

**SIZE DETERMINATIONS MADE BY DISTRICT
OFFICES**

Report Number: 7-27
Date Issued: June 27, 2007



U.S. Small Business Administration
Office Inspector General

Memorandum

To: Paul S. Hsu
Associate Administrator for Government
Contracting and Business Development

Date: June 27, 2007

Michael J. Pappas
Associate Administrator for Field Operations

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Audit Report on 8(a) Size Determinations Made by District Offices
Report No.

This report presents the results of our review of 8(a) size determinations made by the Small Business Administration's (SBA) district offices. Size determinations are a key control for ensuring that only small businesses are considered for Government preference contracts. However, recent reports continue to identify instances where large businesses received contracts intended for small businesses. For example, the Democratic Staff of the House Small Business Committee and the Government Accountability Office (GAO)¹ determined that contracts intended for small businesses were awarded to large businesses or organizations. Prior reviews by the Office of Inspector General (OIG) have also found that agencies are counting awards made to large firms towards their small business procurement goals.

The OIG reported this issue as a major management challenge facing SBA because large companies continue to improperly obtain small business contracts.² In July 2006, the Inspector General also testified that flaws in the procurement process have allowed large companies to receive small business awards and agencies to receive small business credit for contracts performed by large businesses. For example, a recent size determination by SBA allowed a large business to receive a \$94 million 8(a) contract.

¹ *CONTRACT MANAGEMENT: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size*, GAO-03-704T, May 7, 2003.

² *FY 2007 Report on the Most Serious Management Challenges Facing the Small Business Administration*, SBA OIG, October 16, 2006.

The objective of our audit was to determine whether district offices were properly applying SBA's size standards when evaluating whether 8(a) companies are small for individual procurements. To address our objective we surveyed all 63 SBA district offices that perform size determinations. We also conducted follow-up interviews with district office managers as needed to clarify responses. The survey questions are provided in Appendix I. We conducted our audit from June 2006 to May 2007 in accordance with *Government Auditing Standards* prescribed by the Comptroller General of the United States. A more detailed description of our audit scope and methodology is provided in Appendix II.

BACKGROUND

The purpose of the 8(a) program is to provide business development assistance to eligible small disadvantaged businesses to help them compete in the American economy. Once accepted into the 8(a) program, businesses can receive sole-source contracts specifically designated for small businesses.

When a procuring agency nominates a company for an 8(a) contract, SBA's district offices must determine whether the company is small for the offered procurement based on the size standards established for the industry in which the company is engaged.³ The size standards define the maximum size that a concern, together with all of its affiliates, can be to qualify for 8(a) contracts, and are almost always determined by the maximum number of employees or revenues allowed by the industry's North American Industry Classification System (NAICS) code.

To determine whether firms are eligible for the 8(a) program and to monitor and service 8(a) participants, district offices rely, in part, on information in SBA's Servicing and Contracts System (SACS). SACS captures total revenues and number of employees reported by 8(a) companies on their SBA Form 1450 during their annual reviews. In March 2004, we reported that SACS did not adequately meet the data requirements for the 8(a) and Small Disadvantaged Business (SDB) Programs, and required significant manual processing.⁴

RESULTS IN BRIEF

The district offices surveyed reported that they generally did not follow SBA regulations when determining whether companies qualified as small for 8(a) procurements. Under SBA regulations, size determinations must be based on

³ 8(a) companies certified as small businesses will need to meet additional criteria to be considered small for Government preference contracts.

⁴ *SACS/MEDCOR: Ineffective and Inefficient*, OIG Report No. 4-15, March 9, 2004.

payroll records from the preceding 12 months for employee-based size standards, and on tax returns for revenue-based standards. However, 68 percent of the district offices indicated they relied on data reported in either SACS or in annual reviews to determine the size of companies under employee-based standards because it was too time consuming to adhere to the process prescribed by the regulations.

District offices also did not adhere to regulations when making revenue-based determinations. Eighty-three percent of the district offices reported using tax returns only 62 percent of the time or less and the remaining 17 percent indicated they never used tax returns. District offices relied on financial statements instead of tax returns as required by regulations. As a result, district offices may have relied on incomplete revenue data to determine size. Approximately 28 percent of district offices were also improperly calculating revenues for companies that were in business for less than three years. Instead of averaging the concern's receipts based on the method specified in SBA regulations, district offices relied on revenue information in SACS that did not accurately estimate average revenues.

In response to our survey results, on January 11, 2007, SBA developed a strategic plan to ensure district offices perform size determinations in accordance with SBA regulations. The OIG found the plan to be responsive to the above concerns and instrumental in resolving discrepancies in the way SBA determines the size of 8(a) companies for individual procurements.

RESULTS

District Offices Did Not Use Payroll Information When Determining the Size of Companies Subject to Employee-Based Size Standards

13 CFR 121.106 requires district offices to determine the size of companies subject to employee-based size standards based on the average number of employees on the company's payroll in each pay period for the preceding 12 calendar months. Despite this requirement, 43 — or 68 percent — of the 63 district offices surveyed indicated that they did not calculate the average number of employees or rely on payroll records to make size determinations. The remaining 32 percent of the district offices estimated that they used payroll records 78 percent of the time in making their size determinations.

In determining a company's size, district offices generally relied on employee levels reported either in SBA's 8(a) annual reviews or in SACS. However, the annual reviews and SACS data are not representative of a company's actual size because they provide a snapshot of a company's size at a specific point in time.

By contrast, SBA regulations require that size determinations be based on the average number of employees for the year.

District office officials stated they relied on annual reviews and SACS because obtaining and reviewing payroll records is time consuming, and size determinations must be made within 30 days of receiving the participant's self-certification. Further, according to district officials, many 8(a) companies use manual payroll systems making it more difficult to determine the average number of individuals employed by the company for the year. Therefore, using the SACS database or the results of annual 8(a) reviews saved time and allowed size determinations to be made within SBA-imposed time limits.

Since calculating average numbers of employees can be time-consuming, especially with reduced levels of staffing in the district offices, SBA will need to re-evaluate whether other methods of determining a company's size are more practical. For example, SBA may want to consider using IRS Form W-3 (Transmittal of Wage and Tax Statement), which can simplify size determinations for employee-based NAICS codes. W-3 forms are used by employers to summarize information on W-2 forms for their employees at year's end.

District Offices Did Not Use Tax Returns When Calculating Annual Receipts of Companies Subject to Revenue-Based Size Standards

According to 13 CFR 121.104 , the company's Federal income tax return and any amendments filed with the Internal Revenue Service (IRS) on or before the date of self-certification must be used to determine the size status of a business concern that is subject to SBA's revenue-based size standards. Despite this requirement, 83 percent of the district offices estimated they used tax returns 62 percent of the time or less to calculate the size of companies with revenue-based NAICS codes. The remaining 17 percent of the district offices indicated they never used tax returns when calculating the size of company revenues. Instead, SBA employees used SACS, company financial records, and annual review notes in the participant's file to estimate revenues.

District officials explained that they relied on financial statements because frequently tax returns were not available or were not received in a timely manner due to IRS-granted extensions of tax-reporting deadlines. When a company has not filed a Federal income tax return for the fiscal year that must be included in the period of measurement, SBA will calculate the concern's annual receipts for that year using any other available information. This information can include the company's accounting records, audited financial statements, or information contained in an affidavit by a person with personal knowledge of the facts. SBA employees who never used tax returns to determine company revenues stated that

they relied on the company's financial statements, SACS data, and other documentation. For example, one district official stated he preferred using CPA-prepared financial statements because they are based on accrual accounting methods and often audited, compared to IRS tax returns that are generally prepared using cash basis accounting methods.

By using SACS, financial statements, or other sources that do not include tax return information, the district offices could be making erroneous size determinations. In 1997, SBA started using tax returns shortly after we recommended IRS verification of income for all size determinations.⁵ Because tax returns are not always available, SBA should consider requiring that district offices obtain an 8(a) company's tax estimate (IRS Form 4868), when the company has not filed a Federal income tax return.

District Offices Were Incorrectly Reporting Revenues for Companies That Were in Business for Less Than 3 Years

Approximately 28 percent of the district offices were also improperly calculating revenues for companies that were in business for less than three years. 13 CFR 121.104 requires that annual receipts of a concern that has been in business for less than three complete years be determined by averaging the concern's receipts during the period over 52 weeks.⁶

However, district offices reported that they were using other methods or incomplete dates to calculate partial year revenues. District offices responded that they generally relied on average revenues reported in the SACS database. SACS uses the straight-line method of calculating average revenues (total revenues divided evenly over three years) even if the concern has not been in business for the three full years. For example, based on the SACS database, the average revenue for one 8(a) company was \$4,842,220 (\$14,526,661 divided by 3), which fell below the NAICS size threshold of \$6 million. However, a subsequent size determination made by SBA's Office of Size Standards using the method prescribed by regulations concluded that the 8(a) company's revenues were over \$6 million, making the company other than small. The latter calculation properly reflected that the 8(a) company had been in business for 112 weeks with total revenues of \$13,884,015.

Based on survey responses, district offices may not always be aware of the specific calculation required for determining the size of companies that have been in business for less than three years. Many district offices responded that they

⁵ Fraud Detection in SBA Programs, OIG Report No. 97-11-01, November 1, 1997.

⁶ This is achieved by dividing the total receipts for the most recently completed fiscal or calendar year that the concern has been in business by the number of weeks in business, multiplied by 52.

calculate partial year revenues as a full year. As a result, ineligible companies may be receiving contracts meant for small businesses.

For example, prior OIG reviews determined that at least three ineligible companies received 8(a) sole source contracts that could have been awarded to eligible 8(a) companies in 2005 and 2006 because district offices used SACS data when making size determinations. Although all three companies did not meet applicable NAICS code requirements for the awards they received, SBA determined one company was small for a \$94.5 million contract, the second company⁷ was small for a \$1.7 million contract and the third company⁸ was small for a \$1.5 million contract. SBA management has contracted with an 8(a) company to replace the SACS database. SBA may need to consider automating the size determination process by populating the database with size information that adheres to SBA regulations.

CORRECTIVE ACTIONS TAKEN BY MANAGEMENT

On October 10, 2006, we discussed our audit results with the former Associate Deputy Administrator for the Office of Government Contracting and Business Development and the Associate Administrator for Field Operations. To address the audit findings, these officials told us they finalized a five-point strategic plan to ensure district office employees calculate company size in accordance with SBA regulations. Steps planned include issuing an information notice and training district office staff on the proper methods for making size determinations, performing quality assurance reviews to ensure size determinations are made in accordance with SBA regulations, and establishing developmental plans for SBA employees who perform size determinations that include rotating staff. A copy of SBA's strategic plan is provided in Appendix IV. District offices also reported that they have improved the quality of the size determinations by:

- Performing a second analysis for companies that are close to the size limitation; and
- Forwarding questionable cases to regional administrators for a formal opinion.

⁷ An audit found that a dredging company falsely self-certified itself as small in order to receive an 8(a) sole source contract. Although SBA was aware of performance stipulation in the NAICS code, SBA did not ensure that the company was eligible for the 8(a) contract.

⁸ OIG Management Advisory Report No. 6-27, dated September 6, 2006, found that the company did not meet requirements mandated by the contract's size standard and inaccurately certified it was small when offering its proposal to the procuring agency.

Although SBA's strategic plan should improve how size determinations are performed, SBA should consider ways of strengthening the process to compensate for staffing constraints in the district offices. For example, SBA could require district offices to obtain an 8(a) company's tax estimate when the company has not filed a Federal income tax return.

Further, SBA is in the process of revising its 8(a) Program regulations to simplify employee-based size determinations. The proposed rule would require SBA to use employment forms, such as an IRS Form W-3 to determine a business concern's average number of employees. The proposed rule would require SBA to use the average of three consecutive years of employment forms instead of one year's worth of payroll records. Although the rule has not yet been finalized, SBA has directed its field offices to use the W-3s to make employee-based size determinations.

RECOMMENDATIONS

We recommend that the Associate Administrator for Government Contracting and Business Development:

1. Issue a proposed rule that simplifies the method and data used to calculate a business concern's average number of employees, such as using IRS Form W-3 (Transmittal of Wage and Tax Statement) or other forms providing employment information to a government agency.
2. Implement a policy that requires the district offices to obtain a certified statement from the 8(a) company's accountant, financial officer, or similar official as to its revenues, along with financial statement data supporting the certification, when a company has not filed a Federal income tax return to determine the size of the 8(a) company for revenue-based NAICS code contracts. Also, if an 8(a) company has requested an extension for filing its Federal income taxes, require the district office to obtain the company's tax estimate (IRS Form 4868) along with supporting information on the tax estimate.

We recommend that the Associate Administrator for Field Operations:

3. Ensure that district office Quality Service Reviews include an examination of a sample of size determinations to ensure district offices are properly performing them.

AGENCY COMMENTS AND OIG RESPONSE

The Associate Administrator for Government Contracting and Business Development concurred with our first recommendation, noting that SBA has been evaluating this approach for determining the employee size of a business concern and believes such a change is beneficial. The Associate Administrator also concurred with our second recommendation, noting that the new procedures will ensure consistency in how SBA reviews the revenue size of a company. The Associate Administrator further noted that training has been provided on size determinations, and that future training will include an in-depth discussion of size determinations when tax returns and other financial data are not available.

The Associate Administrator for Field Operations concurred with our third recommendation, noting that effective in fiscal year 2008, SBA will incorporate into district office Quality Service Reviews an examination of sampled size determinations to ensure district offices are properly performing them.

We believe that management's comments are responsive to all three of our recommendations.

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We appreciate the courtesies and cooperation of the Small Business Administration representatives during this audit. If you have any questions concerning this report, please call Jeff Brindle, Acting Director, Business Development Programs Group, at (202) 205- [Exemption 2].

APPENDIX I. SIZE DETERMINATION QUESTIONNAIRE

Sixty-three district offices were surveyed in order to understand how each determines the size of 8(a) companies applying for a Government preference contract. Below are the survey questions:

1. When determining whether an 8(a) company is small for the purpose of receiving a specific 8(a) contract and the NAICS code is revenue based, what source you use in making the calculation. For each bullet, note the percentage of time this method is used.

- Revenues obtained directly from the financial statements
- Revenues obtained directly from the tax returns
- Revenues obtained from SACS MEDCOR
- Revenues initially obtained from the financial statements and subsequently obtained from tax returns
- Revenues initially obtained from SACS MEDCOR and subsequently obtained from tax returns
- Revenues obtained from other source(s)

2. When determining whether an 8(a) company is small for the purpose of receiving a specific 8(a) contract and the NAICS code is employee-based, what source do you use in making the calculation?

- Number of employees reported on the last annual review
- Number of employees obtained from SACS MEDCOR
- Number of employees obtained from the last 12 months of payroll records
- Number of employees initially obtained by using the number reported on the last annual review and subsequently obtained from the last 12 months payroll records
- Employees obtained from other source(s)

3. If revenue based calculations are re-done using data from other sources (subsequent data is needed to make determination) when the company is close to the NAICS limit, how close to the NAICS limit must a company be for the second calculation to be done? (Select one)

- Less than 1%
- 1 – 5 %
- 5 - 10%
- More than 10% (specify)

APPENDIX I. SIZE DETERMINATION QUESTIONNAIRE

4. If employee-based calculations are re-done using data from other sources (subsequent data is needed to make determination) when the company is close to the NAICS limit, how close to the NAICS limit must a company be for the second calculation to be done? (Select one)

- Less than 1%
- 1 – 5 %
- 5 - 10%
- More than 10% (specify)

5. When determining whether an 8(a) company is small for purposes of receiving a specific 8(a) contract and the NAICS code is revenue-based, how do you account for the time periods (partial years) if the business has been in business less than three years or some of the reporting periods are “short” years? (Select one)

- Partial/short years are calculated as a fraction
- All reporting periods are of equal weight, no matter how long/short they are (e.g. nine months counted as a full year)
- Other (specify)

APPENDIX II. SCOPE AND METHODOLOGY

We reviewed the Small Business Act, the Code of Federal Regulations, Standard Operating Procedure 80 05 3, and the SACS Desktop Reference Manual to determine SBA requirements for making size determinations and whether SACS can be used to perform size determinations. We interviewed SBA management in order to better understand how SACS is currently used in calculating company size for small business contract awards.

We surveyed all 63 district offices in order to understand whether additional offices were making size determinations in error and whether there is sufficient evidence to warrant an advisory memo. We requested each office report the different methods they used to make the determinations and the percentage of the time they used each method. We surveyed the district offices to understand what additional steps, if any, they take that can improve the quality of the size determinations. Follow-up interviews were conducted as necessary to obtain clarification of survey responses.

Audit work was conducted in Washington, D.C. from June 2006 to May 2007 in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States.

APPENDIX III. AUDIT RESULTS

The chart below summarizes responses to the size determination questionnaire (See Appendix II) compared to criteria for making size determinations for a particular Government preference contract.

SIZE DETERMINATION CRITERIA	DISTRICT OFFICE DISCREPANCIES
<p data-bbox="293 470 727 499">Number of Employees Calculation</p> <p data-bbox="293 531 821 804">According to 13 CFR 121.106, <i>How does SBA calculate number of employees?</i>, in determining a concern's number of employees, SBA counts all individuals employed on a full-time, part-time, or other basis. Where the size standard is number of employees, the method for determining a concern's size includes the following principles:</p> <p data-bbox="293 840 821 1014">(1) The average number of employees of the concern is used (including the employees of its domestic and foreign affiliates) based upon numbers of employees for each of the pay periods for the preceding completed 12 calendar months.</p> <p data-bbox="293 1050 802 1108">(2) Part-time and temporary employees are counted the same as full-time employees.</p> <p data-bbox="293 1144 821 1262">(3) If a concern has not been in business for 12 months, the average number of employees is used for each of the pay periods during which it has been in business.</p>	<p data-bbox="854 531 1383 1045">When calculating size for employee based NAICS codes, 68% of the district offices do not determine whether a company is small based upon the number of employees for each of the pay periods for the preceding 12 completed calendar months. The remaining 32% of the district offices estimate that they use payroll records 78% of the time in making their determination. The other methods (i.e. SACS, annual review results) used do not provide the average number of employees per pay period over the preceding 12 completed months. By using SACS, the last annual review or some other incorrect method, the district offices are only calculating the number of employees at one point in time.</p>

APPENDIX III. AUDIT RESULTS

SIZE DETERMINATION CRITERIA	DISTRICT OFFICE DISCREPANCIES
<p>Revenue Calculation – Full 3 years of Tax Returns</p> <p>According to 13 CFR 121.104, <i>How does SBA calculate annual receipts?</i>,</p> <p>(1) The Federal income tax return and any amendments filed with the IRS on or before the date of self-certification must be used to determine the size status of a concern. SBA will not use tax returns or amendments filed with the IRS after the initiation of a size determination and</p> <p>(2) When a concern has not filed a Federal income tax return with the IRS for a fiscal year, which must be included in the period of measurement, SBA will calculate the concern's annual receipts for that year using any other available information, such as the concern's regular books of account, audited financial statements, or information contained in an affidavit by a person with personal knowledge of the facts.</p>	<p>17% of the district offices do not use tax returns when calculating company size for revenue based NAICS codes. The remaining 83% of the district offices estimate that they use tax returns 62% of the time they calculate size for revenue based NAICS codes. By using SACS, financial statements, or other sources that do not include tax return information, the district offices could be making erroneous size determinations. The CFR requires tax returns be used.</p>
<p>Revenue Calculation – Less than 3 Years of Tax Returns</p> <p>According to 13 CFR 121.104, <i>How does SBA calculate annual receipts?</i>,</p> <p>(2) Annual receipts of a concern which has been in business for less than 3 complete fiscal years means the total receipts for the period the concern has been in business divided by the number of weeks in business, multiplied by 52.</p> <p>(3) Where a concern has been in business 3 or more complete fiscal years, but has a short year as one of the years within its period of measurement, annual receipts means the total receipts for the short year and the 2 full fiscal years divided by the total number of weeks in the short year and the 2 full fiscal years, multiplied by 52.</p>	<p>When performing revenue based size calculations, 28% of the district offices are incorrectly reporting partial/short years the same as a full year or using some other way. The company's revenues will not be correctly reflected, which may result in an erroneous determination.</p>

APPENDIX IV. SBA MANAGEMENT'S 5-POINT PLAN



DATE: October 10, 2006

TO: Gregory L. Hall
Auditor-in-Charge, SBA-OIG [Exemption 6]

FROM: Anthony Martoccia
Associate Deputy Administrator
Office of Government Contracting
and Business Development

Michael J. Pappas [Exemption 6]
Associate Administrator
Office of Field Operations

SUBJECT: Size Determination Audit

In response to the recommendation that the Associate Administrator for Field Operations, in coordination with the Office of Government Contracting and Business Development, develop and implement a strategic plan to ensure district office employees calculate company size in accordance with SBA regulations, we have developed the following 5-point plan. We understand this plan will be included in your draft report.

- **Information Notice** – The Office of Field Operations will prepare a joint Information Notice from the AA/OFO and AA/BD to the field reiterating SOP requirements which govern size determinations/standards. The Notice will also provide citations from 13 CFR 121.
- **Training** – The Office of Business Development will develop a schedule for additional ReadyTalk training sessions for FY 07.
- **OSRs** – The Office of Government Contracting will work jointly with the Office of Field Operations to develop a checklist for size reviews (i.e. conduct review; apply requirements; provide complete and proper data such as whether a firm is a wholly-owned subsidiary, majority-owned; has mentor-protégé agreements; and other required data). A QSR team member will review size determinations/standards on site visits.

APPENDIX IV. SBA MANAGEMENT'S 5-POINT PLAN

- **Training Curriculum** - Develop training curriculum for 8(a) field staff (raised as one of the 5 recurring issues at the July/August 2006 BD training conference and again, at the Management Retreat in mid-September 2006). We would like to establish a team that would include a representative(s) from the Offices of: 1) Human Capital Management; 2) Government Contracting; 3) Business Development; 4) Field Operations; and 5) District Office(s) to work on the development of this curriculum.
- **Career Development Plan (CDP)** – Request District Directors to update their employees' CDPs which include designation of a training coordinator in his/her office. As noted in the Information Notice No. 3000-2547, dated February 14, 2006, the Office of Human Capital Management (OCHM) will track CDPs to determine where common developmental needs exist and will develop methods to address those needs. The field training coordinator will assist OCHM in carrying out employee development operations.

We hope this plan will satisfy all parties involved.

[Exemption 6] Cal Jenkins
Deputy ADA/GCBD
Luz Hopewell
Associate Administrator/BD

APPENDIX IV. SBA MANAGEMENT'S 5-POINT PLAN



DATE: JAN 11 2007

TO: Gregory L. Hall
Auditor-in-Charge, SBA-OIG

FROM: Anthony Martoccia [Exemption 6]
Associate Administrator
Office of Government Contracting
and Business Development
[Exemption 6]
Michael J. Pappas
Associate Administrator
Office of Field Operations

SUBJECT: Size Determination Audit

As a follow up to the October 10, 2006 memorandum (copy attached) of our 5-point plan to ensure district office employees calculate company size in accordance with SBA regulations, we wish to provide you with the following update on the status of our milestones.

Milestone	Status
1. Information Notice	In progress. <u>Initiate</u> clearance within next month.
2. Training	FY 2007 Schedule is attached.
3. QSRs - OFO/GCBD will develop checklist for size reviews for use in conducting QSRs	In progress.
4. Training Curriculum	In progress. Need for coordination with other offices (i.e. OHCM; GC; BD; district offices).
5. Career Development Plan (CDP)	In progress. Working with district offices to update CDPs.

Attachments

cc: Cal Jenkins
Deputy Associate Administrator/GCBD

Luz Hopewell
Office of Business Development

APPENDIX V. SBA MANAGEMENT'S RESPONSE



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Date: June 14, 2007

To: Debra S. Ritt
Assistant Inspector General for Auditing

[Exemption 6]

Thru: Paul S. Hsu
Associate Administrator for
Government Contracting and Business Development

[Exemption 6]

From: Arthur E. Collin
Associate Administrator for Government Contracting

[Exemption 6]
Joseph P. Loddo
Associate Administrator for Business Development

Subject: Response to Draft Management Agenda on Size Determinations
Made by District Offices

CC: Calvin Jenkins, Deputy Associate Administrator for
Government Contracting and Business Development

The Office Business Development is pleased to provide a response to the draft management advisory audit entitled "Size Determinations Made by District Offices," dated April 7, 2007.

Thank you for your support throughout this process. Please address any questions you have on this matter to Jacqui West at (202) 205- [Exemption 2]

Attachments

APPENDIX V. SBA MANAGEMENT'S RESPONSE

ATTACHMENT

Response to Draft IG Audit Recommendations

SBA Program: Office of Business Development

Report Title, Number: Size Determinations Made by District Offices

Report Issue Date: April 7, 2007

Recommendation 1

Issue a proposed rule that simplifies the method and data used to calculate a business concern's average number of employees, such as using IRS Form W-3 (Transmittal of Wage and Tax Statement) or other forms providing employment information to a government agency.

SBA Response: The Associate Administrator for Government Contracting and Business Development agrees with this recommendation. SBA has been evaluating this approach for determining the employee size of a business concern and believes such a change is beneficial to small businesses and to SBA officials involved with size determinations.

Target Date for Final Action: July 30, 2007.

APPENDIX V. SBA MANAGEMENT'S RESPONSE

ATTACHMENT

Response to Draft IG Audit Recommendations

SBA Program: Office of Business Development

Report Title, Number: Size Determinations Made by District Offices

Report Issue Date: April 7, 2007

Recommendation 2

Implement a policy that requires the district offices to obtain a certified statement from the 8(a) company's accountant, financial officer, or similar official as to its revenues, along with supporting financial information, when a company has not filed a Federal income tax return to determine the size of the 8(a) company for revenue-based NAICS code contracts. Also, if an 8(a) company has requested an extension for filing its Federal income taxes, require the district office to obtain the company's tax estimate (IRS Form 4868) along with supporting information on the tax estimate.

SBA Response: The Associate Administrator for Government Contracting and Business Development agrees with this recommendation. These procedures are followed by the Government Contracting Area Office size specialists. They will ensure consistency in how SBA reviews the revenue size of a company. The Office of Business Development provided training on size determinations on July 25, 2006 and will provide additional training on June 27, 2007. This training on June 27th will include an in-depth discussion of size determinations when tax returns and other financial data are not available.

Target Date for Final Action: July 30, 2007.

APPENDIX V. SBA MANAGEMENT'S RESPONSE



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: June 1, 2007

TO: Debra S. Ritt
Assistant Inspector General for Auditing
[Exemption 6]

FROM: Michael J. Pappas
Associate Administrator
Office of Field Operations

SUBJECT: Response to Recommendation Outlined in DRAFT Report titled "Size Determinations Made By District Offices" – Project No. 6025

On behalf of the Office of Field Operations, I am pleased to provide you with our response to the recommendation outlined in the subject DRAFT report issued on April 17, 2007.

Recommendation:

Incorporate into district office Quality Service Reviews an examination of samples of size determinations to ensure district offices are properly performing them.

Response:

We concur with your recommendation and effective FY 2008, we will incorporate into district office Quality Service Reviews an examination of samples of size determinations to ensure district offices are properly performing them.

At this time, we do not have any material comments on the report. We appreciate your support throughout the process. Please feel free to call upon me at any time. If you or members of your staff have additional questions, you may also call Romey Lucero of my staff. She can be reached on (202) 205-4 [Exemption 2]

cc: Dr. Paul S. Hsu, AA/GC/BD
Calvin Jenkins, DAA/GC/BD
Luz Hopewell, Director/BD

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