPI work is more desirable than other jobs, which at times are designed just to keep them occupied. For example, 60 men -- instead of five to 10 -- are sometimes assigned to landscape the compound. "The inmates within UNICOR pretty much behave," Dubaskas said, "because if they don't, they lose the job." FPI is also self-sufficient. The money for both raw materials and the wages of inmates and their supervisors comes solely from sales. "It's a program that works, a program that reduces crime and pays for itself," said Rep. Bobby Scott, D-Va. Scott downplayed FPI's effect on the private sector. "In some applications, the implementation of mandatory source hasn't been perfect," he said, but the impact involves a few million dollars in industries that generate billions in sales. He added that FPI is not the only competition for U.S. firms in sectors such as textiles. "Chances are that somebody else is going to get the work anyway.... You can't blame prison industries.... You can't blame a couple of thousand [prison jobs] for hundreds of thousands of jobs lost." Philip W. Glover, president of the Council of Prison Locals, said that the criticisms of FPI are overblown. He called the reform effort a "labor of love" for former furniture executive Hoekstra. "The reform initiative is really more about perception than it is about fact," Glover said. He also dismissed the argument that FPI has cornered the market for government procurement. "Our program takes up one-quarter of 1 percent of federal procurement," Glover said. The goal of his group, which represents unionized correctional officers and others who

work in prisons, is to employ as many laborers as possible without hurting private industry, he said. FPI tries to be involved in as many product lines as possible and actually loses money on many of those fronts, Glover said. "We never worried about being in the red in certain areas; we just sort of compensated for it." Glover and Rep. Frank Wolf, R-Va., warn that dramatic changes in the business structure of the prison labor system could have dire consequences. Glover noted that the rule requiring Defense to get the best value for goods, even if that means not contracting jobs to FPI, has forced UNICOR to idle some 2,000 jobs. The new rule that applies that approach to civilian agencies this fiscal year will worsen the impact, he said. "We're going to be in a crunch. Our feeling is that somebody's going to get hurt" in the prison system. "If there's no work," Wolf added, "it's very dangerous for a prison guard.... If you don't have work, you lose control of the prison." But Steve Schwalb, FPI's chief operating officer, is not as pessimistic. Some layoffs are possible in the production capacity for office furniture, he said, but he does not expect anywhere near the number of job cuts that FPI saw from fewer contracts with Defense. "I'm not as concerned about the impact being replicated. I think it will be smoother this time," Schwalb said. Reform on the Inside The Bush administration has refused to take a stand on legislative reform efforts -- a decision that Wolf has criticized as "morally reprehensible" -- but FPI is pursuing reforms on its own. FPI board Chairman Kenneth R. Rocks, who is national vice president of the Fraternal Order of Police, said, "We are very much cognizant of the manufacturing business in the United States dwindling" and want to strike a balance. Rocks cited recent changes in two manufacturing sectors that seem to trigger the loudest outcry: textiles and office furniture. FPI has reduced its sales in office furniture to about \$150 million, down from a high of \$250 million, and has removed gloves from its list of clothing products for the Defense Department. The latter decision lets the three remaining private firms compete for the glove business. "What we have to do," Rocks said, "is look to other methods and means to carry out our mission." One place where FPI is looking to expand is in the services sector. "We've seen for a long time the need to move away more and more from strictly products or predominantly products," Schwalb said. State-based prison industries began offering services such as data processing and computer recycling about 20 years ago. Schwalb said that the states' success in those areas led him to pitch the idea to FPI's board about six years ago. The services side of FPI's business has soared since then. UNICOR had no computer-recycling factories five years ago but now has six. Inmates who work at those units get training to diagnose problems in donated computers, and the parts are then sold to small businesses. The goal is to keep the product from ending up in landfills, Schwalb said, and "it takes a lot of labor" to keep that from happening. The foray into services, a rapidly expanding sector of the global economy, has sparked new criticisms of FPI on two points: The law that created the program authorized FPI to produce only goods, and it authorized sales of those goods only to the government. FPI is now selling services to the private sector. Schwalb said a legal opinion from the Justice Department concluded that the law is silent on the issue of services and thus does not prohibit FPI's involvement. But he also noted that FPI must compete for such work because the mandatory-source rule does not apply, and he said the board limited FPI's role to the "repatriation" of U.S. private-sector jobs lost to other countries. Ultimately, Schwalb added, the new work

returns jobs to the United States, produces work for inmates who otherwise might cause trouble in prison, and creates jobs for supervisors. Glover said one contract to recycle parts for Dell Computer brought jobs to the United States that had been done in the Philippines until about two years ago. The contract also led to new runs for United Parcel Service and Roadway Express. Such "peripheral jobs" represent real economic growth, he said. "That's what I think people are missing in this whole thing." The same potential exists in the market for goods, Rep. Wolf said. Citing the production of televisions as an example, he said Congress should change the rules governing FPI to try to reclaim jobs in long-dead U.S. industries. "You would in essence be repatriating jobs ... and developing high-tech skills among men in prison," who would later take those skills into private industry, he said. "Imagine what it would do for the good of this country. We could create jobs here." Rep. Scott touted a third potential business front for FPI: Let prisoners work for charities like Habitat for Humanity, and have Congress appropriate the money to cover costs. But, he acknowledged, "the only problem is, we may not appropriate the money." Rocks is wary of charity-related ventures for another reason, and his view reflects the complicated reality of Federal Prison Industries. "We're just creating another entity where we could be subject to more criticisms," he said, "and I'd rather deal with one controversy at a time."

#### The Fruits of Prison Labor

Congress created the Federal Prison Industries in 1934 and made it the "mandatory source" for federal entities. By the 1980s, the program's sales were soaring, making FPI a serious competitor with private-sector industries.

Federal Prison Industries' Growth					
Year	Number of Factories	Sales (in millions)	FPI Workers	Total Inmates	Product Groups
1985	71	\$238.9	9,995	36,042	4
1990	80	343.2	13,724	57,331	5
1995	97	459.1	16,780	90,159	5
2000	105	546.3	21,688	128,122	5
2001	106	583.5	22,560	156,572	8
2002	111	678.7	21,778	163,436	8
2003	100	666.8	20,274	172,785	8

Source: Federal Bureau of Prisons

April 7, 2004

## Lawmakers Weigh End to Prison Purchase Rule

By Amelia Gruber

Industry associations and small business owners urged lawmakers Wednesday to support legislation allowing federal agencies to shop for products they've traditionally had to buy from prison workshops. The bill, sponsored by Sens. Carl Levin, D-Mich., and Craig Thomas, R-Wyo., would unravel the near monopoly the Federal Prison Industries Inc., established in 1934 to help inmates develop the work skills and habits necessary to hold down jobs upon release, has enjoyed on government contracts. With some exceptions, agencies currently must purchase items from FPI before looking to competing companies. Proponents of Levin and Thomas' legislation ([S. 346](#)) say that while FPI serves a worthwhile purpose, federal agencies should reserve the right to look for the best deal. The bill's supporters also note that FPI's preferential treatment comes at the expense of struggling small businesses and manufacturing companies. FPI employs about 12 percent of federal prisoners, or 21,000 inmates. The inmates supply a variety of products to the government, ranging from furniture to military gear. Prisoners also print information distributed to Thrift Savings Plan participants. The program is designed to "provide inmates with job skills training and work experience, thereby reducing recidivism and undesirable inmate idleness," said Harley Lappin, chief executive officer of FPI, in testimony before the Senate Governmental Affairs Subcommittee on Financial Management, the Budget and International Security. The subcommittee held a hearing Wednesday to gather input on Levin and Thomas' legislation. Prisoners working for FPI are 24 percent less likely to commit crimes and 14 percent more likely to be employed for a 12-year stretch after release, than inmates not participating in the program, Lappin said. He declined to offer an opinion on the details of the bill since the Bush administration has taken a "neutral stance." Lappin also serves as director of the Federal Bureau of Prisons. For similar reasons, Jack Williams Jr., assistant regional administrator for the General Services Administration's Federal Supply Service Region 3, did not express a view on the legislation. But he noted that GSA supports reforms of the FPI and "looks forward to working with [lawmakers] in making sure our procurement system is based on competitive procedures that are focused on achieving results." The FPI's monopoly on government contracts is hurting the garment industry and other depressed sectors of the economy, the bill's supporters testified. By forcing agencies to buy products from FPI, the government ends up "paying above market prices for lower quality goods and in doing so, is squandering American taxpayer dollars while completely ignoring the very rules it enforces in the commercial market," said John Palatiello, testifying on behalf of the U.S. Chamber of Commerce.

"It is ironic that in recent months as we have been debating the issue of off-shoring of American jobs, we continue to lose good paying American jobs to a government sponsored prison labor program," Thomas said in prepared testimony. "Frankly, it is alarming that our workers are losing their jobs in this manner." The subcommittee invited Thomas and Sen. Debbie Stabenow, D-Mich., to participate in the hearing.

FPI expanded sales of automotive parts and furniture in 2002, at a time when Michigan companies offering similar products laid off high percentages of workers, Stabenow said. "Hundreds of small businesses from Michigan and around the country have seen FPI take jobs away from their companies and give them to inmates at federal prisons, even when these businesses could have supplied the government with a better quality product on a better timeline, at a lower price, she said. But Lappin noted that in 2003, the FPI program spent almost \$500 million buying raw materials, equipment and services from other companies. More than 53 percent of that money went to small businesses, including businesses owned by women, minorities and those who are disadvantaged, he said. "As a result of the FPI program's purchases, there are thousands of jobs in the private sector that are tied directly to the continued viability of the FPI program." FPI "pumps some \$78 million back into local communities through contracts for supplies and shipping," said American Federation of Government Employees President John Gage. "Once the contracts currently filled by FPI are farmed out to the big contractors, a ripple effect will be felt throughout the American economy." Recent policy changes already have loosened the FPI's hold on government business, Lappin testified. For instance, the program's board of directors in May 2003 decided to let agencies choose where to buy items worth less than \$2,500. The previous threshold was \$25. The fiscal 2002 Defense Authorization Act exempts the Pentagon from FPI purchase requirements, Williams noted in his testimony. "Before purchasing a product from FPI, Defense must determine whether the product is comparable in price, quality and time of delivery to products available from the private sector," he explained. Language in the fiscal 2004 omnibus bill extends similar flexibilities to civilian agencies, he said. Thomas said his proposed bill would ensure that all federal agencies could continue to shop around for the best deal. Even though lawmakers opened FPI to competition for Defense contracts, FPI moved up from 72 on the 2002 list of top Pentagon contractors to 69 on the 2003 list. "Clearly, FPI continues to do well in this area, despite new measures which allow the private sector to compete," he said.

April 7, 2004

## News & Analysis Culture Crash

By Beth Dickey

NASA hires an outside consulting firm to help it break a tradition of business behavior that has compromised safety.

**A**cknowledging that a can-do culture run amok was as much to blame as wing damage for the crash last year of the space shuttle Columbia, NASA has hired a consulting firm to reform its management practices. In February, almost one year to the day after a re-entry disaster took the lives of seven astronauts, the National Aeronautics and Space Administration awarded a five-year contract worth as much as \$10 million to Behavioral Science Technology Inc. of Ojai, Calif. BST - which bills itself as a pioneer of behavior-based performance improvement and lists major aerospace companies and other government organizations among its clients - had 30

days, until March 15, to develop a checklist for change. Space agency executives would review the plan, and then authorize BST to implement it and turn NASA's culture of invincibility into one of safety. In its request for proposals, NASA said it expects "measurable progress" within six months of the contract award, "significant transformation" in a year and "broad changes" in no more than three years. "There were cultural issues that were contributing factors, and the leadership at NASA determined they needed to take them head-on," says BST President Scott Stricoff. In fact, the request for proposals notes that investigators "found that NASA's history and culture contributed as much to the Columbia accident as any technical failure." The Columbia Accident Investigation Board's August 2003 report confirmed that the technical failure was a breach in the thermal covering on the orbiter's left wing. It was caused by a piece of insulating foam that broke off the shuttle's external fuel tank and struck the wing after launch on Jan. 16, 2003. The report also listed organizational causes. It criticized NASA's human space flight enterprise for trying to meet cost and schedule challenges by relying on past successes instead of sound engineering practices. The report said NASA's organizational ethos needed significant structural changes to succeed in the future. To that end, NASA hired BST. It awarded an indefinite delivery, indefinite quantity contract under which unspecified, firm-fixed price tasks will be issued during a five-year ordering period. The minimum contract value is \$50,000. The company conducted a hasty attitude assessment, offering employees a confidential "mission-safety climate and culture" survey online. The survey was intended to diagnose aspects of NASA's mind-set that do not support its planned adoption of the accident board's recommendations. James Jennings, NASA's associate deputy administrator for institutions and asset management, told Government Executive the survey gauged perceptions about 11 factors that are predictive of safety performance. The predictors included procedural justice, employee-supervisor and work group relationships, management credibility, organizational support, upward communications and incident reporting. BST will show NASA how to "intervene" in these areas, but exactly how will not be known until agency administrators see the implementation plan and start promoting it to employees. Jennings will kick the campaign into high gear in April with visits to each NASA installation. With the proper tools and a concerted effort by management, Jennings says, NASA's bad habits can be cured in just a fraction of the two or three decades they took to develop: "I'm optimistic that three years from now, you'll see a difference in this agency." NASA's 18,560 employees had seven days, from Feb. 19 to Feb. 26, to rate their approval or disapproval of more than 100 statements about their peers, supervisors and management at 10 field installations, and leadership in Washington. Some statements addressed observations and criticisms in the accident report. "There was a push on to get maximum, 100 percent participation from the workforce in order to avoid a skewed outcome," says one Florida respondent. "Those comfortable with the way things are, are the people most likely not to do the survey." BST planned to supplement the statistical assessment with focus groups and personal interviews with about 200 employees. Interviews with senior leaders began the first week of March. A randomly selected cross-section of employees were to be called together at two field sites, the Johnson Space Center in Texas and the Glenn Research Center at Lewis Field in Ohio. Stricoff says BST chose Johnson and Glenn

because of their divergent rankings in a 2002 survey of the federal government's best places to work. NASA ranked first in that survey. Among the subagencies, Johnson ranked second governmentwide, slightly behind the Marshall Space Flight Center in Alabama and just ahead of the Goddard Space Flight Center in Maryland. Glenn ranked 55th - last among the NASA installations reporting. "We wanted to get that contrast," says Stricoff. Only civil servants were surveyed. How to include NASA's 45,673 contract employees in the process was being discussed. "The best way to factor them in is not yet figured out," Stricoff told Government Executive at the end of the survey period. "They are aware, and we are aware, that contractors represent not only a significant amount of money but also a large number of people, and can't be ignored." For its assessment, BST will have what an agency spokesman calls "carte blanche" access to a storehouse of data about NASA's culture - numerous safety and mission assurance surveys, its accident recovery plan, and its "One NASA" initiative that was under way at the time of the crash. "They are going to take everything we've got from past and present and come forward to us, integrating all the relevant bits of knowledge into . . . the best possible recommendations," says spokesman David Steitz. Although the request for proposals required bidders to explain the methods they would use to achieve cultural change, Stricoff was unwilling in February to speak about the plan in anything but generalities. "We get down to specifics and focus on leadership behaviors," he said. "We help them understand why the behaviors of subordinates are happening and how to change the system." For Jennings, there will be two proofs of success: when it becomes clear to outsiders that NASA managers are collaborating across departments to solve problems, and when insiders believe they can express safety concerns without retribution. "Then," he says, "we will have created an environment where folks can do the right thing, without any kind of fear."

April 7, 2004

## SBA's HUBZone Celebrates Fifth Anniversary

Job Creation Program Has Certified 10,000 Businesses Since Inception

U.S. Small Business Administration -- News Release

WASHINGTON – U.S. Small Business Administration Administrator Hector V. Barreto announced today that the SBA's HUBZone program has approved 10,000 small businesses as program participants, just as the successful job creation program marked its fifth anniversary. By reaching the 10,000 mark in five years, HUBZone, or Historically Underutilized Business Zone, which provides federal contracting assistance for qualified small businesses located in economically distressed communities, can stake a claim as the fastest growing certification program in the entire federal system. "I am pleased to announce that in only five short years, the HUBZone program has certified 10,000 small businesses, providing more than \$2.45 billion in federal contracts to help create jobs in economically distressed areas," Barreto said. "HUBZone is a proven, powerful tool for entrepreneurship and job growth. There are now HUBZone firms in all 50 states, as well as the District of

Columbia, Puerto Rico and the Virgin Islands. Barreto also said that the federal government, for the first time ever, awarded more than a quarter of its prime contracting dollars to small businesses in fiscal year 2003. The FY 2003 data show that small businesses did \$62.7 billion of business with the federal government as prime contractors, representing 25.37 percent of all government prime contracting dollars, a \$9.7 billion increase over FY 2002. The companies include small businesses in the HUBZone, 8(a) Business Development and other SBA programs, as well as non-SBA-certified companies. More than 13,500 locations have been certified as HUBZone areas. The program uses modern information technology and the Internet to grow while remaining customer-friendly. All of these accomplishments translate into a successful program that is helping create an environment in which entrepreneurship and job growth can flourish in economically distressed areas. The HUBZone program was created in 1997 as a result of legislation sponsored by Sen. Christopher 'Kit' Bond (R-MO). For a small business to be HUBZone-certified, its principal office must be located in a HUBZone and at least 35 percent of its employees must reside in one of these specially designated areas. Additionally, the firm must be owned and controlled by U.S. citizens, a community development company or an Indian tribe. Part of the HUBZone program's tremendous success is a result of its easy availability online. Small businesses can research their location via the Internet to determine if they are located in a HUBZone. If so, they can then apply for HUBZone certification using the Web-based application and usually receive a determination within 30 days. The HUBZone program also boasts an online application that features a streamlined presentation with pop-up menus directing applicants to an online guide to the actual regulations. The system also allows an applicant to check the status of an application at any time during the review process. The online application and more information can be accessed at [www.sba.gov/hubzone](http://www.sba.gov/hubzone).

April 5, 2004

## Small Businesses Win Record Share of Contracts

by David Phinney,

Small businesses won a greater share of federal contracts last year than ever before, the Small Business Administration announced. Drawing upon data compiled by the Federal Procurement Data Center, SBA found that the government awarded more than a quarter of its prime contracting dollars to small businesses for the first time ever. The data for fiscal 2003 indicates that small businesses won \$62.7 billion in prime contracts, representing 25.4 percent of all government prime-contract-dollars. That is an increase of \$9.7 billion over 2002, or 18.3 percent. Every category of small business tracked by SBA showed impressive gains, SBA found. Small disadvantaged businesses received \$18.2 billion in contracts, a \$2.3 billion increase over 2002. Likewise, participants in the 8(a) business development program received nearly \$4 billion more than in 2002, for a total of \$9.6 billion in 2003. Dollars to women-owned small businesses increased by \$1.1 billion, to \$7.9 billion. Service-disabled veterans also saw an impressive jump in the value of contracts awarded, receiving \$510 million

in 2003 as opposed to \$298 million the year before. The statutory goal for small-business contracting is 23 percent, said SBA Administrator Hector Barreto. "We not only exceeded those standards, but we set an all-time record, awarding a higher percentage of federal contracting dollars to America's small businesses than ever before." The SBA estimates that the \$62.7 billion in prime contracts awarded to small businesses created or retained 469,632 jobs. The Bush administration's former administrator for procurement policy, Angela Styles, said she was amazed by the new numbers. "A lot of work and a personal commitment by the president brought these numbers," said Styles, who resigned in September. "The only way they will remain this high is if the president and staff continue to focus on small-business issues." Sen. Olympia Snowe, R-Maine, chairwoman of the Senate Small Business and Entrepreneurship Committee, greeted the news with some reservation. While the numbers indicate that the government is making progress, she said more could be done. "I want to help (SBA) build on this progress," she said. "Obstacles still remain to hinder small firms from realizing greater business opportunities in both prime contracting and subcontracting areas."

Ronald Newlan, chairman of the HubZone Contractors National Council, agreed, His organization represents small businesses working in areas with high levels of poverty. "On a micro-level sense, we need more energy, more commitment," he said. The HubZone program, which just celebrated its fifth anniversary, was awarded \$2.4 billion in contracts last year. "By my calculations we did just under 1 percent last year of the HubZone 3 percent goal requirement," Newlan said. "That's one-third below and acceptable level, and we need to get the jobs where wages are low and unemployment high."

#### MORE BUSINESS FOR SMALL FIRMS

Most Cabinet departments increased their contracting with small businesses in 2003:

	2002	2002	2003	2003
	Small business contracts(Dollars in billions)	As percentage of all contract dollars	Small business contracts(Dollars in billions)	As percentage of all contract dollars
Agriculture	\$1.8	48%	\$2.1	51%
Commerce	0.8	52	0.8	53
Defense	32.8	21	40.0	25
Education	0.2	25	0.2	17
Energy	0.6	3	0.9	4
Health and Human Services	1.7	28	20	30
Homeland Security	n/a	n/a	1.0	41
Housing and	0.4	38	0.5	54

Urban Development				
Interior	1.2	50	1.7	48
Justic	1.6	31	1.3	33
Labor	0.4	27	0.4	28
State	0.8	47	1.1	48
Transportation	1.3	34	0.8	44
Treasury	0.8	28	0.5	27
Veterans Affairs	1.7	30	2.5	30
Government Total	\$53.3	23%	\$62.7	25%

SOURCE: Federal Procurement Data Center

April 1, 2004

## Performance is King

BY Michael Hardy

Despite a seemingly paltry 1 percent increase in the federal information technology budget for fiscal 2005 compared to fiscal 2004, the government market is still a robust business opportunity for IT companies, according to speakers at a conference today. However, the government is putting increasing emphasis on performance, and the Office of Management and Budget continues to scrutinize IT expenditures to insure the government is accomplishing as much as possible at lower costs, said Ray Bjorklund, senior vice president of consulting at Federal Sources Inc. (FSI). He was one of the speakers at FSI's Annual Federal Outlook conference in McLean, Va. "It's all about performance," Bjorklund said. "That phrase was in the budget submission this year." Fiscal year 2004's IT budget was \$60.3 billion, and the request for fiscal 2005 is \$61 billion. FSI analysts had predicted that the fiscal 2005 request would be \$64.4 billion.

"The focus is and will continue to be on delivering government services in ways that are less expensive and faster," said James Morhard, chief of staff for the Senate Appropriations Committee and another speaker at the conference.

Bjorklund identified five business trends:

**E-government:** The term is losing its novelty, he said, while the principles that the E-Government Act was trying to encourage are being ingrained in agency officials' thinking. It is "more integrated into the normal line of business," Bjorklund said.

**Homeland security:** The area continues to be hot, but "real homeland security projects" account for only \$1.7 billion of the fiscal 2005 budget request. Although that is an increase over fiscal 2004's \$1.5 billion, Bjorklund said the buzz of the new

category may fade. Information security: It is mandatory for almost every IT project and OMB has put a renewed emphasis on it, Bjorklund said. Competitive sourcing: Despite the flurry of activity around revising OMB Circular A-76 last year, agencies are generally not rushing to put work up for competition, he said. "We don't know where that is and where it's going to be headed," he said. Defense and intelligence: Agencies are increasingly recognizing the value of IT and weapons systems, Bjorklund said. "I think this IT market for the next couple of years is going to be somewhat agile," he added. "Changes are being made all the time. There is a real requirement [among businesses] for agility." Morhard and Bjorklund both emphasized the attention that OMB will be paying to IT projects, particularly project management, in the coming months. Bjorklund reminded the audience, made up largely of industry representatives, that programs at risk can mean business opportunities at risk.

April 1, 2004

## Homeland Security Growing Pains

By Cynthia L. Webb

No one said it would be easy to create a brand new cabinet department out of nearly two dozen agencies and programs that were formerly scattered across the federal bureaucracy. The Department of Homeland Security celebrated its first birthday at the beginning of last month, but the agency has yet to adequately connect the disparate databases and IT systems of its component divisions. Even DHS's top technology czar, [Steven Cooper](#), offered a telling anecdote during an appearance at [last week's FOSE expo in Washington](#): Cooper noted that two DHS undersecretaries are unable to send classified information to each other via secure e-mail, even though they sit just 120 yards apart at headquarters. DHS Secretary Tom Ridge says fixing the data-sharing problem is priority No. 1 at the agency. Ridge "told a meeting of the Homeland Security Advisory Council that developing advanced communications systems to enable personnel in different agencies to talk 'will make this department a 21st-century department.' He also emphasized the importance of integrating border- and port-security programs, and promoting management innovations, [GovExec.com](#) reported. The biggest obstacle to accomplishing those goals might be overcoming a "culture problem." According to [Washington Technology](#), DHS "is slowly making headway toward building a common information technology infrastructure, but culture clashes and tight budgets remain obstacles to creating a unified technology platform." EDS Corp. senior VP George Bollinger III told the publication, "You can have all the technology you need, and culture can stop you dead in your tracks." Bollinger moderated a panel discussion on Tuesday as part of a forum on DHS IT challenges sponsored by the Association for Federal Information Resources Management, better known as [Affirm](#). And let's not forget that tying all the DHS and state and local databases together is a feat worthy of Hercules. Clare Cunniffe, director of security solutions at software vendor Computer Associates International, made this observation at an Association of Information Technology Professionals meeting earlier this week: "You have 23 government agencies, and then you put on top of that state

and local governments and the private sector--transit, identification and credit-card tracking. How do you pull all of that together and correlate it so it makes sense? Well, it's like the move from the mainframe to distributed computing. It's all about protection and control. Assess vulnerability, respond and recover if something happens." The technology trade publication CRN picked up that quote.

Some good news for Ridge and his DHS colleagues: It looks like they will get full support from Congress as lawmakers finalize next year's federal budget, GovExec.com reported. Two senior congressional committee staffers told a forum in Washington this week that lawmakers are likely to sign off on President Bush's \$40.2 billion budget request. House Appropriations Committee staffer Therese McAuliffe: "I can tell you from an appropriations standpoint ... we will ensure that the president's budget request is met, if not more. I think Congress is in agreement that homeland security is a top priority for the country."

#### Terror Fears Trump Big Brother Worries

Believe it or not, Joe Citizen actually places a premium on ensuring that different government agencies can communicate with each other. A poll of 1,633 randomly selected Americans released yesterday by the nonprofit Council for Excellence in Government found that about 37 percent of respondents said the most effective measure to improve homeland security would be to create information systems that share data across law enforcement, health and emergency agencies. Federal Computer Week noted that the council sponsored a separate survey of firefighters, police chiefs and sheriffs: "First responders listed emergency response equipment and training as their top concern (51 percent), while better information sharing came in second (34 percent) and border security was third (25 percent). They also cite a lack of funding as their most significant barrier to creating an interoperable communication system among government agencies." Dow Jones Newswires explained that the council, "which studies ways to improve government, receives about \$6 million in funding each year from membership fees and corporate and government grants. It has organized seven national town hall meetings with the Homeland Security Department, the final one next week in Seattle." Expect information sharing to be a hot topic as well at the meeting. DHS Secretary Tom Ridge is slated to attend the Tuesday event.

#### A Matrix Drop-Out

One of the Dept. of Homeland Security's big information-gathering programs lost more support last week when Utah became the latest state to drop out the Multistate Anti-terrorism Information Exchange, better known as Matrix. Washington Technology noted that "Utah is the 11th state to withdraw from the federal pilot program for either privacy or financial reasons, according to the New York-based American Civil Liberties Union. Connecticut, Florida, Michigan, Ohio and Pennsylvania are still participating. The other states that have withdrawn from Matrix are Alabama, California, Georgia, Oregon, Louisiana, New York, Oregon, South Carolina, Texas and Wisconsin, the ACLU said." The ACLU has been active in blasting Matrix, claiming the data-mining program compromises citizens' privacy rights. The Salt Lake Tribune ran an editorial in support of Utah's decision. Excerpt: "If it had been broached correctly, with full public knowledge and tough legislative oversight, the Multistate Anti-Terrorism Information Exchange might have been just what it was cracked up to be, a boon to the fight against international terror. The recent hearings by the federal 9-11

commission again emphasized that a failure of various agencies to communicate -- to connect the dots -- remains the most maddening might-have-been of the whole tragedy. But the fact that MATRIX was cobbled together largely in secret, apparently among a handful of governors that included then-Gov. Mike Leavitt of Utah and Gov. Jeb Bush of Florida, in a way that seemed to benefit a Florida contractor more than anyone else, meant that there was no reason to believe that it could perform as advertised, or do so without trampling on the civil liberties of all Americans." And even when the states are anxious to work with DHS, they don't always get the response they're looking for. The Regional Alliances for Infrastructure and Network Security (RAINS), founded after the Sept. 11 terrorist attacks, has come up with specifications to help agencies share security alerts and sensitive information. "The specs are based on the RAINS-Net network that now links 911 call centers with first responders and other emergency personnel in parts of the Pacific Northwest," Government Computer News reported.

RAINS chairman Charles Jennings told Government Computer News that "[a]lthough RAINS has been cooperating with the federal government ... interest from the Homeland Security Department has been inconsistent. 'There are some parts of DHS that have been very interested and supporting,' he said. But, 'we've had more activity with the Defense Department than with DHS. We are hopeful we will have more support from DHS in the time to come.'"

On a related note: While DHS has not rolled out the welcome mat for RAINS, the agency has selected Sunnyvale, Calif.-based software company Verity to help run its government intelligence information-sharing network, the company announced this week. In a piece on the contract, Washington Technology said "DHS is expanding its system to share information with state and local governments and first-response agencies."

#### E-Voting Round-up

\* Looks like enough noise was created about the Pentagon's controversial e-voting plans that the program has been nixed for now. "The program ran into trouble late in January when a group of academics who had been invited to review the system released a report saying the Internet was so insecure that the integrity of the entire election could be undermined by online voting. Two weeks later, Deputy Defense Secretary Paul D. Wolfowitz decided not to allow Internet ballots to be counted in the presidential tally. At the time, the Pentagon said the program would go forward on an experimental basis. Now, the Pentagon has decided that even the experiment is over," The Washington Post reported yesterday.

\* Concerns over e-voting security prompted a California group to start developing a secure e-voting machine based on an open-source software platform. The Open Voting Consortium is slated to demonstrate a version of its systems today at the Santa Clara County government building, The San Jose Mercury News reported. More from the Mercury News: "Alan Dechert, Sacramento-based software developer who founded the consortium, said the group's voting system not only includes a paper ballot but also costs much less than systems currently on the market because it is built using open-source software and commodity hardware. By using open-source software, which is available for public review, Dechert hopes to increase public trust in computerized voting systems. A key concern of opponents of touch-screen voting

machines is that the computer code that records and tallies votes is considered a closely guarded corporate secret. Often, the automated script used to test the accuracy of a voting machine before an election is also treated as a trade secret."

\* Over in Sacramento County, California, officials are planning to roll out touch-screen voting machines in time for the November election, the Sacramento Bee reported yesterday. "With counties already under the gun to have touch-screen voting machines in place next year, Secretary of State Kevin Shelley upped the ante in November by requiring that all voting machines, by July 1, 2006, be able to produce a paper receipt on which voters can double check their ballot selections before submitting them," the Bee added. Government Computer News carries a related piece headlined, "Budgets and mandates slow adoption of e-voting."

\* Speaking of e-voting, the Information Technology Trade Association held a media briefing on the topic Wednesday, and Washington Technology summed up the sentiments of election officials who attended, reporting that most "state and local governments have not bought electronic voting systems because they can't afford to and because they fear buying a system that won't meet future government mandates, but security concerns haven't been a deterrent." The ITAA, Federal Computer Week noted, is an e-voting booster: "An information technology industry trade group is calling for the use of electronic voting technology after several months of defending its security against critics."

Other Noteworthy Government IT News

\* Itching for a one-stop shopping place online for researching federal rules and regulations? The federal government plans to create a unified Web site portal where people can mine for details on all government regulations. "Under an ambitious plan recently approved by Bush administration officials, by early 2006 the average citizen will be able to go to a single federal regulatory Web site and dive into an electronic rulemaking repository that will show proposals, final rules, comments, supporting documents such as cost-benefit analyses and just about anything that goes along with the regulatory process. Currently, there exists a simple portal called [www.regulations.gov](http://www.regulations.gov), where users can see proposed rules and comment on them. But for anything more elaborate, they must go to individual agencies," Washington Post columnist Cindy Skrzycki wrote this week.

\* Plans to roll out a high-tech passport have civil liberties groups up in arms. The United States and the Europe Union are supporting efforts by the International Civil Aviation Organisation to draft an "international standard for facial recognition on all new passports," a standard that "would require all newly issued electronic passports to have space for additional biometrics such as fingerprinting," BBC News Online reported. But Privacy International is warning that the standard could translate into "a global database of over a billion people by 2015." Privacy International and the ACLU issued a joint warning: "We are increasingly concerned that the biometric travel document initiative is part and parcel of a larger surveillance infrastructure monitoring the movements of individuals globally."

\* Meanwhile, Europe and the United States are diverging on gathering and sharing airline passenger data, according to today's Washington Post. The European Parliament voiced its disapproval of an agreement reached earlier by the Department of Homeland Security and the EU's executive branch. According to the Post, the "vote

yesterday in Strasbourg, France, is not legally binding. But the European Parliament, a lawmaking body directly elected by Europeans, stated in its resolution that it would 'reserve the right' to take the commission's agreement before Europe's highest court ... to decide whether the deal violates European privacy laws." The data-sharing program would involve the controversial CAPPs II airline passenger screening program.

\* WiFi is going so mainstream that the Pentagon plans to issue guidelines about the do's and don'ts of using the technology. "In a nutshell, the new policy will mandate that no information—either classified or unclassified—will be allowed to travel unencrypted across a wireless network. But DOD will encourage use of wireless networks, as they reduce the amount of time it takes to set up and tear down LANs," Government Computer News reported.

\* Noah Shachtman, author of the DefenseTech blog, reported on the military's ramped-up plans to use unmanned aerial vehicles for combat missions. In his Wired article, Shachtman reported: "The next step will come in a few days, when a prototype unmanned combat aerial vehicle (orUCAV, for short) will soar over the Navy's China Lake testing range in California's Mojave Desert and drop its first smartbomb. Drones have quickly become a central part of U.S. military efforts because they can hover over a combat zone for hours on end. A flesh-and-blood pilot poops out after about 10 hours; some robotic planes can stay aloft for more than three times that long. In Pentagon-ese, this is known as 'persistence.' The Defense Department would like to shift from persistent surveillance -- which the drones are now starting to provide -- to an always-on ability to kill, should an adversary pop up in a pilotless plane's sights." CIO Officials Moving On

\* An official changing of the guard at the Department of Defense's CIO office is underway. John Stenbit retired earlier this month; Francis Harvey is awaiting confirmation by the Senate to fill the post, Government Computer News reported. Stenbit is going to work for some corporate boards and volunteer on the National Security Agency Advisory Board, a Defense spokesman told GCN.

\* Another Office of Management and Budget technology staffer is leaving the agency. Robert Haycock, OMB's "chief architect, will step down from his position April 30. Sources confirmed Haycock plans to return to Denver and work for the Interior Department. Before coming to OMB, he was deputy CIO for the Denver office of Interior's Bureau of Reclamation. Haycock would not comment on his decision," Government Computer News reported yesterday.

\* The former senior director in the Department of Homeland Security's chief information office is officially off the job as of March 26, Government Computer News reported. No comment from the DHS, but GCN reported that Laura Callahan was on administrative leave since last June tied to reports she received educational degrees from a diploma mill. Callahan, who before moving to DHS had been deputy CIO of the Labor Department, lost her security clearance following the department's decision to place her on administrative leave, so she could not work in the CIO office," the article said.

April 1, 2004

## Digital Certification Could Affect Thousands of Defense Contractors

By William New

A new Defense Department mandate for digital certification taking effect Thursday could prevent thousands of defense contractors from working with the department until they comply.

The program requires the provision of digital certificates to improve the security of transactions between Defense and its contractors. But according to one provider of the certificates, most contractors had not joined the program as the mandate took effect.

There are about 350,000 defense contractors, and an estimated 10 percent to 15 percent have obtained certificates, said Barry Leffew, vice president for the public sector at VeriSign. "I think people are still being made aware of this," he said.

Defense increasingly is conducting activities online, including ordering and procurement, logistics such as transporting troops, correspondence and requests for proposals to bid on contracts. As of now, contractors need certificates to participate in any of the online activities. The certificates use public-key infrastructure technology to encrypt transaction information and verify contractor identities. A large contractor may have as many as 20,000 employees, each of whom would have his or her own certificate, he said. Use of the certificates was optional before April 1, and several thousand contractors had them. Leffew said his company has seen "exponential increase" in inquiries, and he expects a rise in demand after April 1. VeriSign can fill certificate requests within 48 hours, he said. An individual certificate from VeriSign costs \$110, with discounts for companies ordering large numbers. Three companies are authorized to give certificates: VeriSign, Digital Signature Trust and Operational Research Consulting (ORC). VeriSign offers different options for companies, depending on their size and needs. For instance, a larger company might need tools for managing the thousands of certificates it receives. Companies can track who has been issued certificates and when and be able to reclaim the certificates when people leave the company. Leffew said the technology could be transferred to civilian agencies as well. "This is part of what we see as a governmental move to really secure and authenticate transactions," he said.

April 2004

## Tapping Into 8(a)

By Derek Reveron

CEOs at the top Hispanic 8(a) contractors say the program works – but enrollment doesn't guarantee landing a contract, and to be successful management team

members must take the time to learn the program's intricacies as well as aggressively market products and services that federal agencies actually need. "Unfortunately, many companies flounder for years in 8(a) because they knock on government doors with hands out instead of building relationships," says Rocky Cintron, CEO of Force 3, one of the top money-earners among the 640 Hispanic companies enrolled in the program during FY2001, the latest year for which data are available. Since 2001, several of the firms have "graduated" from the 8(a) program – managed by the Small Business Administration and designed to help minority firms enter the federal contracting market – so they no longer have special certification and now must compete in the open market against larger companies. But the companies' collective experience and advice offers insight for others.

"If an 8(a) company uses the status as a marketing tool, it's betting on something that has low odds of working," says Larry Barraza, CEO of Symvionics, a California-based maker of cockpit flight simulators. "We tried first to convince government agencies that we could do the job, and then mentioned 8(a) as a convenient way to access our services."

The CEOs of top 8(a) firms say they hear from other minority entrepreneurs who say the program has little benefit. "I tell them to use it to make things happen, and not sit back and wait for things to happen," says John Aleman, CEO of Selrico Services, a Texas-based firm involved in food services, building maintenance, and waste management.

TOP 10 HISPANIC 8(A) COMPANIES				
Rank	Company	City, state	CEO	Value of 8(a) awards (\$M)
1	ACS Systems & Engineering	Virginia Beach, VA	Chris Behling	\$17.97
2	Force 3	Crofton, MD	Rocky Cintron	\$16.56
3	Grundy Marine Construction	Vedra Beach, FL	Michael Grundy	\$16.03
4	Dataline	Norfolk, VA	Denise Robinson	\$15.66
5	Muniz Engineering	Houston, TX	Edelmiro Muniz	\$15.05
6	Symvionics	Arcadia, CA	Lawrence B. Barraza	\$15.01
7	Astrid Contract Technical Svcs.	New Ellenton, SC	Astrid Stuard	\$14.62
8	Selrico Services	San Antonio, TX	John R.	\$13.76

			Aleman	
9	Trevino & Associates Mechanical	Dallas, TX	Mike Trevino Sr.	\$13.66
10	Cristobal Construction	Mountain Home, ID	John Cristobal	\$12.47
NOTE: Data based on FY2001. Source: SBA, FY 2001 Annual Report to Congress.				

The SBA's own statistics illustrate the dangers of depending on 8(a) to win big contracts. In FY2001, only 37 percent of the 640 Hispanic-owned 8(a) businesses that were registered received contracts worth at least \$1 million. Overall, Hispanic firms received \$1.06 billion, or 24 percent of the total value of all 8(a) contracts awarded that year. The top 10 companies, which made up less than 2 percent of the Hispanic firms in the program, accounted for 14.1 percent of all contract money awarded to Hispanic 8(a) businesses. But the top companies also target some of the government's biggest needs: construction, computer networking, software, staffing, and food service. And CEOs of the top 8(a) firms say they either had previous experience in federal procurement or hired somebody who did. They also studied government procurement and marketing cycles, agency "corporate cultures," and the pricing strategies and accounting protocols unique to the public sector. Their 8(a) contracts were part of a long-term business plan, so they marketed their companies primarily as competitive bidders, not 8(a) firms. In many ways, Maryland-based Force 3 typifies the success of these companies. The company designs, installs, and services computer networks and resells hardware. Force 3's largest customer is the Air Force, but the company has landed contracts with more than 21 federal government and military customers. Mr. Cintron began Force 3 in 1991 as a three-man shop. The company posted revenue of \$2 million in 1992 and received 8(a) certification in 1994. Immediately, Mr. Cintron and his partners began studying the program. "The SBA had a lot of canned resources and advice, and we didn't find much of it useful," says Tim Carney, Force 3's vice-president of contract programs. Eager for customers, the two men attended several SBA 8(a) forums and buttonholed prime contractors during breaks to market their company, seek advice, and form relationships. While their efforts paid off, rapid growth strained customer service and order-tracking systems, which Force 3 had not fully automated. The company upgraded the processes in 1995. Revenue reached \$24 million that year and soared to \$97 million by 2001. In 2002, Force 3's last full year under the 8(a) banner, contracts in the program accounted for only 12 percent of the company's \$145 million in revenue. The company graduated from 8(a) in 2003 and expects revenue for this year to reach \$165 million. While Force 3 used its Washington headquarters as a base for landing contracts, geography seemed to work against Selrico Services. After more than a decade as an executive in the food service industry, Mr. Aleman founded Selrico in 1990. The company received 8(a) certification in 1993. Initially, the company sought contracts only from military bases in the San Antonio area. In 1994, the company won its first 8(a) food service deal, a \$600,000-per-year, four-year

contract with nearby Brooks Air Force Base. But it was tough to get additional business from local military bases, and when the company did, it sometimes lost money. "We low-balled our offers too much to get contracts," says Mr. Aleman. "The first few years were about learning from mistakes and building a reputation." Eventually, Mr. Aleman shifted strategy and sought military contracts nationwide and overseas. Soon, he signed a deal with Anderson Air Force Base in Guam. Selrico Services went on to do business with dozens of other military installations, the U.S. Coast Guard, and the 2002 Winter Olympics in Salt Lake City. The company was among the contractors that recently built one of the largest U.S. military mess halls in Iraq, which is named after comedian Bob Hope. Selrico graduated from the 8(a) program in March 2002. That year, the company posted sales of about \$29 million, and 8(a) contracts accounted for nearly 60 percent of revenue. The last of the 8(a) contracts will expire in three years, but Mr. Aleman expects growth to continue. Sales will approach \$50 million by the end of 2004, he predicts.

April 2004

## 7(a) Funds to Hispanics Sag

In FY2003, nearly 5,590 loans worth \$718.35 million were made to Hispanics through the Small Business Administration's 7(a) program. But while the number of loans increased 42.29 percent, the overall amount of those loans actually decreased 4.88 percent. Raul Cisneros, an assistant administrator at the SBA, says the decrease reflects the SBA's efforts to make smaller loans within the program, focusing SBA resources on smaller companies that most need help.

Overall, the SBA's 7(a) program made more than 67,000 loans last year, worth \$11.26 billion; Hispanics garnered 6.38 percent of that amount. The geographic distribution of Hispanic recipients of 7(a) loans naturally follows the dispersion of the U.S. Hispanic population. So it's no surprise that the 10 states with the largest Hispanic populations also are the top states for 7(a) loans to Hispanics.

Hispanic companies in California received 1,324 loans in FY 2003, for a value of \$186.7 million; Hispanic companies in Texas received 785 loans, with a total value of \$99.7 million; in Florida, Hispanic companies received 931 loans valued at a total of \$89.3 million. The SBA program also has come under fire in 2004. Earlier this year, the SBA suspended the program because, due to record demand, it had run out of money to support the government-guaranteed loans.

The program resumed again after receiving an additional \$470 million in lending authority, but remains in a precarious position pending approval of its appropriations bill. The SBA also began capping the amount available to each borrower at \$750,000, down from \$2 million. The SBA said that when it receives its full appropriation it expects to keep the 7(a) program running without interruption. Some have blamed the SBA for the funding problems, saying the agency has underestimated the amount of appropriations it has asked Congress for each year. But others note it appears to be a wider problem.

Congresswoman Nydia M. Velazquez, D-N.Y. and ranking member of the House Small Business Committee, in February said the SBA's FY2005 budget plan submitted by the administration was "totally inadequate."

The budget proposal is for \$700 million, down from \$1 billion in 2001.

HISTORY OF 7(A) LOANS TO HISPANICS				
Fiscal year	Number of loans	Change	Amount (\$M)	Change
2001	3,287	19.86%	\$607.34	-7.95%
2002	3,928	19.50%	\$755.20	24.35%
2003	5,589	42.29%	\$718.35	-4.88%

Source: SBA

April 2004

## Data Blind Spot

By Patricia Guadalupe

The federal government has no shortage of programs and initiatives for Hispanic outreach. Year after year, these programs show incremental progress in helping Hispanics gain access to jobs, contracting opportunities, and business financing

But unfortunately, federal agencies don't collect much data by ethnicity. They provide the numbers required by law, such as those on the 8(a) business development program, and the Hispanic hiring initiatives at the Office of Personnel Management, but generalized government-wide statistics offer little clue about obstacles to parity.

The latest numbers indicate uneven progress toward full parity. Despite increased spending in nearly every federal agency, Hispanics continue to lag in procurement. As a result, public policy discussions on Hispanics and procurement suffer from an information blind spot, relying on anecdotal evidence or analysis of specific programs.

NEW DEFENSE CONTRACTORS BY ETHNICITY		
Ethnic group	Number of contractors	% of new contractors
African American	742	8.01%
Asian & Pacific Islander	647	6.99%
Hispanic	636	6.87%

Native American	533	5.75%
Total	9,260	100%
Source: Federal Data Procurement Data System		

The one major exception to the rule is the behemoth Department of Defense (DOD), which collects procurement data by ethnicity because of Section 1207 of the National Defense Authorization Act of 1987. That act established a goal of awarding 5 percent of contracts and subcontracts to small disadvantaged businesses with program performance tracking that included the collection of procurement data related to ethnicity. For FY2002, the DOD reported that 6.87 percent of its new contractors were Hispanic.

But the DOD, like all other federal agencies, collects only the contracting information required by law. At most agencies, the ethnicity of contracting firms is not "statutory information."

And even within programs designed to increase supplier diversity, those charged with implementing the policy take a broad view.

"My job is to provide opportunities for everyone [under our criteria], not for specific groups," says Tracy Pinson, director of the Army's Office of Small Disadvantaged Business Utilization. "It's good for us to have access to that information and data [by ethnicity], but it's not something that I specifically focus on."

Meanwhile, even at those agencies that do track such data, like the DOD, problems remain.

A recent report by the congressional General Accounting Office (GAO) found that while the Defense Department has achieved or exceeded its 5 percent goal of awarding contracts and subcontracts to small disadvantaged businesses every year since 1992, the mentor-protégé program's contributions cannot be fully determined. "DOD has not been able to attribute this success to the program," the report states.

The report attributed this lack to incomplete tracking of the contributions by small disadvantaged businesses that were protégés. Tracking the progress of former protégés was not established until FY2000, and it will take a year to gather and analyze the data.

But such tracking remains controversial. Even legislators who support gathering procurement data by ethnicity warn that it should not detract from what they consider the greater issue.

"I believe that collecting such data can be a helpful tool as long as it does not divert

much-needed attention away from the real issue – the failure of the federal government to contract with minority-owned businesses overall," says Congresswoman Nydia Velázquez, ranking Democrat on the House Small Business Committee.

"By not meeting this [procurement] goal, the government sells all minorities short. If the federal government would meet or exceed its minority-owned business goal, this would open up contracting opportunities and bring benefits to all ethnic groups," she says. "That's exactly where our focus should be right now. If ethnicity data were gathered with regard to federal procurement, we already know what it would reveal: minority-owned companies are getting a very tiny piece of the contracting pie."

As a rough estimate, about 25 percent of the firms in the Small Business Administration's 8(a) Development Program are Hispanic-owned. These Hispanic firms get about a third of the contracts in the program, but those contracts account for less than 3 percent of all federal procurement dollars. Approximately 60 percent of all federal contracts awarded to minority firms come through the 8(a) program.

Assuming that 60 percent figure holds for Hispanic-owned contractors, it means Hispanic firms receive about 5 percent of the federal procurement budget. According to the Census Bureau, Hispanics account for more than 13 percent of the U.S. population.

A current example of the contracting shortfall, Ms. Velázquez points out, is the reconstruction in Iraq. She included a provision in the \$87 billion Iraq Appropriations bill that calls for greater participation of small businesses in federal contracts for the project.

"This is meant to address the well-publicized fact that the Bush administration has awarded billions of dollars in mega-contracts to a handful of politically connected U.S. corporations on a no-bid basis," Ms. Velázquez says. "These contracts were not open to fair competition. They were doled out in secret backroom negotiations. This will give small businesses a chance."

The amendment requires that all large companies that receive contracts in Iraq have a subcontracting plan that explains how they will implement subcontracting opportunities for U.S. small businesses.

While current law requires that large prime contractors set aside a percentage for small business subcontracting in the United States, the law doesn't cover work performed abroad.

The Small Business Act sets a goal of 23 percent of all federal prime contracts going to small businesses – with at least 5 percent to small disadvantaged businesses. But the 8(a) program itself, the primary avenue for minority firms to enter the federal marketplace, has only non-statutory legislative goals, not specific goals that are

enforceable by law.

"Small businesses – and especially Hispanic-owned firms – are the lifeblood of the [U.S.] economy," says Rep. Ciro Rodriguez (D-TX). "This is well recognized everywhere, except within the federal government procurement arena. There is no statutory government-wide goal for the 8(a) program. For the government to improve its ability to achieve its small-business goals, federal agencies must be held accountable by establishing a statutory goal."

A GAO survey of 8(a) participants found that 86 percent of them joined the program primarily to obtain contracts, although the program's primary focus is entrepreneurial training and development.

The same GAO report stated that no studies have been conducted to measure the 8(a) program's impact.

In the near future, the solution for gathering procurement data by ethnicity may come from increased efforts to boost the use of advanced technology, according to federal officials.

After a General Services Administration report found only a limited amount of data available for monitoring federal procurement, the GSA implemented a pilot program to replace the 30-year-old Federal Procurement Data System.

The old system was supposed to track procurement data, but faced broad criticism as a cumbersome, time-consuming, disorganized, and costly process.

The new program is the Federal Procurement Data System–Next Generation, or FPDS-NG. GSA has awarded a \$24 million contract to Global Computer Enterprises to implement the program, which the company expects to be functioning soon. However, individual agencies still will determine how to connect to the program for data submission.

The system will provide Internet access to all data in real time. It also is designed to decrease the time required for data collection, reduce the cost of data collection, and streamline the entire process.

"The FPDS-NG re-engineering effort is a critical because the data that is collected will help Congress and the public understand how taxpayer funds are being spent every day by the government. It will allow snapshots of where and how," says David Drabkin, GSA deputy associate administrator for acquisition policy. "We look forward to the benefits of a real-time fully integrated FPDS-NG."

The FPDS-NG is scheduled to be the first system to operate government-wide as part of the Bush administration's e-government agenda, which is seeking to use more technology to increase efficiency.

When the FPDS-NG system is fully operational, officials say it is expected to give the public and federal agencies one of the fullest glimpses so far into the overall composition of the federal contractor marketplace.

March 29, 2004

## Small Businesses, Big Contracts: Commerce Program Improves Competition

By Sharon Leigh

The Commerce Department is a longtime supporter of the nation's small-business community. To this end, Commerce initiated a major contracting opportunity by offering small businesses nationwide the ability to compete for a governmentwide acquisition contract (GWAC) to provide performance-based information technology services to all government agencies. The procurement, Commerce IT Services (COMMITTS), was competed in 1999. About 250 small businesses responded to the solicitation, and 50 were awarded contracts. The awardees were then eligible to compete for task orders under the contract.

COMMITTS has provided agencies with an effective means of acquiring IT products and services from well-qualified small businesses that have received a number of awards and qualifications. Many of the task order competitions have been for large, complex requirements:

- \$425 million for high-end IT services for the Energy Department.
- \$104 million for the Defense Threat Reduction Agency.
- \$90 million to support the Army Test and Evaluation Command.
- \$105 million to support the Centers for Disease Control and Prevention.

To date, nearly \$1.4 billion of the \$1.5 billion ceiling established for COMMITTS has been obligated.

The original five-year term will expire soon. Because the federal community loved the expedited procurement process, the quality of the small businesses available in the program, the accountability for performance, and the fact that agencies received small-business credit when they used COMMITTS, Commerce is working on the follow-on procurement, called COMMITTS NexGen. NexGen will provide small businesses a ceiling of \$8 billion in contracting opportunities. The procurement is in its final selection phase. The new contract will be five years, but since a task could be awarded in the fifth year, the award could be for as much as a total of 10 years. NexGen will help the small-business community to remain a viable source in the federal IT marketplace by offering small firms a vehicle that allows them to compete effectively.

A fair, streamlined, solutions-based competition ensures that a task order produces maximum benefit for the customer and best value for the taxpayer. Under this acquisition structure, the basic contracts do not contain fixed contract line-item numbers or labor categories. Instead, COMMITTS contractors are free to propose the

best solution to the specific requirement of each agency. Unless exempted, each task order is competed under the COMMITTS fair-opportunity competitive procedure, which has maintained an ongoing competitive environment throughout the life of the current COMMITTS Program and will do so for the COMMITTS NexGen Program. Free from the constraints of prescribed line-item numbers, the solution-based structure significantly improves each contractor's ability to craft innovative and state-of-the-art solutions. Also, the task-order award structure significantly reduces administrative burdens by making it easier to refresh the technology, which is usually required to keep the contractual requirements, products and labor rates current — thereby ensuring the government gets the best value for the taxpayer.

COMMITTS customers may choose to come directly through Commerce or via an authorized COMMITTS service provider. Commerce will work with agencies to train their staff to award and maintain COMMITTS task orders or provide the contracting staff to do so. The acquisition process and systems used are the same regardless of contracting office. The level of service provided to the customer is also the same. The staff at the Commerce information technology solutions branch is available to assist agencies with task orders or contract questions.