

November 7, 2002



# Acquisition

DoD Contractor Subcontracting With  
Historically Underutilized Business  
Zones (HUBZones) Small Businesses  
(D-2003-019)

Department of Defense  
Office of the Inspector General

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### **Acronyms**

DCMA	Defense Contract Management Agency
FAR	Federal Acquisition Regulation
SBA	Small Business Administration



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November 7, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE CONTRACT MANAGEMENT  
AGENCY  
DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED  
BUSINESS UTILIZATION

SUBJECT: Report on DoD Contractor Subcontracting With Historically Underutilized  
Business Zones (HUBZones) Small Businesses (Report No. D-2003-019)

We are providing this report for information and use. We performed the audit in response to a congressional request. We considered management comments on a draft of this report when preparing the final report. The Defense Contract Management Agency comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. In addition, we received comments from the DoD Office of Small and Disadvantaged Business Utilization that support the finding and recommendations.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Joseph P. Doyle at (703) 604-9349 (DSN 664-9349) or Ms. Deborah L. Culp at (703) 604-9335 (DSN 664-9335). See Appendix E for the report distribution. The team members are listed inside the back cover.

*David K. Steensma*  
David K. Steensma

Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General of the Department of Defense

Report No. D-2003-019

November 7, 2002

(Project No. D2001CK-0193)

### DoD Contractor Subcontracting With Historically Underutilized Business Zones (HUBZones) Small Businesses

#### Executive Summary

**Who Should Read This Report and Why?** DoD small business specialists, contracting officers, and Defense prime contractors should read this report. The report discusses the necessity for accurate reporting of Historically Underutilized Business Zone (HUBZone) small business subcontracting awards.

**Background.** Senator Christopher S. Bond requested a review to answer specific questions pertaining to subcontracting plans, monitoring compliance with subcontracting plans, and goals within the small business program, particularly the HUBZone program. The request was in response to a concern that Defense prime contractors were apparently neglecting the HUBZone small business program. The audit examined subcontracting efforts by 16 Defense prime contractors with HUBZone small businesses, on DoD contracts awarded in FYs 2000 and 2001.

**Results.** Of the 16 Defense prime contractors reviewed, 5 incorrectly reported HUBZone small business subcontracting awards and the DoD buying offices did not always adhere to best management practices in the submission, approval, and administration of the subcontracting plans, goals, and waivers. However, the contractors generally implemented the HUBZone small business program into their subcontracting efforts, and provided limited subcontracting opportunities to HUBZone small business concerns. Defense Contract Management Agency San Francisco was not sufficiently monitoring the contractors' reporting of the HUBZone small business subcontracting awards.

Five of the 16 contractors reviewed overstated their FY 2001 HUBZone small business subcontracting awards by about \$1.34 million. The 16 prime contractors should have reported \$397,000 in FY 2001 HUBZone small business subcontracting awards, but due to the overstatement, they reported about \$1.74 million. Current and future summary subcontract reports should provide accurate data on HUBZone small business subcontracting awards. The Defense Contract Management Agency should implement a plan for reviewing and verifying prime contractors' reported HUBZone subcontracting awards, and inform contractors of the need to obtain and verify representation of a contractor's HUBZone status through the Small Business Administration. (See the Finding section of the report for the detailed recommendations.) See Appendix C for a discussion of specific questions raised by Senator Bond regarding small business subcontracting, particularly to HUBZone small business concerns. See Appendix D for a discussion of the management practices in the submission, approval, and administration of the subcontracting plans, goals, and waivers.

**Management Comments.** The Defense Contract Management Agency concurred with the finding and recommendations; therefore, no additional comments are required. Although not required to comment, the DoD Office of Small and Disadvantaged Business Utilization concurred in principle with our recommendations; however, it noted that the issues raised require a department-wide response. The DoD Office of Small and Disadvantaged Business Utilization plans to initiate a Federal Acquisition Regulation case to request revisions of the instructions for completing the “Subcontracting Report for Individual Contracts,” Standard Form 294 and the “Summary Subcontract Report,” Standard Form 295. Additionally, the case will request a Federal Acquisition Regulation revision requiring prime contractors to verify the HUBZone status of small businesses. See the Finding section of the report for details of the management comments and the Management Comments section for the complete text of the comments.

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## Background

**The Historically Underutilized Business Zone (HUBZone) Program.** Public Law 105-135, “Small Business Reauthorization Act of 1997,” title VI, “HUBZone,” (the HUBZone Act of 1997) enacted on December 2, 1997, created the HUBZone Empowerment Contracting Program. The HUBZone program allows contractors to stimulate economic development in defined distressed areas. The HUBZone Act of 1997 specifies that the Small Business Administration (SBA) establish certification procedures for the HUBZone program. It also establishes the requirements a contractor must meet for the SBA to certify the contractor as a HUBZone small business concern. A contractor must meet all of the following requirements to be certified as a HUBZone small business concern:

- be owned and controlled by one or more U.S. citizens and the principal office is located in a HUBZone;
- have at least 35 percent of its employees reside in a HUBZone; and
- be located in a HUBZone defined area: a qualified census tract; a qualified “non-metropolitan county” with a median household income of less than 80 percent of the state median household income or with an unemployment rate of not less than 140 percent of the statewide average; or lands within the boundaries of federally recognized Indian reservations.

**Small Business Administration.** The SBA is responsible for regulating and implementing the HUBZone program. The SBA must certify a HUBZone small business concern in order for this business to receive Federal contracting assistance under the program. In doing so, SBA determines which businesses are eligible to receive HUBZone contracts, maintains a listing of qualified HUBZone small businesses that Federal agencies can use to locate vendors, and adjudicates protests of eligibility to receive HUBZone contracts. The SBA is authorized to evaluate contractor compliance with subcontracting plans either on a contract-by-contract basis or, for contractors having multiple contracts, on an aggregate basis.

Since the beginning of FY 2000, the number of SBA-certified HUBZone small business concerns has steadily increased. The General Accounting Office reported that at the beginning of FY 2000, SBA had certified 290 contractors as HUBZone small business concerns. On December 7, 2001, SBA reported a total of 4,744 contractors certified as HUBZone small business concerns.

**PRO-Net.** The HUBZone Act of 1997 requires the SBA to maintain a list of qualified HUBZone small business concerns. The list should include the name, address, and type of business of each small business concern; be updated annually; and be provided upon request to any Federal agency or other entity. The SBA Procurement Marketing and Access Network (commonly referred to as PRO-Net), the Internet-based database of procurement information, is a search engine for contracting officers and contractors to find small businesses, which includes HUBZone certified businesses and is a marketing tool for small firms.

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Individuals can search PRO-Net using standard industrial classification codes, key words, location, quality certifications, business types, ownership, race, and gender. In addition, PRO-Net can be searched by small businesses seeking Federal contracts. SBA also maintains another listing, “List of Qualified HUBZone Small Business Concerns,” which identifies SBA-certified HUBZone vendors.

**Goals.** The HUBZone Act of 1997 established a graduated prime-contracting goal for HUBZones (1.5 percent in FY 2000, 2 percent in FY 2001, 2.5 percent in FY 2002, and 3 percent in FY 2003 and thereafter), but the Act does not mandate a Government-wide subcontracting goal.

**Subcontracting With HUBZones.** The Federal Acquisition Regulation (FAR) 19.702, “Statutory Requirements,” requires contractors to submit an acceptable subcontracting plan, which includes separate subcontracting goals for prime contracts that exceed \$500,000 (\$1,000,000 for construction). The contractor must agree that small businesses, including HUBZone small businesses, will have maximum practicable opportunity to participate in contract performance consistent with efficient performance. Additionally, the FAR requires that the subcontracting plan include separate percentage goals and a statement of the total dollars planned to be subcontracted to small businesses and various small business socioeconomic concerns.

**Reporting on Subcontracting Accomplishments.** DoD prime contractors are required to report subcontracting awards on the “Subcontracting Report for Individual Contracts,” Standard Form 294 (SF 294) and “Summary Subcontract Report,” Standard Form 295 (SF 295). The prime contractors are to submit a SF 294 for each DoD contract exceeding \$500,000. SF 294s report the contractor’s progress in meeting the subcontracting goals submitted for each individual contract. Contractors are to submit a SF 295 detailing subcontracting activity for all of their DoD contracts when they have a contract with DoD that exceeds the \$500,000 threshold. See Appendix B for further discussion of the SF 294 and SF 295.

The information provided on the SF 295 feeds into the P-14 report, “Companies Participating in the Department of Defense Subcontracting Program.” The Washington Headquarters Services, Directorate for Information Operations and Reports, issues the P-14 report annually. This report provides summary data on DoD subcontracting program commitments to small business and various small business socioeconomic concerns, including HUBZone businesses.

**Defense Contract Management Agency.** The Defense Contract Management Agency (DCMA)<sup>1</sup> and the SBA have agreed that DCMA will conduct compliance reviews of DoD prime contractors over which DCMA has cognizant contract administrative authority. The DCMA small business office provides guidance to

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<sup>1</sup> The original memorandum of understanding in 1996 was between the SBA and the Defense Logistics Agency. When the Defense Contract Management Command was transitioned from the Defense Logistics Agency to establish DCMA in March 2000, DCMA continued to conduct the compliance reviews for those DoD contractors for which they have cognizant contract administrative authority.

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DoD contractors for implementing and managing their small business programs, including the HUBZone program. DCMA educates DoD prime contractors to ensure that they are providing small businesses maximum opportunities to compete for subcontracting dollars and reviews contractors' small business programs and summary subcontracting reports.

## Objectives

The audit objective was to determine whether DoD contractors provided subcontracting opportunities to small business concerns located in HUBZones. The audit also determined whether DoD adequately monitored Defense contractors' subcontracting efforts to HUBZone contractors. The congressional request asked specific questions pertaining to HUBZones. We limited our review to the 16<sup>2</sup> Defense prime contractors identified in the request. See the Finding section for details on reporting of non-SBA-certified HUBZone small business concerns. See Appendix A for a discussion of the audit scope, methodology, and prior coverage and Appendix B for a further discussion of subcontracting reports. See Appendix C for a summary of issues and results pertaining to Senator Bond's request. See Appendix D for details on management practices regarding the submission, approval, and administration of the subcontracting plans, goals, and waivers.

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<sup>2</sup> The scope of the audit was limited to HUBZone subcontracting implementation and awards for the specific division and location for each of the 16 Defense prime contractors identified in the request from Senator Bond.

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## Reporting of HUBZone Small Business Subcontracting Awards

Five of the 16 DoD prime contractors reviewed incorrectly reported their FY 2001 HUBZone small business subcontracting awards by about \$1.34 million in their summary subcontracting reports to DoD.

- Subcontractors incorrectly represented themselves as SBA-certified HUBZone small business concerns.
- The contractors did not follow DCMA San Francisco guidance concerning the verification of their HUBZone subcontracting awards through SBA prior to reporting them on their summary subcontracting reports.
- DCMA San Francisco did not adequately review the contractors' subcontracting programs to ensure that they were reporting only SBA-certified HUBZone contractors.

As a result, the contractors overstated their HUBZone small business subcontracting awards by about \$1.34 million (77 percent) of a total of about \$1.74 million for the 16 contractors, which was incorporated into and overstated the HUBZone subcontracting awards in the FY 2001 DoD P-14 report.

### FY 2001 HUBZone Subcontracting Awards

Eight of the 16 DoD prime contractors reviewed reported FY 2001 HUBZone subcontracting awards totaling about \$1.74 million. The other eight contractors did not report any FY 2001 HUBZone subcontracting awards. However, five of the eight contractors that reported HUBZone dollars reported a total of about \$1.66 million in HUBZone subcontracting awards, but actually awarded only \$316,000 to SBA-certified HUBZone firms.

### HUBZone Reporting

Contractors incorrectly reported their HUBZone subcontracting awards because subcontractors incorrectly represented themselves and the prime contractors did not follow DCMA San Francisco guidance regarding the verification of the subcontractor's HUBZone status through SBA prior to reporting them. Additionally, DCMA San Francisco was not sufficiently monitoring the prime contractors' subcontracting program regarding the reporting of the HUBZone subcontracting awards.

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**Subcontractor's Self-Certifications.** Six subcontractors' self-certifications were inaccurate regarding their HUBZone small business status. For example, three prime contractors used certification letters, which required their subcontractors to indicate their small business status. Each of these prime contractors had subcontractors who identified themselves as being HUBZone contractors or HUBZone certified when SBA had not certified them as a HUBZone small business concern.

The HUBZone program is fairly new. It was enacted into law in 1997 and regulatory guidance in the FAR was not implemented until January 1999. We believe as the program continues to mature and subcontractors become more acquainted with the requirements of the program, subcontractors' reporting to prime contractors regarding their HUBZone status will improve. We did note that as of July 2002, SBA, which has 30 days to process a HUBZone application, was about 1.5 months behind in reviewing applications. As of July 16, 2002, SBA was only reviewing applications that it had received in early May and it was not presently practicable, for them with a very limited staff, to meet the 30-day process time.

**Guidance.** The FAR and the instructions for preparing the SF 294 and the SF 295 do not instruct a contractor to report only SBA-certified HUBZone contractors. However, DCMA San Francisco implemented local guidance in addition to the SF 294s and SF 295s instructions in September 2001 requiring prime contractors to verify HUBZone subcontracting awards through the SBA.

**FAR Guidance.** The FAR addresses what is considered to be an appropriate HUBZone concern; however, it does not require that a contractor verify a subcontractor's status through the SBA prior to reporting a contractor as a HUBZone small business concern. FAR 19.703, "Eligibility Requirements for Participating in the Program," establishes that a concern must represent itself as a HUBZone small business and refers to FAR 2.101, "Definitions," which defines a HUBZone small business concern as a contractor that appears on the List of Qualified HUBZone Small Business Concerns maintained by the SBA.

The FAR further states that a contractor—acting in good faith—may rely on the written representation of its subcontractor regarding the subcontractor's status as a small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, or a woman-owned small business concern. If a contract contains positive small disadvantaged business goals, prime contractors must obtain representations of small disadvantaged status from subcontractors that they have been certified as small disadvantaged businesses by SBA. Further, the contractor must confirm that a subcontractor representing itself as a small disadvantaged business concern is identified by SBA as a small disadvantaged business concern by assessing the SBA PRO-Net or by contacting SBA. However, it does not discuss verifying a subcontractor's HUBZone status in this same manner. It only states that interested parties may challenge a HUBZone small business status.

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**SF 294 and SF 295 Instructions.** The instructions provided with the SF 295 and SF 294 indicate that the contractor should report all subcontracts awarded to HUBZone small businesses; however, it does not indicate that these subcontractors should have a SBA HUBZone certification. See Appendix B, figures B-2, B-3, and B-5 for the SF 294 and SF 295 general instructions.

**DCMA San Francisco Instructions.** DCMA San Francisco developed its own specific written instructions on preparing the SF 295 and SF 294. Its written instructions on completing the SF 295 from May 2001 did not discuss verifying a subcontractor's HUBZone status through the SBA prior to reporting them as HUBZone subcontracting awards. However, the September 2001 guidance did discuss verifying a subcontractor's HUBZone certification status through the SBA. DCMA San Francisco has provided training regarding the preparation of the SF 294s and SF 295s, but it indicated that not all contractors receiving contracts that it administers have attended.

**Prime Contractor's Verification.** Prime contractors reported their subcontract awards to several subcontractors as HUBZone awards without verifying their status through the SBA. We verified the subcontractors through PRO-Net or the SBA List of Qualified HUBZone Small Business Concerns and identified that they were not SBA-certified HUBZone contractors. The prime contractors agreed that the subcontractors were not SBA-certified HUBZone contractors and incorrectly reported the subcontractors as HUBZone small business concerns.

**DCMA San Francisco Reviews.** DCMA San Francisco performs subcontracting reviews for about 55 contractors. One DCMA individual conducted these reviews from August 2000 until July 2001, and since July 2001 two individuals have conducted the subcontracting program reviews. The DCMA reviews performed on 3 of the 16 contractors did not identify the contractors' incorrect HUBZone reporting. However, a subcontracting review that we attended in October 2001 identified that the contractor had incorrectly reported its FY 2001 HUBZone subcontracting awards. DCMA required the contractor to resubmit its SF 295 with the correct HUBZone subcontracting award data.

**General Dynamics Corporation, Electronic Systems.** General Dynamics reported non-SBA-certified HUBZone small business concerns in both of its FY 2001 SF 295s, ending March 31, 2001, and September 30, 2001. During the July 2001 review, DCMA San Francisco did not note any deficiencies associated with the reporting of HUBZone subcontractors that General Dynamics used.

**Aerojet, Sacramento Operations.** On October 22, 2001, Aerojet reported in its FY 2001 SF 295 a total of \$192,000 in HUBZone subcontracting awards to three contractors; however, two contractors were not HUBZone certified. On November 14, 2001, DCMA San Francisco performed a subcontracting program review of Aerojet, and did not identify this improper reporting of the HUBZone subcontracting awards. DCMA San Francisco, based on this program review, rated Aerojet's subcontracting program at the highest level "outstanding" and did not note in its report that Aerojet had incorrectly reported its HUBZone subcontracting achievements.

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**SRI International.** SRI International reported nonexistent HUBZone subcontracting awards totaling about \$16,000 in its first half FY 2001 SF 295. On September 12, 2001, DCMA reviewed SRI International's subcontracting program and did not identify during the review that SRI International had reported HUBZone subcontracts that did not exist. SRI International reported about \$28,000 in HUBZone awards in its FY 2001 SF 295 that were nonexistent.

**Litton Systems Inc./Electron Devices Division.** In the October 31, 2001, annual review at Litton, DCMA San Francisco personnel verbally instructed Litton personnel that they could only report certified HUBZone concerns in its summary subcontract reports. The contractor was unaware of this and informed DCMA that it would review its vendor list and remove the non-SBA-certified subcontractors from the reported amount. After completing this review, the contractor submitted a revised SF 295 in January 2002, indicating HUBZone subcontract awards of about \$15,000; it had originally reported HUBZone subcontracting awards of about \$1 million.

**Improvement to Review Process.** DCMA San Francisco needs to review the process that it is using to perform the contractors' subcontracting reviews. Because the HUBZone program is fairly new and the reporting requirements are not clear, we believe that DCMA needs to more closely monitor the prime contractors and subcontractors. Specifically, DCMA personnel need to verify that HUBZone subcontractors are SBA-certified and that prime contractors actually awarded subcontracts.

## P-14 Report

As a result of reporting non-SBA-certified HUBZone subcontractors or non-existent subcontracts, five contractors overstated their HUBZone small business subcontract awards in the P-14 report by about \$1.34 million. The FY 2001 P-14 report identified, for the 15<sup>3</sup> contractors, about \$1.96 million in HUBZone small business subcontracting awards. The contractors' FY 2001 SF 295s indicated about \$1.74 million in HUBZone subcontracting awards, a difference of \$218,000.

**FY 2001 SBA-Certified HUBZone Subcontracting Awards.** For FY 2001, the 16 contractors' actual amount of HUBZone small business subcontracting awards should be \$397,000, a difference of about \$1.34 million from their SF 295s. See the following table for a detailed listing. The table lists 8 of the 16 contractors reviewed; the other 8 contractors reported zero dollars in HUBZone subcontracting awards for FY 2001.

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<sup>3</sup> Pulse Sciences Inc., actual FY 2001 subcontracting amounts were included in the Titan Corporation's P-14 amounts. Therefore, we could not determine if the P-14 report identified any HUBZone subcontracting awards for Pulse Science. However, Pulse Sciences reported zero HUBZone subcontracting awards on their FY 2001 SF 295.

<b>FY 2001 Reported and Actual Subcontracting Awards to SBA-Certified HUBZone Subcontractors</b> (in thousands)			
<b>Contractor</b>	<b>SF 295 Amount</b>	<b>P-14 Report Amount</b>	<b>Actual HUBZone Amount</b>
Aerojet, Sacramento, CA	\$ 192	\$ 192	\$ 12
General Dynamics Corporation, Electron Devices Division, Mountain View, CA	168	168	132
Kaiser Electronics, San Jose, CA	77	77	77
Litton Systems Inc./Electronic Devices Divisions, San Carlos, CA	1,047	1,047	15
Maxwell Physics International, San Leandro, CA	1	1	2*
Northrop Grumman Corporation, Marine Systems Division, Sunnyvale, CA	223	223	157
SRI, International, Menlo Park, CA	28	246	0
Teledyne, Electronic Technologies, Rancho Cordova, CA	2	2	2
<b>Total</b>	<b>\$1,738</b>	<b>\$1,956</b>	<b>\$397</b>
*Maxwell Physics International determined that it had not reported all of its actual HUBZone subcontracting awards on its FY 2001 SF 295; thus, the amount increased.			

**P-14 Error.** A likely input error from the SF 295s to the P-14 database resulted in a \$218,000 difference between the P-14 report and the SF 295s. One contractor had reported on its SF 295:

- \$0 in Historically Black Colleges and Universities/Minority Institutions awards,
- \$28,000 in HUBZone awards, and
- \$246,000 in Veteran-Owned Small Business awards.

However, the P-14 report indicated:

- \$28,000 for Historically Black Colleges and Universities/Minority Institutions awards,
- \$246,000 for HUBZones awards, and
- \$0 for Veteran-Owned Small Business awards.

This misclassification of the actual reported awards resulted in the \$218,000 difference between the P-14 report and the SF 295s. Therefore, with the contractors reporting non-SBA-certified HUBZone contractors and the input error of \$218,000, the P-14 report was overstated by \$1.56 million.

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**General Accounting Office.** The General Accounting Office in Report No. GAO-02-57, “HUBZone Program Suffers From Reporting and Implementation Difficulties,” October 26, 2001, reported that Federal agencies experienced similar difficulties in correctly reporting their HUBZone program achievements. The General Accounting Office noted that Federal agencies’ data included contracts awarded to firms that SBA had not certified as qualified to participate in the program and did not include contracts awarded to firms that SBA may have certified as qualified HUBZone firms.

In response to the General Accounting Office report, the Office of Federal Procurement Policy issued guidance on June 24, 2002, to aid Federal agencies in identifying which contract actions to report to the Federal Procurement Data System that meet HUBZone criteria. The policy stated that the SBA position is Federal agencies that award a contract to a non-SBA-certified HUBZone concern should not count it as a HUBZone achievement, regardless of whether the firm became certified during the term of the contract. The policy does not address how prime contractors should report subcontracts awarded to non-SBA-certified contractors who later become SBA-certified during the term of the contract. The guidance does reiterate that it is important for contracting officers and prime contractors to refer to SBA PRO-Net to verify that the contractor or subcontractor is on the list of certified HUBZone small business concerns.

## **Conclusion**

Contractors overstated their HUBZone accomplishments in the FY 2001 P-14 report by about \$1.34 million (77 percent) because subcontractors misrepresented their HUBZone status and several contractors had not verified their subcontractors’ HUBZone certifications through the SBA prior to reporting their subcontracting awards to DoD. Additionally, DCMA San Francisco subcontracting program reviews were insufficient because they did not identify contractors’ incorrect reporting of their HUBZone subcontracting awards. The FAR and SF 294 and SF 295 instructions are not clear on whether contractors should report only SBA-certified HUBZone subcontractors. DCMA San Francisco updated its instructions regarding the reporting of SBA-certified HUBZone contractors and verbally informed the contractors. However, DCMA San Francisco reviews of the contractors’ subcontracting programs did not always detect contractors’ inaccurate reporting. The contractors’ reporting should improve with DCMA continuing to reinforce the HUBZone subcontracting reporting requirements through guidance and annual contractor reviews. Additionally, the reporting should improve as the HUBZone program continues to grow and subcontractors and prime contractors become better acquainted with the requirements of the program.

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## Recommendations and Management Comments

We recommend that the Director, Defense Contract Management Agency direct the Assistant Director of Small Business at the Contract Management Offices to:

**1. Issue memoranda to the contractors that when preparing the Standard Form 294 and Standard Form 295, the contractor shall verify the HUBZone status of a contractor through the Small Business Administration prior to reporting the subcontractor as a HUBZone small business concern. Additionally, the guidance should reiterate that contractors can report only actual subcontracting awards.**

**2. Develop or revise local Standard Form 294 and Standard Form 295 preparation instructions to include detailed guidance requiring DoD prime contractors to verify a contractor's HUBZone status through the Small Business Administration's List of Qualified HUBZone Small Business Concerns or PRO-Net. Also, the preparation instructions should include specific guidance directing contractors on how to submit revised or corrected reported subcontracting amounts.**

**Defense Contract Management Agency Comments.** The Defense Contract Management Agency concurred and will issue interim supplementary guidance. They stated they are not responsible for revisions to the Standard Form 294 and Standard Form 295 and will request that the Office of the Secretary of Defense change guidance on completing the Standard Form 294 and Standard Form 295.

**DoD Office of Small and Disadvantaged Business Utilization Comments.** The DoD Office of Small and Disadvantaged Business Utilization concurred in principle; however, it believes the issues raised require a department-wide response. The DoD Office of Small and Disadvantaged Business Utilization will request the initiation of a Federal Acquisition Regulation case. The case will attempt to revise Standard Form 294 and Standard Form 295 instructions to indicate that forms should only report Small Business Administration-certified firms. The case will also attempt to revise the Federal Acquisition Regulation to require prime contractors to verify a subcontractor's HUBZone status.

**3. Implement a plan for reviewing and verifying prime contractors' reported HUBZone subcontracting awards to ensure that all HUBZone reported subcontracting awards are to Small Business Administration-certified HUBZone contractors.**

**Defense Contract Management Agency Comments.** The Defense Contract Management Agency concurred and stated that a process will be incorporated in the restructuring of the Compliance Review Report to ensure that prime contractors are reporting only Small Business Administration-certified HUBZone concerns. They expect this action to be completed by December 15, 2002.

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## Appendix A. Scope and Methodology

We met with Senator Bond's staff and agreed to limit the scope of the audit to the FYs 2000 and 2001 awarded contracts and associated subcontracting plans and reports for the 16 DoD prime contractors identified in the congressional request.

We reviewed applicable Federal and DoD regulations implementing the HUBZone program. We queried the DD350 database, "Individual Contracting Action Report," and contacted DCMA and the buying offices on the contracts reviewed.

We reviewed 324 contracts, valued at \$525 million, to determine whether they exceeded the FAR threshold requiring the submission of a subcontracting plan. Those contracts that exceeded the threshold were reviewed to determine whether they had an appropriate subcontracting plan or an approved waiver. We obtained and reviewed applicable subcontracting plans, SF 294s and SF 295s, and waivers associated with these contracts. We met with DCMA personnel to determine their role in reviewing the prime contractor's HUBZone subcontracting policies and achievements. We reviewed the DCMA small business files for the 16 contractors and observed DCMA personnel conducting a prime contractor's annual small business review.

We interviewed small business personnel from 15<sup>1</sup> DoD prime contractors to determine their involvement and understanding of the HUBZone program. We obtained information on the contractors' processes to report small business subcontracting dollars.

We contacted 21 buying offices to review additional documentation and discuss how they receive, review, and approve subcontracting plans to include HUBZone goals. We met with officials from the SBA San Francisco district office to discuss implementation of the HUBZone small business program.

We performed this audit from September 2001 through October 2002 in accordance with generally accepted government auditing standards.

We did not review the management control program. The audit scope was limited to the congressional request and the 16 contractors' HUBZone subcontracting and reporting.

**Use of Computer-Processed Data.** We relied on multiple sources of computerized and hard-copy data to determine our contract universe. To partially determine our contract universe, we obtained and used computer-processed data

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<sup>1</sup> We visited or contacted 15 of the 16 identified contractors because 2 of the contractors had merged to form Titan Systems Corporation, Pulse Sciences Division. We visited Titan Systems Corporation, Pulse Sciences Division and met with the individuals who were responsible for preparing the subcontracting plans and reports for the two contractors for FYs 2000 and 2001.

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from the DD350 database. Additionally DCMA obtained information from the following databases: Electronic Document Workflow, Electronic Data Access, Mechanization of Contract Administration Services, and Shared Data Warehouse, using “Impromptu,” a report-authoring software tool.

We did not perform a reliability assessment of the DD350 database or the data collected by “Impromptu,” because we determined that the contract numbers and contractors generally agreed with the information in the computer-processed data. When compared to the source documents, we found minor errors in the computer-processed data that did not affect our audit results.

We reviewed contracts awarded for FYs 2000 and 2001 for the contractors identified in the congressional request. By querying the DD350 database, reviewing listings from DCMA San Francisco, and obtaining additional contracts from the DCMA files, the contractors, and buying offices contacted, we determined that DoD issued and DCMA San Francisco administered 324 FYs 2000 and 2001 contracts to the 16<sup>2</sup> contractors. We determined that 94 contracts should have included subcontracting plans and goals, as required by the FAR. We further reviewed the 94 contracts and associated subcontracting plans.

#### **Defense Contractors Visited or Contacted.**

- Aerojet, Sacramento, California
- Communications and Power Industries, EIMAC Division, San Carlos, California
- Communications and Power Industries, MPP Division, Palo Alto, California
- Etec Systems, Inc., San Carlos, California
- Filtronic Solid State, Santa Clara, California
- General Dynamics Corporation, Electron Devices Division, Mountain View, California
- Kaiser Electronics, San Jose, California
- L-3 Communications Randtron, Menlo Park, California
- Litton Systems Inc./Electronic Devices Division, San Carlos, California
- Northrop Grumman Corporation, Marine Systems Division, Sunnyvale, California

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<sup>2</sup> We did not identify any FY 2000 and FY 2001 contracts that were awarded to Etec Systems, Inc.; therefore, we did not review any of its contracts and only reviewed how it had implemented the HUBZone program into the overall subcontracting efforts.

- 
- Pratt & Whitney Chemical Division, San Jose, California
  - Signal Technology Corporation, Sunnyvale, California
  - SRI International, Menlo Park, California
  - Teledyne Electronic Technologies, Rancho Cordova, California
  - Titan Systems Corporation, Pulse Sciences Division, San Leandro, California<sup>3</sup>

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the DoD Contract Management high-risk area.

## **Prior Coverage**

Unrestricted General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>.

## **General Accounting Office**

General Accounting Office Letter GAO-02-166R, “Small Business Subcontracting Report Validation Can Be Improved,” December 13, 2001

General Accounting Office Report No. GAO-02-57, “HUBZone Program Suffers From Reporting and Implementation Difficulties,” October 26, 2001

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<sup>3</sup> The congressional request identified two contractors, Pulse Sciences, Inc. and Maxwell Technology Systems Division; however, they had merged to form Titan Systems Corporation, Pulse Sciences Division.

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## Appendix B. Subcontracting Reports

The SF 294s and SF 295s report subcontracting award data from contractors that were awarded one or more contracts exceeding \$500,000 and are required to report subcontracting awards to small business and various small business socioeconomic concerns, to include HUBZone small businesses. A contractor submits the two individual reports on a semiannual basis, for the periods ending March 31 and September 30.

**SF 294.** The SF 294 reports on subcontracting accomplishments regarding one individual contract or subcontract. The SF 294 includes subcontracting goals, taken from an approved subcontracting plan for the contract, and actual subcontracts awarded from the inception of the contract through the end of the reporting period. Both goals and actual figures are expressed as a percent of total planned subcontracting and total dollars. The SF 294 requires the contractor to submit a copy of the report to both the contracting officer of the awarding agency and cognizant DCMA operations office. It cannot be determined whether a contractor will meet subcontracting goals for each contract until the final SF 294 has been reported at contract completion (see figures B-1 through B-3).

**SF 295.** The SF 295 covers all of a contractor's subcontracting activity for the reporting period (either October 1 through March 31 or October 1 through September 30). The report includes subcontracting awards on any active contracts or subcontracts in relation to the reporting agency. A contractor must submit a separate SF 295 for each DoD and civilian agency that has awarded the contractor a contract exceeding \$500,000. The SF 295 permits the contractor to report a proportionate amount of indirect dollars subcontracted to small businesses. The contractor reports the actual dollars subcontracted and the percentage of all subcontracted dollars for each small business category. The SF 295 does not contain any small business subcontracting goals (see figures B-4 and B-5).

**Determining Subcontracting Efforts From the SF 294 and SF 295.** When viewed separately, neither the SF 294 nor the SF 295 accurately depicts a contractor's overall subcontracting program accomplishments. The SF 295 is a snapshot of what the contractor has done over the past 6 or 12 months, may include contracts with subcontracting plans negotiated before the HUBZone program's implementation, and may also include contracts where a HUBZone subcontracting opportunity does not exist. The SF 294 reports the contractor's subcontracting efforts on only one contract. If the contractor is planning to award subcontracts to small businesses near the completion of the contract, the initial SF 294s will show unmet subcontracting goals. Until the final SF 294 is submitted at contract completion, the extent of a contractor's subcontracting efforts for the contract is undeterminable. To get a more accurate assessment of a contractor's subcontracting efforts, both the contractor's SF 294 and SF 295 reports must be reviewed over an extended period of time.

**SUBCONTRACTING REPORT FOR INDIVIDUAL CONTRACTS**  
*(See instructions on reverse)*

OMB No.: 9000-0006  
Expires: 04/30/2004

Public reporting burden for this collection of information is estimated to average 9 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the FAR Secretariat (MVP), Acquisition Policy Division, GSA, Washington, DC 20405.

1. CORPORATION, COMPANY OR SUBDIVISION COVERED			3. DATE SUBMITTED		
a. COMPANY NAME			4. REPORTING PERIOD FROM INCEPTION OF CONTRACT THRU: <input type="checkbox"/> MAR 31 <input type="checkbox"/> SEPT 30    YEAR		
b. STREET ADDRESS					
c. CITY	d. STATE	e. ZIP CODE	5. TYPE OF REPORT		
2. CONTRACTOR IDENTIFICATION NUMBER			<input type="checkbox"/> REGULAR <input type="checkbox"/> FINAL <input type="checkbox"/> REVISED		
6. ADMINISTERING ACTIVITY <i>(Please check applicable box)</i>					
<input type="checkbox"/> ARMY		<input type="checkbox"/> GSA		<input type="checkbox"/> NASA	
<input type="checkbox"/> NAVY		<input type="checkbox"/> DOE		<input type="checkbox"/> OTHER FEDERAL AGENCY <i>(Specify)</i>	
<input type="checkbox"/> AIR FORCE		<input type="checkbox"/> DEFENSE CONTRACT MANAGEMENT AGENCY			
7. REPORT SUBMITTED AS <i>(Check one and provide appropriate number)</i>			8. AGENCY OR CONTRACTOR AWARDING CONTRACT		
<input type="checkbox"/> PRIME CONTRACTOR			a. AGENCY'S OR CONTRACTOR'S NAME		
<input type="checkbox"/> SUBCONTRACTOR			b. STREET ADDRESS		
9. DOLLARS AND PERCENTAGES IN THE FOLLOWING BLOCKS:			c. CITY		
<input type="checkbox"/> DO INCLUDE INDIRECT COSTS <input type="checkbox"/> DO NOT INCLUDE INDIRECT COSTS			d. STATE    e. ZIP CODE		

**SUBCONTRACT AWARDS**

TYPE	CURRENT GOAL		ACTUAL CUMULATIVE	
	WHOLE DOLLARS	PERCENT	WHOLE DOLLARS	PERCENT
10a. SMALL BUSINESS CONCERNS (Include SDB, WOSB, HBCU/MI, HUBZone SB, and VOSB (Including Service-Disabled VOSB)) (Dollar Amount and Percent of 10c.)				
10b. LARGE BUSINESS CONCERNS (Dollar Amount and Percent of 10c.)				
10c. TOTAL (Sum of 10a and 10b.)		100.0%		100.0%
11. SMALL DISADVANTAGED BUSINESS (SDB) CONCERNS (Include HBCU/MI) (Dollar Amount and Percent of 10c.)				
12. WOMEN-OWNED SMALL BUSINESS (WOSB) CONCERNS (Dollar Amount and Percent of 10c.)				
13. HISTORICALLY BLACK COLLEGES AND UNIVERSITIES (HBCU) AND MINORITY INSTITUTIONS (MI) (If applicable) (Dollar Amount and Percent of 10c.)				
14. HUBZone SMALL BUSINESS (HUBZone SB) CONCERNS (Dollar Amount and Percent of 10c.)				
15. VETERAN-OWNED SMALL BUSINESS CONCERNS (Including Service-Disabled Veteran-Owned SB Concerns) (Dollar Amount and Percent of 10c.)				
16. SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS CONCERNS (Dollar Amount and Percent of 10c.)				
17. REMARKS				

18a. NAME OF INDIVIDUAL ADMINISTERING SUBCONTRACTING PLAN		18b. TELEPHONE NUMBER	
		AREA CODE	NUMBER

AUTHORIZED FOR LOCAL REPRODUCTION  
Previous edition is not usable

**STANDARD FORM 294** (REV. 9/2001)  
Prescribed by GSA-FAR (48 CFR) 53.219(a)

Figure B-1. SF 294, Page 1

## GENERAL INSTRUCTIONS

### 1. This report is not required from small businesses.

2. This report is not required for commercial items for which a commercial plan has been approved, nor from large businesses in the Department of Defense (DOD) **Test Program for Negotiation of Comprehensive Subcontracting Plans**. The Summary Subcontract Report (SF 295) is required for contractors operating under one of these two conditions and should be submitted to the Government in accordance with the instructions on that form.

3. This form collects subcontract award data from prime contractors/subcontractors that: (a) hold one or more contracts over \$500,000 (over \$1,000,000 for construction of a public facility); and (b) are required to report subcontracts awarded to Small Business (SB), Small Disadvantaged Business (SDB), Women-Owned Small Business (WOSB), HUBZone Small Business (HUBZone SB), Veteran-Owned Small Business (VOSB) and Service-Disabled Veteran-Owned Small Business concerns under a subcontracting plan. For the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Coast Guard, this form also collects subcontract award data for Historically Black Colleges and Universities (HBCUs) and Minority Institutions (MIs).

4. This report is required for each contract containing a subcontracting plan and must be submitted to the administrative contracting officer (ACO) or contracting officer if no ACO is assigned, semi-annually during contract performance for the periods ended March 31st and September 30th. **A separate report is required for each contract at contract completion.** Reports are due 30 days after the close of each reporting period unless otherwise directed by the contracting officer. **Reports are required when due, regardless of whether there has been any subcontracting activity since the inception of the contract or since the previous report.**

5. Only subcontracts involving performance in the U.S. or its outlying areas should be included in this report.

6. **Purchases from a corporation, company, or subdivision that is an affiliate of the prime/subcontractor are not included in this report.**

7. Subcontract award data reported on this form by prime contractors/subcontractors shall be limited to awards made to their immediate subcontractors. **Credit cannot be taken for awards made to lower tier subcontractors.**

## SPECIFIC INSTRUCTIONS

**BLOCK 2:** For the Contractor Identification Number, enter the nine-digit Data Universal Numbering System (DUNS) number that identifies the specific contractor establishment. If there is no DUNS number available that identifies the exact name and address entered in Block 1, contact Dun and Bradstreet Information Services at 1-800-333-0505 to get one free of charge over the telephone. Be prepared to provide the following information: (1) Company name; (2) Company address; (3) Company telephone number; (4) Line of business; (5) Chief executive officer/key manager; (6) Date the company was started; (7) Number of people employed by the company; and; (8) Company affiliation.

**BLOCK 4:** Check only one. Note that all subcontract award data reported on this form represents activity since the inception of the contract through the date indicated in this block.

**BLOCK 5:** Check whether this report is a "Regular," "Final," and/or "Revised" report. **A "Final" report should be checked only if the contractor has completed the contract or subcontract reported in Block 7.** A "Revised" report is a change to a report previously submitted for the same period.

**BLOCK 6:** Identify the department or agency administering the majority of subcontracting plans.

**BLOCK 7:** Indicate whether the reporting contractor is submitting this report as a prime contractor or subcontractor and the prime contract or subcontract number.

**BLOCK 8:** Enter the name and address of the Federal department or agency awarding the contract or the prime contractor awarding the subcontract.

**BLOCK 9:** Check the appropriate block to indicate whether indirect costs are included in the dollar amounts in blocks 10a through 14. To ensure comparability between the goal and actual columns, the contractor may include indirect costs in the actual column only if the subcontracting plan included indirect costs in the goal.

**BLOCKS 10a through 16:** Under "Current Goal," enter the dollar and percent goals in each category (SB, SDB, WOSB, VOSB, service-disabled VOSBs, and HUBZone SB) from the subcontracting plan approved for this contract. (If the original goals agreed upon at contract award have been revised as a result of contract modifications, enter the original goals in Block 16. The amounts entered in Blocks 10a through 15 should reflect the revised goals.) Under "Actual Cumulative," enter actual subcontract achievements (dollar and percent) from the inception of the contract through the date of the report shown in Block 4. In cases where indirect costs are included, the amounts should include both direct awards and an appropriate prorated portion of indirect awards.

**BLOCK 10a:** Report all subcontracts awarded to SBs including subcontracts to SDBs, WOSBs, VOSBs, service-disabled VOSBs, and HUBZone SBs. **For DOD, NASA, and Coast Guard contracts, include subcontracting awards to HBCUs and MIs.**

**BLOCK 10b:** Report all subcontracts awarded to large businesses (LBs).

**BLOCK 10c:** Report on this line the total of all subcontracts awarded under this contract (the sum of lines 10a and 10b).

**BLOCKS 11 through 16:** Each of these items is a subcategory of Block 10a. **Note that in some cases the same dollars may be reported in more than one block (e. g., SDBs owned by women or veterans).**

**BLOCK 11:** Report all subcontracts awarded to SDBs (including women-owned, veteran-owned, service-disabled VOSBs, and HUBZone SB SDBs). For DOD, NASA, and Coast Guard contracts, include subcontract awards to HBCUs and MIs.

**BLOCK 12:** Report all subcontracts awarded to Women-Owned firms (including SDBs, VOSB's, service-disabled VOSBs, and HUBZone SBs owned by women).

**BLOCK 13 (For contracts with DoD, NASA, and Coast Guard):** Report all subcontracts with HBCUs/MIs. Complete the column under "Current Goal" only when the subcontracting plan establishes a goal.

**BLOCK 14:** Report all subcontracts awarded to HUBZone SBs (including women-owned, veteran-owned, service-disabled VOSBs, and SDB HUBZone SBs).

**BLOCK 15:** Report all subcontracts awarded to VOSBs including service-disabled VOSBs (include VOSBs that are also SDBs, WOSBs and HUBZone SBs.).

**BLOCK 16:** Report all subcontracts awarded to service-disabled veteran-owned SB concerns that are also SDBs, WOSBs, and HUBZone SBs.

**BLOCK 17:** Enter a short narrative explanation if (a) SB, SDB, WOSB, VOSBs, Service-Disabled VOSBs, or HUBZone SB accomplishments fall below that which would be expected using a straight-line projection of goals through the period of contract performance; or (b) if this is a final report, any one of the three goals was not met.

## DEFINITIONS

1. Direct Subcontract Awards are those that are identified with the performance of one or more specific Government contract(s).

2. Indirect costs are those which, because of incurrence for common or joint purposes, are not identified with specific Government contracts; these awards are related to Government contract performance but remain for allocation after direct awards have been determined and identified to specific Government contracts.

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**DISTRIBUTION OF THIS REPORT**

**For the Awarding Agency or Contractor:**

The original copy of this report should be provided to the contracting officer at the agency or contractor identified in Block 8. For contracts with DOD, a copy should also be provided to the Defense Contract Management Agency (DCMA) at the cognizant Defense Contract Management Area Operations (DCMAO) office.

**For the Small Business Administration (SBA):**

A copy of this report must be provided to the cognizant Commercial Market Representative (CMR) at the time of a compliance review. It is NOT necessary to mail the SF 294 to SBA unless specifically requested by the CMR.

**Figure B-3. SF 294, Page 3**

<b>SUMMARY SUBCONTRACT REPORT</b> <i>(See instructions on reverse)</i>				OMB No.: 9000-0007 Expires: 09/30/2003	
Public reporting burden for this collection of information is estimated to average 15.9 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the FAR Secretariat (MVP), Acquisition Policy Division, GSA, Washington, DC 20405.					
1. CORPORATION, COMPANY OR SUBDIVISION COVERED			3. DATE SUBMITTED		
a. COMPANY NAME			4. REPORTING PERIOD: <input type="checkbox"/> OCT 1 - MAR 31 <input type="checkbox"/> OCT 1 - SEPT 30    YEAR		
b. STREET ADDRESS					
c. CITY		d. STATE	e. ZIP CODE		5. TYPE OF REPORT <input type="checkbox"/> REGULAR <input type="checkbox"/> FINAL <input type="checkbox"/> REVISED
2. CONTRACTOR IDENTIFICATION NUMBER					
6. ADMINISTERING ACTIVITY <i>(Please check applicable box)</i>					
<input type="checkbox"/> ARMY		<input type="checkbox"/> DEFENSE CONTRACT MANAGEMENT AGENCY		<input type="checkbox"/> DOE	
<input type="checkbox"/> NAVY		<input type="checkbox"/> NASA		<input type="checkbox"/> OTHER FEDERAL AGENCY <i>(Specify)</i>	
<input type="checkbox"/> AIR FORCE		<input type="checkbox"/> GSA			
7. REPORT SUBMITTED AS <i>(Check one)</i>			8. TYPE OF PLAN		
<input type="checkbox"/> PRIME CONTRACTOR		<input type="checkbox"/> INDIVIDUAL		IF PLAN IS A COMMERCIAL PLAN, SPECIFY THE PERCENTAGE OF THE DOLLARS ON THIS REPORT ATTRIBUTABLE TO THIS AGENCY. <span style="float: right;">▶</span>	
<input type="checkbox"/> SUBCONTRACTOR		<input type="checkbox"/> COMMERCIAL PRODUCTS			
<input type="checkbox"/> BOTH					
9. CONTRACTOR'S MAJOR PRODUCTS OR SERVICE LINES					
a			b		
<b>CUMULATIVE FISCAL YEAR SUBCONTRACT AWARDS</b> <i>(Report cumulative figures for reporting period in Block A)</i>					
TYPE				WHOLE DOLLARS	PERCENT (To nearest tenth of a %)
10a. SMALL BUSINESS CONCERNS <i>(Include SDB, WOSB, HBCU/MI, HUBZone SB, and VOSB (including Service-Disabled VOSB)) (Dollar Amount and Percent of 10c.)</i>					
10b. LARGE BUSINESS CONCERNS <i>(Dollar Amount and Percent of 10c.)</i>					
10c. TOTAL <i>(Sum of 10a and 10b.)</i>					100.0%
11. SMALL DISADVANTAGED BUSINESS (SDB) CONCERNS <i>(Include HBCU/MI) (Dollar Amount and Percent of 10c.)</i>					
12. WOMEN-OWNED SMALL BUSINESS (WOSB) CONCERNS <i>(Dollar Amount and Percent of 10c.)</i>					
13. HISTORICALLY BLACK COLLEGES AND UNIVERSITIES (HBCU) AND MINORITY INSTITUTIONS (MI) <i>(If applicable) (Dollar Amount and Percent of 10c.)</i>					
14. HUBZONE SMALL BUSINESS (HUBZone SB) CONCERNS <i>(Dollar Amount and Percent of 10c.)</i>					
15. VETERAN-OWNED SMALL BUSINESS (VOSB) CONCERNS <i>(Including Service-Disabled VOSB Concerns) (Dollar Amount and Percent of 10c.)</i>					
16. SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS CONCERNS <i>(Dollar Amount and Percent of 10c.)</i>					
17. REMARKS					
18. CONTRACTOR'S OFFICIAL WHO ADMINISTERS SUBCONTRACTING PROGRAM					
a. NAME		b. TITLE		c. TELEPHONE NUMBER	
				AREA CODE	NUMBER
19. CHIEF EXECUTIVE OFFICER					
a. NAME		c. SIGNATURE			
b. TITLE		d. DATE			
AUTHORIZED FOR LOCAL REPRODUCTION Previous edition is not usable				STANDARD FORM 295 (REV. 9-2001) Prescribed by GSA - FAR (48 CFR) 53.219(b)	

Figure B-4. SF 295, Front

## GENERAL INSTRUCTIONS

1. This report is not required from small businesses.
2. This form collects subcontract award data from prime contractors/subcontractors that: (a) hold one or more contracts over \$500,000 (over \$1,000,000 for construction of a public facility); and (b) are required to report subcontracts awarded to Small Business (SB), Small Disadvantaged Business (SDB), Women-Owned Small Business (WOSB), Veteran-Owned Small Business (VOSB), Service-Disabled Veteran-Owned Small Business, and HUBZone Small Business (HUBZone SB) concerns under a subcontracting plan. For the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Coast Guard, this form also collects subcontract award data for Historically Black Colleges and Universities (HBCUs) and Minority Institutions (MIs).
3. This report must be submitted semi-annually (for the six months ended March 31st and the twelve months ended September 30th) for contracts with the Department of Defense (DOD) and annually (for the twelve months ended September 30th) for contracts with civilian agencies, except for contracts covered by an approved Commercial Plan (see special instructions in right-hand column). Reports are due 30 days after the close of each reporting period.
4. This report may be submitted on a corporate, company, or subdivision (e.g., plant or division operating on a separate profit center) basis, unless otherwise directed by the agency awarding the contract.
5. If a prime contractor/subcontractor is performing work for more than one Federal agency, a separate report shall be submitted to each agency covering only that agency's contracts, provided at least one of that agency's contracts is over \$500,000 (over \$1,000,000 for construction of a public facility) and contains a subcontracting plan. (Note that DOD is considered to be a single agency; see next instruction.)
6. For DOD, a consolidated report should be submitted for all contracts awarded by military departments/agencies and/or subcontracts awarded by DOD prime contractors. However, DOD contractors involved in construction and related maintenance and repair must submit a separate report for each DOD component.
7. Only subcontracts involving performance in the U.S. or its outlying areas should be included in this report.
8. Purchases from a corporation, company, or subdivision that is an affiliate of the prime/subcontractor are not included in this report.
9. Subcontract award data reported on this form by prime contractors/subcontractors shall be limited to awards made to their immediate subcontractors. Credit cannot be taken for awards made to lower tier subcontractors.
10. See special instructions in right-hand column for Commercial Plans.

## SPECIFIC INSTRUCTIONS

- BLOCK 2:** For the Contractor Identification Number, enter the nine-digit Data Universal Numbering System (DUNS) number that identifies the specific contractor establishment. If there is no DUNS number available that identifies the exact name and address entered in Block 1, contact Dun and Bradstreet Information Services at 1-800-333-0505 to get one free of charge over the telephone. Be prepared to provide the following information: (1) Company name; (2) Company address; (3) Company telephone number; (4) Line of business; (5) Chief executive officer/key manager; (6) Date the company was started; (7) Number of people employed by the company; and (8) Company affiliation.
- BLOCK 4:** Check only one. Note that March 31 represents the six months from October 1st and that September 30th represents the twelve months from October 1st. Enter the year of the reporting period.
- BLOCK 5:** Check whether this report is a "Regular," "Final," and/or "Revised" report. A "Final" report should be checked only if the contractor has completed all the contracts containing subcontracting plans awarded by the agency to which it is reporting. A "Revised" report is a change to a report previously submitted for the same period.
- BLOCK 6:** Identify the department or agency administering the majority of subcontracting plans.
- BLOCK 7:** This report encompasses all contracts with the Federal Government for the agency to which it is submitted, including subcontracts received from other large businesses that have contracts with the same agency. Indicate in this block whether the contractor is a prime contractor, subcontractor, or both (check only one).
- BLOCK 8: Check only one.** Check "Commercial Plan" only if this report is under an approved Commercial Plan. For a Commercial Plan, the contractor must specify the percentage of dollars in Blocks 10a through 15b attributable to the agency to which this report is being submitted.
- BLOCK 9:** Identify the major product or service lines of the reporting organization.
- BLOCKS 10a through 16:** These entries must include all subcontract awards resulting from contracts or subcontracts, regardless of dollar amount, received from the agency to which this report is submitted. If reporting as a subcontractor, report all subcontracts awarded under prime contracts. Amounts must include both direct awards and an appropriate prorated portion of indirect awards. (The indirect portion is based on the percentage of work being performed

for the organization to which thereport is being submitted in relation to other work being performed by the prime contractor/subcontractor.) Do not include awards made in support of commercial business unless "Commercial" is checked in Block 8 (see Special Instructions for Commercial Plans in right hand column). Report only those dollars subcontracted this fiscal year for the period indicated in Block 4.

**BLOCK 10a:** Report all subcontracts awarded to SBs including subcontracts to SDBs, WOSBs, VOSBs, Service-Disabled VOSBs, and HUBZone SBs. For DOD, NASA, and Coast Guard contracts, include subcontracting awards to HBCUs and MIs.

**BLOCK 10b:** Report all subcontracts awarded to large businesses (LBs).

**BLOCK 10c:** Report on this line the grand total of all subcontracts (the sum of lines 10a and 10b).

**BLOCKS 11 through 16:** Each of these items is a subcategory of Block 10a. Note that in some cases the same dollars may be reported in more than one block (e.g., SDBs owned by women); likewise subcontracts to HBCUs or MIs should be reported on both Block 11 and 13.

**BLOCK 11:** Report all subcontracts awarded to SDBs (including women-owned, veteran-owned, service-disabled VOSBs, and HUBZone SB SDBs). For DOD, NASA, and Coast Guard contracts, include subcontract awards to HBCUs and MIs.

**BLOCK 12:** Report all subcontracts awarded to WOSB firms (including SDBs, VOSBs, service-disabled VOSBs, and HUBZone SBs owned by women).

**BLOCK 13:** (For contracts with DOD, NASA, and Coast Guard): Enter the dollar value of all subcontracts with HBCUs/MIs.

**BLOCK 14:** Report all subcontracts awarded to HUBZone SBs (including women-owned, veteran-owned, service-disabled VOSBs, and SDB HUBZone SBs).

**BLOCK 15:** Report all subcontracts awarded to VOSBs (including women-owned, SDB, and HUBZone SB VOSBs).

**BLOCK 16:** Report all subcontracts awarded to service disabled VOSBs (including Service-Disabled Veteran Owned Small Business Concerns that are SDBs, WOSBs, and HUBZone SBs). These subcontracts should also be reported in Block 15.

## SPECIAL INSTRUCTIONS FOR COMMERCIAL PLANS

1. This report is due on October 30th each year for the previous fiscal year ended September 30th.
2. The annual report submitted by reporting organizations that have an approved company-wide annual subcontracting plan for commercial items shall include all subcontracting activity under commercial plans in effect during the year and shall be submitted in addition to the required reports for other-than-commercial items, if any.
3. Enter in Blocks 10a through 15b the total of all subcontract awards under the contractor's Commercial Plan. Show in Block 8 the percentage of this total that is attributable to the agency to which this report is being submitted. This report must be submitted to each agency from which contracts for commercial items covered by an approved Commercial Plan were received.

## DEFINITIONS

1. Direct Subcontract Awards are those that are identified with the performance of one or more specific Government contract(s).
2. Indirect Subcontract Awards are those which, because of incurrence for common or joint purposes, are not identified with specific Government contracts; these awards are related to Government contract performance but remain for allocation after direct awards have been determined and identified to specific Government contracts.

## SUBMITTAL ADDRESSES FOR ORIGINAL REPORT

For DOD Contractors, send reports to the cognizant contract administration office as stated in the contract.

For Civilian Agency Contractors, send reports to awarding agency:

1. NASA: Forward reports to NASA, Office of Procurement (HS), Washington, DC 20546
2. OTHER FEDERAL DEPARTMENTS OR AGENCIES: Forward report to the OSDBU Director unless otherwise provided for in instructions by the Department or Agency.

## FOR ALL CONTRACTORS:

SMALL BUSINESS ADMINISTRATION (SBA): Send "info copy" to the cognizant Commercial Market Representative (CMR) at the address provided by SBA. Call SBA Headquarters in Washington, DC at (202) 205-6475 for correct address if unknown.

STANDARD FORM 295 (REV. 9-2001) BACK

Figure B-5. SF 295, Back

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## Appendix C. Summary of Issues and Results

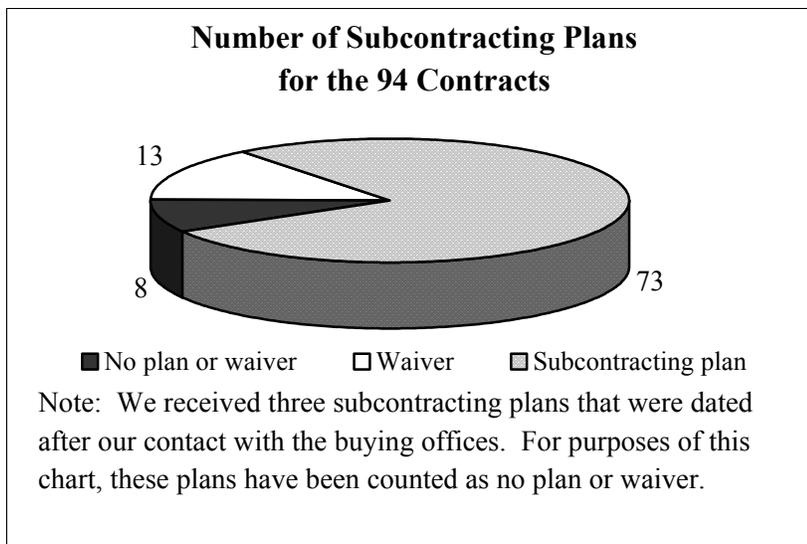
The results of the issues raised in a congressional request regarding concern about the enforcement of subcontracting requirements in small business programs, particularly the apparent neglect of the HUBZone program by 16 specified DoD prime contractors, are discussed below.

**Background.** The SF 295s provided to us by Senator Bond for the 16 DoD prime contractors reported only subcontracting awards made during the first half of FY 2001. In FYs 2000 and 2001, DoD awarded 94 prime contracts that exceeded the \$500,000 requirement for the submittal of a subcontracting plan to 14 of the 16 contractors. Two of the 16 contractors did not receive any FYs 2000 and 2001 DoD contracts valued over \$500,000.

**Issue 1.** Did the contracts represented by the 16 contractors' SF 295s include proper subcontracting plans when required by statute?

**Audit Results.** No, not all but most of the contracts we reviewed contained proper subcontracting plans or waivers to the submission of a plan.

The buying offices incorporated subcontracting plans within 73 of the 94 contracts; however, 4 plans did not mention the HUBZone program or include HUBZone goals. In addition, the procurement contracting officers waived the subcontracting requirement for 13 contracts, because the contractors identified that no subcontracting opportunities existed. We identified only eight contracts that did not include either a subcontracting plan or a waiver to the submission of a plan.



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Six buying offices identified different reasons why the eight contracts did not include a subcontracting plan or waiver.

- For three contracts, the buying offices did not receive the subcontracting plans and were unaware that the documents were missing until we asked for a copy to review.
- For two contracts, the buying offices thought the \$500,000 threshold was a requirement only for the base year and did not include the option years. The FAR requires contracting officers to include the value of options or similar provisions in determining whether the \$500,000 threshold is met.
- A buying office received and reviewed the subcontracting plan; however, it failed to incorporate the plan into the contract. After we asked for a copy of the plan to review, the buying office issued a modification to incorporate the plan. The plan did not mention the HUBZone program or include a HUBZone goal.
- A buying office thought the contractor that was awarded the contract was a small business. The FAR does not require small businesses to complete a subcontracting plan.
- For the last contract, the procurement contracting officer that awarded the contract was no longer at the buying office and the contracting personnel at the buying office could not determine why a plan was not submitted based on the information that was included in the contract file.

**Issue 2a.** What Federal agency is responsible for monitoring the 16 contractors' compliance with subcontracting plans and did the Federal agency perform such reviews?

**Audit Results.** DCMA is responsible for and has performed compliance reviews for the 16 specified DoD prime contractors. DCMA conducts compliance reviews of DoD contractors' small business programs that includes an analysis of the contractor's performance on small business subcontracting goals for individual subcontracting plans. DCMA San Francisco officials conducted small business compliance reviews for about 55 contractors, including the 16 specified DoD prime contractors. DCMA San Francisco officials conduct these reviews usually on an annual basis throughout the year.

**Issue 2b.** Did the agency review supporting documentation or rely on representations by the contractor for monitoring the 16 contractors' compliance with subcontracting?

**Audit Results.** They review, as applicable, written subcontracting policies and procedures, outreach and supplier assistance, company training and recognition, record keeping, and flow-down requirements. They also review the most recent SF 294 and SF 295 submissions (depending on the date of the review, these can be as old as 6 months), and the contractors' progress in meeting their SF 294 goals and reasons for failing to meet any of the goals. DCMA San Francisco

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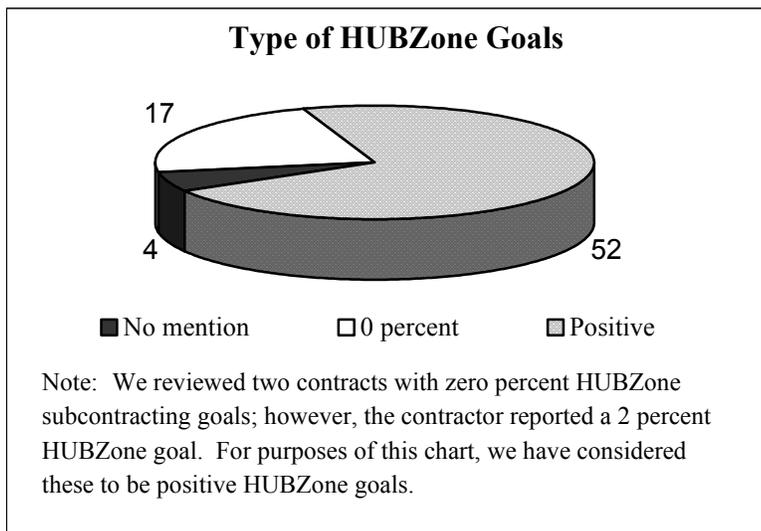
small business officials indicated, within the summaries of their reviews of the contractors' subcontracting programs, that they sampled purchase orders as necessary and reviewed contractor-provided information. However, we identified several cases where contractors were misreporting HUBZone subcontracting awards. (See the Finding for a summary of these issues.)

We attended with DCMA small business officials a small business program review of one contractor. During the review, DCMA small business officials verbally instructed the contractor that it could only report SBA-certified HUBZone contractors on its SF 295 and SF 294. The contractor specified that the reported amounts included both SBA-certified and self-certified HUBZone contractors. DCMA personnel requested a revised SF 295, with the contractor reporting only SBA-certified HUBZone small businesses. A revised SF 295 was provided 2 months later, after the contractor reviewed the vendor list and recomputed the HUBZone subcontract awards for FY 2001.

**Issue 3.** Did the subcontracting plans submitted by the 16 contractors include separate percentage goals and dollar values to be subcontracted to HUBZone small business concerns?

**Audit Results.** Yes. Generally the subcontracting plans contained separate percentage goals and dollar values to be subcontracted to HUBZone small business concerns.

The contractors included a section to indicate the small business subcontracting goals and total dollars to be subcontracted to small businesses for 69 of the 73 subcontracting plans. The contractors included positive HUBZone goals for 52 plans and a zero percent HUBZone goal for 17 plans. We identified only 4 of the 73 subcontracting plans that did not include separate percentage goals and dollar values to be subcontracted to HUBZone small business concerns.



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**Issue 4a.** Are the 16 contractors in compliance with their subcontracting plans?

**Audit Results.** No. As of January 14, 2002, only 4 of the 16 contractors had completed a total of 7 contracts with positive HUBZone subcontracting goals. We found no evidence that HUBZone subcontracting opportunities were achieved on any of these contracts. We did not review whether the contractors were in compliance with other aspects of their subcontracting plans.

Additionally, 8 other contracts were completed by January 14, 2002; however,

- For two contracts, the contractors did not identify HUBZone goals within the subcontracting plans.
- For four contracts, the contractors submitted zero percent HUBZone goals within the subcontracting plans.
- For two contracts, the buying offices waived the subcontracting requirement. However, the contractors reported SF 294s for those contracts, even though they did not have a subcontracting plan approved. One contractor reported a zero percent goal and the other reported a 32 percent goal. Neither contractor awarded any subcontracts to HUBZone small businesses.

In addition, 45 contracts with positive HUBZone subcontracting goals remained open and the contractors could still achieve these goals. Until the contractors complete their subcontracting efforts with the contracts, it cannot be determined whether the contractors will meet their planned HUBZone goals.

**Issue 4b.** If the contractors are in compliance with their subcontracting plans, why did contracting agencies accept small or zero HUBZone goals?

**Audit Results.** Procurement contracting officers accepted small or zero HUBZone goals when the contractors justified that there were limited or no subcontracting opportunities for HUBZone small businesses.

The contractors provided the following reasons for providing limited or no subcontracting opportunities to HUBZone small businesses:

- there were a limited number of SBA-certified HUBZone small businesses,
- HUBZone small businesses could not perform the work or level of effort required by the prime contractor, and
- it was less cost effective to the Government.

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**Issue 4c.** Is the noncompliance with subcontracting plans recorded to aid contracting officers in assessing likely compliance with future subcontracting plans?

**Audit Results.** Yes. The Assistant Director for Small Business at DCMA San Francisco maintains a past performance analysis of completed contracts for each of the 16 contractors. Procurement contracting officers are privy to the past performance data; however, according to DCMA officials, only a few procurement contracting officers have requested the information.

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## Appendix D. Subcontracting Issues

During our review of the DoD prime contractors subcontracting with HUBZone small businesses, we noted the following management practices regarding the incorporation of subcontracting clauses and the submission, approval, and administration of subcontracting plans, goals, and waivers by several buying offices. The buying offices did not always adhere to best management practices in these efforts; however, these situations did not occur in sufficient instances to determine whether a trend existed or to support a recommendation for corrective action. For a listing of the 21 buying offices reviewed, see the list of sites at the end of this appendix.

### Subcontracting Clauses

- Three buying offices incorporated the contracting clauses requiring the submission of a subcontracting plan in the solicitation and did not list the clauses in the contract. Usually the administrative contracting officers and DCMA small business specialists only receive the contract and would not know that the contract required a subcontracting plan unless the clauses were included in the contract. (Sites 4, 5, and 8)
- Seventeen contracts at 2 buying offices used an outdated Air Force Material Command Supplement FAR clause to incorporate the subcontracting plan into the contract. Air Force Material Command Supplement FAR clause 5352.219-9000, "Incorporation of Subcontracting Plan," (July 1997) did not reference the following small business concern goals: HUBZone, Veteran-Owned, and Service-Disabled Veteran-Owned. On 4 of 17 contracts, the contracting officer added the HUBZone goal to the clause in the contract; however, on 13 of the contracts the contracting officers did not specify the HUBZone goal. (Sites 14 and 18)

### Subcontracting Plans and/or Goals

- Contracts at three buying offices did not identify subcontracting plans and goals within the contracts themselves. The contracts contained only the applicable FAR clause requiring the submission of a subcontracting plan. To simplify the process of administering the subcontracting plans, it would be prudent to incorporate either the plan or at least the goals into the contract. (Sites 4, 14, and 19)
- Contracting officers at two buying offices requested three subcontracting plans after they had issued the contracts, and after the audit team contacted them concerning the contracts. (Sites 8 and 12)
- One buying office waived the subcontracting plan requirement even though the subcontractor had submitted a subcontracting plan. (Site 13)

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- At eight buying offices, the small business specialist did not review the subcontracting plan. Although not required by the FAR, we believe that it is good management practice for procurement contracting officers to request that small business specialists review a subcontracting plan.
    - One buying office did not have a small business specialist at the time when the contractor submitted the subcontracting plan. The buying office now has a small business specialist. (Site 7)
    - At one buying office, the contracting officer did not forward two subcontracting plans for review since the plan included goals that met the buying office's small business requirements. (Site 8)
    - One buying office did not forward one subcontracting plan and the small business specialist did not review one plan received. (Site 19)
    - Two buying offices overlooked submitting the plans for review to the small business specialist. (Sites 2 and 17)
    - Two buying offices waived the requirements to meet mandated goals. One buying office did not provide the plan to the small business specialist since it waived the requirements to meet these goals. Another buying office provided the waiver to the goals and the subcontracting plan to the small business specialist; however, the small business specialist did not review the plan or the waiver since the contracting officer waived the goals. (Sites 10 and 14)
    - Another buying office could not provide any documentation showing that the small business specialist had reviewed the plan. (Site 18)
  - Six subcontracting plans at one buying office did not include a HUBZone goal. Two of the plans identified the HUBZone program and the actions the contractor was taking to try to establish a historical base in which to develop future goals. The other four plans did not mention the HUBZone program, but the contracting officer did discuss with the contractors the reasons why they did not include a HUBZone goal within their subcontracting plan. One contractor submitted three of these plans. Contracting officers should not permit a contractor to repeatedly submit subcontracting plans with no mention of the HUBZone goal or program. (Site 18)
  - One buying office mistakenly identified a contractor as a small business and thus did not require it to submit a subcontracting plan. The FAR exempts small businesses from submitting subcontracting plans. (Site 16)

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- One buying office on two contracts was confused about when to include the subcontracting clauses and request a subcontracting plan. Contracting officers at the buying office believed the \$500,000 threshold was for the basic contract award amount and not for the entire contract award. The FAR requires contracting officers to include the value of options or similar provisions in determining whether the \$500,000 threshold is met. (Site 19)
  - One buying office received and approved the subcontracting plan prior to contract award in June 2000, but did not incorporate the plan into the contract until after we contacted them in May 2002 concerning the contract. (Site 9)
  - One contract had multiple plans that contained unrealistic HUBZone goals. The contractor was including these goals because they were Government-recommended goals. The contractor did not anticipate meeting these mandated HUBZone goals. (Site 18)

### **Waivers**

- Contracting officers at two buying offices were not providing the small business office a copy of the waiver if they implemented one. Generally, it was normal procedure for small business specialists not to review waivers. However, we believe that small business specialists with their expertise should review waivers to ensure that the contractor or contracting officer rationale for not subcontracting is valid. (Sites 10 and 18)
- A contracting officer at one buying office did not receive a subcontracting plan and therefore issued a waiver for the submission of the subcontracting plan. The contractor subsequently developed a subcontracting plan and is reporting a SF 294 to DCMA, even though the buying office issued the waiver and had not approved the subcontracting plan. (Site 10)
- We identified instances in which the contracting officer did not provide the subcontracting plan or waiver to the cognizant contract administration office, DCMA. The FAR requires that a contracting officer provide the cognizant contract administration office a copy of each plan or the determination that there is no requirement for a subcontracting plan (waiver). For example, DCMA San Francisco provided a buying office DD Form 1716, "Contract Data Package Recommendation/Deficiency Report," requesting a copy of the subcontracting plan since the contract included the applicable FAR clauses and was over \$500,000 but did not incorporate a subcontracting plan. Subsequently, the buying office provided a copy of the approved waiver to submission of the subcontracting plan. (Sites 14 and 18)

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## **Buying Offices Reviewed**

### **Army**

1. Aviation and Missile Command, Redstone Arsenal, Alabama
2. Communications-Electronics Command, Fort Monmouth, New Jersey
3. Space and Missile Defense Command, Huntsville, Alabama
4. Tank-Automotive and Armaments Command, Picatinny Arsenal, New Jersey

### **Navy**

5. Fleet and Industrial Supply Center, Bremerton, Washington
6. Fleet and Industrial Supply Center, Norfolk Detachment Washington, Washington, D.C.
7. Marine Corps Systems Command, Quantico, Virginia
8. Naval Inventory Control Point, Philadelphia, Pennsylvania
9. Naval Sea Systems Command, Crane, Indiana
10. Space and Naval Warfare Systems Center, San Diego, California
11. Strategic Systems Programs, Washington, D.C.

### **Air Force**

12. Air Armament Center, Eglin Air Force Base, Florida
13. Air Force Materiel Command, Air Force Research Lab, Wright Patterson Air Force Base, Ohio
14. Air Force Research Lab, Rome, New York
15. Flight Test Center, Edwards Air Force Base, California
16. Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma City, Oklahoma
17. Space and Missile Systems Center, Kirtland Air Force Base, New Mexico
18. Warner Robins Air Logistics Center, Robins Air Force Base, Warner Robins, Georgia

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**Other Defense Agencies**

19. Defense Supply Center, Columbus, Ohio
20. Defense Supply Center, Richmond, Virginia
21. Maryland Procurement Office, Fort Meade, Maryland

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## **Appendix E. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
  Director, Defense Procurement  
  Director, DoD Office of Small and Disadvantaged Business Utilization  
  Director, Acquisition Initiatives  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
  Deputy Chief Financial Officer  
  Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Contract Management Agency  
  Commander, Defense Contract Management Agency West  
  Commander, Defense Contract Management Agency–San Francisco  
Director, Defense Logistics Agency  
Director, National Security Agency

### **Non-Defense Federal Organizations and Individuals**

Office of Federal Procurement Policy  
General Accounting Office  
Small Business Administration

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Committee on Small Business and Entrepreneurship  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Committee on Small Business  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

Honorable Christopher S. Bond, U.S. Senate



# DoD Office of Small and Disadvantaged Business Utilization Comments



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

23 SEP 2002

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Historically Underutilized Business Zones (HUBZones) Subcontracting

Reference: Report on Department of Defense Contractor Subcontracting with Historically Underutilized Business Zones (HUBZones) Small Businesses (Project No. D2001CK-0193).

The referenced report has been reviewed and discussed with the Defense Contract Management Agency. As a result of our review and discussions, we concur in principle with the recommendations offered. The issues raised by the report, however, require a comprehensive department-wide response to ensure that the policy associated with reporting HUBZone subcontract awards is clear and adequately informs prime contractors which subcontracts should be reported as HUBZone subcontract awards. The policy governing the reporting of subcontract awards must (a) require prime contractors verify the status of small businesses as certified HUBZone small businesses by the Small Business Administration (SBA) before subcontracts are reported as HUBZone subcontract awards on the Standard Form (SF) 294 and SF 295, and (b) inform prime contractors how such verification can be accomplished.

Accordingly, within the next thirty days, I will request the initiation of a Federal Acquisition Regulation (FAR) case. The FAR case will request that SF 294 and SF 295 be revised to include instructions that indicate only subcontracts to small businesses certified by the SBA as HUBZone small businesses are to be reported as HUBZone subcontract awards, and to identify the SBA designated source for verifying the status of small businesses as SBA HUBZone small businesses. The FAR case will also request that the FAR be revised to include a requirement for prime contractors to verify the status of small businesses claiming to be HUBZone certified.

The point of contact for this action is Mr. Ivory Fisher. He may be contacted at (703) 588-8616.



FRANK M. RAMOS  
Director, Office of Small  
and Disadvantaged Business Utilization



# Defense Contract Management Agency Comments



**DEFENSE CONTRACT MANAGEMENT AGENCY**  
6350 WALKER LANE  
ALEXANDRIA, VA 22310-3226

SEP 19 2002

IN REPLY  
REFER TO DCMA-OCA

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

**SUBJECT:** Report on DoD Contractor Subcontracting with Historically Underutilized Business Zones (HUBZones) Small Business (Project No. D2001-0193)

This is the Defense Contract Management Agency (DCMA) response to the subject DoD-IG report.

**FINDING:** Reporting of HUBZone Small Business Subcontracting Awards. Five of the 16 DoD prime contractors reviewed incorrectly reported their FY2001 HUBZone small business subcontracting awards by about \$1.34 million in their summary subcontracting reports to DoD.

- Subcontractors incorrectly represented themselves as SBA-certified HUBZone small business concerns.
- The contractors did not follow DCMA San Francisco guidance concerning the verification of their HUBZone subcontracting awards through SBA prior to reporting them on their summary subcontracting reports.
- DCMA San Francisco did not adequately review the contractors' subcontracting programs to ensure that they were only reporting SBA-certified HUBZone contractors.

As a result, the contractors overstated their HUBZone small business subcontracting awards by about \$1.34 million (77 percent) of a total of about \$1.74 million for the 16 contractors, which was incorporated into and overstated the HUBZone subcontracting awards in the FY2001 DoD P-14 report.

DCMA Comments: Concur

Presently, during surveillance reviews each reviewer determines its sampling methodology. For HUBZones, based on the noted finding, will perform a root cause analysis to identify if any systemic issue as a result of your finding and develop a corrective action from the results of the analysis.

**Recommendation 1:** We recommend that the Director, Defense Contract Management Agency direct the Assistant Director of Small Business at the Contract Management Offices to issue memoranda to the contractors that when preparing the Standard Form 294 and Standard Form 295, the contractor shall verify the HUBZone status of a contractor through the Small Business Administration prior to reporting the subcontractor as a HUBZone small business concern. Additionally, the guidance should reiterate that contractors can report only actual subcontracting awards.

DCMA Comments: Concur until OSD changes guidance and we will request OSD to change guidance.

DCMA does not own the Subcontracting Report for Individual Contracts, Standard Form 294 (SF294), nor the Summary Subcontract Report, Standard Form 295 (SF295).

The Office of the Under Secretary of Defense, Small and Disadvantaged Business Utilization, in conjunction with Small Business Administration, will be requested to initiate a Defense Federal Acquisition Regulation Supplement case to revise the SF 294 and SF 295 forms and instructions.

Disposition:

Action is ongoing. ECD:

Action is considered complete

Recommendation 2: We recommend that the Director, Defense Contract Management Agency direct the Assistant Director of Small Business at the Contract Management Offices to develop or revise local Standard Form 294 and Standard Form 295 preparation instructions to include detailed guidance requiring DoD prime contractors to verify a contractor's HUBZone status through the Small Business Administration's List of Qualified HUBZone Small Business Concerns or PRO-Net. Also, the preparation instructions should include specific guidance directing contractors on how to submit revised or corrected reported subcontracting amounts.

DCMA Comments: Concur until OSD changes guidance and we will request OSD to change guidance as stated Recommendation 1.

Disposition:

Action is ongoing. ECD:

Action is considered complete

Recommendation 3: We recommend that the Director, Defense Contract Management Agency direct the Assistant Director of Small Business at the Contract Management Offices to implement a plan for reviewing and verifying prime contractors' reported HUBZone subcontracting awards to ensure that all HUBZone reported subcontracting awards are to Small Business Administration-certified HUBZone contractors.

DCMA Comments: Concur

DCMA will incorporate as part of the restructure of the DCMA Compliance Review Report, a process to ensure prime contractors' reported HubZones subcontracting awards reported are Small Business Administration-certified HubZones contractors. DCMA has a current action to modify the Compliance Review Report to reflect the level of analysis required for a sufficient review of contractor subcontracting program. As of this date the Small Business Directors are reviewing draft template.

Disposition:

Action is ongoing. ECD: December 15, 2002

Action is considered complete

POC for this action is Ms. Terry Moore, (703) 428-0460, email: tmoore1@hq.dema.mil.



ROBERT W. SCHMITT  
Executive Director  
Contract Management Operations

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## **Team Members**

The Contract Management Directorate, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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