



Highlights of [GAO-04-381](#), a report to Committee on Small Business, House of Representatives

## Why GAO Did This Study

More small businesses are turning to subcontracting as a way to participate in the federal government's \$250 billion procurement program. DOD, accounting for about two-thirds of federal procurements, has a critical role in providing opportunities to small businesses through subcontracting programs such as the Test Program for Negotiation of Comprehensive Small Business Subcontracting Plans (Test Program). In addition, Congress raised concerns about the potential for small businesses to lose opportunities to firms performing work outside of the United States.

GAO was asked to review (1) DOD's assessment of the Test Program's effectiveness, (2) the performance of contractors participating in the Test Program, (3) the Defense Contract Management Agency's (DCMA) oversight of contractors' small business subcontracting efforts, and (4) the extent and reasons contractors are subcontracting with businesses performing outside the U.S.

## What GAO Recommends

GAO recommends that the Secretary of Defense (1) establish metrics to assess the overall effectiveness of the Test Program and (2) establish procedures to improve the quality of the information in its database of subcontracts to firms performing outside the U.S. DOD concurred with GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-381](http://www.gao.gov/cgi-bin/getrpt?GAO-04-381).

To view the full product, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-4841 or [cooperd@gao.gov](mailto:cooperd@gao.gov).

## CONTRACT MANAGEMENT

# DOD Needs Measures for Small Business Subcontracting Program and Better Data on Foreign Subcontracts

## What GAO Found

In order to foster small business participation in subcontracting, government contractors with larger dollar value contracts are required to have subcontracting plans that establish goals for contractors to award small businesses a percentage of subcontract dollars. DOD created the Test Program to provide more small business opportunities and reduce the administrative burden for contractors in managing their subcontracting programs. Many of DOD's largest contractors participate in the program.

Although the Test Program was started more than 12 years ago, DOD has yet to establish metrics to evaluate the program's results and effectiveness. As a result, there is no systematic way of determining whether the program is meeting its intended objectives and whether further changes need to be made. DOD contracted for an assessment of the Test Program in 2002, but the results of the assessment are considered preliminary and, therefore, have not been reported. DOD is required to report the results of the Test Program in 2005, when the program is set to expire.

DOD contractors participating in the Test Program have experienced mixed success in meeting their various small business subcontracting goals. DOD and contractor officials noted that a changing acquisition environment has added to their challenge in meeting small business goals. Two of the major challenges they identified include (1) the increased breadth, scope, and complexity of DOD prime contracts that require, among other things, teaming arrangements with other, typically large contractors and (2) prime contractors' strategic sourcing decisions to leverage their purchasing power by reducing the number of their suppliers including small businesses.

DCMA plays a key role in overseeing the performance of contractors in the Test Program and has made significant changes to its policy and guidance. The revised approach is designed to better monitor contractors' efforts, provide more consistency in assessing contractor performance, and hold contractors accountable for achieving their subcontracting goals. DCMA is still in the process of revamping its oversight activities.

GAO could not assess the full extent contractors used firms performing outside the U.S. because of data reliability concerns. Contractors in GAO's review reported several reasons for awarding subcontracts to firms performing outside the U.S., such as fulfilling commitments included in offset agreements or executing teaming arrangements for major defense programs. Without accurate and complete information on subcontracts to firms performing outside the U.S., DOD cannot make informed decisions on industrial base issues.