

**SUBCOMMITTEE ON
CONTRACTING AND TECHNOLOGY
HEARING ON ENSURING STIMULUS
CONTRACTS FOR SMALL AND VETERAN OWNED
SMALL BUSINESSES**

HEARING

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES**

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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**SUBCOMMITTEE ON
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AND VETERAN OWNED BUSINESSES**

Thursday, March 12, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Glenn Nye [chairman of the Subcommittee] presiding.

Present: Representatives Nye, Clarke, Halvorson, Schock and Thompson.

Chairman NYE. Good morning. I would like to call the Subcommittee to order.

I am going to make a brief opening statement. First of all, thank you all for being here today, and it is a very important topic that we are going to discuss, and I appreciate you coming over.

I also want to say I really appreciate our other panelists. The second panel are members of our small business community and our veteran-owned small business committee, for joining us today.

I am going to make a brief opening statement, and then I am going to turn it over to our Ranking Member Mr. Schock to do the same, and we will proceed to hear your testimony.

As our nation digs its way out of the current economic downturn, small businesses will be vital to our efforts. In every previous recession, small firms have acted as job creating catalysts, putting our nation back on the path to recovery and helping to revitalize our economy.

Even today small businesses create 60 to 80 percent of new jobs. The recently passed Economic Recovery and Reinvestment Act will provide entrepreneurs with important tools to help them again lead the nation back to prosperity.

During today's hearing, we will evaluate the plans of some of the key agencies charged with administering projects under the Recovery Act. In particular, we will look at how they intend to engage veteran-owned businesses and insure that this sector receives its fair share of opportunities.

In recent years, veterans have played an increasingly prominent role in the small business community. After reentering civilian life, many former service members decided to go into business for themselves. Veteran entrepreneurs often have the skills that make them

a natural fit for the federal marketplace, and given their knowledge of the federal government, they frequently have a unique understanding of what procurement offices are looking for and need.

The Recovery Act is expected to create work in many sectors that are veteran dominated, like engineering, telecoms, project management, and construction. And given these realities, it would be logical to conclude that veteran-owned small businesses will see a significant growth as a result of the Economic Recovery Act.

However, if history is any guide, there is reason to be concerned. The federal government has not once in the last eight years reached its small business contracting goals, and even more shameful, the government has not met its modest goal of providing three percent of contracts to service disabled members.

Now, given this track record, it's easy to understand why veteran entrepreneurs fear they may be overlooked now, and that would be unacceptable. Those who have sacrificed for our nation deserve a fair chance to compete for this new business. I think everyone acknowledges the importance of paying tribute to veterans, especially at times like these. However, when it comes to honoring those who have served, I would suggest that veteran entrepreneurs are looking for and, indeed, deserve more than just lip service. They want the opportunity to work and contribute to our nation's economic recovery.

If veteran entrepreneurs are going to get a fair shake, then the agencies before us need to be engaged. That means outreach to the veterans community, informing veterans of the available contracts and insuring that there are resources dedicated to helping veterans navigate the procurement process.

There is no time to lose. The Recovery Act calls for 70 percent of recovery funds to be obligated in the next 18 months, and a substantial number of these contracts will be ready to go in 180 days. Agencies need to make preparations now if they are going to do right by small businesses and our veteran entrepreneurs.

Today, this Committee is putting government agencies on notice. We will not accept the tired excuse that the need to move hastily and sheer volume of contracts resulted in an inadvertent oversight of veteran owned businesses. If that happens, veterans will not be the only ones losing. U.S. taxpayers will, too.

In many cases veteran entrepreneurs provide the best value for the taxpayer dollar. When veterans perform federal contracting work, it is a win-win. We create opportunity for those who have served our nation and ultimately the government receives high quality products and services at more competitive prices.

Now, before I yield to Mr. Schock, our Ranking Member, for an opening statement, I just want to again thank all of our witnesses for being here. In particular, I want to thank the veteran-owned businesses who traveled from far and wide, including a number from the Virginia Second Congressional District, who waited an extra three hours yesterday in traffic to get up here. So thank you for taking the time to make it to be here with us, to share with us your stories today.

And with that I want to yield to Mr. Schock, our Ranking Member, for his opening statement.

Thank you.

Mr. SCHOCK. Thank you, Chairman Nye.

I want to thank the Chairman for calling this meeting today, which will increase the oversight of our efforts to insure our nation's small business are fairly represented in the recently enacted American Recovery and Reinvestment Act.

I also want to thank our panel of witnesses here today who have taken the time to travel, as was mentioned, some from far distances to help address this issue.

I am hopeful that they will speak on behalf of previous experiences and also future plans for the potential usage and protection of small businesses and the specific funds associated with this legislation.

As we all know, small businesses represent the single most important sector of the American economy. They represent our nation's greatest ingenuity, economic drive, and are the direct result of the American entrepreneurial spirit. Small business provide a domestic resource for homemade goods and products, the craftsmanship which is rarely matched anywhere in the world.

Of further significance are those small businesses run by our nation's veterans. This group of business men and women represent some of the most capable and qualified anywhere in our country. The dedication and honor that many of these individuals took day to day with them during their active service to this country is in very much the same manner in which they operate their small business.

That said, our small businesses are suffering. they are being pinched from the credit markets, the labor markets, and over-reaching regulations, all while they are trying to stay profitable during the worst economic downturn since the Great Depression.

When I first heard the idea of some sort of stimulus aimed at small businesses to help bolster our economy, I was optimistic for the potential opportunity and growth for those who create the most jobs in our economy, our small businesses. As I have said many times, there is not a member of this House that does not want to vote for a stimulus package.

However, as the details emerged of the legislation that was passed, my optimism changed to skepticism and then ultimately pessimism. The more I heard about the American Recovery and Reinvestment Act, the less that I liked: less than six percent for infrastructure and less than one percent for American small businesses. With such a low amount of this bill directed towards truly stimulus related projects, there are even fewer protections for American small businesses to convince myself, along with a number of my colleagues, that the job creating small business sector will receive the number of federal contracts that it truly deserves.

It was this lack of guarantee for aid to small businesses or the potential for such which led to my opposition to the so-called stimulus, something that could truly not be stimulative if it offers no real aid to the sector of our economy which can have the most direct impact on the American workforce, our small businesses.

That said, today we are here to identify how we can insure that the funding in the American Recovery and Reinvestment Act specifically designated for our nation's small businesses will actually reach its intend recipients. During the debate of House Resolution

1, I offered a bipartisan amendment with my colleague Adam Smith of Washington, which would have insured the government's ability to trade stimulus dollars from the federal government to the state level, to specific towns and finally for what projects.

The purpose for this amendment would have required the citation of the awarded contractor and in some instances the subcontractor in charge of carrying out each project. At the same time, this amendment would have required the full announcement and disclosure of all stimulus related bids be posted on the recovery.gov Website, fully visible to any and all small businesses within a given region.

Unfortunately, such an amendment was not adopted. However, I urge this Committee to consider a similar approach. The burden of this type of disclosure in reporting should be on the federal government to clearly indicate the intended spending of taxpayer dollars, not on small businesses to comb classifieds to look for project announcements.

My ultimate fear remains that because of the time sensitive nature of this stimulus funding, it will be distributed in large quantities rashly, without appropriate deliberation or traceability with the reporting on recovery.gov being a shadow of what was promised.

I also worry that we will be revisiting this issue again in two years or four years or several months once we learn again that the proper portion of small business contracts was not reached and we hold hearings to try and find out what went wrong.

As our nation has seen from previous experiences, the federal government is not always the best steward of taxpayer dollars. Each year federal agencies at all levels fall short of their promised contracting levels for small businesses. Today I ask all of you: how can we avoid these shortcomings of the past, and what assurances can the agencies before us here today provide that these mistakes won't happen again.

I am hopeful here today we can find some answers to these questions and others as we consider how to effectively insure one of the largest distribution of taxpayer dollars is directed into those economic sectors which can do the most good, our nation's small businesses.

Thank you for you being here, and I yield back to you, Mr. Chairman.

Chairman NYE. Thank you, Mr. Schock.

I now want to provide an opportunity to any other members present to make any opening statements or comments if they wish.

I would yield to Ms. Clarke.

Ms. CLARKE. Thank you very much, Chairman Nye and Ranking Member Schock, for holding this very important hearing.

I would like to start off by thanking our witnesses for attending today. I think this is a very important microcosm of our nation's small business sector. For me it is critical that we make sure that the veterans of our nation get their fair share of opportunity and of growth and development. Actually it speaks to who we are as a nation, and the best way for us to thank our service women and men is to create viable pathways to successful job creation.

To encourage and support our veteran-owned businesses and entrepreneurs is an honor for us, something that we must do and are obliged to do. And so as I listen to my colleagues and put it in the context of the Recovery and Reinvestment Act, I know that provision has been made in the act for small business. It becomes our obligation to make sure that it gets to veteran-owned businesses, to make sure that we monitor and make sure that your businesses grow, that your entrepreneurial spirit flourishes.

And I am more optimistic that with our strident oversight and accountability that we can make it work. In the words of a very popular culture song, I say to you today don't worry; be happy.

Thank you very much, Mr. Chairman.

Chairman NYE. Thank you, Ms. Clarke.

I would offer to yield to Mr. Thompson.

Mr. THOMPSON. Thank you, Chairman.

I just want to say I want to thank the Chairman and Ranking Member for this opportunity for this hearing. As a member of a military family, this is a topic that is near and dear to my heart.

As our country looks at challenging economic times, you know, we have a lot of things to be concerned about, but certainly one of the things that gives me the greatest hope are our sons and daughters that have served and are serving right now and either are back or will be coming back to this country with that sense of service that they have exercised in doing their duty for the country, and the opportunities we are talking about today will be good for them, but frankly, they are good for our country as well in terms of the entrepreneurship.

So I want to thank the panel for coming in. I am looking forward to spending most of my time in interchange with you folks after we hear your testimony.

So thank you very much.

Chairman NYE. Okay. Thank you, Mr. Thompson.

I am proud to note that you are going to be giving your testimony today to a bipartisan group up here. We are really focused on practically how we are going to move forward and do better in the future, and I think that is what we want to focus on today. We want to recognize where we have had problems. We want to recognize where we have had successes, learn lessons and move forward.

I have asked some of the panelists who are going to be on the second panel to listen to your testimony and then give us some commentary when they are invited to sit with us and let us know practically what are they seeing, and are we doing the best we can, and if not, and I think we are going to hear that we are not right now, how can we practically moving forward do better.

There is money available under this stimulus package under the Recovery Act. We want to make sure that it is used efficiently and that it creates as many jobs as possible, obviously targeting small businesses and the veterans community.

I am going to go ahead and invite our first panelists to give their testimony, noting that we may be called for votes, and if we are, I will warn you and let you know, and then we will adjourn and pick back up where we left off, and recognizing that members may need to come and go as they have other hearings that are going on. But thank you all for being here.

I am going to start by introducing Mr. Jenkins. Mr. Cal Jenkins is the Acting Associate Administrator of the Government Contracting and Business Development Office of the Small Business Administration. This office works to develop policies and regulations to enhance the effectiveness of small business programs.

So, Mr. Jenkins, thank you for being here, and we would like to hear your opening statement.

STATEMENT OF CALVIN JENKINS

Mr. JENKINS. Mr. Chairman and other distinguished members of this Committee, I want to thank you for inviting the Small Business Administration to discuss its small business procurement programs, and to relate it to the American Recovery and Reinvestment Act.

As mentioned, I am Calvin Jenkins, the Deputy Associate Administrator for SBA's Office of Government Contracting and Business Development, and we appreciate the opportunity to insure that small businesses receive a fair opportunity to participate in the federal procurement arena, especially in this time of historical economic challenge.

The Small Business Administration provides policy direction and guidance to federal procuring agencies and works with them to develop acquisition strategies that will help to increase opportunities for small business in federal procurement. SBA facilitates this working relationship with these agencies by serving as an active member of the Chief Acquisition Officers Council and chair of the Small Business Working Group.

The SBA also chairs the committee of the Directors of Small and Disadvantaged Business Programs.

From Fiscal Year 2000 through Fiscal Year 2007, total federal procurement increased from approximately \$200 billion to more than \$378 billion. During this time, the small businesses share almost doubled, increasing from \$44.7 billion to \$83.3 billion. Subcontracting dollars going to small businesses in Fiscal Year 2007 totaled \$64 billion. We estimate that for each \$140,600 spent supports one small business job. Thus, for 2007, prime contract dollars supported 592,000 jobs within the small business community and subcontracting supported over 450,000 jobs.

For the same period that I mentioned, awards to small, disadvantaged businesses increased from \$7.3 billion to \$24.9 billion. Women-owned small businesses increased from \$4.6 to \$12.9 billion, and firms certified under our Historic Underutilized Business Zone Program went from \$663 million to \$8.5 billion. Contracts, awards to service disabled veteran-owned small businesses increased from \$554 million to \$3.8 billion.

Although these are significant increases in contract awards for small businesses, federal procurement agencies have met only one of five goals consistently from the period of 2001 to 2007. So clearly, more is needed in this particular area.

Chairman Nye, you asked specifically that we discuss strategies that SBA is using to assist veteran and service disabled veteran-owned small businesses to obtain government contracts. The SBA through its government contracting function is responsible for as-

sisting small businesses in attaining a fair share of government contracts through a variety of programs and services.

A key tool in this effort is SBA's statutory mandate to establish small business procurement goals in each agency prior to the beginning of the fiscal year and insuring the agencies meet this government-wide goal. The government-wide goal for prime contracts includes 23 percent for small business, five percent for small disadvantaged businesses, five percent for women-owned small businesses, three percent for service disabled veteran-owned small businesses, and three percent for HUBZone certified businesses.

SBA is also required to report on agencies' achievements in meeting their goals and plans to achieve goals not met. SBA has established a Small Business Procurement Scorecard to do this and it is publicly available on SBA's Website.

Although there is no government-wide goal for veteran-owned small businesses, federal agencies in Fiscal Year 2007 awarded more than \$10.8 billion in contracts, or 2.9 percent, to veteran-owned small businesses.

As part of SBA's Small Business Procurement Scorecard initiative, SBA featured two agencies, the Department of Veterans Affairs and the Department of Homeland Security, as best practices for strategies to increase federal procurement opportunities for service disabled veteran-owned small businesses. SBA posted these best practices as a way to assist other agencies in meeting their service disabled veteran goals.

As I mentioned, there is a three percent service disabled veteran-owned small business federal prime goal and subcontracting goal established, and in meeting these goals, federal agencies are given two primary tools. One of those tools is a competitive set-aside authority, as well as a sole source authority, where there is one firm that can provide the product, a service disabled veteran that can provide the product that the government is looking for.

In response to your specific request for information about strategies the SBA will deploy to help small business obtain contracts resulting from the Recovery Act, I would like to report that the SBA has appointed a stimulus bill coordinator to insure that all of the agency's programs, lending, procurement, business development, are moving aggressively to assist small businesses.

As it relates to contracting, we have begun a campaign to reach out to small businesses informing them of procurement opportunities available at the federal level and advising them how to get involved in state and local government infrastructure procurement actions that are likely to result from the Recovery Act.

We are also posting and updating procurement information on our Website to make it easier for small businesses to locate these agencies and the products and services to support the stimulus effort.

In addition, we are working to insure that small business procurement data in support of this effort is accurately reported through our field offices, which is another key tool in our delivery of small business—

Chairman NYE. Mr. Jenkins, I am going to apologize because I did not warn you about the time limit today, and so I have let you go a little bit over, but just to let everybody know, what we are

going to try to do because we want to keep this to two hours if we can is to ask everybody to try to keep their opening statement to five minutes.

I did not give you the warning. So I will give you an opportunity go ahead and complete, but thank you.

Mr. JENKINS. Okay, sure. Thank you, Mr. Chairman.

I just want to point out that SBA primarily engaged federal agencies through our field activities, and that includes our procurement center representatives that monitor the federal agencies, their station at major buying activities, as well as our commercial marketing representatives that monitor the performance of large business prime contracts to insure that they provide opportunity for small business at the prime level.

We also have industrial specialists, as well as natural resource and sales specialists that look at the natural resources and insure small businesses get a fair opportunity.

That concludes my verbal testimony, and I will be happy to answer any questions that the Committee may have.

Thank you.[The prepared statement of Mr. Jenkins is included in the appendix at page 45.]

Chairman NYE. Thank you very much.

I am going to introduce all of the panelists one by one, and then we will go to questions after that. Just FYI, you should be able to see lights in front of you, green, yellow, red. Yellow will indicate when you have one minute left. So I would appreciate it if we could try to keep the remarks within the five minutes. Then everybody has a chance to speak.

I am now going to introduce Mr. Joel Szabat, the Deputy Assistant Secretary for Transportation Policy at the U.S. Department of Transportation. Mr. Szabat oversees the formulation of national transportation policy and promotes intermodal transportation.

Mr. Szabat, I want to invite you to go ahead and give us some opening remarks. Thank you.

STATEMENT OF JOEL SZABAT

Mr. SZABAT. Thank you, Mr. Chairman, Ranking Member Schock, and members of the Committee.

First, on behalf of the Department of Transportation, my apologies to those veterans from the Virginia Second Congressional District who were stuck in traffic on their up here. We will see what we can do to fix the ride back when they go home.

[Laughter.]

Mr. SZABAT. I am Joel Szabat, Deputy Assistant Secretary for Policy in the Department of Transportation. Secretary LaHood has named me co-lead of our Tiger Team, which is in charge of overseeing the department's role in the Recovery Act, in implementing the Recovery Act.

Overall, the Department of Transportation gives twice as much of its business to small businesses compared to a typical government agency. Over half of DOT's direct contracting work, nearly 800 million out of 1.5 billion, went to women-owned or to small businesses compared to a government-wide average of 22 percent.

Preliminary data for Fiscal Year 2008 indicate that we have maintained that level.

The Federal Aviation Administration is exempt from Federal Acquisition Regulations and, therefore, not included in DOT's reports. However, FAA is an important part of our outreach to small businesses. FAA's direct contracting dollars are twice the size of the rest of DOT combined and 40 percent of FAA's contracts go to small or to women-owned businesses.

In every small business category, DOT and FAA far exceed the government-wide averages. DOT contracted 2.3 percent of its work to service disabled veteran-owned small businesses, for example, more than double the government average. Service disabled veterans, the most recently established category, is the only category for which DOT has not yet exceeded its target.

Of even more significance to the small business community are the formula funds, especially for highway and transit programs, that we distribute to state and local transportation authorities. Over \$35 billion in funds are distributed this way each year, generating \$30 billion in contracting opportunities.

Under the law that DOT has to operate under which governs these programs, disadvantaged business enterprises are the only small businesses for which DOT can set goals. Veteran-owned businesses must separately qualify as DBEs in order to participate in this program.

Through our work with our state and local partners, over \$3.5 billion in contracts are steered annually to DBEs through our formula program.

Now, in addition to our normal formulas, the Recovery Act will provide \$48.1 billion, and as the Chairman indicated, with the bulk of this money to be obligated within the next 18 months. I am sorry. For us the bulk to be obligated within the next 12 months, and all of it to be obligated within 12 months, the bulk to be spent within 18.

Most of this money will be distributed through formulas and the existing laws that govern DOT programs apply. We can work to set targets for DBEs, but no other category of small businesses. We estimate that the formula fund programs in the Recovery Act will create at least another \$3 billion in contracting opportunities for DBEs over the next 18 months.

Bonding is an important challenge for DBEs in qualifying for government contracts. The Recovery Act establishes a small, \$20 million bonding assistance program within DOT. DOT's Office of Small and Disadvantaged Business Utilization has been working with SBA to craft a program that will minimize the cost and administrative overhead for DBE participants and maximize the number of companies that can benefit from their support.

There are also future year opportunities for service disabled veterans and other small businesses. The Recovery Act dedicates \$8 billion for high speed and inner city passenger rail and a few other smaller discretionary programs where the department will have to craft business qualification criteria.

President Obama has proposed an additional \$1 billion a year annually for high speed rail and \$5 billion for an infrastructure bank focused primarily, if not solely, on transportation.

We look forward to working with Congress to shape the laws that will govern small business participation in these programs. Most importantly, both the surface transportation program and aviation programs were last reauthorized over five years ago, before federal standards for service disabled veterans were set. This year both of these programs are up for reauthorization with, again, the promise of more than \$30 billion a year in annual contracting opportunities.

And, again, we look forward to working with Congress to shape the laws that will govern small business participation in these program.

Thank you, Mr. Chairman, Ranking Member, and members of the Committee. [The prepared statement of Mr. Szabat is included in the appendix at page 49.]

Chairman NYE. Okay. Thank you very much.

I would now like to recognize Ms. Gail Wegner, Acting Director of the Office of Small and Disadvantaged Business Utilization in the Department of Veterans Affairs, which provides patient care and federal benefits to veterans and their dependents. The OSDBU identifies prime and subcontracting opportunities for small businesses and provides them with guidance on procurement matters.

Ms. Wegner, I invite you to please make your opening statement. Thank you.

STATEMENT OF GAIL WEGNER

Ms. WEGNER. Mr. Chairman, members of the Committee, thank you for convening this hearing. I request that my written statement be submitted for the record.

Veterans Affairs has a long tradition of outstanding support for small businesses, with special emphasis on veteran-owned small businesses. The Recovery Act presents a valuable opportunity for us to maintain that tradition. I am honored to represent Secretary Shinseki, our employees, and the veterans who do business with VA here today.

I am also delighted to inform you that VA received a Green Small Business Scorecard performance from the SBA in Fiscal Year 2007. Summary data is contained in my written statement, and it also appears on SBA's Website

Of note, VA led the federal government in transactions with service disabled veteran-owned small businesses and with veteran-owned small businesses. Given this history, I believe that Recovery Act requirements will be carefully reviewed for participation by small businesses in VA.

Our success is largely attributable to three principal factors. First, supporting veterans is our primary mission. This includes creating procurement opportunities for veterans.

Second, our leadership is committed to small businesses. They meet monthly and review progress toward all small business goal achievements.

Third, VA delivers services to veterans in the communities in which they live. We understand directly the impact that small businesses have on the local economy.

VA has unique legislation which enables us to contract more easily with veteran-owned small businesses. We also award many

smaller dollar value contracts. In challenging economic times, small purchases can make a big difference in the sustainability of a small business.

Additionally, we formally review proposed acquisition strategies for buys over \$500,000, and for purchases over five million, a small business analyst participates in acquisition planning meetings. As VA's Recovery Act requirements are more fully developed, they will be subject to these same proven strategies.

Staff in VA's Office of Small Business Programs and in the Center for Veterans Enterprise provide quality, individualized attention to small business owners. We work closely with a number of partners. VA enjoys an especially strong collaboration with the Association of Procurement Technical Assistance Centers, who educate businesses new to the federal marketplace. We believe that PTAC support will be vitally important in Recovery Act contracts and the ability of small businesses to win them.

Our achievements would not be possible without the fundamental work performed by SBA's professionals, their grantee organizations, and the support of Congress. These resources and processes apply when VA contracts under ordinary circumstances.

The Recovery Act, however, represents an extraordinary response to extraordinary circumstances. VA is assessing whether the additional volume of contracting will require us to enter agreements with other federal agencies.

And in closing, I hope that you will agree, given our past performance, that VA is committed to supporting small businesses and most especially veterans in business across our spectrum of procurement opportunities.

Mr. Chairman, thank you again for convening today's hearing. I welcome your interest, and I am prepared to answer any questions that you or the members may have. [The prepared statement of Ms. Wegner is included in the appendix at page 53.]

Chairman NYE. Okay. Thank you very much.

I would now like to introduce Ms. Brenda DeGraffenreid, procurement analyst for the Office of Small and Disadvantaged Business Utilization at the Department of Energy. Energy is the largest civilian buying agency in the federal government, procuring over \$22 billion in goods and services annually, and Ms. DeGraffenreid, welcome and we would be happy to hear your opening statement.

Thank you.

STATEMENT OF BRENDA DeGRAFFENREID

Ms. DEGRAFFENREID. Thank you, Mr. Chairman and members of the Subcommittee.

I am the supervisory acquisition manager overseeing the Office of Small and Disadvantaged Business Utilization. I appreciate the opportunity to address the Subcommittee on the Department of Energy's plans and strategies that will insure that small businesses, including the veterans and service disabled veterans can participate in government contracting opportunities resulting from the Recovery Act to the maximum extent.

Small businesses are critical to the health of the U.S., and according to the Small Business Administration, 99 percent of all em-

ployers in the U.S. employ approximately one-half of all private sector employees and have generated 60 to 80 percent of all the net new jobs. So it is understandable that this Congress wants to insure that small businesses play a significant role in the recovery of the nation's economy.

DOE has always been a strong advocate for the participation of small businesses, including small disadvantaged businesses, HUBZone, women-owned, veteran-owned and service disabled veterans, in its procurement process at both the prime and subcontracting levels, and we look to continue that trend in implementing the Recovery Act.

At the prime contract level, DOE has increased its impact in the small business community over the past eight years by increasing prime awards to small businesses from \$500.2 million in Fiscal Year 2000 to \$1.4 billion in Fiscal Year 2008.

Before discussing DOE's unique business and procurement model in order to place these achievements and recovery opportunities in context, DOE is different from many other agencies. We have two types of contracts: one, facilities management contracts, which we term FMCs, and non-FMCs. The FMCs represent the primary procurement model utilized at DOE for the operations of its network of government owned, contractor operated laboratories and other facilities.

FMCs include management and operating, which are M&O contracts, management integration and environmental restoration contracts. These are generally awarded to large businesses, educational institutions, and nonprofit organizations. Through the FMC contracting model, DOE directs its mission related areas and the overall performance objectives that it wants to accomplish.

FMCs range from the hundred millions to billions of dollars. They are complex and generally contain periods of performance of five years or more.

Historically FMCs have represented from 85 to 90 percent of DOE's procurement dollars. So in FY 2008, for example, FMC contracts represented 84.3 percent of the department's procurement base. The remaining no-FMC dollars, or 15.7 percent of the procurement base, were used to fund a wide range of prime contracts of both small and large businesses.

Now to the Recovery Act opportunities. As for the strategies that will insure that small businesses can participate in government contracting opportunities resulting from the Recovery Act, the department is in the process of developing guidance and an implementation plan to execute the requirements of the Recovery Act. Therefore, we cannot yet provide detailed acquisition methods that we will use to implement each program or sub-program designated in the act.

However, we will attempt to provide the Subcommittee with a general overview of the types of acquisition methods we anticipate and a few examples of the specific work that we will be performing with recovery funds.

As you stated in your letter, DOE will receive approximately 39 billion, 38.7 to be exact, in appropriated funds under the Recovery Act. These funds primarily have been directed to the following program offices: Office of Electricity Delivery and Energy Reliability,

Office of Energy Efficiency and Renewable Energy, Office of Environmental Management, Office of Fossil Energy, Office of the Inspector General, and Office of Science.

The funds appropriated in the Recovery Act will be awarded principally through several methods: financial assistance agreements, ongoing contract vehicles held by both small and large businesses, and through DOE's established network of FMCs which I mentioned earlier.

The department has already provided information and tools to assist the acquisition work force in insuring that the requirements of the Recovery Act provide maximum opportunities for small businesses to participate in the recovery. A significant portion of the recovery funds will be obligated on financial assistance agreements and statutorily required that some of these monies be used for block grants.

DOE's Small Business Innovation Research Program will receive funds under the Recovery Act. As you probably are aware, the SBIR program was established to provide funding to stimulate technological innovation.

Small businesses will be able to compete for research and development funds within the Recovery Act as they always have within the small business investment research and small business technology transfer funding. A portion of the recovery funds will be obligated on current procurement awards, such as contracts with task orders pursuant to the federal regulations. These awards are held by both large and small companies.

As I see that I have the yellow light and my time is almost up, I will conclude by saying that Department of Energy encourages small business, including service disabled veterans, to come to DOE not just for the Recovery Act, but for all of our projects because we all look for service disabled veterans to help us make our goals.

So thank you for the opportunity to appear before this Subcommittee. That concludes my prepared remarks, and I will be pleased to answer any questions. [The prepared statement of Ms. DeGraffenreid is included in the appendix at page 61.]

Chairman NYE. Okay. Thank you very much.

I would now like to recognize our final panelist for this panel, Ms. Linda Oliver, the Acting Director of the Office of Small Business Programs for the Department of Defense. In this role Ms. Oliver is responsible for establishing Department of Defense policies that insure the inclusion of small firms in defense related procurement actions, an area of great interest to my district particularly, coming from southeast Virginia.

Thank you for being with us, and Ms. Oliver, we would be happy to hear your opening remarks.

STATEMENT OF LINDA OLIVER

Ms. OLIVER. Thank you, Chairman Nye, Ranking Member Schock, distinguished members of the panel.

I ask that my written remarks be included in the record, and I will summarize these remarks because five minutes is less than any of us ever realize it is going to be.

The Department of Defense is poised, posed to help support small businesses in their participation in the American Recovery and Reinvestment Act. We look forward to this opportunity and appreciate the fact that the Committee is interested in what we are doing.

I will summarize my written statement in three areas basically. I will talk a little bit about the Recovery Act at least from the Department of Defense perspective. I will touch on our record with service disabled veteran-owned small businesses particularly, and then I will talk quickly on a few of the things that we do to encourage small businesses and service disabled small businesses.

The Department of Defense will receive approximately \$7.4 billion from the Recovery Act. That money will be distributed primarily through contracts. In order to manage all of the Recovery Act issues and money, there is a very senior committee formed which oversees the plans for money and oversees the writing of the required reports.

We, my office, is involved with the committee. We will continue to stay involved with the committee. We are hoping that by staying involved in the committee we will do what we want to, which is make maximum practicable opportunities available for small businesses, including service disabled small businesses.

Turning to our special relationship with service disabled veteran-owned small businesses, in my written remarks is a chart that shows a graph of our interaction with service disabled veteran-owned small businesses since the service disabled veteran-owned small businesses became a goal. Our progress was quite slow until 2003, which is exactly the time that the use of set-asides for service disabled veteran-owned small businesses became available to us.

You will see that both in terms of dollars and in terms of percentages once we have the tool that you have given us and which we appreciate, we were able to move forward much more rapidly. Now, we have work to do, but we are hoping that we have found the key and will continue to move forward at the same rate.

Some of the things that my office does in order to help us stay in touch and contract with all small businesses, including service disabled veteran small businesses, are that we do a lot of training. We are just in the process of completing revision of an electronic course available to everyone, but aimed at contracting officers about service disabled veteran-owned small business contracting.

We have two other courses that we are in the process of putting together, all of this with Defense Acquisition University.

We have done many Webcasts. We do annual awards for all sorts of small business activities, but particularly service disabled veteran-owned small businesses. We support a National Veterans Conference. We do training, a great deal of training of our small business specialists so that we stay on the cutting edge of procurement, and particularly as it relates to small business.

In summary, we intend to and we expect to be involved in the plans for the Recovery Act funds. We have a track record which tells us if we try hard, we can maximize opportunities for small businesses, and therefore, I am happy to tell you that we think we can succeed in doing what you have asked us to do.

Thanks.[The prepared statement of Ms. Oliver is included in the appendix at page 68.]

Chairman NYE. Thank you very much.

I want to go ahead and get into questions now, and I want to try to reserve some time for the other members to ask questions they would like to ask, and noting the time, of course, we want to have significant time for our second panel so that we can hear from the business owners about their experience.

But I do have a couple of questions I would like to ask, and basically I think the bottom line that I want to get at here is we know that we can do better, that we need to do better. We know we have failed to meet our government set targets, and we are trying to focus on ways to get there. And I am going to start with a question for Mr. Jenkins.

You represent the Small Business Administration and have a position that gives you the opportunity to see what the other agencies of the federal government are doing and to work with them on specifically establishing the benchmarks, but then they work to help us meet our overall target.

Basically, can you just give us, you know, just candidly why are we not making the target and what do we need to do to fix that?

And then can you talk about how the SBA will work to perhaps revise the target goals given the fact that we now know the dollars that we are going to get under the Recovery Act?

Mr. JENKINS. Sure. One of the challenges that the agencies have is insuring that businesses are at a level that can support the contracting that they are doing both in terms of firms being in those specific industries that they are buying and selling. One of the things that the SBA is trying to do in terms of its outreach is to match agencies with businesses, including service disabled veteran-owned businesses. We are really pushing in terms of saying this is what this particular agency buys and, therefore, we are reaching out to those specific industries, those communities, and then making that information available. We are making sure that the small businesses understand how the agencies are buying, making sure they are registered in terms of the central contracting registrant, providing them with business development assistance, and certainly from an SBA standpoint, providing them with the financial support in terms of loans to assist them.

We believe with the scorecard that we introduced about a year and a half ago that it heightened the visibility of all of these goals, including the goals for service disabled veterans, and working with the agencies to develop strategies and plans. We think that is critical that there is now an increased focus in this particular area.

Chairman NYE. Thank you.

I agree that it is critical with the increased focus.

You mentioned that you have established a stimulus bill coordinator position, and I won't ask you to comment on that anymore at the moment, but I will be interested to follow up and hear about the plans that that coordinator has for increasing the share that particularly our veteran owned small business are getting in terms of that government contracting.

I want to move on and ask a question of Mr. Szabat. Can you please comment from your perspective on how you are going to coordinate with the states to insure that the money that is coming from DOT through the states for transportation infrastructure then

goes on and we insure that essentially our veteran owned and our small businesses have the best shot at getting access to that contracting?

Mr. SZABAT. Yes, sir, although if I may, first I will echo Cal's comments and reinforce his answer that I think absolutely one of the reasons that you have seen an uptick recently in government agency performance is the fact that more people are paying attention and there is more of a spotlight.

I was the Chief of Staff at the Small Business Administration when the scorecard came out, and the Deputy Administrator at the time and myself split the duty of fielding the angry calls from our fellow government agencies of people who were ranked red in various categories. But one call, in particular, justified in my mind the reason we had the program where the Chief of Staff of another federal agency, which we may not name, called me to say, "I have to confess that until you had the scorecard I did not know that our agency had a goal for service disabled veteran-owned small businesses, and now that we have that goal or now that we are aware of that, we can guarantee you that the front office of the agency will pay attention to that."

But to your question in particular, sir, as I mentioned in both our written prepared testimony and in my verbal testimony, the Department of Transportation is covered by a separate law, and that law restricts our ability to set targets to the states to only disadvantaged business enterprises, which also we do not have the latitude of how we can determine who was eligible. Those are presumptively women, Latino, African American, and Asian owned business owners with a net worth not to exceed \$750,000 in contracts not to exceed \$21 million.

Within those categories, veteran-owned and service disabled veteran-owned businesses may apply for qualification, but they will only qualify if they are identified as being both economically and socially disadvantaged, which we recognize can be high hurdles to accomplish.

So we are letting, in the workshops and our outreach to the veteran-owned community, we are letting them know that these opportunities exist, but we are also aware that unfortunately, we do not have the ability to simply inform the states, tell the states that they must include veterans within these programs.

So we are offering the veterans information and training opportunities. Most of the work that we have right now with service disabled veteran-owned small businesses is information technology related, not construction related. We want to get them more into the higher dollar value construction fields, but under current law we do not have the ability to actually require the states to fold them into the over a 30 to \$35 billion that we will be giving them through Recovery Act formula funds.

Chairman NYE. Thank you.

And I certainly do not mean to imply that you need to force some kind of goal on top of the states. However, there are still opportunities to be helpful with the states in working with them and insuring that our businesses get a fair crack at these opportunities, even absent a specific target sent to the states.

But thank you for your comments, and this actually leads me into something I wanted to ask Ms. Wegner regarding the VA, and I wanted to ask you if you can comment, please, on your work with state VAs. Again, it's a similar question.

We have federal level bureaucracy here in the state level. It would be a shame if we are not well coordinated. I know the VA has had some positive experience in this area, and I am wondering if you can just give us some comments on how you have worked together. You mentioned during your testimony working together with other federal agencies to help veterans get access to those contracts. You mentioned something about your work with the state offices and any plans that you have to ramp that up or take lessons learned specifically to help one way of targeting our Recovery Act funds.

Ms. WEGNER. Well, heck, I would rather talk about what we are doing with the other federal agencies because it is a better success story, but thank you very much for that hard question.

In the Center for Veterans Enterprise, our outreach program manager has developed as part of our Web page a state programs site in which a veteran from any state in the nation can go and look at their particular state to see what legislation has been introduced in the past, if there is currently a program, what the status is, and anyone can review live programs from the other states.

So when you look at the map of the nation, you can immediately see which states have veterans' supplier inclusion programs already in place and which have proposed them and sometimes which have voted them down.

The purpose of that is to help advocates at the state level find legislation in other states that they can use to introduce comparable programs relatively easily within their state. The push from our perspective in the Department of Veterans Affairs is we have the federal model in place, and you have heard the people testify this morning that we are making good progress and that you have the attention of the agencies. Now in our opinion in VA, the next place to take this program is to the states so that we can insure that veterans and service-connected veterans have opportunities at the state level.

So we are trying to make it as easy as we can.

Chairman NYE. Thank you also for mentioning how the spotlight that we put on the issue is apparently tremendously helpful in moving the ball forward in this area, and I think you can expect from us to continue to be in communication with you about how we are effectively moving forward here.

Thank you for your comments.

And I just had one more question for Ms. Oliver. You mentioned the success that Department of Defense has had over the past five, six years in dealing with service disabled veterans, and indeed, there has been a dramatic increase in the number of contracts and dollar amount awarded. Yet we are still only about halfway there.

So can you tell us what do we really need to do to get to that target? What do we need to fix?

Ms. OLIVER. I do not think it is "fix"; I think it is just "keep it on". There is a pattern with all of these goals. The government and parts of the government do not begin by making the goals. If we

can get the rate of increase, then it seems to continue on with that sort of increase. That is my hope with service disabled veteran-owned small businesses.

I told you that the tool was really very helpful, and to be honest with you, in the same way that the committees have helped us focus, in the way Joel talked about, for example, the veterans themselves and the service disabled veterans and their organizations have been tremendously helpful to us. They have helped us understand why we are hard, the ways that we are hard to do business with, and why we cannot change some of those. Some of those are controlled by statute.

We have, I think, had insights about how to some degree compensate for it. I think there are many more insights for us to find and inasmuch as we are not even half there toward our goal. I think the veterans and the service disabled veterans, individuals and their organizations will continue to help us.

Chairman NYE. All right. Thank you.

Again, I want to mention a number of you have mentioned today you have established oversight officers or committees to oversee how we are going to do better and do exactly what we are talking about today, and I am going to just put you on notice that we will be following up with you to hear about exactly how that work is progressing and how we are getting closer to that goal.

Now, I want to reserve some time for other members. I just want to thank Ms. Halvorson for joining us and being here. Thank you.

Now I am going to yield time to our Ranking Member, Mr. Schock.

Mr. SCHOCK. Thank you, Mr. Chairman. I think you did a nice job of asking each one of our excellent panel members a question.

I am not going to do the same. We recognize there is a problem, and we all realize that we need to shine the spotlight as part one, and then obviously exerting effort and having a plan of action on how we are going to get there is job number two.

I want to kind of ask Mr. Jenkins from SBA if you could explain to me your process within the agency to determine what is an appropriate percentage for each one of these departments to have for veterans, small business owners and small business owners' in general contracts. In other words, how do you determine, how do you negotiate with these agencies based on the agency, based on the type of work they do to come up with that percentage.

Mr. JENKINS. It is actually a two-pronged strategy. We have the agencies participate on a particular subgroup, and goaling subgroup. We look at what they historically have done in the past in terms of their procurement numbers.

We also look at the other part of the law which talks about the maximum practical opportunity; what can they do, what can be made available to small businesses, and then the individual categories.

With that we also have to look at how we establish the nationwide goal. So, for example, the Department of Defense represents almost 70 percent of total federal procurement. If they do not make their goal, it is very difficult for the entire country to make the government-wide goal.

So we kind of balance that out to get back there. So it is through a formula that we use and through this committee that we analyze the data and put it all together nationwide.

Mr. SCHOCK. How is it that the department allows, for example—and I am not going to pick on you personally; I know you are the messenger—but, for example, the Department of Energy, how is it that we allow the Department of Energy to have a negotiated rate or percentage lower than that as specified in the statute?

Mr. JENKINS. Yes, once again, the statute applies to the government-wide and not the individual agencies. Where the individual agencies really play is at the maximum practical opportunity, but then we have to pull that to get up to the government-wide number.

We recognize how the Department of Energy operates. They operate through the various facilities that were mentioned earlier. With that, we look at what is available after you pull those centers out or those facilities out, and they do everything from landscaping to high earning scientists and running national laboratories.

Then we look at what is left. What is left that they themselves through their contracting activity can actually procure? And that is where we set the goals based on that maximum practical opportunity.

They would be significantly lower, and we have to, for example, if we set a five percent small business goal, it is very difficult to set also a five percent women-owned goal because that would mean all of the small business dollars would have to go to women, and so we look at the actual percentage of performance over the last three years, and we certainly do not want them to slide backwards. So we set the goal at whatever is higher, either the average over the previous three years or what they received in the last year and pick whichever is the highest number.

Mr. SCHOCK. I was going to ask Mr. Szabat at the Department of Transportation. You know, you reported that you have exceeded your goal by 20 percent. I mean, what kind of practices have you put in place there at the department that you know of that have kind of helped you reach that goal?

Mr. SZABAT. Well, to clarify, we have doubled the government average. The government average is 22 percent. We are over 50 percent or just below 50 percent if you factor in FAA. But our goal is, for example, for one category of small businesses it would be 36 percent. We are at 38 percent. So we are exceeding our goal, but as Cal mentioned, they are calibrated for each of the different agencies because we have identified more opportunities that, for example, energy in the Department of Transportation where we can legitimately go out and seek the work of small businesses to do our work, we are able to set and achieve higher goals.

And we are constantly looking for opportunities to raise those. I think, you know, I will echo Linda's comments. There is no magic to this or a particular formula. A lot of it is just elbow grease and hard work.

We have been blessed with having a very, very competent OSDBU office, and again, the attention and support of senior management. The Transportation, as you are aware, has several different modes to distribute most of the money: federal highways,

federal transit, Federal Aviation Administration, and they each have their own officials that are dedicated to working with communities to getting the word out.

So it is not just Department of Transportation OSDBU having these meetings with, conferences with service disabled veterans, but each of the individual modes doing it and doing it in coordination, and you do this over enough time and you establish a culture within the agency that supports that, and Transportation has that culture so that when we are in a situation as we are now where out of, and I do not know the number, 25 to 30 presidential appointees would be our normal leadership contingent. We have one on board right now, in fact, the Ranking Member's predecessor, former Congressman LaHood, now our Secretary.

So we do not have a leadership team to be driving this through the department to make sure that this happens, but we have a career team that is aware of these goals and has been working it for so long that this is second nature to us. So I think more so than any one thing I can talk about, it is the fact that we have just had people who had support for management in the past who are now able on auto pilot to continue to do this.

Mr. SCHOCK. Okay. Well, it is obvious to me at least by the panelists that are here that there is an interest on your parts to increase the percentage, and based on Mr. Jenkins' testimony, it is a matter of justifying how much of your work can actually be designated to a small business percentage or a veterans percentage or a women's percentage without jeopardizing what it is you are trying to do, your core business.

What do you do at SBA or what should we be doing maybe that we are not then to help educate the small business owners? Obviously we are not here to talk about women business owners, veterans but all of these different subgroups that we go after, to help make them aware of the contracts that are out there so that they can benefit and also these agencies can then better meet their goals and we can raise those percentages years down the road.

Mr. JENKINS. Oh, sure. A number of agencies have good strategies that they have put out. One of the things that is very important for agencies to put out is their procurement forecast so that they can let the public know what it is that they are intending to buy in the coming fiscal year.

Mr. SCHOCK. I do not mean to interrupt, but does SBA do anything collectively? I mean, obviously, I think it is more difficult for DOT, the DOE, Veterans, you know, all of these different agencies to do it independently as opposed to the SBA or one central warehouse for businesses to check as opposed to having it, you know.

Mr. JENKINS. Well, the best place I would suspect would be the federal procurement data system. It is a place where anyone can go and look at some past history, and what the agencies actually have purchased in the previous year.

The benefit that SBA can bring to the table is our procurement center representatives. We have individuals assigned to the various agencies, and we look at procurements that they do not want to put out for small business. We question those. We ask for market research to establish their reasoning behind not wanting to go small business, and we also question if they have met one particular goal,

are they able to put some contracts in for service disabled veteran or are they just loading up in one particular area?

A good example that would be the small disadvantaged business program. That area has exceeded the goal consistently over the period we talked about, but the others have not. So we would like the agencies to use the tools that they have, the set-asides, to put more contracts in the service disabled veteran area, and that is where our PCRs can really play a vital role by looking at what the agencies are doing, questioning them, and actually, in certain cases, appeal their decisions not to set aside in particular areas.

Mr. SCHOCK. Okay. Thank you.

Chairman NYE. Okay. I am going to ask our other members to ask any questions they wish. I am going to suggest that we try to stick to five minutes if we can, just noting the time and we want to have sufficient time for the second panel. So I would like to recognize first Ms. Clarke.

Ms. CLARKE. Thank you very much, Mr. Chairman.

Chairman Nye and Member Schock, I am kind of encouraged by this hearing, quite frankly. What I recognize is at the end of the day this is about leadership and accountability, and from what I have heard today, there is an indication that we have the tools in place and we are poised to maximize on inclusiveness and meeting our goal across contracting agencies. So I am really, really excited about that.

My first question is for Ms. Wegner, and I want to commend your agency for initiating a partnership program with the HUBZone program to promote applications for veterans for certified HUBZone status. I have a particular interest in the well-being of women and minority-owned business within the body of veteran and service disabled veterans' businesses, and I understand that this is an effort that you plan to continue.

However, the GAO found that in the past the program was continually subject to fraud and mismanagement, and though I'm an optimistic, the American public demands accountability and so does this Committee.

I want to know two things. Do you have data that shows how many minority veterans have taken advantage of this partnership and a monitoring mechanism to do so?

And two, what do you and the HUBZone program intend to do to mitigate any future fraud, waste or abuse?

Ms. WEGNER. Just as you have heard that when the SBA posts the procurement scorecards everybody pays attention, when the GAO issues a report identifying vulnerabilities, everybody pays attention. Those reports came out the middle of last summer. We began our partnership with the SBA's HUBZone office around August of last year after those reports came out. So we knew at that point in time that the Small Business Administration's leadership had already taken measures to bolster the program and to make sure that it had the resources it needed to put it back on the right track.

Traditionally, the resources had been very minimal. So with SBA paying attention to the HUBZone program to make sure it is on track, the Department of Veterans Affairs said, "We need to get

veterans into the HUBZone program." Have we established measures yet?

The only measures that we have established so far have been the number of veterans that we touched and informed about the HUBZone program and the contracting opportunities that arise from that and how you apply and the number who actually applied. So we are waiting to see how many of those received their certification.

I will absolutely tell you that in the Department of Veterans Affairs we believe in the HUBZone program. We believe that veterans are the best set of owners to go into Historically Underutilized Business zone areas and to return those areas to prosperity and to lead the nation as role models for how we get this job done and how we return to economic stability.

So I am happy that we are going to continue that and we will put effectiveness measures in place as soon as we get the first set of the applications certified.

Ms. CLARKE. Thank you very much, Ms. Wegner. I am encouraged by your response and look forward to seeing all of that come to fruition.

My final question because my time is winding down is to both you, Ms. Wegner, and Ms. DeGraffenreid. The OSBDUs could have significant impact on small and disadvantaged businesses from the authorities given in P.L. 95-507 and the Office of Federal Procurement Policy, Letter No. 79-1, and the Clinton Executive Order of Number 129-28. However, I understand that not every SDBU office operates with the same level of authority. By law the SBDUs are expected to report directly to the head of the agency, but some do not and are far removed from the agency leadership.

Also, the authority seems to lie at the discretion of the contracting officers rather than the SBDUs. Can you describe the impact of the SBDUs that report directly to the heads of agencies and those that do not?

And what challenges do you face trying to promote the maximum practicable use of all designated categories within the federal acquisitions process?

And what can be done to strengthen the effectiveness?

Ms. DEGRAFFENREID. Yes. I cannot tell you the ones that do not, but I can tell you about the ones that do. At the Department of Energy, our Office of Small and Disadvantaged Business is headed by—right now the position is vacant. It is a political position, but it is headed by a Senate confirmed person who reports to the Secretary, and that is really important because you attend the Secretary's staff meetings, and you get support from the top. I think it is really important for all agencies to have their OSDBU operating at that level because you can put the importance of each program within your agency in setting aside for small business, and that is what we are doing in our agency.

I can say that the OSDBU and our Office of Economic Impact and Diversity have already met with our Secretary Chu, who is extremely supportive of the small business program and has given us rein to do what we can to be sure that small businesses get a part of the Recovery Act, as well as other procurements in the department.

So I think it is pretty important for each department to have an OSDBU. That is at that level, at that ranking level.

Insofar as Department of Energy is concerned, I would like to add this. This is not part of your question, but I would like to say that insofar as the Recovery Act is concerned, we have spent much time with the committees and the persons who are working on the Recovery Act as to what portions are going to be given to small business, and in this agency in particular, the main portion that will be contracting has to do with environmental management, and we look forward to giving a significant portion of those awards to small businesses.

In fact, environmental management has been one of our strongest programs, last year awarding 1.3 billion to small business alone. So we look forward to service disabled veterans becoming a part of that, and hopefully we have veterans who are in both the environmental remediation and the waste areas, and we look forward to them becoming some of Department of Energy's contractors both at the prime and subprime contracting level because as I said earlier, we are unique and that most of our opportunities are at the subcontracting level.

Ms. CLARKE. Thank you very much, Mr. Chairman, and thank you to all the witnesses. This is a great hearing.

Thank you.

Chairman NYE. I would like to recognize Mr. Thompson.

Mr. THOMPSON. Well, thank you.

Actually my first question is for Ms. Oliver with DoD. Could you describe the practices in place through your office to insure prompt payment of services for contractors and subcontractors?

Ms. OLIVER. There used to be something called the paid cost roll, which required that—this concerns subcontractors—which required that prime contractors could not be paid, could not put it in the claim until they were paid. To get the money they had to pay out the money to the subcontractor before they could claim the money basically.

That was a very helpful tool and that tool is gone. It does not exist anymore. The mechanism for making sure that small businesses are dealt with fairly, paid promptly by the prime contractors is mostly a matter of persuasion. There are not actually existing tools. Probably the most useful tool for prompt payment when it is the government, the Department of Defense, that's paying is the list that the payer's DFAS goes on if they do not pay promptly.

I mean, some person gets dinged because their name is on a list for work that has not been processed. Finally it comes down to individual people even in organizations as big as the Department of Defense.

There is the interest payment, but every small business will tell you they would rather have prompt payment than an interest payment because the interest payment usually does not cover the cost of their borrowing.

Mr. THOMPSON. Does not cover the cash flow to keep the doors open as a small business.

Ms. OLIVER. Exactly, exactly.

Mr. THOMPSON. Any idea of what the typical for the DoD to, say, the contractor, the amount of average time for payment?

Ms. OLIVER. I probably can find that out. I surely can find out more accurately than I could guess.

Mr. THOMPSON. Okay. I would sooner have accuracy than guesses.

Ms. OLIVER. Okay.

Mr. THOMPSON. That would be great.

And just one more, and I guess I would open this up to the entire panel then. Any recommendations on just a better way to streamline that process in terms of prompt payment to contractors?

Ms. OLIVER. In fairness to my colleagues who do payment, it has gotten much, much better. I probably can find those figures for you, too. Computers have really helped.

Some pressure, which is improved staffing, has really helped. That is for Department of Defense anyway.

Mr. SZABAT. Sir, for the Department of Transportation, you know, the vast bulk of our money, of course, does not go out directly to contractors, but goes out to states, transit agencies, and metropolitan plane organizations. The Federal Highway Administration has taken the lead for us among our surface transportation modes in automating that process where we're in the position now; they are in the position now that they can actually do overnight repayment.

So a bill comes in from the state for a project that has been approved and the money has been obligated, and they can actually outlay that money overnight from the time that they get the bill, but we are a long way away from meeting a process like that that is automated to deal directly with all of our contractors, but I think that is the direction that in some cases quickly, in some cases slowly that all of us are moving toward.

Mr. THOMPSON. Very good. Thank you, Mr. Chairman.

Chairman NYE. Thank you. Thank you very much.

And I want to go ahead and proceed on to the second panel so that we have got sufficient time.

I want to thank again our witnesses on the first panel for testifying.

I would like to actually suggest there would be some value here in having the members of the first panel remain if they wish to hear the ideas and testimony from those who are out in the field here, and I would like to ask if you would not mind, please, if the first panelists for the record could just let us know if you intend to stay or if you have someone else here you could identify who is a representative of your agency, if you would let us know who that is.

Mr. Jenkins.

Mr. JENKINS. Yes, we can stay for a while.

Chairman NYE. Okay. Mr. Szabat.

Mr. SZABAT. I regret I have to go to a meeting at the White House with the Recovery Act czars from the states immediately following here, but Ferguise Mayronne from our OSDDBU Office will be here to represent the department.

Chairman NYE. Thank you.

Ms. Wegner.

Ms. WEGNER. I am delighted to stay. Thank you.

Chairman NYE. Okay. Ms. DeGraffenreid.

Ms. DEGRAFFENREID. I can stay as well.

Chairman NYE. Okay. Ms. Oliver?

Ms. OLIVER. And I will stay.

Chairman NYE. Terrific. Thank you very much. the first panel is now excused.

And I would like to invite the members of the second panel to take their seats.

All right. I would like to go ahead and get started, moving on to the second panel now, and again, thank you all. I know some of you traveled significant distances to be here today, and I really appreciate you taking the time to join us.

As we did for the first panel, I am going to introduce each panelist one by one and give you an opportunity to give opening remarks, and we are going to ask if you could please try to target five minutes or less for your opening statement, and then we will have some more time to converse during the Q&A.

I am going to start with introducing Mr. Mark Klett, owner and CEO of Klett Consulting Group in Virginia Beach. Established in 2002 as a service disabled veteran-owned small business, Klett Consulting Group provides innovative operational systems engineering services and professional consulting.

Thank you for joining us, Mr. Klett. I would like to invite you make any opening remarks.

STATEMENT OF MARK KLETT

Mr. KLETT. Thank you, Congressman Nye, Congressman Schock, distinguished members of the Committee. It is an honor for me to speak here on behalf of veteran business owners about doing business with the federal government to insure small and veteran owned businesses secure contracts awarded under the American Recovery Act.

I have been in business as a business owner for over six and a half years. We have been fortunate to be able to grow at a rate of almost 80 percent a year; have 35 employees currently, and we continue to grow in this tough economic environment.

I served my country for over 20 years, and I am currently a disabled veteran as well. But I am not an anomaly. There are over 10,000 companies like mine registered in the central contracting registration. We are out there. We are able to do the work, and we look forward to helping this country move forward in this economic situation.

If you get contracts to us in this stimulus package, companies like us, we will hire people today or tomorrow. We typically when we get a contract awarded to us, we are hiring people that day.

I have had situations where we have won a contract. From awareness to win was three days, and when money was assigned to us we hired 15 people within a week and had them on the ground working.

Recently we had a situation where there was training that was required for the Marine Corps out in Hawaii. A contract was established within 48 hours, and we had boots on the ground in Hawaii training on a Sunday four days after the contract was awarded.

The procurement system and the way it is set up right now can support these types of things and these requirements, and we can

do it. I am just showing you the agility that small companies have. You give dollars to a small company; our overhead is really small. I currently have about eight different jobs which includes cleaning bathrooms in our corporate office. Okay? So we do a lot of different things.

If you get money to us through a large company, which I am on 11 different contracts through large companies, the trickle down effect as you go through the government pass-throughs, the large company's pass-throughs, which are all ethical and legal, you do not get that big of a return on the dollar.

With us you get 100 percent return on the dollar, and you get people working, moving right away. So what can you do right now? What are some of the solutions, as I heard all of the people out there who talked earlier in this hearing? How can Congress help the country right now to get things going?

For proven and performing small and veteran businesses, leverage existing contracts that are in place right now. Allow the ceiling and the dollar amount to be raised on existing contracts, and permit the adjustment of the contract periods of performance. Just extend those periods of performance and the scope of work, just those existing contracts and the existing scope of work.

Those things can be done in a matter of weeks, and people can be hired, dollars can be put on those contract. These changes are the fastest means to deliver funds to small business. This is the small business job creation engines, creating new procurement vehicles while a longer term solution will not result in economic stimulus needed today.

Typically an RFP, request for proposal, can take 18 months to allocate 25 million to \$50 million or larger, but to get to those small businesses it's going to take a while.

Here is your other problem. The federal procurement process will not be able to execute the volume of the stimulus funding without assistance. The government acquisition process needs to be streamlined to insure that stimulus funding delivers positive economic impact.

The federal acquisition work force must be expanded immediately with experienced procurement contracting officers to implement the small business objectives and procurement demands of this 18-month stimulus package. You have got to get a bigger acquisition workforce. Again, there is an opportunity to contract some of that out.

So in conclusion here, I greatly appreciate the opportunity to speak to this Subcommittee. There are a lot of us out there, small businesses, service disabled veteran-owned small businesses. We can do the job. We can hire. We can get people out there working within the next 30 to 60 days easily. Just get the funding to us.

Thank you.[The prepared statement of Mr. Klett is included in the appendix at page 76.]

Chairman NYE. Thank you very much, Mr. Klett, for being here. I would like to introduce now Mr. Jim Hart, President and CEO of ARRIBA Corporation. Mr. Hart was a Navy shipbuilder for 22 years when he retired and began to explore the field of construction and security installations. ARRIBA was established in 1998 in Nor-

folk, Virginia, certified as an 8(a) and a service disabled veteran-owned business.

Thank you for being with us, Mr. Hart, and I would like to invite you to make any opening comments.

STATEMENT OF JIM HART

Mr. HART. Thank you, Mr. Chairman and members of Congress. It is really a pleasure and a privilege to be here with you today. As the Chairman said, we do construction, and we do heavy construction and we do renovation. Right now we are working on the Pentagon, for example, because there is no work down in the Tidewater area, and I will get into that in a second.

This company of mine works primarily for the federal government. We do not really work for anybody else. We work on bases. We work for FEMA. We work for the Coast Guard, the Army Corps of Engineers, NAVFAC, Veterans Affairs. You name it, but it is primarily for the federal government.

We understand how to do business with the federal government. We like the structure, and we stay there.

Service disabled veteran businesses in my belief can actually implement the President's stimulus package and actually get work into the field, get paychecks to the unskilled, semi-skilled people quicker than anything else. What I want to speak to today, well, I have two points. How did the marketplace for construction for the service disabled vet get where it is today, the history of it?

And number two, what actions can be taken to take advantage of the service disabled vets?

How did we get there today in construction? BRAC is the problem. What happened was the edict was given on October 1st, 2011. Unfortunately the program was not funded, but the end dates stayed. Up front planning and funding came out of hide for NAVFAC and the Army Corps. This was done using regular appropriated funds from the operating budgets and, therefore, maintenance and renovations were deferred. This includes building renovations, HVAC upgrades, road maintenance, roof repairs, et cetera.

In addition, in order to accomplish the monumental task dictated the services bundled large projects together so they could manage them without adding personnel resources and contracting inspections. Without the funds for either advanced planning or the added manpower, the services had no choice but to bundle these contracts to mega projects which cut out the small business.

In 2006, seven and eight, the maintenance budgets for most, if not all, of the bases in Tidewater were zeroed out, and the result is we are completely dried up. Only the most critical work is being done. In 2008, the contracting officer who has just recently retired told me that in NAS Oceana, Fighter Town USA, he could spend five to \$10 million just on the roads, not to include any of the hundred-plus packages that were already designed and budgets developed for, but due to lack of funding were not done.

Other bases like Dam Neck, Little Creek, Fort Story, Fort Eustis are in the same situation. All types of work are required, but no funds are available to do the projects, and these are bases only in Tidewater.

Now, we do have the largest number of bases around in the country. So you are talking about a large concentration, but it is the same all over Tidewater.

Here is where the service disabled veteran companies depend on work for growth. Projects of the \$250,000 variety to the \$3 million size is what will grow service disabled veteran companies.

To sum up where the problem is, BRAC bundled the projects to the size that the service disabled contractors could not compete. A service disabled veteran contractor, in general, is not going to go after a ten million to \$25 million contract, and many of them, for example, are 40 or 50 and \$100 million.

Right now, today, there are over 200 job openings for qualified inspectors and contract specialists in NAVFAC MIDLANT alone. These people need help. What I am telling you is the system is stretched too tight. You put money in there, and it is not going to do you any good.

What can be done? Provide funding to the services and the VA and other federal agencies to get their maintenance backlog done. You don't have to do any engineering. Your engineering is finished. So your up front time is already expended.

The VA has language and they did not really go into it very deeply, but the VA has language in their procurement authority that says they can go sole source to a service disabled veteran company to get work done. I would recommend that the President sign an executive order authorizing all federal agencies to have that tool.

As part of the funding, include additional funds to outsource the inspections and the contract specialists. By using these work packages that are already there, the sole source tool, you are going to be able to put funds in the hands of unskilled, semi-skilled, and tradesmen all over the country working all of the federal agencies that have a backlog.

Thank you, sir.[The prepared statement of Mr. Hart is included in the appendix at page 86.]

Chairman NYE. Thank you very much, Mr. Hart.

I am going to yield to Mr. Schock now.

Mr. SCHOCK. Thank you, Mr. Chairman. I wish to introduce Mr. Jim Schmidt from my district in Illinois. Mr. Schmidt is a Vietnam veteran and currently President of Hohulin Fence Company located in Goodfield, Illinois.

Hohulin Fence was founded over 100 years ago and is credited as being the first to commercially manufacture chain link fence fabric here in the United States.

Mr. Schmidt, thanks for traveling all the way here, and you are welcome to make some statements.

STATEMENT OF JAMES SCHMIDT

Mr. SCHMIDT. Good morning, Mr. Chairman and distinguished members of the Committee.

I am James Schmidt, President of Hohulin Fence Company. Thank you for the opportunity to present the views of Hohulin Fence and our experience as a small, veteran owned business trying to survive in a down economy with limited funding.

Hohulin Fence Company was established in 1897, some 112 years ago, as a family owned company in Goodfield, Illinois, a small farming community in central Illinois. Hohulin Fence was the first company in the United States to weave chain link fence commercial. That first contract was for 396 feet of 48 inch high chain link fence with one gate for the grand sum of \$26.90 installed. Today that would not pay for the gate hardware.

The Hohulin brothers were an inventive group who took the first hand operated machine and engineered and designed an automatic weave machine which increased production immensely. The Hohulins went on to increase their business, including selling weaving machines to Cyclone Fence Company of Waukegan, Illinois, for a World War I base security. Through the years the company survived both World Wars and the Great Depression.

Although a conservative family, the Hohulins were always able to provide for the family and those of their employees. Today Hohulin Fence is still family owned. In fact, I married the youngest daughter of one of the third generation brothers. I have two Hohulin fifth generation employees. We are a union company which services approximately a 100 mile radius selling and installing commercial industrial fences to universities, schools, sports facilities, government facilities, private companies, parks, utilities and pipeline companies.

As everyone in this room knows, the current economic climate has been extremely difficult for small contractors and the customers we serve. Our larger manufacturing customers continue to reduce staffing and cut back production. All municipalities are struggling with declining sales tax revenues, and at the same time residents have reduced their discretionary spending.

Every market we serve has been impacted. This has had a direct impact on our business. In 2007 we posted revenues of approximately \$4 million. In 2008 our revenues were reduced by 15 percent, and would have been off by 33 percent had steel pricing not increased so dramatically. Steel is another topic for another day.

We reduced staffing by 20 percent to adjust for the reduction in sales. We have watched smaller competitors close their doors because they could no longer get financing to operate their businesses. As a veteran owned small business I see no advantage for us. If I were a disabled veteran, there may be a few more opportunities, but not many.

I believe if a veteran owned business would receive the same benefits as a WBE or DBE, we would have more work available for us to bid. Typically, most federally funded projects require a certain percentage of minority participation. We are not able to bid many of these projects because we are not considered a minority enterprise.

I know that many of our larger construction contractors struggle to fulfill the minority participation on large projects because there just are not many WBE and DBE firms in the area.

Many times companies are brought in from outside the state to fill this requirement. I do not think it is fair to a local contractor not to be able to bid projects in their own backyard. Also, the WBE and DBE are able to place a higher bid and receive the contract. With a level playing field, I am confident Hohulin Fence can com-

pete in the marketplace, and as a commercial business remaining competitive is our responsibility.

What we need from Congress are the right policy actions to insure the playing field remains level. Congress and the administration must insure that the funds available through the American Recovery and Reinvestment Act are made accessible by small business through equitable contract administration.

Currently our country seems to be paralyzed by the fear of the unknown, whether they will have a job or not tomorrow, whether they will lose their home or not, whether they can provide for their families or not. We are all looking to Washington for an answer.

Mr. Chairman, I applaud the efforts of you and your colleagues on the Committee to bring the voice of small business into this important debate. I look forward to working with you and your colleagues in support of small business in the current economic climate.

Thank you.[The prepared statement of Mr. Schmidt is included in the appendix at page 104.]

Chairman NYE. Thank you very much, Mr. Schmidt.

I would like to now introduce Ms. Janice Cavolt, a minority owner of JBC Corp. in Virginia Beach, Virginia. She established the firm together with her husband, Mr. Brian Cavolt, who is though unable to attend today a service disabled veteran. She established the company in 2006.

Thank you very much for being with us today, and I would like to invite you to make any opening remarks you would like to do.

STATEMENT OF JANICE CAVOLT

Ms. CAVOLT. Good morning, Mr. Chairman, Ranking Member Schock, and members of this Subcommittee. Thank you for inviting our company to testify before your Subcommittee and discuss insuring stimulus contracts for small and veteran owned businesses.

My name is Janice Cavolt, and I am representing JBC Corp. and presenting testimony for Brian Cavolt, my husband and business partner.

My husband is Brian Cavolt and is a 100 percent rated service disabled veteran. He retired as a master chief after 29 years of active duty in the U.S. Navy. Since 2006, he has owned and operated JBC Corp., a service disabled veteran-owned small business.

JBC Corp. is a provider of medical trauma kits for the military. Our kits are custom designed and packed to order as specified by the government. Our company is located and we reside in the city of Virginia Beach, Virginia.

My military service and experience as an operator and hospital corpsman with Special Forces inspired and enabled me to continue to serve the active duty war fighter by providing medical kits designed specifically for administering trauma combat casualty care under fire.

As a business owner and veteran, I have regular and continuing contact with other veteran owned small businesses. As small business owners, we face many of the same challenges and share the same concerns. Currently the economy is our greatest concern. We are aware that the economic climate could have a tremendous ef-

fect on our businesses. We recognize that it is important that we position ourselves and not be vulnerable to the unfair practice of not being able to bid on contracts that are automatically assigned to prime vendors.

The government has a variety of ways to purchase the items required for its many agencies and departments to conduct business. Although the requirements and methods vary, it seems the common objective for the government is to obtain quality products at reasonable prices with reliable availability while providing an opportunity for U.S. businesses to progress and become an integral component in the economy.

One method of procurement the government employs is the prime vendor contractor. The prime vendor was created to enable the government to purchase products for manufacturers who do not have contracts of their own with the government. Prime vendors are frequently used to obtain and deliver the best equipment to our troops at war in an expeditious manner. Prime vendors can be used to bypass contracting personnel to expedite orders and eliminate the requirement of justification for purchasing a superior, reliable product over a less expensive, inferior model with unknown reliability.

While the reasons stated here seemingly justify the use of prime vendors, it is my belief that the very system created to improve the procurement of products for our military does not work in a way that promotes or insures economic growth and stability for small businesses.

Further, the system does not protect the government from excess wasteful spending and in many cases does not adequately serve the end users of those purchased products. The prime vendor is a giant in the government procurement system. As such, they exercise great power over the small business who is trying for the opportunity to get their product to market. Sometimes that power becomes abusive. A small business may take years to develop a product, show it to an interested party, and then find that their only recourse to sell in any large volume requires a prime vendor be involved.

Refusal to accept the terms of business from a prime vendor is a no win option as to do so puts your product at risk as it is not uncommon for the prime vendor to take your product and actively pursue manufacturers that will produce it for them. The tactics used by many prime vendors to take advantage of the small business are coercive and frequently test the ethical standards of business.

We were invited to do business with different prime vendors on two separate occasions when our product was being sought for purchase. In both instances we were pressured to get an agreement in place quickly so that orders could be received. The main issues addressed in both agreements were the price, payment terms, and consequences for default. Both PVs wanted a preferred price going so far as to say they needed room to get additional points in their markup.

As manufacturers, we calculate our sell price by taking the actual cost of the item, adding our labor, other overhead costs, and factoring a conservative markup. We have found that in most cases

the prime vendor's markup often matches our profit. The idea that both entities make the same profit when the work for each is considerably different does not seem fair or equitable.

It is the attitude of the prime vendors we have done business with that makes us reluctant to keep doing business through such a vehicle.

And in the interest of time I am going to jump ahead here just to what our suggestions are or what we have observed.

It is suggested that government procurement regulations be reviewed, modernized, and streamlined to give equal opportunity to multiple American businesses.

In addition, it is an opportunity to renovate a system that has become inefficient and that places cost containment and the ability to provide items in a timely manner secondary to finding the easiest way to push an order through.

There are procurement methods in place and available that with modification could significantly elevate the opportunity for small businesses to compete. Those would include being able to raise the limits that credit cards can be used. Sole source contracts should go directly to the manufacturer of the product.

And I am out of time, but I thank you for the time to be able to present. This is my oral testimony, but my statement is in its full edition, and I would appreciate if you would take the time to read it.

Thank you.[The prepared statement of Ms. Cavolt is included in the appendix at page 106.]

Chairman NYE. Thank you very much, and yes, we did get a written statement from you which we will submit as part of the official record. So thank you very much.

I would like to recognize now Mr. Justin Brown, a Legislative Associate for the Veterans of Foreign Wars. Mr. Brown himself is a veteran of the U.S. Navy, having participated in Operation Southern Watch and Operation Iraqi Freedom.

The VFW is the nation's oldest major veteran group with more than 1.7 million veterans who have served our nation overseas.

And thank you, Mr. Brown. I appreciate you being here with us, and we would be happy to hear your opening remarks.

STATEMENT OF JUSTIN BROWN

Mr. BROWN. Thank you, Chairman Nye and Ranking Member Schock, counsel.

On behalf of the 2.2 million member of the Veterans of Foreign Wars of the United States and our auxiliaries, I would like to thank this Committee for the opportunity to testify and for its rigor in pursuing contracting issues on behalf of veterans. The issues under consideration today are timely and of great importance to our members and the entire veteran population.

During this economic recession, the number of unemployed veterans has increased to nearly one million as of February. That is an increase of more than 400,000 since last November and an increase of more than half of one million since last April. There are twice as many unemployed veterans as there were one year ago,

and there are as many unemployed Iraq and Afghanistan veterans as there are men and women currently serving in Iraq.

Make no mistake. Our service members are leaving Iraq, coming home, and fighting another war against unemployment, homelessness, bankruptcy, and a host of medical conditions. With a lack of opportunity, many service members are likely considering self-employment. Unfortunately, the economic stimulus was stripped of the language that would facilitate a stimulus for veterans in both business and employment.

Furthermore, a large amount of the stimulus will be spent in the form of state grants bypassing federal laws in regards to contracting. In order for veterans to succeed in small business we need training; we need capital; we need parity; and we need compliance.

Veterans' access to capital needs to be increased and diversified. For many veterans, the Patriot Loan Program is not an option because their loans are being denied by lenders even with the guarantee. The VFW suggests creating a direct loan program via the SBA. This would allow SBA to have an array of financial tools available to veteran start-ups and veterans in business.

Also, there is an extraordinarily small amount of resources being diverted towards educational programs for veterans' entrepreneurship. In Fiscal Year 2008, SBA's operational budget was \$888,000. This funded SBA's five business centers and various forms of outreach. The VFW would like to see these programs greatly expanded to include various locations throughout the country.

In fact, not one member of this entire Committee has a veterans small business center located in their congressional district.

Furthermore, veterans should not be taking the back seat to any other government contracting program, including HUBZone. Because HUBZone's language in the Federal Acquisition Regulation includes "shall" instead of "may," GAO ruled that HUBZone has priority over veterans' contracting. The Veterans of Foreign Wars objects to this determination and urges Congress to return parity to the aforementioned programs.

If the VFW were to sum up the current state of veterans' business and procurement in one word, it would be complacency. There are extremely limited options in regards to veterans' access to capital, few options for education, and a host of federal agencies that after nearly a decade continually and willfully fail to abide by their public mandates.

Their failure to abide by these mandates for such an extended period of time challenges the very authority of this body by woefully ignoring the laws that it passes. If the past is any indicator, we will be back next year looking at slightly better numbers, but hearing the same old song from the agencies in question.

The VFW demands, in compliance with the laws our veterans so proudly defended, that three percent of the economic stimulus contracts go to small disabled veteran-owned businesses.

To help alleviate our one million unemployed veterans, the VFW also calls on the veteran businesses that receive these contracts to publicly establish a veteran employment preference.

As America's largest group representing combat veterans, we thank you for allowing the Veterans of Foreign Wars to present its opinion on federal contracting in regards to the economic stimulus.

Veteran entrepreneurship, if expanded, is a win-win for everyone, including the government and America's taxpayers.

Mr. Chairman, this concludes my testimony, and I will be pleased to respond to any questions you or the members of this Subcommittee may have.

Thank you.[The prepared statement of Mr. Brown is included in the appendix at page 110.]

Chairman NYE. Okay. Thank you, again, for being with us.

And I would finally like to recognize Mr. Joseph Sharpe from the American Legion. Mr. Sharpe is the Deputy Director for Economics for the American Legion. He entered the U.S. military and was deployed twice overseas in Operation Joint Force in Bosnia-Herzegovina, and recently for the Global War on Terrorism in Iraq for which he received the Bronze Star.

The American Legion was chartered by Congress in 1919 as a veterans organization which now numbers nearly three million members.

Thank you, Mr. Sharpe for being with us, and we would be happy to hear your opening comments.

STATEMENT OF JOSEPH SHARPE

Mr. SHARPE. Chairman Nye, Ranking Member Schock, thank you for the opportunity to present the American Legion's view on federal contracting opportunities for small business in relation to veterans.

The American Legion views small business as the backbone of the American economy. It is the mobilizing force behind America's past economic growth and will continue to be a major factor as we move well into the 21st Century. Reports show that businesses with fewer than 20 employees account for 90 percent of all U.S. firms and are responsible for more than 97 percent of all new jobs, generating \$993 billion in income in 2006 and employs 58.6 million people. There are 27 million small businesses in the United States and 89.7 percent of all firms are small businesses.

In Fiscal Year 2007, the Small Business Administration's Office of Government Contracting reported that more than 378.5 billion in federal contracts identified as small business eligible. Small businesses only received a total of 83 billion in prime contract awards and about 64 billion in subcontracts.

Service disabled veteran-owned businesses were recipients of 3.81 billion, or about 1.01 percent, of all those available contract dollars. America has benefited immeasurably from the service of its 26 million living veterans who have made great sacrifices in the defense of freedom, preservation of the democracy, and protection of the free enterprise system. Due to the experience veterans gain in the military, the success rate of veteran owned businesses is higher than other non-veteran owned businesses.

The current War on Terror has had a devastating impact on our Armed Forces and has contributed to exaggerating the country's veteran unemployment problem, especially within the guard and reserve components of our military. According to the Department of Labor, the present unemployment rate for recently discharged

veterans is an alarming 20 percent, and one out of every four veterans who do find employment earn less than 25,000 per year.

Unfortunately, many of the thousands of service members who are currently leaving the service are from combat arms and non-skilled professions that are not readily transferable to the civilian labor market.

One way of combating unemployment is through the creation of new jobs. Small business creates an estimated 60 percent to 80 percent of all net new jobs, therefore providing an essential element for a strong economic growth. Government should insist in the creation of new jobs by encouraging qualified entrepreneurs to start expanding their small businesses, and no group is better qualified or deserving of this type of assistance than our veterans.

The American Legion believes that the majority of funding allocated veteran military projects through this as well as future spending bills should be spent exclusively with veteran owned firms. It was the veteran who volunteered to defend this nation, the veteran who continues to keep our democracy intact, and the veteran who deserves the right to participate in rebuilding America's infrastructure and other necessary projects.

In this capacity, the veteran will continue to serve the people of the United States by building and growing strong, reliable, dependable businesses.

The mission of the American Legion's national economic mission is to take action that affects the economic well-being of veterans, including issues relating to veterans' employment, home loans, vocational rehabilitation, homelessness and small business.

Small business continues to be a primary job generator and a major trainer for American employees. The small business firm work force includes more young and entry level workers than colleges and large businesses combined. It is vital that veteran-owned and service disabled veteran-owned businesses receive a fair proportion of the amount of federal contracts, are paid promptly for services rendered so these veterans can build and maintain successful businesses while they contribute to this down economy.

The American Legion reiterates the Small Business Administration Office of the Veterans Business Development should be the lead agency to insure that veterans returning from Iraq and Afghanistan are provided with entrepreneur development assistance.

We look forward to continuing work with this Committee to enhance entrepreneurship among American veterans. Thank you, Chairman Nye and Ranking Member Schock, for allowing the American Legion to present our views on this very important issue.[The prepared statement of Mr. Sharpe is included in the appendix at page 114.]

Chairman NYE. Thank you very much, Mr. Sharpe. You and the other members of the panel have quite rightly recognized today the important role of veterans in our society and recognizing their service to our country, and I appreciate you helping us echo that sentiment.

I want to say, first and foremost, thank you to all of you who have served and are veterans yourselves, and please extend our thanks to those members of your organizations and your companies

that have served our country. We appreciate their service. That's why we wanted to hold this hearing, to make sure that we recognize the role of veterans in our community and in our economy, and in trying to do everything we can to help them get access to contracts and jobs.

I also would like to expand that comment a little bit to thank members of our military families, and I want to note that we have voted in the last few days actually here in the House to designate this year as the Year of the Military Family. We very much recognize that military families work just as hard and serve and struggle as much as our veterans do, and we appreciate your role there.

So thank you very much for that.

I think this has been a very productive hearing in the sense that we have gotten to hear from you who represent businesses and veterans organizations, and I want to thank you all for being very frank and very forthcoming with specific ideas of things that we can change to hopefully move things forward. We recognize the great challenge here being that we have got funds coming for recovery. We would like those funds to create jobs. That is what they are designed to do.

We obviously need to have a system in place that works. We have problems with the system as it is now. We want to fix those so that going forward we don't look back in a year or two and say, well, we wish we had thought ahead a little bit and planned a little bit better. We want to look back and say we are really glad that we took the time to think ahead to how to tackle these challenges and make this work better.

I want to start by asking our business owners here if you could just comment about Veterans Affairs has a list of veteran owned and service disabled businesses, and I wanted to ask you are you on that list and can you give us any comments on your interaction with the VA in terms of that list? Is it helpful? You know, what can we do to make it better?

And then I'm going to ask you to just comment please on training opportunities that VA programs offer for veterans in terms of approaching the procurement process.

But let's start just by asking you if you wouldn't mind commenting on the list that the Veterans Affairs keeps of veterans and whether or not you are on there and if you think that works.

Mr. KLETT. I am Mark Klett. I am personally on the list with the Veterans Affairs and also a number of other lists within the government, and we do get a lot of spam of wonderful opportunities within the government. You have to be able to filter through all of that.

As small businesses, it is very difficult to try to focus in on just the right opportunity to stay within your capabilities and what you're really good at. So you have to filter through all of those things.

To make one other comment about the great training programs, as you're a new and an entrepreneur starting out, those are very good. In my particular case, 20 years of service, six years doing procurement with the military, six years of working with the large defense companies as a program manager before I started my business, I was pretty well trained and a ready up round, but starting

the business, it was pretty good to go through some of these training programs, and I do refreshers and send some of our people to some of those programs.

So it is good. It is helpful. It is needed, and that is what you need to have to go to that baseline.

Mr. HART. ARRIBA is also on the list, and in order to be certified as a service disabled veteran, you really ought to be in that list for the VA and the rest of the organizations, it is my belief.

After doing 22 years in the Navy, I went into ship repair for 18, and then I became an entrepreneur, if you will, and started my own business in construction. That shows I am not really that smart, but what happened was I as well came with a background of working with the federal government with contracting. I did not really understand how to market.

And the statement about PTACs, they are absolutely wonderful. The actual training that the SBA provides, the free training they provide, I go to it all the time. I always pick up a little something or I will meet somebody, and so that is something that needs to be expanded, in my belief.

Mr. SCHMIDT. I really have not had any experience with the veterans. Obviously I am listed because Bradley University in Peoria administers the economic development, and I was receiving bid opportunities from them prior to the FedBidOpps. There was Commerce Business Daily, which was very, very difficult to use.

Unfortunately, the classifications that I fit into are so limited, but the classifications are so broad that I was receiving numerous opportunities for things like helicopter parts and stuff that did not even apply to me.

The other problem was that, again, the classification of a small business included, you know, such a range that if it was a bid for chain link fence, let's say, or for a razor ribbon, which I do not manufacture, I would have to purchase and resell it. I was actually bidding against my manufacture. So there was really no opportunity there for us at all, and actually I was getting so much that did not apply that I asked them to quit sending them. It just didn't apply.

Ms. CAVOLT. Hi. We are on the VA list. Generally we receive notices from FedBizOpps, and also being in one of the largest military communities and our product serves the military specifically, we frequently have the different commands coming to us asking us for our product because we do work with them to basically custom and specialize it for what their needs are.

As far as the training we have received, Small Business has really helped us with the programs that they have. The American Legion in conjunction with Small Business has really been very helpful, and I look forward to seeing what I can find out from the VFW as well. But that would be it.

Thank you.

Chairman NYE. Thanks.

Well, we do not want to put you on the spot, Mr. Brown, but I do want to give you and Mr. Sharpe a chance to comment on this question about the training programs if you have anything you would like to add about your experience from your membership.

Mr. BROWN. Sure. My experience with the training programs, and thank you for the question, Mr. Chairman, is that they are very good. The problem is there is not enough of them, and they are located in very limited geographic regions. There is only eight across the country. I think there is only one on the West Coast, which is California.

So our experience at the VFW is just plain out there there is not enough of the centers, and there is not enough funding for SBA to expand the centers.

Also TVC was running three of the centers, and now that they are no longer receiving funding, those three centers are also in danger of going under, if you will. So we are hoping to see their funding rediverted under SBA, and we would like to see the whole program be expanded.

Thank you.

Mr. SHARPE. Because there is a real lack of training, that is one reason why the American Legion formed its own business task force, and with those task force members we have started conducting our own training for veterans. Currently the SBA has five centers. They are under funded. TVC had three centers. They are also under funded, and it looks like they may possibly close if we do not get funding to them right away.

I understand there is over 100 women's business centers, but with only eight centers that are all under funded, we do not consider there being much of a training program.

We just had our Washington conference last year. We did a one day training class. It was standing room only, and it appears that seems to be the situation across the country. There is a dire need for training, and it is not there.

Chairman NYE. Thanks.

You know, that is something I hear actually from a large number of veterans constantly, is that they would take advantage of programs more often if they actually were informed better about what is out there already. So we need to take a look at that as well.

Let me just ask, and just in the interest of time I do want to give Mr. Schock an opportunity to ask whatever questions he has, too. I want to just ask the business owners if you could tell me just very briefly how do you find out about your contracts. I mean, where do you get the information for the contracts that you get?

And if there is one, the principal thing that you could change about the federal procurement system, what would be on the top of your list?

Mr. KLETT. Most of the contracts that we win, and we have a very high win percentage, I find out directly from my customers. If you see it on a public announcement, it is too late. So it is direct marketing, directly to your end customers, and that is basically how you do it or we get references or people that call us. I mean that's how it is because we have been in the business quite a while. That is how it is.

Mr. HART. Congressman, we do it two ways. Direct marketing is one, and of course, we are an 8(a) company. We do have the ability to get sole source contracts, and that is the way you have to do the individual marketing to get that.

But in our general contracting, we will do a couple of things. One, FedBizOpps is a good tool, but we will go to the various agencies and look at what their forecasts are, and many times you can find out who the project manager is in that agency for that forecasted project that you find interesting, and then you go talk to that individual so that they will know who you are when you submit your proposal.

Now, your proposals are going to cost you anywhere from 60,000 to \$125,000 in construction. So you don't do too many of those and lose.

Mr. SCHMIDT. Since we do not deal directly with the federal government, our projects are basically federally funded, being an airport, and I subscribe to a private information service that I get notifications of bids coming up in our area, and also through our general contractors mainly.

Unfortunately even on an airport job where there may be a lot of fence, it does not go to the fence contractor. It goes to a general contractor, and therein is a problem because if it was separated out, you know, I think we are capable of handling that project on our own, but we do not get that opportunity.

Then, again, if there is a minority participation involved, I mean, there was one recently that we could not even bid it because, you know, we were not minority at all. So it is unfortunate, but we take what we can get.

Ms. CAVOLT. I think I actually mentioned before that we use FedBizOpps quite a bit, and also looking up our codes on DLA because any contracting we do basically comes through DSCP.

I think that the greatest thing that the government could do to help stimulus is, well, I am going to say two things. One is accountability. Make sure that what we have in place is working, that the quotas are being met for what should be set-asides, and also empowering those people who actually have training within the government to buy. Currently buyers are limited to a \$3,000 purchase on a credit card, when, you know, we are in a product business. Three thousand dollars does not buy a whole lot, and those limits could be raised, again, with accountability.

There is always the concern for fraud, I think, in any business or any arm of the government, but accountability and empowering the people who are already there.

Thank you.

Chairman NYE. I want to make sure I reserve as much time as Mr. Schock would like. So I am going to recognize him for as much time as he would like to use.

Mr. SCHOCK. Well, I think we have until what, three o'clock? Is that when votes start?

[Laughter.]

Mr. SCHOCK. You know, I would like to take a different approach. You know, you all were in the audience when the government agencies presented their testimony. You all submitted the testimony you just gave days in advance of hearing that testimony. So I want to give each one of you the opportunity to kind of respond to those agencies who were here today, their testimony, and I want to hear your reaction to it and any comments you would like to

have us, as your members of Congress and your representatives here to know.

So let's just go down the line here, and I want to give you the opportunity to take a couple of minutes to respond. Mr. Klett.

Mr. KLETT. Yes, sir. And I know for the Department of Defense I do all of my contracting with the Department of Defense. I will make a few comments on that.

Their current strategic plan for 2009 is to continue on that slope at the same rate, to hit a goal. It is Public Law 106-50, which says three percent of all federal contracts will be for service disabled veterans, a minimum of three percent, and that is law.

And they should be going for that goal, and there are ways of doing it for both subcontractors and prime contracts. I personally am on 11 different contracts for large companies doing defense work, and I typically am getting about one percent of that contract each year, exactly the goal, and we do really neat, big stuff on aircraft carrier architecture design and integrating systems, strategic support for the Pacific missile range, a lot of big programs that have people with 22 inch foreheads are working on. Okay?

But we are only getting that piece that is being in the strategic plan. We can do a lot more than that, and it is unfortunate that the goal is there.

In the VA they have set a seven percent goal, and guess what they are hitting: eight percent. So if the leadership sets it and attacks it and goes for it aggressively, it will be done. I guarantee it. There is no hammer within the Department of Defense to really try to attain some of those goals unfortunately, and I would like them to try to hit a three percent goal. It can be done, and qualified, good people are out there to really do it.

We have a \$30 million prime contract that we were awarded six months ago, the second largest one in the Navy seaport, contract for over five years, and we have only been funded at about \$100,000 so far, doing things to get critical equipment and critical capabilities to the forward war fighters in the Global War on Terrorism.

So the vehicles are there. There is funding out there to do these things. It is just not getting to the service disabled veterans because the leadership within the Department of Defense does not have its arms around it. And I hope we get more work now.

Chairman NYE. Thank you.

Mr. KLETT. Thank you very much for that question.

Mr. HART. To go down the table, the SBA is doing a great job. They are woefully under funded. They need help.

The Department of Transportation, they do things that I do not do. We do security systems, but they do not want to do a security system for a small region. They want to do the State of Virginia. Well, unfortunately we do large security systems, several million dollar security systems, but I could not do the surveillance system for all of the roads in the State of Virginia. You know, they are not interested in breaking things up, which is fine with me. That is not a problem.

The VA has got the teeth that everybody needs, and they have the authority to do sole source contracting. A case in point. they needed security upgrades to their VA medical centers in VISN 6,

which is out of Hampton. We received a sole source contract for right at \$2 million to go do that, and we are in the process of doing that for them, and we are doing the design and installation all at the same time. So you get two things. You save time and you save a lot of money.

To follow on with that, their competitive procurements are service disabled. That is their prime focus, and that is not an after the fact with them. That is up front with them. We have won competitively a \$1.3 million mass announcing system. It is part of your anti- terrorism package for a large hospital. That is what the VA is doing. The VA is out front. This is what the rest of the federal agencies need. they need the same language that the VA has.

As far as DoD, as far as constructions are concerned, they are not even setting aside one-half of one percent. They are bundling contracts. They are using mass contracts for the large players, and the latest wrinkle is for the large contractor to go out and find another large contractor to subcontract to and then say, well, now, look. You go find a service disabled veteran contractor, and we are going to sign two combined contracts, and what is going to happen is we will just work with you in the service disabled veteran contract and we will not even have to bond it, and we will just do a pass-through and just add another \$100,000 onto your bid and bring them in as a shell game.

And I have one of those contracts for you if you would like to have it, and, Congressman, I have provided it to your office. This is the latest wrinkle, and this thing actually is a two-part contract which allows the prime to cancel the contract with VA service disabled member, keep the contract with the second tier sub, and pocket the difference's profit.

That is pretty good. Now, that is your trickle down using big businesses to work the service disabled veterans. That is the biggest hoey I have ever heard in my life, and I refuse to do it.

Mr. SCHMIDT. I had minority ownership in Hohulin since 1994. In 2007, I had an opportunity to buy out some non-active, non-participating partners that held the majority of the stock. Our local bank, it is a very small, private owned bank. I had approached them obviously because we had been doing all of our business with them. All of our lending, all of our everything had been with the local bank. Because of a weak balance sheet, they preferred to run a loan basically, what I needed to borrow to buy the rest of the company through the SBA.

That started in March of 2007, and it took approximately almost four months to get to the point where I received some sort of approval, and the problem was that literally every two to three weeks I would get another road block, a request for more paper work, more paper work, more documentation, and it was really getting ridiculous.

I would have to call and say, "Where are we at with this?" and the bank would go, "I do not know. Let me call and find out."

It just dragged on and on, and interesting enough, I approached another bank. I was wanting to stay the course. I was wanting to get this finished so that we could complete the purchase, and I went to another local bank, another private owned but larger bank, and the owner came out literally the next day, and within an hour

and a half we had a verbal approval. Within two weeks it was done, and we did not have to put up the collateral that was required for the SBA.

So, again, you know, if there was that risk, the other bank did not see that and went on what we showed them, which was the same documentation we showed the SBA.

Again, I do not deal with the DoD. I do not deal directly with the large government agencies directly because we are in a very small area, but as far as the Department of Transportation, our state really does not have much funding at all. I mean, coming into our area is very little money.

So you know, business opportunities really are not there at this time. One thing, I was encouraged when the Recovery Act was proposed was there was going to be a Buy American clause in there. You know, we are an American company. I am an American and proudly an American. You know, America is the strongest country in the world, and our company is proud to sell American made products.

But I see the proliferation of foreign products in our industry specifically, and that is disheartening because it does not give me any advantage at all because if I am trying to compete with a foreign made product with an American made product, it is not level at all. It is not fair. You know, there may be a specification come out; in fact, it just happened recently for, you know, a six foot tall fence with barbed wire and certain sized posts and that, but that was the end of it. It did not say, you know, to be American made products.

I know that the school system is saying that now. I am glad to see that, use American made products, but it is just not fair to let foreign made products come into the marketplace. It puts us at another disadvantage.

Ms. CAVOLT. First I would like to say that I did appreciate everything the first panel had to say in response to your question. I think it is probably the largest gathering of government officials that I have heard acknowledge that there are goals that are not being reached, and it was very nice to hear that they realize we have a ways to go, and I sincerely hope that having heard what we are saying that they can understand and recognize what our problems are and go forward and take care of some of those with the assistance, of course, of Congress.

I think, you know, Ms. Oliver addressed the issue of payment, of prompt payment, and it is a problem particularly with the small business. Sometimes, as Mr. Schmidt will say, taking time to get bank loans can be extremely—first of all, it is very time consuming and you do not always know what you are going to get in the end.

I find for ourselves as a small, emerging business, that because of the size of the contracts that we do manage, and we are going through the prime vendor, one of the greatest problems we are having is there is no way that we can put grievance if we are not being treated fairly.

Right now I am having payment withheld by a subcontractor, and I have nobody to talk to to help me with it, and if I do not rectify it, there is a good chance that my business could go under just because of the amount of money.

But, again, my comment about accountability, that is why it becomes so important, and just one other comment I would like to make about that is when prime vendors are renewed, they go to the customer and say, "Well, how was it? Did it work for you?" And yet the subcontractor is never asked did it work for you. Were you able to work with this company? Because you do not know. A prime vendor may be showing great success, but they are jumping from business to business, and there are some very good prime vendors. So please understand I am not on a mission to try to get rid of that system because it is a very valuable system and it works, but it just needs oversight and accountability so that smaller businesses that are using prime vendors can be assured that they will get paid and that they have the opportunity to grow.

Thank you.

Mr. BROWN. Congressman Schock, thank you for the question.

In regards to the agencies' testimony before this, I mean, it has been ten years since we passed this law. We cannot even say we are halfway there. The preliminary numbers are showing 1.4 percent of these contracts are going to small, disabled veteran-owned businesses. I would not be half shocked if I started raffling through the old testimony and it did not look nearly similar to what was submitted today. So that is kind of where we are at.

We are ready to see some action and tired to talk.

Thank you.

Mr. SCHOCK. thank you.

Mr. SHARPE. The American Legion perspective on this is that there is just not enough buy-in from the various federal agencies from the top. You know, the individuals who spoke today are not those who make the decisions on whether or not to help the veterans or not. For the last few years we have worked pretty closely with both House committees, small business House committees, and I mean the Senate and the House, and I have to say both committees were very active as far as especially working with SBA and really pushing the federal agencies to do what should be done.

And, frankly, many of them just refuse to do it. It takes a lot of work to get a bill passed and then get it implemented and then get it funded. But if the head of the SBA or DoD just refused to implement what has already been passed, it tells the veteran that we really do not see you as a viable partner, and it is really a missed opportunity.

Those of us who have been overseas, we come back with a lot of expertise and we still have that same belief in completing the mission, and we probably are the best partners to try and get anything done that the country needs completed. And when these agencies do not recognize that, they would rather do business as usual with the large contractors, not really paying attention to where the money is going and how it is used or how effective it is, that is disheartening for a lot of these business owners who are veterans, and that is the problem.

If you pass the bill and the Administrator of SBA refused to implement it, you can see there would be a lot more shock. He has had a budget of \$750,000 for the last three or four years. What can he do with that? He has to run five business centers. They have to try and monitor all compliance from the various federal agencies

with a staff of next to nothing, and then you have DoD who has one of the largest budgets and they still have not been able to make a three percent goal.

That tells people that we really do not want to do business with you, and it comes from the top.

Mr. SCHOCK. Thank you for your candid responses, and I sincerely appreciate it. It has been very helpful to me.

So thank you, Mr. Chairman. I hand it back to you.

Chairman NYE. I just want to thank members of both of our panels again for being here today, and again, I think the theme here is that we have got some work to do. I was surprised to hear, but actually I want to give some credit to the agency representatives here for being frank about the fact that they have not done what they need to do. In some areas we are making some progress, but what we want to avoid here is exactly what Mr. Brown described. We do not want to look back again in the future and say after the testimony we heard today and find that it is very similar to testimony given many years ago and have the same testimony given two years from now.

We would like to see progress made in this area that we can measure, and again, I want to thank all of those who traveled from quite some distance to be with us, to share with us your stories. I am a firm believer in the notion that in order for us to improve, we have got to hear ideas coming from outside Washington. So we really appreciate you taking the time to be with us here today and share your anecdotes with us.

And as I mentioned before, we will be continuing to keep up with our agencies and very interested to see and track the progress, particularly with those who have established special agencies or special committees or a special oversight body to track this, and we will be keeping up with the progress we are making on that.

Again, thank you all very much for being here today. I want to ask unanimous consent that members have five days to submit statements and supporting materials for the record, and without objection, so ordered.

Thank you very much, again, all for being here. This hearing is now adjourned.

[Whereupon, at 12:37 p.m., the Subcommittee meeting was adjourned.]

**Testimony of
Calvin Jenkins
Deputy Associate Administrator
Office of Government Contracting and Business Development
U.S. Small Business Administration**

**Before the
Subcommittee on Contracting and Technology
House Small Business Committee
March 12, 2009**

Chairman Nye and other distinguished Members of this Committee, thank you for inviting me to testify about the U.S. Small Business Administration (SBA) and its small business procurement related programs and how they relate to the American Recovery and Reinvestment Act (Recovery Act).

I am Calvin Jenkins, Deputy Associate Administrator for Government Contracting and Business Development. I appreciate the opportunity to discuss with you the SBA's efforts to ensure that small businesses receive a fair opportunity to participate in the Federal procurement arena with regard to the Recovery Act, especially in this time of historic economic challenge.

Section 2 (a) of the Small Business Act states that "...security (of our Nation) and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed...." Included in SBA's mission is the mandate to increase Federal prime and subcontracting opportunities for small businesses in general, as well as specifically women-owned small businesses, services-disabled veteran-owned small businesses, small businesses owned by socially and economically disadvantaged individuals, and small businesses located in Historical Underutilized Business Zones (HUBZone) small businesses.

Through SBA's various government prime contracting and subcontracting programs, the SBA provides policy direction and guidance to Federal procuring agencies and works with them to develop acquisition strategies that will help to increase opportunities for small businesses in Federal procurement. The SBA facilitates this working relationship with the Federal procuring agencies by serving as an active member of the Chief Acquisition Officers Council and chairs the Small Business Working Group. The SBA also chairs the Committee of the Directors of Small and Disadvantaged Programs.

From Fiscal Year (FY) 2000 through FY 2007, total Federal procurement increased from approximately \$200 billion to more than \$378 billion. During this time period, the small business share almost doubled, increasing from \$44.7 billion to \$83.3 billion. Subcontracting dollars going to small business in FY 2007 totaled \$64 billion. We estimate that each \$140,600 spent supports one small business job. Thus, for FY 2007,

prime contract dollars supported 592,000 jobs within small businesses and subcontracts supporting over 450,000 jobs.

For that same period, contract awards to: small disadvantaged businesses increased from \$7.3 billion to \$24.9 billion, women-owned small businesses from \$4.6 billion to \$12.9 billion, HUBZone certified businesses from \$663 million to \$8.5 billion, and service-disabled veteran-owned small businesses from \$554 million to \$3.8 billion.

Although these are significant increases in contract awards for small business, Federal procuring agencies have met only one of five goals consistently from FY 2001 to FY 2007. Clearly more work is still needed. The SBA recognizes the need to improve small business government procurement programs, both within the Agency and externally by working with Federal procuring agencies.

Chairman Nye, you asked specifically that I discuss strategies the SBA is using to assist veterans and service-disabled veteran-owned small businesses to obtain government contracts.

The SBA through its government contracting function is responsible for assisting small businesses in obtaining a fair share of government procurement through a variety of programs and services. A key tool in this effort is SBA's statutory mandate to establish small business procurement goals with each agency prior to the beginning of the fiscal year in line with meeting the government-wide goals. The government-wide goals for prime contracting include 23 percent for small business, 5 percent for small disadvantaged business, 5 percent for women-owned small business, 3 percent for service-disabled veteran-owned small business, and 3 percent for HUBZone certified small business. SBA is also required to report on agencies achievements in meeting their goals and plans to achieve goals not met. SBA has established a Small Business Procurement Scorecard to do this and it is publicly available on SBA's website. Although there is no government-wide goal for veteran owned small businesses, Federal agencies in Fiscal Year 2007 awarded more than \$10.8 billion in contracts, or 2.9 percent, to veteran owned small businesses.

As you are aware Public Law 106-50, enacted in 1999, established a 3 percent service-disabled veteran-owned small business goal for Federal prime contracting and subcontracting, respectively. Public Law 108-183 established a procurement program for service-disabled veteran-owned small businesses, which allowed for:

- Competitive set-asides where it is expected that two or more service-disabled veteran-owned small businesses will submit an offer at fair market price.
- Sole source awards where only one service-disabled veteran-owned small business will submit an offer at fair market price.

As part of SBA's Small Business Procurement Scorecard initiative, SBA featured the Department of Veterans Affairs and the Department of Homeland Security as best practices for strategies to increase federal procurement opportunities for service-disabled

veteran-owned small businesses. SBA posted these best practices as a way to assist other agencies in meeting their service-disabled veteran-owned procurement goal.

In response to your specific request for information about strategies the SBA will deploy to help small business obtain contracts resulting from the Recovery Act. I would like to report that the SBA has appointed a Stimulus Bill Coordinator to ensure that all of the Agency's programs (lending, procurement, and business development) are moving aggressively to assist small businesses. As it relates to contracting, we have begun a campaign to reach out to small businesses informing them of procurement opportunities available at the Federal level and advising them how to get involved in the state and local government infrastructure procurement actions that are likely to result from the Recovery Act. We are also posting and updating procurement information on our web site to make it easier for small business to locate agencies procuring products and services to support the stimulus efforts. In addition, we are working with the General Services Administration to ensure reporting of small business participation in acquisitions under the Recovery Act, including service-disabled veteran-owned small businesses.

Our field staff, which is another key tool in our delivery of small business procurement assistance, is organized into six Area Offices: Area One – Boston, Area Two – Philadelphia, Area Three – Atlanta, Area Four – Chicago, Area Five – Dallas, and Area Six – San Francisco. These offices are responsible for overseeing and directing the activities of our Procurement Center Representatives, Commercial Marketing Representatives, Small Business Size Specialists, Industrial Specialists and Natural Resources Sales Specialist.

Procurement Center Representatives (PCR) are stationed at major Federal procuring activities and are responsible for increasing small business opportunities in the Federal procurement process. It is important to note that PCRs review all proposed major unrestricted procurements and bundled requirements, and recommend procurement strategies that will maximize opportunities for small businesses to participate as prime contractors. PCRs also review bundled contract requirements to determine if they are necessary and to ensure that small businesses can participate, by either requesting the agency set a certain subcontracting goal or by breaking apart the bundled requirement so that small businesses can participate in some capacity as prime contractors. The SBA encourages small business to team together and to establish strategic alliances and joint venture to better position themselves for increase procurement opportunities.

Commercial Marketing Representatives ensure that small businesses receive a fair share of subcontracting opportunities from Federal Government's large prime contractors. When awarded a contract valued at \$500,000 or higher, these large prime contractors are required to establish a subcontracting plan for small business participation. The SBA along with the procuring agency evaluates the large prime contractor's effort against its subcontracting plan.

Small Business Size Specialists determine individual firms' small business size status for when such firms' size is questioned vis-à-vis a specific procurement. The size status

reviews are the result of a protest filed by another small business, the contracting officer, or other interested party.

Industrial Specialists assist small businesses by issuing certificates of competency, if appropriate, for small businesses that submit proposals that are likely to be successful on a government procurement, but whose capability to perform is questioned by the contracting officer.

Natural Resources Sales Specialists ensure that small businesses obtain a fair share of Federal real and personal property authorized for sale or other competitive disposal actions. The program includes: sale of timber and related forest products; royalty oil sales, mineral, coal, oil and gas leasing; strategic and critical stockpile materials disposal; and real and personal property sales.

Chairman Nye and other distinguished Members of this Committee; thank you again for the opportunity to testify before you regarding our work to promote government contracting programs for America's small business, and I am happy to answer any questions you may have.

**STATEMENT OF JOEL SZABAT
DEPUTY ASSISTANT SECRETARY
FOR TRANSPORTATION POLICY
U.S DEPARTMENT OF TRANSPORTATION
BEFORE THE**

**COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
U.S. HOUSE OF REPRESENTATIVES
MARCH 12, 2009**

Ensuring Stimulus Contracts for Small and Veteran-Owned Businesses

Chairman Nye, Ranking Member Schock, Members of the Subcommittee:

Thank you for inviting the U. S. Department of Transportation (DOT) here today to discuss how small businesses may benefit from the American Recovery and Reinvestment Act (ARRA).

On February 17th, 2009 President Obama signed the ARRA appropriating \$48.1 billion to the Department of Transportation. Of that amount, DOT has already apportioned \$26.6 billion in highway funds, and \$7.5 billion in transit money, to states and local transit agencies. This week we are releasing another \$2.4 billion in grants to airports and Amtrak.

A critical part of this effort is to apportion funds to the states and other DOT recipients promptly and efficiently so jobs can be created to stimulate economic activity at the state and local levels. As part of our commitment, and under the leadership of Secretary LaHood, in less than three weeks, some contracts funded through ARRA have been awarded, and work is underway.

Under two separate and distinct programs within DOT, there are contracting and subcontracting opportunities for small and disadvantaged businesses. Opportunities are available under our federal financial assistance to state and local transportation agencies (formula and other grant funds) via the Disadvantaged Business Enterprise (DBE) Program and through DOT's direct contracting process (small business program).

Small Business Strategy – Direct Contracting

Small businesses are the backbone of our economy, employing about half of all private sector employees and paying for nearly 45% of the total U.S. private payroll. DOT has developed a successful program designed to increase the number of federal competitively awarded contracts to small businesses by maximizing opportunities and promoting the use of small businesses in DOT contracts.

DOT is a leader in Federal Government procurement. It has developed a culture that has demonstrated its commitment to small and disadvantaged businesses. In 2008, DOT spent \$5.1 billion in direct contracting, of which over \$1.7 billion went to small, women-owned, veterans, service disabled veterans and disadvantaged businesses.

The DOT Office of Small and Disadvantaged Business Utilization (DOT/OSDBU) strategy has shown significant success. The DOT small business program is implemented under the leadership of the OSDBU and encompasses all small businesses, including small and disadvantaged, women-owned, veteran-owned, service-disabled veteran-owned, and Historically Underutilized Business Zone certified firms.

The program is supported at the highest level of the organization and reflected in the DOT strategic and performance plans. The Transportation Acquisition Manual and the Transportation Acquisition Regulations reinforce written policies and procedures for use by the DOT Operating Administrations (OAs) to implement small business contracting activities. Each OA has at least one small business specialist to assist small businesses seeking contracting opportunities with DOT.

Small Business Strategy – Formula Funds

The DBE program, enacted in 1983 as part of the Surface Transportation Assistance Act (STAA) of 1982, was designed as a vehicle to increase the participation by minority business enterprises in federally assisted state and local contracts. Three major DOT operating administrations are involved in the DBE program: the Federal Highway Administration, the Federal Aviation Administration and the Federal Transit Administration.

In Fiscal Year 2008, DOT distributed more than \$40 billion in formula and other grant funds, which resulted in over \$30 billion in contracting and subcontracting opportunities for small and disadvantaged businesses. DBEs were awarded \$3.3 billion in contracts, representing over 11% of the total DOT assisted contracting.

The DOT is working together with the states to monitor the funds distributed under ARRA. A number of reporting tools are being developed in accordance with the Recovery Act to meet the various requirements in the legislation, including the number of jobs created. In addition, OSDBU intends to coordinate the development of a web based reporting tool to allow recipients to report DBE achievements into a centralized database. This will allow DOT to better assess the impact of ARRA and monitor DBE awards or commitments and payments.

Implementation of Recovery Act

DOT will distribute about \$35 billion in ARRA appropriated infrastructure funds, which are subject to the same DBE program requirements as non-ARRA formula funded projects. DOT recently issued guidance to program administrators suggesting steps to take to mobilize underutilized DBE capacity that may be needed to meet increased

demand fueled by the ARRA. States, airports and transit agencies must meet the same DBE requirements for ARRA resources as they do for normal formula funded programs. Based on our history with existing programs, we expect the ARRA to generate nearly \$3 billion in additional contracting and subcontracting opportunities for DBEs.

Included in the Recovery Act is \$20 million for DBE bonding assistance for transportation projects that are specifically funded through ARRA.

To disseminate information about the DBE bonding assistance program, DOT OSDBU will develop an in-house outreach campaign at the state and local level to promote and distribute information related to this program. This campaign will be a joint effort between DOT and state DOTs, Office of Civil Rights at the state and local levels, and other government agencies such as Small Business Administration, Minority Business Development Agency, and others. Part of our communication effort to disseminate information to small business will be coordinated through the nine Small Business Transportation Resource Centers (SBTRCs). OSDBU has established cooperative agreements with business organizations across the country to assist small businesses.

In the context of the DBE program, only firms certified as DBE under Title 49 Code of Federal Regulations parts 26 (49 CFR 26) are counted. DOT recently issued guidance to program administrators reemphasizing the applicability of the DBE program to any additional funding received under ARRA.

DOT also had issued guidance regarding the eligibility of service disabled veteran owned business and encouraging their participation in the DBE program. DOT is considering expanding its guidance regarding the use of the small business set-aside as it pertains to the DBE program.

Because small businesses are critical in stimulating economic growth and creating jobs, DOT encourages small business participation in all its grants. Recipients will be required to report small business participation through special ARRA reporting vehicles.

As part of the implementing guidance provided to the OAs for all ARRA procurement actions, DOT's Senior Procurement Executive issued specific guidance instructing the OAs to ensure maximum opportunities for small businesses to compete in contracts resulting from the ARRA.

DOT actively reaches out to the small business community. For example, in Fiscal Year 2008 DOT OSDBU participated in more than 11 Service Disabled Veteran Owned Small Business (SDVOSB) related events and actively reached out to SDVOSB organizations to provide a supportive environment for them to present their capabilities to DOT and to learn about contract and subcontracting opportunities. DOT OSDBU actively participated in the National Veterans Conference sponsored by the U.S. Department of Veterans Affairs to provide technical assistance and workshops to SDVOSB and veteran owned business on how to market their products and services to federal agencies, specifically to DOT. We continued to encourage the use of SDVOSB set-asides in DOT

contracts through the small business review process and individual interaction with procurement officials. The DOT/OSDBU strategy has shown significant success.

Thank you for the opportunity to appear before you today. I will be happy to answer any questions.

**STATEMENT OF GAIL L. WEGNER
ACTING DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS
UTILIZATION AND THE CENTER FOR VETERANS ENTERPRISE,
U.S. DEPARTMENT OF VETERANS AFFAIRS**

**BEFORE THE SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY,
COMMITTEE ON SMALL BUSINESS**

**U.S. HOUSE OF REPRESENTATIVES
MARCH 12, 2009**

**

Mr. Chairman and Members of the Committee thank you for convening this hearing to assess opportunities for small businesses through American Recovery and Reinvestment Act requirements. The Department of Veterans Affairs has a sustained tradition of outstanding support for small businesses with special emphasis on Veteran-owned small businesses, and the stimulus funding presents a valuable opportunity to maintain that tradition. I am honored to represent Secretary Shinseki and the dedicated employees throughout the Department of Veterans Affairs who serve our Veterans daily.

Today, I would like to provide a brief update on the current initiatives led by VA and my Office to serve this vital business community. Next, I will explain the context in which this mission continues with the support of the American Recovery and Reinvestment Act. And, finally, I will highlight some challenges posed by these urgent needs to Veteran-owned, disadvantaged and small business concerns.

Performance Update

The Department of Veterans Affairs has a sustained tradition of outstanding support for small businesses with special emphasis on Veteran-owned small businesses. The Small Business Administration posts agency achievement data on its web site. In Fiscal Year 2007, the last year for which such data is publicly available, VA led the Federal government in creating

opportunities for small businesses. I am delighted to inform you that the Department received a Green Small Business Scorecard from the SBA for our Fiscal Year 2007 performance. We are very proud of this rating and hope to repeat it many times over. Summary data is provided in the following table:

DEPARTMENT OF VETERAN AFFAIRS				
GOALS ACHIEVED	OVERALL GRADE			
5/5	<ul style="list-style-type: none"> VA achieved 32.85% exceeding its small business goal of 27.77% that was above the 23% Government-wide goal This resulted in small business receiving \$991 million more than FY2006 VA exceeded all of its socio-economic goals 			
SMALL BUSINESS GRADE				
	FY2006/FY2007 % GOAL	FY2006 SMALL BUSINESS ACHIEVEMENTS	FY2007 SMALL BUSINESS ACHIEVEMENTS	ACHIEVEMENT PROGRESS
 GREEN	27.77%	28.71% (\$2,862,900,305)	32.85% (\$3,854,687,943)	 GREEN
SOCIO-ECONOMIC GRADES				
SDB	FY2006/FY2007 % GOAL	FY2006 SMALL BUSINESS ACHIEVEMENTS	FY2007 SMALL BUSINESS ACHIEVEMENTS	ACHIEVEMENT PROGRESS
 GREEN	9%	8.21% (\$818,520,968)	8.77% (\$1,029,410,495) Agencies within a decimal percentage of their goal were rated a "Green" when meeting statutory requirements.	 GREEN
WOSB	FY2006/FY2007 % GOAL	FY2006 SMALL BUSINESS ACHIEVEMENTS	FY2007 SMALL BUSINESS ACHIEVEMENTS	ACHIEVEMENT PROGRESS
 GREEN	5%	4.81% (\$479,658,327)	4.97% (\$583,657,495) Agencies within a decimal percentage of their goal were rated a "Green" when meeting statutory requirements.	 GREEN
HUBZONE	FY2006/FY2007 % GOAL	FY2006 SMALL BUSINESS ACHIEVEMENTS	FY2007 SMALL BUSINESS ACHIEVEMENTS	ACHIEVEMENT PROGRESS
 GREEN	3.05%	3.23% (\$321,869,374)	3.31% (\$388,439,407)	 GREEN
SDVOSB	FY2006/FY2007 % GOAL	FY2006 SMALL BUSINESS ACHIEVEMENTS	FY2007 SMALL BUSINESS ACHIEVEMENTS	ACHIEVEMENT PROGRESS
 GREEN	3%	3.57% (\$356,206,175)	7.09% (\$831,811,813)	 GREEN
ACHIEVEMENT CRITERIA				
 GREEN	THE AGENCY MUST MEET 100% OF ITS GOAL OR AGENCY ACHIEVEMENT PERCENTAGE MUST BE OVER THE STATUTORY GOAL WHILE REACHING ITS ROUNDED GOAL (WHOLE NUMBER)			
 YELLOW	THE AGENCY MUST MEET 99-99% OF ITS SMALL BUSINESS GOAL			
 RED	THE AGENCY DID NOT MEET 90-99% OF ITS SMALL BUSINESS GOAL			
ACHIEVEMENT PROGRESS CRITERIA				
 GREEN	THE AGENCY MUST HAVE MADE THEIR GOAL OR MADE PROGRESS IN UNMET GOAL SINCE FY2006 (DOLLARS, PERCENTAGE, OR 3 YEAR ACHIEVEMENT AVERAGE (FY2005-FY2007))			
 YELLOW	THE AGENCY MUST MAKE PROGRESS IN UNMET GOAL. FY2007 GOAL ACHIEVEMENT (DOLLARS OR PERCENTAGE) IS WITHIN 10% OF FY2006 ACHIEVEMENT OR 3 YEAR ACHIEVEMENT AVERAGE (FY2005-FY2007)			
 RED	THE AGENCY DID NOT MAKE PROGRESS IN UNMET GOAL			

Source:

http://www.sba.gov/idc/groups/public/documents/sba_homepage/va_assessment_08.pdf

Of special note for our Department, according to the FY 2007 Small Business Goaling Report published by the Small Business Administration, VA led the Federal Government in transactions with service-disabled Veteran-owned small businesses and Veteran-owned small businesses. The report and data for previous fiscal years is available on the SBA web site. This earlier data indicates that our performance in Fiscal Year 2007 is consistent with our past history of strongly supporting all small business programs. Preliminary data for Fiscal Year 2008 shows improved performance in several small business program categories, reflecting the commitment of our acquisition professionals and program managers to creating procurement opportunities for small businesses.

ARRA Opportunities

Given this past performance, I believe that the requirements funded by the American Recovery and Reinvestment Act will be carefully reviewed for participation by small business concerns.

VA's small business success is largely attributable to 3 principal factors. First, as the Department of Veterans Affairs supporting Veterans is our primary mission. Our workforce's focus is Veteran-centric with our employees as our front line of support for our Veterans and for their families. Second, the Department's leadership demands commitment to Veterans in business. Third, VA delivers services to Veterans in the communities in which they live. We understand directly the impact that small businesses have on the local economy.

VA is itself an opportunity for small business. Indeed many of the businesses that provide our products and services are Veteran-owned. In 2006,

Congress created unique procurement authority for the Department of Veterans Affairs in Section 502 of Public Law 109-461 (codified at 38 U.S.C. § 8127). This law enables VA to contract directly with Veteran-owned small businesses and to put Veterans first in set-aside requirements. Winning the first Federal contract and performing it well opens doors of opportunity for many future contracts.

VA's procurement organization also creates many smaller dollar threshold requirements, thereby enabling small businesses that can use simplified purchasing procedures under these lower thresholds. In addition, a large number of VA employees are authorized to use purchase cards to process micro-purchase transactions. In challenging economic times like these, small purchases can make a big difference in the sustainability of a small business.

Support from VA leadership for small business programs is critical to achieving and exceeding our goals in service of small and disadvantaged businesses. The achievements we've reported are the result of strong leadership emphasis from VA's headquarters organizations. Our senior leadership meets monthly to review progress toward small business goal achievements. Our acquisition corps receives excellent technical training and support. In addition, the proposed acquisition strategy for each requirement expected to exceed \$500,000 is reviewed by a Procurement Center Representative from the Small Business Administration or by an analyst in the VA Office of Small and Disadvantaged Business Utilization. This greatly enhances opportunities for small business at the prime or subcontracting level. Our Small Business Analysts also participate in Integrated Product Team acquisition planning meetings for requirements exceeding five million dollars. As VA's Recovery and Reinvestment Act requirements are more fully developed, they will be subject to these same, tested and successful planning and oversight processes. With VA's sustained history of small business support, we fully intend to continue our program leadership by ensuring maximum utilization of small and

Veteran-owned businesses in prime and subcontracting opportunities arising from Recovery Act funds.

Key to program success is the ability to provide direct support to owners of small and disadvantaged businesses. Given the anticipated influx of new companies to the Federal or VA marketplace as a result of the Recovery and Reinvestment Act, it is very important that owners have access to reliable, knowledgeable small business advocates. VA's Office of Small and Disadvantaged Business Utilization is staffed to provide quality support to business owners seeking to enter VA's marketplace. For example, in addition to one-to-one business coaching, we host a monthly Vendor Information Program to introduce owners to VA programs and buying rules. We also have a very active Outreach Program. This year VA is the lead agency hosting and organizing the Interagency OSDBU Directors' Annual Small Business Conference in Chantilly, Virginia on April 22. In addition, VA is the lead agency organizing the agenda for the National Veterans' Business Conference to be held in July. Last Fiscal Year, we initiated a partnership project with our colleagues in SBA's Historically Underutilized Business Zone (HUBZone) program office to promote applications by Veterans for certified HUBZone status. This is an effort we plan to continue. HUBZone status provides Veterans with access to the sole-sourcing and set-aside opportunities of that program. Participating in HUBZone requirements gives all Veterans a greater opportunity to obtain Federal contracts using tools comparable to those available in the government-wide service-disabled Veteran-owned Small Business program.

The Center for Veterans Enterprise (CVE), a separate division within VA's Office of Small and Disadvantaged Business Utilization, promotes business formation and expansion specifically among Veterans. CVE staff provides business coaching support, and the Center maintains the VetBiz.gov web portal. This web site hosts the Vendor Information Pages database for Veteran-owned small businesses. In addition, under the authority of Executive Order 13360, the

CVE provides assistance to other Federal agencies who are seeking to increase their utilization of service-disabled Veteran-owned small businesses.

CVE staff work closely with a number of partnership organizations. A strong collaboration exists with the Association of Procurement Technical Assistance Centers. Funded by the Defense Logistics Agency, these Centers educate owners new to the Federal marketplace. Counselors ensure that owners understand Federal and VA rules before they sign an offer or a contract with us. This program is critical to VA's mission and we believe it will be vitally important to owners entering the marketplace to participate in Recovery Act projects.

Challenges Ahead

Our achievements with small businesses would not be possible without the fundamental work performed by personnel in the Small Business Administration and its grantee organizations, the Small Business Development Centers, the Veterans Business Outreach Centers, the Service Corps of Retired Executives, and the support of Congress.

These are the resources and processes that apply when VA does its contracting under ordinary circumstances, and they have provided us the tools for success in enabling service-disabled and Veteran-owned small business contracting. The stimulus package however, represents an extraordinary response to extraordinary circumstances. VA is assessing whether the additional volume of urgent contracting under the stimulus will require us to enter agreements with other federal agencies, such as the US Army Corps of Engineers or the General Services Administration, so that VA can continue to support service-disabled and Veteran-owned small businesses.

In closing, I hope you will agree that opportunities for small businesses and Veterans in business are abundant and that there is widespread support for this program within VA and across Government.

Mr. Chairman, thank you again for convening today's hearing. I request that my written statement be submitted for the record. I welcome your interest and I am prepared to answer any questions that you or the Members may have.

STATEMENT OF
BRENDA DeGRAFFENREID
SUPERVISORY ACQUISITION MANAGER
OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION
U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

MARCH 12, 2009

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to address the subcommittee on the Department of Energy's (DOE) plans and strategies that will ensure that small businesses, including veteran-owned and service-disabled veteran-owned small businesses, can participate in government contracting opportunities resulting from the American Recovery and Reinvestment Act of 2009 (hereafter referred to as "the Recovery Act") to the maximum extent. Small businesses are critical to the health of the United States economy. According to the U.S. Small Business Administration (SBA), small businesses comprise more than 99% of all employers in the United States, employ approximately one half of all private sector employees, and have generated 60 to 80 percent of the net new jobs annually for the last decade. It is understandable that this Congress wants to ensure that small businesses play a significant role in the recovery of the nation's economy.

DOE has always been a strong advocate for the participation of small businesses, including small disadvantaged, women-owned, HUBZone, veteran, and service-disabled veteran-owned small businesses, in its procurement process at both the prime and subcontracting levels, and we look to continue that trend in implementing the Recovery Act. At the prime contract level, DOE has increased its impact in the small business community over the past eight years, by increasing prime awards to small businesses from \$500.2 million in FY 2000 to \$1.4 billion in FY 2008. Before discussing DOE's strategies for inclusion of small businesses in the recovery, I would like to explain DOE's unique business or procurement model in order to place these achievements and recovery opportunities in context with the system under which the Department operates.

DOE Business Model

The business or procurement model has two distinct types of DOE contracts: (1) Facilities Management Contracts (FMCs) and (2) Non-FMCs. FMCs represent the primary procurement model utilized at DOE for the operations of its network of government-owned contractor-operated laboratories and other facilities. FMCs include Management and Operating (M&O) contracts, Management and Integration contracts, and environmental restoration management contracts. These are generally awarded to

large businesses, educational institutions, and non-profit organizations. Through the FMC contracting model, DOE directs the mission-related areas and the overall performance objectives that it wants to accomplish. FMCs range from the hundred millions to billions of dollars, are complex, and generally contain periods of performance of five or more years.

Historically, FMCs have represented from 85 to 90 percent of the Department's procurement dollars. In FY 2008, for example, FMC contracts represented 84.3 percent of the DOE procurement base. The remaining non-FMC dollars, or 15.7 percent of the procurement base, were used to fund a wide range of prime contracts with both small and large businesses.

Recovery Act Opportunities

As for strategies that will ensure that small businesses can participate in government contracting opportunities resulting from the Recovery Act, the Department is in the process of developing guidance and an implementation plan to execute the requirements of the Recovery Act. Therefore, we cannot yet provide detailed acquisition methods that will be used to implement each program, or subprogram, designated in the Recovery Act. However, we will attempt to provide the subcommittee with a general overview of the types of acquisition methods we anticipate, and a few examples of specific work that will be performed with recovery funds. As you stated in your letter, DOE will receive approximately \$39 billion (\$38.7 billion) in appropriated funds under the Recovery Act. These funds primarily have been directed to the following program offices:

- Office of Electricity Delivery and Energy Reliability;
- Office of Energy Efficiency and Renewable Energy;
- Office of Environmental Management;
- Office of Fossil Energy;
- Office of the Inspector General
- Office of Science

The funds appropriated in the Recovery Act will be awarded principally through several methods: financial assistance agreements, on-going contract vehicles held by both small and large businesses, and through DOE's established network of FMCs. The Department has already provided information and tools to assist the acquisition workforce in ensuring that the requirements of the Recovery Act provide maximum opportunities for small businesses to participate in the recovery. Through regularly scheduled conference calls with the acquisition workforce, and a Policy Flash (PF 2009-27) issued March 4, 2009, the Office of Procurement and Assistance Management has provided guidance on standard language for use in Funding Opportunity Announcements (FOA), as well as interim standard terms and conditions for use in contract, grant, cooperative agreement and technology investment agreement awards and modifications. The guidance instructs prime contractors to give preference to small businesses in the award of subcontracts for projects funded by Recovery Act dollars.

A significant portion of the recovery funds will be obligated on financial assistance agreements, and statutorily require that some of these monies be used for block grants and other agreements. A smaller portion of these funds will be used for loan guarantees. Financial assistance agreements are not subject to small business preference procedures. Nonetheless, there are some programs and areas in which DOE remains fully committed to the inclusion of small businesses.

DOE's Small Business Innovation Research Program (SBIR) will receive funds under the Recovery Act. As you probably are aware, the SBIR Program was established to provide funding to stimulate technological innovation in small businesses to meet federal agency research and development needs. The Office of Science plans to award Phase I SBIR grants this fiscal year, some of which will be from recovery funds. Projects that will be further developed using recovery funds include: solar energy, wind energy technology development, and biofuels.

Small businesses will be able to compete for research and development funds within the Recovery Act, as they always have within the Small Business Investment Research /Small Business Technology Transfer funding. Small businesses may apply to competitive R&D announcements as a prime. However, for programs with restricted eligibility, such as the Weatherization, State Energy Programs and Block Grants, they will not be able to apply. States and other recipients may offer the opportunity to contract with them to provide services at the State and local level.

A portion of the Recovery funds will be obligated on current procurement awards such as contracts and task orders, pursuant to the Federal Acquisition Regulation (FAR), Part 15 procedures. These awards are held by both large and small businesses. DOE's Office of Environmental Management (EM) will be the primary beneficiary of Recovery funds that will be used for contracting. They are one of the Department's strongest performers in awarding contracts to small businesses, awarding a total of \$1.3 billion in prime and subcontracts to small businesses in FY 2008. EM identified a number of projects across the country for funding under the Recovery Act. These projects include several types of work suitable for small business participation such as building decontamination and decommissioning and environmental remediation. EM is committed to continuing its success of the last several years in the realm of small business participation by meeting or exceeding the Department's goals for participation at the prime contract level.

DOE will also utilize its established network of FMCs to perform some of the work either directly or through subcontracts. We plan to aggressively pursue opportunities for small businesses at the subcontracting level. Accordingly, DOE's contracting officers have been asked to consider whether or not subcontracting plans need to be adjusted to reflect the Recovery Act funds. We anticipate that awards also will be made through new contract vehicles, and contracting personnel have been advised to maximize contracting and subcontracting opportunities to small businesses. Wherever applicable, contracting officers will implement the provisions of the Federal Acquisition Regulation (FAR), Part 19, for small business, 8(a), HUBZone, service-disabled veteran-

owned business set-asides, and to meet subcontracting plan requirements. Further, contracting officers will utilize market research (FAR, Part 10), as appropriate, whenever small business sources capable of performing the work have not been identified.

As you will note from this discussion, DOE has taken every opportunity to ensure that small businesses will participate in government contracting opportunities resulting from the Recovery Act. We also will continue to implement the strategies that have helped the Department maintain a consistent track record of increasing opportunities to small businesses, including service-disabled veteran-owned small businesses. There is every reason to believe that these strategies will have similar results in DOE's recovery efforts.

Small Business Prime Contract Achievements

First, it is important to review DOE's prime and subcontract achievements and the initiatives taken to reach these achievement levels. DOE establishes annual prime and subcontracting goals through negotiations with the SBA. We exceeded the FY 2008 small business prime contract goal of \$1.3 billion, or 5.87 percent, of a projected procurement base of \$22.2 billion. DOE awarded \$1.4 billion of its actual procurement base of \$24.2 billion, in direct contracts to small businesses. We believe that DOE's strategies of tracking achievements quarterly, screening acquisitions, and extensive outreach to small businesses helped us place more than a billion dollars into the small business community. The specific strategies are:

- **Goaling** – Adjust goals where necessary in order to reflect the additional Recovery funds. Tracking goals quarterly.
- **Advanced Planning Acquisition Team (APAT)** – The APAT, comprised of top management from Procurement, Program Elements, and the Office of Small and Disadvantaged Business Utilization (OSDBU), will review certain contract acquisitions generated by Recovery funds and not designated for small business participation.
- **Procurement Reviews** -- Review all acquisitions exceeding \$3 million that have not been reserved for small business participation.
- **Subcontracting Plan** – Work with prime contractors to adjust subcontracting goals where necessary.
- **Alignment with Program Offices** – Continue to work with program offices through FY 2009 and 2010 to seek Recovery Act opportunities for small businesses.
- **Identification of sources** - Participate in and sponsor outreach activities, e.g. Business Opportunity Sessions, and DOE's Annual Small Business Conference, to identify small business sources capable of performing work generated by the Recovery Act.

Service-Disabled Veteran-Owned Business Prime Contract Achievements

Service-disabled veteran-owned business achievement is counted in the total small business achievement. Of the \$1.4 billion awarded directly to small businesses in FY 2008, \$128.4 million, or 0.53 percent of the procurement base of \$24.2 billion, was awarded directly to service-disabled veteran-owned businesses, falling short of the goal of \$155.1 million, or 0.70 percent of the total procurement base of \$24.2 billion. DOE, like most Federal agencies, continues to work hard to achieve its goals for service-disabled veteran-owned small businesses, as evidenced by the substantial increase in awards to these firms over the seven years since goals were established. For example, from FY 2002 to FY 2008, service-disabled veteran-owned prime contracts grew from \$1.4 million to \$128.4 million; or from 0.01 to 0.53 percent over the period.

The SBA-negotiated goals were the same for FY 2008 and FY 2009. To facilitate achievement of the FY 2009 prime contract goal of \$155.1 million, or 0.70 percent, for service-disabled veteran-owned small businesses, DOE developed strategies to conduct outreach to these firms and more effectively collaborate with internal personnel and external stakeholders. I would like to highlight a few of these outreach initiatives:

- Establish and track service-disabled veteran-owned small business quarterly goals as part of the Department's socioeconomic annual small business goals negotiated with the SBA.
- Inform service-disabled veteran-owned small business firms that they should register with the Center for Veterans Enterprise database.
- Promote the utilization of the Department of Veteran Affairs' (VA) website at <http://VIP.vetbiz.gov/search/default.asp> and the Center for Veterans Enterprise (CVE) website at <http://www.vetbiz.gov> in conducting market research to identify service-disabled veteran-owned small businesses.
- Promote establishment of service-disabled veteran-owned small businesses as protégés in DOE's Mentor-Protégé Program.
- Recognize the accomplishments of service-disabled veteran-owned small businesses in the Secretarial Small Business Awards Program.
- Foster relationships with service-disabled veteran-owned business organizations as a part of DOE's Small Business Advisory Team.
- Participate in conferences dedicated to reaching service-disabled veteran-owned small businesses, such as the annual Department of Veteran's Affairs Conference.
- Identify projects that could/should be set aside for participation by service-disabled veteran-owned small business concerns.
- Provide training about the Service-Disabled Veteran-Owned Business Program to internal staff, program staff and small business staff. This training will be provided through guides, desk manuals and group training.

Other Socioeconomic Achievements

Insofar as the other prime socioeconomic goals are concerned, DOE met its FY 2008 small disadvantaged businesses goals, achieving \$681.1 million, or 2.81 percent. Similarly, DOE met its women-owned small business goal and its HUBZone business goal, achieving \$234.0 million, or 0.97 percent; and \$59.0 million, or 0.24 percent, respectively. For FY 2007, DOE was one of only three Federal agencies that met all of its goals outlined in the SBA Scorecard.

Small Business Subcontract Achievements

DOE also provides opportunities to small businesses through subcontracting with its network of FMCs, and its other prime contractors. DOE established a FY 2008 small business subcontracting goal of \$3.5 billion, or 46.4 percent. (This achievement represents awards at the subcontracting base for FMCs.) Since subcontracting achievement data are not yet available from the “electronic Subcontracting Reporting System (eSRS)” for FY 2008, I can only report on FY 2007 subcontracting data, the latest year for which data is available. Small businesses received \$3.5 billion, or 47.2 percent in subcontracts, surpassing the goal of \$3.2 billion, or 42.6 percent.

Service-Disabled Veteran-Owned Business Subcontract Achievements

Of the \$3.5 billion subcontracted through FMCs, service-disabled veteran-owned small businesses received \$68.1 million, or 0.9 percent in subcontracts, against a goal of \$108.4 million, or 1.4 percent. Despite the shortfall in meeting that goal, DOE has made steady progress in increasing the service-disabled veteran-owned business subcontracting goal over the seven year period from \$755,000 to \$68.1 million, or stated as a percent from 0.0001 to 0.9 percent during the period. DOE continues to seek opportunities to do business with service-disabled veteran-owned small businesses, and develop strategies at the subcontracting level. Two of the strategies are to:

- Require that all DOE major prime contractors establish their service-disabled veteran-owned small business goals pursuant to the goals negotiated with SBA and include those goals in their subcontracting plan, i.e., at 3 percent or higher; and
- Promote the continuation of the flow down of the service-disabled veteran-owned small business procurement preference to facility management contractors, authorizing service-disabled veteran-owned small business set-asides at the subcontracting level.

Office of Small and Disadvantaged Business Utilization (OSDBU) Initiatives

The Department is optimistic that the aggressive strategies outlined for the Recovery Act funds, along with procedures already in place, will ensure that small businesses play a significant role in the projects generated by the Recovery Act. The OSDBU within the Office of Economic Impact and Diversity has advised the

Department's Small Business Program Managers assigned to each program element, field office, and FMC, to seek opportunities to place Recovery funds with small businesses. In addition, the OSDBU hosted DOE's first Business Opportunity Session (BOS) held since the Recovery Act was enacted. Forty-four (44) small businesses attended the BOS, which was held on Thursday, March 5, 2009, at the Forrestal Building. These firms attended the BOS to participate in discussions of opportunities generated by the Recovery Act for the Offices of Environmental Management, Fossil Energy, and Energy Efficiency and Renewable Energy. Speakers from these program offices discussed both upcoming opportunities outside of the Recovery Act and potential opportunities from Recovery monies, in both contracts and financial assistance.

Conclusion

In summary, let me assure you that DOE recognizes the important role that small businesses play in revitalizing the economy through the creation of employment opportunities and business sustainability. Secretary Chu is committed to making small businesses a valuable and integral part of the Department's contractor base. The Recovery Act provides an opportunity for the Department to fully engage the small business community in this national effort to make small businesses more competitive in U.S. and world markets. As you will note from the numerous programs, processes, and strategies outlined in this statement, DOE has made small business achievement a priority within the Department. We are confident that our actions and our continued diligence will have broad, positive results for DOE's small business contractors.

Thank you for the opportunity to appear before this Subcommittee. That concludes my prepared remarks. I would be pleased to answer any questions you may have.

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TESTIMONY

of

Linda B. Oliver

Acting Director

Office of Small Business Programs

Office of the Under Secretary of Defense (Acquisition, Technology & Logistics)

U.S. Department of Defense

Before the

U.S. House of Representatives

Committee on Small Business

Subcommittee on Contracting and Technology

Hearing on

“Ensuring Stimulus Contracts for Small and Veteran-Owned Businesses”

March 12, 2009

HOLD UNTIL RELEASED BY THE COMMITTEE

Linda B. Oliver
Acting Director, Office of Small Business Programs
U.S. Department of Defense

Good morning Chairman Nye, Ranking Member Schock, and Committee Members. I am Linda Oliver, Acting Director of the Office of Small Business Programs of the Department of Defense.

Thank you for the opportunity to appear before you today to discuss the Department of Defense (DoD) plans and strategies to maximize the participation of small businesses --including service-disabled veteran-owned small businesses -- in contracts awarded under the American Recovery and Reinvestment Act of 2009 (Recovery Act).

DoD is committed to promoting small business vibrancy in our national industrial base. I am pleased to say that the Department is poised to support small business participation in our acquisitions that will be awarded using funding provided by the Recovery Act. As I proceed, you will hear a brief discussion of DoD's role in support of the Recovery Act, highlights of SDVOSB participation in DoD programs, and additional activities we sponsor to promote opportunities for small business concerns in DoD acquisitions.

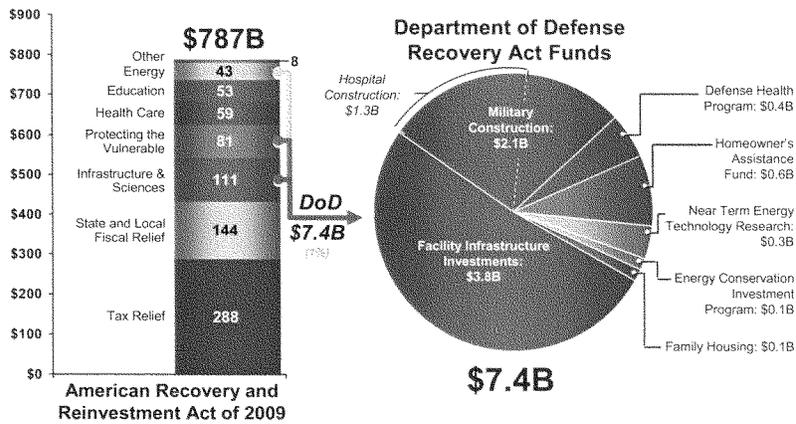
DoD Implementation of The American Recovery and Reinvestment Act of 2009

On February 18, 2009, the Office of Management and Budget (OMB) issued initial implementing guidance for the Recovery Act that prescribes transparency and accountability requirements that are to be carried out, in major part, through a series of frequent reports that will be easy for the general-public to review. The Contracts Section of OMB's memorandum is of significant relevance to DoD because approximately \$7.4 billion in Defense-related appropriations will be expended primarily through contracts. The stimulus funds, as illustrated in the chart below, are divided into seven program areas: military construction, facility infrastructure investments, homeowners' assistance fund, defense health, near-term energy efficiency technology demonstrations and research, family housing, and energy conservation and investment.

Linda B. Oliver
 Acting Director, Office of Small Business Programs
 U.S. Department of Defense

Defense Represents 1% of Recovery Act

(Dollars in Billions)



Source: Recovery.gov, American Recovery and Reinvestment Act of 2009

The OMB guidance directs that contracts funded by the Act maximize opportunities for small businesses to compete for agency contracts and to participate as subcontractors. Carrying out this mandate goes to the heart of the issue of this hearing.

DoD is implementing OMB's guidance through a series of informal committees that report information to, and take direction from a formal committee. "The American Recovery and Reinvestment Act of 2009: DoD Working Group" is the formal name for the ad hoc organization responsible for all Department matters concerning the Recovery Act. It is managed by a group of very senior employees working at the direction of the Under Secretary of Defense (Comptroller) and includes representatives from the Military Departments and Other Defense Agencies as well as subject matter experts in functional areas such as procurement and small business. The group meets formally every Monday to exchange information within the Department.

Linda B. Oliver
Acting Director, Office of Small Business Programs
U.S. Department of Defense

Across DoD, informal groups and subgroups meet to plan and carry out activities that will be reported to the DoD Working Group either directly or indirectly via groups that are more senior. For example, on Thursday February 26, 2009, senior acquisition officials from the Services met with representatives from the Office of the Under Secretary of Defense (Acquisition, Technology & Logistics) to prepare information that was presented to the DoD Working Group at a meeting the following Monday. The topic most discussed at the February 26 meeting was maximizing small business opportunities. Similar meetings are taking place all over the Department.

DoD SBIR and STTR Programs

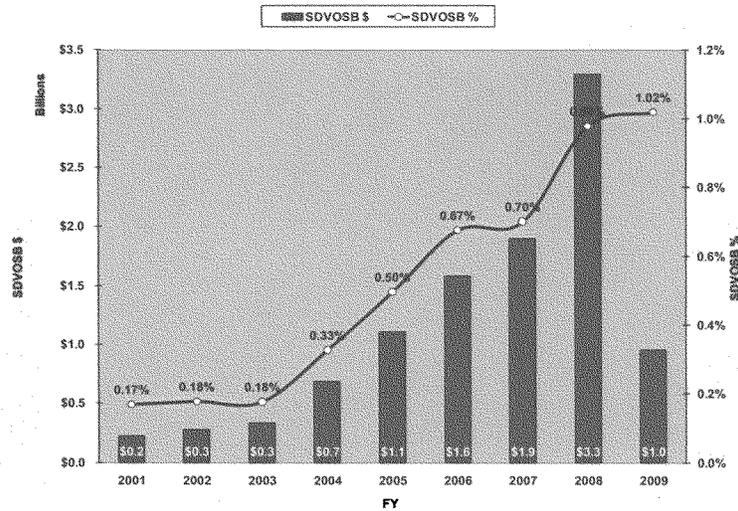
The Small Business Innovation Research (SBIR) Program funds technology research and development through qualifying small businesses via a highly competitive three-phase process. Funding for the SBIR Program is set aside each fiscal year from extramural Research, Development, Test and Evaluation (RDT&E) appropriations.

The Recovery Act provides \$300 million of RDT&E funding to the Department of Defense. A part of this funding, 2.5 percent of the eligible amount, consistent with statute (15 U.S.C. 638), is being set aside to fund SBIR contracts. Small businesses, including qualified service-disabled veteran-owned firms, may compete for Phase I funding through the SBIR Program. Similarly, funding is being set aside for the Small Business Technology Transfer (STTR) Program. The STTR Program funds cooperative technology research and development through qualified small firms in partnership with research institutions, such as universities. STTR Program funding is 0.3 percent of the eligible portion of RDT&E appropriations.

DoD Service-Disabled Veteran Owned Small Business Program

The chart provided below shows DoD's accomplishments toward increasing prime contracts with service-disabled veteran-owned small businesses (SDVOSBs). In the past five years (2003 to 2008), DoD increased prime contract awards to SDVOSBs from \$0.3 billion to \$0.98 billion. In dollars, that represents a nearly 227 percent increase.

Linda B. Oliver
Acting Director, Office of Small Business Programs
U.S. Department of Defense

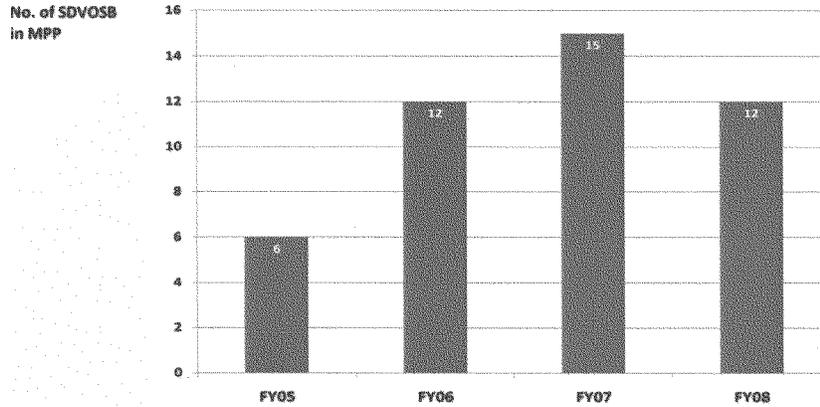


We are quick to pat ourselves on the back for this remarkable progress, but the increases would have been far more modest without the assistance of Congress and of the service-disabled veterans, themselves. Congress enacted a statutory SDVOSB goal, and authority to set-aside procurements for SDVOSBs. We have received input from a varied coalition of veterans groups, formally called the Veterans' Entrepreneurship Task Force (Vet-Force), and we appreciate their support.

SDVOSBs in DoD Mentor-Protégé Program

In 2003, my office initiated a legislative change proposal that would make SDVOSBs eligible to be protégés in the DoD Mentor-Protégé Program. This change was enacted in the spring of 2005, when three SDVOSBs entered the program. Since then, their participation has steadily increased so that today there are 31 service-disabled veteran-owned small businesses with active DoD mentor-protégé agreements. This represents 25 percent of all active mentor-protégé agreements within the Department. The chart below shows mentor-protégé agreements that were formed since 2005 with SDVOSBs as protégés. Typically, these agreements last for three years.

Linda B. Oliver
Acting Director, Office of Small Business Programs
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The SDVOSB participation in this program was a particularly important step because the program facilitates protégé success by helping them learn and grow with established DoD prime contractors. Technology enhancement or technology transfer from the mentor to the protégé firm is a central element of the program. As a result, protégé firms that graduate from the program are generally valuable additions to the Department's supplier base.

The SDVOSB protégé firms have excelled in this program. Last November, three mentor-protégé teams with SDVOSB protégés were presented Nunn-Perry Awards for their outstanding contributions to the Department of Defense. The three protégés firms are CSSS.NET, Stratom, Inc., and Maintenance and Inspection Services, Inc. CSSS.NET, with help from Northrop Grumman Mission Systems, is honing expertise in geographic information systems. Stratom is working with Applied Research Associates on robotic manipulator technology. Q.E.D. Systems is helping Maintenance and Inspection Services enhance their manufacturing capabilities. These SDVOSB protégés are becoming valued business partners and innovators within a relationship that fosters technical progress.

Additional Accomplishments

We, with a team of experts across the Department, are extensively revising Defense Acquisition University's Internet Web-based training module for DoD acquisition personnel on strategies for contracting with SDVOSB. Our office is also

Linda B. Oliver
Acting Director, Office of Small Business Programs
U.S. Department of Defense

working with Defense Acquisition University to develop additional training modules for program managers and contracting officers.

Additionally, DoD sponsors an annual awards ceremony to recognize the accomplishments of and service to the SDVOSB community. These awards honor such things as outstanding business practices, success in federal procurement, hiring veterans and service disabled veterans, and other demonstrated support of the service-disabled veteran community. The awards also recognize prime contractors whose efforts and dedication have led to a significant increase in subcontracting opportunities for SDVOSBs.

Many of our activities are reflected in our five-year Service-Disabled Veteran-Owned Small Business Strategic Plan. We published our most recent version in January 2009. Our SDVOSB Strategic Plan is a subset of our office strategic plan. The strategic plans force us to evaluate the effectiveness of projects and they help us focus on areas that will most effectively create maximum opportunities for small businesses, including service-disabled veteran owned small businesses.

The Department of the Army, on behalf of DoD leads the Department's efforts with respect to the National Veteran Small Business Conference each year. This conference serves as a training and outreach event specifically aimed at our service-disabled veteran-owned small businesses and allows DoD to present current information on its contracting methods and what firms need to know to compete effectively for DoD contracts. The DoD small business contracting workforce is committed to increasing its training and outreach efforts that are designed to assist SDVOSB concerns.

My office also sponsors an annual DoD small business specialist training conference. The conference provides training and assistance to the DoD acquisition workforce across all DoD components.

Conclusion

The achievements of service-disabled veteran-owned small businesses in contracting with DoD resulted from dedicated, agency-wide support of the SDVOSB program and the diligent efforts of veterans' groups and the DoD acquisition community. The increase in contracts awarded to SDVOSBs has been continuous since 2003. DoD has shown it can increase opportunities for SDVOSBs in all its programs, including the DoD Pilot Mentor-Protégé Program. Service-disabled veteran small businesses are and will continue to be, an important part of DoD small business programs.

As DoD expends the funds provided by the Recovery Act, we will continue to pursue strategies that will give the maximum practicable opportunities to all small business, and give vigorous attention to providing opportunities for SDVOSBs. I am

Linda B. Oliver
Acting Director, Office of Small Business Programs
U.S. Department of Defense

convinced that we will succeed in this endeavor by continuing to recognize the value offered by small business firms, including those owned by service-disabled veterans who continue to serve their country as part of the nation's industrial base.

Mr. Chairman, I thank you and the members of the Committee for your interest in our efforts, and I would be pleased to address your questions. Thank you.

TESTIMONY OF
Mr. Mark N. Klett
President and CEO Klett Consulting Group, INC
Small Business Contracting and Technology Subcommittee
Thursday, March 12, 2008

Chairman Nye, Congressman Schock, distinguished members of the Committee, it is an honor for me to speak on behalf of veteran business owners about doing business with the federal government to ensure small and veteran owned businesses secure contracts awarded under the American Recovery and Reinvestment Act.

I am a small business owner, and a disabled veteran who proudly served my country in the U.S. Navy for over 20 Years as a Surface Warfare Officer – I attended the same fine education institution on the Severn River, not far from here, as one of the distinguished committee members – ADM Joe Sestak.

After serving my Country and working for three large Defense Contractors – I found that my entrepreneurial passion could only be satisfied by going out on my own. With the unwavering support of my family, I established Klett Consulting Group in August of 2002. Since then my company has created over 30 jobs, purchased an office facility in my hometown, and increased revenues at a rate of over eighty percent a year totaling over \$3.8 million in 2008.

Klett Consulting Group is an Operational, System Engineering Firm headquartered out of Virginia Beach, Virginia. We provide government-industry teams with technical solutions, program management, and operational expertise. We have written the Open Architecture Implementation Strategy for the US Navy, supported the development of the combat systems integration for the CVN-21 Program, and supported the concept development and system architecture for the new Navy Command and Control Capability – The Maritime Operations Center. We deliver these projects with an efficient team of operational system engineers who understand customer's missions and requirements. We don't predict the future – we create it.

My company has three prime contracts. The first with the US Army Reserve supporting the management of Army Reserve facilities in four states (Arkansas, Texas, Oklahoma, and New Mexico). Another contract with the Navy Surface Warfare Center at Crane, Indiana, provides testing and evaluation support to identify and rapidly field new required operational capabilities. The third contract supports an economic development initiative in Hampton Roads for Unmanned Systems. In addition, we are subcontractors for eleven other projects, supporting a myriad of Federal initiatives including strategic support of the Pacific Missile Range in Kauai, and technical support of USAID in over 40 countries through a non-profit organization.

I have been asked to address how small businesses and veteran-owned businesses can secure contracts awarded under the American Recovery and Reinvestment Act. Let me answer that question by focusing on the key advantages of small business, our agility and

ability to quickly create jobs. In addition to these key advantages, I will explain the most efficient manner to get stimulus money in the hands of small businesses today. Funding today means jobs today.

Small businesses are extremely agile. Our corporate structures allow rapid decision-making. In fact, you only need to speak to me, the small business owner, for approval. For example, we won a multi-year contract in five days from awareness to award putting new employees to work in less than forty-five days. Another example of small business agility is our recent teaming with government and traditional defense contractors to implement a critical United States Marine Corps pre-deployment training program, taking only forty-eight hours to initiate, and delivering training personnel on site within four days. This fulfilled a critical warfighter training need to support overseas operations.

In addition to delivering for our customers, our agility also allows us to rapidly create new jobs. Klett Consulting Group has grown 35 fold in seven years. I am proud to mention that my company has over 200 years of veteran expertise within our workforce. Job creation is one of the most critical elements of the economic stimulus. If funding were available for a contract tomorrow, Klett Consulting Group could hire personnel by next week. Small businesses do not typically have personnel in the wings to support new business. Contract funding equals new jobs, immediately. I hired a new engineer for our Crane contract in three days.

However, Klett Consulting Group faces challenges in creating those jobs. The reality of the day is that government funds allocated for small business products and services through large company procurements realize less than 60 cents for every contract dollar spent due to pass-through and Prime Contractor fees. On the other hand, prime contracts for proven small businesses realize 100 percent return on investment due to efficient cost controls yielding lower costs for quality products. Most new contracts over one million dollars can take up to one year to go through the award process. My company has personally experienced this process taking over 5 months to award a \$25,000 contract, and over a year for a large multi-year contract.

I want to focus on how Congress can leverage small businesses to deliver economic stimulus. In the 1990's small businesses were responsible for much of the economic growth in the United States.¹ Today, the transparent federal stimulus spending that is intended for small businesses needs to get to those businesses by the most efficient means possible to rapidly deliver the desired economic impact within the next three months. As I mentioned earlier, my company can hire in days, not weeks or months. That is real and immediate economic impact.

Now how can Congress help me and other small businesses help the country?

1. For proven and performing small and veteran businesses, leverage existing prime contracts; allow the ceiling dollar values to be raised on existing contracts; and permit adjustment of existing contract periods of performance and scope of work.

¹ (Velazquez, 2009)

These changes are the fastest means to deliver funds to the **small business job creation engine**. Creating new procurement vehicles, while a longer-term solution, will not result in the economic stimulus needed today. Get the stimulus to small and veteran owned businesses, and you will see results.

2. However, the federal procurement process will not be able to execute the volume of stimulus funding without assistance. Government acquisition processes need to be streamlined to ensure that the stimulus funding delivers positive economic impact. The federal acquisition workforce needs to be **increased immediately** with ready-up rounds of contracting officers to meet the procurement demands of this stimulus package.

Why do you want to optimize small veteran owned business within the American Recovery and Reinvestment Act?

Small businesses, are lean, agile, responsive, and efficiently operate with low overhead costs. When a client calls or an opportunity presents itself – we take decisive action within minutes. Executive Order 13360 of 20 October 2004 established a goal of not less than three percent participation of Service Disabled Veteran Owned Small Business (SDVOSB) in federal contracting and subcontracting. SDVOSB goals are consistently missed by federal agencies with the exception of the Veterans Administration. For example, the Small Business Administration reported that the average awards to SDVOSB in Department of Defense was less than one-half of one percent from 2003-2007.² Over 10,000 SDVOSB are registered on the Central Contractor Registrar. This demonstrates how SDVOSB are a ready and untapped source of economic stimulus that the government should harness to solve our current challenges.

Thank you for the opportunity to share a view from the trenches of how small businesses get the job done for our clients. I greatly appreciate what each of you on this Subcommittee is doing to improve economic opportunities for all of us in the small business community. I am asking you to reiterate the Government's long-standing position of supporting small businesses in Federal contracting. Small businesses are agile, create jobs quickly, and, if properly funded in a timely manner, will support our nation's economic recovery. I have provided examples of how Klett Consulting Group and other small businesses do this every day, and my thoughts on how to rapidly fund small businesses. Thank you for your time and dedicated service to our country. I will be glad to answer any of your questions.

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² (Defense, 2009)

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**Small Business Contracting and Technology Subcommittee
Thursday, March 12, 2008**

Additional comments for the record provided by Mr. Scott Denniston
Director of Programs
National Veteran-Owned Business Association

This administration appears to have several conflicting goals: spending stimulus money quickly, prohibiting the use of sole source and limited competition contracting methods and bringing transparency to the contracting process. Taken together these goals could mean the end of the government's small business contracting programs as we know them, and could be particularly hurtful to service-disabled, veteran-owned small businesses (SDVOSBs). The SDVOSB program is the government's newest and least supported small business program based on the Small Business Administration's report of federal contracting dollars awarded to all categories of small business.

The administration has directed federal agencies to spend billions of dollars as quickly as possible to help heal the ailing U.S. economy. Unfortunately, little or no guidance has been provided as to how to spend the money. Contracting officers are currently overwhelmed trying to keep up with mission requirements within the agencies. No new contracting officers or program officials are being added by the administration to spend the stimulus money. Human nature dictates in difficult times folks take the path of least resistance. In this case, it means spend the money as quickly as one can, with known companies in bundled contracts. This will result in "large business set-asides." Some agencies are considering sending monies to other agencies to spend as they don't believe they have the necessary resources to do it themselves. This further dilutes accountability for supporting the small business programs.

On March 4, the White House announced "that executive agencies shall not engage in noncompetitive contracts." The press release makes no distinction between the thousands of sole source awards to productive and efficient small businesses under the SDVOSB, HUBZone or 8(a) programs and the billions of dollars awarded sole source to large businesses such as KBR and Halliburton. No guidance has been provided to contracting officers as to whether the administration is restricting the use of legitimate contracting mechanisms to support the nation's small businesses.

The pressures being exerted on the contracting officer community will probably result in greater use of the General Services Administration's Federal Supply Program. Under Part 8 of the Federal Acquisition

Regulations, FSS holds a higher contracting preference compared to the small business programs. Unfortunately, GSA does not allow set-asides for any small business group under the FSS program, which will further diminish opportunities for small businesses.

The administration's actions are particularly onerous for service-disabled, veteran-owned small businesses. As the newest small business program, the government's resistance to change has hurt SDVOSBs the most. Public Law 106-50 mandates 3% of all federal prime and subcontracts be awarded to SDVOSBs. To date the government's accomplishments have been abysmal, averaging less than 1% to this most deserving group of Americans. If the administration restricts the use of the sole source authority to award contracts to SDVOSBs as is allowed under Public Law 108-183 and in particular for the Department of Veterans Affairs under Public Law 109-461 – Veterans First Program – SDVOSBs will further suffer. Part 19 of the Federal Acquisition Regulations already puts SDVOSBs at a disadvantage compared to 8a and HUBZone small businesses. The recent General Accountability Office decision which places HUBZone firms in front of SDVOSBs in the contracting hierarchy further hurts the ability of SDVOSBs to be awarded contracts at fair and reasonable prices.

Congress must step up and reiterate the government's long-standing position of supporting small businesses in federal contracting. Congress must also address the issue of "parity" of the small business programs with each other. Contracting officers and program officials in the rush to support their mission will bypass the small business programs for other less burdensome and confusing contract mechanisms if these issues are not addressed.

M I C H I G A N

Carl Levin

FOR IMMEDIATE RELEASE
February 24, 2009

Contact: Senator Levin's Office
Phone: 202.224.6221

Summary of the Weapon Systems Acquisition Reform Act of 2009

Report after report has indicated that the key to successful acquisition programs is getting things right from the start with sound systems engineering, cost-estimating, and developmental testing early in the program cycle. Over the last twenty years, however, DOD has eliminated acquisition organizations and cut the workforce responsible for taking these actions, and has tried to “reform” the acquisition process by taking shortcuts around early program phases in which these actions should be taken. The result has been excessive cost growth in weapon systems and excessive delays in fielding those systems.

[Weapon Systems Acquisition Reform Act \[PDF\]](#)

Title 1: Acquisition Organization.

Section 101. Systems Engineering Capabilities. The Defense Science Board Task Force on Developmental Test and Evaluation reported in May 2008 that “the single most important step necessary” to address high rates of failure on defense acquisition programs is “a viable systems engineering strategy from the beginning.” The Government Accountability Office has reached similar conclusions. Unfortunately, the Committee on Pre-Milestone A and Early-Phase Systems Engineering of Air Force Studies Board of the National Research Council reported in February 2008 that the Air Force has systematically dismantled its systems engineering organizations and capabilities over the last twenty years. The other services have done the same. Section 101 would address this problem by requiring DOD to: (1) assess the extent to which the Department has in place the systems engineering capabilities needed to ensure that key acquisition decisions are supported by a rigorous systems analysis and systems engineering process; and (2) establish organizations and develop skilled employees needed to fill any gaps in such capabilities.

Section 102. Developmental Testing. Many weapon systems fail operational testing because of problems that should have been identified and corrected during developmental testing much earlier in the acquisition process. The Defense Science Board Task Force on Developmental Test and Evaluation reported in May 2008 that this problem is due, in significant part, to drastic reductions in organizations responsible for developmental testing. According to the Task Force, the Army has essentially eliminated its developmental testing component, while the Navy and the Air Force cut their testing workforce by up to 60 percent

in some organizations. Section 102 would address this problem by: (1) requiring DOD to reestablish the position of Director of Developmental Test and Evaluation; and (2) requiring the military departments to assess their developmental testing organizations and personnel, and address any shortcomings in such organizations and personnel.

Section 103. Technological Maturity Assessments. For years now, the Government Accountability Office (GAO) has reported that successful commercial firms use a “knowledge-based” product development process to introduce new products. Although DOD acquisition policy embraces this concept, requiring that technologies be demonstrated in a relevant environment prior to program initiation, the Department continues to fall short of this goal. Last Spring, GAO reviewed 72 of DOD’s 95 major defense acquisition programs (MDAPs) and reported that 64 of the 72 fell short of the required level of product knowledge. According to GAO, 164 of the 356 critical technologies on these programs failed to meet even the minimum requirements for technological maturity. Section 103 would address this problem by making it the responsibility of the Director of Defense Research and Engineering (DDR&E) to periodically review and assess the technological maturity of critical technologies used in MDAPs. The DDR&E’s determinations would serve as a basis for determining whether a program is ready to enter the acquisition process.

Section 104. Independent Cost Assessment. In a July 2008 report, the Government Accountability Office (GAO) reported that “DOD’s inability to allocate funding effectively to programs is largely driven by the acceptance of unrealistic cost estimates and a failure to balance needs based on available resources.” According to GAO, “Development costs for major acquisition programs are often underestimated at program initiation – 30 to 40 percent in some cases – in large part because the estimates are based on limited knowledge and optimistic assumptions about system requirements and critical technologies.” Section 104 would address this problem by establishing a Director of Independent Cost Assessment to ensure that cost estimates for major defense acquisition programs are fair, reliable, and unbiased.

Section 105. Role of Combatant Commanders. In a February 2009 report, the Government Accountability Office (GAO) recommended that the acquisition process be modified to allow combatant commanders (COCOMs) more influence and ensure that their long-term needs are met. The GAO report states: “a COCOM-focused requirements process could improve joint war-fighting capabilities by ensuring that the combatant commander – the customer – is provided the appropriate level of input regarding the capabilities needed to execute their missions rather than relying on the military services – the suppliers – to drive requirements.” Section 105 would address this problem by requiring the Joint Requirements Oversight Council (JROC) to seek and consider input from the commanders of the combatant commands in identifying joint military requirements.

Title 2: Acquisition Policy

Section 201. Trade-offs of Cost, Schedule and Performance. The January 2006 report of the Defense Acquisition Performance Assessment Project (DAPA) concluded that “the budget, acquisition and requirements processes [of the Department of Defense] are not

connected organizationally at any level below the Deputy Secretary of Defense.” As a result, DOD officials often fail to consider the impact of requirements decisions on the acquisition and budget processes, or to make needed trade-offs between cost, schedule and requirements on major defense acquisition programs. Section 201 would address this problem by requiring consultation between the budget, requirements and acquisition stovepipes – including consultation in the joint requirements process – to ensure the consideration of trade-offs between cost, schedule, and performance early in the process of developing major weapon systems.

Section 202. Preliminary Design Review (PDR). The Government Accountability Office (GAO) has reported on numerous occasions that a knowledge-based approach is critical to the successful development of major weapon systems. In January 2006, the Defense Acquisition Performance Assessment Project (DAPA) endorsed this view, and recommended that Milestone B decisions be delayed to occur after PDR, to ensure a sufficient knowledge base to ensure the technological maturity and avoid “a long cycle of instability, budget and requirements changes, costly delays and repeated re-baselining.” Section 202 would address this problem by requiring the completion of a PDR and a formal post-PDR assessment before a major defense acquisition program receives Milestone B approval.

Section 203. Life-Cycle Competition. The Defense Science Board Task Force on Defense Industrial Structure for Transformation reported in July 2008 that consolidation in the defense industry has substantially reduced innovation in the defense industry and created incentives for major contractors to maximize profitability on established programs rather than seeking to improve performance. The Task Force recommended the adoption of measures – such as competitive prototyping, dual-sourcing, funding of a second source for next generation technology, utilization of open architectures to ensure competition for upgrades, periodic competitions for subsystem upgrades, licensing of additional suppliers, government oversight of make-or-buy decisions -- to maximize competition throughout the life of a program, periodic program reviews, and requirement of added competition at the subcontract level. Section 203 would require the Department of Defense to implement this recommendation.

Section 204. Nunn-McCurdy Breaches. Since the beginning of 2006, nearly half of DOD’s 95 Major Defense Acquisition Programs (MDAPs) have experienced critical cost growth, as defined in the Nunn-McCurdy provision, as amended. Overall, these 95 MDAPs have exceeded their research and development budgets by an average of 40 percent, seen their acquisition costs grow by an average of 26 percent, and experienced an average schedule delay of almost two years. Such cost growth has become so pervasive that it may come to be viewed as an expected and acceptable occurrence in the life of a weapons program. Section 204 would address this problem and enhance the use of Nunn-McCurdy as a management tool by requiring MDAPs that experience critical cost growth: (1) be terminated unless the Secretary certifies (with reasons and supporting documentation) that continuing the program is essential to the national security and the program can be modified to proceed in a cost-effective manner; and (2) receive a new Milestone Approval (and associated certification) prior to the award of any new contract or contract modification extending the scope of the program. In accordance with section 104, a certification as to the reasonableness of costs

would have to be supported by an independent cost estimate and a stated confidence level for that estimate.

Section 205. Organizational Conflicts of Interest. Defense Science Board Task Force on Defense Industrial Structure for Transformation reported in July 2008 that “many of the systems engineering firms which previously provided independent assessment [of major defense acquisition programs] have been acquired by the large prime contractors.” As a result, the Task Force reported, “different business units of the same firm can end up with both the service and product side in the same program or market area.” This structural conflict of interest may result in “bias [and] impaired objectivity,” which cannot be resolved through firewalls or other traditional mitigation mechanisms. Section 205 would address this problem, as recommended by the Task Force, by: (1) prohibiting systems engineering contractors from participating in the development or construction of the major weapon systems on which they are advising the Department of Defense; and (2) requiring tightened oversight of organizational conflicts of interests by contractors in the acquisition of major weapon systems.

Section 206. Acquisition Excellence. The Department of Defense will need an infusion of highly skilled and capable acquisition specialists to carry out the requirements of this bill and address the problems in the defense acquisition system. The Committee has already established an acquisition workforce development fund to provide the resources needed to hire and retain new workers. However, positive motivation is needed as much as money. Section 206 would address this issue by establishing an annual awards program – modeled on the Department’s successful environmental awards program – to recognize individuals and teams who make significant contributions to the improved cost, schedule, and performance of defense acquisition programs.



**Service Disabled Veteran Owned
Small Business
and
The Stimulus Package**



**A Service Disabled Veteran Owned Company
Small Disadvantaged 8(a) Business**

Presented By: James B. Hart, President and CEO

Service Disabled Veteran Owned Small Business and the Stimulus Package

I. How did the Marketplace for the SDVOSB get where it is today.

- A. Struggling in the commercial market due to lack of work.
- B. The SDVOSB set aside is only applicable to Government work.
 - 1. Struggling due to the lack of work, they can't bid on big jobs. Not a lot of small jobs are available to bid.
 - 2. No SDVOSB set-asides from NAVFAC and minimal number for ACOE. VA has most, but a \$300K job probably has 25 bidders. Ridiculous pricing, immature bidders and \$350 K painting contract awarded at \$225K.
 - 3. Coast Guard is just beginning to have SDVOSB set asides.
- C. Due to the lack of set asides or work sized at 250K-3M the SDVOSB's have not matured. The government agencies have been counting 8(a) awards and small business awards when awarded to SDVOSB companies as a SDVOSB award.

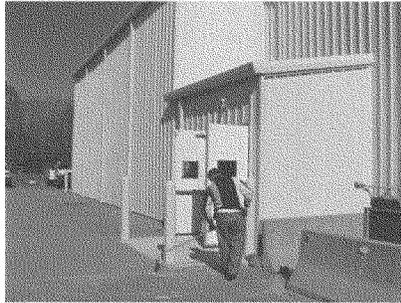
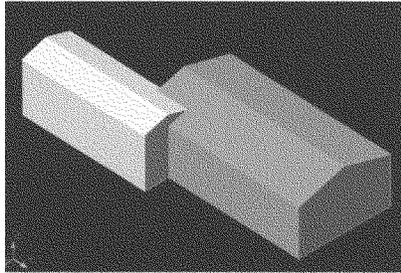
Project Name	Awarded 8(a)	Credited as 8(a) and SDVOSB
Bldg 710 Warehouse Renovation Ft Belvoir, VA	X	X
Office Renovation Waterfield Bldg Norfolk, VA	X	X
HVAC Bldg 41 Northwest River Annex Chesapeake, VA	X	X

- D. In the Tidewater area where there is a large concentration of government entities there is little work for small businesses like ~~ARMMA~~. As a result we had to travel to Fort AP Hill and the Pentagon to find work. The work at Ft AP Hill is being done on an 8(a) Basic Ordering Agreement (BOA) and the awards to ~~ARMMA~~ are also being counted for the SDVOSB Goals.

1. Some of our projects include:

- a. Racquetball Court
- b. Out Buildings
- c. Sprinkler System
- d. Family Housing Kitchens
- e. Running Track

Ft. A.P. Hill Racquet Ball Court Pictures



II. Why has all of the maintenance and remodeling work in Tidewater dried up?

The simple answer is BRAC! When Congress directed the services to implement BRAC they failed to provide the funds to do the advanced planning and design. Due to the lack of funds the ACOE & NAVFAC, the two organizations which plan, design, manage and contract construction work for the ARMY, NAVY, AIRFORCE and MARINES, took the funds out of operating budgets and postponed or cancelled other work. All services were impacted, both positively and negatively, by BRAC.

At the time BRAC was proclaimed neither ACOE & NAVFAC had adequate designers and planners so outsourcing was the only option. Funding had not been provided but the end date of October 1, 2011 had been set in stone by Congress. As a result the maintenance and renovation budgets were tapped to pay for the short fall.

Even with the reallocation of internal funds things became worse. There was a lack of inspectors and contracting specialists. Because of the mass amount of work to be completed and the timeline available many concerns needed to be addressed.

- Where will the additional workforce come from?
- How can the two agencies manage the huge unprecedented construction projects?
- Budgetary pricing of the projects was extremely conservative & was completely out-dated by the time projects were to be awarded.
- And other similar issues having a broad range of impact came to light.

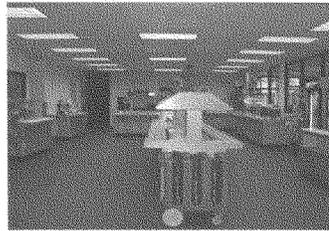
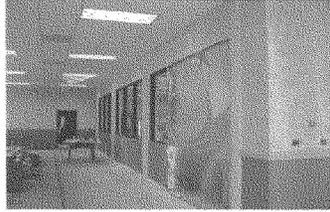
The overall result was the small business work in 2006-2008 dried up. In 2006 & 2007 the budgets at Ft Eustis, NAS Oceana and Dam Neck were zeroed out.

Example: in 2005 a lot of effort was expended when ~~ARRIBA~~ competed for and won an 8(a) multi-trade contract at NAS Oceana. After competition the pricing structure was negotiable, taking a lot of time for both sides. The result was 6 delivery orders for a total of \$607,249.00 out of a possible \$3.4 million through three option years.

In 2008 a Contracting Officer, who has recently retired, stated that all of his funds were redirected. He had projects 3-5 years old still viable with no funds.

A similar situation occurred at Ft Eustis where an 8(a) Basic Ordering Agreement was put in place with a 3.5M ceiling to do renovation and maintenance. One delivery order for \$149,525.00 has been issued. Only \$200K has been obligated under this BOA. Here again these examples are from the 8(a) set-aside world and even this picture is grim.

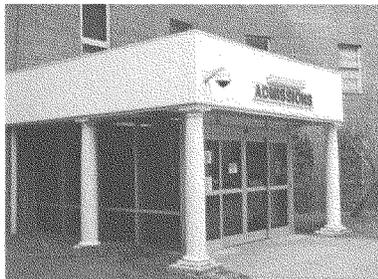
Ft Story Dining Facility Pictures



Because the housing and small commercial construction work has also dried up the industry is in desperate straits. In order to keep work on back log **ARRIBA** has looked elsewhere for work. One place has been the Department of Veterans Affairs (VA) doing security upgrades.

The VA has authority to "Sole Source" to SDVOSB companies up to \$3.5M for construction and \$5M for services. The VA has a lack of personnel as well in the areas of Contracting & Construction inspectors. Their short fall is so great that the VA has gone to the ACOE for procurement assistance. Because **ARRIBA** was a known entity in the VA VISN 6 for security (our first 8(a) contract is provided below) a Sole Source SDVOSB contract for the design and construction of security upgrades for 5 VA Medical Centers was put in place rather quickly, about 2 weeks for \$1.9 million. Had this same work been competed it would have taken a minimum of 4 months and added cost of \$50 to \$75K for the Government.

VA Medical Centers Security Upgrades Pictures:





SDVOSB's can be a part of American Economic Recovery. Throughout the history of the USA deep Recessions and even Depression is salvageable only one way and that is to get money into the hands of the unskilled, semiskilled, and craftsmen workforce. The bulk of these people and their families can be found in the Construction Industry. Helping small SDVOSB's in the Construction Industry will reemploy a large part of the unskilled, semiskilled and skilled craftsmen currently unemployed.

There would be added benefits to the community resulting from the developing of viable new businesses. Work on military installations, Pentagon, and Defense Supply Center guarantees that only US Citizens and bonafide legal aliens are allowed access. The screening of a contractor's employees prior to badge issuance will automatically ensure the stimulus funds are spent with American workers eliminating the question of illegal aliens benefiting from such funds. In a short time; 2011, October 1 a large work force will all of a sudden become available and looking for work after the BRAC build-out. Developing the SDVOSB by doing projects back-logged on bases at VA hospitals and FEMA will create a need for many of the displaced workers once BRAC is complete.

Large Business is currently performing most of BRAC and infrastructure construction. By the end of 2011 the housing and light commercial construction work should be returning to the economy and would once again be a mainstay in the US Economy.

It's plain to see that the two largest Construction Management Organizations, ACOE & NAVFAC, are under staffed and taxed to the limit with BRAC and pending maintenance issues. As a result handing them funds for construction as part of the economic stimulus will not help and could only exacerbate the current situation. These organizations along with the VA are overwhelmed with requirements, lack of staff and a large backlog of maintenance/renovation work biting their heels. These staffs are dedicated but need some tools that would relieve some of their problems.

III. What is needed to change the current situation and make use of the SDVOSB assets to grow the economy with the stimulus package?

All of the VA Medical Centers and the military bases have work that is designed and ready for contracting. What they need are the funds and manpower to get the projects contracted. The standard mechanism is to use competitive set-asides to select the contractor and make the award. There are three major problems here:

- A. Time is of the essence, regular procurements take 4-12 months. If there is a protest, then it is longer.
- B. The hours spent by the government to compete a contract is staggering: writing the RFP, answering questions, evaluating the proposals, preparing the basis of award, issuing letters of notice of no award to the losing bidders, debriefing bidders and final negotiations; not necessarily in that order. With a lack of personnel assets and a full workload already it is easy to believe the actual contract issuance would be delayed.
- C. Along with the hours and effort spent comes cost to the project to get an award. These contract preparatory funds decrease the available project funds and can result in down scoping the work and this is just the government's cost. The Contractor's costs can be from \$30-\$100K of a design build proposal. In a tough economy the SDVOBS can ill afford such expenditure in the hope of gaining work.

At this time there is no mechanism available to contracting allowing them to expedite this process on behalf of the SDVOSB. These small businesses desperately need work and need it available as soon as possible.

A contractual mechanism is needed to expedite contracting to SDVOSB's that would drastically reduce the Time and Cost to both the government and SDVOSB's. While at the same time reduce the amount of effort for the government contracting and engineering staffs.

There remains an issue of the lack of Contract Specialists and Construction Inspectors. As stated previously the system is stretched to the limit now, therefore adding more requirements will have a negative effect in efficiency. Attracting new employees to the government hasn't had a lot of success currently. Of course qualified applicants are not in great numbers.

One possible means to correct this is to allocate added funding to outsource the added Contract Administration and Inspection functions. This is exactly what has been done at the Pentagon in order to get the work done. By increasing the available staffs, provide a contractual mechanism that would prevent the need for "Bundling". BRAC project "Bundling" was done to expedite the contracting and building process. It is easier to contract and manage one \$50million project than 12 projects for \$2-\$5 million each. Also, as part of BRAC the time to be complete is set and upfront delays directly jeopardize the end date. By doing most of the BRAC projects as Design/Build some time was saved using a "fast track" methodology, but the awards were more difficult. By using the Stimulus Package funds to accomplish the already designed maintenance projects for federal agencies the risk of "BUNDLING" is greatly reduced.

These small maintenance packages ranging from \$50 K to \$3.5 million are just the right size to grow smaller SDVOSB companies. These smaller companies need the little jobs to facilitate maturing of both the company and their work force. Case in point; there was a SDVOSB set-aside competed by the Army Corps where some of the most qualified businesses were disqualified as a result of a technicality and three of the five selected didn't have a bonding program. The company selected couldn't bond the "seed project" and had to team with a large General Contractor for the project. As a result big business is benefiting while the small business pays a heavy price and learns little in the process.

With the bigger projects, \$5-\$15 million, being set-aside for small businesses the larger companies are looking to team or Joint Venture in order to get the work. What really happens is the large business makes all the profit and the small business has nothing to show but corporate experience which might not be all that great. Many of the newer small businesses cannot bond a \$10 million or greater project. The smaller companies need to mature and grow. Right now there aren't projects of the size necessary to support that growth.

Therefore the small business set-aside program for SDVOSB's is not working as intended.

Fewer companies are in a position to take advantage of this program due to company maturity and financial position. **ARRIBA** Corporation is most fortunate to be in a position to perform on a \$10 million contract, SDVOSB set-aside on the Pentagon's Multi-Award Construction contract (MACC). This project was initially awarded for \$7 million to build out ARMY Seniors offices some 62,000 square feet, which later included the "Hallway Museum" for ARMY antiquities. Of the five companies awarded a contract under the MACC umbrella there is only one other company that could have handled such a contract without the support of a large General Contractor.





IV. What needs to be done in order to take advantage of the SDVOSB assets for the American Economy?

The Stimulus Package can be the source of funding needed to develop Small SDVOSB's and at the same time complete many of the already designed renovation or maintenance projects throughout the government. There are numerous packages ready for award at the military bases and the VA Medical Centers. It should be noted that NAVFAC, after the reorganization includes the old organization of Public Works. The Army Corps of Engineers does not encompass the individual base Department of Public Works; and the Air Force has its own CE Squadron performing all of in the facility maintenance.

Other agencies like FEMA and the Coast Guard have similar requirements where they have back logged requirements sitting ready for funds.

When funding is provided for these projects it needs to include additional money for inspector outsourcing. This will take the pressure off the agency to control the work with their limited assets. This applies as well to outsourcing contract administrators. These two items are critical to the efficient and productive use of the funds and the successful completion of these much needed projects.

The next major thing is the expediting of contracts to save both time and money. The VA has language in their Contracting Authority to ensure Sole Source to a SDVOSB for Construction Contracts up to \$3.5 million and service contracts up to \$5 million. This has worked well for the VA and as previously pointed out was used to issue ~~ARRIBA~~ a contract for almost \$2 million to design and install security upgrades to five (5) of the VISN 6 facilities.

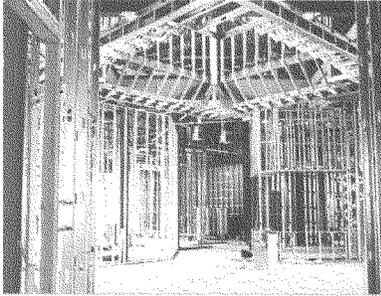
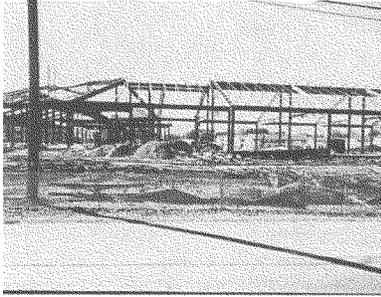
In order to quickly change the contracting regulation the President could sign an Executive Order directing all Federal Agencies to adopt the verbiage being used by the VA. Here is a way to get pay checks to unskilled, semi-skilled, and skilled workers in an expeditious manner while receiving a tangible product for the funds.

Studies have been done by the ARMY Corps of Engineers and probably NAVFAC which show the length of time it takes to award a competitive contract compared to a Sole Source. Many competitive Construction Contracts have taken 60 to 120 days after submission for award. This does not count the time to draft the RFP nor the 30 days for the contractor to respond. From start to award a ready to go Project Package can easily take 4 to 6 months to award.

Further studies have shown that with the Sole Source Contracts there is far less growth and they generally are completed on time.

Such was the case when ~~ARRIBA~~ Corporation was awarded a \$4 million contract to build a Learning Center at Fort Eustis. The project completed on time with a 1% growth. An award of appreciation was presented to the company for this project.

Ft Eustis Learning Center Pictures:

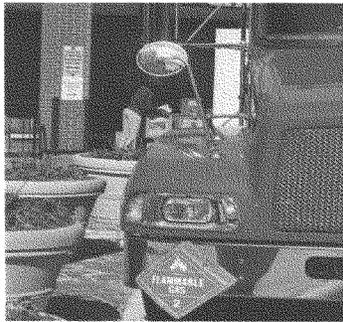


The development of the SDVOSB into a thriving entity, while at the same time putting great numbers of people to work, is the goal of this recommendation. Doing the existing backlog of projects across the Federal Agencies is an opportunity for success.

Since there are a wide variety of projects to be done in the public sector and some in the select private sector, the types of worker will be widely diversified. One example of this is work yet to be done at the Washington Hospital Center Campus. This is where The President, Congress & Heads of State receive urgent care treatment.

Two years ago **ARRIBA** made a presentation to Washington Hospital Services (WHS) to perform a Threat Assessment and Risk Analysis, a Design Charrette, and build out the final Security Upgrade. We were chosen to perform the first phase of the project, the Threat Assessment and Risk Analysis. During the Threat Assessment and Risk Analysis all threats and associated risks were evaluated. One special consideration was that dignitaries receive treatment at this facility and security of this facility although important is overshadowed by the security and protection of patients. Once this was complete a report for the Washington Hospital Center, VA Medical Center, Children's National Medical Center and The National Rehabilitation Hospital were presented. Phase 2 was to perform the Design Charrette for the 4 hospital campus complex. Funds were not yet available for the second phase.

Typical Security Issue:



Delivery truck carrying flammable load parked in no parking area

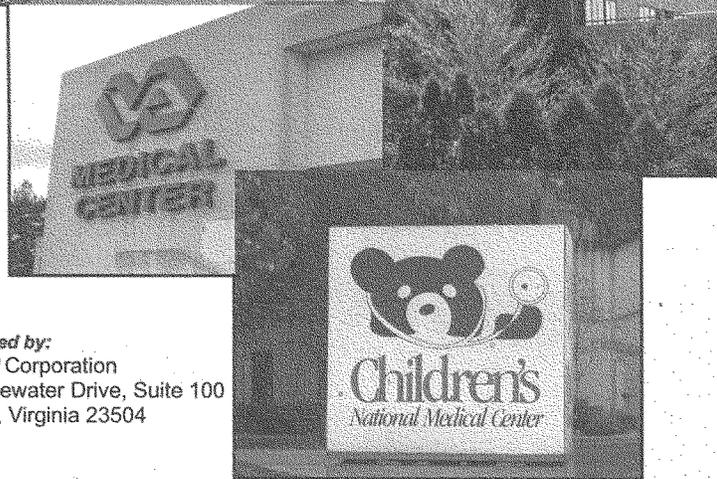


Close-up of sign

SECURITY ASSESSMENT



Submitted to:
Washington Hospital Center Campus



Submitted by:
ARRIBA Corporation
800 Tidewater Drive, Suite 100
Norfolk, Virginia 23504



July 9, 2007

WHS in conjunction with CNMC, NRH, and the VAMC petitioned the Department of Health and Human Services (HHS) and Homeland Security for a grant to complete the work, this grant was received. Phase two commenced with the Design Charrette for the 4 hospital campuses and the grant added Threat and Risk Assessments for 8 additional hospitals in the D.C. area. Upon completion of the Risk Assessment, a Best Practices Forum was held for the National Capitol Region (DC, Virginia, and Maryland) first responders. A related report by Mr. Craig DeAtley **"Hospital Security: An Age-Old Problem Becomes Increasingly Important"** is included as Attachment 1.

The Design Charrette saved almost \$2 million over the original estimate prior to the Threat and Risk Assessment, however, the actual construction/installation of the security upgrade has not happened due to funding. The work to be done is perimeter fencing, gates, way-finding signage, pedestrian control, traffic control, Video (CCTV) surveillance, access control, and campus lighting. This project valued at about \$6million would take several months to complete and would employ numerous skilled and unskilled workers.

In order to fund such a project a stimulus grant could be made available to both HHS and Homeland Security. Again a variety of agencies need funds for projects ready for contracting.

Hospital Security: An Age-Old Problem Becomes Increasingly Important

Craig DeAtley

Wednesday, December 03, 2008

The Emergency Department of any major hospital or other healthcare facility is commonly a site of workplace violence – with healthcare or mental health workers being the victims in 12 percent of the cases, according to a 2001 report issued by the U.S. Department of Justice. Long waits, substance abuse, the psychiatric aspects of illnesses or injuries – and/or, in some cases, easy access to weapons – are among the major contributors to the violence that has been reported.

Moreover, simply the *threat* of violence can create anxiety, fear, and decreased job satisfaction, according to a survey discussed earlier this year in the *Journal of Academic Emergency Medicine*. The potential threat of a terrorist attack against hospitals, coupled with the daily violence threat, increases the importance of an effective hospital-security program being developed and in place.

Most if not all hospital-security programs consist of three primary elements: facility architecture, security operations, and technical security measures, according to the "Summary Recommendations" on Hospital Security Best Practices released in

September 2008 by the **ARRIBA** Corporation. A hospital-security program should maintain a balance between the three elements through effective planning and thoughtful execution. The successful program will recognize that the efforts of the security department must be complemented by support from the hospital's other departments – e.g., the hospital administration, facility planning and engineering, and healthcare departments.

The Joint Commission – which accredits over 80 percent of the nation's hospitals – has developed and published a number of recommendations in an attempt to help hospitals address the security issue. These requirements include but are not limited to: (a) the development and maintenance of a hospital Security Management Plan; (b) the scheduling and conduct of an annual risk assessment; (c) the implementation of various access-control and physical-

The evaluation process included site visits to each facility, meetings with various hospital personnel, and a comprehensive review of site plans, building plans, and security policies and procedures

protection measures; and (d) the development of an effective education and training program for hospital employees.

IAHSS Standards, an HHS Grant, and NCR Assessments

The International Association for Healthcare Security and Safety (IAHSS) also has published some helpful guidelines, which are followed by the directors of a number of healthcare facilities. The IAHSS standards address such important (but frequently overlooked) topics as hospital identification badges, the training of personnel, and record keeping.

In response to the growing threats of violence, coupled with the fear of a possible terrorist attack, hospitals in the District of Columbia recently completed a comprehensive security risk assessment. That assessment, carried out under a U.S. Department of Health and Human Services (HHS) Coalition Partnership Grant, analyzed the threat environment of twelve hospitals in the D.C. area and focused on security measures that support facility operations not only during daily operations but also in the aftermath of a major incident. The assessment was conducted by a highly respected security contractor over a six-month period of time. The evaluation process included site visits to each facility, meetings with various hospital personnel, and a comprehensive review of site plans, building plans, and security policies and procedures. Each facility received an individualized summary report identifying the facility's principal risk concerns and specific corrective recommendations.

Also included as part of the grant deliverable were: (1) the publishing of a Hospital Security Best Practices Summary Recommendations document; and (2) a discussion of its contents – at a day-long Hospital Security Best Practices Forum attended by hospital security directors and local law-enforcement officials from throughout the National Capital Region.

Particularly prominent in the Best Practices Summary are recommendations to:

- Use perimeter fencing in high-crime-risk areas to deter and prevent unwanted access to the site (fence lines provide psychological as well as physical barriers);
- Use CPTED (Crime Prevention Through Environmental Design) concepts both to define the site and sense of place and to maintain clear lines of sight;
- Maintain exterior lighting levels that are in compliance with the levels recommended by IAHSS;

- Minimize the “secondary” use of fire and emergency exit doors for building access through policy enforcement, the monitoring of secondary doors through alarm and access-control systems, and guard-force patrols;
- Use vehicle access-control measures to limit passenger as well as truck access to the site – and, when and where possible, segregate both passenger and truck traffic;
- Use crash-rated drop-arm gates to control access to areas that enclose critical infrastructure facilities;
- Design bus routes and stops to minimize potential threats and ensure clear and unobstructed access to facility entrances (the traffic patterns for bus stops should allow for convenient pedestrian access but not be permitted to block building entrances; in addition, alternate bus circulation routes should be preplanned to accommodate measures instituted during critical-response situations);
- Establish a door, and door-hardware, maintenance program that includes frequent inspections, mandates the use of properly rated hardware in high-traffic areas, and requires the installation of door guards at loading docks and/or in areas where “push” vehicles or devices are used to move material; and
- Last, but of perhaps the greatest importance, design Emergency Department facilities to support security needs and operations.

Among the specific design measures emphasized are the building and designation of “holding rooms” for mentally ill or forensic patients, the provision of reasonable levels of protection for service counters, and the integration of strategically located guard posts within the Emergency Department. The design recommendations also include an important “Thou Shalt Not” mandate: Namely, do *not* collocate critical infrastructures such as oxygen plants and medical gas storage areas near emergency department entrances or decontamination areas.

To briefly summarize: Security has become increasingly important to the nation’s hospitals as they attempt to cope with the already large and still growing threats posed by workforce violence and potential acts of terrorism. The enhanced security efforts already adopted by many hospitals center on a broad spectrum of architectural, operational, and technical considerations – including, but not limited to, many of the specific design features mentioned above.

**Testimony of
J. Schmidt
President
Hohulin Fence Company**

**Before the
United States House Small Business Committee
March 12, 2009**

Good Morning Mr. Chairman and distinguished members of the committee. I am James Schmidt, President of Hohulin Fence Company. Thank you for the opportunity to present the views of Hohulin Fence on our experience as a small veteran-owned business trying to survive in a down economy with limited funding.

Hohulin Fence Co. was established in 1897, some 112 years ago, as a family owned company in Goodfield, Illinois, a small farming community in Central Illinois. Hohulin Fence was the first company in the United States to weave chain link fence commercially. That first contract was for 396 feet of 48" high chain link fence with 1 gate for the grand sum of \$26.90 installed. Today, that wouldn't pay for the gate hardware. The Hohulin brothers were an inventive group who took the first hand operated machine and engineered and designed an automatic weaving machine which increased production immensely. The Hohulins went on to increase their business including selling weaving machines to Cyclone Fence Company of Waukegan, Illinois for World War I base security. Through the years the company survived both World Wars and the Great Depression. Although a conservative family, the Hohulins were always able to provide for their families and those of their employees.

Today, Hohulin Fence is still family owned. In fact, I married the youngest daughter of one the 3rd generation brothers. I have 2 Hohulin 5th generation employees. We are a union company which services approximately 100 mile radius selling and installing commercial and industrial fencing to universities, schools, sports facilities, government facilities, private companies, parks, utilities, and pipeline companies.

As everyone in this room knows, the current economic climate has been extremely difficult for small contractors and the customers we serve. Our larger manufacturing customers continue to reduce staffing and cut back production. All municipalities are struggling with declining sales tax revenues and at the same time residents have reduced their discretionary spending. Every market we serve has been impacted.

This has had a direct impact on our business. In 2007 we posted revenues of approximately 4 million dollars. In 2008 our revenues were reduced by 15% and would have been off by 33% had steel pricing not increased so dramatically. Steel is another topic for another day.

The sales revenues would have been worse if not for the rapidly escalating steel prices that we struggled to deal with. We reduced staffing, by 20%, to adjust for the reduction in sales. We have watched smaller competitors close their doors as they can no longer get financing to operate their businesses.

As a veteran-owned small business I see no advantage for us. If I were a disabled veteran there may be a few more opportunities but not many. I believe if a veteran owned business would receive the same benefits as a WBE or DBE we would have more work available for us to bid. Typically, most federally funded projects require a certain percentage of minority participation. We are not able to bid many of these projects because we are not considered a minority enterprise. I know that many of our larger construction contractors struggle to fulfill the minority participation on large projects because there just aren't many WBE and DBE firms in this area. Many times companies are brought in from outside the state to fill this requirement. I don't think it is fair to a local contractor not to be able to bid projects in our backyard. Also, the WBE and DBE are able to place a higher bid and receive the contract.

With a level playing field, I am confident Hohulin Fence can compete in the marketplace –and as a commercial business remaining competitive is our responsibility. What we need from Congress are the right policy actions to ensure the playing field remains level.

Congress and the Administration must ensure that the funds available through the American Recovery and Reinvest Act are made accessible by small businesses through equitable contract administration.

Currently, our country seems to be paralyzed by the fear of the unknown: Whether they will have a job tomorrow or not; whether they will lose their home or not; whether they can provide for their families or not. We are all looking to Washington for an answer.

Mr. Chairman, I applaud the efforts of you and your colleagues on the committee to bring the voice of small business into this important debate. I look forward to working with you and your colleagues in support of small business in the current economic climate.

**Oral Testimony to the Subcommittee on Contracting and Technology
March 12, 2009**

“Ensuring Stimulus Contracts for Small and Veteran-Owned Businesses”

Good morning Chairman Glen Nye, Ranking Member Aaron Schock and members of this Subcommittee. Thank you for inviting me to testify before your subcommittee and discuss “Ensuring Stimulus Contracts for Small and Veteran-Owned Businesses” My name is Janice Cavolt and I am representing JBC Corp, presenting testimony for Brian Cavolt, my husband and business partner.

My name is Brian Cavolt and I am a 100% rated Service Disabled Veteran. I retired as a Master Chief after 29 years of active duty in the U.S. Navy. Since 2006, I have owned and operated JBC Corp, a Service Disabled Veteran Owned Small Business.

JBC Corp is a provider of medical trauma kits for the military. Our kits are custom designed and packed to order as specified by the government.

My company is located and I reside in the City Virginia Beach, Virginia. My military service and experience as an operator and hospital corpsman with Special Forces inspired and enabled me to continue to serve the active duty warfighter by providing medical kits designed specifically for administering Trauma Casualty Care Under Fire. As a business owner and veteran, I have regular and continuing contact with other veteran owned small businesses.

As small business owners, we face many of the same challenges and share the same concerns. Currently the economy is our greatest concern; we are aware that the economic climate could have a tremendous affect on our businesses. We recognize that it is important that we position ourselves and not be vulnerable to the unfair business practice of not being able to bid on contracts that are automatically assigned to Prime Vendors.

The government has a variety of ways to purchase the items required for its many agencies and departments to conduct business. Although the requirements and methods vary, it seems the common objective for the government is to obtain quality products, at reasonable prices with reliable availability while providing an opportunity for U.S. businesses to progress and become an integral component in the economy. One method of procurement the government employs is the Prime Vendor Contractor. The Prime Vendor was created to enable the government to purchase products from manufacturers who do not have contracts of their own with the government. Prime Vendors are frequently used to obtain and deliver the best equipment to our troops at war in an expeditious manner. Prime Vendors can be used to bypass contracting personnel to expedite orders and eliminate the requirement of justification for purchasing a superior, reliable product over a less expensive, inferior model with unknown reliability.

While the reasons stated here seemingly justify the use of Prime Vendors, it is my belief that the very system created to improve the procurement of products for our military does not work in a way that promotes or ensures economic growth and stability for the small business. Further, the system does not protect the government from excess wasteful spending and in many cases does not adequately serve the end users of those purchased products.

The Prime Vendor is a giant in the government procurement system. As such, they exercise great power over the small business who is trying for the opportunity to get their product to market. Sometimes that power becomes abusive. A small business may take years to develop a product, show it to an interested party, and then find that their only recourse to sell in any large volume requires a Prime Vendor be involved. Refusal to accept the terms of business from a Prime Vendor is a no win option, as to do so puts your product at risk as it is not uncommon for

the Prime Vendor to take your product and actively pursue manufacturers that will produce it for them.

The tactics used by many Prime Vendors to take advantage of the small business are coercive and frequently test the ethical standards of business. We were "invited" to do business with different Prime Vendors on two separate occasions when our product was being sought for purchase. In both instances, we were pressured to get an agreement in place quickly so that orders could be received. The main issues addressed in both agreements were the price, payment terms and consequences for default. Both PV's wanted a preferred price, going so far as to say they needed room to get additional points in their markup. As manufacturers, we calculate our sell price by taking the actual cost of the items, adding our labor, other overhead costs and factoring a conservative markup. We have found that in most cases, the Prime Vendor's markup often matches our profit. The idea that both entities make the same profit when the work for each is considerably different does not seem equitable.

It is the attitude of the Prime Vendors we have done business with that makes us reluctant to want to keep doing business through such a vehicle. In two separate instances, the Prime Vendor jumped on board once they realized we had a commodity that was in demand. They assured us that by working with them, they would be able to bring the orders to us. In one case, a Prime Vendor was not able to independently process an order because they were not a "Medical" Prime Vendor. They wanted us to be their subcontractor while they looked for another vehicle to receive the order. When a Medical Prime Vendor was identified and the two Prime Vendors began to try and work out their respective profits, the combined markup of the items to be ordered became so exorbitant that the commodity buyer refused to purchase. Ultimately, we agreed to go straight to the Medical Prime Vendor and the order was finally submitted. While we awaited the purchase orders, the "non Medical Prime Vendor" attempted to force us to use them as our distributor to the Medical Prime Vendor by threatening to not do further business with us and by withholding final payment on an order we had recently completed.

Since then, that same Prime Vendor has taken the proprietary information we had provided to them while working together, and given it to another manufacturer so that they could try to duplicate our product. They are currently marketing their manufactured copy to customers who purchased our products in the past as a "like item" at a lower price.

Currently we are fulfilling an order through a Medical Prime Vendor who is withholding payment, citing reasons based on non-existent terms of our written agreement. It is easy to say that we should have stood stronger when we first engaged, but in retrospect we didn't foresee their integrity getting in the way of doing business. We couldn't imagine that when we sought to rely on our agreement, they would turn a blind eye on issues that do not favor their position. In our agreement, there is a requirement that a deposit be paid to our company before we start work. The deposit is more than earnest money; it is the capital we use to help fund the first phase of work. Once that first phase has completed, and we are paid in accordance with the terms of our agreement, we are able to self fund the next purchase of materials. Once the process is set in motion, there is a steady flow of goods coming in and of orders shipping out until the order is complete. Everyone can win using this process; the end user receives a custom built product expediently, our suppliers can rely on steady payment, the Prime Vendor can bill the government as each component of the larger order is completed, and the small business can keep employees working steady. It is a process we have used successfully in the past for large orders.

However, the process begins with the Medical Prime Vendor honoring an agreement. We did not receive the full deposit, but we agreed on a lesser amount and ended up with one half of that amount. The deposit we received was withheld for nearly three weeks after we received purchase orders and paid only after we agreed to let the Prime Vendor purchase many of our core products. Their reason was that they felt they could get better prices than we could, and therefore increase their profit. In the end, there were products they couldn't get and prices they couldn't match. We became responsible for a significant amount of products that would not be

covered by the deposit they had provided and complicating matters, they were not able to deliver all of the products they committed to in a timely manner. Since the start of work, we have not been able to get our planned steady flow of production. We receive products sporadically and are not able to build complete kits until missing items are received. Our vendors who pushed to meet the deadlines we requested are not being paid. Our bag maker, dedicated 40% of their production line to meet our deadlines and now, because we are unable to fulfill our commitment, they are turning to the banks for funding. We have borrowed money to keep our operation moving forward. Over the past 2-1/2 months, we have attempted to work with the Prime Vendor to receive payment for completed and shipped products. They claim they cannot extend additional funding until certain conditions are met. Initially we were told that we must ship orders that are at least two times the amount of the partial deposit already paid. At another time we were told that we must ship an amount that exceeds the combined amount of the deposit we have received and the amount of products that they will provide. We were sent a cure notice letter and were threatened that the order would be cancelled. We were asked to come to Florida, from Virginia on 3 day notice to meet with the President of the Company to discuss different options but in the end, the only option available required that we sign a new agreement that allowed a lien to be put against all assets of our business along with the assets of any other enterprise we may have interest in, and sign personal guarantees. Even then, the terms of payment changed and there would be no payment until after the order was 100% completed, and even then 10% would be withheld for 60 days. When we pleaded and asked for consideration for our vendors and the reserves we exhausted purchasing materials they were unable to obtain, we were told to tell the vendors to wait and that basically we should figure out how we would manage the cash flow of our company. Needless to say, we did not sign the agreement they presented. We are now approaching six weeks since that meeting. Three weeks after the Florida meeting we met with representatives from their company in our offices and they wanted to know about future business. We told them we needed to get through the current order first and would get back with them regarding the future orders. Two weeks ago I sent an email asking that we meet with our attorneys present so that we may reach an agreement that will allow us to finish the business at hand. We have had no response but continue to produce and ship our products.

This Medical Prime Vendor is a powerful giant with resources that we cannot match. It is suggested that government procurement regulations be reviewed, modernized and streamlined, to give equal opportunity to multiple American businesses. In addition, it is an opportunity to renovate a system that has become inefficient, and that places cost containment and the ability to provide items in a timely manner secondary to finding the easiest way to push an order through. There are procurement methods in place and available that with modification could significantly elevate the opportunity for small businesses to compete.

Many of the buyers who could reduce load on contract officers have a credit card limit of \$3000 per purchase; but above that amount it needs to be handled by a contracting officer. Why can't the threshold be raised to allow for ease and expedition of procuring certain items?

When a specific item is required (sole source) – why can't the contracting officer go directly to the manufacturer or distributor and see if the product can be purchased directly using MILSTRIP or credit card.

Most of the larger contracts are only available to bid on by select companies. Competition should be open to all businesses.

Government policies of payment on delivery do not favor small companies with little capital to expend; particularly with larger orders. Yet providing a product or service through a larger entity does not ensure expedient delivery and fails to protect the subcontractor as the government does not interact with the small business.

When the Prime Vendor must be used, they should be held to a higher standard of service. That higher standard should include accountability for the reasonable treatment of subcontractors; that

is, working with the subcontractor in a manner that serves to promote expedience in order fulfillment, ensure timely payment to subcontractors, and generally commit to upholding ethical business practices. Currently subcontractors are not asked to give a review of their experience with a given Prime Vendor; nor are there protocol for subcontractors to ask for relief or be heard when they are treated unfairly by the Prime Vendor.

Prime Vendors should be required to be transparent in disclosing their subsidiaries and affiliates so that all opportunities do not end up funneling exclusively to one source.

Contracting officers need to stay current and know the regulations regarding the applicable percentages that apply to subcontracting to certain small business.

Finding ways to Ensure Stimulus Contracts for Small and Veteran-Owned Businesses is not an insurmountable task. I am of the opinion that with modification and adherence to established regulations, the Small Business Owners right to fair competition can be achieved.

Respectfully submitted,

Brian W. Cavolt
CEO
JBC Corp
Virginia Beach, VA
757-306-1250

STATEMENT OF

JUSTIN BROWN, LEGISLATIVE ASSOCIATE
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

Ensuring Stimulus Contracts for Small and Veteran-Owned Businesses

WASHINGTON, DC

MARCH 12, 2009

MR. CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE:

On behalf of the 2.2 million members of the Veterans of Foreign Wars of the United States and our Auxiliaries, I would like to thank this committee for the opportunity to testify and for its rigor in pursuing contracting issues on behalf of veterans. The issues under consideration today are of great importance to our members and the entire veteran population.

During this economic recession the number of unemployed veterans has increased to nearly one million as of January 2009. That is an increase of more than 400,000 since November 2008 and an increase of more than half of one million since April of 2008. There are twice as many unemployed veterans as there were one year ago and there are as many unemployed Iraq and Afghanistan veterans as there are men and women currently serving in Iraq. Make no mistake; our servicemembers are leaving Iraq, coming home, and fighting another war against unemployment, homelessness, bankruptcy, and a host of medical conditions. With a lack of opportunity many servicemembers are likely considering self-employment. Unfortunately, the economic stimulus was stripped of the language that would facilitate a stimulus for veterans in both business and employment. Furthermore, a large amount of the stimulus will be spent in the form of state grants thereby bypassing federal laws in regards to contracting.

The strongest predictor that an individual will become self-employed is military service. Currently, 14.6% of veterans are self-employed and with our economic climate this number will likely rise, especially if we give them the tools they need to succeed. Also, veterans' entrepreneurship creates a win-win for veterans' unemployment because veterans are more likely to hire veterans thereby reducing veterans' unemployment. However, for a veteran interested in entrepreneurship the reality is quality resources are extremely scarce and available to few.

Many Veterans Have Little or No Access to Capital

Veterans' entrepreneurship and small business faces four fundamental issues; little or no access to capital, little access to entrepreneurial education, the failure of government agencies to comply with Federal Procurement laws, and the lack of parity for Small Disabled Veteran Owned Businesses (SDVOSB) versus other programs. First, and of the utmost importance, is veterans access to capital needs to be increased. For many veterans the Patriot loan program is not an option because they are being denied by lenders even with the guarantee. The VFW suggests creating a direct loan program funded in conjunction with a stronger Patriot loan program or a hybrid loan that would mix certain characteristics of the guarantees and direct loans. This would create an array of financial tools available to veteran startups and veterans in business. Different types of loans would constitute different conditions of lending based on the situational factors of the veteran.

Veterans Lack Entrepreneurial Educational Assistance

There is an extraordinarily small amount of resources being diverted towards educational programs for veterans' entrepreneurship. Part of the problem is that the National Veterans Business Development Corporation (TVC), which was created by Congressional funding in 1999, was supposed to do just this. Unfortunately, this program lacked necessary oversight and much of the funding was abused and misused by its leadership.

The VFW fully supports the concept of moving and expanding TVC's veteran business centers under the purview of the SBA. SBA currently maintains five business centers and would be the likely fit to fund and conduct oversight of the three business centers that were being occasionally funded

by TVC. However, eight veterans' business centers are insufficient for the national demand for these services. Not one member of this entire committee has a veteran small business center located in their Congressional district.

In fiscal year 2008, SBA's operational budget (excluding personnel costs and overhead) was \$888,000. This funded SBA's five business centers and various forms of outreach. The VFW would like to see these programs greatly expanded to include various locations throughout the country.

Lack of Legal Compliance by Federal Agencies

The Veterans of Foreign Wars is frequently notified of governmental agencies failure to abide by the laws outlined in *P.L. 106-50*, *P.L. 108-183*, *P.L. 109-461*, and *P.L. 110-186*.

In regards to *P.L. 106-50* nearly every agency has continually and consistently failed to reach their outlined mandate of 3% of all federal contracts for SDVOSB's. In Fiscal Year 2008, preliminary numbers suggest 1.4% of all federal contracts went to SDVOSB's. It has been 10 years since *106-50* was signed into law and we can say we are halfway there, almost.

In regards to *P.L. 108-461* and *109-461*, the VFW hopes to see the VA and other agencies utilize sole-source and noncompetitive procedures to help them meet their mandated minimum of 3% of all federal contracts. The VFW strongly believes that this procedure should particularly increase in federal agencies like DoD that are egregiously failing to abide by government mandates and are failing its former servicemembers in favor of large corporations like Halliburton and KBR.

P.L. 110-186 is intended to increase the number of veterans' small business centers. SBA has not received any funds in order to carry out this mandate. Furthermore, *P.L. 110-186* calls for the creation of an Interagency Task Force. Nearly one year later the Task Force is still non-existent.

Lack of Parity for SDVOSB's

GAO recently made a decision that states "a contracting agency, before proceeding with an SDVOSBC set-aside, must first reasonably consider whether the conditions for a HUBZone set-aside

exist, and, if they do, agency must proceed with a HUBZone set-aside.” This decision rests solely between the interpretations of two words—shall and may. Because HUBZone’s language in the Federal Acquisition Regulation includes “shall” instead of “may” GAO ruled that HUBZone has priority and the programs lack parity. The Veterans of Foreign Wars strongly objects to this determination and strongly urges Congress to return parity to the aforementioned programs.

Capital, Training, Compliance, Parity

In order for veterans to succeed in small business we need training, capital, compliance, and parity. If the VFW were to sum up the current state of veterans business and procurement in one word it would be complacency. There are extremely limited options in regards to veterans’ access to capital, few options for education, and a host of federal agencies that after nearly a decade continually, and willfully, fail to abide by their public mandates. These agencies failure to abide by these mandates for such an extended period of time challenges the very authority of this body by woefully ignoring the laws it passes. If the past is any indicator we will be back next year looking at slightly better numbers, but hearing the same old song from the agencies in question.

The VFW demands, in compliance with the laws our veterans so proudly defended, that 3% of these economic stimulus contracts go to small disabled veteran owned businesses. To help alleviate the one million unemployed veterans the VFW also calls on the veteran businesses that receive these contracts to publicly establish a veteran’s preference.

As America’s largest group representing combat veterans, we thank you for allowing the Veterans of Foreign Wars to present its opinion on federal contracting in regards to the economic stimulus package. Veteran entrepreneurship if expanded is a win-win for everyone including the government and America’s taxpayers.

Mr. Chairman, this concludes my testimony and I will be pleased to respond to any questions you or the members of this Subcommittee may have. Thank you.

**STATEMENT OF
JOSEPH C. SHARPE JR., DEPUTY DIRECTOR
ECONOMIC COMMISSION
THE AMERICAN LEGION
BEFORE THE
SUBCOMMITTEE ON CONTRACTING AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
ENSURING STIMULUS CONTRACTS FOR SMALL BUSINESS AND VETERAN-
OWNED BUSINESSES**

MARCH 12, 2009

Chairman Nye, Ranking Member Shock and Members of the Committee:

Thank you for the opportunity to present The American Legion's views on the Federal Contracting opportunities for Small Business in relation to veterans.

The American Legion views small business as the backbone of the American economy. It is the mobilizing force behind America's past economic growth and will continue to be a major factor as we move well into the 21st Century. Reports show that businesses with fewer than 20 employees account for 90 percent of all U.S. firms and are responsible for more than 97 percent of all new jobs, generated \$993 billion in income in 2006, and employ 58.6 million people. There are 27 million small businesses in the U.S. and 99.7 percent of all firms are small businesses.

In FY 2007, the Small Business Administration's (SBA's) Office of Government Contracting reported that of more than \$378.5 billion in Federal contracts identified as small business eligible, small businesses only received a total of \$83 billion in prime contract award and about \$64 billion in subcontracts. Service-disabled Veteran-Owned Businesses (SDVOBs) were recipients of \$3.81 billion, or 1.01 percent of those available contract dollars.

America has benefited immeasurably from the service of its 26 million living veterans, who have made great sacrifices in the defense of freedom, preservation of democracy, and the protection of the free enterprise system. Due to the experience veteran's gain in the military the success rate of veteran-owned businesses is higher than other non-veteran owned businesses. The current War on Terror has had a devastating impact on our armed forces and has contributed to exacerbating this country's veteran unemployment problem, especially within the Guard and Reserve components of our military. According to the Department of Labor the present unemployment rate for recently discharged veterans is an alarming 20%, and one out of every four veterans who do find employment earn less than 25 thousand dollars per year. Unfortunately, many of the thousands of servicemembers who are currently leaving the service are from the combat arms and non-skilled professions that are not readily transferable to the civilian labor market.

One way of combating unemployment is through the creation of new jobs. Small business creates an estimated 60 percent to 80 percent of net new jobs, therefore providing a central element for strong economic growth. Government should assist in the creation of new jobs by encouraging qualified entrepreneurs to start and expand their small businesses, and no group is better qualified or deserving of this type of assistance than our veterans.

Increasingly, the growth and stability of this nation's economy is dependent on the long-term success of the small business networks across the country. However, during a time of war there is much to be accomplished. Ironically, for too many years, the very men and women who served in uniform, stood ready to fight, and if necessary die in order to protect and preserve our free enterprise system, are summarily ignored by the Federal agencies responsible for meeting their small business needs.

The U.S. Small Business Administration has the responsibility of supporting veteran business owners, yet the office empowered to oversee our programs remains critically understaffed, underfunded, and marginalized despite laws championed by this very committee last year to further empower veterans' entrepreneurship programs.

The Department of Defense (DOD), who will have the responsibility of directing more than six and a half billion dollars of stimulus infrastructure, continues to be satisfied with an embarrassing, less than 1 percent achievement of the federally mandated 3 percent SDVOB contracting goal. Especially important to note is that all of the stimulus money will be dedicated to construction and infrastructure improvement, and these are two of the strongest areas of SDVOB ownership according to the Federal Central Contractors Registry.

Additionally, the Army Corps of Engineers combined appropriations to improve and construct VA hospital and medical facilities adds up to nearly \$6 Billion. All totaled, there will be more than \$12 Billion spent just out of the stimulus package alone, and the omnibus 2009 appropriations increases that amount by more than \$4.3 Billion for the Army Corps in Construction and Maintenance, and additional billions in DOD spending.

With the more than \$20 Billion dollars being spent on veteran and military related projects, The American Legion finds it unconscionable that veteran business owners remain at the back of the line when competing for Federal contracts according to the Federal Acquisition Regulation.

At a time when all other socioeconomic assistance programs are growing, veterans programs across the board have taken a 47% reduction in funding. The Office of Veterans Business Development received less than \$750,000 out of the \$2.1 Million they were scheduled to receive in 2008, a mere 35 percent of their authorization.

And while this country struggles to regain economic stability, The American Legion fails to understand why our nation's veterans continue to be overlooked while they continue to serve this nation as business owners and employers.

Included in this stimulus package were a number of economic development and small business outreach programs and yet again, not a dime was directed toward the development of veteran-owned businesses. Our veterans deserve the finest assistance available, and still year after year

we struggle to maintain the operation of 3 veteran business resource centers originally funded through the National Veterans Business Development Corporation, nor have we increased the assistance to the 5 other centers supported by the SBA's office of Veterans Business Development in more than 5 years.

The need for Veteran Business Outreach Centers cannot be overstated and The American Legion vehemently supports the work and growth of the 3 centers located in Boston, St. Louis, and Flint, Michigan. The American Legion also calls for the immediate and full disbursement of funds appropriated to the SBA for the express intent of supporting these centers with emergency funding so they will be saved from bankruptcy. Specifically, we refer to the \$450,000 in additional funding appropriated to the SBA's Office of Veterans Business Development which is intended for these 3 centers.

Currently, too many military families are suffering financial hardship while their loved ones are recuperating in military hospitals around the country. Spouses are leaving their jobs to be with that disabled service member only to watch their family finances deteriorate. Seamless transition in many cases is just a wishful thought; however if business development training was offered to military members, a small home-based business could be the answer in guaranteeing a constant source of revenue for the family making them less dependent on the Federal government. Again, these centers are vital link toward fulfilling this need.

The American Legion strongly supports the mandates of the "Veterans Entrepreneurship and Small Business Development Act of 1999" (P.L. 106-50) that were designed to assist all veterans wishing to start, expand, or protect their business. If there is a true desire to assist veterans returning from Iraq and Afghanistan in developing small businesses, we must work together to enforce and expand upon the mandates of P.L. 106-50.

The Office of Veterans' Business Development within the SBA remains crippled and ineffective due to inadequate funding, and \$750,000 in FY 07 and \$742,000 in FY 08 is a shameful afterthought by our Federal government to support veteran entrepreneurship. These amounts, which are less than the office supply budget for the SBA, are expected to support an entire nation of veteran entrepreneurs. The American Legion feels that this is an insult to America's veteran business owners, and that it severely undermines the spirit and intent of P.L. 106-50. The American Legion strongly supports increased funding for SBA's Office of Veterans' Business Development so it can provide enhanced outreach and community-based assistance to veterans and self-employed members of the Reserves, National Guard and their immediate family members. The American Legion recommends this office receive \$15 million in FY 2010 in order to implement a nationwide community-based assistance program to veterans and self-employed members of the Reserve and National Guard.

Legislation and Veterans Federal Procurement Opportunity

The American Legion seeks and supports legislation to require a 5 percent goal, with set-asides and sole source authority for Federal procurements and contracts for business owned and operated by service-disabled veterans and businesses owned and controlled by veterans. This includes those small businesses owned by Reserve component members who have been or may

be called to active duty, or may be affected by base closings and reductions in our military forces.

The American Legion has encouraged Congress to require reasonable “set-asides” of Federal procurements and contracts for businesses owned and operated by veterans. The American Legion supported legislation in the past that sought to add service-connected disabled veterans to the list of specified small business categories receiving 3 percent set-asides, and supports this committee’s efforts to raise the priority level of Service Disabled Veteran Business owners in the Federal Acquisition Regulation by changing “may” to “shall” and further by eliminating the “Rule of 2.”

Noncompetitive Contracts

The American Legion concurs with National Veteran Owned Business Association’s assessment in their statement submitted for this hearing regarding the White House announcement that executive agencies shall not engage in noncompetitive contracts. The press release makes no distinction between the billions of dollars awarded to large businesses such as KBR and Halliburton or the critically important sole source awards to productive and efficient small businesses under the SDVOSB, HUB Zone, or 8(a) programs. Specific guidance needs to be provided to contracting officers as to whether the administration is restricting the use of legitimate contracting mechanisms to support the nation’s small businesses, or to restrict multi-billion dollar non-competitive awards to large prime contractors.

The American Legion also agrees that pressures being exerted on the Federal contracting community will probably result in greater use of the General Services Administration’s (GSAs) Federal Supply Schedule Program, and while this program holds a higher contracting preference compared to the small business programs, it unfortunately does not allow set-asides for any small business group. The American Legion agrees that expanded use of this program will further diminish opportunities for small businesses, especially small businesses owned by veterans.

Therefore, The American Legion recommends;

- Service-disabled, veteran-owned small businesses set-asides should be allowed under the Federal Supply Schedule Program. Currently, GSA schedules are exempt from FAR part 19. Without this change SDVOSB will be limited in their quest for small business opportunities to compete for Federal contracts.
- Implementation of a coordinated standardize training program for procurement staff that focuses on SDVOSB procurement strategies in their respective agency.
- President Obama should reissue Executive Order 13-360 “Providing Opportunities for Service-Disabled Veteran Businesses” to increase Federal Contracting and Subcontracting opportunities for veterans, and require that its tenets be incorporated into SBA Regulations and Standard Operating Procedures.
- The SBA needs to emphasize Executive Order 13-360 and establish it as a procurement priority across the Federal sector. Federal agencies need to be held accountable by the

SBA for implementing the Executive Order and the SBA needs to establish a means to monitor agencies progress and where appropriate, establish a report to identify those that are not in compliance, and pursue ongoing follow-up.

- In order to achieve the mandates of Executive Order 13-360, the SBA must assist Federal agencies to develop a strategic plan that is quantifiable, and will assist them in establishing realistic reporting criteria.
- The American Legion also recommends that the House Small Business Committee embrace and promote development of stronger policy and legislative language that champions the utilization of Veteran-Owned Small Business (VOSB) Joint-Venturing (JV) as a ready solution to the Small Business Spending requirements of the Stimulus Spending initiative.

CONCLUSION

The American Legion believes that the majority of funding allocated to veteran and military projects through this, as well as future spending bills, should be spent exclusively with veteran-owned firms. It was the veteran who volunteered to defend this nation, the veteran who continues to keep our democracy intact, and the veteran who deserves the right to participate in rebuilding America's infrastructure and other necessary projects. In this capacity, the veteran will continue to serve the people of the United States by building and growing strong, reliable, dependable businesses.

The mission of The American Legion's National Economic Commission is to take actions that affect the economic well being of veterans, including issues relating to veterans' employment, home loans, vocational rehabilitation, homelessness, and small business. Small business continues to be a primary job generator and a major trainer for American employees. The small firm workforce includes more young and entry-level workers than colleges and large businesses combined. It is vital that Veteran-Owned and Service-Disabled Veteran-Owned Businesses receive a fair and proportionate amount of Federal contracts so these veterans can build and maintain successful businesses while they contribute to this down economy. The American Legion reiterates the Small Business Administration's Office of Veterans' Business Development should be the lead agency to ensure that veterans returning from Iraq and Afghanistan are provided with Entrepreneurial Development Assistance.

We look forward to continue working with the committee to enhance entrepreneurship among America's veterans. The American Legion appreciates the opportunity to present this statement for the record.

Again, thank you Chairman Nye and Ranking Member Shock for allowing The American Legion to present our views on this very important issue.

THE UNITED STATES ASSOCIATION OF VETERANS IN BUSINESS (USAVETBIZ)**STATEMENT FOR THE RECORD****US CONGRESS HOUSE SMALL BUSINESS COMMITTEE
Subcommittee on Contracting and Technology****March 12, 2009*****"Ensuring Stimulus Contracts for Small and Veteran-owned Businesses"***

The great independent engine of commerce, creativity, job creation and entrepreneurial vitality that has been the mainstay of the Nation since our founding is now foundering. The Administration and the Congress are acting to bailout and bootstrap failed banks, corporate giants and underwrite the rescue of a grotesquely lax mortgage industry. All of this is well and good, but what about Small Business America - the truest "stimulus" component of the economy of the United States?

As the Federal government, via several lead Departments, undertakes the contract expenditure of hundreds of billions of dollars in work projects across the country, it is imperative that small business have maximum opportunity to do this work at all echelons of the contracting chain. And, to the greatest extent practicable, small businesses owned by military veterans (VOSB) should come first in these considerations. These economic and cultural times are challenging from Main Street to Wall Street and no group of small business entrepreneurs are more deserving of preference opportunity to do business with and for the United States of America than the men and women who have defended her - nobody.

It's time for the Congress to do the right thing. It's time to see the expansion of "Vets First" small business contracting as a mandatory consideration for all government agencies and to expand the "Veterans Enterprise Program" to include all qualified Veteran-Owned Small Businesses (VOSB) regardless of service-connected disability status. It's also important that Congress require the states to adopt similar procedures when expending federal funds on local contract projects. This would involve the wholesale revamp of current policies and procedures of the Department of Transportation (DOT) which exclude veterans in business.

Congressionally mandated goals for contracting with veterans in business are important, but no goal should have to supplant the inherent responsibility of the federal government for assisting, seeking out and doing business with military veteran small business owners wherever possible. This is particular true concerning the Department of Defense (DOD) and the Department of Veterans Affairs (VA).



In recent years the VA has achieved unparalleled participation of veterans in business in its contracting programs. Still, VA's contracting workforce is taxed to the max and it remains to be seen if the VA will be further compelled to contract out its construction and facilities repair business to another agency to manage. If this happens, will veterans come first on the plate of the Corps of Engineers contracting activities? And, what added administrative costs will the VA (the taxpayers) incur?

At DOD, given the different nature of what is procured, the matter of identifying significant numbers of qualified service-disabled veterans in business (SDVOSB) for competitive inclusion has been very problematic. There is no set-aside or preference consideration program for non service-disabled VOSB, other than as a secondary consideration at the VA, anywhere else in government. Among other cogent reasons, some of significant legal importance, the ability of the federal government to achieve the fullest participation of veterans in business in its contracting programs dictates that the program be open to all VOSB.

However inadvertent, the very title of this hearing misstates the federal reality. As it currently stands in federal procurement procedure one has to be a SDVOSB to get preference consideration. Non service-disabled VOSB need not apply.

USAVETBIZ recently completed a national survey of veteran-owned (VOSB) and service-disabled veteran-owned small businesses (SDVOSB) engaged in the federal marketplace. 96% percent of all responders supported expanding the program. It's time to end the opportunity divide among veterans who are service-disabled and those that are not, or for those who choose not to apply for disability recognition.

More and more the population of military veterans mirrors the diversity of the country. Veterans are made, not born. We are not torn asunder by race, background or gender. The V in the word Veteran does not stand for victim and to expand preference business consideration for all veterans-owned small business would significantly expand opportunity for thousands of minority and women veterans in the federal marketplace of today and the future.

New law is needed that clearly finds and declares that all military veterans by virtue of service and sacrifice on behalf of the people of the United States of America have earned and deserve preference and priority consideration in the award of government small business contracts and subcontracts. And exceptional effort should also be made to assist our most severely disabled veterans who come to aspire to self-employment and business ownership.

USAVETBIZ is a national non-profit membership trade Association dedicated to enhancing awareness of and opportunity for veterans in business in all channels of commerce, public and private. More information about USAVETBIZ is available at www.USAVETBIZ.org



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