FULL COMMITTEE FIELD HEARING ON PARTICIPATION OF SMALL BUSINESS IN HURRICANE KATRINA RECOVERY CONTRACTS

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FULL COMMITTEE FIELD HEARING ON PARTICIPATION OF SMALL BUSINESS IN HURRICANE KATRINA RECOVERY CONTRACTS

THURSDAY, APRIL 12, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
New Orleans, LA

The Committee met, pursuant to call, at 2:00 p.m., at the Louisiana Supreme Court, 400 Royal Street, New Orleans, Louisiana, Hon. Nydia M. Velázquez [Chairwoman of the Committee] Presiding.

Present: Representatives Velázquez, Jefferson, and Westmoreland.

Also Present: Representative Melancon.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

ChairwomanVELÁZQUEZ. The House Small Business Committee is called to order. First, let me thank everyone for being here today. It has been 18 months since this nation witnessed one of our country's largest natural disasters, Hurricane Katrina.

We have never seen a more resilient community, people coming together to rebuild their neighborhoods on these vibrant streets. This is an important hearing to hold in a city whose very foundation is built on small business and the entrepreneurial spirit.

There is no question that we still have a long way to go in repairing and rebuilding New Orleans. And the Federal Government must be a partner in this process. This path for many of these entrepreneurs has been delayed by massive backlogs, paperwork, and lengthy application processes.

Last month, this committee passed the Recovery Act of 2007 creating a grant program to help local businesses that were declined a disaster loan. It also addresses the Federal Government taking Road Home grants away from entrepreneurs ensuring entrepreneurs will finally have the assistance they need to get their businesses back on track.

The focus of today's hearing is to make sure that as we move forward, small businesses are not left out of the rebuilding process. Early indications are that the Federal Government is not where it should be.

Of the contracts that have been awarded, so far only 7 percent, and I repeat, 7 percent have gone to local entrepreneurs. And for

those small businesses fortunate enough to get work, over half of these contracts were less than $100,000.

This is clearly unacceptable and undervalues the contributions and capabilities of these local firms. Sadly, the outlook has been even worse for minority entrepreneurs who have been more underrepresented in the rebuilding process receiving only 4 percent of the contracts.

Given the significant role minority entrepreneurs play, particularly here in Louisiana, it only makes sense that minority businesses are at the center of rebuilding their own communities.

To begin addressing this problem, the committee has passed H.R. 1468, the Disadvantage Business Disaster Eligibility Act introduced by representative William Jefferson, giving minority contractors more flexibility as they recover from Hurricane Katrina.

This is a first step, but by no means an end to when it comes to this committee work to meet the needs of the minority business community.

Shortly after Katrina hit, President Bush stood just a few blocks from here and said, and I quote, ″As all of us saw on television, there is also some deep persistent poverty in this region as well. We have a duty to confront this poverty with bold action. When the streets are rebuilt, there should be many new businesses including minority-owned businesses along those streets,″ end of quote.

If we fail to follow up on this commitment, it will be nothing more than empty rhetoric, which is why today we will hear from the heads of six agencies who represent over 95 percent of the total spending as part of the Katrina relief effort. We will also hear from small businesses about their experiences in securing Federal contracts in the recovery process. It is the goal of the committee to examine the efforts of the agencies represented and to ensure that local entrepreneurs are given adequate opportunities for Federal work.

More than 110,000 small businesses were destroyed or severely impacted by Hurricane Katrina. As we all know, the impact was enormous destroying houses, businesses, critical infrastructure adorning this historic city.

Clearly it demands a response of the same proportion. That includes doing everything possible to ensure that local small businesses have the opportunity to rebuild their own communities and the Gulf Coast economy.

Many small businesses are willing and able to perform these contracts. They are not asking for handouts here. The truth is that these local firms know this area and they know what it needs to get it back on track.

It is important to acknowledge that we can stimulate the economy in small business growth by strategically using debt revitalization process of this city.

For the past year and a half, we have seen a lack of action from our Federal Government. Today's hearing is not going to be a one-time event.

The agencies that are present here today will be expected to live up to their commitments and responsibilities. This is not a matter of coming here and saying one thing and then leaving and doing another.

We will continue to hold these agencies accountable for ensuring local small businesses are included in the rebuilding of this valuable community.

I thank you, and I look forward to hearing the testimony of today's witnesses.

And I now recognize Congress Member Westmoreland, ranking member of the subcommittee on regulations and health and also his feeling toward Ranking Member Steve Chabot.

OPENING STATEMENT OF MR. WESTOMRELAND

Mr.WESTMORELAND. Thank you, Madam Chairwoman, and thank you for holding this important hearing today to discuss the participation of small businesses in the Hurricane Katrina recovery effort.

It's my honor to be here on behalf of Ranking Member Chabot. I sincerely appreciate the opportunity to come to this great City of New Orleans as I have many times before, but this time to examine the topic of a devastating effect that happened here in 2005.

As we have all seen and heard, the Gulf Coast region was absolutely devastated by this unprecedented storm that hit here in 2005. These disasters will long be remembered for disrupting families, changing and ending lives, and enforcing Americans to rethink our vulnerability to Mother Nature's wrath.

Over 1,800 lives lost and countless billions of property and infrastructure losses. Nobody can deny that this natural disaster will forever change our assumptions of what we should be ready for when disaster strikes.

We will never forget these images, but today we want to focus on something bigger and decidedly better that has come from this tragedy. The inevitable American spirit to take the hand that it is given and make it into something greater.

Immediately following the hurricanes, countless Americans offered charitable assistance to the Gulf Coast region sending funds, food, and necessities and in many cases themselves in order to help the survivors begin rebuilding their communities and their lives.

American small businesses have played an integral part in these events. Small mom and pop shops ship their wares to the areas as part of the massive outpouring of charity.

Small business owners gave their employees time off to travel to the area and assist in the clean up. And donated millions of dollars in relief to the aid and to the American Red Cross and numerous other charitable organizations.

Small businesses can and will have a major impact in the rebuilding effort, as well through the Federal contracting system. The supreme goal of the infrastructure and reconstruction in this area is to rebuild this city and the entire Gulf Coast as quickly and efficiently as possible in order to provide these citizens with a safe and stable home to live in, to have places to go to work and to worship and to get their children back in local schools.

Because of the size and scope of this reconstruction, there are many advantages for the Federal Government to seek out opportunities to work with the small businesses.

For example, their ability to innovate and find new niches that their larger counterparts cannot allow the flexibility in addressing these problems.

Additionally and perhaps more importantly, Madam Chairwoman, small businesses are job creators. Awarding contracts to exiting and new local small businesses invigorates the local economy providing jobs for displaced New Orleans, income and potentially health benefits for their families and a renewed sense of stability and community that has made this area such a strong contributor to our nation's prosperity in the past.

Historically, small businesses in the U.S. has received a share of Federal procurement dollars, not quite in the size that is relatively important in the U.S. economy.

While 99.7 percent of all employer firms are small, they receive about 23 percent of direct Federal procurements and close to 40 percent in subcontracting dollars. The Federal Government must do a better job to ensure that the Federal marketplace is open to any and all companies that can do the task at hand. Of course, that includes our nation's small business community.

Madam Chairwoman, I want to thank you again for holding this hearing. I want to thank Congressman Jefferson and his efforts towards this relief and reconstruction, and I look forward to hearing from our distinguished panel today in working with you and others to address this important issue.

And Madam Chairwoman, I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Thank you. And now I recognize the member of the Small Business Committee Mr. William Jefferson and also - this is your district, right?

Mr.JEFFERSON. Yes, ma'am.

ChairwomanVELÁZQUEZ. Mr. Jefferson has been very helpful in providing legislative alternatives and actions in Congress to help provide relief for small businesses in this area, particularly minority businesses.

OPENING STATEMENT OF MR. JEFFERSON

Mr. Jefferson, you are recognized.

Mr.JEFFERSON. Thank you, Madam Chairlady. I want to welcome you to our city and to our region. And to thank you for bringing the Small Business Committee here. I want to thank Mr. Westmoreland. I understand it's not his first trip here. He's come before, just after the storm and he's been deeply interested in this area as well. So I thank him again for his return and the committee for its visit. I—we often say that the overarching question here with respect to our recovery is recovery by whom; that is to say—I'm sorry, recovery for whom; that is to say everyone who was here before the storm, is this recovery going to be for them, for all of them and not just for a few who were left here on high ground. And recovery by whom meaning, will our people have a chance to recover their city or will it be done by folks from the outside or folks who don't really bring a whole lot to restore our economy, but who take the money away and don't believe in lasting recovery for us.

And my objective is to make sure the recovery is for the people who were here before the storm and by the folks who were here before the storm to the extent possible.

And that's what I think all of this is about. I would like to also thank the witnesses who are here and welcome them to the region. Many have been here before, I know. And some have not. I under-

stand that one actually lived in the Lower 9th Ward, and you will hear about that, I'm sure, in a little bit.

But we've encountered many problems since the storm struck, and not the least of these have been our problems, small businesses have been overwhelmed, not only by the physical damage caused by the storm and by the levee breaches, but also by the inept policies, poor excuse strategies, and in many cases just being locked out of the Federal contracting processes after the storm.

The storm left 80 percent of New Orleans under water for well over two months leaving 110,000 businesses—as our Chairlady has said, 80,000 of those in New Orleans—I'm sorry, in the State of Louisiana—businesses damaged and destroyed in the wake of the storms. 97 percent of which were small businesses that were left shut and unable to recover from their losses.

We are relying on General Strock and the Corps to get it right this time. We have no choice. And I'm sure with all of the attention they are paying and others are paying to it, that it will get done.

But for many of us, we know that the storm, itself, was not the immediate cause of the drowning of the city. The more immediate cause was the breach of the levees, and we take that as a Federal responsibility that didn't get done properly; and, then, therefore, we think there's more of an obligation on the part of the Federal Government to help restore us.

And it ordinarily would be the case where we might just say, Well, we had bad luck here; and we just want to have the government help us out, in some humanitarian way reach out to us. But here we think it's more substantial than that because of what happened with the levees.

The events that followed after the storm have made the road to recovery that much more difficult, especially for local contractors looking to have a hand in rebuilding their communities.

In the time just following the storm, 90 percent of the 2 billion dollars in initial contracts were awarded to companies based outside of the three primary affected states and to large concerns.

Minority businesses took an even harder hit as they received just 1.5 percent of the first 1.6 billion dollars spent here. Women-owned businesses received even less. This was the outcome in spite of laws such as the Stafford Act, which required contracting officials to prioritize towards local businesses and to reach a goal of 5 percent of the contracts to minority-owned businesses.

Davis Bacon was also temporarily suspended opening the door up for low-wage workers to take work away from our local firms. A prime example of the struggle that local contractors have faced is that of the Knight Enterprises, LLP, a New Orleans minority firm owned by Mr. Al Knight. Mr. Knight had a contract to wire Louisiana storm damaged Alvin Callender Naval Air Station. It was abruptly canceled, lost to a larger national firm putting his workers, primarily African American workers, out of work.

The firm that ultimately received the contract to complete the work was BE&K out of Alabama and lower-wage workers without benefits. BE&K was working for Kellogg, Brown, and Root, a subsidiary of Halliburton Company.

And I would ask unanimous consent, Madam Chair, for this, the record of The Wall Street—I'm sorry, Washington Post be inserted

into the record, dated October 7, which chronicles this one horror story, which unfortunately is not—it's just one of the many.

I want to mention something else that's been happening with our contractors here. I know my time has rapidly expired, but I just want to mention this if I might have another little time, Madam Chair.

We've had—one of the major things, I hope you-all think through, is minority contractors and others and women, small women-owned businesses are winning contracts because—and they decide on how they want to bid—expenses for one aspect of the contract let's say for deactivation, they may bid it low; for maintenance, they bid high. Overall though, the thing wins because overall it's lower than the other bidders.

And after that, there are reviews that take place. And the reviews say, goodness, in this one area where you have these high numbers, we can do better than this; let's redo this.

And, in effect, they come back and take the contracts away from folks who won them in fair and square bids before. And they're just tearing them apart as they go along, and it's making it awfully hard to get this done.

One of the biggest issues that I hope we will talk about also is this issue of bundling today. I don't know whether you call it bundling or something else. But they are making the contracts so large until small businesses can't reach them.

And there are two problems with that. Number one, they don't have the capacity to reach them. And, Number two, when they get so large, they can't meet the bonding requirement. And they are being shut out in that way as well. And I hope we find some way to address these concerns.

I want to say one last thing, Madam Chairwoman, if I might, on behalf of our local small business folks, they're doing an excellent job trying to do what they can, but they are sorely undermanned.

In fact, four or five years ago, we had 30 people in our small business state office down here, and now we have nine. How in the world can we stage a recovery here with so much at stake, so much for the SBA to do without having the requisite number of folks.

And nobody has asked me for an office to make this argument. I'm just saying, if we are going to be real about this, we really have to have this agency have what it needs to oversee this recovery, Mr. Preston. Somehow we've got to fix this problem for them.

I'd just yield back—I don't have any time to yield back. But I thank the Chairlady for letting me go on past my time, and we'll have a lot to talk about here today, and I appreciate it.

ChairwomanVELÁZQUEZ. Thank you.

And now I recognize Congress Member Charlie Melancon, whose district was devastated by Hurricane Katrina. And I just want to acknowledge the hard work and how instrumental Mr. Melancon has been in helping us draft legislation that has occurred in helping small businesses in this region.

OPENING STATEMENT OF MR. MELANCON

Mr.MELANCON. Thank you, Madam Chairwoman, I appreciate it. First, I would like to thank Chairwoman Velázquez, and I'm sorry Mr. Chabot is not here, but, Mr. Westmoreland, thank you for tak-

ing the time to come to New Orleans and Louisiana, for their continuing commitment to helping us rebuild the Gulf Coast.

Over a year and a half has passed since Hurricanes Katrina and Rita have devastated South Louisiana and the Gulf Coast area. I'm pleased my colleagues remain committed to seeing us fully recover and rebuild.

I'd also like to join my colleagues in welcoming the local small business owners that have come here today to tell their stories. I know you are tired and you are frustrated, but I appreciate you taking the time to come here and testify about your experience since the storms.

I also understand that you're tired of talk and that you want action and we do too.

These hearings are our way of letting Congress know how to help remedy the current problems that still persist on the ground and also how to prevent the same problems from happening in the future to other homeowners, business owners, and non-profit organizations and individuals.

You survived two of the worst natural disasters in our nation's history. And then on the heels of those hurricanes you faced a man-made disaster, one of the most disorganized and chaotic Federal responses in the history of this country.

Many of these Federal agencies that were created to help you recover wound up making matters worse. And this is inexcusable. Today we will put a spotlight on one of these instances in which the Federal Government's response was hurtful rather than helpful.

After Katrina, there were millions if not billions of dollars worth of disaster work that needed to be done. Everything from debris removed to maintaining FEMA trailers to supplying and delivering emergency supplies across the Gulf Coast.

Many of these contracts were awarded to out-of-state businesses rather than the local businesses who were victims of the storm, the people who needed to work the most.

Small business owners that were struggling to survive after the storm had to watch on the sidelines as large contractors came from out of state and performed the recovery work that the locals could have also shared in.

Many local business people and skilled workers who had already lost their homes, but were still hoping to find work were replaced by undocumented workers, by contractors looking to make more money.

I have a situation in St. Bernard Parish, and I understand it also exists in several other parishes where parishes contracted their own debris removal. It is just abysmal that these people have not been paid. It is outrageous. And every time we do a meeting, we get promises; and that's all we've gotten. Our people that did get some work need to be paid just as other people from out of state got paid.

I hope this hearing today will not only shed the light on what went wrong, but also ensure that this serious problem doesn't continue. Small businesses are the lifeblood of Southeast Louisiana's economy. And for that matter, it's the lifeblood of this country. To continue denying them the opportunity to get their businesses back

up and running is hindering the Gulf Coast recovery. And this is totally unacceptable.

Again, thank you to the Committee for holding this hearing today and continuing Congress's focus and attention on rebuilding the Gulf Coast. Thank you, Ma'am, I yield back my time.

ChairwomanVELÁZQUEZ. And now I welcome the first panel. And our first witness is the Honorable Steven Preston. He's the administrator of the U.S. Small Business Administration. This is his third appearance before the committee for Mr. Preston who was confirmed in July.

Welcome. And normally we allow for a five-minute presentation. I'm going to be a little more flexible today. And I will use my gavel if you are taking too much time. But I just want for you not to rush.

As you-all know, it is important for us to be able to allow for you to make a presentation as to all of the things that you are doing in making sure that we provide the assistance and recognize the role that local small businesses can do in the rebuilding of the Gulf Coast.

Mr. Preston.

STATEMENT OF THE HONORABLE STEVEN PRESTON, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr.PRESTON. All right. Thank you very much, Chairwoman Velázquez. Also Congressman Westmoreland, Congressman Jefferson and Melancon, thank you very much for having me here to testify before you.

In the reconstruction of the Gulf today, small business participation has been about 29 percent of the more than $15 1/2 billion that's been awarded.

Of those amounts, about 7.9 percent has gone to small, disadvantaged businesses. I know the committee is also interested the performance of the Federal Government in contracting with local businesses as you've mentioned.

According to our preliminary data, local businesses of all sizes in Alabama, Louisiana, and Mississippi have received approximately 22 percent or about 3.4 billion of that 15 1/2 billion in contracts. And of that amount, the 3.4, about 57 percent has gone to small, local businesses.

Here in New Orleans, 58 percent of our district office portfolio of 8(a) firms has actually received government contracts. We at the SBA are committed to making sure that small businesses receive a fair opportunity in reconstruction efforts. After Katrina, SBA devoted five procurement center representatives specifically to work with Federal agencies contracting and subcontracting opportunities for firms in the Gulf region.

All other PCRs nationwide were directed to search for small business contracting opportunities. We sent our district director from Chicago Judith Roussel with a long New Orleans history. She's a native down here. A former head of our 8(a) program of our government contracting programs. We brought her down here to support the effort because of the extent of it. We also partnered with the Department of Commerce and other agencies to establish the hurricane contracting information center, which is a portal for small

businesses to access assistance and contract information from various contracting agencies.

The HCIC contracting specialists took thousands of calls. The web site got nearly 57,000 hits. The operation of that has now been turned over to the SBA, and we will use that to support us in future disasters. We also adapted our business matchmaking initiative in conducting a six city mobile registration tour in the Gulf. That mobile tour provided help for small businesses with electronic registration in the central contractor registry and business counseling was also provided by the SBA resource partners through the SBDC and SCORE network.

Following the registration events, our PCRs worked with over 700 small businesses to match capabilities of the firms with the needs of the procurement activities.

Those registered small businesses have receive more than 650 million in contracts and their profiles have been uploaded to the GSA's electronic notification system for procurement opportunities.

We've held small business matchmaking sessions with many of the major agencies. We've held dozens of small business outreach events in coordination with state and local and Federal groups, which have been extremely well-attended.

And as I've shared my written testimony, in the interest of time, I won't get into it. We have many success stories to highlight.

In addition to prime contracts, obviously subcontracting puts much needed dollars in the hands of local small businesses in the Gulf. The SBA worked extensively with the minority business councils, New Orleans Youth for Prosperity, and other groups to locate other small businesses here in New Orleans and in Mississippi to support the subcontracting needs.

I personally entered my ninth month in the job this week. I have personally made disaster recovery a top priority for me. Since I've come into the job, this is my ninth trip to the Gulf.

Since my nomination, I've met with many leaders at the state, the local and congressional level. I've held homeowner and business outreach forums, participated in numerable outreach events and have taken much of that very, very valuable feedback I've gotten and implemented changes in the agency to address those concerns.

At the height of our recovery effort we had approximately 100 disaster centers operating down here to support disaster victims. And our overall staff in the Gulf last year exceeded 1,600 people. That was mostly for our disaster loan program.

But we've also trained and counseled over 20,000 people in Mississippi and Louisiana through our resource partners last year alone. We also guaranteed over 200 million in small business loans last year alone in addition to the disaster loans that we put out there.

And we also think that because of the work we're doing that 2007 could be a record year for the SBA in guaranteed business lending here in the New Orleans district.

The agency is committed to utilizing all of our programs to help the Gulf Coast recover. We've disbursed approximately 1.2 billion in physical and economic disaster loans to small businesses throughout the Gulf Coast in addition to more than 4.3 billion to homeowners.

We'll also build on these kinds of successes to expand small business Federal contracting opportunities.

Going forward, assisting small businesses can be absolutely critical for us in this area. We'll work with small businesses to develop forward marketing strategies, for example, protecting financial information after a disaster and planning for possible future events not only in this region but other regions in the country. We will be working with our district offices and our resource partners to coordinate matchmaking and registration and training events to increase small business contracting opportunities; and we'll also continue to use, should anything in the future happen, the hurricane contracting information center as an important source of coordination.

We continually work with GSA and a number of the other agencies to establish up-to-date sourcing list for small businesses and we're building upon all of this progress in small business contracting and subcontracting awards that we've seen here in the Gulf Coast.

While small business goals do apply to government contracting as a whole, we and the other Federal agencies recognize their importance especially along with their other responsibilities under the Stafford Act as a guide for accomplishment in disaster recovery.

So Chairwoman Velázquez, thank you very much for your time, and I look forward to your questions.

[The statement of Mr. Preston may be found in the Appendix, on page 71.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Preston. Now we have the Honorable Lurita Doan. Ms. Doan was sworn in as the Administrator of General services in May 2006.

Welcome.

STATEMENT OF THE HONORABLE LURITA DOAN, ADMINISTRATOR, U.S. GENERAL SERVICES ADMINISTRATION

Ms.DOAN. Thank you, Chairwoman Velázquez, Congressman Jefferson, and Congressman Melancon, and Congressman Westmoreland. It's a pleasure to be back in my hometown of New Orleans and it's a privilege to testify before this committee on such an important topic.

The house I grew up in is located just a few miles from here in the 9th Ward, and it's now a shell. It's smashed and it's been abandoned. And I have a personal interest in this hearing because one of the reasons I accepted this, President Bush's nomination to become the administrator, was because I wanted to retool GSA's abilities in national emergencies.

In particular, as a black woman and a former small business owner, I'm on a crusade to remove bureaucratic barriers to small business women, service disabled veterans, and HUBZone minority businesses in dealing with the Federal Government because I know that the playing field is not always even.

During the past ten months, GSA has had some good successes in opening doors to small minority businesses. We have a very extensive record, which has been submitted in my written testimony, so I'm just going to highlight a few things.

Since coming on board, we directed that the restoration of GSAs most destroyed property and most valuable property in New Orleans, the U.S. Customs House had subcontracts performed by small, minority, and local-based companies.

We awarded millions in contracts to a variety of small, local businesses that are performing on this contract now even as I speak. It used to be hard for small companies to get on the GSA schedule in order to successfully gain access to the Federal procurement system, but during the past 10 months, we have slashed the amount of time it takes for a small company to apply for and receive a GSA schedule from 157 days to 30 days, and I actually went over there and solicited a few more gentlemen to get a few more local businesses on the schedule before the hearing.

Madam Chairwoman, I know first-hand experience that the Gulf South is a hot bed of entrepreneurship. My grandmother started a business just a couple of blocks away from here 99 years ago.

That same vitality is still very much alive in the Gulf region, and I'm going to keep cutting red tape and pushing to make sure that any small company with a great idea is going to have a much easier task getting on the schedule than ever before and to make sure that GSA does a much better job of tracking that participation.

This is my fourth official trip back home in ten months, although actually since it's my home, I've been back a few more times. But GSA has already had four events here in the past few months. We are going to have more national and regional conferences in this region for I know that if we can push the Federal Government to come here, indirectly we are also helping small business owners around the region that would otherwise—business that would otherwise go to different places.

GSA employees have discovered their entrepreneurial energies and are finding better ways to save taxpayer money and drive business to the region.

Our Region 7 Administrator Scott Army is here. And, Scott, could you just stand so they can see you? GSA put in place a new disaster response vendor database with 1,400 companies already listed. It will be a significant asset after future disasters.

GSA has hosted or participated in more than 25 small business events in this region. And as I said, and as the GAO report indicates, this has resulted in the 71 percent of the Federal GSA spending going to small and minority businesses. Our new disaster recovery purchasing program for state and local governments allows state, local, and tribal agencies to access the GSA schedule to speed recoveries from a major disaster or an act of terrorism. So we are doing good things.

But let me be the first to admit: It's not enough; we can do more. We need to do more. And as long as I am administrator, we will do more.

Since I became administrator, GSA has completely retooled its emergency response capability and created a single office of emergency response and recovery that reports directly to me.

In this way, all of GSA's abilities and resources have been more sharply focused and our ability to respond has been fundamentally improved. During Katrina, we had so many different folks trying to do so many different things, without the concerted push and

support that was needed from the top, and we have fixed that problem.

I want to compliment our GSA Federal contracting officers and support people that have been working hard on the recovery of New Orleans and the Gulf. Our employees belaboring as best they could in a broken system. Too often they were stymied by too much red tape, influx of old bureaucratic processes that inhibited their ability to do the right thing.

Their needs to be better balance between contract compliance and accountability, and I think that our Federal contracting officers actually should have more leeway to take effective actions and make good decisions.

And I will, depending on their initiative and professionalism to make decisions that the nation would be proud of. And our improved tracking processes will verify these results.

Madam Chairwoman, one of the many things I've learned over the past few weeks is that I cannot do this alone. And I am going to need your and the committee's help and support in order to make this happen.

When Federal contracting officers make difficult decisions under pressure, we need to support them in every way. I do not want our contracting officers to be so fearful of making a tough decision that they become paralyzed into inaction.

We have terrific people who work in our contracting shop. And I think if we have the wisdom and courage to let them perform, we will see a fundamentally improved performance during our next national disaster.

I want to change with your help the culture of Federal contracting to one based on accountability to the taxpayer, one that awards innovative Federal contracting officers who identify problems and solve them early when they can do the most good.

And in 1965, my dad chopped a hole in our roof because we had to escape from Hurricane Betsy. He tied a rope around me and my brothers and my sisters. And we sat on the roof and watched our possessions and an occasional dead body float by as we waited for rescue. And while we were waiting, the one thing that I still remember from this is it is so important when you are in a crisis, when you have a national disaster to believe and trust that the government will not abandon you and that help will be on the way.

So when the next hurricane hits or any disaster, I want all of my GSA employees to be focused more on the outcome than on the bureaucratic process, to be thinking about more what can be done to help those stranded on roofs than hiding behind excuses of compliance.

GSA is justifiably proud as the GAO report indicates—page 11, by the way, guys—that approximately 71 percent of all GSA—all Katrina procurement dollars in the Gulf region went to small and minority, service disabled veterans, and women-owned business. And even with a standard margin of error 5 to 7 percent, 64 percent is still an extraordinary performance.

We are even more proud of our recent efforts to champion and provide opportunities to local businesses. And I intend to continue this strong commitment.

The Gulf region is home to our history, our heritage, and our hope for the future. You have my commitment that GSA, under my administration, will not, not ever, give up. And we will not abandon it. Thank you for giving me this opportunity, and I look forward to your questions.

[The statement of Ms. Doan may be found in the Appendix, on page 75.]

ChairwomanVELÁZQUEZ. Thank you, Ms. Doan. Now I welcome the Honorable Lieutenant General Carl Strock. General Strock is Commander and Chief of Engineers for the U.S. Army Corps of Engineers.

Welcome.

STATEMENT OF THE HONORABLE LIEUTENANT GENERAL CARL A. STROCK, COMMANDER AND CHIEF OF ENGINEERS, U.S. ARMY CORPS OF ENGINEERS

GeneralSTROCK. Madam Chair, thank you very much and Members of the Committee. I am Lieutenant General Carl Strock. I am the Chief of Engineer and Commander of the U.S. Army Corps of Engineers.

Thank you for the opportunity to testify before you today concerning small business participation in the rebuilding of the Gulf region in the aftermath of Hurricane Katrina.

Following this disaster, our first priority was public safety and meeting the needs of the people impacted by this natural disaster. We then turn to setting the conditions for the recovery of the region, the recovery of the physical infrastructure and the environment, also the economics of the region.

In the latter effort of economic recovery, I want to ensure you that I am personally committed and the U.S. Army Corps of Engineers is institutionally committed to using small businesses in the performance of our work, both in the normal course of business and in the times of natural disaster.

As always, we've accomplished our mission through working with the private sector and as both the public interest in our own agencies to vocalize as much of that capacity as possible. And small businesses represent a tremendous amount of capacity necessary for us to accomplish our missions.

Under the National Response Plan, the Corps is assigned as coordinator for emergency support function or ESF 3, public works and engineering and support other ESFs in addition to our own missions.

During disasters, the Corps is the primary agency for response activities such as ice, water, debris removal, temporary power, and temporary roofs. And wherever possible, we use our program all of the advance contract initiative or ACI to competitively award contracts for future execution of these missions before the disaster strikes.

Due to the unprecedented magnitude of Hurricane Katrina, the Corps needed to award debris contracts in excess of those that were pre-placed under the ACI program.

Based on the large scale of the required works, we were awarded four more contracts following the emergency to remove debris in Mississippi and Louisiana. Each contract was valued at $500 mil-

lion with an option to increase each contract by an additional $500 million. This requirement was open to any company under a shortened advertisement and proposal period.

For these additional contracts, we realized that the accomplishment of this mission would require substantial subcontracting by the prime contractor. We included aggressive small business subcontracting goals in these contracts and negotiated a small business subcontracting goal of 73 percent for three of the contractors and 60 percent for the remaining one.

Small businesses have played an important role in the Corps Gulf region recovery activities. As of March 2007, 88 percent of our subcontracting dollars went to small businesses for work in Louisiana. And 84 percent in Mississippi. As well as the Corps is doing, though, regarding disaster recovery subcontracting efforts, there is room for improvement.

We have learned valuable lessens that will improve our practices and procedures in the future. I'm committed to ensuring that we maintain complete and accurate subcontracting information on all applicable contracts.

We will continue to hold our large business partners accountable in fulfilling their small business obligations. We will ensure that proposed subcontracting goals are realistic and attainable, but challenging.

Our large business partners who demonstrated their commitment to small businesses will be awarded higher ratings during proposal evaluations. When subcontracting plans are not required, we will ensure proper justifications are contained in the contracting file.

And finally in our small business program, we are developing a formal subcontracting training module that will be delivered Corps-wide.

I welcome independent reviews of our small business program. In addition to the GAO review in January of 2007, I directed the Corps' inspector general to conduct an evaluation of our small business program office. At the end of this inspection, the IG will provide a report to me containing findings, observations, and recommendations for any corrective actions.

Our commitment to small business is not limited to subcontracting opportunities. I'm also committed to expanding our base to small business prime contract awards. Traditionally, the Corps of Engineers gives over 40 percent of its multi-billion dollar effort to small businesses as prime contractors. We are currently working on acquisition plans with the re-competition of several or our ACI contracts. These new plans work to include small disadvantaged businesses as prime contractors and are more friendly to small business firms.

With this new business model after initial planning the Corps will consider the small disadvantaged business and HUBs—will first consider the small disadvantaged business and HUBZone goals.

Subcontracting goals will be higher in small business categories. The Louisiana recovery office has identified approximately 16 new small business prime contract opportunities worth over $150 million for this fiscal year alone.

The Corps is in the process of repairing, restoring the hurricane protection system in New Orleans. And we have developed an acquisition plan as we move forward to execute this mission. Of the total of $5.8 billion appropriated for this work, the acquisition plan includes approximately 34 percent of this work or 1.98 billion for small, disadvantaged, HUBZone, and service disabled veterans, and small businesses as prime contractors.

The approximate number of planned contract awards is 150 and 101 of those will be set aside for those small business categories as described above.

Of the 43 contracts awarded to date, all but three have been awarded to small businesses. Of the $236 million obligated on this contract, 137 million has been obligated to small businesses on prime contracts.

In addition to the prime contract plan discussed here, each unrestricted prime contract that is awarded to a large firm will require a subcontracting plan and goals that include small businesses.

To close, thank you once again, Madam Chair, for allowing the Corps of Engineers the opportunity to be available before this committee to discuss the Corps subcontracting procedures during times of emergencies. Many Corps personnel have served our nation by helping in response to the natural disasters in Texas, Louisiana, Mississippi, Alabama, Florida and elsewhere in the nation and the world.

We are proud to do so. I would be happy to answer any questions the committee members may have.

[The statement of LtG. Strock may be found in the Appendix, on page 85.]

ChairwomanVELÁZQUEZ. Thank you. And now I welcome the Honorable Paul Schneider. Mr. Schneider is the Under Secretary for Management of the U.S. Department of Homeland Security.

Welcome, sir.

STATEMENT OF THE HONORABLE PAUL SCHNEIDER, UNDER SECRETARY FOR MANAGEMENT, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr.SCHNEIDER. Thank you, Madam Chairwoman and Members of the Committee for the opportunity to discuss the Department of Homeland Security's small business participation in the rebuilding of the Gulf Coast in the aftermath of Hurricane Katrina.

I have been the Under Secretary for about 100 days. For the previous 3 1/2 years, I was a defense and aerospace consultant. Prior to this, I was a career civil servant for about 38 years.

My last three government positions were Senior Acquisition Executive at the National Security Agency; Principal Deputy Assistant Secretary of the Navy for Research, Development, and Acquisition; and Senior Civilian of the Naval Sea Systems Command of the Navy's largest shore command.

The Small Business Act requires Federal agencies to establish an office of small and disadvantaged business utilization. The goal is to foster an environment where these highly-skilled businesses can on their own merits compete successfully for a fair share of DHS contracts.

We have a solid track record of exceeding the small business, women-owned, and small and disadvantaged business, prime contracting goals every year.

FY-O6 DHS achieved 32 percent in small business prime contracting, which is 9 percent greater than the Government-wide goal. Government-wide small disadvantaged business goal is set at 5 percent yet we target small disadvantaged business for 8 percent of our contracting this fiscal year.

Following Hurricane Katrina, FEMA has played a key role in engaging the small business community and directing the maximum share of dollars back into local economies.

FEMA has adopted new procedures and strategies that facilitate the maximum level of engagement with the local contracting communities. Prior to FEMA issuing any solicitation, FEMA field branches conduct market research to determine whether the local, small business can meet programming requirements. If so, then a solicitation is structured as either a set aside or local preference.

If no such capability is available, then the scope of the solicitation is expanded to include larger local businesses. If still no capability exists, then the geographic scope of the solicitation is expanded to the state level, to the Gulf Coast region and finally to a national pool of contractors.

Response to Hurricane Katrina and Rita, DHS issued 28 percent of its contract dollars to small business and 8 percent to small, disadvantaged businesses. DHS has also exceeded the SBA's goal of 5 percent target for women-owned business and 3 percent for HUBZone businesses.

Additionally, FEMA has engaged the local business community by obligating 21 percent of all prime contract dollars to local businesses in the Gulf Coast region.

In addition to the many contract awards issued to small and local businesses for requirements that would transition from the individual assistance, technical assistance contracts, FEMA has issued several other major procurements which support DHS's goals of maximizing contracting opportunities with the small and local businesses. One example of an upcoming solicitation targeted at small businesses is the Gulf Coast Site Restoration and Design Bill. This solicitation will support group site restoration needs and a development of future sites on an as-needed basis and will be limited to small businesses in Louisiana and Mississippi.

In order to facilitate further collaboration with the small business community, FEMA is taking the following steps: Outreach forums to the small business communities including vendors and subcontractors in the Gulf Coast, potential establishment of an office of small and disadvantaged utilization for the Gulf Coast region. Networking with representatives of U.S. Small Business Administration in Louisiana district office and local small business development centers and a creation of a database of contact information and portfolios for local, small, service disabled, veteran-owned, 8(a), HUBZone, and women-owned businesses to be utilized by the contracting professionals.

In summary, the Department of Homeland Security is firmly committed to a unified team approach to support the critical Home-

land Security Commission and meet an important public policy objective of including small businesses in the Federal marketplace.

I want to thank the members of this committee for your support of the Department of Homeland Security and its small business program. I will be happy to answer any questions that you may have.

[The statement of Mr. Schneider may be found in the Appendix, on page 90.]

ChairwomanVELÁZQUEZ. Thank you, sir. Our next witness is the Honorable Dr. James Finley. Dr. Finley is a Deputy Under Secretary of Defense for Acquisition and Technology at the U.S. Department of Defense.

Welcome, sir.

STATEMENT OF THE HONORABLE JAMES I. FINLEY, DEPUTY UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY, U.S. DEPARTMENT OF DEFENSE

Mr.FINLEY. Thank you, Chairwoman Velázquez, and members of the House Committee on Small Business. Thank you for inviting me here today to appear before you and discuss small business participation in the aftermath of Hurricane Katrina.

I come to you—I'm new to the Government. Like many of my colleagues here, I'm in my first year as a Federal Government employee. First time I've ever been in the Federal Government in any position. I have about 40 years of industry experience.

My experience ranges from the Fortune 50 companies at the highest levels and corporate boards to small business as a small business owner. You will find me to be entrepreneurial and innovative and an extraordinary advocate of small business.

As you know, several military installations have been impacted by Hurricane Katrina, including Keesler Air Force base in Biloxi, Mississippi; Maxwell Gunter Air Force base in Montgomery, Alabama; Naval Air Station, New Orleans, Louisiana; Naval Air Station in Pascagoula, Mississippi; and the Marines Corps Reserves headquartered here in New Orleans, Louisiana; as well as shipyards and production facilities.

Tens of thousands of Department of Defense personnel including the military and civilian active workforce, the military and civilian retirees contractors, local businesses and families in support of the Department of Defense were directly affected.

The Department of Defense completely agrees with the March 2007, GAO report recommendations and has initiated actions in support of those recommendations to, one: Issue guidance reinforcing importance of the subcontracting plan requirements; and, No. 2, ask the Department of Defense inspector general to conduct a review of the appropriate future data to ensure the subcontract planned guidance is being followed.

The GAO found at the time the report was issued that one contract action could not be explained with respect to the lack of a subcontracting plan. That one finding has since been addressed. It was attributable to a contract award by the Defense Logistics Agency with the Campbell Soup Company.

The GAO has since been provided with that information, a full explanation provided and has concurred with the Department of Defense's explanation.

The GAO report states that small business receives 28 percent of the $11 billion in contracting dollars from DHS, GSA, and United States Army Corps of Engineers and the Department of Defense.

Local business of all sizes in Alabama, Louisiana, Mississippi receive 18 percent or 1.9 billion of the 11 billion. Of the 1.9 billion, small business receives 66 percent of the awards to provide trailers, administrative and service buildings, restoration activities, clean up activities, excavation, debris removal, and temporary ripping installation.

The Department of Defense has issued an interim rule amending the Federal Acquisition Regulation Supplemental Part 218 for emergency acquisitions. This rule enables flexible acquisition management and provides a single reference that may be used to facilitate and expedite acquisition supplies and services during emergency situations.

In addition, the defense procurement and acquisition policy office has established an emergency procurement committee that meets weekly and includes membership of the Department of Defense Small Business Program Office.

Outcomes from these meetings have resulted in a number of initiatives based on lessons learned. For example, a contingency contracting guide in the form of pocket-sized handbook is being developed for the Department of Defense and military and civilian acquisition workforce.

Initiatives are being taken for improved processes to expeditiously procure goods and services in emergencies and contingency operations. Third web-based community of practice has been established on the Defense Acquisition University web site, www.dau.mil.

Our capacity drives our nation's economy, provides for our national security, and enables our technological leadership role of the Department of Defense. The Office of Small Business Programs which oversees an annual budget of $1.3 billion to the Department of Defense small business innovative research program is a key compliment of that effort. Approximately, 3,000 contracts were awarded annually to these research programs in small business. These innovative research awards enable our agility and flexibility to maintain our decisive advantage for existing and future challenges to protect our freedom and respond to national disasters.

Small business prime and subcontract dollars have virtually doubled between 2000 and 2005. This mainstream of small business industrial base coupled with innovation provides additional momentum for our military and civilian workforce at the Department of Defense to protect our country.

In addition to mainstream industry presence and the innovative research programs, the Department of Defense also utilizes comprehensive subcontracting programs and mentor/protege programs incentivized small business to participate in opportunities at the Department of Defense.

For example, today the Department of Defense has 152 mentor/protege agreements with small business companies that encompass 40 states. Examples of these small business products and services include things from high accuracy global positioning equipment to thermo batteries for sonar and display systems to manufacturing and development methods of improvement for canvas, modeling and simulation capabilities, information security, advanced surface mount board manufacturing capabilities and sensor integration solutions.

We took the opportunity while here to visit with our office of PTAC. PTAC is our Procurement Technology Assistance Center based here in New Orleans. There are three individuals that have been here with the Department of Defense for decades. We were here before Katrina, some prior to Katrina, and now we're in the aftermath of Katrina.

Some of these individuals have lost everything. They have experienced first-hand to help and facilitate small business interests with the Department of Defense on the ground here in real time.

We intend to use and keep a very close conduit with their activity here in New Orleans as to how we go forward in the future reconstruction of New Orleans.

In summary, we at the Department of Defense are very committed to the health and welfare of our people in our nation. We have a strong small business program, and we are planning to build on that strength to provide more agility and flexibility for the acquisition of products and services to protect our country and provide emergency help in the time of need for natural disasters here on the home front or abroad.

I thank the committee for their time today and their leadership in addressing small business participation in the aftermath of Hurricane Katrina. I will be happy to answer your questions. Thank you.

[The statement of Mr. Finley may be found in the Appendix, on page 98.]

ChairwomanVELÁZQUEZ. Thank you. Our next witness is the Honorable Admiral Patrick Dunne, Admiral Dunne is the Assistant Secretary for Policy, Planning, and Preparedness at the U.S. Department of Veterans Affairs. Thank you.

STATEMENT OF THE HONORABLE ADMIRAL PATRICK DUNNE, ASSISTANT SECRETARY FOR POLICY, PLANNING, AND PREPAREDNESS, U.S. DEPARTMENT OF VETERANS AFFAIRS

AdmiralDUNNE. Thank you, Madam Chair, Members of the Committee. I greatly appreciate the opportunity to testify at this hearing about VA's ongoing commitment to small businesses in New Orleans and the greater Gulf Coast region.

VA is a proud and longtime neighbor in each of these communities. Veterans in these areas count on us for healthcare and benefits delivery. We recognize the importance of small business to VA operations. By partnering with VA, they help underwrite the quality care we provide to veterans.

Our mutual success is tied to one another in so many ways. We too want to see a vibrant economic recovery take root and reinvigorate small businesses in this region.

In early 2006, VA took positive steps in this regard. On March 7th, VA's Office of Small and Disadvantaged Business Utilization in concert with the Veterans Health Administration, veterans service organizations and representatives from National Task Force on Veterans Entrepreneurship hosted an event in Biloxi, Mississippi, attended by approximately 100 veteran-owned small businesses.

These firms were provided information, process guidance and networking opportunities for VA's post Katrina recovery acquisition opportunities. A similar event was held the next day, March 8, at the Veterans of Foreign Wars hall in Metairie, Louisiana, and attended by 85 veteran-owned small businesses from Louisiana.

These programs discussed requirements for bonding, teaming and joint ventures to help veteran entrepreneurs prepare their firms to be responsive to upcoming contracting opportunities.

To gauge the effectiveness of our efforts, we have to look at the Federal contracting record of the firms that received advice during these two events. Of the 185 firms that signed in at the March events, we found that during the following year, 24 of those firms were awarded multiple contracts totaling over $43.4 million.

We would like to think that the efforts of VA and our partners were instrumental in the success of those contractors.

In June of 2006, VA participated in the Minority Business Development Agency's Business-to-Business Linkage Forum in New Orleans. This forum brought together 8(a) firms from Louisiana and Mississippi, with out-of-state minority businesses to explore partnering opportunities on upcoming Federal and State contracts.

In December of 2006, VA participated in the U.S. Army-sponsored National HUBZone conference held in New Orleans. In addition to providing presentations on VA's acquisition operations and opportunities, representatives from VA's Office of Small and Disadvantaged Business Utilization along with an accusation professional of the New Orleans VA Medical Center, conducted one-on-one counseling sessions with small businesses in attendance. Many of these firms were from areas affected by Hurricane Katrina.

Our outreach efforts continue in this region. Personnel from VA's Office of Small and Disadvantaged Business Utilization will soon attend small business events in Vicksburg, Mississippi, and Birmingham, Alabama.

VA plans to participate in the PostKatrina Economic Development Summit in New Orleans, June 5-7th of this year, hosted by the National Community Development Organization, Incorporated. The summit is billed as bringing America's top corporations, Government agencies and small businesses together to discuss acquisition opportunities to rebuild an economically strong Gulf Coast.

VA is using small businesses in its recovery efforts in the affected areas. VA's Office of Construction and Facilities Management has three 8(a) contracts in place worth approximately $1.6 million. By June of 2007, award of several additional contracts for recovery work in New Orleans under Section 8(a) are contemplated. The values of these contracts are estimated at slightly over $4 million.

An additional three to four 8(a) contracts with values of up to $12 million total are contemplated for Gulfport, Mississippi, along with additional awards to service-disabled, veteran-owned small

businesses. VA intends to award another $600,000 in contracts with a service-disabled, veteran-owned small business and Section 8(a) contractor in Biloxi, Mississippi.

VA's National Cemetery Administration is spending over $1.6 million with small businesses, small disadvantaged businesses, veteran-owned and HUBZone small businesses in postKatrina recovery work at their facilities throughout the Gulf Coast region. These contracts were set aside for small businesses. A project to construct the replacement VA Medical Center in New Orleans alongside a new Louisiana State University healthcare facility will create additional opportunities for local small businesses. Construction of this approximately $625 million project is due to begin in 2008, once the State of Louisiana has committed funds and acquired the land. Although projects of this magnitude provide very limited opportunities at the prime contracting level, VA is committed to promoting maximum practicable opportunities for small businesses at the subcontracting level.

VA's healthcare facilities in New Orleans, Gulfport and Biloxi are operated by the South Central VA Healthcare Network. As with VA's senior leadership, the South Central VA Healthcare Network is committed to ensuring business opportunities for small businesses in the areas affected by Hurricane Katrina. This commitment is evidenced in the socioeconomic accomplishments for the entire network in this region.

In Fiscal 2006, the South Central VA Healthcare Network reported expenditures for supplies and services in excess of $574 million. Over 37 percent of these dollars were spent with small business. Broken down by socioeconomic category, over 3.6 percent were spent with service-disabled, veteran-owned small businesses. Over 9 percent with veteran-owned small businesses, almost 9 percent with small disadvantaged businesses, over 6 percent with women-owned small businesses, and 4.35 percent HUBZone small businesses, each of these exceeding the congressionally mandated goals.

Despite the incredible damage sustained by our facilities in the surrounding area, the VA Medical Center in New Orleans and the VA Gulf Coast hospital care system located in Biloxi continue to support small businesses. The VA Medical Center in New Orleans spent nearly 44 cents of every acquisition dollar with small business. And the VA Gulf Coast Veterans Healthcare System spent almost 50 cents of every dollar with small businesses.

Their accomplishments in each of the small business socioeconomic categories are equally impressive. The socioeconomic accomplishments for the South Central VA Healthcare Network will be submitted for the written record.

In closing, I want to reassure you VA is committed to small businesses in general, and to those in the Gulf Coast region in particular.

Thank you for convening today's hearing. I welcome your interest and any questions you may have.

[The statement of Mr. Dunne may be found in the Appendix, on page 105.]

ChairwomanVELÁZQUEZ. Thank you, sir. And I thank all of you for your testimony. Let me just say that we hear a lot of talk about

small business and local businesses, but we don't hear anything about local small businesses.

And here we are and with your own numbers and the data from this Federal Government, the Federal Procurement Data System that tells us only half percent of contracting opportunities has been provided to small businesses right after Congress strengthened the requirements for the use of local business.

Numbers don't lie. What we have seen here is a mere 7 percent of contracting opportunities with local businesses, local small businesses. So I would like to ask each one of you, starting with Mr. Finley, Ms. Doan and Mr. Dunne: What are you going to do to change this in this area?

Mr.FINLEY. Thank you, Madam Chairwoman. What we are going to do is we are working to expedite the law that has been passed in Congress to make it into the FAR. Right now that is not into the farmers as an official Federal acquisition regulation. It requires to be processed. We are going to accelerate that processing and expedite that processing such that we can have that truly in law in accordance with the paperwork that's been passed by the Congress, you know, this year. We are committed to make—

ChairwomanVELÁZQUEZ. All I want to know is: How this is going to get those numbers up? We carry local, small businesses here in the region.

Mr.FINLEY. I believe we will take that act, Madam Chairwoman, and we will implement that into actionable efforts that will be focused on our local businesses here in New Orleans. We will implement that through our PTAC organization that's based here in New Orleans to help facilitate that network of small businesses already established here in New Orleans.

ChairwomanVELÁZQUEZ. I will be coming back to you, sir. Ms. Doan?

Ms.DOAN. Madam Chairwoman, I believe that leadership matters. And the way that I intend to make this happen is because it's something that's really important to me. So I look at this on a regular basis. However, the changes have already begun to happen. In the ten months since becoming administrator, our numbers are really nothing short of extraordinary.

We have in this region, Gulf region, 55.8 percent of our procurements going to local, small businesses. In addition to that, we have a disaster and emergency operations vendor profile which we have now begun. I mentioned it in my speech. But we have already registered 1,400 businesses. We will be utilizing this on a regular basis.

But I believe that the only way, Committee and Madam Chairwoman, that we can really make this happen is the heads of the agencies have got to say that this is a priority.

Now, for me, I will tell you—maybe it's because I'm from this area, but this is a priority. And one of the things you have to do, for example, right here, these are our guys. You look at them. You look at the list of who these businesses are, and you can say—you can eyeball them and say, Is that really a small business? Isn't it? You have to do that. And if the heads of the agencies are going to be committed, that will make the difference.

ChairwomanVELÁZQUEZ. Would you say that 7 percent of contracting opportunities awarded to local businesses is enough?

Ms.DOAN. Madam Chairwoman, I am the leader of GSA. GSA has a stellar performance. I cannot account for my other fellow agencies. I would like to see them do more. Believe me as a small, black, former woman-owned business, there is not enough that can be done. This is something that—we have to do a great thing. What I can do is focus on my agencies. What I'm asking is that every other agency head do the same.

ChairwomanVELÁZQUEZ. I hear you. Yes?

GeneralSTROCK. Yes, ma'am. We too are—

ChairwomanVELÁZQUEZ. Mr. Dunne?

I will ask you a specific question later. Mr. Dunne?

AdmiralDUNNE. Thank you. The VA will continue to conduct our outreach as I mentioned in my statement, we have plans to continue that this year. We also have plans to provide guidance to our contracting personnel about the details of the Stafford Act. And we have personnel right here in the area who are aware of the business opportunities here and will continue to pursue those throughout our outreach.

ChairwomanVELÁZQUEZ. Well, we have a real problem here. I mentioned to you that only 7 percent have been provided to local businesses. And the problem is that this number is not only a disaster by itself and shows a lack of commitment of our Federal Government in helping the recovery process here, but the true number is most likely to even go lower than the 7 percent.

This Committee has examined who agencies claim are the local, small businesses. And the truth is that many of them are neither local nor small.

Let's take for example Homeland Security. Listed contract with the United States Services of Maryland and Fastenal Company of Minnesota a small business award. Neither of these companies identifies themselves as small. Fastenal actually owns and operates over 2,000 stores with locations in all 50 states as well as Canada, Mexico, Puerto Rico, Singapore, Europe, and China.

And you are going to come here today and say that it is a small business? GSA counted contracts with Oshkosh Truck Corporation of Wisconsin; Coleman Company of Wichita, Kansas; Analytic Systems Ware, a Canadian Company; Americold Logistics of Georgia towards small business achievement.

None of these companies themselves are small. Americold has 6,100 employees and handles over 60 billion pounds of freight. DOD has taken credit for URS Group as a small business contract, a company that is not identified as small.

Additionally, the agency included contracts with Americold Group of Indiana. And another company in Ohio despite the fact that these businesses are subsidiaries of large companies and cannot be considered small. URS has over 25,000 employees in over 300 offices. It's stocks traded on the New York Stock Exchange. And achieved a $3.292 billion in revenue for fiscal year 2005, and you are going to come here and paint a rosy picture as to how much your agencies are doing in providing contracting opportunities to local, small businesses in this region?

Army contracts were awarded to August, Inc. (Phonetically spelled), a Canadian company. And the list goes on and on and on.

Mr. Schneider, I will start with you. Since you paint such a rosy picture in your testimony in reference to the number of contracts going to small businesses, let me say that it's easy to get those numbers when the businesses that you are counting are not small businesses, but large and out of state.

Here, I have a list of 150 companies that we examined. And this is your own data system, 150 companies valued at nearly $70 million. And you took credit as local businesses that are neither local, small businesses nor small, 150. Mr. Schneider, 61 of them are from your agency. So I want to ask you what is your priority here; making sure local, small businesses get contracts or making your numbers look good?

Mr.SCHNEIDER. As I indicated, Madam Chair, in my testimony, the procedures that we've instituted with FEMA once the—with the amended Stafford Act in terms of priority that should be given to local, small business, in fact, that they are—once we go out with surveys, we determine the fact if we have at least two companies that are capable of doing that particular work.

ChairwomanVELÁZQUEZ. Sir, sir—

Mr.SCHNEIDER. That is our policy.

ChairwomanVELÁZQUEZ. Sir, how could you explain 61 companies, large companies, being miscoded and claiming credit as small companies? What kind of system do you have in place? This is the law. The law requires contracting with small businesses. And you should not be coming here and saying that you not only achieve but you went beyond.

Mr.SCHNEIDER. Well, two points: First, there clearly has been errors in coding in the data. That's been pointed out, I believe, in the GAO report, and we are taking action to fix the coding.

The other thing we are doing is we're working closely with GSA and a total government team to fix the system by which you enter the coding. I have personally looked at the details of how you enter coding in the system and what happens is you find that it forces people that enter the coding to fundamentally make a choice.

ChairwomanVELÁZQUEZ. I hear you.

Mr.SCHNEIDER. And so what happens is, the logic flow of the system is flawed and needs to be fixed. We believe—

ChairwomanVELÁZQUEZ. And that is why I ask you now: Are you going to follow the recommendation made to you by the General Accounting Office regarding having the inspector general or why is it that you decided not to go with a General Accounting Office recommendation, but to have your own team to review contracting practices by the Acquisition Oversight Team and the Defense Contract Management Agency?

Mr.SCHNEIDER. The Defense Contracting—

ChairwomanVELÁZQUEZ. Doesn't this look like a conflict of interest to you?

Mr.SCHNEIDER. The Defense Contracting Management Agency is independent from the Department of Homeland Security. It's a separate organization. They do not report to the Department. We use them as an independent auditing agency.

ChairwomanVELÁZQUEZ. Let me ask you: Why is it that the Army Corps is going to have the IG and you cannot have the IG? So you are going to come here and say to me that it is okay for your people to police themselves instead of having an independent like the IG?

Mr.SCHNEIDER. I respectfully submit that the Defense Contract Administration Agency is, in fact, independent from the Department of Homeland Security. It is not a Homeland Security organization.

ChairwomanVELÁZQUEZ. Same with the IG, sir.

Mr.SCHNEIDER. We elected to use the CAA.

ChairwomanVELÁZQUEZ. Well, it shows the real commitment that you have in order to correct the errors that you are making and the miscoding that you are making.

Now I recognize Mr. Westmoreland.

Mr.WESTMORELAND. Thank you, Madam Chairwoman. You know, we have to understand that these two storms, natural disasters hitting as quick as they did, I don't know that any of the agencies—I know that several of you have mentioned that you came on board after this mother nature's wrath hit this Gulf Coast region.

And I'm sure that each one of your agencies felt the urge to get these jobs done as soon as possible. And I'm sure that each one of you in your agencies have certain criteria that a contractor must meet or certain qualifications that they may have.

I know that I'm a small businessman, at least I was a small businessman, and I would like to think of myself as one. Mom and pop contracting, we did restorations. We did new construction, remodeling other parts. And I don't know that what—although, I would have loved to have come down and gotten some contracts and some capabilities, I don't know to what extent I would have been capable of doing some of the major jobs that were required here. And I think Congressman Jefferson mentioned the bundling process. And I'm sure in trying to get some of these things done as soon as possible, you probably did bundle a lot of these things to some larger companies. And then they may have, in fact, turned around and subcontracted out to smaller companies.

I know we had a tree cutting company from Georgia that was actually the sub of a sub of a sub. Now, I'm not saying those are good things because I think they can really be bad things because sometimes that sub of the sub of the sub doesn't make any of the money and the subcontractor or the original contractor is kind of the fat cat in this whole thing, and makes all of dough; and the subcontractor doesn't.

So I'm not making any excuses for that. But I think that a lot of these contracts that you made were good intentions of trying to get the work done to make sure that the people of the Gulf Coast could get back to a normal way of life as soon as possible.

Now, Mr. Preston, I have a specific question to you and it comes too from Congressman Jefferson's question about the number of PCRs that are stationed in the New Orleans Gulf Coast area, the Procurement Center Representatives.

How many are actually down here and how many have been added since Katrina and Rita?

Mr.PRESTON. Right now physically down here there's one PCR. He's at the Army Corps of Engineers right now working specifically with them on their contracting activities.

At one point, we had five people down here right after the storm working on a number of things. But I think the important thing to recognize with that is it's not just PCRs that are physically present down here because all of the purchasing doesn't take place down here. PCRs across the country were directed to focus on supporting small businesses in their efforts to get contracts down here as well.

I think that the other thing to say is in addition to the PCR, our district office is also very active both in working with contracting activities down here and with local business to make sure there is conic activity between those opportunities.

Mr.WESTMORELAND. I think it's important that you may have more than five people down here with this magnitude and the devastation that was down here. And I'm sure Mr. Melancon or Mr. Jefferson would agree that the people down here who were so devastated by this storm that changed their lives forever didn't really care who was doing the work as long as the work was getting done. And getting done in a satisfactory manner. And that's the thing that has really bothered me about the administration's position and really Congress' position in the fact that they felt like if they threw money at the situation, that it would just fix itself.

I think if you ride around even today, almost two years after, you would see that money is not necessarily the answer to all of these problems down here. And your agencies are really kind of what we're depending on to bring this area back to where it was.

So I want to ask the entire panel a question, and as I stated before, I know some of you have not been on board but a short period of time. In the short period of time that you have been on board and listening to the other people in your agencies, what would you say was different today, if anything, as your approach to small business and bundling of contracts and really being prepared to handle a crisis such as this? What's different today than when these two storms hit? And any of you, I will be glad to hear from.

Mr.SCHNEIDER. I'll start. Thank you for the question. You're absolutely right. We had in the initial aftermath of Katrina those bundling contracts. In the case of DHS, we had four big ones. And the reason for that was we frankly had no people on the ground. We had very few people on the ground in the area. We had no contracting officers. We didn't have people that could integrate a large amount of effort. We really didn't have my term, military term, situational awareness relative to the capabilities of the businesses in the Gulf Coast. Quite frankly, we did not have good command and control in terms of how things got executed.

It was so bad we had to use a corps of contracting officers at headquarters to contract for local efforts down here. So what happened was some of these major contractors—these efforts were bundled frankly because we did not have the resources on the ground to do the proper integration and oversight of the individual effort.

As it turns out, my understanding is that a large percentage of those efforts did, in fact, go to small businesses, local businesses, etcetera. But the thing that's different today is that gave—well, we put a lot of people on the ground. We have lots of contracting of-

fices throughout the Gulf Coast. We think we have a pretty good organizational structure. We have Deputy Director of FEMA that's down here for the Gulf Coast rebuilding effort. We think we have pretty good situational awareness. And that brought us a lot closer to understanding the individual capabilities of the small businesses in the area, which is why we don't have these large contractors, contracts anymore. We have individual contracts that have been awarded, basic wording agreements. And frankly, the opportunity that was given to the small businesses under these bundling contracts has enabled them now to compete and be prime contractors themselves.

So I think it's a matter of people, situational awareness on the ground, contracting officers who could execute. And just better organization is what I would consider to be a significant change from what I understand the situation was in the initial aftermath of Katrina.

Mr.WESTMORELAND. So, Mr. Schneider, if I understand it correctly, what you're saying is when this first hit, because of your inadequate number of people that you had on the ground, these contracts were bundled. But I hope what you are saying is, now, almost two years afterwards, that you have more people on the ground and that you will be able to give some of these contracts to some small business people.

And as you have said, some of these small business people have now earned their way into probably doing some of the bigger contracts.

Mr.SCHNEIDER. They have. In fact, we don't have these big bundled contracts. We have individual contracts because we have people on the ground that are capable of managing them. So we don't need to pay a prime contractor or a large contractor to manage the integration effort.

Another thing is we go out actively with outreach within the community. There's a lot of mentor/protege work going on down here on the Gulf Coast. We encourage all businesses to register. We keep a web-based type of analysis pool so that all of our contracting officers in the Gulf Coast know of the capabilities of all of the businesses in the Gulf Coast. So just the sheer numbers of resources has dramatically changed. We have what I consider to be a very robust contracting organization down here on the Gulf Coast. What we did actually was take somebody from headquarters and FEMA, move her down here to the Gulf Coast. She supervised the initial aftermath and the building up of the contracting infrastructure down here. And then we moved her back to Washington as the head of the contracting organization in FEMA.

So we have somebody at headquarters that personally understands, has spent a year down here on the Gulf Coast, understands the situational awareness. So you have a very, what I would consider, unique relationship between contracting organizations down here on the deck plate, so to speak, and the head of contracts up in Washington. That is totally different.

ChairwomanVELÁZQUEZ. Time expired. Now I recognize Mr. Jefferson.

Mr.JEFFERSON. Thank you, Madam Chair. We are very familiar with the history that you are referring to, Mr. Schneider. These big

companies are still around, still doing the work from the initial, big contracts they got, for the most part.

There have been, of course, other opportunities. We are talking about the early stages here. I wanted to ask you something, and then I want to ask Mr. Preston a question. There is a group called ″CorpWatch,″ a report done by Dr. Rita King, which talks about ″Big Easy″ money. The report was released sometime ago.

But it talks about FEMA contracting down here and how the small companies missed out on the money and the local companies did. And basically what it said is that of the $6 billion of hurricane-related contracts granted by FEMA, only 13 percent or 780 million were awarded to local firms, she said.

Are you familiar with that report and do you agree with that or have you found it incorrect?

Mr.SCHNEIDER. Congressman, I am not personally familiar with that report.

Mr.JEFFERSON. The report cites incident after incident as the Chairlady has of big companies that have come and done extraordinarily well, and they have not been local firms. They have not been small firms. But I would like to ask you to turn your attention to that because it does reveal some interesting information.

We are talking about the small part of this thing whole thing, though. Down the road, the big issue is going to be recovery—I mean, rebuild. And that's going to be a lot more money and a lot more things are going to come through the whole FEMA structure. And we have time now to handle that correctly.

I want you to know that we've been having a lot of local firms that have been subbing and have been happy to have some work, but very unhappy that they didn't have any margin of a profit. And the profit was made by the guy on the top. And sometimes—Charlie and I were talking about it a minute ago, you have four or five different tiers here, maybe more, and every one of them, the money they made was—all of the work was done by the guy on the lower end and then the money made by the guys on the topside of it. And that's, of course, not fair in all of this process.

But since you don't know about the CorpWatch, I can't ask you anything about it. I will let that slide for a minute and ask you to please take a look and see if you agree with that. I'd like to know how you feel about it.

Mr. Preston, you have a responsibility—or your agency does anyhow, to I guess be in contact with the rest of these other 24 agencies out there. If you need to, beat up on these guys to make sure they are providing small business opportunities. And under the aegis of which we are working, small and local business opportunities. This Stafford Act requires that we get small business folks to do local work.

You have had a vacancy in this job called the Associate Administrator for Government Contract for a good long time. But I understand somewhat recently filled that job. I want to know what your agency is doing to—first off, before you even get to the local question, to make sure they are setting aside small business opportunities down here in our region, and tell me exactly what you are doing to make sure this agency is working properly; and that we are getting accurate results out of it.

Mr.PRESTON. Well, we have very extensive interaction with all of the agencies at the table, both in the individual contracts and under plans. We held outreach events with all of them. We've held matchmaking sessions to make sure that we get the right business to the right place.

Mr.JEFFERSON. Let me ask it differently: What is the new emphasis you place on it now since you have someone who's filled that job? I mean, you've been doing something with it, perhaps a lot with it as you say. What is he going to do more than you have done so far? And what more could be done or what should be done?

Mr.PRESTON. He's and our entire contracting staff down here will do two things—three things, really. Continue with aggressive outreach, continue with coordination with these agencies, but also continue specifically to look at the contracting actions that are taking place to determine whether or not they should be going to small business or not.

Although, I would commend the agencies at the table for a lot of the great work they've done, I think we've made some terrific progress down here. I will say this office down here has issued 27 Form 70 actions on contracts.

So in addition to a coordinating and cooperation role, we are also playing a role where we getting in front of these contracts that are not going to small business and asking that they be redirected to small business.

Mr.JEFFERSON. That's a critical part of your role to advocate for small businesses. These contracts are coming out of the Corps. The Corps not too long ago was putting out a contract for $90 million. I think it was for some—it might have been for debris, at this late date, I think it might have been. And we had a big fight trying to get this thing into pieces where local, small business folks would have a chance at it. What's happening with that?

GeneralSTROCK. Sir, I'm not sure what specific contract you are talking about. It could well be at this late date we're talking about demolition requirements of these structures damaged beyond repair in the city. Today our policy is that all demolitions will go to local, small businesses. If that's what you are talking about, then I think that's been solved in that way.

Mr.JEFFERSON. Let me ask a question because I want to see how this is interpreted. There may be a couple of ways to think about this local preference in the Stafford Act. You could say all things being equal, we'll prefer a local company. Or you can say if a local company has capacity, we prefer a local company without worrying about all of the things out there being equal, everybody else and the whole wide world.

Which way do you look at this as you go about deciding on who ought to have the procurement opportunity here? Which way do you look at this local preference?

GeneralSTROCK. Sir, I think it's really in Dr. Finley's lane to talk about the policy and then we will follow whatever policy emanates from DOD on how we implement the Stafford Act. So we are prepared to do whatever.

I absolutely concur with the idea that local firms—and by the way, Stafford Act, as you know, only says local. It does not refer to small business. I certainly agree with that philosophy that local

firms must participate in the recovery. Because that very participation is part of the recovery. So there is only goodness there to rely as heavily as we can on local, small business firms.

Mr.JEFFERSON. When you're in a state like ours, almost every firm is small. Local kind of turns out to mean local small, for the most part.

GeneralSTROCK. Yes, sir.

Mr.JEFFERSON. The big issue for us is how this thing gets looked at. Your agency did something that FEMA didn't do some time ago. It did test out this issue by issuing Louisiana only procurement opportunities. And you've got a suit about it, and you ended up winning it, which means that it can be a Louisiana only procurement as we understand it now.

GeneralSTROCK. Sir, I think that was actually in Mississippi. And we attempted to do a geographic set aside in the State of Mississippi. It was protested by the contract, the current contract. By the time we got through all of the protests, much of the work had been done, and we did not award the contract.

So that particular action did not rise to precedent setting. So I'm not sure we really validated the fact that we have the authority to do that. But we believe we do or we wouldn't have done that.

I think the language contained in the modification of the Stafford Act is more prescriptive and more clear. It says that if you have contracts in place after the declaration of disaster, the agency shall transition to local firms.

So it's much more clear for us. And I think for the industry as we move ahead. I think that language helps clarify. Of course, again, there's a process to convert that language into policy and application. And that's what we are waiting for, for that process to be identified.

Mr.JEFFERSON. Let me ask one thing here that is tearing up the local contractors. I mentioned in my opening statement, and anyone can react to it, and tell me how we fix this.

If I'm Company X, and I just want to be a Y. And I decided how I was going to present my bid to win. I was going to say that for maintenance I would bid low and lose money. On the deactivation, I would bid a little higher and make money, and all together when you count it all, deactivation and maintenance, my bid was lower than somebody else's bid; and, therefore, I won.

Then you come back and have some folks reviewing the contract. You say, My goodness, now it's a new person, maybe somebody who just came on. And they say, My goodness, on the deactivation side, this is way too high. This guy is getting too much money over here. We ought to undo this thing. That is happening over and over with our local people. How do we fix that? I mean, why do we go back and review and undo these contracts? Folks have won in a fair bid. Because we wanted to examine parts of the contract and say we can do better. And it's really ruining them.

GeneralSTROCK. Sir, I'm not aware of any specific instances of that. That's something I'll take aboard and go work with our contracting people and see if that sort of thing happens, if we do a post-award revocation based on review after the fact.

Again, I'm not sure that we have done that.

Mr.JEFFERSON. Has anyone at the table heard about this problem?

[No response from the panel is given.]

Mr.JEFFERSON. I hear about it all of the time. It's quite odd.

Mr.MELANCON. It's happening in St. Bernard.

Mr.JEFFERSON. Maybe it's not getting to your level, but I wanted to bring it to your attention. It's happening. And it's a big problem for our local contractors.

GeneralSTROCK. Sir, we would be happy to talk to the specific contractors involved that that's occurred. I'm informed by the New Orleans district that we do not revoke a contract if we review something and say, Gosh, we should not have done it different. Our policy is not to revoke contracts after we award them.

Mr.JEFFERSON. Is that FEMA's policy too, Homeland Security's policy?

Mr.SCHNEIDER. No.

Mr.JEFFERSON. It's happening. I don't know where it's happening at.

Mr.SCHNEIDER. As far as I know, we don't revoke contracts. What happens is, there needs to be a cost realism determination made as part of the source selection. And so it depends on what the criteria for—

Mr.JEFFERSON. I'm told that it isn't—it doesn't amount to a revocation. It simply says we just stop them from doing the work, which amounts to the same thing. It's not an actual revocation, but they say you can't do anymore work in this area and end up giving it to somebody else. So it works for them like a revocation.

Mr.SCHNEIDER. My guess is it depends on how the contract is structured, what's the nature of the individual work items, and whether or not the Government elects to continue based on how those things are specified in the contract and individually priced.

And there's also in some circumstances a contracting officer that has the responsibility to make responsibility determination as to whether or not the contractor can successfully execute the contract at certain points in time, whether mods are made or whether options are exercised.

GeneralSTROCK. Sir, on reflection, I think that a potential scenario there would be a multiple award task on a contract where we have a contractor that actually wins a contract. But as we complete task orders—as we look at that contractor's bid, we may elect not to go with that contractor based on how his bid is structured and go with another, based on what their proposal for that task was.

So it's possible to win a contract for us for task orders for a blank purchase agreement where we evaluate task orders independently. And that could well be what's happening.

Mr.JEFFERSON. Madam Chairlady, you have been very liberal with me, just last thing, if I might ask.

ChairwomanVELÁZQUEZ. Sure.

Mr.JEFFERSON. Mr. Preston, I made the remark about our local office. They have a big responsibility here, and not just to carry out the day-to-day responsibilities, like one might have in Minnesota or someplace. But also to oversee this disaster and try to make some sense of it, and also train workers coming in from out of state who might serve as folks who are just working on the disaster, itself.

You have the officer working pretty much bare-bones. Have you looked into this and what we can do about getting this office staffed up again? From 39 in the midst of all of this disaster—we need to do better than that.

Mr.PRESTON. Sir, I would like to talk to you about the historical staffing numbers. I'm not sure if they sync with the ones that I have, but what I can tell you is—

Mr.JEFFERSON. What do you have? What are your numbers?

Mr.PRESTON. Most recently, right now, we are at a staffing level of nine. Several years ago—my understanding was—it was the low to mid teens. And a lot of that was due to the restructuring of how we do that operation.

I mean, the field in SBA used to do a lot of things that they don't do anymore, like processing loans, which are processed centrally and those types of things.

What I would like to do is sit down with your staff to understand where you think we're missing the grade locally; where you think we are not performing effectively and by virtue of having a deeper staff, we would be able to do a better job. Because I would like to—considering staffing issues, match the problem with the solution.

Mr.JEFFERSON. Yeah. There are certain positions that aren't in the field like the loan directors in the field. That's pretty basic. There's nobody there. The administrator does it all, but there is no one there who is a loan director. There is no one there who does the education part of it. There's no one there that does the technology. There's four or five positions that used to be filled that aren't filled now that are really critical, we think.

But anyway, I just think it's very important that we have this office up and going. I don't think I can sit with you and evaluate because I don't think the performance of the office is really a big question. They are working hard. They just can't do everything. And they can't do enough, although, I think they are working very hard.

ChairwomanVELÁZQUEZ. Mr. Melancon.

Mr.MELANCON. Thank you, Madam Chair. Ms. Doan, first let me say I hear the passion in your voice, and I appreciate that. There are several of you that are new at the agencies, I hope that you would take the passion that she has for this area and apply it to your agencies to respond if, in fact, she's doing the things, and I believe she is, to try and get this region of the country back up. It's a model that I think every agency needs to start following.

We are sitting here talking about contracts and bids and such as that. And right after the storm in the immediate aftermath, Mr. Jefferson referred to Knight Contractors, and they got a bid to go out and do I think it was electrical work based down in Belle Chasse.

Now, here we are 19 months later and we're talking about letting bids and because they expire, then we changed the price and, et cetera, et cetera. In the midst of everything that was going on, somebody found the time to go bust those guys out of there and replace them with somebody else that was doing cheaper labor.

Now, maybe there wasn't a contract with these people. Maybe it wasn't a bid, but that's the kind of things that I have been getting since day one that bother me. You know, we talked about the pub-

lic bids. We've talked about coming back in, General Strock, coming back in and saying, Oh, their price is too high now. When you find that price too high is that because some contractors come in and said, I will do it cheaper than now or is there a public bid that's actually put out. Because what I'm appearing to see is that somebody comes in and summarily—whether it's from the Corps or from FEMA or DHS or whoever, somebody is summarily coming in and saying we've got to renegotiate. And renegotiate back to day one. And that concerns me. How do we do that to these people?

GeneralSTROCK. Sir, it's conjecture that that's what we're talking about here. Let's take, for example, the blanket purchase agreements that we have to provide helicopter services. We have three companies that do that. Each one of those competed for that. We looked at their proposals. We said, yes, we think you have the capacity and the price looks okay.

Each time we need a helicopter, though, we compete that need among those three vendors. And at that time, they can change it based upon the nature of the mission and their availability of the aircraft so forth.

And if they come in with a bid that's better than the other two, we give it to that contractor. So it may appear to the others that I bid and I got accepted on the team, and now you are changing the rules. That's how these things work.

Mr.MELANCON. I can understand a task for helicopters.

GeneralSTROCK. Yes, sir.

Mr.MELANCON. I'm talking about on the ground. The equipment is there. The manpower is there. The people aren't getting paid. They are all of a sudden being told that they are not going to get paid retroactivity for work that has been done and completed because now somebody says they will do it at a lower price and come in after all of the big work has been done, after hard work has been done and all of the equipment has been ripped apart; and then they haven't got paid.

And then what happens is there's a bid that's being let on another job in the same parish I'm talking about—I think we know which one that is; I don't think it's complicated—to pump out this sewage pump station, and nobody wants to bid on it because they are not getting paid right now so what the hell are they going to do, go bid for a contract they are not going to get paid on? And why do we relet it? I mean, do you stop the work? And that seems to be what goes on in these agencies. It's like go forward for a foot and then stop; we need to back up two feet.

So, you know, if you could, explain that to me. If you can't do it here today, I need to get an explanation or at least sit down with the people I can get—I get sessions. When I get a session, I get good feeling conversations when I intervene. Then as soon as I step away again, it goes to hell in a handbasket. I need to know, General, are these—are you aware of these things? Or is this something that's happening on the ground with your subordinates who are here running the task and operations?

GeneralSTROCK. Sir, again, I think we need to look at the specifics of each situation to truly understand what's going on. I can say it's our policy once we issue a task order for a contract, we do not go back and say, Well, we've changed our mind; we found some-

body who could do it; stop work. We don't do that routinely. Our policy is to stay with that contractual obligation we have because those obligations work both ways.

We do however—I understand anecdotally we're hearing that some subcontractors are not getting paid. We have a prompt payment requirement to primes. And it's up to the prime to pay subs. And it could be that some of these that are not being paid are subcontractors.

And we don't have the ability to reach down and force the payment of subcontractors.

Mr.MELANCON. I understand that. This wasn't in that situation. What I would like to ask you to do because what I happen to have is a situation this week where I've pushed them to get together. They've gotten together and they were supposed to report back that night, never reported back. And that was about four days ago.

I think it's just they came in just to let them go a little bit longer.

I would like to ask you: When I can get them all back together in a room, I want you to come listen to these meetings; and I want you to listen to what's going on. Because it's all this (gestures). Everybody is blaming everybody else and we're getting nowhere. And that's the frustration.

GeneralSTROCK. Sir, I will attempt to do that. My experience is it's best to solve problems at the lowest level possible where people really understand what they are talking about. And we would prefer to solve those here with the New Orleans district or Mississippi Valley. But if it requires my presence, then I can make every effort to be there for that.

Mr.MELANCON. Well, if it gets to the attention of the people that you command, and if I've got to get the generals and the National Guard that are involved in GOSEP, that's what I'm going to do. And the next step is going to be going to Congress and ask for subpoenas and whistleblower status and whatever because it's gone on too long.

GeneralSTROCK. Yes, sir.

Mr.MELANCON. Mr. Preston, when we talk about the number of people that are here in the New Orleans area, was there an office here before the storm?

Mr.PRESTON. Yes, there was an office.

Mr.MELANCON. How many people did we have in the office?

Mr.PRESTON. I don't have the number right before the storm, but I can get that to you.

Mr.MELANCON. And we brought some people in. What, nine people, I think I heard?

Mr.PRESTON. Yeah. I think what's important to understand is we do a lot of different things. What the Congressman has been talking about is our district office.

We also have disaster loan people down here. I mean, that number was—a little over a year ago, 1,600 people down here throughout the Gulf. We had about 100 locations. So this is really the office that is in place for a longer period of time.

Mr.MELANCON. Well, the district office that was here before, how many people do we have in there now?

Mr.PRESTON. That's nine people.

Mr.MELANCON. That's nine people. But was it bigger before?

Mr.PRESTON. It was somewhat larger a few years ago, but I don't have that number for you.

Mr.MELANCON. One of the comments that I heard—not just one, I've had several people call me—that after the storm, offices were set up and then in recent times they will call and the numbers have been disconnected; they've moved to a new location; the numbers of people that were handling the claim are gone because SBA just said, We don't need you anymore, even though they've got a stack on their desk. Is that, in fact, going on?

Mr.PRESTON. What you are probably referring to is the disaster loan site.

Mr.MELANCON. Yeah.

Mr.PRESTON. And I will tell you even into last summer and into last fall, we had tremendous backlogs. People had been waiting months for any number of reasons, which we can get into detail at some point if you would like to. We have very significantly reformed that operation. And I think we are down—you know, when we came in last summer, we had about 120,000 people backlogged. And a relatively low level of disbursements. We've now disbursed $5.4 million dollars. We are down to the last 18 thousand people. 16 of those 18,000 have already gotten some of their money. It's mostly people who are having challenges like, Can I get contractors; can I get insurance? Trying to—you understand. Right now we're down to the toughest areas where people don't know whether they are going to move forward or not.

Mr.MELANCON. And I understand that because it's a real bad problem.

Mr.PRESTON. If you continue to hear issues with that, please call my staff directly. The feedback we've gotten is that we've made a lot of progress there. And we're really proud of the reforms. But any issue with people getting disaster loans or paperwork getting lost, I would ask you to call my staff directly in Washington because we're trying—you know, I think we've made a tremendous effort. And hopefully that's largely cleaned up.

Mr.MELANCON. One of the things that concerns me when you're telling me the dollar amounts of loans that have been approved as compared to how much money is supposed to be put into the pot. It's starting to sound to me that we had more people on the ground than we had payouts to small businesses. And I would like to see what those numbers compare. I mean, 1,800 people, I know they didn't come cheap, and they were putting them up in hotel rooms and every available place in town. And that's a whole other issue about FEMA trailers. Keeping people from coming in because the contractors were in all of the available housing in the city. And people wanting to come back, but there was no place to come. And that's not your—I'm not going to hit you with that one. But I think I've run over my time. And I thank the Chairwoman for her patience.

ChairwomanVELÁZQUEZ. Thank you. Mr. Preston, it seems in my first round, I wasn't able to make it to you and I didn't want to leave you out.

Mr.PRESTON. Thank you.

ChairwomanVELÁZQUEZ. So in discussing the level of agency views of local small businesses, I understand that this issue may not be first and foremost with some of your colleagues here sitting at the table. But clearly at the SBA, that is not the case. And due to the nature of your agency, it has not had a substantial direct role in letting prime contracts.

But in taking a look at the SBA Katrina-related contracts, I was surprised to find 32 valued at almost $32 million. Of this, only one was awarded to a local small business. None was awarded to minority-owned companies. So, Mr. Preston, my question to you is: How is it that the agency which is supposed to be the one advocating for small businesses in the Federal Government do almost no work with these companies?

Mr.PRESTON. I know that our small business record here in the Gulf on the businesses related to these efforts was over half. So about over half went to small business. I don't have the specific numbers for those contracts, but I will absolutely follow up on that and get back to you.

ChairwomanVELÁZQUEZ. I know that most of these contracts were awarded by the previous administrator. What I want to hear is: What are you going to do to make sure that this pattern will be changed by the agency whose mission is—

Mr.PRESTON. Yeah.

ChairwomanVELÁZQUEZ. What are you going to do?

Mr.PRESTON. Absolutely. If we are in a role where we're charged with bringing these businesses to the table and helping to get contracts more broadly, we have to set the stage. So I will leave here and work with your staff specifically to get you back the information and look into it. So thank you.

ChairwomanVELÁZQUEZ. Thank you. Ms. Doan, we all know and you know because you are from here that New Orleans has a significant minority population. And I just want for you to explain to the Committee how is it that your agency ranked next to last of the agencies represented here today in terms of contracting with local minority businesses? What could possibly explain this?

Ms.DOAN. I actually would like to see that statistic. That's not the statistic that I believe that we have.

ChairwomanVELÁZQUEZ. This is based on the data from your agency and the data provided by—

Ms.DOAN. Our data is that in disadvantaged businesses, we have 6.9 percent went to disadvantaged businesses, 9 percent to women-owned, 2.4 to HUBZone, and 71 percent—

ChairwomanVELÁZQUEZ. Ms. Doan, I would strongly suggest that you go back and check your numbers.

Ms.DOAN. I'm happy to do it.

ChairwomanVELÁZQUEZ. Those are not local minority businesses. Those are nationally. The scope of this hearing is not about small businesses nationwide. It's about small businesses, local small businesses, minority businesses here from the Gulf region.

When you use that data, then we are going to have very good numbers to report. But those are not the numbers that were requested.

Ms.DOAN. I will look into this. If it's something happening, I will fix it. I would like to also point out that one of the programs which

I mentioned which is U.S. Customs House has been a local, small business that we have worked with and it also is a HUBZone business that's subcontracting. We have—

ChairwomanVELÁZQUEZ. HUBZone—the businesses that goes into HUBZone are not necessarily minority businesses.

Ms.DOAN. Yes, I know. But under that one alone, we had 6.3 percent for small disadvantaged. What I would like to do, though, is follow up with you on this because it's so important to me, we will work on it.

ChairwomanVELÁZQUEZ. Okay.

Ms.DOAN. Could I ask to just plug real quickly—

ChairwomanVELÁZQUEZ. No. No. Because I have a question—

Ms.DOAN. —gsa.gov, if we could just get people to go—honestly, every time you guys get someone local, tell them to go to gsa.gov, please, gsa.gov, please, have them register for us. This is our best way to make this happen. Oh, by the way, if they are having problems, have them e-mail me directly. I respond to all of my e-mails. I will move this along. This is important to me.

ChairwomanVELÁZQUEZ. Well, let's talk about the fact that GSA earlier this year requested bids on ADA contract for architectural and engineering services for Katrina-related repairs to a GSA building in the region. Prior to that solicitation, GSA would have had to first make that determination that two or more qualified 8(a) firms existed that could do the work. Given the significance, and we just mentioned it, local minority population, my guess is that it shouldn't be difficult to find two 8(a) contractors here.

Yet after offering that contract on their 8(a), it was never let. Recently GSA has come out with a new proposal that does not use the 8(a) program. So small businesses, as you know, have to be strategic in what business opportunities they pursue because this is going to cost them.

So when I see this type of poor planning on an agency's part and given the poor track record that your agency has when it comes to minority contracting opportunities, I want to know why this is happening. And if you will commit yourself today to replacing this contract with similar work for this industry.

Ms.DOAN. Congresswoman, I don't know why this is happening. But it is important to me. What I also don't know why is honestly, guys, LuritaDoan@gsa.gov, pick up the phone, e-mail me, call me. You don't even have to get me to come here to this hearing. I would have looked into this immediately. I will look into it as soon as I get out of this hearing.

I will commit to you to doing whatever is legally possible to circumvent this. I think if you guys look at my track record in the last ten months since I came on board, I have grabbed so many bundled opportunities. I have made them available to the 8(a) and minority community.

This is something that's important to me. I have a great track record for ten months on this and I will continue that. Let me work with you.

ChairwomanVELÁZQUEZ. Your words sound good, but measurement is done through numbers here.

Ms.DOAN. I absolutely agree and let me make those numbers count. Please, work with me on this. If you know of something, call me.

ChairwomanVELÁZQUEZ. The first thing I would suggest that you do is go back and sit down with your staff and look at this contract, the architectural contract.

Ms.DOAN. I intend to as soon as we—as soon as I get back to D.C. I appreciate this opportunity. If I could just say once more, please, please, please, give me a chance to make it right. Alert me as soon as you're made aware by either your constituents or any small business, please, let me know.

ChairwomanVELÁZQUEZ. Ma'am, I'm telling you—

Ms.DOAN. We're together. Believe me, we are aligned. We are kindred spirits on this.

ChairwomanVELÁZQUEZ. Look, if you read the papers and you watch TV news, you know what is happening in this region. You don't need for me to come and tell you.

Ms.DOAN. I live—I am living this nightmare every day.

ChairwomanVELÁZQUEZ. You don't need me to come and tell you that your agency ran next to last when it comes to minority contracting opportunities. So I will suggest to you, go back and make sure that you implement a plan.

Ms.DOAN. I'm happy to do that. What was past is prologue. From ten months onward since I have been in this, I am committed to this and I will continue to do that as long as I am the Administrator.

ChairwomanVELÁZQUEZ. Thank you.

Ms.DOAN. You have my promise.

ChairwomanVELÁZQUEZ. Thank you.

Mr. Dunne, the VA has more than 36 million in Katrina-related contracts, but have awarded less than 245,000 to local minority businesses. What is the Veterans Department doing to target and ensure that minority business that can do this work—we're not talking about handouts—are getting their fair opportunity?

AdmiralDUNNE. The VA is reaching out to small businesses, local businesses in the area to ensure that they are aware of the opportunities. And I would offer up as an example that since the Stafford Act was passed, 14 of 16 contracts that have been let were for local contracts representing $240 million out of a total of $257 million contracting. We need to keep this emphasis on, and we will continue to do that and continue to use the Stafford Act and the other legal guidelines in order to make sure that we fulfill our responsibility.

ChairwomanVELÁZQUEZ. Mr. Dunne, do you know what really troubles me or concerns me when I read your testimony, that you are so quick to dismiss small business ability to serve as a prime contractor for the VA hospital. Why is that?

Mr.DUNNE. The reason for that is our historical experience. We are more than happy to learn that there is an ability to do that—

ChairwomanVELÁZQUEZ. What kind of experience?

AdmiralDUNNE. An experience that we have had in other contracting environments. We work with the prime contractor when we have the ability to set guidelines within the contracting, and then get the prime contractor to work with subcontractors on a

local basis, on a minority basis, on a veterans basis and incorporate them into the overall contract.

ChairwomanVELÁZQUEZ. So are you telling me that small businesses are not able to be a prime contractor to build the VA hospital here?

AdmiralDUNNE. I'm saying that—

ChairwomanVELÁZQUEZ. I would like you to base that in some type of analytical analysis, not experience—traditional experience, historical experience.

AdmiralDUNNE. I think oftentimes it becomes an issue of bonding. We are in the process of talking with the Small Business Administration about that specific issue. If it is possible to get a local, small business, any small business could be involved in our contracting, we welcome that opportunity.

ChairwomanVELÁZQUEZ. Mr. Dunne, in developing the purchasing strategy for this program, did the SBA engage your agency to make recommendations as to how local, small businesses would be used?

AdmiralDUNNE. I would have to get back to you on the answer to that.

ChairwomanVELÁZQUEZ. Mr. Preston, who is the PCR assigned to VA?

Mr.PRESTON. I don't have the name of that person.

ChairwomanVELÁZQUEZ. Are you going to work with the VA to make sure that the PCR will work with VA to make sure that there is going to be small business participation in this project?

Mr.PRESTON. Yeah. That's the PCRs job, and it's also the local office—

ChairwomanVELÁZQUEZ. But this is—you know, we all know for months now that this project is coming here, $300 million. We have witnesses that will be testifying here later today in the second panel that have been prime contractors. One of them built a Harrah's hotel for half billion dollars. So if it's good for the private sector to turn and hire a small business as a prime contractor, why is it that it's not good for you?

So, Mr. Preston, are you going to direct a PCR to look into this?

Mr.PRESTON. Yes. We will look into it.

ChairwomanVELÁZQUEZ. Mr. Dunne, since the work of the VA hospital has been divided into five phases—general design, SAL utility phase, energy planned phase, foundation phase, and a build-out phase—will your agency commit to at least one of those phases being awarded for a local, small business?

AdmiralDUNNE. The agency will commit to following the contracting process in giving of all able contractors an opportunity to bid on any element of our contract.

ChairwomanVELÁZQUEZ. Let me ask you: Portions of these phases could easily be done through the 8(a) program either as a set side or for those contract portions over 3.5 million competitive among just 8(a); will the VA commit to this?

AdmiralDUNNE. The VA will commit to continuing the contracting in accordance with all of the legal capabilities that we have in making opportunities available to every qualified contractor.

ChairwomanVELÁZQUEZ. Let me say this to you, sir, and to the SBA, Mr. Preston, we are going to be watching what your agency is going to do. We are not asking you to give a handout to small businesses. We are asking you to follow the law. And we are going to look and see what contracting goals you have established for small businesses and minority and women-owned businesses.

Mr.PRESTON. Chairwoman, my district rep just informed me that we are working through the district office to provide a recommendation for local businesses to the VA and to see what we could do to help with that particular contract.

ChairwomanVELÁZQUEZ. Thank you. I know that Mr. Westmoreland has to leave, and he would like to make a statement.

Mr.WESTMORELAND. Thank you, Madam Chairlady. My grand mamma used to say sometimes you get between a rock and a hard place. And I see six people between a rock and a hard place down there because I know that your agencies are probably doing everything they can to work at the fastest pace possible to bring this region back to—if it ever could be brought back to a normal condition that it was prior to these two natural disasters.

And while right now you are maybe getting talked to about not using the right percentages of minority contractors or small businesses, at the same time, if you weren't as far along down the road as you are today with what you have completed, you would be getting hollered at about not getting this work done. And sometimes those things just don't mix and match as quick as you would hope they would. So my hat's off to you for the job that you-all have done so far.

And I will just leave with this little bit of advice about—and I hate to leave you-all. We're having such a good time, but I have got to go back to Atlanta—let me just say this to you, you can't imagine what it's like to sit on this end that we sit on. And Mr. Melancon, and Mr. Jefferson, and Mr. Pickering, and Mr. Wicker, Mr. Jo Bonner, the boys along the Gulf Coast that have suffered this kind of damage. And I'm sure they hear constantly from their constituents about these things that we don't understand about how Government operates. And my suggestion would be simple to you. And I can't believe that you-all haven't done this or maybe you-all have done this, I don't know. I would have somebody from my office assigned to each one of those congressional offices and I would go by once a week and I'd find out what was going on in their district. Because I promise you, if you go to the grocery store or if you go to the Rotary Club or Kiwanis Club or wherever you go, you are going to hear from your constituent about some thing that the Government didn't do for them or that the Government did to them.

So I suggest that you-all stay in constant communication. That you are able to discuss these issues. And for the Chairlady, I have sat on this committee for three years with her. I can promise you that she is not going to be satisfied until she sees an increase in the minority businesses, in small businesses, especially those minority small businesses get a fair crack at government contracts, which we all believe that they should.

So my suggestion to you on that is I would give her a report once a month as to how you're coming and especially in these projects along this Gulf Coast region.

Madam Chairwoman, I want to thank you for having me down and letting me participate in this. And if it's okay with you, I'm going to leave and go catch a flight. Thank you.

ChairwomanVELÁZQUEZ. Mr. Jefferson?

Mr.JEFFERSON. Thank you, Madam Chair, I want to ask about the bonding program because it's come up with the VA and a few other places. I'll go back to Mr. Preston and ask him about this.

Just after Hurricane Katrina, the SBA delayed the schedule fee increase and the surety bond guarantee program for six months from October 1st, 2005 to April 3rd, 2006, to assist small contractors needing bonds to participate in the rebuilding of the Gulf Coast area.

However, that period, of course, has long since passed. One idea that's been proposed in the previous Congress would allow the SBA administrator to use rates approved by the local insurance commissioner in the state in which the contract is let or is to be performed.

Removing these bonding barriers, whatever they are, to small businesses is really the key to making these available. If they set aside contracts to whatever they do, and then the small business folks can't meet the bonding requirement, it's really all for naught.

Do you have any ideas as to how we can assist in this area more than you are already doing to make sure that when these contracts are broken down and they are reachable by small business folks, that they'll be bonding capacity in place for them to help them to meet the requirements to do these jobs?

Mr.PRESTON. Yeah. I think part of the challenge is the bonding limit. And part of the challenge is the size of the bonding program. And we would be open to talk about working with you-all to expand that limit.

Mr.JEFFERSON. What should we do to do that, though? Whatever we need to do, we need to know it because we want to do it to make sure it's available here.

Mr.PRESTON. Right. I think we would be happy to work with you on that. The other thing that we can do pretty actively is work to joint venture numerous small businesses together to expand their capacity as well, which can partially address that issue.

Mr.JEFFERSON. What's the bond limit now that you are working with?

Mr.PRESTON. It's $2 million.

Mr.JEFFERSON. Now, explain that to me.

Mr.PRESTON. It's the amount that we would guarantee. It's the amount that we would back the insurance company for behind that.

Mr.JEFFERSON. Madam Chairlady, with the bill that you have pending in Congress to be passed, we haven't yet gotten out from the floor yet, huh?

ChairwomanVELÁZQUEZ. Next week.

Mr.JEFFERSON. All next week. This bonding issue is a real key part. But I don't know to the extent we addressed it, but it is still addressable, I'm sure next week, if we wanted to. And I would just

like to know if the Administrator would back the notion that we raise the bonding guarantee limit from $2 million to some other figure that would permit more opportunity down here in the Gulf region especially.

Mr.PRESTON. Yeah, we'll work with your staff on it. We'll actually call the Chairwoman's staff to work on it.

Mr.JEFFERSON. Because this could be included as early as next week in legislation that's on the floor which I'm sure we could pass out of there without any problem with the Chairlady's leadership on that.

ChairwomanVELÁZQUEZ. Mr. Melancon?

Mr.MELANCON. Thank you, Ma'am. General Strock, I have got a question that I asked in the Katrina Committee of the Corps, and they told me they were going to get me that information. The Katrina Committee ended and I still have yet to see that, the cost paid or the price paid by the Corps per cubic yard of material collected and disposed of at the top, first primary contractor.

If you could do that for me, I would appreciate it.

GeneralSTROCK. Is that just in general, sir, on this specific parish?

Mr.MELANCON. Yeah. We went to Federal Court trying to get this number and they say it's not public information. I beg to differ, and I hope I don't have to speak for it; but somebody ought to be able to give us that number. And, you know, everybody said, Well, I don't know. And we're 19 months, and we've picked up how many million cubic yards? Several hundred million cubic yards?

GeneralSTROCK. About 100 million, yes, sir.

Mr.MELANCON. And so somebody has got to know that number. If you could, get that for me. And I would like it pretty quick because I know somebody has got to have it over there.

GeneralSTROCK. Sir, I will give you that number, and I'll tell you why we cannot do that, but I guarantee I'll get an answer to you.

Mr.MELANCON. Okay.

GeneralSTROCK. You're looking for the tiering—

Mr.MELANCON. That number may settle a whole lot of problems we've had in this area.

GeneralSTROCK. You're looking for the tiering; what the prime got versus the second sub, third sub and so on.

Mr.MELANCON. Yeah. One of the things that I have been told and told this by a contractor, or a representative, I should say, of a contractor, that Mississippi has less tiers than Louisiana. Is that so? Do you know that? Is that a frequent event? Or is that just maybe one contractor?

GeneralSTROCK. Sir, I don't know that, but one thing I can tell you that we learned in this event is that in future contracts, we will specify as part of the proposal how they plan on subcontracting, how many tiers and so forth. We will require them to tell us in advance.

Mr.MELANCON. Why can't we make that change since we have been making changes with the price on the jobs that they are doing, why can't we make that change now?

GeneralSTROCK. I don't know the answer if we can do it or not.

Mr.MELANCON. We ought to be able to at least find out exactly what every contractor that's the prime, whether it's the low bidder

or whoever, what they are collecting, how many tiers they have going down. I'm told in Mississippi it's three tiers. In Louisiana, I'm told it's five to seven depending on who you are talking to. And I'm also told that the price per cubic yard that's being paid over here might be as much as three times more than what is being paid in Mississippi.

I don't know that. I can't get the numbers.

GeneralSTROCK. Sir, I will get that to you if I can. Each contract, though, is a little different. Debris here in an urban environment in New Orleans is significantly different than the debris you will find in a rural environment in Louisiana and Mississippi. So it's very difficult to compare one contract and one situation to another. We'll do what we can.

Mr.MELANCON. And I agree with that. I don't think St. Bernard and Lower 9th Ward are going to have a whole lot of difference depending on the contract work.

Mr. Preston, we talked a while ago—I think you said 22 percent of the contract—and maybe the Chairlady got it, and I didn't pick it up—22 percent of the contracts are small businesses. And with her asking about the different corporations or businesses that are doing it, does that squirrel your number?

Mr.PRESTON. I guess 22 percent of the contracts were local businesses. Actually, 29 percent, I believe, overall were small. But the Chairwoman's comment is that they are not small, local businesses. My number is somewhat higher than hers. I think my number is 12 but we'll work with you-all to reconcile the number. But it's still—it's a solid number, but it's not enormous.

Mr.MELANCON. I think what I would like to try to do, Madam Chairwoman, is if we could try and get—because, as you know, we can make numbers do whatever we want them to do. And what I think we need to get is for all agencies numbers with regard to small business contracting, with regard to 8(a) contracting, we need to get everybody on the same formula, the same basis. And if we could, maybe we could get staff to work with an agency, get one and then let's go back and look and see what those numbers really are a comparative basis. If that's possible.

I don't know if I've got any time left. I have very little. I give it back to you.

ChairwomanVELÁZQUEZ. Okay. Mr. Preston, earlier this year at the Committee's budget hearing, we asked as a part of the record that the agency provide information on all of the local, small business contracts that SBA had worked with the other agencies to secure it.

SBA wasn't able to identify seven. So given that, Mr. Preston, Administrator Preston, would you commit to meeting with each of the agencies that are at this table to identify five prime contracting opportunities for small and minority businesses including a process to ensure that local companies are included? And I am going to ask you to do that and report back to this committee in 30 days.

Mr.PRESTON. Great. I'm surprised we were only able to provide seven.

ChairwomanVELÁZQUEZ. I have your answer right here.

Mr.PRESTON. Okay. We've worked with just numerous businesses.

ChairwomanVELÁZQUEZ. We just received a letter from your office two weeks ago.

Mr.PRESTON. Okay. My understanding of—in fact, we talked about it earlier today—my understanding is the request was for the number of Form 70s that we issued on HUBZone companies. So there may have been some confusion on the request because we've actually issued 27 Form 70s and worked with hundreds of small businesses.

ChairwomanVELÁZQUEZ. Sir—

Mr.PRESTON. So I apologize if we misunderstood the request.

ChairwomanVELÁZQUEZ. We will work with your staff, but that's not correct.

Mr.PRESTON. Great. Thank you.

ChairwomanVELÁZQUEZ. I'm going to excuse the panel now. I want to thank all of you for coming here today. As I mentioned to you, we will continue to monitor the situation about procurement practices with local and small businesses. And I will excuse you with one caveat. On the second panel, we are going to have local, small businesses participating. I will ask for each one of you to identify the staff person for the record that will remain in this hearing.

Mr. Preston?

Mr.PRESTON. Tee Roe.

ChairwomanVELÁZQUEZ. Ms. Doan?

Ms.DOAN. Karen Kurksy.

GeneralSTROCK. I'll stay myself.

Mr.SCHNEIDER. I'm going to stay.

Mr.FINLEY. I will stay.

ChairwomanVELÁZQUEZ. Mr. Dunne?

AdmiralDUNNE. I will be here also.

ChairwomanVELÁZQUEZ. Thank you very much. The panel is excused.

ChairwomanVELÁZQUEZ. On this second panel, our first witness is Mr. William Shear. Mr. Shear is the Director of Financial Markets and Community Investment at the U.S. Government Accountability Office. Thank you, Mr. Shear, and welcome to the Committee for the second time recently.

STATEMENT OF WILLIAM SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr.SHEAR. And I'll thank you again. It's a pleasure to be here, Madam Chairwoman, and Members of the Committee. I am pleased to be here in New Orleans to discuss small business participation in the rebuilding of the Gulf Coast in the aftermath of Hurricane Katrina.

My statement today is based on a report we issued last month under the Controller General's authority describing the extent to which small businesses participated in these Federal contracting opportunities.

Our report addressed contracts awarded by the Department of Homeland Security and Defense, U.S. Army Corps of Engineers, and the General Services Administration.

Here, I will discuss first the amounts that small and local businesses receive directly from these contracts with these agencies for relief and recovery efforts related to Hurricane Katrina. And second, the extent to which small businesses receive subcontracts for relief and recovery efforts.

In summary, small businesses receive a total of 28 percent for relief and recovery efforts. In summary, small businesses received a total of 28 percent of the $11 billion in contracting dollars that these agencies directly awarded in response to Hurricane Katrina, between August of 2005 and June of 2006.

DHS awarded the highest dollar amounts to small business and GSA awarded the highest percentage of its Katrina-related contracting dollars directly to small businesses. Small businesses in Alabama, Mississippi, and Louisiana, received 66 percent of the $1.9 billion awarded to business in these states. With respect to small business subcontracting opportunities, required information was not consistently available in official procurement data systems for these agencies.

For example, the systems had no information on whether DHS or GSA required small business subcontracting plans for 70 percent or more of the contracting funds.

In addition, the agencies often did not provide reasons for their determinations that plans were not required, even though Federal rules require such documentation. And such information should have been readily available.

Because of the incomplete information about subcontracting, we were not able to determine the extent to which agencies complied with contracting rules and gave small businesses maximum opportunities to win subcontracts.

We concluded that demonstrating compliance with the rules about subcontracting compliance is important for reasons beyond just documentation.

By requiring these plans, agencies commit prime contractors to specific goals providing opportunities to small businesses and give themselves tools, incentives as well as sanctions that they can use to ensure that contractors engage in good faith efforts to meet their small business subcontracting goals.

In doing so, the agencies ensure compliance with Federal procurement regulations, and that small businesses have all of the practical opportunities to participate in Federal contracts that they are supposed to have.

Therefore, we made recommendations to the agencies to more transparently disclose the extent to which subcontracting opportunities are available to small businesses. We recommended, first, that the agencies issue guidance reinforcing the need to document in publicly available sources their decisions regarding subcontracting plan requirements; and, second, consider asking the Inspector's General to conduct reviews to ensure that this guidance and requirements are being followed.

The agencies generally agreed with our recommendations and describe various steps that they are taking to implement them. We plan to follow up with the agencies on their efforts to implement these recommendations.

Madam Chairwoman, this concludes my prepared statement. I would be happy to answer any questions.

[The statement of Mr. Shear may be found in the Appendix, on page 108.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Shear. Our next witness is Mr. Ian Alexander Dreyer. Mr. Dreyer is Vice President of Perez, APC, a 60-year-old architectural and engineering design firm based in New Orleans.

Welcome.

And I would recommend to make a presentation for about five to seven minutes, but close to five minutes, please.

STATEMENT OF IAN ALEXANDER DREYER, VICE PRESIDENT, PEREZ, APC

Mr.DREYER. Thank you, and good afternoon. Chairwoman Velázquez and members of the Committee, thank you for giving me the opportunity today to discuss the role small businesses are playing in rebuilding the Gulf Coast.

My name is Ian Alexander Dreyer, as previously stated. I am Vice President of Perez, APC. We are a 67-year-old company based here in New Orleans that provides architectural and engineering design services.

Our recent projects included: Ascension Parish Courthouse in Gonzales, Louisiana; Pearl River Junior High School; and the Natchitoches Events Center.

Owned by a Hispanic female, Perez, APC has qualified as an 8(a) firm. Even before joining the 8(a) program, we had done work as a subcontractor for the Air Force and as a prime contractor for the Louisiana Air National Guard and Army Corps of Engineers. We are currently working on three subcontracts for the Army Corps of Engineers.

In October, we bid on a GSA contract for architectural and engineering services in Louisiana. The solicitation was for Katrina-related repairs to GSA buildings throughout Louisiana. There was an 8(a) set aside. We were perfect for the contract as initially solicited, but it was later canceled.

During our telephone debriefing, I was told that we fulfilled all of the requirements, but they feared our firm was too small to handle the number of task orders and that we would be overwhelmed.

The contract has been offered a second time, but with no set asides. The solicitation is due later this month.

We have demonstrated over the years that we are able to expand based on the size of the contract. We were recently the prime architecture and engineering firm on the construction of Harrah's Casino, a project worth $400 million. For that contract and similar projects, we grew to meet the demands of the workload. In the last 10 years, our staff has been as small as five people and as large as 50, all employees, not including contract labor and sub-consultants.

In fact, all businesses manage their labor force in this way. It is extremely rare for the timing of contracts to be so perfect that a new one starts exactly as the last one ends. Businesses do not need to have idle employees sitting around waiting for contracts. Both large and small companies deal with the same staffing issues.

If anything, small businesses handle these fluctuations better and with lower overhead. They can hire people much faster when heavy project loads require it. Many of us at the company have worked for huge, multi-national architecture and engineering firms and have found that our small firms compete with them very well, for the same work, and produce as well or better than they do in part because of our inherent flexibility.

I believe that GSA and all of the Federal agencies participating in the rebuilding effort should be selecting local small businesses to participate in rebuilding contracts based on their track records and experience.

Through our past service to Federal agencies and successful management of simultaneous IDIQs and large-scale projects, we have demonstrated that, though we are a small firm, we are well-equipped to do the work.

There are many small businesses in our area that, like us, stand ready and willing to help rebuild Louisiana.

Thank you again for this opportunity to present our experiences. I look forward to answering your questions about how local small businesses can help rebuild the area.

[The statement of Mr. Dreyer may be found in the Appendix, on page 124.]

ChairwomanVELÁZQUEZ. Thank you, sir. Our next witness is Mr. Edwin Jones. Mr. Jones is the President of EJES, Inc., a multi-discipline engineering services firm. EJES has three offices around Louisiana.

Welcome, sir.

STATEMENT OF EDWIN JONES, PRESIDENT, EJES, INC.

Mr.JONES. Madam Chairwoman, I want to thank you and the Committee for giving me the opportunity to speak on participation in this Gulf Coast region. I want to start by giving a background of myself. I'm born and raised here in the State of Louisiana, a Southern University graduate from the College of Civil Engineering in Baton Rouge.

To give a quick history on EJES, we have completed over 75 different civil engineering infrastructure-type projects throughout the State of Louisiana. At the present time, we have prime consulting work with the City of Baton Rouge, with the City of Alexandria, the City of Shreveport, and also a subconsulting project with the New Orleans airport.

The one thing I want to emphasize is that I've been doing work here with my company since 1998. So even before the hurricane came and devastated New Orleans, we were already existing and doing work and participating in Louisiana.

One thing I want to key in on is: We have an existing IDIQ contract with the Tulsa District already. And at the present time, we got the contract signed about February of '06. Still today, we have not done any meaningful work with the Tulsa District.

So we went to the chief contracting officer. Rick Hendrick agreed to call the New Orleans District and say, We've got an 8(a) firm; they do good work.

You know, we could do work here in New Orleans. The New Orleans District said, No, we know you guys have the qualifications, but we want you to have a New Orleans contract.

I want to highlight something that I just got from the Corps on February the 6th. It says, ″Your firm was among the most highly-qualified firms, but was not among the selected firms.″ This is what the New Orleans District just wrote me on February 6th. It says, ″Even though your firm was not among the selected firms, you are among the most highly-qualified, and will be notified if the workload requires additional contract award.″

So we put together a complete team of minority companies and submitted it for a contract with the New Orleans District. We had four outstanding local firms on our team from BFM, Eustis Engineering, Parsons Brickenhouse (phonetically spelled) for this contract. And still, again, we get disappointing news on that contract.

About three years ago we went up to Washington D.C.—maybe two years ago, we went up to Washington D.C. And Ms. Bernadene Greenhouse was in office then. And she talked to us about contract bundling and about being able to have strategic alliance team members in order to compete for the large-sized contracts. Because one of the excuses is: You don't have the capacity in order to do a major Corps contract.

So we assimilated a whole strategic alliance of small businesses. When we did that, we were successful to win the Corps contract. Also, immediately after the hurricane, Mrs. Kim Carter, which was representing the Department of Commerce, contacted me. I gave her all my financial information, all of my certifications to show that we were a vibrant business in Louisiana. And she responded back to us that we were one of the number one ranking firms to do business with the recovery work. Still again, from her conversation, she got frustrated because they were not serious about giving minority business contracts. So she said she went to another job.

Also we have met with the New Orleans District on over ten occasions giving our work experience and giving them everything that we have to show that we can do this type of work. On every occasion, they looked at our experience and they said, You've got all of the experience; you've got all of the capabilities; you should win a contract. Still, again, nothing.

I want to submit this for the record because this is from the Corps when they said that we are highly qualified.

ChairwomanVELÁZQUEZ. Without objection. It will be submitted.

Mr.JONES. Thank you. And really quick to wrap it up, I want to submit this IDIQ that I have in place. I will give you a example. We have a Tulsa contract. About two weeks ago, another company, a major company called out of the Louisville District and said, We got work going on in the Tulsa District. But still yet we as an 8(a) firm, with a five year, $1 million a year capacity to $25 million, they still have not given us a meaningful contract. The only contract we have is a contract that a majority firm is doing $130,000 of work. And as a team we're getting 9,000.

So something is wrong. I want to end with this: When the hurricane hit, it was very close to me, so close to me as an owner that I had families coming from New Orleans to stay with me during this period. So for me as an owner and native Louisianan and as

a person that loves this State, I feel that it is a crime; and it's a shame that putting all of our time and effort into Louisiana to build a business as a black owner with the 9th Ward being a majority black area, that we as black, African Americans are not getting our fair opportunity to do work under this recovery work.

Thank you.

[The statement of Mr. Jones may be found in the Appendix, on page 126.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Jones. Our next witness is Mr. Ricardo Pequeno. Mr. Pequeno is the owner of Mid-South Plumbing, a 10-year-old company located in Louisiana.

Welcome, sir.

STATEMENT OF RICARDO PEQUENO, OWNER, MID-SOUTH PLUMBING

Mr.PEQUENO. Thank you, everyone. Members of the Committee, thank you for the opportunity to be here today. My name is Rick Pequeno. I am owner of Mid-South Plumbing, LLC, in Slidell, Louisiana.

Prior to the storm, my 10-year-old company was doing very well. We were growing thanks to the work on many commercial projects. We were involved in doing hotels, shutdowns, repairs, banks, you know, high-end houses; and I've even done hospitals in my apprenticeship program.

But since the storm, the amount of work available to a businesses like mine has changed. It's declined. There is virtually no commercial construction going on. Even though numerous office buildings were damaged by the hurricane, they are not being rebuilt at this time. My business has suffered as a result and is in danger of failing after 10 years.

After the storm, at my accountant's suggestion, I registered with the Central Contractor Registry, CCR. And to date, I've received no Federal contract work even with this registration.

Because of the decline in our commercial work, which was the cornerstone of my business, I decided to apply for the SBA 8(a) program. I am already certified by the Louisiana Minority Business Council. I applied for 8(a) both electronically and with a hard copy application and mailed it in.

My business was coded as 8(a) in the Central Contractor Registry, even though we had not been approved yet. The phone calls then flooded in. We received calls from military personnel who were suddenly very interested in our business.

Later, I found out that my 8(a) application had been declined. The CCR, Central Contractor Registry, removed our 8(a) designation in the database and the phone calls stopped.

I eventually learned that the SBA declined the 8(a) application because my brother, who lives 50 miles away, owns a company that is in the 8(a) program. On the application, one of the questions asked was whether or not I, as the applicant, have a family member in the program. I answered the question truthfully, that I do; but that I do not own any of his company, and he does not own any of my company.

I was declined because the SBA decided—there is a quote in there. And this is a quote from their decline letter to me ″Current

8(a) program eligibility criteria, CFR 124.105(g), require that an applicant concern be declined if individuals determined to be disadvantaged for the purposes of one participant, their immediate family members, and the participant itself, may not hold an aggregate, more than 20 percent equity ownership interest in any other single participant.

"The fact that your brother owns a current 8(a) participant, and you own more than 20 percent interest in the applicant firm"—which I don't—"prevents you meeting 8(a) eligibility criteria."

This makes no sense to me. I am particularly frustrated because I'm not getting into the 8(a) program. And that has reduced my opportunity to get Federal work, which is the only work in town.

Many additional barriers do remain. Federal work also requires bonding. Commercial work does not. I am working closely with my banker, Ann Watsky, First Bank, who has provided me with an increased line of credit, and will finance my company for larger projects. My banker and my suppliers recognize the important role that small businesses like mine have on this economy, both as employers and as the main source of community investment.

I wish that the Federal Government would also recognize the importance of Louisiana small businesses and be as responsive as some local partners have been. My employees and I are ready to begin work and help rebuild our community.

Thank you for your concern about Louisiana Businesses. I welcome any questions.

[The statement of Mr. Pequeno may be found in the Appendix, on page 128.]

ChairwomanVELÁZQUEZ. Thank you, Mr. Pequeno. Our next witness is Mr. Charles Priestly. Mr. Priestley is the Managing Member and Director of Operations at Hummingbird Aviation, LLC.

For the last seven years, Hummingbird has owned and operated helicopters and fixed-wing airplanes for transportation and cargo handling.

Welcome, sir.

STATEMENT OF CHARLES PRIESTLEY, MANAGING MEMBER, DIRECTOR OF OPERATIONS, HUMMINGBIRD AVIATION, LLC

Mr.PRIESTLEY. Chairwoman Velázquez and Members of the Committee, thank you gentlemen for the opportunity to talk to you today about the challenges my company has faced while trying to participate in the rebuilding efforts after Katrina.

My name is Charles Priestley and I'm the Managing Member and Director of Operations at Hummingbird Aviation. For the last seven years, we have owned and operated helicopters and fixed-wing airplanes for transportation and cargo handling. Our employees are based and supported out of Hammond, Louisiana.

In our previous work on Federal contracts, including the Department of Defense, we have successfully navigated the agency processes, which can be very different from how we seek out work in the private sector. But since Katrina, we have found the difficulties associated in dealing with Federal agencies to be a real barrier to rebuilding our business, and our economy.

We have a large variety of services that we could be providing to assist in cleanup and reconstruction projects.

Unfortunately, many agencies do not realize how the work we do fits into what they need done. For example, when procurement officials see the name ″Hummingbird Aviation,″ they don't know we work in debris removal, or picking up logs and other loads. We basically just kind of get a blank stare or a look of confusion.

For this reason, I have invested time and money in both outreach and advertising. Vendor registries that are being utilized by the Federal agencies have proven unsuccessful for our line of business.

Still, we found that there are very few ways to reach a decision maker at agencies and let people know what we have to offer. As a Louisiana resident, it's especially important to me to reach out in the parishes and let people know we are available. Finding out where the right people are seems to be impossible. When I do make contact with someone, they always seem to be low-level staff members who simply cannot or will not run a small business up the chain when they admittedly do not understand how our business can provide solutions.

Despite these road blocks, we have made numerous inquires and applications over the last 20 months. Each of these costs time and money to prepare. Although we are essentially presenting our company with our years of experience and previous work for the Federal Government, the process is different every time, meaning a new application procedure, new certification rules, more time and more money.

We are the exclusive facility that conducts training for every helicopter inspector in the Federal Aviation Administration. We are an approved DOD air carrier by the Air Mobility Command and we operate under four different FAA certifications.

The amount of redundancy in the process has prevented us from filling applications that just don't seem worth the up-front expense.

Ultimately, we want our qualification to be fairly considered. I'm tired of hearing from agencies that we do not have the necessary experience or are not viable. We were performing similar services before Katrina and have demonstrated our ability to do so now.

I want future contracting with the Department of Defense and the Department of Homeland Security because I believe our company has an important service to offer, and we can do it competitively.

Thank you, Ma'am. And I'll be available for any questions.

[The statement of Mr. Priestley may be found in the Appendix, on page 132.]

ChairwomanVELÁZQUEZ. Thank you for your testimony. And taking time out of your businesses to be here today.

Mr. Shear, the General Accounting Office issued a report on small businesses and Hurricane Katrina on March 1st, 2007. What do you set out to find in your story?

Mr.SHEAR. When we first started talking with House Small Business and Senate Small Business and looking at the issue, what was emphasized to us was that the Congress and the small business communities, in particular, in plain leadership in this area, had to know what the facts were. And the committees were very mindful of how the Federal procurement systems have shortcomings. But they said try to get behind it, try to dig for the numbers, try to give us the best picture possible of what opportunities small businesses

have had with these contracts, both with respect to prime contacts and subcontracting.

That's what we set out to do.

ChairwomanVELÁZQUEZ. Mr. Shear, I gather from your testimony that you had difficulties finding subcontracting data. What specifically was the problem?

Mr.SHEAR. The problem was that there were requirements as part of the Small Business Act, the Federal Acquisition Regulation, for contracts for large businesses over certain thresholds, where there are subcontracting opportunities, to provide information into the Federal procurement system on subcontracting plans. And when there aren't subcontracting plans, the reasons why there weren't subcontracting plans.

So we found this terrible deficiency. So, again, in this context of trying to collect the most information to address this issue, this deficiency, in terms of the agencies reporting on subcontracting opportunities.

ChairwomanVELÁZQUEZ. Although the General Accounting Office didn't address waivers in its report. GSA raised the issue in its comments. Have you given any thought to the waiver issue?

Mr.SHEAR. Yes. And it's true we didn't address that during the course of our work, but in that comment letter and since, we have certainly thought about it among ourselves. We have talked about it, and we have discussed it with the agencies. And I think what is really important—and our thinking at this stage—and what it is, they're thoughts, is that what alternatives are there to having waivers for Small Business Act provisions that really get to the heart of trying to include small business. And Stafford Act provisions of trying to involve local businesses.

So what we have really focused on alternatives to waiver issues. So let me just kind of give an example of some of the thinking along here.

Even though you could say that, This was an emergency, a disaster of major proportions, many of the contracts are of a long-term nature for response and recovery. By their very nature—a plan is important for any type of contracting measure. So I'd say contracting in kind of like our initial view is—contracting requires a plan. And part of that is a subcontracting plan and part of that is involvement of small businesses including small disadvantaged businesses and the other.

So in most situations, I think that the provisions of the Small Business Act and what the Stafford Act is trying to achieve can work consistently with one another.

There could be certain facts and circumstances where there could be some conflict. So let me just identify two of those areas. And, again, we're thinking what are the alternatives—our major things, what are the alternatives to waivers?

The first one would be it's an emergency situation, you have to deliver ice. You have to deliver provisions over a short period of time. Well, with respect to that, one of the things that we have identified in this work and even in previous work and in previous testimonies, is the importance of planning.

I know in front of this Committee I talked about the importance of planing in the SBA's Disaster Loan Program. As an agency,

we've talked about failures in planning for disasters of this magnitude. But one of the things that we've identified in contracting—as far as planning, it can ease any tension when it does exist, between responding to an emergency and including small business.

The role of prenegotiated contracts becomes very important to that. And part of prenegotiated contracts does and would include plans for small business involvement when those contracts actually do go to large businesses.

The second area that I want to point out, in our initial thinking, we don't really know whether waivers should even be the issue that's discussed. Maybe it's deferral. And that again might be very much under very specific, you know, facts and circumstances where you might require either a subcontracting plan, you know, at some later date. It could be days later after a contract. It could be weeks later. Maybe it could be more than that. But the idea is that maybe it would be deferral. That would probably require a statutory change. But a deferral could be an alternative where especially if the original contract stated you had to make good faith efforts to develop a plan and include small business, maybe there's some avenue there.

But, again, our focus on that as we've thought about it, isn't to go out and change the Small Business Act, but the idea is what alternatives are there to try to address these emergency situations?

ChairwomanVELÁZQUEZ. Thank you, Mr. Shear.

Mr. Dreyer, I guess you were here when I was asking the questions to the VA?

Mr.DREYER. Yes.

ChairwomanVELÁZQUEZ. So you heard that he testified that there was no plan to use local small business prime contractors for the new VA Medical Center. Does the design work sound like something that your firm can do?

Mr.DREYER. Absolutely. If not mine, I can easily refer them to many other small firms here in the New Orleans area and probably the larger Louisiana area that could easily handle that sort of work.

ChairwomanVELÁZQUEZ. Mr. Priestley, you mentioned in your testimony regulatory burdens associated with contracting. Could you expand on how that has limited your ability to secure Federal work?

Mr.PRIESTLEY. Yes, Madam Chair. First off, I have to express a little level embarrassment here. We're kind of an oddball company in that up until the past two weeks we had two business locations. One in Connecticut and one in Hammond, Louisiana.

We got down here just as Katrina hit. So unfortunately, we are not a business that existed before Katrina in Louisiana. But in the process of responding, we were probably one of the heaviest used helicopter companies by FEMA during the response. And we kind of fell in love with the place and made a business decision to move here.

We have since closed Connecticut and moved the entire operation into Hammond, Louisiana. So I just wanted to make that clear. On the regulatory burdens, I discussed—an example would be for contracting with the Department of Defense, which also includes the U.S. Army Corps of Engineers, there is a requirement and a just

requirement that any commercial vendor be approved through this air mobility command. And that's a Federal requirement under 32CFR part 861.

What we have found in trying to contract with other Department of Defense agencies is that the Navy, the Marines and even some tenants of the Air Force, they all have their separate, private certifications. And they don't recognize the dedication and the expense that an operator takes in becoming AMC approved.

To the Corps' credit, I would say throughout the entire United States, they are pretty diligent in adhering to that.

So what happens is for us to get an AMC certification it takes about four months and probably 20 to $30,000 in cash out of pocket.

Now we go to contract with the Navy and they want another certification, another chunk of change. It just seems that there should be—there is a requirement and standardization by Federal law. I don't know why they can't follow it.

ChairwomanVELÁZQUEZ. You have had success in securing Federal contracts in the past. So in your observation, why has the work associated with Katrina recovery been so difficult to secure?

Mr.PRIESTLEY. I have a couple of observations on that. I think one thing is, in general, as a small business interest, we're limited in staff personnel. And several years ago as an example—the Central Contractor Registry, that popped up. And my understanding—I'm not saying this is their true case—but in my understanding as an individual, the purpose of the Central Contractor Registry was to simplify the contracting mechanism and channel and make it a conduit to all of the Federal agencies. So that as a small business, I don't have to almost have a full-time employee that can navigate all of the various Federal agencies and get on all of their individual registries and market to all of their individual solicitations. CCR was supposed to take care of that.

Well, what I find is, whether it be DOD or other Federal agencies, sometimes it's on Central Contractor Registry; sometimes it's on a private, hidden registry associated with a specific military installation or Federal agency.

So that's a real problem. And the final part is, I don't believe the registries work. And I'm in an oddball industry. We provide custom, on-demand services and tailor what we do to the customer's need.

If I made widgets or had a civil engineering practice or a law firm, maybe it would be easier. I don't know that. So what I find is—if you-all remember, back when Katrina—when the initial response was going on just down the road here at Tulane Medical Center, all of that stuff was going on, you couldn't get enough helicopters down here.

Prior to Katrina, we were on the CCR registry, GCA, DHS, all of these registries listed as ″helicopter″ and having eight or nine NAICS codes listed, which clearly showed what we could do. We never got one call or e-mail from the Federal Government requesting our services as a helicopter operator.

It just proves to me that they don't work.

ChairwomanVELÁZQUEZ. Before I recognize Mr. Jefferson, I would like to ask a question to Mr. Jones. I understand that your

company was told by GSA on competitive IDIQ 8(a) contract, that your business will be overwhelmed by the work. What was your reaction to that?

Mr.JONES. Okay, thank you. Well, one of—most all of the time in 8(a) industry when you go in to pursue a Federal contract, they tie it specifically to capacity. And they said that we would be overwhelmed. But what they did not—they didn't look at the total package of what I was bringing. I told you I had created a strategic alliance, members of small disadvantaged businesses.

All of these businesses were proven and had excellent track records. And combined with all of the team members, we had an awesome team. But they looked strictly at EJES. Even EJES as a small business, we still, combined had about 23 full time and about seven part time on staff. So we did have the capacity.

One of the things that I think that's really biased in the government—and the reason I can say this is because before I started my company, I worked for the Federal Government. I worked for the Federal Aviation Administration. I know how they give out contracts. And I'm going to use this word so don't anyone cringe when I use these words, but it's a-good-old-boy system.

The number one thing I want to say is that this it how it works—if it's basketball, if it's dancing, and football, they automatically think African Americans do it well. But in this industry of engineering, in this industry where it's technical design and computation of different technical abilities, then they tend to cringe on our ability to perform this work. It doesn't matter whether we worked for Bechtel. It doesn't matter if you did major engineering projects.

Before I came to own this company, I did $300, $400 million design projects as the engineer of record. That was fine through the agencies. But when we come as a company, they start talking about capacity, and then they question whether we really have the capability, even though we have tons of references, even though they can come and tell us that we are amongst the most highly qualified company. At the end, we don't get selected.

ChairwomanVELÁZQUEZ. Well, would it be surprising to you no know that two-thirds of the contracts that were being awarded here, has gone to only ten companies?

Mr. Jefferson.

Mr.JEFFERSON. Thank you, Madam Chair. Your last comment was leading me to a question, but I'll ask something a little different: Are you aware of other minority engineering companies in the area? I guess you would know who they all are?

Mr.JONES. Yes.

Mr.JEFFERSON. Do you know whether they have had the same or similar experience that you've had in trying to get the work through the various agencies?

Mr.JONES. Yes. I talked to the owner of Julian Engineering. It's a very popular African American company here. It's the same story. They challenge us on capacity. They really just don't want to believe that we can do this work. Even though—as far as myself—I'm a licensed civil engineer in six states by exam, no grandfather, by exam, by a test from the national board.

Mr.JEFFERSON. So no grandfather. Your grandfather was an engineer in other words.

Mr.JONES. Yes, I hear that from a lot of the other A&Es, small businesses. And one thing I want to highlight. It's different than small businesses. We have small businesses in this country with 2000 people. But we are talking about small disadvantaged businesses. We are talking about the people that were totally affected here from this disaster. What about the small disadvantaged businesses that are out here? And that's where I think they are missing the boat with these contracts.

Mr.JEFFERSON. What do you think a firm like yours could bring to these projects that the other firms that aren't from here might not be able to bring, that add value to the whole effort of recovery?

Mr.JONES. I'll tell you one thing that I know for sure that we bring, we bring—I bring along with EJES, itself, a tremendous amount of drainage, box cover, and infrastructure improving. But what I really bring is a strategic alliance of small businesses. And an example of what people really think about us is we have an opportunity right now in South Africa, I'm talking about out of the country, that we have been ranked No. 1 to do power generation and nuclear-type power plants.

Now I think that says a lot about our strategic alliance. But still here in this city, in this state, in my home state, we can't get a conversation when it comes to providing a service right here. And we do tons of infrastructure designs for major cities all over the U.S.

Mr.JEFFERSON. I don't want to put the burden on you, but I want to ask you this, and anyone else who wants to answer can: What steps do you think this Committee or the Federal Government, in general, ought to take to enhance your ability to secure contracts? What can be done to make this better, if you have any idea?

Mr.JONES. I think it will come down to accountability from our earlier panel. Being held accountable to really, truly give firms like myself and the other gentlemen at the table—they have to give us an opportunity to do the work.

I go back to this, they say I'm the one of most highly-qualified firms that they can get. They gave out four contracts. This is not an opportunity where one contract was given. This was four contracts. When they sent me this letter and told me that I did not qualify to be selected, I really had a problem with that.

Mr.JEFFERSON. Let me ask you: What was the size of the contract that you were seeking in this instance?

Mr.JONES. It was a $50 million contract, $10 million a year for five years in a row, a $50 million contract. And I want to echo this, because this is important. They called me for an interview. They called me one evening and said, You've got an interview tomorrow morning at 10:00. I said, Well, I'm at the Army Corps of Engineers Small Business conference in St. Louis. They said, It doesn't matter. You get ready for that interview at 10:00. This is what I was told. I was at one of their conference in St. Louis, Missouri at the Army Corps of Engineers Small Business Conference. They called me—I got a call from my office saying, You've got the interview in the morning at 10:00. It was a phone interview. But still. I still was able to pull together all of my team members and go in and

get that interview completed. And this is the result. It's very frustrating.

Mr.PRIESTLEY. Mr. Jefferson?

Mr.JEFFERSON. Yes.

Mr.PRIESTLEY. Mr. Jones brings up a couple of really good points. And to answer your question, two things: One is that I don't think the Government agencies understand what small businesses do best; and that is expand and contract. I can understand the convenience to a contracting officer to go with a large—I'll cut to the chase—bureaucratic company that has indefinite resources. But what they don't understand is that small business is in a lot of cases a very good economical choice because we can't can survive if we can't contract and expand as contracts and opportunities come. We do it very well.

Secondly, I don't know if it's intentional or it's just a misunderstanding, but I don't think the government contracting agencies fully understand how much of a penalty it is to us to issue us an IDIQ or a blanket purchase agreement without a schedule of services or some scope of money.

Now, you can put me on an IDIQ and say, Well, we've got you on for three years, and you have given us a list of your prices, and we'll call you when we need you. Now, how do I go to the bank and say, I've got this opportunity here, and I need to invest and go get another aircraft; or I need to hire a few more people or something?

It doesn't mean anything. And then you may never get the call. You are under contract for three years and you can advertise you are with Corps or DOD, but there's no work.

Mr.JEFFERSON. Let me ask this, Chairlady, it's the last comment. Those of you who are missing these contracts, have you been watching who is getting them? She made a remark that some ten or so companies are getting the contracts over and over again. Is that your experience and what you are finding out there? Maybe the gentleman sitting between you can join in.

Mr.PEQUENO. I'm in the plumbing industry. For instance, earlier they were talking about the U.S. Customs Building. I went to—my wife and I went to the meeting to see about getting the procurement through that. That didn't develop.

Keep in mind, I'm not registered 8(a) through the government. Now, in the state, I am. But not at the Federal Government level. And that's one place there—plumbing, I'm a plumber. A 30-year career at it. So these trailers that were being installed—as I chased these contractors around, they were chasing me down because of my license, my qualifications, and everything that goes along with it, because we have a governing board in the plumbing department that governs the way we do things in the plumbing area.

But, yeah, there were a lot of things myself that I've gone through, and it's frustrating, it is really is. As a minority, myself—I never considered myself one, I never looked at myself like one, still I am. And I probably wished I would have addressed this sooner in my career, but I didn't.

Either way, yeah, it's happened to me too. The same way with other companies out there also. It's unfortunate.

Mr.JEFFERSON. Mr. Dreyer?

Mr.DREYER. Yeah. We have noticed that certain, select firms—I can't guarantee that this is Federal work, but specific to Louisiana work, that there are several local firms, though, on the larger side, who are repetitively chosen over and over again.

And what's curious about that is the variety of sizes. I don't know if this is because they are politically connected, but competitive firms that aren't any larger than Perez have been repeatedly chosen without offering any substantive difference, I would say, beyond sort of ownership being detected. Now, whether that relates to the Federal level, I can't say for sure.

Mr.JEFFERSON. Mr. Jones, you mentioned that some individual left an agency in frustration, did you say?

Mr.JONES. Yes. We had a young lady by name of Kim Carter that represented the Department of Commerce. And she contacted us about four months after the disaster, and she started to get us to give her all of our financials. We sent in our tax financials for three years. We sent in our 8(a) certification. We sent in all of this information. And she basically told me after we—you know, over months and months of time we continued to call her. She said, Look, I'm frustrated with this issue. They are really not serious about giving minorities contracts. She stated to me that she was going to go and work for, I think, one of the majority firms. I don't know what firm it was. But I have not heard from her since, so I'm assuming that.

We lost all contact. But she was representing the Department of Commerce.

Mr.JEFFERSON. Mr. Jones, your work, your effort has been with the Corps of Engineers for the most part or with FEMA?

Mr.JONES. We have solicited the Veterans—

Mr.JEFFERSON. The VA?

Mr.JONES. The VA. We solicited the VA out in Oklahoma. We solicited to pursue work there, but mostly we have—

Mr.JEFFERSON. Is this the VA here?

Mr.JONES. No, not the VA here. We really targeted the Corps here. I mean, we were meeting with Mr. Falcon Hall (phonetically spelled) out at the Corps. And we met with them, that group over there on at least ten occasions.

Mr.JEFFERSON. No other questions.

ChairwomanVELÁZQUEZ. Mr. Melancon.

Mr.MELANCON. Mr. Shear, one of the frustrations that I experience is, you know, we pass laws, and we don't break laws. And I don't expect agencies to break laws. But we have rules and regulations that were drafted as guidelines to administer the laws or the programs that were passed by the Congress.

My experience is that no Federal agency seems willing to ever waive a rule, even if it's commonsensical, even if it's practical; and, particularly, if it seems like it moves things forward, particularly in this disaster.

I guess my question is: Have you ever waived rules in your agency?

Mr.SHEAR. Have we waived rules that we are subject to? As far as subject to congressional oversight, for example?

Mr.MELANCON. Rules that your bureaucrat—that when they got the law said, Okay, we are going to do this, and put it out for pub-

lic notice; these are the rules that we abide by? You get a special interest. Has there ever been an instance that you have, from your knowledge in your agency, where they said, Well, maybe we can waive this one, so that we can work this better or get something moving or whatever, whether it's an emergency or regular program?

Mr.SHEAR. Well, I say that we're a Congressional agency. The work we do is for the Congress. If we waive rules—my answer to that is no, certainly not, not that I'm aware.

I think there are certain times, in terms of when we put out information to Congress and the public, when we do our strategic planning, we work within some flexibility that we have. And we are very transparent about how we use that flexibility to operate.

But I don't think we unilaterally say, Well, we don't like that rule under this circumstance; we're going to waive it.

Mr.MELANCON. Have you every seen any other departments of the Federal Government as the accountability officer that has waived any rules or regulations to accomplish a task? And we're talking about changing bid things in the middle.

I'm not quite sure I understand some of these things—that phrase. So it sounds like, we can do it; but we can't do it. So I don't know how specific or detailed your agency gets; but is there some way to measure from the accountability standpoint when an agency has made an exception to a rule?

Mr.SHEAR. There are certainly times where as an accountability agency—we find times where agencies may not follow the rules. And certainly, we find times when there's regulatory—when there are certain regulations in place where there might be different interpretations of the rules, where we might take issue with an interpretation an agency has of the rules.

So the answer to that is, have we observed times as an accountability agency? You know, at a minimum in our work we have investigators that look at fraud and issues of fraud. We certainly have issues where there might be regulations or rules that an agency didn't follow.

Mr.MELANCON. Is it common for attorneys or counsel in departments, for them to sit down with the leadership of the agency to advise, You shouldn't set a precedent; you can't waive that rule. I mean, is that, maybe, a normal occurrence in an agency where counsel says, Don't do it?

Mr.SHEAR. I don't have the breadth of experience with the hypothetical you're talking about.

Mr.MELANCON. I guess, do any of the agencies call you before any action and say, Well, we would like to make some waivers? Or has your experience only been going in after the fact and found that maybe there were some exceptions to the rules or waivers?

What I'm trying to get to is that, you know, we've had a precedent-setting event or events in the Gulf Coast. And all I keep getting is, Well, we can't suspend the rule; we can't waiver; we can't do anything. But, yet, I see things going on day-to-day that in some instances looks like they can when they want to.

And I don't know how you audit that or is it possible to audit that?

Mr.SHEAR. It's possible to audit that. And I think that when you start talking about what we observed in this work looking at Katrina contracting, it was certain things that I haven't observed. I don't take the lead on many acquisition issues. We have an acquisition management team.

I took the lead on this. And we took the lead on this within the agency working with our acquisition people because of the small business concerns.

So I don't have the breadth of experience here. For me, if you are asking for a personal reaction based on the work that I've seen at the GAO and work I've directed at the GAO, I was actually glad when GSA said, We know we don't have the legal authority to waive a rule, but we had an emergency; and that's how they accounted for it after the fact. So I was glad that they were forthcoming with us. But at the same token, I can't relate it to any other experiences that I'm aware of.

Mr.MELANCON. I'm glad in an emergency there's somebody that will take the initiative. Last question, from the standpoint of auditing, per se, agencies, do you audit specifically for 8(a) contracting or small business contracting and things that are provided in the law? Because if they've got some requirements in the law, and they are not getting any contracts, it sounds like somebody is getting waivers or suspending the rule or just ignoring it.

Mr.SHEAR. What we'll do in many cases is we audit executive agencies and how they carry out the statutory responsibilities and their regulatory responsibilities. You know, their oversight responsibilities. So the focus is always on the agency. In our work for the report we issued on March 1st, our focus was on an even higher level than that. But not getting down to the individual contract level. To go to a phrase that I think you said as far as—you know, you said something to the effect of how people like to play with data. That is a real concern raised to us. And we think it's an important concern. You know, even times we audit to see our agencies following the rules; are there ways the agencies can operate more efficiently, more effectively?

The idea of bringing information—this audit in particular was kind of higher level in terms of can you account for us for what's going on here, and even at a more macro level.

But we aren't in the business of auditing individual contracts, if that's what at you are asking. But we certainly audit the programs of agencies and how they carry out their responsibilities.

Mr.MELANCON. I don't have any time, and I thank the Chairwoman for allowing me to go over.

ChairwomanVELÁZQUEZ. Mr. Jefferson. Do you have any questions?

Mr.JEFFERSON. I want to thank the folks that are here because we tried to get a lot of folks here we know have problems. And they were really worried about testifying in the public about these issues, worried about not ever getting a contract. You don't have one now, you'll never get one.

It shows a lot of courage and a lot of moxie to come here. Really, we couldn't do the work without you having shown up. And I hope it doesn't penalize you in any way whatsoever. I hope it just en-

lightens the agencies as to what your qualifications are and helps you get the next job.

I want to ask Mr. Shear, if I can, just one question: Have you found that the agencies that follow the rules with respect to 8(a) contracting and minority contracting and local contracting waste the Government's money? Do you find that these things cost the Government money? Or do you think they add to the riches of the outcomes of the Government.

Mr.SHEAR. I haven't directed any work that has addressed whether there's any potential deficiencies there. But what I would recognize in carrying out this work, the Congress has played a leadership role. And I think that—let's say the information that I report, and this testimony, it's to try to inform those decisions.

So there certainly isn't anything that we've seen in the record when we go out and do our audit work that would suggest that somehow the Congressional leadership or the statutory leadership or how the Federal Acquisition Regulation has been implemented. We don't see any evidence to that.

Mr.JEFFERSON. Let's just talk about the small business. Obviously, larger companies have what we might call larger capacities than smaller companies have. So have you seen in your work just the idea of assisting small business ends up with the Government agency getting less in the ultimate product from the company?

Mr.SHEAR. I think what I would like to do with that—if you'd entertain me on this—if that question is provided by the Committee to us, I will put together—we will put together information, reports, that we have done in the past that would specifically give you a specific answer.

Mr.JEFFERSON. All of this business about capacity is worrying me here because they keep getting turned down saying they are not big enough. Well, the idea is if they have small concerns, they'll never be as big as the big ones. And there's a bit of assumption made in the law that that's not necessary to do the job. And as they have said, the issue of how big a firm is depends on what they are required to do. Engineering and architectural firms expand and contract, other ones do, depending on if they have work or not.

If they had steady work and one contract ended and another began, of course, they would never lay anybody off they would keep working them. But that's not how it is in the world of small business.

So we need to get past this whole issue and get some notice to the agencies out there to get away from this whole business about capacity. Get a real life view of this. And it may be helpful for you to help us get a full understanding of the question.

Mr.SHEAR. Okay. I think that you are raising a very important issue. And if you would like us to follow up either with the Committee or with your staff to talk about, perhaps, what those have been, a variety of work in the acquisition area and contracting area, we'd be glad to entertain it with you.

Mr. Jefferson, I want to address one statement in terms of what you said. I really want to say something on a very personal level to those who are on this Committee; and I'll just say especially Representative Jefferson and Melancon as being representatives from here.

I've been one of many directors who have directed GAO work looking at the Federal response to this absolutely awful natural catastrophe. And I'll just say on a personal level that not only the greeting here and the pleasure of being here in New Orleans, but I'll just say going back to December 2005, when I first lead our first team that was looking into the SBA's disaster loan program, how generous many of your constituents, small business owners, and local officials have been in helping us do our work.

And I just wanted—since you had just made that comment and have the pleasure of being here in New Orleans, I want to on a personal level say thanks to both of you and to many of your continuants for helping us do our work.

Mr.JEFFERSON. I appreciate that.

ChairwomanVELÁZQUEZ. Before I ask my last question, to Mr. Pequeno, I would like to make a comment on the comment made by Mr. Jefferson. And that is that I want to thank you because you are being courageous in coming before our Committee to share with us your experience regarding contracting opportunities, Federal contracting opportunities.

And Mr. Jefferson alluded to the fact that some small businesses were afraid. And, in fact, they were because we reach out to many of them. And I want for you to know that I personally will be watching over every Federal agency. And if you hear or if you know of any action or behavior that is punitive in nature regarding your participation here, those agencies will be coming before this Committee faster than they know it.

So with that, Mr. Pequeno, you said in your testimony that your 8(a) application was declined because, apparently, your brother owns an 8(a) company.

Mr.PEQUENO. Yes, ma'am.

ChairwomanVELÁZQUEZ. But you also stated that you have no interest in this company.

Mr.PEQUENO. Correct.

ChairwomanVELÁZQUEZ. So I am going to pursue this issue with my staff and the staff of the Small Business Administration, okay?

Mr.PEQUENO. Thank you.

ChairwomanVELÁZQUEZ. With that, I conclude. I thank all of you. As I mentioned before, this is not going to be just one hearing. We will continue to monitor the Federal Government's commitment and the responsibility in the Gulf region, the Gulf Coast region.

And we are going to continue to reach out and to have a working relationship with all of the Federal agencies because not only are they eager to make sure that those numbers are improved, but the name of the game from this Committee is going to be oversight and accountability. With that, I thank you.

This Committee concludes its work.

[Whereupon, the committee was adjourned.]

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Full Committee
Thursday, April 12th, 2007

First, let me thank everyone for being here today. This is an important hearing to have in the city where so many businesses are directly affected.

We are here to discuss the role local entrepreneurs can play in the rebuilding process. While exhibiting great strength and resilience, many small businesses are still feeling the effects of the lack of assistance. It has been well documented that following Hurricane Katrina, delays in disaster loans, overwhelming amounts of paperwork and a lengthy application process left many small business owners discouraged and drained of any remaining resources they had.

Last month, this committee passed the *RECOVER ACT of 2007* – requiring that the SBA have a disaster plan in place. This legislation also creates a grant program that will allow the SBA to help those local businesses that applied for and were declined from the SBA's disaster loan program. Small business owners should not have to choose between putting money into their business or their home. H.R. 1361 ensures that entrepreneurs do not have to make that choice.

The focus of today's hearing is to make sure that, as we saw during the recovery process, small businesses are not being left out of the rebuilding process. Early indications are that the federal government is not where it should to be. With the work that needs to be done, ***only*** 7% of contracts have gone to local entrepreneurs. This is clearly unfair and undervalues the contribution of our nation's small firms.

Minority entrepreneurs are under represented even more in the rebuilding process, receiving only 4% of the contracts. While this is a start, minority businesses need to receive the work that is reflective of their role in the community. The committee has passed H.R. 1468, the *Disadvantaged Business Disaster Eligibility Act*, introduced by Rep. Jefferson - giving minority contractors more flexibility as they recover from Hurricane Katrina.

More than 110,000 small businesses were destroyed or severely impacted by Hurricane Katrina. This has had a tremendous affect on the local economy. Almost half of the small businesses got very little work after Katrina, contracts less than $100,000. It is important to acknowledge that we can stimulate the economy and small business growth by strategically using the revitalization process of this city.

Today, we will hear from the heads of 3 agencies and senior representatives from agencies who represent over 95% of the total spending as part of the Katrina relief effort. We will also hear from small businesses about their experiences in securing federal contracts in the recovery process. It is the goal of the committee to examine the efforts of the agencies represented and to ensure that local entrepreneurs are given adequate opportunities for federal work.

It has been 18 months since this nation witnessed one of our country's largest natural disasters, Hurricane Katrina. As we all know, the impact was enormous, destroying houses, businesses, critical infrastructure and flooding this historic city. There is no question that we still have a long way to go in repairing and rebuilding New Orleans.

At a time when this city is in desperate need and small businesses could provide help, it was so important to examine the situation and address the issues local agencies and entrepreneurs are experiencing. Small businesses are the largest job creators and spur economic growth. If they are given the contracts and afforded the opportunity to play a bigger part in the rebuilding process not only would small businesses thrive but the New Orleans' economy would be energized and on its way to where it was or better than before Hurricane Katrina hit.

I look forward to hearing the testimony of today's witnesses.

Thank you.

Opening Statement of

Congressman Lynn Westmoreland

House Committee on Small Business

Hearing on the Participation of Small Businesses in Hurricane Katrina Recovery Contracts

Thursday April 12, 2007

Thank you Madam Chairwoman and thank you for holding this important hearing to discuss the participation of small businesses in the Hurricane Katrina recovery effort. I sincerely appreciate the opportunity to come to the great city of New Orleans to examine this topic.

As we have all seen and heard, the Gulf Coast region was absolutely devastated by the unprecedented storms that hit here in 2005. These disasters will long be remembered for disrupting families, changing and ending lives, and forcing Americans to rethink our vulnerability to Mother Nature's wrath. With over 1800 lives lost and

countless billions in property and infrastructure losses, nobody can deny that this natural disaster will forever change our assumptions of what we should be ready for when disaster strikes.

We will never forget these images, but today we want to focus on something bigger and decidedly better that has come from this tragedy—the indelible American spirit to take the hand that is given and make it into something greater. Immediately following the hurricanes, countless Americans offered charitable assistance to the Gulf Coast region, sending funds, food, necessities, and in many cases, themselves in order to help the survivors begin rebuilding their communities and lives.

America's small businesses have played an integral part in these events. Small mom and pop shops shipped their wares to the area as part of the massive outpouring of charity, small business owners gave their employees time off to travel to the area and assist in the clean up, and they donated millions of dollars in relief aid to the American Red Cross and numerous other charitable organizations.

Small businesses can and will have a major impact in the rebuilding effort as well through the federal contracting system. The supreme goal of the infrastructure reconstruction of this area is to rebuild this city and the entire Gulf Coast region as quickly and efficiently as possible in order to provide these citizens

with a safe a stable home to live in, to have places to go to work and to worship, and to get their children back in local schools.

Because of the size and scope of this reconstruction, there are many advantages for the federal government to seek out opportunities to work with small businesses. For example, their ability to innovate and find new niches that their larger counterparts cannot allows greater flexibility when addressing problems. Additionally, and perhaps more importantly, small businesses are job creators. Awarding contracts to existing and new local small businesses invigorates the local economy—providing jobs for displaced New Orleanians, income and potentially health benefits for their families, and a continued sense of

stability and community that has made this area such a strong contributor to our Nation's prosperity in the past.

Historically, small business in the U.S. has received a share of federal procurement dollars not quite commensurate with its relative importance in the U.S. economy. While 99.7 percent of all employer firms are small, they receive about 23 percent of direct federal procurements and close to 40 percent in subcontracting dollars. The federal government must do a better job to ensure that the federal marketplace is open to any and all companies that can do the task at hand. Of course, that includes our nation's small business community.

Madam Chairwoman, thank you again for holding this hearing. I look forward to hearing from our distinguished panels, and to working with you to address this important issue.

I yield back the balance of my time.

Small Business Contracting Field Hearing – Rep. Charlie Melancon
Opening Statement
April 12, 2007

- First, I would like to thank Chairwoman Velazquez and Ranking Member Chabot for their continued commitment to helping us rebuild the Gulf Coast. Over a year and a half has passed since Hurricanes Katrina and Rita devastated south Louisiana and other Gulf Coast states. I'm pleased my colleagues remain committed to seeing us fully recover and rebuild.

- I would also like to join my colleagues in welcoming the local small business owners that have joined us here today to tell their stories. I know you are tired and frustrated, but I appreciate you taking the time to come here today and testify about your experiences after the storm. I also understand that you are tired of talk and want action. We do too.

- These hearings are our way of letting Congress know how to help remedy the current problems that still persist on the ground, and also how to prevent the same problems from happening in the future to other homeowners, business owners, nonprofit organizations, etc.

- You survived two of the worst natural disasters in our nation's history. Then, on the heals of those hurricanes you faced a man-made disaster: one of the most disorganized and chaotic federal responses I have ever seen. Many of these federal agencies that were created to help you recover wound up making matters worse. This is inexcusable.

- Today we will put a spotlight on one of these instances in which the federal government's response was hurtful, rather than helpful. After Katrina, there were millions, if not billions, of dollars worth of disaster work that needed to be done. Everything from debris removal, to maintaining FEMA trailers, to supplying and delivering emergency supplies across the Gulf Coast.

- Many of these contracts were awarded to out-of-state businesses, rather than the local businesses who were victims of the storm; the people who needed the work the most. Small business owners that were struggling to survive after the storm had to watch on the sidelines as large, out-of-state companies came pouring into the disaster areas to perform the recovery work the locals had also bid for.

- Many local businesspeople and skilled workers who had already lost their homes, but were still hopeful to find work, were replaced by undocumented workers through the back door by a contractor looking to make more money.

- I hope this hearing today will not only shed light on what went wrong, but also ensure that this serious problem does not continue. Small businesses are the lifeblood of southeast Louisiana's economy. To continue denying them the opportunity to get their businesses back up and running is hindering the Gulf Coast's recovery. This is unacceptable.

- Again, thank you to the committee for holding this hearing today and continuing focus Congress's attention on rebuilding the Gulf Coast.

HOUSE SMALL BUSINESS COMMITTEE
HEARING REGARDING
THE USE OF REGIONAL SMALL BUSINESS IN THE AFTERMATH OF HURRICANE KATRINA

APRIL 12, 2007

Testimony of
Administrator Steven C. Preston

Good afternoon Chairwoman Velazquez, Congressman Westmoreland, and distinguished members of the Committee. Thank you for inviting me to discuss federal contracting following the 2005 Gulf Coast hurricanes and more specifically the role of the Small Business Administration and we are looking forward to assisting in the contracting process in future disaster reconstruction efforts.

During the rescue, relief and reconstruction of the Gulf to date, small business participation exceeded the federal government's 23 percent prime contracting goal by nearly 6 percent. Our preliminary data shows that small businesses have received nearly 29 percent of the more than $15.5 billion awarded. Of those amounts 7.9 percent has gone to Small Disadvantaged Businesses; 4.3 percent has gone to women-owned businesses; and 1.3 percent to HUBZone firms.

Furthermore, I know the Committee is interested in the performance of the federal government in contracting to local businesses. As noted by the GAO in their March report, local businesses of all sizes in Alabama, Louisiana, and Mississippi received nearly 22 percent or $3.4 billion of the $15.5 billion in contracts. Of that $3.4 billion, approximately, 57 percent went to local small businesses. Here in New Orleans 58 percent, of our district office portfolio of 8(a) firms received government contracts.

SBA was and continues to be committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort. Soon after Katrina struck, SBA dedicated personnel to assist in identifying small business contracting opportunities. Five procurement center representatives (PCRs) were specifically assigned to work with Federal agencies, including the Department of Defense, Department of Homeland Security and the General Services Administration, to find relief and reconstruction contracts and subcontracting opportunities for firms in the Gulf Coast region. All other PCRs across the country were similarly directed to search for small business contracting opportunities. Judith Roussel, our District Director for Chicago, a native of New Orleans, and former SBA Associate Administrator for both the 8(a) and Government Contracting Programs was assigned to direct the initial efforts and spent several months working here in New Orleans.

SBA was a partner with the Department of Commerce and other agencies to establish the Hurricane Contracting Information Center (HCIC). The HCIC is a portal for small businesses to access assistance and contract information from the various

contracting agencies. During the height of the HCIC operations contracting specialists took thousands of calls and the HCIC website has had nearly 57,000 hits. Operation of the HCIC has been turned over to SBA and will form part of future disaster contracting initiatives.

In November 2005, SBA adapted its Business Matchmaking initiative to help small businesses in the stricken areas. SBA conducted a six-city (Baton Rouge, New Orleans, Gulfport, Hattiesburg, Jackson, and Mobile) mobile registration tour in the hurricane-affected areas. The mobile tour used a specially-equipped recreational vehicle donated by Microsoft to provide help for small businesses with electronic registration in the Central Contractor Registry. Business counseling was also provided by SBA resource partners including Small Business Development Centers and SCORE. Following the registration, SBA's PCRs across the country worked with the over 700 small businesses to match capabilities of the firms by usage of the NAICS codes with the needs of the procuring activities.

Small businesses who register through it have received more than $650 million in contracts primarily awarded by federal agencies and each firm's profile has been uploaded to the General Services Administration's electronic notification system to receive electronic alerts of procurement opportunities.

Listed below are some examples of the results of our efforts:

- **The Department of the Army**. SBA and the Army worked to extend the geographic boundaries of two different requirements to include 8(a) program participants with a bona fide place of business in contiguous states affected by Hurricanes Katrina and Rita. The extended requirements were the Louisiana Recovery Field Office Corps of Engineers construction requirement for roofing repairs in the State of Louisiana and the New Orleans District Corps of Engineers construction requirement for levee repair in Louisiana.

- **General Services Administration and the Federal Emergency Management Agency.** With SBA's help, these Agencies awarded an "urgent and compelling" sole source 8(a) contract above the competitive threshold for the purpose of shipping mobile showers and laundry units to the Gulf of Mississippi.

- **Horizontal Oilfield Supply Systems.** When New Orleans was facing the flooding caused by the levee failures, this veteran-owned firm identified in an SBA event, obtained a contract from the Federal Energy Management Agency to build and supply specially designed pumps that removed 7 million gallons of water an hour from the streets of New Orleans.

- **Crown Roofing.** An 8(a) contractor, Crown, has been on the Blue Roof Mission since the company began. They successfully contributed roofing in the record 2004 hurricane season with Hurricanes Charley, Frances, Ivan, and Jeanne that ravaged

Florida. Crown Roofing won a 5-Year IDIQ contract awarded by FEMA/Department of Homeland Security for the maintenance and deactivation of mobile homes and travel trailers in the State of Louisiana. They also have experience in the maintenance of manufactured homes and travel trailers and are providing services for FEMA in Jefferson Parish and East and West Baton Rouge Parishes. Crown Roofing has been awarded major contracts with the Corps of Engineers to provide emergency temporary roofing services.

- **Jacquet Construction Services, LLC ("JCS").** **JCS** is an 8(a), HUBZone, Small Disadvantaged Business general construction firm established in 1991 in New Orleans. JCS was awarded a site clearing and preparation project for the U.S. Army Corps of Engineers in Erath, Louisiana. They built access roads and parking areas for the Dozier Elementary School and for the temporary classrooms for Vermilion Parish School Board. This project was completed in March 2006, ahead of schedule. Currently JCS is providing technical assistance related to the maintenance and deactivation of temporary housing units (mobile homes, travel trailers, and other types of prefabricated housing) for FEMA in the New Orleans area and St. Bernard Parish.

In addition to federal prime contracts, subcontracting puts much needed dollars into the hands of local small businesses and small businesses in general in the Gulf Coast rescue, relief and reconstruction effort. One such example is KBR, a prime contractor that worked with SBA, local Minority Business Councils, and organizations like New Orleans Youth for Prosperity, to locate small and minority businesses or labor in the New Orleans and Mississippi areas. As a result, KBR subcontracted 82% of its work to small business, with 84% of the labor coming from the Gulf States affected by the hurricane.

SBA is committed to utilizing all of our programs and products and services to help the Gulf Coast areas recover -government contracting lending, technical assistance- but most importantly our disaster program has disbursed approximately $1.2 billion in physical and economic injury disaster loans to small business throughout the Gulf Coast in addition to the more than $4.3 billion disbursed to help rebuild homes; helping the local labor force get back to work. It is SBA's mission to help the local businesses within these communities recover and prosper, as they are the engine of the economy.

Looking forward, SBA will build on these kinds of successes by improving processes and technologies to expand small business federal contracting opportunities. Accuracy and transparency of data is crucial to that end and we are working with the Office of Management and Budget, GSA and all reporting Agencies to fine-tune the existing reporting systems as well as the accuracy and transparency of the data input into those systems. SBA will also continue to employ the strategies that have produced positive results in the Gulf after Katrina. Strategies such as:

- Assisting small businesses to develop forward marketing strategies. For instance, protecting financial information after a disaster, and planning for possible involvement with rebuilding efforts.

- Using our district offices to coordinate matchmaking and registration events to increase local small business contracting opportunities.

- Utilizing the Hurricane Contracting Information Center (HCIC) a basic 1 stop source resource center for small business contracting opportunities and information.

- Working continually with GSA to establish up-to-date sourcing lists for small businesses. While it is difficult to anticipate all the contracting activities that may arise after a disaster, we believe certain items are amenable to identification of potential sources. In addition, we will work with the Department of Homeland Security and Department of Defense to develop lists of potential contracts for small businesses.

- Building upon the progress in small business contracting and subcontracting awards that we have seen in the rescue, relief and recovery of the Gulf Coast thus far. While the Small Business Act goals do not specifically apply to disaster recovery contracting, SBA and other Federal Agencies recognize the importance of those goals and use them, along with our responsibilities under the Stafford Act, as our guides for accomplishment.

Chairwoman Velazquez, thank you again for the opportunity to testify. I look forward to answering any questions you might have.

TESTIMONY OF
LURITA ALEXIS DOAN
ADMINISTRATOR
U.S. GENERAL SERVICES ADMINISTRATION
BEFORE THE COMMITTEE ON SMALL BUSINESS
LOUISIANA SUPREME COURT
APRIL 12, 2007

Good afternoon Chairwoman Velazquez, Ranking Member Chabot, and other distinguished members of the committee. Thank you for inviting me here today to testify on how the U.S. General Services Administration has maximized the use of regional small businesses in the aftermath of Hurricane Katrina.

The devastation wrought by Katrina touched me personally. Though I live in the Washington, D.C. area, I still count New Orleans as "home." I grew up in the 9th ward and went to school at Ursline Academy. It's been several years since I graduated from high school, but in my 10 months as GSA Administrator, I've made it back here three times. One of those trips was to reopen the New Orleans Custom House, located just four blocks from here. Another trip home was to pair small businesses with large companies helping to restore New Orleans to its former greatness.

The rebuilding of the Gulf, the revitalization of New Orleans, the recovery of the local economy ... these are all priorities to me as a fourth generation New Orleanian. As an American, as GSA Administrator, and as a former small business owner, I feel a heavy responsibility to ensure that small businesses participate fully in the crucial work that lies ahead.

When Hurricane Katrina made landfall, I was not yet in my current position. I was confirmed as President Bush's nominee to head GSA about 10 months ago, and I started on June 1, 2006. One of the first things I learned was that the agency had performed admirably in response to the most devastating hurricane in American history. The impact zone spanned two GSA regions: 200 miles

wide, as far west as Louisiana, as far east as Florida, and as far north as Kentucky.

As you are aware, Madame Chairwoman, GSA serves as a centralized procurement and property management agency for the federal government. GSA manages more than one-fourth of the government's total procurement dollars and influences the management of $500 billion in federal assets, including 8,300 government-owned or leased buildings and 200,000 vehicles. GSA helps preserve our past and define our future, as a steward of more than 420 historic properties, and as manager of *usa.gov,* the official portal to federal government information and services. GSA's mission to provide superior workplaces, expert technology solutions, acquisition services, purchasing and e-travel solutions and management policies, at best value, allows federal agencies to focus on their core missions.

GSA supplies a wide range of products and services, including: construction equipment, tools, telephone, information technology, furniture, and office supplies. It is through the dedication, effort, and expertise of GSA employees in each of our 11 regions, and in every GSA service and staff office, that we continue to record solid progress in meeting the challenge of providing our customer agencies with the excellent acquisition services they need. GSA aggressively responded to the emergency situations created by Katrina.

GSA's first priority was to support the Federal Emergency Management Agency. Our role is specifically defined in the National Emergency Response Plan as: Emergency Support Functions (ESF) #2 (communications) and #7 (resource support). We have provided and continue to provide as needed: communications support, facility space, office equipment, and contracting services. The level of support required of GSA after Katrina was unprecedented.

While GSA had disaster contingency plans in place during Katrina, GSA adapted to obstacles not encountered in previous disaster situations. Many companies normally relied upon to assist in recovery efforts had evacuated the area. Other companies could not be reached by telephone. Also, because conditions at the time required the city be evacuated, GSA had to set up field offices outside the most severely impacted areas.

GSA employees worked tens of thousands of collective hours in response to Katrina. These employees processed countless requisitions for items such as: diapers, bottled water, ice, bed sheets, pillows and pillow cases, assorted towels, mass care supplies, blankets, portable restroom facilities, computers, pumps, generators, and tents. In addition GSA employees transferred approximately $2 million worth of property from excess inventory.

Within days, GSA established a 24-hour emergency order desk. Employees rotated in two 12 hour shifts to take and place orders as they were needed. The operation joined with the Federal Emergency Management Agency's (FEMA) Joint Field Office (JFO) in Baton Rouge. The JFO was housed in a vacant department store.

GSA provided:

- Over 1.2 million square feet for Joint Field Offices, initial operating facilities, disaster recovery centers, and other logistical facilities
- 16,000 cots
- 5,000 blankets and pillows
- 1.5 million gallons of fuel
- 600 pallets of ice
- 2,400 folding tables and chairs
- Analog telephones
- Over 21 million meals, ready to eat

GSA's procurement support to FEMA under the Robert T. Stafford Disaster Relief and Emergency Assistance Act requires that preference be given to local businesses, to the extent feasible and practicable, within a disaster area. GSA regional offices went to great lengths to ensure maximum utilization of small and minority-owned businesses. The greatest challenge GSA faced in attempting to utilize small and minority owned local businesses was locating the sources quickly enough to ensure needed supplies, services, and equipment were quickly delivered.

Working with state and local officials in the devastated areas, GSA's Regional Small Business Directors were able to help contracting officers access local resources that were not being identified through normal methods such as the Central Contractor Registry.

GSA had a new disaster response vendor database in place almost immediately. This database, that would become the Disaster and Emergency Operations Vendor Profile, provided contracting officers with information on businesses that could provide goods and services immediately. Since it was accessible to contracting officers on the ground, GSA was able to connect supply with demand- all while utilizing streamlined procurement procedures.

The Disaster and Emergency Operations Vendor Profile – later to become an established form - was a vital link to our recovery efforts. Now with nearly 9,000 companies, the profile continues to grow. By adding new businesses with products and services to offer after a disaster, the profile will shorten the time for disaster recovery.

During clean up efforts, if the states of Mississippi, Louisiana, and Alabama needed dump trucks to remove debris, they could use the vendor database to find businesses with available dump trucks.

In the aftermath of Katrina, GSA Regional Small Business Utilization Offices provided the GSA-FEMA liaison staff with vital government points of contact, thus facilitating the identification of qualified small businesses. Beginning in September 2005, GSA has participated in more than 25 outreach events for small businesses, including a conference for the repair of the Custom House located about four blocks from here. One outcome of this conference was that a HUBZone company received a sub-contract for cleaning the marble at the customs house worth $1.2 million.

As a result of GSA's ongoing efforts, small and minority-owned businesses received the majority of contracts and contracting dollars related to Hurricane Katrina.

GSA Hurricane Katrina contracts	Number of contract actions	Percentage	Dollars	Percentage
Total Actions	2,030	100%	$680,941,506	100%
Large Business	647	32%	$194,581,727	29%
Small Business	1,383	68%	$486,359,779	71%
Small Disadvantaged Business	143	7%	$46,822,960	7%
Woman-Owned Business	302	15%	$61,607,946	9%
HUBZone Business	53	3%	$16,343,578	2%
Service-Disabled Veteran-Owned Business	22	1%	$1,071,885	0.2%

Source: FPDS-NG report dated 3/23/2007, 10:00 am EST

As you can see, 68 percent of contract actions, and 71 percent of dollars, went to small businesses.

Immediately following the hurricane, GSA began working with customer agencies to provide functional space and to enable them to accomplish their missions. This included finding replacement space and transporting vital records. Within GSA-provided space, there were approximately 2,600 federal employees in 28

federal agencies whose operations were significantly impacted by Hurricane Katrina. In the case of personnel located in the disaster area, GSA employees performed their duties while living under the same conditions as evacuees.

Once immediate needs were met, GSA began to gather lessons learned from Katrina. GSA reviewed its operational response efforts that took place before, during, and after the storm. Several action items came out of that review and were grouped and documented for future response to such major disasters.

During the initial stages of the response, agency responders were not able to obtain some basic office supplies. To address that situation, GSA assembled several kits or "go packs" with some key supplies, necessary forms, contact information, and information on goods and services that might be required. In future emergencies these packs will be placed in several key locations from which responders are likely to be deployed. Further we are working with our counterparts at the Department of Homeland Security (DHS) to put in place blanket purchase agreements (BPA's) for several key items, including ambulance services, ice, and water. Information on these items will be included in the "go packs."

GSA also established a rapid response team to:

- Accumulate and coordinate the deployment of resources such as equipment and people from our other regional offices;
- Establish and distribute budgetary and procurement policy;
- Accumulate and distribute situational intelligence;
- Establish and maintain senior level communications with FEMA and the affected agencies; and
- Coordinate support for historic preservation.

GSA's hurricane response strategy is generally comprised of the following:

- Advance preparation;

- Customer communications/hotlines;
- Damage assessment;
- Historic building assistance;
- Returning customers to operational status;
- Returning owned and leased space to operational status. This may be as simple as waiting for area-wide power to be restored or as complex as repairing or completely replacing facilities. GSA's strategy was developed from the lessons learned by our regional employees who are well-practiced in hurricane response.
- Supporting other federal agencies under ESF #2 (communications) and #7 (resource support)

I created GSA's new Office of Emergency Response and Recovery (OERR) to be responsible for the awareness of, preparedness for, response to, and recovery from emergencies that affect our own organization and our customers. Additionally, the OERR is responsible for supporting the relationship we have with FEMA, as set forth in the National Response Plan. This new office coordinates operations through our network of regional emergency response officers and our cadre of emergency coordinators within our staff and service offices.

The OERR has 5 divisions: Policies and Plans, Training and Exercise, Disaster Support, Communications and Security, and Historic Preservation.

Policies and Plans Division – The Policies and Planning Division develops and implements agency-wide policies, plans, procedures, performance standards and measures related to GSA's roles and responsibilities in support of (including but not limited to): the National Response Plan, Continuity of Government, Continuity of Operations Plan, and other contingencies. It also provides subject matter expertise and assistance in the development of service specific and regional contingency plans.

Training and Exercise Division - The Training and Exercise Division develops and implements agency-wide disaster readiness programs. It also serves as the agency lead for coordination and facilitation of agency participation in international, national, state, and local disaster and exercise programs and activities.

Disaster Support Division - The Disaster Support Division provides emergency acquisition support and on-the-ground liaison between GSA field organizations and headquarters during national disasters. This division also provides emergency real property management and on-the-ground liaison between GSA field organizations and headquarters during national disasters. It also supports and oversees senior emergency response team processes and procedures during national disasters.

Communications and Security Division - The Communications and Security Division coordinates internal, interagency, and external communication regarding planning, response and recovery. It develops and implements strategic security plans and policies (physical, personal, and information security).

Historic Preservation Division - The Historic Preservation Division is charged with integrating emergency historic preservation requirements in all response and recovery plans and operations. This division provides subject matter expertise to federal, state, local, and tribal government officials during disaster response and recovery activities.

It is the OERR's overall responsibility to ensure that GSA is prepared to recover our own operations and support our federal customers before, during, and after emergencies.

Disaster response actions are tasked by FEMA in accordance with the National Response Plan. The OERR has more than 20 employees throughout GSA regions designated as regional emergency coordinators to support this role. GSA's efforts are managed through this network of coordinators at the established regional response coordination centers and joint field offices within the DHS' National Incident Command System management structure. The emergency coordinators working through the OERR can marshal GSA's entire force of resources as conditions warrant in a disaster.

GSA takes seriously its role and responsibilities in achieving excellence in the federal acquisition process. We take seriously the trust placed in us by federal agencies that rely on our acquisition expertise to obtain best value. We recognize that after disaster strikes, GSA can make a huge difference in how quickly a community recovers. But we must be at the top of our game.

As mentioned earlier, I was pleased to learn of the successful efforts by our agency after Hurricane Katrina. I am also pleased to know GSA is now better prepared for the next disaster.

One way in which GSA is now better prepared to help in disaster recovery is our new disaster recovery purchasing program for state and local governments. Authorized under section 833 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (PL 109-364), this program allows state, local and tribal agencies to access the GSA Federal Supply Schedules to facilitate recovery from a major natural disaster or act of terrorism. Opening up GSA's sources of supply and pre-negotiated terms, conditions, and pricing to the state and local agencies struggling to recover from these crises is another way GSA is leveraging our federal investment to help those in need. I am proud to report that of the nearly 7,000 GSA schedule contractors who have agreed to participate in this program to date, over 75 percent of them are small or disadvantaged businesses.

Madame Chairwoman, GSA can successfully respond to future hurricane seasons by doing the following: (1) preparing for the rapid deployment of resources to the stricken areas; (2) maintaining the availability of experienced professionals; and (3) communicating effectively with customers and the internal response team. In addition, superior design and sound construction of our public buildings helped them withstand these fierce storms without extreme damage.

GSA has plans and policies in place to better facilitate response and recovery after future disasters.

Thank you for the opportunity to testify here today. I look forward to working with the committee as we continue to refine our efforts. Now I am happy to answer any questions you and the other committee members may have.

COMPLETE STATEMENT OF

LIEUTENANT GENERAL CARL A. STROCK
CHIEF OF ENGINEERS

U.S. ARMY CORPS OF ENGINEERS

DEPARTMENT OF THE ARMY

BEFORE THE

Committee on Small Business

HOUSE OF REPRESENTATIVES

April 12, 2007

Madam Chair and Members of the Committee, I am Lieutenant General Carl A. Strock, Chief of Engineers. Thank you for the opportunity to testify before you today concerning small business participation in the rebuilding of the Gulf region in the aftermath of Hurricane Katrina.

The U.S. Army Corps of Engineers is continuing to work primarily in support of the Federal Emergency Management Agency, carrying out a wide variety of missions in response to Hurricane Katrina. The Corps of Engineers practices the principle of openness. We strive to maintain transparency in our contracting activities and welcome oversight of our activities.

I fully recognize the value that small businesses play in our national economy, and I am personally committed to using small businesses in performing our work, both in the normal course of business, and in times of major natural disaster. We strive to use Small, Small-Disadvantaged, Women-Owned, HUBZone, Veteran-Owned, and Service-Disabled Veteran Owned firms to the maximum extent possible, and typically, the Corps of Engineers awards more than 40 percent of its prime contract dollars to small firms.

My statement will address four areas; pre-disaster planning, Katrina subcontracting, the GAO-07-205 Report, entitled "Hurricane Katrina, Agency Contracting Data Should Be More Complete Regarding Subcontracting Opportunities for Small Businesses," and finally my thoughts on the "Way Ahead".

PRE-DISASTER PLANNING

Under the National Response Plan, the Corps is assigned as the "Coordinator" for Emergency Support Function (ESF) #3, Public Works and Engineering. During disasters, the Corps is the primary agency for response activities such as ice, water and temporary power. The Federal Emergency Management Agency (FEMA) is the primary agency for ESF #3 recovery activities and assigns the Corps to assist in the execution of debris missions. The Corps is also a support agency to other ESFs, for example, the Corps supports ESF #6, Mass Care and Housing, by executing missions to provide temporary roofs. Having these responsibilities, the Corps has created a program called the Advanced Contracting Initiative, or ACI. Under the ACI program, we competitively award contracts for future use in the areas of water, ice, power, temporary roofing, and debris removal. Having these contracts in place allows the Corps to rapidly respond to emergency situations. In fact we used our ACI contracts not only to support the Katrina recovery, but also to support recovery efforts in those areas impacted by Hurricanes Rita and Wilma as well. The ACI program has been in place for about six years.

Due to the magnitude of Katrina and the wide-spread devastation, the Corps needed to award debris contracts in excess of those contracts pre-placed under the ACI program. Based on the large scale of the work to be accomplished, we awarded four more contracts following the emergency to remove debris in Mississippi and Louisiana. Each contract was valued at $500 million with an option to increase each contract by an additional $500 million. This requirement was open to any company, under a shortened advertisement and proposal period. The Corps received 22 proposals in response to the advertisement. The contracting officer awarded the contracts on a best value to the government basis.

Prior to Hurricane Katrina making landfall, the Corps had competitively awarded several contracts in the Gulf region for temporary roofs. A full and open competition was conducted during the Summer of 2005 for the anticipated roofing effort in Mississippi and Louisiana. The Corps received 23 proposals and made a best value selection in July resulting in a $10 million Indefinite Delivery, Indefinite Quantity contract. Given the magnitude of the damage during the 2005 hurricane season, four additional contracts were awarded by the Corps after FEMA tasked the Corps to install over 190,000 temporary roofs in Florida, Louisiana, Mississippi and Texas. The four additional contracts were awarded under Urgency procedures utilizing the ranked proposals from the original competition. Additional urgency increases brought the total of these five contracts to $330 million. The contractors furnish and install structural panels, joists and rafters, make small roof repairs and install government furnished plastic and furring strips. The temporary roofs allow disaster victims that are living in shelters or other temporary facilities to return to their homes to begin the recovery process.

For the four additional debris removal contracts awarded to deal with the devastation of Katrina, small business set asides were not conducive due to the extensive scope of work. However, the Corps realized that the successful execution of these new debris removal contracts would require substantial subcontracting by the prime contractor. Market research revealed a large pool of small businesses capable of performing as subcontractors. The Corps included aggressive small business subcontracting goals in these four additional debris removal contracts. The Corps negotiated a small business subcontracting goal of seventy-three (73%) percent with three of the debris removal contractors and sixty (60%) percent for the remaining one. The Corps standard small business subcontracting goal is fifty-two (52%) percent.

KATRINA SUBCONTRACTING DATA

Data the Corps compiled of small business subcontracting during the period of September 2005 through March 2007 shows that small businesses have played an important role in the Corps' Gulf region recovery efforts. As of March 28, 2007, eighty-eight (88%) percent of all subcontracted dollars went to small businesses in Louisiana and eighty-four (84%) in Mississippi.

To assure that small businesses were included in this massive effort, the Corps instituted high goals with reporting requirements for small business subcontracting to keep the prime contractors focused on achieving high levels of small business subcontracting for all small business categories. The contractors are required to report their sub-contracting efforts to the Corps weekly for the first 90 days of the response, and monthly thereafter instead of every six months which is the typical reporting requirement. The contracts also include clauses citing the preference for use of local subcontractors. The millions of dollars of revenue received as subcontracting dollars allowed these small businesses to continue to grow.

Subcontractor Paid Totals in Louisiana

Team	$ Obligated	Total sub $	Large subs $	Small subs $	# Small subs	% SB
Debris	$1,951,668,557	$1,007,164,529	$99,347,219	$907,817,310	671	90%
Roofing	$166,376,374	$60,341,753	$9,394,209	$50,947,544	58	84%
QA	$33,650,290	$1,386,364	-	$1,386,364	14	100%
UnWatering	$40,000,000	$31,611,505	$17,445,102	$14,166,403	15	45%
CPF	$22,886,141	$5,794,075	$4,211,039	$1,583,036	23	27%
Total	$2,214,579,362	$1,106,298,226	$130,397,569	$975,900,657	781	88%

Subcontractor Paid Totals in Mississippi

Team	$ Obligated	Total sub $	Large subs $	Small subs $	# Small subs	% SB
Debris	$742,261,226	$345,500,000	$59,559,816	$285,927,319	843	83%
Roofing	$132,000.000	$48,700,000	$1,300,000	$47,400,000	58	97%
QA	$50,876,891	$17,000,000	$5,100,000	$11,900,000	8	70%
UnWatering						
CPF						
Total	$925,138,116	$411,200,000	$65,959,816	$345,227,319	909	84%

Note: Small subcontracting percentages are based on total subcontracted dollars and not on total obligated dollars. Small business data include dollars from all small business socio-economic categories (small, small disadvantaged, women-owned, HUBzone and service disabled veteran-owned small businesses).

GAO REPORT (07-205)

As well as the Corps is doing with the disaster recovery subcontracting efforts, there is room for improvement. The GAO-07-205 report stated that the Corps could not explain why subcontracting plans were not required for $102 million worth of contracting dollars. I will be the first to say that we should have had better accountability. I acknowledge that we may have missed placing some subcontracting opportunities into the small business community. We owe it to the small business community to maximize their contracting opportunities. There have been valuable lessons

learned in association with our subcontracting practices and procedures for emergency/disaster contracting. I am committed to ensuring that the Corps maintains complete and accurate subcontracting information for all applicable contracts. We will hold our large business partners accountable in fulfilling their small business obligations as well. Our contracting officers and small business specialists will ensure that proposed subcontracting goals, from large businesses, are realistic and attainable, but challenging. Our large business partners who demonstrate their commitment to the small business community will be awarded higher scores during proposal evaluations. When subcontracting plans are not required, the contracting officer will ensure proper justifications are contained in the contract file. Our Small Business Program Office is developing a formal subcontracting training module to be delivered Corps-wide. Some of our field small business specialists have already discussed subcontracting plan requirements with their program offices. In addition, the new Federal Procurement Data System – Next Generation (FPDS-NG) has been implemented. The new system came on line in 2006 and is still being improved upon in order to simplify and increase data reporting accuracy over the previous data system.

To ensure that we are compliant with subcontracting statutes, I will continue to encourage and welcome independent reviews of our small business program. To illustrate this commitment, in January 2007, I directed the Corps' Inspector General to conduct an evaluation of our Small Business Program Office. At the end of this inspection, the Inspector General will provide a report to me containing their findings, observations and recommendations for any corrective actions. Corrective actions are implemented immediately to address problems or weaknesses identified by these teams.

Part of being a Learning Organization is implementing actions to correct our mistakes and strengthen our weaknesses. Several years ago the Corps instituted a formal procedure, our Remedial Action Program, to capture lessons learned and adjust our processes for future events. Simply put (although this is not a simple process) for each emergency event we prepare After Action Reports which include issues and weaknesses identified from all sources during our response efforts. We attempt to correct or strengthen our procedures and adjust supporting Standard Operating Procedures (SOPs).

THE WAY AHEAD

As mentioned above, I am committed to improving subcontracting procedures and practices at the Corps. However, my commitment to the small business community is not limited to subcontracting opportunities. I am also committed to expanding our base of small business prime contract awards. We are currently working on the Acquisition Plan for the re-competition of the ACI Debris Removal contracts. This new Acquisition Plan works to include small disadvantaged businesses as prime contractors and is more friendly to small business firms. This Plan will have several competitively awarded small business disadvantaged business and HUBZone pools and competitively awarded unrestricted contracts. The current ACI Debris Removal contract is 100% large business. With this new business model, after initial planning, the Corps will first consider the small disadvantaged business and HUBZone pools when debris removal is required in a suburban area and in urban areas when possible. Subcontracting goals will be higher in all small business categories. The Louisiana Recovery Field office has identified approximately 16 new small business prime contract opportunities worth over $150 million for this fiscal year alone. These contract opportunities include: demolition contracts, filling of swimming pools, recoupment of architecture features and Asbestos Containing Materials testing. These future initiatives are an ever evolving issue for us and are dependent upon FEMA requirements. The Corps of Engineers will continue to work with the Small Business Administration as it pursues opportunities for small businesses.

ONGOING AND FUTURE WORK

The Corps is in the process of repairing and restoring the hurricane protection system in the New Orleans area. The Corps has developed an acquisition plan as it moves forward in execution of this mission. Of the total $5.8 billion appropriated for this work, the acquisition plan includes approximately 34% of this work (prime contract) or ($1.98 billion) for small, small disadvantaged, HUBZone and service disabled veteran-owned small businesses. The approximate number of planned contract awards is 150 with a total of 101 of these contracts being set aside for the small business categories described above. Of the 43 contracts awarded to date, all but three have been awarded to small businesses. Finally, of the $236 million obligated on these contracts, $137 million has been obligated on the small business prime contracts. The Corps continually evaluates its acquisition plan and looks for ways to improve. In the future, as additional cost estimates are developed, the plan will also be adjusted as necessary. The numbers provided above only address prime contracts. In addition to the prime contract plan discussed above, each unrestricted prime contract that is awarded to a large firm will require a subcontracting plan and goals that include small businesses.

The Corps will continue to always consider small businesses first as we develop our Acquisition Plans.

SUMMARY

The success of the federal small business program is a shared responsibility and I applaud the House Committee on Small Business for holding agencies accountable to their small business obligations.

To close, I would like to thank you once again, Madam Chair, for allowing the Corps of Engineers the opportunity to appear before this Committee to discuss Hurricane Katrina subcontracting procedures during times of emergencies. Many Corps personnel have served our Nation by helping in the response to natural disasters in Texas, Louisiana, Mississippi, Alabama, Florida, or elsewhere in the nation or the world. We are proud to do so. I would be happy to answer any questions Members of the Committee may have.

Thank you.

TESTIMONY FROM
THE HONORABLE PAUL A. SCHNEIDER
DEPARTMENT OF HOMELAND SECURITY
UNDER SECRETARY FOR MANAGEMENT
BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
New Orleans, Louisiana
April 12, 2007

Ms. Chairwoman Velázquez, Congressman Chabot, and Members of the Committee, thank you for the opportunity to discuss the Department of Homeland Security's (DHS) small business participation in the rebuilding of the Gulf Coast in the aftermath of Hurricane Katrina.

As you know, I undertook the job of Under Secretary for Management at the Department of Homeland Security a little over three months ago. For the previous three and one half years I was a defense and aerospace consultant doing work for the National Aeronautics and Space Administration, the Federal Aviation Administration, the Department of Defense, the United States Coast Guard and others. Prior to this I was a career civil servant for 38 years. I began my career at the Portsmouth Naval Shipyard as a project engineer in 1965 working on nuclear submarines. My last three government positions were Senior Acquisition Executive at the National Security Agency (NSA), Principal Deputy Assistant Secretary of the Navy (Research, Development and Acquisition) and Executive Director and Senior Civilian of the Naval Sea Systems Command, the Navy's largest shore establishment.

In accordance with the Small Business Act, each Federal agency having procurement powers must establish an office known as the Office of Small and Disadvantaged Business Utilization (OSDBU). In support of the Small Business Act, the Department's OSBDU serves as the focal point for DHS small business acquisitions matters. The OSBDU seeks to provide maximum practical opportunities in our acquisitions to all small businesses, including those that are owned by women, veterans, service-disabled vets, Historically Underutilized Business Zones (HUBzone) and other disadvantaged businesses. At DHS, the Director of the OSDBU works closely with the Chief Procurement Officer to ensure that small businesses have a meaningful opportunity to compete for DHS contracts. The small business program goal is to foster an environment where these highly skilled businesses can, on their own merits, compete successfully for a fair share of DHS contracts and subcontracts.

The OSDBU engages in such activities as:

- Participating in small business outreach events which average 75 per year; the majority taking place outside the Washington Metropolitan Area.

- Administering the DHS Mentor-Protégé Program, the largest in the Federal Government with over 150 agreements. This program promotes the growth of

small businesses through business development assistance and subcontracting opportunities with large business mentors.

- Developing and providing support for the DHS Open For Business Website: www.dhs.gov/openforbusiness, which was designed to disseminate information to the small business community. This information includes, but is not limited to, the Annual Forecast of Contract Opportunities, DHS Prime Contractors List, DHS Vendor Outreach Sessions and other information relative to the DHS small business program.

- Hosting the Annual DHS Small Business Awards Ceremony to recognize small businesses that have performed in an outstanding manner as well as DHS employees that have been strong advocates of the small business program.

- Negotiating annual small business contracting and subcontracting goals with the Small Business Administration (SBA) and DHS organizational elements, and building a team of small business specialists in the DHS organizational elements who work closely with contracting officers and program managers to implement the program.

DHS is committed to a unified team approach involving senior management, small business specialists, acquisition personnel and program staff to support both the critical homeland security mission and at the same time meet an important public policy objective, that being small business inclusion in the Federal market place. As such, DHS OSDBU and the component agencies (Customs & Border Protection, Federal Law Enforcement Training Center, Immigration & Customs Enforcement, Transportation Security Administration, Federal Emergency Management Agency, U.S. Secret Service, U.S. Coast Guard, and DHS Headquarters Office of Procurement Operations) work as a team to accomplish the critical agency mission while supporting public policy objectives. Each component agency procurement office has assigned a Small Business Specialist to oversee the small business program within their organization.

Since its establishment, the DHS small business goal achievement has had a solid track record, exceeding the small business, women-owned small business and small disadvantaged business prime contracting goals every year. In FY-2006 DHS achieved 32% in small business prime contracting and 11.16% for overall small disadvantaged businesses (SDB) (5.29% 8(a), 5.87% other SDB) for a total small business obligated dollar amount of $4,379,567,782 and a total overall SDB obligated dollar amount of $1,538,969,498. The Government-wide small business goal is set at 23% for prime contracting. The DHS OSDBU has shown its commitment to small business contracting by raising the bar from the Government-wide goal of 23% to a proactive and aggressive 30% small business goal for FY-2006 and FY-2007. The Government–wide small and disadvantaged business goal is set at 5% (2.5% 8(a) and 2.5% other SDB) and DHS has raised its own SDB goal to 8% (4% 8(a) and 4% SDB) for FY-2006 and FY-2007.

The U.S. Small Business Administration (SBA) has also recognized the Department's efforts to maximize opportunities for small business. During the last four years, SBA has twice selected DHS for its top award, the Gold Star Award for overall sustained small business achievement, and has twice selected DHS for the Francis Perkins Award for women-owned small business achievement.

Small Business Participation in FEMA Contracting

Each DHS component plays an integral role in enabling the Department to meet Agency goals for small business utilization. Following Hurricane Katrina, the alignment of recovery efforts with small business utilization goals has been critical to revitalizing affected communities. FEMA has played a key role in engaging the small business community and directing the maximum share of dollars back into local economies.

I. Socio-economic achievements related to Hurricane Katrina and Rita Recovery

In response to Hurricanes Katrina and Rita, DHS obligated approximately $8.875 billion for recovery. Of this total, DHS has issued 28% of the contract dollars to small businesses and 8% to small disadvantaged businesses (See Figure B).

FIGURE B
Hurricane Katrina and Rita Socio-economic View
Aug 29, 2005 through March 26, 2007

Dept.	Total Obligations	Small Business		Small Disadvantaged Business		Woman-Owned		HUBZone		Service-Disabled Veteran-Owned Business	
DHS Katrina & Rita (to include FEMA)	$8,875,620,004	$2,484,593,511	28%	$677,254,752	8%	$392,242,128	4%	$319,538,841	4%	$131,378,628	1%

Information as of 03/26/2007 10:00 A.M. EST. Source: FPDS

The goals set by the SBA for DHS also include a number of other socio-economic categories. DHS and FEMA engage a socio-economically diverse group of contractors. Both DHS and FEMA have exceeded the SBA's goals for Woman-Owned Businesses (5% target) and HUBZone Businesses (3%). The goal for Service-Disabled Veteran-Owned Business (3%) was not reached due to the difficulty of identifying eligible vendors.

Additionally, FEMA has worked to engage the local business community, with 21% of all dollars obligated currently to local businesses in the Gulf Coast Region for prime contracts (See Figure C).

FIGURE C:
FEMA Obligations by State (Vendor Location)

Vendor State	Dollars Obligated	Percent of Total Dollars
LA	$826,118,113	9.7%
AL	$202,259,007	2.4%
MS	$216,743,528	2.5%
TX	$551,524,994	6.5%
TOTAL	$1,796,645,642	21.1%

Information as of 03/26/2007 10:00 A.M. EST. Source: FPDS

II. Recent Awards to Small Businesses

In the immediate aftermath of Hurricane Katrina in 2005, noncompetitive Individual Assistance-Technical Assistance Contracts (IA-TAC I) were awarded to Bechtel, CH2M Hill, Fluor, and Shaw. The IA-TAC I requirements supported the disaster relief housing mission. While the contractors performing under the IA-TAC I contracts were not small businesses or local businesses themselves, all four contractors utilized small businesses and local businesses as subcontractors to a large extent. Many aspects of subcontracting are good for local businesses and for small businesses. For example, of the actual subcontracting dollars expended by the four large IA-TAC I contractors, small businesses and local businesses received the following percentages:

	Bechtel	CH2MHill	Shaw	Fluor
Small Business	81.9%	75.8%	66.3%	66.5%
Local Business	70.3%	44.8%	78.0%	52.92%

Another benefit of the IA-TAC I subcontracting was that qualified subcontractors had the opportunity to mature their skills in each mission area and build capacity to support future FEMA's needs. As a result of these subcontracts, FEMA now has a much larger pool of highly-qualified Section 8(a) and other small businesses that can could compete directly for future prime contracts and support its future disaster response efforts. Illustrative of the success of the subcontracting relationships formed under IA-TAC I is the fact that many of the former subcontractors are now filling agency requirements in the Gulf Coast as prime contractors under new contracts.

At the current time, no additional IA-TAC I requirements exist, and these four contracts are in close-out phase. Since the expiration of the IA-TAC requirements last year, these efforts are now being supported using local small businesses, several of which were former subcontractors under IA-TAC I.

FEMA initiated a competitive process to fulfill many of the responsibilities originally performed under IA-TAC I, and requirements under the IA-TAC I contracts were basically divided into four separate work statements: (1) Maintenance and Deactivation; (2) Grounds Maintenance; (3) Mississippi Blocking, Leveling, and Anchoring of Travel Trailers; and (4) Security.

Maintenance and Deactivation Contracts (MDCs)

A total of 36 Maintenance and Deactivation Contracts (MCDs) were awarded in April - May of 2006 for the Gulf Region to small businesses. Each contract has a ceiling of $100,000,000 over a five-year period.

The MDC bidding process was limited to participation by Section 8(a) firms and small business concerns residing or primarily doing business in the affected areas. In November 2006, the remaining hauling and installation requirements for Louisiana and Mississippi also were transferred from the IA-TAC contractors to the MDCs using the relocation provisions of those contracts. The Louisiana and Mississippi MDCs were invited to compete for the associated task orders.

Following is a summary of FEMA's efforts under the first 36 MDC contract awards:

- Fifteen of these contracts were awarded to Louisiana businesses, of which eight were 8(a) Small Disadvantaged Businesses and seven were Small Business Concerns. Among this group, five were HUBZone Small Business Concerns, nine were Woman-Owned Business Concerns, and two were Service-Disabled Veteran-Owned Business Concerns.

- Ten Maintenance and Deactivation Contracts were awarded in Mississippi—five to Section 8(a) Small Disadvantaged Businesses and five to Small Businesses. Of these businesses, three were HUBZone Small Business Concerns, three were Woman-Owned Business Concerns, and one was a Service-Disabled Veteran-Owned Business Concern.

- In Texas, two contracts were awarded to Section 8(a) Small Disadvantaged Businesses and three were awarded to Small Businesses. Among these were two Woman-Owned Business Concerns, one Service-Disabled Veteran-Owned Business Concern

- In Alabama, three contracts were awarded to Section 8(a) Small Disadvantaged Businesses and three were awarded to Small Businesses, including one HUBZone Small Business Concern.

Grounds Maintenance Contracts

Grounds Maintenance Contracts were awarded to 14 firms in Louisiana and five companies in Mississippi in September 2006. The bidding process was limited to Service-Disabled Veteran-Owned Small Business (SDVSB) firms residing or primarily doing business in Louisiana and Mississippi, respectively.

Mississippi Blocking, Leveling, and Anchoring Contracts

The Mississippi Blocking, Leveling, and Anchoring contracts were awarded in September to six companies. Bidders were required to be HUBZone-certified with the Small Business Administration and to be residing or primarily doing business in Mississippi.

Security Contracts

The Security contracts were awarded to three Small Businesses for requirements in Mississippi and Louisiana. One contract was awarded in January 2006, one in February 2006, and one in September 2006.

Other Small Business Awards

In addition to the many contract awards issued to Small Businesses and local businesses for requirements transitioned from IA-TAC I, FEMA has issued several other major procurements which support DHS's goals of maximizing contracting opportunities with small and local businesses. Some of these awards are as follows:

- Base Camps: FEMA negotiated Blanket Purchase Agreements (BPAs) with provisions to meet the possible need for future base camp requirement agreements in the Gulf Coast region. These BPAs included provisions for all necessary supervision, professional staff, labor support, material, supplies, and equipment as necessary to make base camps and supported the operation of maintaining a base camp within disaster-impacted areas within 72 hours to staff and support a minimum of 300 occupants and a maximum of 2000. These contracts were awarded in October 2006 and expired at the end of 2006. Future base camp requirements will be supported through a national contingency contract, and the agency intends to have this contract in effect before the Hurricane season begins in June 2007.

- Group Sites: On January 10, 2007, FEMA announced a pending procurement for the design-build of new Group Sites in Louisiana and Mississippi. This procurement is restricted to and set-aside for participation by small businesses residing or primarily doing business in the States of Louisiana and Mississippi and is intended to support the program's current requirements to build sites in the New Orleans area as well as any emerging requirements in those states over the next three years.

- Uniform Federal Accessibility Standards (UFAS) Hauling and Installation: FEMA awarded five Indefinite Delivery Indefinite Quality (IDIQ) contracts to Louisiana small businesses in September 2005 for the hauling and installation of UFAS-compliant trailers and the building and installation UFAS-compliant ramps. Currently, all five contractors are providing services to FEMA to ensure that disabled FEMA applicants are provided with temporary housing that comply with the timelines set forth in the settlement agreement entered into in federal

class action lawsuit, *Brou vs. FEMA*. Contractor performance is continually monitored for timeliness and quality assurance.

- Group Site UFAS Modifications: FEMA has been in negotiations with a Louisiana Section 8(a), tribal-owned firm to support the retrofit of approximately 40 group and exclusive sites to meet Uniform Federal Accessibility Standards (UFAS) criteria. This procurement represents a significant step forward in FEMA's ability to support the disabled community as well as a local small business concerns.

III. Upcoming Opportunities for Small Businesses

FEMA is committed to engaging small businesses in the efforts to rebuild the Gulf Coast. One example of an upcoming solicitation targeted at small businesses is the Gulf Coast Site Restoration and Design-Build. This solicitation to support group site restoration needs and development of future sites on an as-needed basis will be limited to participation by small businesses in Louisiana and Mississippi. The Request for Proposals (RFP) will be released this month and the Agency expects to award five Basic Ordering Agreements.

IV. FEMA Strategy to Increase Small Business Awards

In order to facilitate further collaboration with the Small Business community, FEMA is taking the following steps:

- Participation by FEMA Acquisition Branch Chiefs and procurement leadership in outreach forums to meet with the small business community in the Gulf Coast Region as well conducting meetings with interested vendors/contractors to present their respective company capabilities and performance.
- Potential to establishment of an Office of Small and Disadvantaged Business Utilization (SADBU) for the Gulf Coast Region.
- Development of goals and acquisition strategies which are increasingly structured for maximizing the number of awards to small businesses.
- Networking with representatives of the U.S. Small Business Administration Louisiana District Office and local small business development centers.
- Participation in local, state and national conferences, seminars and exhibits to better understand current small business issues and interface with business and industry.
- Creation of a database of contact information and portfolios for local Small, Service-Disabled Veteran-Owned, 8 (a), HUBZone, and Woman-owned Businesses to be utilized by contracting professionals.

V. Recent Legislative Changes

On October 4, 2006, section 307 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. § 5150) was amended by section 694 of the Department of

Homeland Security Appropriations Act, 2007, Pub. L. 109-295. The amendment required that contracts for major disaster assistance activities be preferentially awarded to local businesses or individuals. Appropriated funds may not be used for contracts to non-local entities unless justified in writing. While the amendment does not specifically favor small businesses, it does not preclude set-asides to small business as long as they are local entities.

FEMA responded to the change in legislation through adopting new procedures and strategies that facilitate the maximum level of engagement with local contracting communities. Prior to issuing a solicitation, FEMA Field Branches conduct market research to determine whether or not the capabilities of small local businesses meet program requirements. If small local businesses are determined to possess the necessary qualifications, then the solicitation is structured either as a local small business set-aside or preference. If no such business is available, the scope of solicitation is expanded to include all local businesses (rather than only small local businesses). If no local businesses are available, then the geographic scope of the solicitation is expanded to the state level, then to the Gulf Coast Region, and finally to a national pool of contractors. Contract files document the determination and findings regarding the availability of capable local firms.

Thank you for your leadership and your continued support of the Department of Homeland Security and its small business program. I look forward to working together in shaping the future and success of DHS. Thank you for this opportunity to be here today and I am happy to answer any questions that you may have.

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UNTIL RELEASED BY THE
HOUSE COMMITTEE
ON SMALL BUSINESS

TESTIMONY OF

THE HONORABLE DR. JAMES I. FINLEY

DEPUTY UNDER SECRETARY OF DEFENSE

(ACQUISITION AND TECHNOLOGY)

BEFORE THE UNITED STATES HOUSE

COMMITTEE ON SMALL BUSINESS

April 12, 2007

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HOUSE COMMITTEE
ON SMALL BUSINESS

Chairwoman Velázquez, Ranking Member Chabot and Members of the House Committee on Small Business:

Thank you for inviting me to appear before you today to discuss small business participation in the aftermath of Hurricane Katrina. As you know, several military installations were impacted by Hurricane Katrina including Keesler Air Force Base in Biloxi, Mississippi; Maxwell-Gunter Air Force Base in Montgomery, Alabama; Naval Air Station, New Orleans, Louisiana; Naval Air Station, Pascagoula, Mississippi; and the Marines Forces Reserve Headquarters, New Orleans, Louisiana, as well as shipyards and production facilities. Tens of thousands of Department of Defense personnel, including the military and civilian active workforce, military and civilian retirees, contractors, local businesses, and families in support of the Department of Defense were directly affected.

The Department of Defense agrees with the March 2007 GAO Report recommendations and has initiated actions in support of those recommendations to 1) issue guidance reinforcing the importance of the subcontracting plan requirements and 2) ask the Department of Defense Inspector General to conduct a review at the appropriate future date to

ensure the subcontracting plan guidance is being followed. The GAO found, at the time the Report was issued, that one contract action could not be explained with respect to the lack of a subcontracting plan. Since the issuance of the GAO Report, the Department has determined and reported to the GAO that this contract did not, under the current regulations, require a subcontracting plan. As a result, the Department of Defense believes that it has satisfied concerns expressed in this report by the GAO on all contracts and the requirement and reporting of the subcontracting plans for each contract.

The GAO Report states that small businesses received 28% of the $11 billion in contracting dollars from DHS, GSA, United States Army Corp of Engineers and the Department of Defense. Local businesses of all sizes in Alabama, Louisiana and Mississippi received 18%, or $1.9 billion, of the $11 billion. Of the $1.9 billion, small business received 66% of the awards to provide trailers, administrative and service buildings, restoration activities, clean-up activities, excavation, debris removal and temporary roofing installation.

The GAO Report, Table 5, page 24 entitled, Subcontracting Plan Requirements by Dollar Amount Provided, identified $483.6 million of contract actions awarded by the Department of Defense as not requiring a subcontracting plan. $475.9 million of these contract actions represented data entry errors where contract actions should have been coded to reflect that a subcontracting plan was obtained for that contract action or that "no subcontracting possibilities" exist.

The Department of Defense has issued an Interim Rule amending the Defense Federal Acquisition Regulation Supplement Part 218 for Emergency Acquisitions. This rule enables flexible acquisition management and provides a single reference that may be used to facilitate and expedite acquisition of supplies and services during emergency situations. In addition, the Defense Procurement and Acquisition Policy (DPAP) office has established an Emergency Procurement Committee that meets weekly and includes membership of the Department of Defense Small Business Program Office. Outcomes from those meetings have resulted in a number of initiatives based on lessons learned. For example:

- A contingency contracting guide, in the form of a pocket size handbook, is being developed for the Department of Defense military and civilian acquisition workforce;
- Initiatives are being undertaken for improved processes to expeditiously procure goods and services in emergencies/contingency operations;
- A web-based Community of Practice has been established on the Defense Acquisition University website www.dau.mil.

Our capacity to innovate drives our Nation's economy, provides for our national security and enables our technological leadership role of the Department of Defense. The Office of Small Business Programs, which oversees an annual budget of $1.3 billion for the Department of Defense Small Business Innovation Research programs, is a key component of that effort. Approximately 3,000 contracts are awarded annually for these research programs to small business. These innovative research awards enable our agility and flexibility to maintain our decisive advantage for existing and future challenges to protect our freedom and respond to natural disasters.

Small business prime and subcontract dollars have virtually doubled between 2000 and 2005, approaching $100 billion annually. This mainstream of the small business industrial base coupled with innovation provides additional momentum for our military and civilian workforce at the Department of Defense to protect our country.

In addition to mainstream industry presence and innovative research programs, the Department of Defense also utilizes Comprehensive Subcontracting Programs and Mentor-Protégé Programs to incentivize small business to participate in opportunities at the Department of Defense. For example, today the Department of Defense has 152 Mentor-Protégé agreements with small business companies that encompass 40 states. Examples of those small business products and services are:

- High accuracy global positioning equipment
- Three dimensional model design and development for hazardous sites
- Ruggedized radar and sonar display systems
- Thermal batteries for smart technology insertion opportunities
- Aircraft inspection, repair and refurbishment
- Manufacturing development and methods improvement for canvas products, textiles and acoustical blankets

- Modeling and simulation of information architectures
- Information security and technology analysis and training support
- Advanced surface mount circuit board manufacturing
- Sensor integration solutions with robotic and biometric integration

In summary, we, at the Department of Defense, are very committed to the health and welfare of our people and our nation. We have a strong small business program and are planning to build on that strength to provide more agility and flexibility for the acquisition of products and services to protect our country and provide emergency help in the time of need for natural disasters here on the home front or abroad when called upon.

I thank the committee for their time today, and their leadership in addressing the small business participation in the aftermath of Hurricane Katrina. I will be happy to answer your questions.

STATEMENT OF THE HONORABLE PATRICK W. DUNNE
ASSISTANT SECRETARY FOR POLICY AND PLANNING
U.S. DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES
FIELD HEARING
APRIL 12, 2007
NEW ORLEANS, LOUISIANA

Madam Chair, Committee members, I greatly appreciate the opportunity to testify at this hearing about VA's ongoing commitment to small businesses in New Orleans and the greater Gulf Coast region. VA is a proud and longtime neighbor in each of these communities. Veterans in these areas count on us for healthcare and benefits delivery. We recognize the importance of small business to VA operations – by partnering with VA they help underwrite the quality care we provide to veterans. Our mutual success is tied to one another in so many ways. We, too, want to see a vibrant economic recovery take root that reinvigorates small businesses in this region.

In early 2006 VA took positive steps in this regard. On March 7, 2006, VA's Office of Small and Disadvantaged Business Utilization, in concert with the Veterans Health Administration, veterans' service organizations and representatives from the National Task Force on Veterans Entrepreneurship hosted an event in Biloxi, MS, attended by approximately 100 veteran-owned small businesses. These firms were provided information, process guidance and networking opportunities for VA post-Katrina recovery acquisition opportunities. A similar event was held the next day, March 8, 2006, at the Veterans of Foreign Wars' hall in Metairie, Louisiana, and attended by 85 veteran-owned small businesses from Louisiana. These programs discussed requirements for bonding, teaming and joint ventures to help veteran entrepreneurs prepare their firms to be responsive to upcoming contracting opportunities.

To gauge the effectiveness of our efforts, we have looked at the Federal contracting record of the firms that received advice during those two events. Of the 185 firms that signed in at the March events, we found that during the following year 24 of those firms were awarded multiple contracts totaling over $43.4 million. We would like to think that the efforts of VA and our partners were instrumental in the success of those contractors.

In June 2006, VA participated in the Minority Business Development Agency's Business-to-Business Linkage Forum in New Orleans. This forum brought together 8(a) firms from Louisiana and Mississippi, with out-of-state minority businesses to explore partnering opportunities on upcoming Federal and State contracts.

In December 2006, VA participated in the U.S. Army-sponsored National HUBZone Conference held in New Orleans. In addition to providing presentations on VA's acquisition operations and opportunities, representatives from VA's Office of Small & Disadvantaged Business Utilization along with an acquisition professional of the New Orleans VA Medical Center, conducted one-on-one counseling sessions with small businesses in attendance. Many of these firms were from areas affected by Hurricane Katrina.

Our outreach efforts continue in this region. Personnel from VA's Office of Small & Disadvantaged Business Utilization will soon attend small business events in Vicksburg, Mississippi and Birmingham, Alabama. VA plans to participate in the Post Katrina Economic Development Summit in New Orleans June 5 – 7, 2007, hosted by the National Community Development Organization, Inc. The summit is billed as bringing America's top corporations, Government agencies and small businesses together to discuss acquisition opportunities to rebuild an economically strong gulf coast.

VA is using small businesses in its recovery efforts in the effected areas. VA's Office of Construction and Facilities Management has three 8(a) contracts in place worth approximately $1.6 million. By June 2007, award of several additional contracts for recovery work in New Orleans under Section 8(a) are contemplated. The values of these contracts are estimated at slightly over $4 million

An additional three to four 8(a) contracts with values of up to $12 million total are contemplated for Gulfport, MS, along with additional awards to Service-Disabled Veteran-Owned Small Businesses. VA intends to award another $600,000 in contracts with a Service-Disabled Veteran-Owned Small Business and Section 8(a) contractor in Biloxi, MS.

VA's National Cemetery Administration is spending over $1.6 million with small businesses, small disadvantaged businesses, veteran-owned and HUBZone small businesses in post Katrina recovery work at their facilities in the Gulf Coast region. These contracts were set-aside for small businesses.

A project to construct the replacement VA Medical Center in New Orleans alongside a new Louisiana State University healthcare facility will create additional opportunities for local small businesses. Construction on this approximately $625 million project is due to begin in 2008, once the State of Louisiana has committed funds and acquired the land. Although projects of this magnitude provide very limited opportunities at the prime contracting level, VA is committed to promoting maximum practicable opportunities for small businesses at the subcontracting level.

VA's healthcare facilities in New Orleans, Gulfport and Biloxi are operated by the South Central VA Healthcare Network. As with VA's senior leadership, the South Central VA Healthcare Network is committed to ensuring business opportunities for small businesses in the areas affected by Hurricane Katrina. This commitment is evidenced in the socioeconomic accomplishments for the entire network in this region.

In Fiscal Year 2006, the South Central VA Healthcare Network reported expenditures for supplies and services in excess of $574 million. Over 37 percent of these dollars were spent with small business. Broken down by socioeconomic category, over 3.6 percent were spent with Service-Disabled Veteran-Owned Small Businesses, approximately 9 percent with Veteran-Owned Small Businesses, almost 9 percent with small disadvantaged businesses, over 6 percent with women-owned small businesses, and 4.35 percent with HUBZone small businesses.

Despite the incredible damage sustained by our facilities and the surrounding area, the VA Medical Center in New Orleans and the VA Gulf Coast Veterans Health Care System located in Biloxi continue to support small businesses. The VA Medical Center in New Orleans spent nearly 44 cents of every acquisition dollar with small businesses, and the VA Gulf Coast Veterans Health Care System spent almost 50 cents of every dollar with small businesses. Their accomplishments in each of the small business socioeconomic categories are equally impressive. The socioeconomic accomplishments for the South Central VA Healthcare Network will be submitted for the written record.

In closing, I want to reassure you VA is committed to small businesses in general, and to those in the Gulf Coast Region in particular. Thank you for convening today's hearing. I will submit my written statement for the record. I welcome your interest and am prepared to answer any questions you may have.

United States Government Accountability Office

GAO

Testimony

Before the Committee on Small Business, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. CDT
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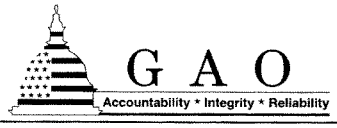
HURRICANE KATRINA

Agency Contracting Data Should Be More Complete Regarding Subcontracting Opportunities for Small Businesses

Statement of William B. Shear, Director,
Financial Markets and Community Investment



GAO-07-698T

April 12, 2007

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-07-698T, a testimony before the Committee on Small Business, House of Representatives

HURRICANE KATRINA

Agency Contracting Data Should Be More Complete Regarding Subcontracting Opportunities for Small Businesses

Why GAO Did This Study

In response to Hurricane Katrina, the Departments of Homeland Security (DHS) and Defense (DOD), the General Services Administration (GSA), and the U.S. Army Corps of Engineers (Corps) were responsible for over 90 percent of the federal funds awarded for relief efforts via contracting as of March 2007.

GAO initiated work and completed a report under the Comptroller General's authority last month describing the extent to which small businesses participated in these contracting opportunities. This testimony, which summarizes information from that report, discusses (1) the amounts that small and local businesses received directly from contracts with DHS, GSA, DOD, and the Corps for relief and recovery efforts related to Hurricane Katrina and (2) the extent to which small businesses received subcontracts for relief and recovery efforts.

What GAO Recommends

GAO recommended in its March 2007 report that DHS, GSA, and DOD take steps designed to ensure compliance with federal contracting regulations and more transparently disclose the extent to which subcontracting opportunities are available to small businesses. These agencies generally agreed with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-698T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

Small businesses received a total of 28 percent of the $11 billion in contracting dollars that DHS, GSA, DOD, and the Corps directly awarded in response to Hurricane Katrina between August 2005 and June 2006 (see fig. below). DHS awarded the highest dollar amount to small businesses (about $1.6 billion) and GSA awarded the highest percentage of its Katrina-related contracting dollars directly to small businesses (72 percent of about $658 million). Small businesses in Alabama, Mississippi, and Louisiana received 66 percent of the $1.9 billion awarded to businesses in these states.

Required information on small business subcontracting was not consistently available in official procurement data systems for the four agencies we reviewed. For example, the systems had no information on whether DHS or GSA required small business subcontracting plans for 70 percent or more of their contracting funds. In addition, the four agencies often did not provide or document reasons for their determinations that plans were not required, even though federal rules require such documentation when prime contracts meet criteria for having these plans. Incomplete information about subcontracting limited GAO's ability to determine the extent to which agencies complied with contracting rules and gave small businesses maximum opportunities to win subcontracts.

Percentage of Katrina-Related Contract Dollars Awarded to Small Businesses, by DHS, GSA, DOD, and the U.S. Army Corps of Engineers

	Dollars (in millions) by business size			
	Small		Large	Total
DHS	$1,559.9	24% / 76%	$4,858.6	$6,418.5
GSA	474.7	72% / 28%	183.0	657.8
DOD	332.7	34% / 66%	653.9	986.6
Corps	728.2	23% / 77%	2,381.7	3,109.9
Total	3,095.6	28% / 72%	8,077.2	11,172.8

Small businesses
Large businesses

Source: GAO analysis of FPDS-NG and DD-350 data on contracting actions awarded from August 1, 2005, to June 30, 2006.

Madam Chairwoman and Members of the Committee:

I am pleased to be here in New Orleans to discuss small business participation in the rebuilding of the Gulf Coast in the aftermath of Hurricane Katrina. As of March 2007, the Departments of Homeland Security (DHS) and Defense (DOD), the U.S. Army Corps of Engineers (Corps), and the General Services Administration (GSA) accounted for over 90 percent of the federal funds awarded for relief efforts through contracting.[1] The agencies were to use the funds to, among other things, award contracts for a range of services related to hurricane relief and recovery.

My statement today is based on a report we issued in March 2007, which discussed the amounts that small businesses received through prime contracts and subcontracts related to Hurricane Katrina.[2] In my testimony, I will discuss (1) the amounts that small and local businesses received directly from federal agencies through contracts for relief and recovery efforts related to Hurricane Katrina, and (2) the extent of subcontracting by selected large prime contractors and the lack of required information in official procurement data systems on subcontracting accomplishments and plans.

To address these objectives, we analyzed data on contracts awarded or used by DHS, GSA, DOD, and the Corps for Katrina-related projects overall, and, specifically for projects in Alabama, Louisiana, and Mississippi from August 1, 2005, through June 30, 2006. We identified contracts that were used for activities related to Hurricane Katrina and that required subcontracting plans. We also interviewed officials from each of the four agencies, the Small Business Administration (SBA), and the Office of Management and Budget (OMB). We conducted our work between March 2006 and February 2007 in accordance with generally accepted government auditing standards.

[1]We are reporting on the Corps and the rest of DOD separately because, of the four supplemental appropriations measures for Department of Defense activities relating to Hurricane Katrina relief (Pub. L. Nos. 109-61, 109-62, 109-148, and 109-234), the latter three specifically directed certain funds to the Corps for its disaster relief activities.

[2]GAO, *Hurricane Katrina: Agency Contracting Data Should Be More Complete Regarding Subcontracting Opportunities for Small Businesses*, GAO-07-205 (Washington, D.C., Mar. 1, 2007).

In summary:

Small businesses received 28 percent of the $11 billion in contracting dollars DHS, GSA, DOD, and the Corps awarded directly for relief and recovery from Hurricane Katrina. DHS awarded the highest dollar amount to small businesses (about $1.6 billion), and GSA awarded the highest percentage of its Katrina-related contracting dollars directly to small businesses (72 percent of about $658 million). Small businesses received approximately 66 percent of the $1.9 billion awarded by the four agencies to businesses in Alabama, Mississippi, and Louisiana.

Information on whether DHS and GSA required subcontracting plans was generally not available in the federal government's official procurement database for more than 70 percent of the contracting dollars each agency awarded for activities related to Hurricane Katrina. This database should have contained information on whether or not the agencies required subcontracting plans in these instances. When the database did contain information on whether or not agencies required the plans, we found additional information about them that was incomplete. Specifically, the four agencies we reviewed varied in their determinations that subcontracting plans were not required from their large prime contractors, ranging from 12 percent (GSA) to 77 percent (DOD) of their Katrina-related contracting dollars. Information on the agencies' reasons for not requiring these plans, which should have been readily available, was incomplete.

In order to more transparently disclose the extent to which subcontracting opportunities are available to small businesses, we recommended that DHS, GSA, and DOD (1) issue guidance reinforcing the need for agencies to document in publicly available sources their decisions regarding subcontracting plan requirements, and (2) consider asking their Inspectors General to conduct reviews to ensure that this guidance and related requirements are being followed. The agencies generally agreed with our recommendations and described various steps they are taking to implement them. We plan to follow up with the agencies on their efforts to implement these recommendations.

Background

When the President declares a state of emergency after a natural or other major disaster, the declaration gives the federal government the authority

to engage in various emergency response activities, many of which federal agencies provide through contracts with private businesses.[3] Such activities include debris removal, temporary housing assistance, reconstruction, and the provision of supplies. These contracts are subject to federal procurement regulations and to the Stafford Act, which, among other things, sets forth requirements for the federal response to presidentially declared disasters. A provision of the Stafford Act requires federal agencies to give contracting preferences, to the extent feasible and practicable, to organizations, firms, and individuals residing or doing business primarily in the area affected by a major disaster or emergency.[4]

Federal agencies' contracts with private businesses, whether made in the normal course of agency operations or specifically related to a natural disaster declaration, are, in most cases, subject to certain goals to increase participation by various types of small businesses. The Small Business Act, as amended, defines a small business generally as one that is "independently owned and operated and that is not dominant in its field of operation."[5] In addition, a business must meet the size standards published by SBA to be considered "small." The act sets a governmentwide goal for small business participation of not less than 23 percent of the total value of all prime contract awards—contracts that are awarded directly by an agency—for each fiscal year.[6]

The general rules governing procurement are set out in federal procurement statutes and in the Federal Acquisition Regulation (FAR). Among other things, these rules require that any business receiving a prime contract for more than the simplified acquisition threshold[7] must agree to give small business the "maximum practicable opportunity" to

[3]See Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), Pub. L. No. 93-288, as amended, 42 U.S.C. §§ 5121 – 5204c.

[4]42 U.S.C. § 5150.

[5]Public Law 85-536, as amended, 15 U.S.C. § 632(a).

[6]15 U.S.C. § 644(g).

[7]FAR section 201.1 defines "simplified acquisition threshold" to mean $100,000, except when the acquisition of supplies or services is used to support a contingency operation or facilitate defense against nuclear, biological, chemical, or radiological attack. In those instances, the term means $250,000 for contracts to be awarded and performed inside the United States and $1 million for contracts to be awarded and performed outside the United States.

participate in the contract.[8] Additionally, for contracts (or modifications to contracts) that (1) are individually expected to exceed $500,000 ($1 million for construction contracts) and (2) have subcontracting possibilities, the prime contractor generally must have in place a subcontracting plan.[9] This plan must identify the types of work the prime contractor believes it is likely to award as subcontracts and the percentage of subcontracting dollars it expects to direct to the specific categories of small businesses for which the Small Business Act sets specific goals.[10]

When they award contracts, federal agencies collect and store procurement data in their own internal systems—typically called contract writing systems. The FAR requires federal agencies to report the information about procurements directly to the Federal Procurement Data System–Next Generation (FPDS-NG), GSA's governmentwide contracting database, which collects, processes, and disseminates official statistical data on all federal contracting activities of more than $2,500.[11] This system automatically obtains from other systems or online resources additional information that is important to the procurement, such as the contractor's location. According to GSA, nearly all civilian agencies have directly linked their contract writing systems to FPDS-NG so that information about their contracting activities is available in "real time." DOD also reports its contracting information to FPDS-NG via its system, DD-350, but GSA does not publicly reveal these data for 90 days due to security considerations.

[8]FAR § 19.702.

[9]*Id.* The dollar threshold was changed to $550,000 on September 28, 2006. 71 *Fed. Reg.* 57363 (Sept. 28, 2006).

[10]These and other aspects of the small business subcontracting plan requirement are set forth at FAR Part 19.7.

[11]The FPDS-NG reporting threshold in FAR 4.602(c) was raised from $2,500 to $3,000. 71 Fed. Reg. 57,364 (Sept. 28, 2006).

Small Businesses Received Varied Amounts of the Contracting Dollars That DHS, GSA, DOD, and the Corps Awarded

Our March 2007 report identified the extent to which DHS, GSA, DOD, and the Corps awarded funds directly to small businesses; the extent to which different types of small businesses received funds; and, the extent to which small businesses located in Alabama, Mississippi, and Louisiana received funds for Katrina-related projects. We found that small businesses received 28 percent of the $11 billion that DHS, GSA, DOD, and the Corps awarded for Katrina-related projects, but the percentages varied among the four agencies (fig. 1).[12] Assessed individually, DHS awarded the highest dollar amount to small businesses—about $1.6 billion dollars—and GSA awarded the highest percentage of its dollars to small businesses—72 percent of about $658 million.

Figure 1: Amount and Percentage of Katrina-Related Contract Dollars Awarded to Businesses by DHS, GSA, DOD, and the Corps

	Dollars (in millions) by business size			
	Small		Large	Total
DHS	$1,559.9	24% / 76%	$4,858.6	$6,418.5
GSA	474.7	72% / 28%	183.0	657.8
DOD	332.7	34% / 66%	653.9	986.6
Corps	728.2	23% / 77%	2,381.7	3,109.9
Total	3,095.6	28% / 72%	8,077.2	11,172.8

Small businesses
Large businesses

Source: GAO analysis of FPDS-NG and DD-350 data on contracting actions awarded from August 1, 2005, to June 30, 2006.

Note: Dollars are rounded to the nearest hundred thousand and percentages were calculated from unrounded numbers.

Among categories of small businesses, small disadvantaged businesses received 24 percent of the approximately $3 billion that the four agencies awarded to small businesses. Other categories of small businesses, including women- and veteran-owned businesses and businesses located

[12]Each of the agencies we reviewed establishes annual goals for small business participation. Among the agencies, these goals ranged from 23 to 45 percent in fiscal years 2005 and 2006.

in historically underutilized business zones (HUBZones)[13], received from 2 to 16 percent (fig. 2). Contracting dollars awarded directly to businesses can be counted in more than one category, so the dollars awarded to various types of small businesses are not mutually exclusive.

Figure 2: Dollar Amount of Katrina-Related Prime Contracts Awarded to Small Businesses by Socioeconomic Group

	Total awarded to small businesses (dollars in millions)	Dollar amount (in millions) and percentage of small business total awarded to socioeconomic group										
		Veteran-owned			HubZone		Disadvantaged		Women-owned	
		All		Service-disabled[a]						
DHS	$1,559.9	8%	$127.9	$1.0	14%	$222.7	26%	$409.0	16%	$243.7
GSA	474.7	2%	9.0	.6	3%	14.0	8%	37.7	12%	58.1
DOD	332.7	3%	11.0	.8	11%	36.8	23%	76.9	14%	45.8
Corps	728.2	8%	61.8	.8	15%	106.2	29%	207.6	12%	84.7
Total	3,095.6	7%	209.7	3.2	12%	379.7	24%	731.3	14%	432.3

Source: GAO analysis of FPDS-NG and DD-350 data on contracting actions awarded from August 1, 2005, to June 30, 2006.

Note: Percentages cannot be totaled across columns because under SBA Guidelines, contracting dollars awarded directly to businesses can be counted in more than one category—for example, a small disadvantaged business owned by a woman can be counted as both disadvantaged and women-owned. Dollars are rounded to the nearest hundred thousand and percentages were calculated from unrounded numbers.

[a]The service-disabled category is a subset of the veteran-owned business category.

Small businesses in Alabama, Mississippi, and Louisiana received 66 percent of the $1.9 billion in Katrina-related contracting dollars awarded to local businesses by the four agencies we reviewed. Among the three states, the proportion of Katrina-related contracting dollars awarded to small businesses was largest in Mississippi (75 percent), followed by Alabama and Louisiana at 65 percent and 62 percent, respectively, of the dollars awarded (table 1). While small businesses in Louisiana received the smallest proportion of these Katrina-related dollars, the actual amount the

[13]HUBZones are economically distressed metropolitan or nonmetropolitan areas—that is, areas with low-income levels or high unemployment rates—and must employ some staff who live in those zones. See 15 U.S.C. § 632.

businesses received was nearly double what small businesses received in Mississippi. In general, these small local businesses received contracting dollars directly from the four agencies to provide trailers, administrative and service buildings, restoration activities, and other supportive services.

Table 1: Small Businesses Received the Majority of Contracting Dollars Awarded Directly to Local Businesses

Dollars in millions

	Alabama			Louisiana			Mississippi		
	All businesses	Small businesses		All businesses	Small businesses		All businesses	Small businesses	
Agency	Dollar amount	Dollar amount	Percent	Dollar amount	Dollar amount	Percent	Dollar amount	Dollar amount	Percent
DHSa	$160	$119	75%	$460	$345	75%	$138	$138	100%
GSA	77	72	92	48	26	54	210	194	92
DOD	10	10	98	7	6	89	45	9	20
Corps	84	16	19	609	320	53	114	42	36
Total	$331	$217	65%	$1,124	$697	62%	$508	$383	75%

Source: FPDS-NG and DD-350 data on contract actions awarded between August 1, 2005 and June 30, 2006.

Note: Dollars are rounded to the nearest million and percentages were calculated from unrounded numbers.

[a]DHS data are missing information on the contractor's state for 3.5 percent of its records. Where possible, GAO used available information on the contractor's city and place of performance to identify the state in which the contractor was located.

Information on Subcontracting Accomplishments and Plans Was Incomplete

Our March 2007 report also included information on the extent to which small businesses received subcontracts from DHS and GSA prime contractors, and selected military prime contractors, that were awarded Katrina-related contracts. The report described the accomplishments that these prime contractors reported, identified certain instances where accomplishment data was not available because contractors had not submitted it, and also identified two key ways in which necessary information on subcontracting plan requirements was incomplete.

Subcontracting Accomplishment Information Was Not Consistently Available for Some DHS and GSA Contracts Related to Hurricane Katrina

Contractors that have individual subcontracting plans are generally required to report on their subcontracting goals and accomplishments twice a year to the federal government. However, we found that this information was not consistently available for some DHS and GSA contracts. For the military contracts we analyzed, accomplishment data were available.

For DHS, in response to our inquiries, agency officials researched contracts that appeared to meet the regulatory criteria for requiring a subcontracting plan (i.e., awarded to a large business for over $500,000 or $1,000,000 for construction) but which FPDS-NG indicated either did not require a subcontracting plan or the system was missing information on a plan requirement altogether. For every contract that an agency awards, the agency is required to indicate in FPDS-NG whether a subcontracting plan is required. These officials found that subcontracting plans were, in fact, required for seven contracts, but that this had not been entered into FPDS-NG. DHS officials determined that subcontracting accomplishment information was available on four of the seven contracts.[14] For these four contracts, the contractors reported awarding from 14 to 83 percent of their subcontracting dollars, which ranged from $154 to $520 million, to small businesses as of March 31, 2006. For the remaining three contracts, subcontracting information was not available either because the prime contractor had not, as required, reported subcontracting accomplishment information to the electronic subcontracting reporting system (eSRS) as of March 31, 2006, or the contractor was not required to report on individual contracts.[15]

For GSA, information was generally unavailable on the subcontracting accomplishments associated with the 11 contracts (worth a total of about $9.6 million) that the agency awarded to large businesses for Katrina-related activities and that included subcontracting plans. According to

[14]The FPDS-NG data for DHS initially showed that a subcontracting plan was required for two contracts the department awarded for Katrina-related activities which we could not find in eSRS. DHS officials subsequently researched these contracts and determined that neither required a subcontracting plan—one was an award to a small business (for which the requirement does not apply) and the other indicated that there were no subcontracting possibilities.

[15]One of the contracts DHS awarded was for a commercial item. For commercial item contracts, contractors are only required to annually report on their subcontracting activities for all of their government contracts. These annual reports do not identify subcontracting activities by individual contracts.

agency officials, subcontracting accomplishment information was not available because contractors had failed to report it, the data had not been finalized, or, in one case, the contractor had reported aggregated figures for both Katrina-related and other subcontracts.

We reviewed 4 of the top 10 recipients of prime contracting dollars from DOD and the Corps for projects related to Hurricane Katrina.[16] Together, these 10 contractors accounted for 60 percent of these agencies' prime contracting dollars. Of these top 10 recipients, only 4 received contracts that were strictly for Hurricane Katrina-related projects and were required to submit small business subcontracting plans for these projects.[17] These 4 contractors were large businesses and received eight contracts from the Corps that accounted for $928 million of the Corps' contracting dollars as of March 31, 2006.[18] In accordance with federal requirements for reporting of subcontracting information, the contractors reported the amounts they subcontracted to businesses by business size and type. According to the reports submitted for the period ending March 31, 2006, these 4 contractors awarded from 88 to 100 percent of their subcontracting dollars to small businesses, or from about $11,000 to $201 million.[19] According to their subcontracting plans, the 4 contractors we reviewed intended to use subcontractors to assist with a variety of clean-up and repair activities, including excavation, debris removal, and temporary roofing installation.

[16]Because DOD does not electronically aggregate information on the subcontracting accomplishments of all military contractors, we chose to look at the top 10 military contractors.

[17]Four prime contractors were not required to identify subcontracting opportunities because they were small businesses or the contract lacked subcontracting possibilities. Under FAR, a contract is not required to have a subcontracting plan if, among other things, the contract is with a small business or if no subcontracting possibilities exist. See FAR §§ 19.702(b)(1), 19.705-2(b). Of the remaining six contractors, two had contracts for both Katrina and other activities, and we excluded these contractors from our analysis because we could not isolate only the Katrina-related subcontracting accomplishments using the information that was available.

[18]The four contractors received a total of 15 contracts from the Corps, but we excluded 7 from our analysis because they either had non-Katrina-related actions against them or were not required to include subcontracting plans.

[19]We analyzed subcontracting awards to small businesses as of a specific point in time. However, these contracts may extend past March 31, 2006. Subcontracting accomplishments may vary over time if the amount prime contractors award to all businesses, and small businesses specifically, changes over the life of a contract.

Information on Subcontracting Plan Requirements Was Missing or Incomplete

In two respects, key information on small business subcontracting plans was not consistently available in official procurement data systems for the four agencies. First, primarily with respect to DHS and GSA contract actions, the official procurement data system had no information at all on whether or not they required subcontracting plans for 70 percent or more of their contracting funds. For DOD and the Corps, this system lacked information on whether they required subcontracting plans for one percent of their contracting funds. Table 2 shows the total amounts each agency awarded to large businesses for contracts valued over $500,000 and the extent to which no information was available in the official procurement data system on whether the agencies required subcontracting plans for those contracts (column 6).

Table 2: Subcontracting Plan Requirements by Dollar Amount Awarded

Dollars in millions

Agency	Total amount awarded to large businesses over $500,000*	Percent of total amount awarded and dollar amount requiring a subcontracting plan		Percent of total amount awarded and dollar amount with no subcontracting possibilities		Percent of total amount awarded and dollar amount reported as not requiring a subcontracting plan		Percent of total amount awarded and dollar amount with no information on subcontracting plan requirements	
DHS	$4,866.2	1%	$27.2	0%	$16.3	29%	$1,406.0	70%	$3,416.7
GSA	127.1	7	8.9	4	4.7	12	15.1	77	98.4
DOD	631.2	22	141.4	0		77	483.6	1	6.2
Corps	$2,468.7	76%	$1,880.1	0%		23%	$574.5	1%	$14.1

Source: GAO analysis of FPDS-NG and DD-350 data for contract actions awarded between August 1, 2005, and June 30, 2006.

Note: Dollars are rounded to the nearest hundred thousand and percentages were calculated from unrounded numbers.

*One million dollars for construction.

Second, the four agencies' systems showed that the agencies had determined that subcontracting plans were not required for contracts representing 12 to 77 percent of the dollars they awarded to large businesses for Katrina-related projects. Agencies are required to document their reasons for these determinations. However, information on the four agencies' reasons for not requiring these plans, which should have been readily available, was incomplete.

Overall, procurement officials from the four agencies were able to explain some of the missing or incomplete subcontracting plan information by, for example, identifying data entry errors or providing evidence of reasons for

not requiring the subcontracting plans. For example, DHS officials determined that $545 million of the DHS contracting funds the procurement data system showed as not requiring a plan had been miscoded and should have been entered in the procurement system under a different category, showing that the contracts offered "no subcontracting possibilities." In another instance, GSA officials did not require a subcontracting plan for a $26 million contract for ice because they believed the urgency of the situation required buying and shipping the ice faster than normal procedures would allow. Nonetheless, at the time we issued our report contracting dollars remained for each agency with incomplete subcontracting plan information and which agency officials had not been able to explain. These amounts ranged from $3.3 million for DOD (excluding the Corps) to $861 million for DHS.

In our report, we concluded there was little doubt that Hurricane Katrina posed challenges to the agencies to award contracts quickly while still following government procurement rules, especially those regarding subcontracting plans. Certain choices, such as documenting compliance with these requirements at a later date (something GSA and DOD officials indicated was the case), might have been understandable. Nonetheless, more than a year after the hurricane, we reported that a substantial amount of information about the four agencies' subcontracting requirements remained incomplete. Conclusively demonstrating compliance with the rules about subcontracting plans is important for reasons beyond just documentation. By requiring these plans, agencies commit prime contractors to specific goals for providing opportunities to small businesses and give themselves tools—incentives as well as sanctions—that they can use to ensure the contractors engage in good faith efforts to meet their small business subcontracting goals. In doing so, the agencies ensure compliance with federal procurement regulations and that small businesses have all of the practical opportunities to participate in federal contracts that they are supposed to have. Because so much key information about subcontracting plans was incomplete in federal procurement data systems and, at the conclusion of our review, remained unresolved, we cannot tell the extent to which the agencies are complying with the regulations. Furthermore, the lack of transparency surrounding much of the agencies' subcontracting data—missing information on plans when contracts appear to meet the criteria for having them—may lead to unwarranted perceptions about how the federal procurement system is working, particularly in terms of the government's stated preference for contracting with small businesses.

Therefore, to ensure compliance with federal contracting regulations and more transparently disclose the availability of subcontracting opportunities for small businesses, we recommended that the Secretaries of Homeland Security and Defense and the Administrator of General Services issue guidance reinforcing, among other things, the necessity for documenting in publicly available sources the agencies' decisions, particularly in instances when the agencies decided not to require subcontracting plans. Moreover, we recommended that the agencies consider asking their respective Inspectors General to conduct a review to ensure that this guidance and related requirements were being followed.

The agencies generally agreed with our recommendations and are taking steps to address them. For example, GSA officials recently told us the agency's Chief Acquisition Officer will soon issue two "acquisition alerts" reminding contracting officers of the importance of subcontracting plan requirements as well as the documentation associated with complying with the requirements. Army Corps of Engineers officials told us they are currently developing a new training module on these topics and expect to deliver it to their contracting officers this summer.

Madam Chairwoman, this concludes my prepared statement. I would be happy to answer any questions at this time.

Contacts and Acknowledgments

For further information on this testimony, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Individuals making key contributions to this testimony included Bill MacBlane, Assistant Director; Emily Chalmers; Julia Kennon; Tarek Mahmassani; Lisa Moore; Paul Thompson; and, Bill Woods.

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Testimony
of
Ian Alexander Dreyer
Vice President, Perez, APC
Before the House Small Business Committee
Hearing on "Participation of Small Businesses in Hurricane Katrina Recovery"
April 12, 2007

Chairwoman Velázquez, members of the committee, thank you for giving me the opportunity today to discuss the role small businesses are playing in rebuilding the Gulf Coast. My name is Ian Alexander Dreyer and I am a Vice President at Perez, APC. We are a 67 year-old company based in New Orleans that provides architectural and engineering design services.

Our recent projects include: Ascension Parish Courthouse in Gonzales, La., Pearl River Junior High School, and the Natchitoches Events Center. Owned by a Hispanic female, Perez, APC has qualified as an 8(a) firm. Even before joining the 8(a) program, we had done work as a subcontractor for the Air Force and as a prime contractor for the Louisiana Air National Guard and Army Corps of Engineers. We are currently working on three subcontracts for the Army Corps of Engineers.

In October, we bid on a GSA contract for architectural and engineering services in Louisiana. The solicitation was for Katrina-related repairs to GSA buildings throughout Louisiana and was an 8(a) set aside. We were perfect for the contract as initially solicited, but it was later cancelled. During our telephone debriefing, I was told we fulfilled all the requirements, but they feared our firm was too small to handle the number of task orders and that we would be overwhelmed.

The contract was offered a second time, but with no set asides. The solicitation is due later this month.

We have demonstrated over the years that we are able to expand based on the size of the contract. We were recently the prime architecture and engineering firm on the construction of Harrah's Casino—a project worth $400 million. For that contract and similar projects, we grew to meet the demands of the workload. In the last 10 years, our staff has been as small as 5 people and as large as 50 people—all employees, not including contract labor and sub-consultants.

In fact, all businesses manage their labor force in this way. It is extremely rare for the timing of contracts to be so perfect that a new one starts exactly as the last one ends. Businesses do not need to have idle employees sitting around waiting for contracts. Both large and small companies deal with the same staffing issues.

If anything, small businesses handle these fluctuations better and with lower overhead. They can hire people much faster when heavy project loads require it. Many of us at the company have worked for huge multi-national architecture and engineering firms and have found that our small firms compete with them very well, for the same work, and produce as well or better than they do in part because of that flexibility.

I believe the GSA and all of the federal agencies participating in the rebuilding effort should be selecting local small businesses to participate in rebuilding contracts based on their track records and experience. Through our past service to federal agencies and successful management of simultaneous IDIQs and large-scale projects, we have demonstrated that, though we are a small firm, we are well-equipped to do the work that is needed. There are many small businesses in our area that, like us, stand ready and willing to help rebuild Louisiana.

Thank you again for this opportunity to present our experiences. I look forward to answering your questions about how local small businesses can play a greater role in rebuilding our communities.

Thank you.

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Testimony
of
Edwin Jones
President, EJES, Incorporated
Before the House Small Business Committee
Hearing on "Participation of Small Businesses in Hurricane Katrina Recovery"
April 12, 2007

Chairwoman Velázquez, members of the committee, thank you for giving me the opportunity to talk to you today about the challenges facing small businesses that would like to participate in federal contracting to rebuild the Gulf Coast. My name is Edwin Jones and I am the president and CEO of EJES, Incorporated, a multi-discipline engineering services company.

EJES is an SBA-qualified 8(a) firm. Over the last 10 years, EJES has performed approximately 75 projects (*that include prime and subcontracts*) in Louisiana, providing engineering expertise and experience in civil, structural, hydraulic/drainage, and construction management services. Before Katrina, we were slated to begin construction management projects on the New Orleans airport. After the disaster, that work was no longer needed.

Three and half years ago, we partnered with other small, disadvantaged minority firms to form a Strategic Alliance, that would enable us to perform a full array of engineering work for public and private clients. In addition to EJES's three Louisiana locations, we have offices in Dallas and Fort Worth. Our Strategic Alliance has offices in Texas and Oklahoma.

The USACE Tulsa District awarded EJES and its Strategic Alliance members a professional service IDIQ contract with the capacity of $5 million to $25 million of professional service fees over a one to five year period. Despite our best efforts which include contacting several USACE District offices, including New Orleans, LA, Kansas City, MO, Fort Worth, TX, Biloxi, MS, and Fort Smith, AK, we have received no meaningful work under this contract to date.

After the Katrina disaster, we presented our qualifications and standing contract to the USACE New Orleans district in response to their requests for professional services for Katrina relief efforts. Their response was that they did not want to use our standing contract from the Tulsa district; they wanted to award work under their district. No such award has been forthcoming, despite our qualifications and the fact that we have a standing USACE contract.

In the meantime, we have spent thousands of dollars traveling to district offices and preparing solicitations and statements of qualifications to compete for contracts. We have been frustrated by vague feedback stating that we do not have the capacity to complete the projects being offered. With our long history of managing a variety of sizes of projects, I would think it would be clear that we could expand

our team to meet the demands of a given contract. But our employees do not want to sit on the sidelines waiting for work to come in.

My company stands to benefit greatly from doing business with any of the federal agencies operating in Louisiana; getting a significant contract would be a big step toward helping EJES and its alliance team members grow our businesses. After Katrina, we lost 40 percent of our work force, many of whom went to work for larger firms because they felt there were better opportunities for steady work and money.

The National Black Chamber of Commerce, Minority Business Development Agency and the Minority Business Education Legal Defense & Education Fund have all affirmed that we are well-qualified to provide the engineering services outlined in our current contract with the USACE. We would like to begin rebuilding our staff to do the work available in the kinds of contracts USACE is offering. Like many other small businesses in the area, we could immediately begin performing the work that needs to be done and we are eager to participate in the recovery efforts.

Thank you for this opportunity to share my company's experiences. I welcome your questions about our efforts to participate in federal contracting and how the system can be improved to create more opportunities for local small businesses.

Thank you,

Edwin B. Jones, P.E.
EJES, Inc.
President, CEO

Testimony
of
Ricardo Pequeno
Owner, Mid-South Plumbing
Before the House Small Business Committee
Hearing on "Participation of Small Businesses in Hurricane Katrina Recovery"
April 12, 2007

Chairwoman Velázquez, members of the committee, thank you for the opportunity to be here today. My name is Ricardo Pequeno, and I am the owner of Mid-South Plumbing, LLC, in Slidell, Louisiana.

Prior to the storm, my 10 year-old company was doing very well. We were growing thanks to work on many commercial projects, including hotels, banks, and homes. In my apprenticeship, I also had experience working in hospitals.

Since the storm, the amount of work available to a business like mine has dramatically declined. There is virtually no commercial construction going on now. Even though numerous office buildings were damaged by the hurricane, they are not being rebuilt at this time. My business has suffered as a result and is in danger of failing.

After the storm, at my accountant's suggestion, I registered with the Central Contractor Registry (CCR). To date, I have received no federal contract work even with this registration.

Because of the decline in our commercial work—which was the cornerstone of my business—I decided to apply for the SBA's 8(a) program. I am already certified by the Louisiana Minority Business Council. I applied for 8(a) both electronically and with a hard copy of the application mailed in.

My business was coded as 8(a) in the Central Contractor Registry even though we had not been approved yet. The phone calls then flooded in. We received calls from military personnel who were suddenly very interested in our business.

Later, I found out that my 8(a) application had been declined. The Central Contractor Registry removed our 8(a) designation in the database, and the phone calls stopped.

I eventually learned that the SBA declined the 8(a) application because my brother—who lives 50 miles away—owns a company that is in the 8(a) program. In the application, one of the questions asked was whether or not I, as the applicant, have a family member in the program. I answered the question truthfully, that I do, but that I do not own any of his company and he does not own any of my company. I was declined because the SBA decided-(This is a quote from their decline letter to me) Current 8(A) program eligibility criteria (CFR 124.105 (g) require that an applicant concern be declined if individuals determined to be disadvantaged for the purposes of one participant, their immediate family members, and the participant itself, may not hold in aggregate, more than 20

percent equity ownership interest in any other single participant. The fact that your brother owns a current 8(A) participant, and you own more than 20% interest in the applicant firm, prevents you meeting 8(A) eligibility criteria. This makes no sense to me.

I am particularly frustrated because not getting into the 8(a) program has reduced my opportunity to get federal work—the only work in town.

Many additional barriers remain. Federal work also requires bonding. Commercial work does not. I am working closely with my banker who has provided me with an increased line of credit, and will finance my company for larger projects. My banker and my suppliers recognize the important role that small businesses like mine have in the economy—both as employers and as the main source of community investment.

I wish that the federal government would also recognize the importance of Louisiana small businesses and be as responsive as some local partners have been. My employees and I are ready to begin work and help rebuild our community.

Thank you for you concern about Louisiana businesses. I welcome your questions.

Testimony
of
Kenneth Edmonds
President, River Parish RVs
Before the House Small Business Committee
Hearing on "Participation of Small Businesses in Hurricane Katrina Recovery"
April 12, 2007

Chairwoman Velázquez, members of the committee, thank you for giving me the opportunity to talk to you today about what my business went through in our attempt to receive a federal contract to participate in the recovery efforts after Katrina. My name is Kenneth Edmonds and I am the president and owner of River Parish RVs. We have been in business since 1984 servicing, transporting and selling recreational vehicles.

Most people here will remember the huge number of trailers purchased by FEMA to provide temporary housing to people who had been displaced by Hurricane Katrina. Knowing that the kinds of services we provide would be needed to manage such a large fleet of RVs, we attended a meeting hosted by FEMA to learn about available federal contracts. Though we had a lot of experience providing this type of service, we had never before applied for a federal contract and were new to FEMA's process for handing out projects.

FEMA initially informed us that 10 to 20 companies met their qualifications to bid on the contracts maintenance, servicing, and moving the fleets of trailers. At the time, my company had 25 to 30 people available to work on the contract, all of whom were Louisiana residents. We already had on hand all of the necessary personnel and servicing and moving equipment.

We spent eight weeks preparing and processing our bids on 10 available FEMA contacts, worth $100 million each. At such a critical time for our business, this represented a huge investment of time and money that we hoped would result in work that would help us recover from the disruption in our work after Katrina.

Ultimately, all of the contracts went to other businesses. FEMA informed us that we would not receive a debriefing. In a letter, FEMA informed us that our prices were too high. Verbally, we were told later we did not have enough experience. Given that we have been working in this field, on similar projects, for more than 20 years, that explanation simply does not make sense to me.

As the *Times-Picayune* reported last year, many questions remain about how FEMA decided to hand out these contracts. From the initial pre-bid documents, my understanding was that preference would be given to small, local companies—meaning companies that met the $30 million size standard and had regularly conducted business in Louisiana. It is clear from the list of companies that received contracts—a group that includes businesses in Texas, Nevada, Florida, and California—that these standards were not really followed.

Ultimately, I left the process feeling like the system has been rigged against local small businesses. Almost none of the guidance FEMA gave me at the beginning of the process turned out to be the way things actually worked. At every turn, it seemed that the rules changed so that FEMA could give the contracts to the same few businesses they had already planned to award the projects to.

Not getting this contract has had a very negative impact on my business. After investing so many of our resources into competing for contracts I knew we were perfect for, we have nothing to show for that time. Now, we cannot afford to hire more people or replace those who have left. In light of this entire ordeal, I have concluded that FEMA is not really interested in helping local small businesses recover from this disaster. Even worse, American taxpayers and people in Gulf Coast are paying too much for these RV services and the profit is being diverted to other parts of the country.

Thank you for this opportunity to discuss my experiences with FEMA. I look forward to your questions about how small businesses are faring in the contract application process.

Thank you.

Testimony
of
Charles Priestley
Director of Operations and Managing Member, Hummingbird Aviation LLC
Before the House Small Business Committee
Hearing on "Participation of Small Businesses in Hurricane Katrina Recovery"
April 12, 2007

Chairwoman Velázquez, members of the committee, thank you for this opportunity to talk to you today about the challenges my company has faced while trying to participate in the rebuilding efforts after Katrina. My name is Charles Priestley and I am the director of operations and managing members at Hummingbird Aviation. For the last seven years, we have owned and operated helicopters and fixed-wing airplanes for transportation and cargo handling. Our 32 employees are based out of Hammond, Louisiana.

In our previous work on federal contracts, including the Department of Defense, we have successfully navigated the agency processes, which can be very different from how we seek out work in the private sector. But since Katrina, we have found the difficulties associated in dealing with federal agencies to be a real barrier to rebuilding our business, and our economy.

We have a large variety of services that we could be providing to assist in cleanup and reconstruction projects. Unfortunately, many agencies to do not realize how the work we do fits into what they need done. For example, when procurement officials see the name Hummingbird Aviation, they may not know that we work in debris removal, picking up logs and other loads that need to be transported by air.

For this reason, I have invested time and money in both outreach and advertising. We even purchased advertisements in the CCR. Still, we found that there are few ways to reach the decision makers at agencies and let people know what we have to offer. As a Louisiana native, it is especially important to me to reach out to the parishes and let people know we are available, but finding out where the right people are seems to be impossible. When I do make contact with someone, they always seem to be low-level staff members who simply cannot or will not run a small business up the chain when they already have options they are familiar with.

Despite these road blocks, we have made XX applications over the last XX months. Each of these costs time and money to prepare. Although we are essentially presenting our company—with our years of experience and previous work for the federal government—the process is different every time, meaning a new application procedure, with new certification rules, more time and more money. The amount of redundancy in the process has prevented us from filing applications that just did not seem worth the effort.

Ultimately, we want our qualification to be fairly considered. I am tired of hearing from agencies that we do not have the necessary experience or are not viable. We were performing similar services before Katrina and have demonstrated our ability to do so now. I want a future contracting with the Department of Defense and the Department of Homeland Security because I believe our company has an important service to offer and that we can do it competitively.

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